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Introduction to Marketing

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Introduction to marketing

Fifth edition

Editor: Johan Strydom

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PREFACE

One of the most pressing problems in teaching marketing to southern African students remains the lack of a comprehensive marketing textbook for first-year students at tertiary institutions. Most existing texts are published abroad, are aimed at senior undergraduate level, and are extremely expensive. The first edition of this book was launched in 1998, with the objective of making marketing more accessible to the growing number of people involved in everyday marketing activities. This market includes first-time marketing students, budding entrepreneurs who need marketing in the ordinary running of their fledgling businesses, people aspiring to a career in marketing, and those managers who need to brush up on the underlying principles of marketing.

The fifth edition of *Introduction to Marketing* has been reworked in response to the encouraging support we received from academics and positive feedback from our students. It is built on the knowledge and know-how of the corps of experienced lecturers in marketing management at the University of South Africa (UNISA), supplemented by authors from other tertiary institutions, such as the University of Johannesburg and The Institute of Marketing Management (IMM). Some fresh conceptual knowledge has been provided by Professor Chris Jooste, previously at the University of Johannesburg. We also welcome one new author from the Cape Peninsula University of Technology, Mr Jerome Killey.

This edition comprises 12 chapters of which one has been completely rewritten to reflect the most recent changes in marketing thought at the introductory level. The other chapters have been extensively updated.

The new chapter is:

- Product decisions (chapter 6), which has been completely rewritten to reflect the most current thoughts on product and services marketing.

In order to facilitate the learning process we continued with the mini-case studies at the end of each chapter. I encourage readers to send their constructive comments and suggestions for possible incorporation in future editions.

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INTRODUCTION TO MARKETING

CHAPTER 1

> **LEARNING OUTCOMES**
>
> After studying this chapter you should be able to:
> - define marketing and explain the core concepts of marketing
> - explain how marketing creates value for customers
> - identify and briefly explain the components of the marketing mix
> - indicate how a marketing-oriented organisation differs from those that are product- and sales-oriented
> - explain the principles of the marketing concept
> - identify the management functions of marketing
> - explain the marketing manager's role of planning, co-ordination and integration
> - discuss the concept of marketing planning
> - explain how social responsibility and ethics relate to the marketing concept.

Introduction

Welcome to the dynamic world of marketing! In this book, you will explore the function of marketing, what the marketing function's relationship is with other functions internally, and what its dependence is on the external environment such as technology, and the social-cultural, legal, economic, and political environments. In addition to this, we will look at what the interface entails with regards to customers, *competitors and stakeholders, and how marketing should change or adapt its strategy in transferring value to these key role-players.

In this chapter, you will be given a broad overview of what marketing is, as well as the processes that are followed to ultimately reach the customer.

* In this introductory text, the terminology 'consumer' and 'customer' are deemed to be the same thing, so these terms will be used interchangeably in the text.

The process is as follows:
1. Customers' needs are identified.
2. The organisation≠ develops a product or service that will address these customers' needs.
3. The organisation communicates the value of this product or service to its potential customers.
4. The customers are urged to buy the product, at a certain price, to satisfy their needs.
5. A relationship is initiated with a customer once a sale has been made and the customer is satisfied.

For all this to happen, the organisation and its marketing function need an infrastructure to obtain this important information from their customers, so that they may have good insight into and understanding of their customers' needs. They also need an infrastructure to design customer-driven marketing strategies and programmes, which will eventually lead to building relationships with their customers. This, in turn, will capture value for the organisation itself.[1]

At this point it is useful and practical to look at a few philosophies or orientations of organisations towards marketing.

What is marketing?

The term 'marketing' means many things to many people. Some people think that marketing means the same as selling or advertising. Others think marketing refers to the activities aimed at creating a favourable company image. Some think that marketing has something to do with the actual making of products that are sold in shops, arranging displays in the shops, maintaining inventories, etc. In reality, marketing includes all of these activities, and more.

Marketing can be defined from two different perspectives:[2]

- It is a **philosophy**, a **perspective** or a **management orientation** that is focused on customer satisfaction, and the building and maintaining of long-term relationships with customers and other stakeholders. Marketing recognises the utmost importance of the customer. It also recognises that businesses exist to serve and satisfy customers' needs by offering something of value to them, and not just to manufacture or deliver products and services.
- Marketing can also be seen as a **set of activities** that are necessary to implement the marketing philosophy and to direct the flow of goods and services from producers to consumers. Activities that form part of marketing include addressing matters such as market research, product design and development, pricing, packaging, selling, advertising, distribution and after-sales services. These activities define the broad scope of marketing and the integration of these activities is known as the **market offering** or **marketing mix**.

≠ The terms 'organisation', 'firm', 'business', 'enterprise' and 'company' are deemed to mean the same thing, and are used interchangeably in the text.

Different orientations towards marketing

Marketing has evolved through three successive stages of development: production or product orientation, selling orientation and marketing orientation. Although many firms have progressed to the third stage, some are still in the first or second stages. The following discussion briefly describes the different orientations towards marketing.

- A first orientation can be a **production orientation**, whereby the focus is directed internally towards the capabilities of the organisation, and not on the external market requirements of the customers' needs, desires and wants. Manufacturers in this stage typically focus on increasing output while assuming that consumers would seek out and buy reasonably priced, well-manufactured products. Executives with backgrounds in manufacturing and engineering shape a firm's strategy. In a market where the demand for goods usually exceeds the supply, finding consumers and ensuring their satisfaction is viewed as a minor function. The term 'marketing' was not even used. These firms would view the market as homogeneous and assume that it would be satisfied by the basic functions of the product.
- A second orientation can be a **sales orientation** where the emphasis is placed on aggressive sales techniques. The thinking behind this orientation is that customers would buy more goods and services if this kind of technique is deployed. There would be increased expenditure on advertising and sales promotion as this would be a logical step to increasing demand. In this selling orientation, the focus is on the needs of the seller (how he or she can sell more of the product), rather than on the needs of the consumers (what will satisfy them).
- The third orientation, namely the **marketing orientation**, is where organisations identify what consumers want and tailor all their activities to satisfy those needs as efficiently and effectively as possible. The emphasis is now not only on the sales message and price, but also on the quality of products, the packaging thereof, the methods of distribution and the necessity of providing information through advertising. Several tasks that were once the responsibility of other business functions now become the responsibility of marketing – for instance, inventory control, warehousing and some aspects of product planning.

Management realised the intricate role of the marketing function; production could not begin until specific market information had been obtained. This market information would include what the consumer wants, how much he or she would be willing to pay and how he or she could best be reached by means of persuasive marketing communication.

A marketing orientation is based on the understanding that a sale (transaction) depends on a customer's decision to purchase a product and not on an aggressive sales force. What an organisation thinks it produces best is not of primary importance to its success. The customer's view of what he or she is buying defines the business, its products and its potential to prosper.

Banks were traditionally product-oriented – they developed and offered products and services that they thought clients would want. In the seventies and eighties, they followed a sales orientation – appointing consultants to convince clients that they needed these products and services. Nowadays in a marketing-oriented way, they first determine what their clients' needs are and then develop products and services that will appeal to these needs – for example, a variety of savings accounts, investment products, ATMs, e-banking,[3] etc.

The marketing concept[4]

The marketing concept can be regarded as the philosophy according to which the marketing task in a marketing-oriented organisation should be performed. The marketing concept states that an organisation should strive to satisfy customers' needs through a co-ordinated set of activities that allow the organisation to achieve its objectives. The marketing concept is based on five principles, which will be discussed in more detail (based on Berndt, Jooste & Klopper, 2009).

Customer orientation

Customer orientation views the organisation as identifying the needs and wants of potential customers, and then designing, providing and communicating values to match customers' requirements. As a result, the organisation pleases its customers in offering a service whereby its customers develop a loyalty to the organisation and its products, thus ensuring long-term profits. To be customer-orientated an organisation must:

- identify its existing or potential customers
- identify its customers' current, and future, needs and wants
- determine how these needs and wants can best be satisfied
- design products and services to meet customers' requirements and communicate these values to customers
- strive to provide customer satisfaction.

Long-term profit orientation

In a free market system, a profit-seeking organisation's primary objective is to maximise profitability, which can be achieved only with due consideration of consumers' needs. Profit-seeking organisations attempt to achieve a specific rate of return in the long term, rather than to obtain unduly high returns in the short term.

Long-term profit orientation implies that:

- profits are the result of customer satisfaction and retention
- management should place a long-term, rather than a short-term, focus on profits – it is sometimes better to sacrifice short-term profit opportunities for the prospect of earning a long-term profit stream from a loyal customer who re-purchases the product, and makes us of after-sales services and parts
- management will avoid the satisfaction of non-profitable needs.

Systems orientation

The principle of this marketing concept is also known as **organisational integration**. All the departments in the organisation (related and unrelated units) should work together to achieve the successful marketing of the organisation's market offering. All the sections in the marketing department should also direct their activities and decisions towards achieving a specific objective. The marketing instruments (four or seven Ps) should complement and reinforce one another in such a way that the target market will prefer the organisation's market offering to that of competitors.

The systems orientation implies:

- that all marketing activities have to be integrated
- inter-departmental co-ordination and co-operation
- an organisation-wide culture focusing on satisfying customers' needs and expectations
- that customer satisfaction becomes a way of doing business.

Societal orientation

The traditional marketing concept has focused on satisfying customers' needs and wants to meet organisational goals. But the societal orientation also places an emphasis on how marketing affects society as a whole in an age of scarce resources, environment destruction and worldwide competition. This societal orientation questions whether satisfying customers' needs serves the long-term interest of society.

Companies adopting the societal orientation make marketing decisions in an ethical and socially responsible manner. They must consider not only the short-term needs of consumers, but also the well-being of everyone affected by their operations. For example, people want sufficient, economical energy to heat and cool their homes. Yet many people have felt the adverse effects of oil spills, toxic waste and acid rain. To meet both the short-term needs of consumers and the long-term welfare of society, an organisation must balance the interests of its customers, the organisation itself and the society in which it operates.

The societal orientation implies that market management should strive to preserve and enhance the long-term welfare of society. Issues that are considered are:

- environmentalism
- consumer rights
- ethical issues
- social responsibility.

Relationship orientation

The most recent refinement in the marketing concept is that customer loyalty is an important consideration in long-term marketing success. Marketers realised that they needed to focus on building long-term relationships with their customers rather than on short-term transactions. Relationship marketing, as a philosophy, emphasises forming long-term partnerships with customers. Firms build relationships with clients by offering value and providing satisfaction on a consistent basis. Those who successfully implement relationship marketing benefit from repeat sales (loyalty) and referrals that lead to increases in sales, market share and profits. Costs fall because it is less expensive to serve existing customers than to attract new ones. Keeping an existing customer costs about one-fourth of what it costs to attract a new customer.

Customer centricity

The world has become 'commoditised' and it is difficult for organisations and their products to be differentiated from competitive products. Customer-centric marketing involves developing mutually beneficial relationships with customers, which focuses on their individual needs.[5] Customer centricity is similar to the market orientation because an organisation would primarily focus on the needs and behaviours of its customers, rather than focusing inwardly on itself. A general definition of a customer-centric organisation is that it creates meaningful value for customers, leading to sustained competitive advantage for both short- and long-term organisational success.[6]

Customer centricity is pivotal to delivering a unique and distinctive experience in order to acquire, retain and enhance value for target markets in a cost-effective way. The experience and emotions customers have when using a product or service, or when engaging with the organisation, can, however, be a differentiator. To remain competitive in most product categories, marketers must design and communicate an experience around every contact point with the customer. A series of positive contact points comprises a customer's total experience of the organisation.[7]

Building a customer-centric organisation requires a change in organisational culture. This change is not easy as it involves changing people's beliefs, their attitudes, and the way they do things at work.[8] Apart from changing the culture, it is also essential for an organisation to align its objectives of sales, marketing and service because these may sometimes have conflicting objectives and strategies, as illustrated in Figure 1.1.

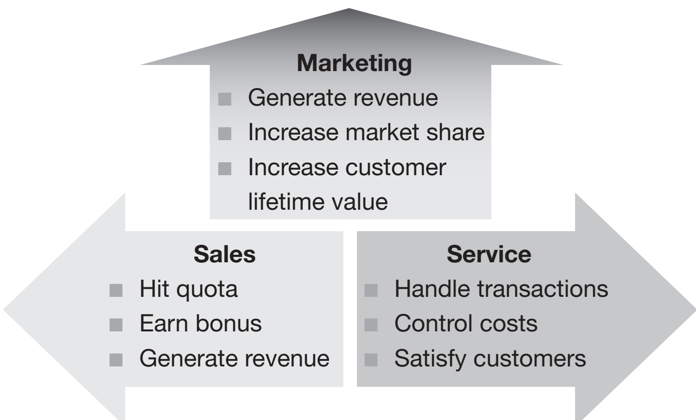

Figure 1.1 *Conflicting objectives of marketing, sales and service*[9]

The customer must be identified as the focal point of these functions and all the objectives (departmental and corporate) need to be aligned to satisfy the customers' needs and expectations. You will note that this is similar to the previous discussion about the marketing concept and customer-centricity where all customer-facing functions in the organisation should integrate and harmonise their actions in order to satisfy the customer so that the company can achieve profit in the long term.

In the execution of a customer-centric orientation, the organisation should be a 'listening organisation' (hearing the voice of the customer), responding to information from customers (needs, issues, complaints, suggestions, market changes, negative customer behaviour, negative word-of-mouth, drivers of dissatisfaction, unresolved complaints, and why customers defect).[10] Successfully and proactively designing and delivering a consistent experience across all customer touch points requires employees to be fully engaged with the brand promise and the brand values. Now that you have some insight into the components of the marketing concept, you will look at the elements of a workable definition of marketing.

Marketing defined

It is a cliché, but there are as many definitions of marketing as there are writers on the subject. A synthesis of definitions by some well-known authors and professional marketing associations has been summed up and provided below.[11]

> Marketing is the process by which organisations satisfy the needs of consumers by creating, communicating and delivering value for customers in the form of ideas, goods and services to facilitate satisfying exchange relationships, in ways that benefit both organisations and their customers.

The following core concepts can be identified from the definition you have just read:

Marketing satisfies needs[12]

Marketing is all about satisfying needs. Consumers have needs and try to satisfy their needs by buying products and services that will add value to their lives and fulfil these needs. To understand this role of marketing, you need to understand the importance of these needs, wants and benefits.

- **Needs:** A need is the difference between a consumer's present state and his or her desired state. A need is something that we must have in order to survive. Needs may include basic physical needs for food, clothing, warmth and safety; social needs for belonging and affection; or individual needs for knowledge, acceptance and feeling good about oneself.
- **Wants:** A want is a desire for something; it determines the specific way in which these needs are satisfied. For example, a consumer may need food, but wants to have a hamburger. A consumer needs clothing but wants to buy a Levi's jacket.
- **Benefits:** When a market offering satisfies these needs or wants, marketers deliver benefits to the consumer. Marketers must develop products that provide benefits and are important to the consumer. The challenge is to identify the benefits that consumers are looking for and to develop an offering that delivers those benefits. The next

challenge is to convince the consumers that the offering is providing more value and satisfaction than other competitors' offerings. Successful marketing organisations go to great lengths to learn about and understand their customers' needs and wants. They conduct consumer research and analyse sales, warranty and service data. For example, the cell phone satisfies our need to communicate with the outside world, but the Samsung Smartphone fulfils our wants in a unique way, by being a modern, fashionable, multi-functional communication device offering a variety of benefits.

Marketing creates customer value

A market can be described as a set of actual and potential buyers of a product or service. This market has a similar set of needs and expectations of the product that can be satisfied through exchange relationships. Managing the market environment is relatively within the control of the marketing organisation, which aims to create profitable relationships with customers. The organisation can obtain valuable knowledge about the customers' needs and design product offerings to meet those needs through effective marketing research.

An organisation has two main tasks, which include:

- to acquiring customers
- to keeping those customers.

In order to fulfil these tasks, not only must the organisation provide a product or service: it must offer customers something that they value. Customer value can be viewed as the ratio of benefits to the sacrifice necessary to obtain those benefits.

Value-driven marketing assumes that customers who are willing and able to make exchanges will do so when the benefits of exchange go over and above the costs of exchange, and the products or services offer superior value compared to the alternatives of competitors. Although value is very subjective, one could define value as the customer's evaluation, adjusted for cost, of how well a good or service meets or exceeds customers' expectations. An important notion underlies this perception of value by customers – as long as they can maximise value, they are not concerned how and whether the organisation maximises cost-effectiveness or profit.

Customers are usually offered an array of products and services from which to choose. Customers choose these products or services based on their perceptions of the value and satisfaction that the various products and services deliver. The aim of the organisation's marketing offering is to deliver superior value to the customers by meeting and exceeding customers' needs and expectations – in turn, this will increase their competitive advantage over others.

Customer value depends on how the customer perceives the benefits of the product and the sacrifice or costs that are associated with the purchase.

Perceived value = perceived benefits – perceived costs

> The success of McDonald's has been based on creating added value for its customers, which is based not only on the food products it offers, but on the delivery system and its affordable prices. It sets high standards in what is called QSCV: Quality, Service, Cleanliness and Value. Customers can be sure that the same QSCV standards will be found in all McDonald's outlets around the world.

From looking at this example, you can see that customer value can be derived from a chain of activities the marketer delivers to its customers – not just the basic product.

Benefits that can create value include:

- Functional benefits – these are the tangible benefits of using products and services such as reliability, speed, size and features. For example, these are benefits that a customer would look at when buying a personal computer or laptop.
- Emotional benefits – these are the emotions of joy, pleasure, excitement and achievement experienced when buying or using the product. For example, these are benefits that a customer buying organic food may feel.
- Image benefits – these are the benefits that place value on the image of an organisation or a brand. Products can also offer value by enhancing the status and self-image of the customer. For example, a customer would feel these benefits especially when buying a higher-status car such as a Mercedes-Benz or a BMW.
- Social benefits – these are the benefits that customers experience when they wear expensive, fashionable items. For example, a customer wearing a Tag Heuer watch may receive compliments from friends, family or colleagues.
- Service benefits – customers quite frequently value, compare and evaluate the benefits of accompanying services such a delivery, training and maintenance. These service benefits become important differentiators when the functional features of competing products are perceived to be equal.
- Experiential benefits – this can refer to the sensory excitement that a customer experiences from using a product or service. For example, a customer may feel the pleasure and enjoyment of driving a Harley-Davidson motorbike or participating in an extreme sport. The new generation shopping centres, for example the Gateway Centre at Umhlanga, are known as 'shoppertainment centres' – these centres appeal to customers' needs for a shopping experience.

These benefits that products or services offer are normally weighed up against the costs (sacrifices) of enjoying or gaining these benefits. Typical sacrifices include the following:

- Monetary costs – these costs include the prices of the products or services. They also include the monetary costs, such as cost of ownership, the use of the product or service and maintaining the product or service.

- Time and energy costs – time is a valuable asset to most people. Wasting time waiting in queues, driving long distances to reach a retail outlet, physically having to return products, and gathering information are all factors that do not add value to a customer's experience. Time spent on comparing products, waiting for delivery, installation, etc. can be significant opportunity costs. Products and services that save time and energy add value, and customers are sometimes willing to pay higher prices or fees in exchange for having time freed up for leisure or family activities.
- Psychological costs – these costs include the mental energy and stress involved in making important purchases and accepting the risks of products not performing according to expectations. Marketers who provide reassurance to customers in the form of a simple phone call, follow-up letter, guarantee or prompt after-sales service minimise these psychological costs. Psychological costs are, for example, minimised by buying a well-known brand or dealing with a reputable service provider regardless of higher prices, tariffs or fees.[13]

Organisations should develop a value proposition. A value proposition is a statement about the experience customers will have from the value offering delivered by the product or service, and their relationship with the organisation. The marketer can increase the value of the offering in the following ways:

- Increase benefits, for example including a personalised service, providing access to a personal loan, offering guaranteed interest rates, free estate planning.
- Reduce costs, for example lower fees, and offer preferential interest rates and free Internet access.
- Raise benefits and reduce costs, for example offer extended insurance cover at a lower rate offered to private bank clients.

Another concept tied to value is the **value proposition.** It can be considered as the market offering that the customer will receive when buying or using the product or service. The market offering is the value of the whole bundle of benefits or performance. An organisation's value propositions should take into account the expectations, needs and wants of the customers. Value propositions are not centred on products and services; they are based on customer criteria. They are a statement about the experience customers will have had from the delivered value offering and their relationship with the supplier. A customer-focused value proposition provides the convincing reason why the target market should buy the product or service.

The value proposition of Volvo is: 'The safest, most durable car which your family can ride'. Domino's Pizza offers 'a good hot pizza, delivered promptly to your door at a moderate price'.[14]

Creating, communicating and delivering value[15]

The 'creating, communicating and delivering' aspect of the definition of marketing means that whether it is a bar of soap, a watch, a place such as Sun City, or a service such as a savings account, a product must be developed, the value and meaning must be assigned, and it must be communicated and delivered to the interested consumers.

In determining the best way to create, communicate and deliver value, and thus give satisfaction to the consumer, the marketer has many decisions to make and he or she needs certain marketing tools. The **marketing mix** is the set of marketing tools that the marketer uses to pursue the organisation's objectives. The elements of the marketing mix are commonly known as the 4 Ps:

- **Product:** The physical products and/or service as well as other features related to the product, such as the brand name, packaging, support service, guarantee, etc.
- **Price:** The assignment of value or the amount that the consumer must exchange to receive the offering.
- **Promotion** (marketing communication)**:** All the activities to inform consumers of the offering and to remind or encourage them to respond.
- **Place** (distribution)**:** The availability of the offering to the consumer at the desired time and location.

The marketing mix for services is extended to include the following three additional Ps:

- **People:** These are all the people involved in delivering the service. It refers to the skills, knowledge, attitudes, etc. of front-office, backstage and support staff.
- **Processes:** These are the procedures, systems, mechanisms, and flow of activities required to deliver service benefits to customers, for example booking systems, order fulfilling systems, and call centres.
- **Physical evidence:** This is the inanimate space where employees and customers interact, or any other tangibles that communicate value to the customer. Examples of components of physical evidence in a commercial bank would be the appearance of the building and bank hall, physical appearance of staff, documents, cheque books, etc.

Exchange

To exchange something simply means that people give up something of value for something else they value. Examples of exchange include: a customer has something of value (money) that he or she wants to exchange for something else of value (a watch or motor car); a person has something of value (expertise, knowledge and experience) that he or she wants to exchange for something else of value, which an employer has (money). Exchange does not necessarily require money; people may exchange value without money being involved (this is called bartering).

Five conditions must be present for an exchange to take place:[16]

1. There must be at least two parties.
2. Each party must have something of value.
3. Each party must be free to accept or reject the exchange offer.
4. Each party must be willing to deal with the other party.
5. Parties must be capable of communicating with each other.

Exchange takes place within a market. The market consists of people who have needs (this is discussed in the next section), and the means to pay. They also have the willingness to exchange (either buy or sell). The exchange process is illustrated in Figure 1.2.

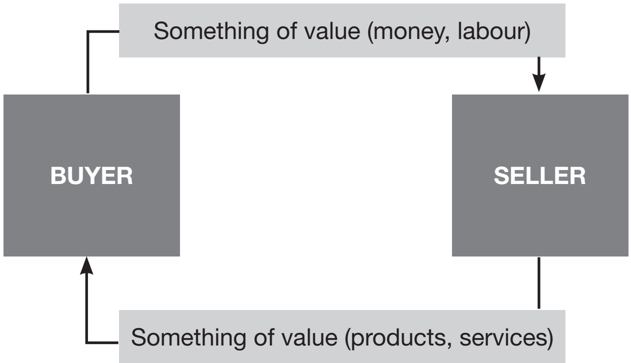

Figure 1.2 *The exchange between the buyer and seller*

Satisfaction

Satisfying exchange relationships is the last element in the definition of marketing. Marketing should facilitate satisfying exchange relationships, i.e. both the seller (organisation) and the buyer (customer) must be satisfied by the exchange process.

From the seller's end, satisfaction would be the result of being able to offer a product or service that satisfies the need of a customer at a profit. The seller's satisfaction will be enhanced if the positive relationship with the customer continues and the customer develops a loyalty to the organisation. This would represent an increase in the lifetime value of customers.

From the customer's end, satisfaction is the result of a customer experiencing the product or service meeting or exceeding his or her expectations. The ideal situation for an organisation is to satisfy the customer's need at a high level so that the customer becomes a loyal customer who recommends the product to others, who continues to buy the product or service from the same organisation, and who may even expand the quantity or variety of purchases from the organisation. Strong customer satisfaction and loyalty have a number of benefits for the organisation. These benefits include the following:

- **Lower acquisition costs:** If an organisation's customers are loyal, then the need to acquire new customers decreases, and total customer acquisition costs will also decrease. Such costs may include advertising, demonstrations of the product, sales calls, and special promotions, such as discounts to attract new customers.
- **Lifetime value:** Customers tend to spend more over periods of time, and loyal customers increase their spending on other products from the organisation. The amount that a customer spends over a lifetime on that kind of product or service would be captured for the organisation. The combined discounted customer lifetime values of all customers represent the organisation's customer equity.[17]

- **Referrals:** Satisfied customers will recommend an organisation or its products to their friends, colleagues and families. This kind of word-of-mouth recommendation is far more credible than organisation-driven promotion methods, such as advertising.
- **Price premium:** Loyal customers are less sensitive to price increases and may even be willing to pay a price premium for an organisation's products because they are satisfied and have a high level of trust in, and commitment to the organisation.

The set of activities undertaken by a customer to satisfy his or her needs and wants can be regarded as the customer value chain, and the value-creating factors could be speed, cost, quality and flexibility. The importance of each of these traits depends on each customer's expectations.

Value-driven marketing presupposes that customers have different perceptions of value, and it assumes that different customers may assess the value of the same product in different ways. Some customers may regard an Atos motor vehicle as good value because it provides reliable transportation at a relatively low cost. Others may view a Mercedes SL500 as good value because it is a high-status car that lasts a long time.

You already know that businesses spend money to attract customers to the product or organisation and to retain them as customers. The transaction with a customer does not end when a sale is made; the transaction is rather seen as the beginning of a relationship. An important trend in marketing is customer relationship marketing (CRM), which aims to develop long-term mutually beneficial relationships with customers who are satisfied with the product offering. CRM focuses on using information about customers to develop marketing strategies that enhance relationships with those customers.[18]

The customers with which an organisation wants to have relationships must be identified, and the organisation will need to establish what is important to them and how they would want the relationship to work. If this is done successfully, the organisation will benefit from increasing business and referrals, and the customers will receive increased value and thus be more satisfied. The first relationship marketers are usually local storekeepers who know their customers by name and their grocery lists off by heart.[19] The focus of relationship marketing is on attracting and retaining customers through trust, commitment and sharing of information. Research has shown that relationship marketing is best implemented in countries where buyer-seller relationships are based on trust, mutual benefits, shared goals and a harmonious approach to handling disagreements.[20]

Trust and commitment are key elements for retaining customers. **Trust** is particularly critical for service-related organisations, since the product is intangible and difficult to evaluate before and after a purchase. Trust can be said to exist when one party has confidence in the reliability and integrity of the exchange partner. The ultimate goal is to establish satisfying, sound relationships between customers and the organisation, by gathering information at all customer contact points, in order to understand their needs and expectations.

Commitment refers to the belief by both parties that the relationship is worth sustaining indefinitely. Customers will be committed to the relationship if they receive a high level of benefits and/or they consider that terminating the relationship could be costly. The higher the customers' level of commitment, the less likely they are to leave, i.e. the higher the level of customer retention.

Many organisations have embraced relationship marketing with its focus on maximising customer lifetime value. Building relationships is not only confined to customers; the organisation must also 'partner' with its suppliers, distributors, and other stakeholders. Every party's contribution in the supply and value chain has a direct and indirect influence on the ultimate value that the customer will experience. Various authors use the concept of a 'value delivery network' where they discuss the importance of partnering with suppliers.[21]

Other stakeholders can include shareholders, institutional investors, creditors, lenders, customers, regulators, employees, labour unions, the media, analysts, consumers, society (in general), communities, auditors and potential investors. The degree and scope of relationship-building with various stakeholders must be determined by each organisation. The criterion for choosing to focus on specific relationships would be that it has high potential for mutually rewarding outcomes.

Successful relationship marketing strategies depend on an organisation having a strong customer orientation; competent staff to support that orientation; front-line employees who have been trained and given the authority and empowerment to make decisions; effective cross-functional collaboration; and teamwork.

The marketing process

The marketing process can be most simply presented as a five-phase model:

1. Understanding customers' needs and their value expectations.
2. Developing a customer-oriented marketing strategy to exchange value.
3. Delivering value-driven product offerings to satisfy customer needs.
4. Capturing value from customers.
5. Building profitable relationships with customers.

Figure 1.3 on the next page describes how the content of this book fits into this model.

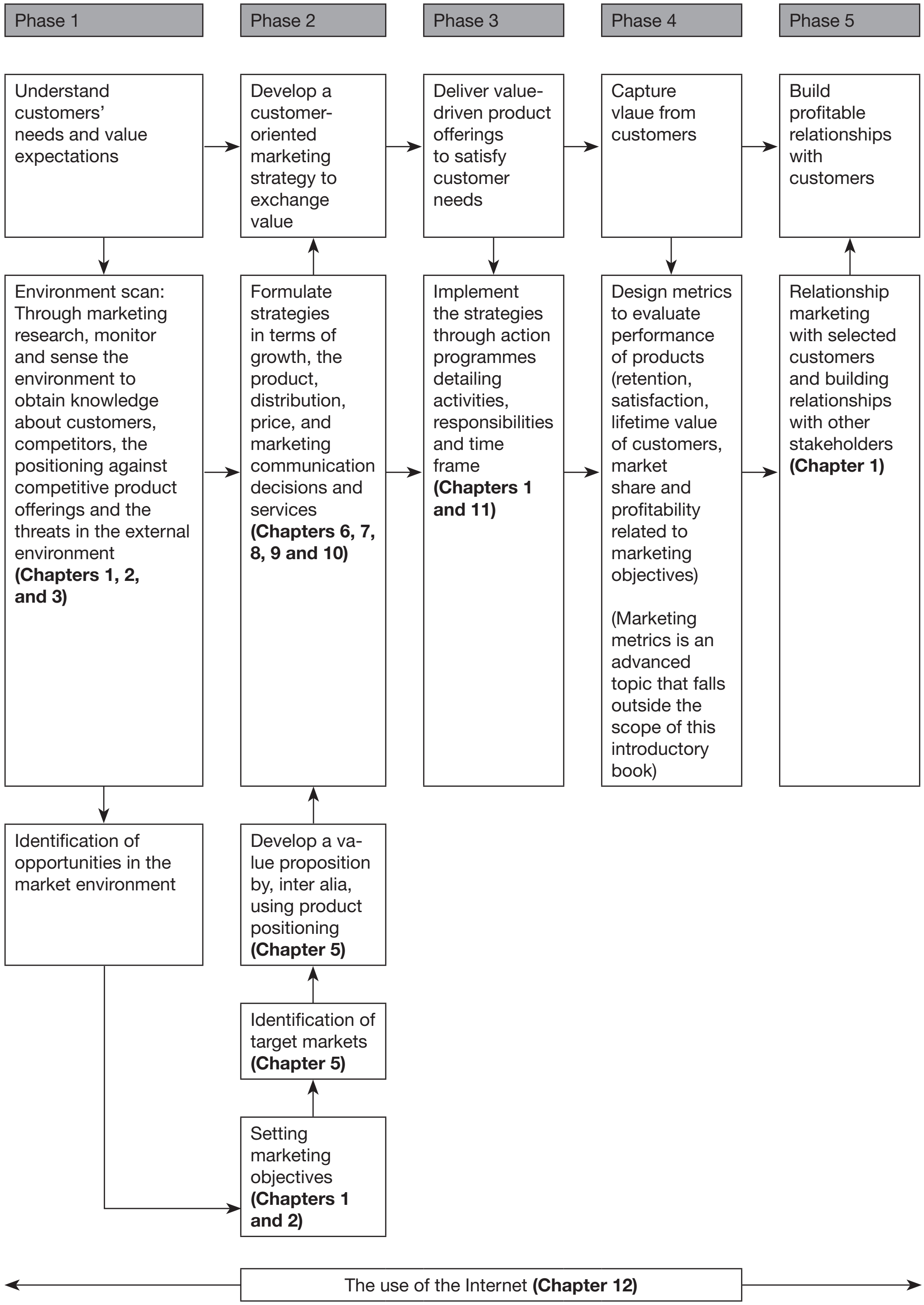

Figure 1.3 *Model of the marketing process*

What can be marketed?

Tangible products, intangible products, ideas and causes, persons, experiences and places can all be marketed. These can be categorised into:

- consumer goods and services
- business-to-business (B2B) products and services.

Consumer goods and services include:

- convenience goods (for example, newspapers and grocery items)
- semi-durable goods (household appliances – for example, white goods such as stoves, fridges, microwave ovens and electric kettles)
- speciality or durable goods (for example, television sets, paintings, motor vehicles, and houses and flats)
- services (for example, banking, auditing, travel, movies, repair services and medical services)
- ideas and causes (for example, the work of the Cancer Association of South Africa, the 'Don't drink and drive' campaign, and the campaign to encourage the use of seatbelts)
- persons (a political candidate, for example Nelson Mandela in 1994)
- experiences (for example, bungee jumping)
- places (for example, the Maldives or the Kruger National Park).

Marketing of goods and services to other organisations as inputs to produce other goods, or use in their business operations, is called business-to-business marketing (B2B), including:

- consumables (maintenance and repair items such as oil, filters, cleaning materials, bolts, nuts and fasteners)
- machinery (for example, drills, power tools and computers)
- installations (for example, buildings, power plants and refineries)
- raw materials (for example, gold, iron ore, coal, rubber and copper)
- business services (for example, advertising, fire protection, safety, security and cleaning).

In order to satisfy the needs of a customer, you need to present your customer with the total market offering. This means that you would need to include the bundle of benefits, features, information and experiences. A customer might need a 5 mm hole in a wall and the marketer may be offering a drill bit to satisfy that need. A woman buying lipstick needs to be convinced that she is buying beauty, not just a coloured wax object. When an organisation is offering a camera to a certain segment of the market, it is not only marketing the physical product, but it is addressing other needs of a customer, namely the desire for adventure, excitement and memories. This will be discussed in more detail in Chapter 6.

Managerial functions in an organisation

There are basic managerial functions in every organisation, which must report to a General Manager, or a Chief Executive or Chief Executive Officer. These functions must be performed, irrespective of the size of the organisation or the industry. If an organisation is small, some or all of these functions will be collapsed into smaller combinations. An organisation can consist of the following managerial functions:

- Financial management
- Human resource management
- Operations management
- Purchasing and logistics management
- Information technology management
- Marketing management.

The financial management portfolio is responsible for obtaining funds for the organisation and the application of these funds to ensure the organisation is profitable, liquid and can continue to exist.

Human resource (HR) management looks after the well-being of staff. Detailed activities include: recruitment of staff, determining selection processes and criteria, placement of staff, training and development, performance management, remuneration, and dealing with aspects of organisational culture.

Operations management functions include: the utilisation of input materials in the manufacturing of finished goods, maintaining optimal efficiency of equipment, and providing output according to specifications. The same general principles of operations management apply in manufacturing and service organisations.

Purchasing and logistics management involves the acquisition of all supplies, materials and equipment, and ensuring that procedures regarding buying policies and procedures are adhered to.

Information technology spans the boundary between external sources of information and internal deployment of knowledge systems. It usually involves the management of information systems that are reliant on technology, hardware and software systems.

Marketing management will be discussed in the section dealing with the scope of marketing functions.

Note that the function descriptions you have just read are generalisations and the functions, structures and even terminology may differ between organisations and industries. For example, a large manufacturer may also have an engineering function and a large research and development function. Sales and service functions might be regarded as being paramount in a particular organisation, and may be treated as functions in their own right, rather than being part of the typical marketing management function.

Strategic planning

An organisation can be divided into a corporate level and divisional or functional level. At the corporate level, the organisation does strategic planning by establishing a strategic fit between the organisation's objectives and capabilities, and dynamic opportunities in the environment.[22] This strategic planning process starts with the vision, mission and formulation of objectives and strategies, marketing objectives, marketing strategy and a marketing plan.[23] If the organisation is large, then decisions regarding the portfolio of businesses (strategic business units) must also be taken. Based on these strategies, the corporate level will provide strategic guidelines to people at the functional levels who will, in turn, develop their own objectives and strategies. These objectives and strategies must, of course, be in conjunction with the corporate level's own strategic planning. The hierarchy of planning objectives from the strategic level to marketing management's implementation of relevant strategies is illustrated in Figure 1.4.

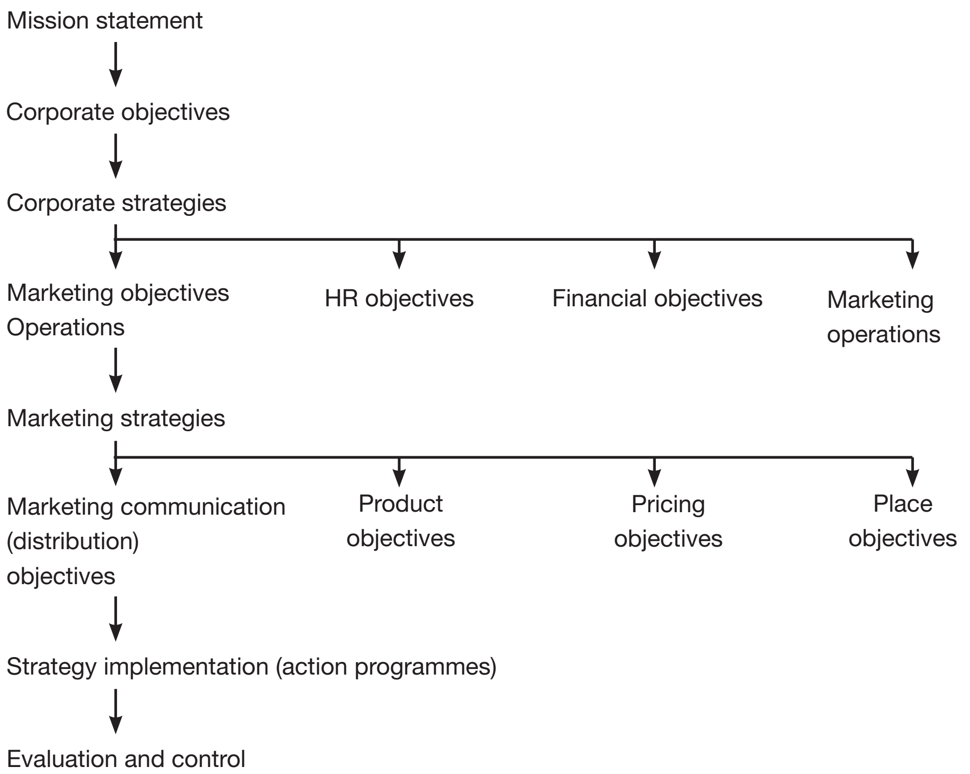

Figure 1.4 *The hierarchy of planning objectives and strategies*

To summarise: in order for an organisation to survive and grow in the long term, the managers of the marketing function must make decisions and take actions that are aimed at aligning the objectives and strategies of the marketing function with the achievement of the vision, mission and strategic objectives of the organisation. There must be a connection between the goals and objectives of the marketing function and the objectives of the other functional areas of the organisation. The internal marketing function must be aligned with the changes in the market and macro-environments of the organisation. Marketing management, therefore, should support the organisation's strategic planning with more detailed plans for identified marketing opportunities.[24]

The scope of marketing management functions

As mentioned earlier, an organisation develops strategic plans and objectives on the corporate level and provides strategic direction to the various functional levels. The marketing function, for instance, translates it into marketing plans. These marketing plans are the result of the various phases in the marketing process, which were illustrated in Figure 1.3. However, this marketing process encapsulates or requires four marketing functions, namely analysis, planning, implementation and control.[25]

You will now learn about each of these marketing functions.

Analysis

In this function, the organisation can use market research (either conducted internally or externally contracted) to obtain the required information. The organisation starts with an analysis of the internal and external environment. This will be discussed in Chapter 2. One of these analysis tools that can be used is a 'SWOT' analysis in which the organisation's internal strengths and weaknesses are identified and external opportunities and threats are evaluated (see Figure 1.5).

In addition to a SWOT analysis, the organisation should explore the market environment to obtain knowledge about customers, potential customers, competitors, the organisation's positioning in respect of competitive market offerings, and intermediaries.

INTERNAL ENVIRONMENT	
Strengths	**Weaknesses**
Financial resources Well-known brands Technological skills	Lack of strategic direction High costs Obsolete facilities
EXTERNAL ENVIRONMENT	
Opportunities	**Threats**
Potential new markets Potential new products Falling international trade barriers	New competition Slow market growth New regulations

Figure 1.5 *A simplified example of a SWOT analysis*

Once the organisation has sufficient information about the internal and external environment, the identified opportunities can be further explored in terms of their viability (markets to be served, profitability, sustainability, growth and compatibility with the organisation's strengths). A useful way of prioritising opportunities (and threats) is by means of an impact or probability matrix (see Figure 1.6).

		PROBABILITY OF OCCURRENCE		
		High	Medium	Low
IMPACT ON THE ORGANISATION	High	A	B	E
	Medium	C	D	G
	Low	I	H	F

Figure 1.6 *Impact or probability matrix*

Each opportunity must be judged in terms of: (a) what the probability of realising the opportunity is, taking into consideration the strengths of the organisation, competitive advantage, ease of entry into the market and competitive forces; and (b) what the impact will be on the organisation if the opportunity is realised in terms of growth, profit, sustainability and market share. Using the example in Figure 1.6, only the opportunities listed in cells A, B, C and D would be further investigated as possible priorities.

At this stage, questions must be addressed, such as: Is this opportunity within the scope of the organisation's mission and is it aligned to the strategic intent of the organisation? Will it add value, and will the product or service have a sustainable competitive advantage?

A sustainable competitive advantage is not easy to develop or to sustain in the long term because it can be copied by competitors. A competitive advantage is an attribute, feature or benefit of a market offering that is valued by customers and which competitors do not have to the same extent. Think of reasons why some people prefer to bank with Absa over Standard Bank. Consider why a large segment of consumers buy at Pick n Pay and not at Woolworths. Consider why some customers may choose a Lexus over a Mercedes-Benz. This could be because they perceive certain products to have specific qualities that they want and that will provide satisfaction and value. Based on its strengths and capabilities, an organisation can develop products or services that will provide a competitive edge. Although there are various ways in which this can be achieved, the following can be mentioned: service quality, creating customer value, maintaining customer satisfaction, customer-oriented employees, empowerment, teamwork, cost, quality, flexibility, location, safety, image, design[26] and cost leadership, differentiation and focus.[27]

An organisation might deliver value that is superior to a competitor's product at the same price as competitors, or of the same quality as competitors but at a lower price, or of higher value (quality) at a lower price. Topics related to price are addressed in more detail in Chapter 8.

After appealing and viable opportunities have been selected, appropriate marketing objectives can be formulated. The marketing objectives must be SMART – Simple, Measureable, Attainable, Realistic and Time-bound. Look at the examples of marketing objectives on the next page:

- Increase market share from 25% in 2014 to 30% in 2015.
- Penetrate the youth market in Gauteng to gain market share of 5% in 2015.
- Raise awareness level of product Z to 5% within the next six months.
- Develop new markets in England for product X to achieve awareness of 15% and 40% trial of the product within three months.

Planning

Marketing planning involves developing finely tuned details about who makes up the target market, how value will be created and delivered to the customer, what the value proposition is, and how the marketing mix variables (product, distribution, price and marketing communication) will be optimally utilised to obtain the desired response from the target market. It also consists of the strategic growth strategies of the organisation.

A marketing plan is very similar to the activities of the marketing process (refer back to Figure 1.3). The marketing plan is a written document that formalises the various phases in analysing the environment (internal and external), identifying opportunities, developing marketing objectives, formulating strategies (target market identification, value proposition, differential advantage and application of sub-strategies of the product), distribution, price and marketing communication. The marketing plan also contains implementation actions, control measures and time frames. You will look at the marketing plan in more detail in Chapter 11. Refer to Table 1.1 to see the contents and stages in a formal marketing plan. A marketing programme is a combination of several marketing plans.[28]

Strategies

Growth strategies need to be developed for both the organisation and the marketing plan. You can use the Ansoff matrix[29] during the decision-making phase (see Figure 1.7).

Table 1.1 *Phases and descriptions of a marketing plan*[30]

STEPS/PHASES	DESCRIPTION
Executive summary (this appears at the beginning of the marketing plan, but can only be compiled once everything else is in place)	Presents an abbreviated overview of the proposed plan; containing assumptions, main thrusts, implementation issues and probable impact on the organisation.
Current marketing situation	Presents relevant background data on the current reality of the market, market drivers, product, competition and environment.

STEPS/PHASES	DESCRIPTION
Opportunities and issues	Assesses the main opportunities or threats, strengths or weaknesses, capabilities and competencies, issues facing the product(s,) target markets, market drivers, critical success factors and market attractiveness factors.
Objectives	Defines the objectives of the plan in the areas of sales volume, market share, customer satisfaction, customer retention and profit.
Marketing strategy	Presents the marketing approach that will be used to reach objectives in terms of growth strategies, positioning, marketing communication, product, price, distribution and supporting services.
Action programme	Answers the questions of what will be done, who will do it, and when it will be done?
Budgets	Summarises the anticipated financial pay-off from the plan.
Evaluation and control	Outlines how the plan will be monitored and when contingency planning must be activated.

		PRODUCT	
		Present	New
MARKET	Present	Market penetration	Product development
	New	Market development	Diversification

Figure 1.7 *Ansoff's competitor strategies*[31]

A marketing strategy contains the marketing objectives, strategies (growth strategies), target market identification, value proposition, differential advantage and application of sub-strategies of the product, distribution, price, and marketing communication (refer back to Table 1.1 [after objectives] and Phase 2 in Figure 1.3).

We use market segmentation to identify target markets. Market segmentation involves the division of the broad market into identifiable segments that display similar responses towards marketing actions. These segments can be chosen on the basis of a variety of variables such as age, income, education level, social class, gender, lifestyle, personality, place of residence, etc. We look at this in more detail in Chapter 5. From the various possible segments, the organisation then chooses one (or more) segments as its target market.

In the analysis function, we discussed the needs and expectations of potential customers, as well as the competitors and their competitive positioning of market offerings. Based on this, and the target markets that were identified, the value proposition can be developed.

Remember, the elements of the marketing mix are: product, price, place (distribution) and promotion (marketing communication), commonly known as the '4 Ps'. These are covered in more detail in Chapters 6 to 9. Some people argue that the 4 Ps concept is based on the seller's view of the market and not necessarily the customer's view.[32] (Refer also to the discussion on the production orientation versus marketing concept on page 3.) These people suggest that the 4 Ps might be replaced by 4 Cs: they believe that 'product' should be 'customer solution', 'price' should be 'customer cost', 'place' should be 'convenience', and 'promotion' should be 'communication'. Table 1.2 lists some of the components of the 4 Ps.

Table 1.2 *Elements of the marketing mix*

PRODUCT	DISTRIBUTION (PLACE)
■ Quality ■ Design ■ Features ■ Brand name ■ Packaging ■ Labelling ■ Service ■ Guarantees This is discussed in Chapter 6.	■ Different channels ■ Transportation ■ Outlet location ■ Coverage ■ Logistics ■ Inventory This is discussed in Chapter 7.
PRICE	**MARKETING COMMUNICATION (PROMOTION)**
■ List price ■ Discounts and allowances ■ Credit facilities ■ Price differentials ■ Cost and profit This is discussed in Chapter 8.	■ Advertising ■ Sales promotion ■ Direct marketing ■ Sponsorships ■ Salespeople ■ Publicity ■ Marketing public relations ■ Digital marketing This is discussed in Chapter 9.

The 4 Ps all contribute to developing a value proposition that aims successfully to address the needs of the target market (see Figure 1.8).

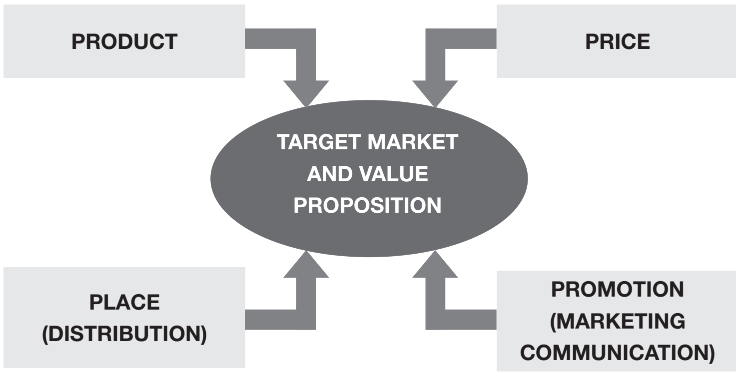

Figure 1.8 *Marketing mix variables*

Earlier in this chapter you learnt that the 4 Ps have been extended to 7 Ps, incorporating people, processes and physical evidence. This will be discussed further in Chapter 10.

Implementation

It can be broadly stated that one of the biggest issues in marketing, and implicitly in marketing planning, is that the planning phase is not effectively implemented. Marketing planning addresses the 'what' and the 'why' of marketing activities. Marketing implementation asks the 'who', 'where', 'when' and 'how'.[33] The strategies should therefore be broken up into manageable activities. These activities can be allocated to people, along with timelines within which to complete them – these timelines and activities must contain measurable criteria for control purposes.

HYPOTHETICAL EXAMPLE

An organisation's marketing objective is to raise its market share from the current 25% to 30% within 12 months. The advertising objective is to increase the awareness level from the current 55% to 60% within the next six months. One of the action activities is to place advertisements in daily newspapers during the next three months. The activities associated with this action programme are:

- sourcing advertising rates from media (timeline: two weeks)
- developing a profile of readers (timeline: one week)
- comparing this data to the organisation's target market (timeline: three days)
- selecting media (timeline: one week)
- placing advertisements in selected media (timeline: one week)
- after the advertising campaign, doing marketing research to determine the current awareness levels of the product (timeline: three weeks)
- comparing awareness levels with those before the advertising campaign (timeline: three days).

Responsibilities can be assigned to each task and the people managing the tasks will be accountable for monitoring and providing feedback on their progress.

You will look at the implementation phase of marketing planning in more detail in Chapter 11.

Control

In the marketing process, you need continuously to evaluate the results of all the activities and strategies. By doing this, you will be in the position to see any obstacles or deviations from the plan in advance – this will allow you to work constructively and develop contingency plans and corrective measures to rectify the situation. Usually, the ultimate measurement of actual results will be compared to the marketing objectives.

In the control planning process, the organisation should design or develop metrics that are reliable instruments for measuring performance. Today, top management is less willing to approve marketing expenditure, and requires any expenditure to be justified by bottom line results. This makes it even more important to formulate all objectives in measurable terms – preferably also in monetary values that can be used to quantify the return on marketing investment. Look at the summary in Figure 1.9.

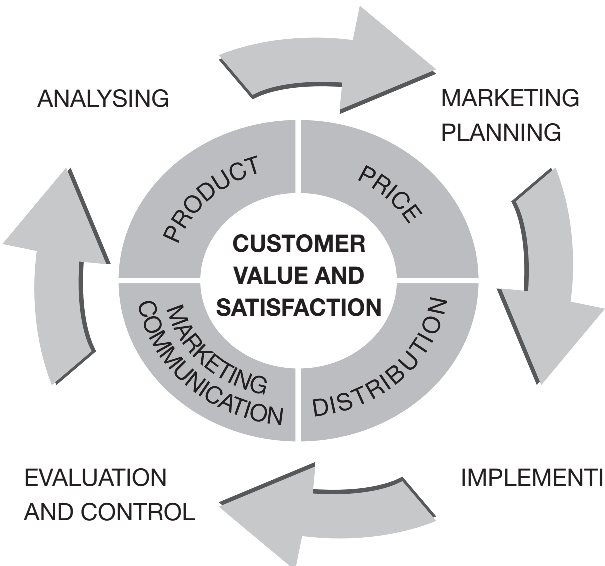

Figure 1.9 *Processes in developing the marketing strategy*

Marketing structures

Convention is that structure follows strategy. This implies that effective implementation may require making structural changes in the marketing organisational structure. The size and nature of an organisation will determine how the marketing strategies and functions will be organised. In a smaller organisation, for example, one person may be responsible for all the functions.

In a normal organisation structure the Chief Marketing Officer will head up the marketing functions and will be represented on the organisation's top management team.[34] Different structures can be designed for the marketing organisation and a functional structure arranged according to the activities or processes in the department.

For example, under this type of structure, activities are grouped according to function (advertising, marketing planning, customer service, market research, sales, new product development, channel marketing public relations, and pricing). If the organisation is large enough, each function could operate on its own.

When an organisation has many product lines, a product management organisation could be set up in which each product is managed as a separate division with its own marketing functions. In this kind of scenario, a product manager would be in control of all the strategies for a specific product or brand. A market or customer management organisation can be designed for specific market or customer segments. In this scenario, the manager would be responsible for developing and implementing marketing strategies for that particular market or segment. In some organisations, a combination of these organisational structures can be employed.

Although there is a wide variety of possible structures to implement marketing strategies in an organisation, we have only provided a framework within which core marketing functions must be performed, not necessarily to describe the division or department in the organisation responsible for each function. It must be emphasised, however, that serious consideration should be given to organising key marketing functions into projects, and having multifunctional teams take responsibility for implementation.

The changing landscape of marketing

The marketing environment is constantly changing. We are specifically concerned with those changes that could have an influence on an organisation and its marketing function. Some people identify ethics, as well as social responsibility, as some of the key trends that could affect marketing.[35] You will learn about ethics in more detail in Chapter 11.

Ethics[36]

Ethics is a system of morals by which a person lives, or a set of morals by which an organisation is governed by, especially in its practices. Ethics is about what is right and what is wrong. Society expects organisations to behave in an ethical manner. This requires that organisations must respect the environment, pursue fairness in dealing with internal and external customers, and strive to improve the communities around them. When organisations fail to operate in an ethical manner, it has a very damaging or reverse effect on all stakeholders, including customers, employees and the organisations themselves. Although there is no doubt that many top executives continue to conduct themselves and their business in an unethical manner, an increasing number of executives are recognising the value and merits behind ethical behaviour and business practice. In South Africa, the Competition Commission fined a number of high-profile companies for illegal conduct in a variety of sectors:

- Construction: Aveng paid a fine of R46 million because of non-competitive practices in respect of concrete pipes.[37]
- Bread: Foodcorp paid a fine of R45 million and Tiger Brands paid an enormous fine of R98 million.[38]
- Milk: Lancewood paid a fine of R100 000.[39]
- Chemicals: Sasol paid a fine of R250 million for price-fixing in the fertiliser industry.[40]
- Pharmaceuticals: Adcock Ingram paid a fine of R53 million.[41]
- Motor industry: BMW, Toyota, General Motors, Daimler-Chrysler, Nissan, Volkswagen, Subaru and Citroën paid a total of R52 million in fines.[42]
- Air transport: South African Airlines paid a fine of R55 million.[43]
- Steel: ArcelorMittal paid a fine of R145 million.[44]

Business ethics is very much based on good and bad, right and wrong, but in a business context.[45] Some business ethicists say that the ethics of business is merely the ethics of everyday life applied to business conduct. According to this view, the ethics of business is determined by the moral values and beliefs that individuals bring to their business activities.[46] Business itself should play a major role in determining the standards for ethical practices. The subject of ethics in marketing can be viewed as a sub-topic of ethics in business.[47]

When we discuss the issue of ethics, marketing is one of the most controversial sectors in the management fields. Examples of unethical marketing include false or misleading advertising, pressure selling, price conspiracies, discriminatory pricing, product packaging littering the environment, poor product safety, and encouraging young people to buy cigarettes and alcohol. A company's marketing activities are very much at the forefront of things, and with this transparency, they are often subject to a great deal of scrutiny from the public. Table 1.3 describes a number of major ethical issues related to marketing.

Table 1.3 *Major ethical issues encountered in marketing communications*[48]

CATEGORY	EXAMPLES
Children	Many people feel that children should not be targeted for products such as sweetened cereals or violent video games. In its advertising, Gatorade claims to be the 'healthy alternative for thirsty kids'. Nutritionists and other critics contradict this claim.
Minorities	A low-priced, high-alcohol beer marketed to young black men in the USA
The elderly	Telemarketing fraud involving prize promotions, solicitations and investment offers

CATEGORY	EXAMPLES
Developing countries	USA tobacco organisations used advertising that was banned in the USA, in Asia, Eastern Europe and South America
Sex	Advertisements that exploit women by portraying them as sexual objects, and that use underage models in sexually suggestive ways
Classical conditioning	Prestigious actors or reputable athletes endorsing products or services that have little inherent value
Business	Bribery: gifts from suppliers, payment of questionable commissions, and 'money under the table'

Social responsibility

As mentioned previously, the societal concept should be encapsulated in the marketing philosophy. Organisations have a social responsibility towards the environment and stakeholders in general, but also to the community. The European Commission's definition of corporate social responsibility (CSR) is:

> CSR is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.[49]

Organisations recognise that they have a responsibility to stakeholder groups, including consumers, employees, suppliers, shareholders and the community, as well as to the environment. The CSR message must be communicated clearly because the organisation will then be able to accrue the benefits of a positive image. At the same time, communities will also benefit from the organisations' involvement in identified need areas.

Some of the issues organisations deal with in CSR include:

- efforts to reduce their impact on climate change measured by their carbon footprint
- efforts to reduce their level of pollution
- increasing their methods of recycling
- using energy-efficient waste management
- relying on green, sustainable power to run their business activities
- finding ways to engage customers and the public in this dialogue.[50]

Some organisations and corporations ignore demands made by environmental action organisations, but it is advisable that they proactively accept their responsibilities to communities, the environment and even the world around them. The trend is increasing pressure on organisations to take their social and environmental obligations seriously.[51]

South Africa is beset by a host of problems, including severe income inequality. The high level of need in our society creates opportunities for organisations willing to assist through their CSR efforts. For example, Microsoft™ is actively involved in school projects by providing products and services to underprivileged schools. Senior regional office staff from Sanlam regularly engage face-to-face with communities and take part in municipal conferences, health conferences and teachers' conventions. These meetings provide opportunities for Sanlam to engage with people they might otherwise not meet, and discuss matters such as financial planning.[52]

VIRGIN ACTIVE HEALTH CLUB

Virgin Active recently launched Club-V at select clubs – a fee-based child-minding facility for children aged 6 weeks to 7 years. Here children can enjoy supervised, fun-filled play activities guaranteed to get their hearts and minds racing.

Features: Fee-based child-minding facility

- Caters for junior members aged 6 weeks to 7 years (i.e. under the age of 8).
- It also has a soft play area with a ball pond, wedge, corner combo (for climbing and sliding) and rocker.
- It has a wide variety of quality toys for boys and girls.
- It offers basic arts and crafts, board games, foosball, as well as interactive PS2 gaming.
- It has a variety of children's DVDs.
- There is an electronic sign-in and sign-out.

Benefits

- Provides an important and 'value for money' offering.
- Provides quality care, security and supervision for children, allowing parents peace of mind whilst they exercise.
- Provides children with unstructured, supervised and fun activities that allow for the development of basic motor skills without them even realising it.
- Provides learning experiences through activities that provide fun and creative play in a non-competitive environment.
- Provides children with opportunities for social interaction and to make new friends.
- Provides security and supervision.

Club-V will provide children with the following opportunities:

1. Edutainment (educational and entertaining)
2. Social interaction
3. Relaxation
4. Supervised play
5. Fun

Source: Adapted from www.virginactive.co.za

LEXMARK SOUTH AFRICA

Cartridge Recycling Initiative for Babies (CRIB)
CRIB forms part of Lexmark's **Siyaphambili** Initiative, falling under the Corporate Social Investment component. The company aims to minimise landfill waste by recycling where possible, and to avoid using incineration as a waste disposal method. The financial benefits of the company's environmental protection efforts are channelled to poor communities through its Baby Days Fund.

The company encourages customers to return their empty laser and inkjet cartridges for dismantling so that the recyclable components can be reused, and so that the non-recyclable components can be destroyed in a responsible way.

Plastic components are stripped and sorted. These materials are crushed into granules and supplied to companies which manufacture various plastic products such as seedling trays, wire reels and any number of engineering products.

Source: Adapted from www.lexmark.co.za

CASE STUDY: CAPITEC LAUNCH 500TH BRANCH[53]

Capitec Bank, South Africa's fastest growing retail bank for individuals, revealed its new branch concept that was developed in partnership with the international retail designer, Allen International, at Morning Glen Mall, Johannesburg.

The launch also marks the bank's opening of its 500th branch. Key reasons cited by CEO Riaan Stassen for the redesign are common questions asked by consumers about outdated trading behaviours in the banking industry.

Stassen said, 'In our view, there are seven points which the public are questioning their banks about.' The points are as follows:

1. Why do clients still have to fill in forms when they go to a bank in this day and age?
2. Why can't clients see what consultants have on their computer screens before them – it is not a secret?
3. Why do banks have glass barriers between the client and the customer – it restricts service?
4. Why are Branch Managers concealed at the back of a branch, hidden away from clients? They should be the custodians of client relationships.
5. Why must clients stand in queues just to be told that they have the wrong information or documentation, or that they are in the wrong queue?
6. Why do banks close at 3.30 p.m. in the afternoon, and why are they not open on Sundays?
7. Why are bank fees structured in such a confusing way?

'We live in the 21st century and technology should make access to banking easier for clients. The banking experience needs to change and banks must take ownership of helping clients manage their financial lives better,' said Stassen.

He went on to say that the 500th branch design aimed to achieve this by providing an experience for clients that takes banking into a new realm. 'We want to give clients options that empower them to make the best choices. Our new front-end screen flow, due in July, will do this.'

The front of the new branches will be completely open like retail stores such as Woolworths or Edgars. Moreover, as no cash is held in-branch, excessive security found in other banks is not needed.

A strong focus on human interaction and personalised service is also central to the new design. For example, the branch manager sits in the front of the branch to monitor and tend to clients' needs as they arrive. 'Top management must be regularly available in the forecourt of branches to better understand how to address the service requirements and needs of customers,' Stassen added. Clients also sit alongside a consultant so they can view their accounts together on the consultant screen, instead of the bank having 'exclusive' access.

'We believe personal interaction and support is very important to consumers. At a time when banks are moving more and more online, making their services faceless and impersonal, our view is that consumers prefer the opposite. This is why we are structuring our brick-and-mortar environment to focus on relationship-building and client support, while our virtual channels will continue to be used primarily to provide easy, convenient access to transacting and information,' explains Stassen.

This 'humanness' is also evident in the branch's use of branding and signage: A bold 'Hello' wall welcomes clients, while literature is simple, clear and to the point.

'Offering communication in a client's vernacular is key to their understanding of our product. As such, everything is available in English and the region's mother dialect,' he says. Capitec Bank employs consultants from the relevant areas to magnify this level of personal service.

Another interesting feature is the use of the Capitec Bank logo. Its red and blue colours, together with the central negative space, create the flow of the branch where each side represents a division – blue is for quick transactions and red for consulting and service. These are clearly divided by the client waiting area, which is situated under a bright sky light.

'The focus on "red" or "blue" enables clients to choose what they want, making the in-branch process simpler and quicker. But to speed things up even more, the branch's Client Service Champion greets everyone upon arrival, enquires as to their needs, ensures that they have the necessary information to minimise inconvenience for clients, and directs them to a Q-Matic waiting system where they join the relevant seated queuing system.'

Besides the new design features, some of the more traditional ones remain. Among those is the biometric identification system which Capitec Bank pioneered locally in 2004. It uses a client's fingerprints as verification for his or her account access, which simplifies service steps, reduces service time and increases security. Another cost-saving feature is the absence of a back office in the branch.

'Capitec Bank has grown considerably since its launch in 2001 largely because of its low fee structure and quick, no-fuss service. We are able to offer this because our processes take place in real time and there is no back office which reduces our overheads. This benefit is directly transferred to our clients in the form of lower fees,' Stassen confirmed.

With a client base of over 3.5 million and a strong focus on opening branches in higher income suburbs in coming years, Capitec Bank anticipates its growth among a diverse range of clients to continue.

'We are increasing our presence in higher-income areas because our model appeals to everyone, whether you earn R5 000 or R50 000 a month. As such, we plan to roll out another 200 "designer" branches by 2015 largely in suburbs, retail malls and surrounding areas. And because the new branch cost is similar to our previous design to implement, our clients won't need to absorb increased fees.'

EXERCISE 1

1. Which orientation towards marketing does the management of Capitec Bank apply? Motivate your answer.
2. Discuss the five principles of the 'marketing concept' and illustrate how Capitec Bank applies these principles.
3. Discuss how Capitec Bank creates and delivers value for their clients.

EXERCISE 2

1. Provide a definition of marketing by briefly referring to the core concepts in the definition.
2. Explain the difference between needs and wants.
3. Use a practical example to explain how marketers create customer value.
4. Briefly explain, by means of examples, your understanding of the 7 Ps of the marketing mix.
5. What does 'creating satisfying exchange relationships' mean?
6. Discuss the principles on which an organisation should base its market orientation.
7. Provide a brief overview of what marketing management entails.

Summary

In this chapter we discussed marketing in terms of the elements that constitute the definition, namely: customer value, exchange, satisfaction, capturing value, relationships and process. The marketing process starts with identifying customers' needs, and their value expectations. From this, a customer-oriented marketing strategy can be developed in order to exchange value. The marketing mix, consisting of the product, price, distribution aspects and marketing communication, all form part of the total offering to a target market using the value proposition as the differential advantage.

In developing the marketing strategy, a process consisting of analysis, marketing planning, implementation, and evaluation and control are applied. Once strategies have been selected, the question of marketing organisational structures must be addressed (structure follows strategy).

Towards the end of the chapter, two significant issues that could impact on the marketing landscape in future were discussed, namely ethics and corporate social responsibility. Organisations should proactively plan to incorporate these issues in their strategies because these will have a long-term impact on the relationships with their stakeholders. If issues of this nature are not managed properly, the resulting negative perceptions can tarnish the organisation's image, profits and, ultimately, its survival.

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THE MARKETING ENVIRONMENT

CHAPTER 2

LEARNING OUTCOMES

After studying this chapter you should be able to:

- describe the uncontrollable and controllable factors that impact on a firm's ability to serve its customers effectively
- conduct macro-environmental analyses using the PESTLE framework
- explain the meaning of 'competition' and 'competitive advantage', and conduct a thorough competitor analysis
- describe the competitive forces that determine market attractiveness
- explain why internal analysis is important
- explain the meaning of environmental scanning, its importance and how management can execute it
- describe the SWOT analysis and its relationship to marketing objectives and strategy planning.

Introduction

In Chapter 1, you learnt that businesses need to look outwards and identify customer needs before they can decide on the products they should be offering. An organisation depends on environmental factors, both internal and external to the organisation, to be able to satisfy its customers' needs and achieve their objectives. This chapter introduces different elements of the marketing environment and discusses how these elements impact on marketing activities.

THE MARKETING ENVIRONMENT

The marketing environment is defined as all factors and forces internal and external to an organisation that affect marketing management's ability to develop and maintain successful transactions with their customers.

The marketing environment is dynamic – it changes all the time. These changes can be sources of opportunities, or they can pose threats to an organisation. Changes can also be sources of strengths or weaknesses. In order for an organisation to achieve its goals, it needs to be able to implement marketing strategies that take into consideration developments in the immediate and wider environment in which it operates. This chapter emphasises the importance of monitoring the marketing environment in order to be responsive to changes that take place within the marketing environment.

Components of the marketing environment

The marketing environment consists of following three distinct components:

- **The internal environment:** This consists of factors and forces *within* an organisation that affect its ability to serve its customers effectively. These factors include the mission and objectives of the business, its resources and its capabilities. Marketing managers develop and implement their marketing plans in this environment. The top management of an organisation has direct control over all aspects relating to the internal environment.
- **The market environment:** This consists of factors and forces immediately *outside* the business that affect its ability to serve its customers effectively. It includes suppliers, distributors, customers and competitors. Businesses deal directly with most of the factors in the market environment. While organisations have no direct control over these external factors, they may be able to exercise some influence over some of them.
- **The macro-environment:** This consists of broader factors and forces that affect not only the business, but also its suppliers, distributors, customers and competitors. These forces are often grouped as political, economic, social, technological, environmental and legal forces. The macro-environment falls outside any individual organisation's direct sphere of influence.

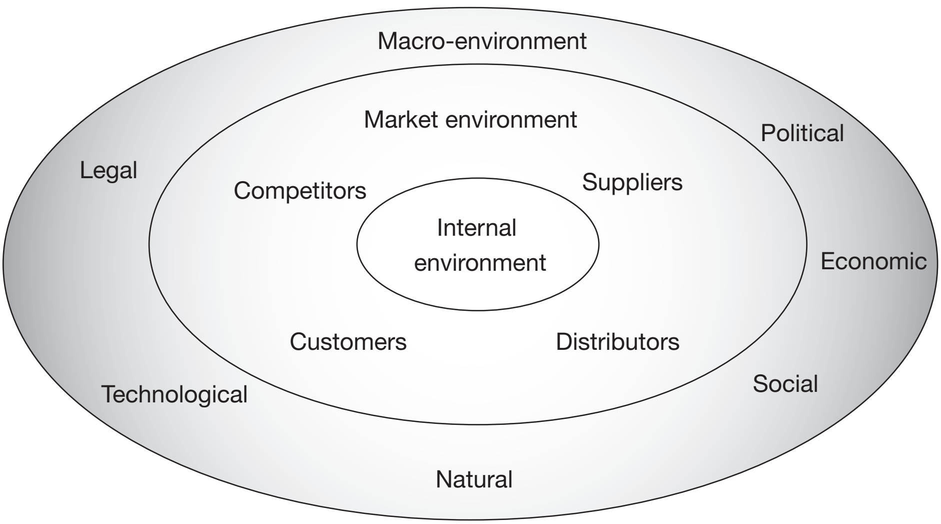

Figure 2.1 *The marketing environment*

The macro-environment

An organisation and factors in its market environment operate within a larger macro-environment (refer to Figure 2.1). Changes in the macro-environment may not always have an immediate impact on an organisation. For example, changes in population structure are likely to have little impact on volumes of products demanded in the short term. In the long term, however, the impact in terms of number of potential customers in targeted population groups can be significant. Other changes in the macro-environment result in a significant and immediate effect on a business. For example, a change in the rand-dollar exchange rate will have a direct effect on South African businesses importing or exporting their products.

In any case, changes in the macro-environment are sources of opportunities or threats to businesses and other organisations. Marketing managers need to monitor this environment on a constant basis so that they can identify the opportunities and threats facing the business, and find ways to take advantage of opportunities and minimise the potential impact of threats. The macro-environment is divided into a number of interdependent sub-environments, namely political, economic, social, technological, legal and environmental. Together, they form the acronym PESTLE.

PESTLE ANALYSIS

The PESTLE analysis is a framework for analysing the macro-environment in which an organisation operates, and the opportunities and threats that lie within the environment. There are a number of variations to the acronym, which allow analysts to emphasise the factors that are most applicable to their situation. These include:

1. PEST or STEP analysis (political, economic, social and technological factors)
2. SLEPT analysis (social, legal, economic, political and technological factors)
3. PESTLIED analysis (political, economic, social, technological, legal, international, environmental and demographic).

The political environment

The main role-players in the political environment consist of politicians, political parties, governments and pressure groups that seek to influence governments and politicians. When analysing the political environment, marketers need to consider a number of factors, including the following:

- **Political stability:** Businesses prefer to operate in environments that are politically stable; political unrest can be disruptive to most business activities. In extreme cases, political instability can cause businesses to lose their assets, without any prospect of compensation. For example, between the years 2000 and 2004, many commercial farmers in Zimbabwe lost their farmlands and other assets due to political unrest in the country, as a result from the implementation of the government land redistribution programme.
- **Changes in government:** Marketers need to know the philosophies of the major political parties in a country as these could have a direct impact on business activities in the event of a change of government.

Governments often put pressure on businesses and other organisations when they implement and enforce legislation, and formulate and implement government policies.

Legislation

Marketing and broader business decisions of any organisation are constrained, directed and influenced by legislation and other regulatory forces.[1] In a democratic country, legislation is passed by government through Parliament. It results from active political processes and is aimed at ensuring fair business practices that protect both business and the public. For example, due to public health concerns, the South African government passed the Tobacco Products Control Act 83 of 1993 which, among other things, prohibits tobacco advertising and the sale of cigarettes to anyone under the age of 18.

Government policies

Governments draw up policies to influence decisions in hopes of achieving intended outcomes. For example, governments use trade policies to advance industrial development and address structural constraints to economic development, including issues such as unemployment and poverty levels. Governments may also put measures in place to promote exports and control imports. In South Africa, these mandates are held by the Department of Trade and Industry (also known as the dti). Import controls affect business through encouraging local production and protecting local manufacturers from unfair competition of international competitors.

THE AUTOMOTIVE PRODUCTION DEVELOPMENT PROGRAMME (APDP) 2013–2020

The motor vehicle industry is of strategic importance to the South African economy. The industry contributes about 12.1% to the value of the country's exports, 7% to the gross domestic product, and employs over 100 000 people in assembly and component manufacturing.[2] Government introduced the APDP in 2013 to replace the Motor Industry Development Programme (MIDP) that was implemented between 1995 and 2012. Unlike the MIDP which focused on exports, the APDP is aimed at enabling light motor vehicle manufacturers in the country to significantly grow their production volumes and component manufacturers to significantly grow value addition, thereby leading to creation of increased additional employment opportunities across the automotive value chain.[3] As part of this programme, light motor vehicle manufacturers with a plant capacity producing 50 000 units a year or more, are allowed to offset custom duties on some of their imported components.[4] The programme seeks to grow local production of light motor vehicles from a total of 620 000 units in 2013 to 1.2 million units per year by 2020.[5]

The economic environment

The state of a country's economy is critical to any business as it affects both supply and demand for goods and services. In assessing the economic environment, marketing managers need to focus on the following factors:

Levels of economic growth

Economic growth can be described as a positive change in the level of production of goods and services by a country over a given period. Levels of economic growth tend to rise and fall in tandem with troughs and peaks in the business cycle. During periods of high economic growth, unemployment levels tend to drop and income levels tend to rise, bringing an increased demand for goods and services. During periods of low economic growth, unemployment levels increase and income levels decrease, bringing a decreased demand for goods and services.

Monetary policy and interest rates

Governments use monetary policy to control the supply of money and the rate of interest in an economy. Increased money supply is associated with lower interest rates, whilst a lower money supply is associated with higher interest rates. Governments often delegate the responsibility of managing their monetary policy to a central bank, such as the South African Reserve Bank. Fluctuations in interest rates often have significant, immediate effects on individuals and businesses. Reduced interest rates benefit businesses by reducing the costs associated with servicing business debt. They also stimulate consumer demand, especially for products bought on credit, such as cars and houses.

Fiscal policy

Fiscal policy is a government policy aimed at influencing the direction of the economy through changes in government expenditure and revenue collection.[6] The biggest source of government revenue is tax. Increased government spending can mean increased opportunities for businesses that supply goods or services to government departments. In other cases, increased government spending on public services may be a threat to private service providers because it can create competition. Changes in taxation levels can also affect business organisations. For example, changes in personal income tax would increase or decrease the disposable income of consumers, and impact the demand for goods and services.

Rate of inflation

The inflation rate is the overall rise in the price of goods and services in an economy over a period. Very high levels of inflation can cause problems for businesses by reducing consumer spending power, increasing the cost of production and reducing the overall competitiveness of a country's exports on the international market.

Currency exchange rates

The rate at which the currency of one country is exchanged for the currency of another country has an impact on the price of products traded on international markets. When the local currency appreciates in value against other currencies, imported products become cheaper, making it more difficult for local products to compete. The money that exporters receive for their products will weaken at such a time. When the local currency loses value, imported goods become more expensive, but the amount of money that exporters receive when changed into local currency increases.

Table 2.1 *South Africa's economic outlook as of second quarter 2014*[7]

INDICATOR	2014	2016	2018
GDP (real, %)	2.2	2.6	3.8
Exports (real, %)	4.8	5.7	6.5
Imports (real, %)	6.5	7.4	7.3
Exchange rate – rand to US$	10.31	9.35	10.20
Consumer inflation rate (average, %)	6.1	5.4	5.5
Unemployment rate (%)	24.6	24.5	24.0

The social environment

Consumers do not exist in isolation; they are members of various groups in society, each with unique characteristics, for example in terms of numbers, cultural values and attitudes. It is important for marketers to understand the social environment as it plays an important role in influencing all the elements of the marketing mix, including the goods and services consumers buy, the effectiveness of promotional programmes, when and where people buy products, as well as what prices consumers consider to be acceptable for certain goods and services. When analysing the social environment, a marketer needs to look at a few factors associated with demographic and cultural forces, particularly at the impact these may have on the demand for goods and services.

Demographic forces

When we refer to performing an analysis of demographic forces, it means we study the human population in terms of size and other characteristics such as geographical distribution, age, gender, education levels and income distribution. The demographic environment is of major interest and importance to marketers because it is about the people who make up their markets. Developments in this environment have major implications on business. For example, the prevalence rate of HIV/Aids has also become a social issue of concern for businesses. An increase in HIV/Aids can be seen as a threat for most businesses as it impacts negatively on employee productivity and consumer spending. For other businesses such as those in funeral parlours, HIV/Aids counselling services and sales of medication, it can be a source of opportunity.

SOME DEMOGRAPHIC FACTS ABOUT SOUTH AFRICA (2009)[8]

- The total population of South Africa in 2013 was estimated at 52.98 million.
- 79.8% of the population is African, 9% Coloured, 2.5% Indian/Asian and 8.7% white.
- The most populated province was Gauteng with 12.7 million people, followed by KwaZulu-Natal with 10.5 million people. The least populated province is Northern Cape with 1.16 million people.
- Nearly one third (29.2%) of the population is aged younger than 15 years and approximately 7.8% (4.5 million) is 60 years or older.

The total number of people living with HIV grew from 4 million in 2002 to 5.26 million in 2013.

Cultural forces

Culture has been described as 'a society's personality'.[9] Cultural forces include factors such as language, customs, religion, work patterns and artefacts that give society a distinctive character. Cultural forces affect people's values, attitudes and lifestyle. They are critical in determining what is considered to be important, desirable, right or appropriate. Some common consumers' values relate to achievement, equality, patriotism, humanitarianism and sense of morality. Values, attitudes and lifestyle determine demand for specific products and the way people can generally be expected to respond to marketing efforts.

DOUBLE INCOME HOUSEHOLDS: GROWING THE MARKET IN SOUTH AFRICA

Since the 1990s, South Africa has experienced a strong increase in the number of women joining the labour force. Statistics show that the ratio of female to male proportion of the country's working age population that engages in the labour market expressed as a percentage of the working age population grew from .517 in 1990 to .724 by 2011.[10] As a result of more women joining the workforce, buying patterns in households have also begun to change. The demand for products and services such as childcare, homecare, clothing (formal work clothing in particular), labour-saving home appliances and convenience foods has increased. In recognising the changing economic power of women, many business organisations have responded by developing products specifically targeted at this segment of the market, including cars and financial services.

The technological environment

As technology develops, so do the tools, methods and techniques used in production and management processes. Advances in technology and innovation are a result of investments in research and development by businesses as well as governments. The technological environment influences marketing activities in the following ways:

- **The introduction of new or improved products and services:** Products such as computers, laptops, body scanners, Wi-Fi Internet access, smart phones, androids, vehicle tracking systems, robotics, etc. have been introduced in the last century. These new or improved products can bring new opportunities, and may mean the end for some – for example, typewriters were replaced by computers.
- **Improvements in production processes:** Advancements in technology have, in some places, resulted in automation of design and manufacturing processes, improving quality and reducing the cost of certain products because of productivity gains.
- **Improvements in the way markets are identified and services are provided:** Developments in communication and information technology, the Internet in particular, have proved to be an inexpensive way to reach customers. The Internet allows customers to search for and buy goods and services without the need to visit service providers or shopping premises personally, enabling them to buy goods and services globally. Online social networking technologies such as Twitter and Facebook are increasingly being used by businesses to generate direct sales, and to attract and stay connected with their customers at little cost. These social media platforms are being used by most businesses, more so than the traditional promotional tools such as television, radio and newspapers. These networks allow individual users to learn about business offers in real time, give feedback on their experiences with the business, as well as offer product ideas. In turn, this creates a sense of community among the followers as they develop a sense of loyalty to a brand.

The changes occurring in the technological environment may be sources of threats to business and other organisations, because the cost of these new technologies may significantly increase capital and operating costs. This would mean that organisations unable to keep up with the pace of the changing technology may find themselves unable to compete effectively. Changes in technology also have a direct impact on social costs, for example people lose their jobs when they have been replaced by machines. Other impacts would include damage caused to the environment, for example through production activities that result in pollution.

ONLINE RETAIL GROWTH IN SOUTH AFRICA

The Internet is fast changing the face of retailing in South Africa. The country's total online spent in 2013, is estimated at R4.4 billion.[11] A 2014 MasterCard online shopping behavioural study found that as many as 87% of online shoppers were satisfied with their online shopping experience.[12]

The legal environment

Organisations operate under the rules set by the legal environment. When legislation is debated and passed by elected representatives in Parliament, it is sometimes considered part of the political environment. Business-related legislation is mainly aimed at the following:

- **Protecting consumers:** Consumer protection laws place an obligation on suppliers of goods and services to act in a manner that is fair to the consumer. Examples of such laws include the Consumer Protection Act 68 of 2008, and the National Credit Act 34 of 2005. The Consumer Protection Act gives effect to internationally recognised consumer rights, while the National Credit Act, among other things, prohibits reckless granting of credit. It also demands that advertisements for credit, or the sale of goods and services on credit, disclose the full costs to customers upfront.
- **Promoting fair competition:** Competition is often considered good for the economy because it helps to promote efficiency and provides consumers with a wide range of product choices at competitive prices. An example of legislation aimed at promoting fair competition in South Africa is the Competition Act 89 of 1998. Under this Act, restrictive trading practices that can impact on levels of competition are prohibited. These include fixing of selling or purchase prices, pressuring retailers not to stock competitors' products, or pressuring suppliers not to supply to competitors. Violation of this Act can result in stiff penalties.

THE CONSUMER PROTECTION ACT 68 OF 2008[13]

The purpose of this Act is to promote the social and economic welfare of consumers in South Africa. There are nine specific consumer rights that the Act addresses. These are:

- the right to equality in the consumer market and protection against discriminatory marketing practices
- the right to privacy
- the right to choose
- the right to disclosure and information
- the right to fair and responsible marketing
- the right to fair and honest dealing
- the right to fair, just and reasonable terms and conditions
- the right to fair value, good quality and safety
- the right to accountability from suppliers.

Protecting company products

The cost of developing new technologies and products can be exorbitant. Legislation plays a critical role in encouraging investments in research and development by protecting business innovations. South Africa's intellectual property protection laws include the Patent Act, the Copyright Act and the Trademarks Act.

Protecting society in general

Sometimes laws are in place not only to protect consumers of specific products, but also society in general, against marketing activities that may be not be in the general interest of the public. Examples of these laws include: the Consumer Affairs (Unfair Business Practices) Act 71 of 1988, the Tobacco Products Control Act 83 of 1993, and the Liquor Act 59 of 2003.

PATENT
A government authority to an individual or organisation conferring the sole right to make, use or sell an invention for a set period of time.[14]

COPYRIGHT
This gives the creator of intellectual property an exclusive right to print, distribute and copy the work for a period Copyright owners have the right to control the reproduction of their work.

TRADEMARK
This refers to the distinctive symbols and branding used by a business to distinguish its products from those of other businesses. A business that has registered its trademark has the exclusive right to use the mark.

The legal environment affects all elements of the marketing mix. Marketers need to be aware of changes taking place in this environment and variations in legislation that may exist at different levels of government, such as provincial and local level. Failure to comply with regulations may prove too costly for an organisation as it could end up facing huge fines, court action and damage to its market reputation.

Natural environment

Environmental problems – including global warming, depletion of the ozone layer, depletion of natural resources, and the degradation of air, water and soil quality – have become of paramount importance to society. Marketers need to be aware of the threats and opportunities associated with changes in this area. Some of these relate to:

- **Processes and materials used to produce products:** Processes and materials can cause serious damage to the environment. Some businesses have taken measures to ensure that they use biodegradable and natural ingredients in their production processes in an effort to minimise harm to the environment. Public concerns about environmental damage have also created increased demand for products produced in ways that are environment-friendly. Woolworths is an example of a South African company that has proactively capitalised on environmental concerns by pursuing green marketing strategies, resulting in a favourable organisational image.

CASE STUDY: WOOLWORTHS – THE GOOD BUSINESS JOURNEY[15]

Woolworths Good Business Journey is a comprehensive plan that seeks to make a difference in key areas of energy, water, waste, sustainable farming and sustainable fishing, transformation and social development.

Activities associated with each key area include:

- energy – reducing electricity consumption in stores, using eco-friendly lighting and using clean energy increasingly
- water – working with suppliers to conserve water and using it wisely
- waste – using recycled materials in their stores
- sustainable farming – promoting the 'farming for the future programme', a holistic farming approach aimed at ensuring that food supplied to its stores is grown sustainably, in harmony with nature
- sustainable fishing – promoting the 'fishing for the future programme' by procuring seafood from sustainable fisheries and from farming operations that work with seafood sustainability awareness and certification programmes
- transformation – the company is committed to social economic transformation in the country and to supporting small, local community-based enterprises
- social development – the company has programmes targeted at helping disadvantaged communities to build economically sustainable livelihoods for themselves and for future generations.

Scarcity of some natural resources

In many countries, environmental degradation has resulted in reduced availability of good farmland and forestry resources, many inland water bodies have dried up, and fish populations have dwindled. As a result, industries that rely on such resources face severe production constraints and increased costs of production.

Increased cost of energy

Economic activity is heavily dependent on non-renewable energy sources, especially oil, and increased prices of this diminishing resource have resulted in increased energy costs for both organisations and consumers. Some businesses have seen an opportunity in this and have developed energy-efficient consumer products including appliances, lighting, heating and cooling systems.

Increased intervention by government and environmental pressure groups

With all the increased damage to the environment caused by business and consumer activities, marketers can expect pressure and intervention from governments and environmental activist groups who are working to protect the environment and conserve our resources. A law such as the National Environmental Management Act 107 of 2008 is an example of one of the ways in which governments have intervened in an attempt to protect the environment. Among other things, the Act implements measures that prevent pollution and ecological degradation through having to paying exorbitant fines. Environmental (activist) groups put enormous pressure on governments and industries to take stronger action in helping to conserve and restore the natural environment. These environmental groups are good at mobilising public opinion, and companies that damage the environment can quickly become exposed and fall prey to negative publicity.

LOOK AT THE FOLLOWING SIMPLE ACTIONS THAT WOULD HELP TO PROTECT THE ENVIRONMENT:

- Do not litter.
- Walk rather than using a car to travel short distances.
- Buy recycled paper.
- Use public transport where possible.
- Print on both sides of paper.
- Switch off all power-consuming devices when you are not using them.
- Start recycling your waste – for example, collect paper, cans, plastic that can be recycled and glass bottles.

The international environment

The growing interdependence of world economies has increased the potential impact of developments in the international environment on businesses. Examples of interdependence of world economies includes:

- increased international trade
- foreign direct investment
- migration and the spread of technology.

Analysis of the international environment involves examining what is happening outside a country's borders in terms of developments in the political, economic, social, demographic, technological, legal and the natural environment in order to determine impact of changes on a business organisation.

The international environment presents businesses with many opportunities, such as increased market size and increased access to new technologies. International markets can also be a source of cheap raw materials and other factors of production, resulting in reduced costs for businesses.

Increased integration of world markets has increased the vulnerability of local businesses to developments in the international environment. This can be a source of threat to businesses. For example, increased global demand for crude oil has resulted in oil prices going up on international markets. For a country like South Africa, this has meant increased expenditure of foreign currency reserves on oil imports. It also means increased petrol prices and increased transport costs for local businesses and individuals.

THE WORLD TRADE ORGANISATION (WTO) AND INTERNATIONAL TRADE RULES[16]

The WTO is an international body established in 1995, based in Geneva, Switzerland. The body deals with rules of trade between nations; it serves as a forum for governments to negotiate trade agreements and settle disputes. The overriding purpose of the organisation is to facilitate trade flows by removing obstacles to international trade. WTO agreements are binding on governments.

While the agreements are negotiated and signed for by governments, the goal is to inform individuals about the trade rules, and for businesses to conduct their activities in compliance with these rules. Governments are expected to develop and keep their trade policies within these agreed parameters.

The market environment

The market environment consists of suppliers, customers, distributors and competitors of the business. Marketing managers need to monitor developments in the market environment closely since, just like the macro-environment, it can be a source of both opportunities and threats to an organisation.

Suppliers

Suppliers are individuals and businesses that provide resources needed by a business to produce its goods and services.[17] Developments in the supplier market can have a serious impact on marketing activities in an organisation. For example, increased raw material prices may force the organisation to increase prices of goods and services, thereby reducing their customers' affordability and impacting on sales volumes and profits.

Marketers need to monitor a number of factors relating to developments in the supply markets. These include:

- quality of products
- reliability of individual suppliers
- flexibility of suppliers in responding to unforeseen demands from the organisation
- the bargaining power of suppliers
- general business conduct and ethics.

The ability of a business to ensure customer satisfaction can be seriously compromised if things are not working well on the supply side.

SUPPLIER CODE OF CONDUCT

Companies develop codes of conduct to govern behaviours of their stakeholders, including suppliers. Supplier codes of conduct provide guidelines for behaviour and decision-making. The codes can cover any scope. For example, the McDonald's Supplier Code of Conduct covers issues of human rights, workplace environment, environmental management and business integrity.[18] Suppliers are expected to conduct their activities in a manner that respects human rights, including workers' freedom of association in line with applicable laws and regulations. They are required to ensure a safe workplace environment and minimise any environmental impact as a result of their operations. They are also required to conduct their business with integrity and not engage in any form of bribery and corrupt practices.

To minimise any potential problems that may arise from the supply side, many businesses are now taking steps to develop closer win-win working relationships with their suppliers. These suppliers are viewed as partners with the organisation in a joint effort to deliver value to customers.

Customers

Customers are the focal point of any business. They are key to sales and profits. Marketers need to identify exactly who their customers are, what their needs and wants are, as well as factors that affect their buying behaviour.

A business can operate in five different types of customer markets. These markets include the following:

- **Consumer markets:** These consist of individuals and households that buy goods and services for personal use.
- **Business markets:** These are made up of businesses that buy products for further processing or for use in their production processes.
- **Reseller markets:** These are business organisations that buy goods and services and resell them at a profit.
- **Government markets:** These are government units that buy goods and services in order to provide public services.
- **International markets:** These are buyers in other countries and include consumers, producers, resellers and governments.

Many marketers are taking active steps to develop the kind of relationships with their customers that lead to increased customer loyalty. One commonly used method to build a loyal customer base is through the use of frequent shopper incentives. Another method is actively to gather information from customers about their levels of satisfaction and to identify areas for improvement.

Distributors

Large manufacturers that find it impossible to deal with each of their final customers individually use distributors to bridge the gap. Distributors are independent firms that assist in the flow of goods and services from producers to final customers. They include wholesalers, retailers, dealers, agents and physical distribution firms.

- **Wholesalers and retailers:** These firms are also known as resellers. Wholesalers normally purchase goods from manufacturers then resell them to retailers. Retailers operate outlets that trade directly with final customers. Most big retailers in South Africa such as Pick n Pay and Shoprite Checkers are able to get most of their products directly from the manufacturers.
- **Dealers:** Dealers play a similar role to wholesalers and retailers. They differ from normal wholesalers and retailers in that they usually carry a much narrower range of products and are often involved in providing after-sales service to customers on behalf of the producers.

- **Agents:** These are businesses and individuals that sell products and services for a commission, usually a percentage of the sale price.
- **Physical distribution firms:** These firms assist in storage, handling and movement of goods from their original locations to their destinations. They include warehousing and transportation firms. Warehousing firms store and protect goods before they are moved to their next destination, while transportation firms move goods from one location to another. A business needs to consider a number of factors when making physical distribution decisions, including safety of products, cost, and speed of delivery.

It is important for marketers to develop good relationships with their distributors because these play an important role in ensuring that products are available to customers at the right place, in right quantities and at the right time. Threats arise when an organisation is overly dependent on a single distributor. This is because in such cases, the distributor can dictate distribution terms such as those relating to product delivery schedules, retail profit margins and provision of sales support services. A manufacturer that is unable or unwilling to meet the terms of a powerful supplier may risk the loss of access to important markets.

Competitors

Competitors are a major threat to any organisation. Success in the marketplace depends not only on the ability of organisations ensure customer satisfaction, but to do it better than their competitors. Conducting a thorough competitor analysis and constantly monitoring their activities to help to identify their objectives and strategies, as well as their strengths and weaknesses.

Competitive market structures

The number of sellers, degree of product differentiation and presence of entry and exit barriers all help determine the strength of competition in a market. These factors give rise to four general types of competitive market structures: monopoly, oligopoly, monopolistic competition and perfect competition.

- A **monopoly** is a market structure consisting of a single organisation marketing a product with no close substitutes. In South Africa and most other countries, monopolies are discouraged or regulated to prevent organisations from abusing their power. In the absence of effective regulation, monopolies can charge customers exorbitant prices and give little attention to quality customer service. Examples of monopolies in South Africa include the National Ports Authority and Eskom.
- An **oligopoly** is a market structure consisting of a few firms marketing products that can be either homogeneous (for example, steel and coal are very similar, wherever they come from), or differentiated. An example of oligopoly in South Africa is the cell phone market, which comprises Vodacom, MTN, Cell C and Virgin Mobile.
- **Monopolistic competition** is characterised by a large number of firms marketing similar but differentiated products. Firms use differentiation strategies to

distinguish their products from those of their competitors and to convince customers that their products are the best buy. Examples include businesses operating in the clothing industry, making processed foods such as coffee and tea, as well as those in the home electronics industry selling television sets and other home appliances.

- **Perfect competition** refers to a market characterised by a large number of sellers marketing a homogeneous product to buyers who are well informed about the market. In such a market, no single business has any control of price, and every business sells at the prevailing market prices. Entry and exit barriers to such markets are very low. Perfect competition markets are very rare in practice. The closest example is the market for unprocessed agricultural produce such as soya beans and wheat.

Table 2.2 *Characteristics of competitive market structures*

TYPE OF COMPETITION	NUMBER OF COMPETITORS	TYPE OF PRODUCT	BARRIERS TO MARKET ENTRY	EXAMPLE
Monopoly	One	Unique – almost no substitutes	Very high/ usually blocked	Eskom
Oligopoly	Few	Homogeneous or differentiated	Major	Cell phone operators
Monopolistic	Many	Differentiated with many substitutes	Few and not major	Home electronic appliance companies
Perfect competition	Many	Homogeneous	None	Agricultural products such as soya beans

Competitor analysis

Competitor analysis is the process of identifying an organisation's competitors, understanding their objectives and strategies, and assessing their strengths, weaknesses and likely responses to what competitors do. The key questions to be addressed in competitor analysis include:

- Who are the organisation's competitors?
- What are their objectives?
- What competitive strategies are they pursuing?
- What are their strengths and weaknesses?
- How are they likely to respond to competitors' actions?

Who are the organisations' competitors?

There are two common approaches used to identify competitors. These are the industry approach and the marketing approach.[19] The industry approach defines competitors as businesses producing products that are close substitutes. For example, Absa, First National Bank, Standard Bank and Nedbank are all competing firms in the banking industry. Coca-Cola and Pepsi are competitors in the soft drink manufacturing industry. The marketing approach defines competitors as all firms providing products that satisfy the same customer needs. This a much broader way of defining competitors, since the same customer need can be satisfied by products that are not always close substitutes. For example, a customer need to quench thirst can be satisfied by a wide range of products that include bottled water, soft drinks, iced tea and fruit juices. The general recommendation is that marketers should avoid defining competitors too narrowly as this can mean they do not pay attention to other important role-players in the market. Apart from considering current competitors, companies should also consider potential competitors. These are firms that are likely to introduce products that are similar or satisfy the same customer needs and wants.

What are the competitors' objectives?
Organisations pursue a mix of different objectives. These objectives often determine the strategies that they take as they compete in the market. Some of the common marketing objectives pursued by business organisations relate to profit, sales, market share and customer orientation. Businesses often have different marketing objectives for different markets or market segments. In doing a competitor analysis, it is important to look not just at overall business objectives, but also at objectives at product or market segment level.

What competitive strategies are they pursuing?
Businesses often choose to compete on the basis of low prices or product quality. Michael Porter identified three generic competitive strategies used by firms as they compete at individual product or market level:

- **Cost leadership strategy:** A business pursuing this strategy concentrates on producing products at the lowest possible cost in order to sell at prices lower than their competitors to a broad target market. Retailers such as Game and Shoprite emphasise low prices.
- **Differentiation strategy:** A business pursuing this strategy concentrates on producing products that are unique (different to those of its competitors), and selling them to a broader target market. The target market in this case is customers who value differentiated products more than low-cost products. Woolworths Foods is an example of a company that emphasises differentiation rather than low prices.
- **Focused strategy:** Businesses pursuing a focused strategy choose to target a narrow segment of the market to the exclusion of others. This is sometimes called niche marketing. For example, a clothing retailer may only sell clothing for children between the ages of three and ten. The focused strategy has two variants, namely focused cost leadership and focused differentiation. Focused cost leadership is when a business seeks to lower its costs and sell at lower prices than competitors. Focused differentiation emphasises the uniqueness of the products rather than low prices.

Whichever competitive strategy an organisation chooses, the aim is to gain a competitive advantage over its main competitors.

> **COMPETITIVE ADVANTAGE**
> This is an advantage a business has over competitors gained by offering consumers either the same benefits as competitors but at a lower price, or delivering more benefits than competitors.

What are the competitors' strengths and weaknesses?
Marketers need to assess the strengths and weaknesses of their competitors in order to know their capabilities. Through such an assessment, a business will be able to identify those areas of competitive vulnerability on which they can capitalise on.

The process of assessing the strengths and weaknesses of competitors requires the collection of as much relevant information as possible. This will include information on the following:

1. Competitors' human resources, including marketing personnel and organisation, the skills of employees and staff development programmes
2. Other resources including financial and technological resources
3. Supplier and customer information, including major customers and suppliers, and service quality levels
4. Marketing strategies, planning and control systems including product, pricing, promotion and distribution strategies, as well as the effectiveness of strategies
5. Operating results over a period in terms of sales, market share, profit margins and costs.

This information can be collected from a variety of sources such as annual reports, websites and promotional messages, and personal interviews with the staff, customers and suppliers of competitors. It is always important to make sure that the information is collected in an ethical manner.

Data collected for an assessment of competitor strengths and weaknesses can be used to benchmark a firm against leading firms in the industry, or to compare a number of competing firms against identified key industry success factors.

How are they likely to respond to their competitors' actions?
Competitive actions are likely to provoke responses. Some competitors may respond swiftly and aggressively to every competitive move; some may delay their responses; others may choose to respond to some actions and not to others. Each competitor is likely to respond differently.

Understanding competitors' objectives and competitive strategies and how they have behaved in the past, and knowing about their strengths and weaknesses all helps to predict their likely responses to competitive moves. A competitor that is interested in maintaining a big market share in a strategic market segment is more likely to be able to respond to the actions of competitors if they are trying to make inroads into that strategic market. A business that is following the cost leadership strategy is more likely to respond quickly to price cuts by competitors than it would to competitors increasing their promotional budgets. A company that has responded in a particular way in the past is likely to respond in that way again. A small company may wish to respond to competitors' actions, but lack the ability to do so.

Determining market attractiveness

The different role-players in the market environment directly affect a company's level of competitiveness. Michael Porter identifies 'five forces of competition' operating in the market environment that affect industry attractiveness and profit potential. The 'five forces' are also widely used to assess a company's level of competitiveness in a market.[20]

- **The threat of new entrants:** New entrants bring increased competition in a market and can threaten a company's profits and share of the market. For example, when the budget airlines Kulula.com and 1Time came onto the domestic air travel market, South African Airways lost market share. The threat of new entrants is high in industries with low barriers to entry, and low where barriers to entry are high. Common barriers to entry include high capital requirements, lack of access to production resources and distribution channels, and effective differentiation resulting in increased customer loyalty. Other barriers to entry include economies of scale and high switching costs. Economies of scale occur when the average cost per production unit decreases as the production run gets bigger because the fixed costs are shared over an increased number of goods. Switching costs refers to the once-off costs incurred by customers if they switch to another supplier. For example, a decision to use a different software package in a business will mean that employees will have to be trained in its use. High barriers to entry increase the attractiveness of the market to existing competitors, but make the market unattractive to companies wanting to enter the market.
- **Bargaining power of suppliers:** The higher the bargaining power of suppliers in a market, the less attractive that market is. Suppliers have more power in a market if they can increase the cost of their products or lower their product quality at will. The power of suppliers in a market is driven by a number of factors such as the number of suppliers relative to the demand, the uniqueness of their products, the quantum of switching costs, and how important the supplier considers a particular client to be. Businesses will find a market unattractive if it has an unfavourable supply situation, i.e. where there are few suppliers offering unique products with no close substitutes. In such a situation, the suppliers have a large amount of bargaining power and can choose who they want to do business with. Switching costs are also likely to be high. For example, African Oxygen (Afrox), the biggest supplier in southern Africa of gases used in manufacturing soft drinks, often has more demand for its products than it can meet. This means it is in a strong position to bargain with soft drink manufacturers.
- **Bargaining power of buyers:** Customers have more power if they can drive prices down or dictate other terms of sale. In general, the higher the bargaining power

of buyers, the less attractive a market is. The power of buyers in a market is driven by a number of factors including the number of buyers relative to the supply, the uniqueness of the product, the quantum of switching costs, and how important a business considers particular buyers to be. Attractive markets to a business are associated with large numbers of unorganised buyers, buying unique products with no close substitutes, with each buyer buying small quantities and facing high switching costs. Many big retailers have so much bargaining power that they can force their suppliers to reduce prices.

- **Threat of substitute products:** Examples of substitute products are margarine and butter, or potatoes and rice. If the price of one product increases, consumers will switch to the other, which tends to limit the potential for price increases. The threat of product substitution increases where switching costs are low, and the quality and performance of the substitute product is equal to or higher than its competitor. For example, the introduction of cell phones to South Africa put Telkom's landline business under pressure.
- **Intensity of rivalry among competitors:** The amount of competitor rivalry in a market is affected by a number of factors, including the number of businesses competing in a market, the level of product differentiation, the size of the market, and whether the market is growing. High levels of rivalry are associated with large numbers of competitors, low levels of product differentiation and slow or declining customer markets

The internal environment

The internal environment consists of factors and forces within an organisation that affect its ability to serve its customers effectively. It is the only part of the marketing environment that is under the direct control of the organisation's management team. Analysis of the internal environment is important as it helps management to better understand the organisation's strengths and weaknesses. When analysing the internal environment, marketing managers need to look at a number of factors, including the organisation's mission and objectives, and its resources, skills and capabilities.

The mission

An organisation's mission is a statement of its reason for existence, and is a kind of invisible hand to guide the activities of its employees and how its resources are applied. A good mission statement is customer-oriented because customer satisfaction is the key to success.

EXAMPLES OF MISSION STATEMENTS

The mission of the IMM GSM is to continually bestow relevant and quality marketing, supply chain and general business skills, knowledge and competencies to its students. In this manner the IMM GSM provides expert business education, specialising in marketing and supply chain management, thereby creating professionally qualified and well equipped graduates who are able to practise effectively in the business environment, thus enabling IMM GSM graduates to contribute to the overall development of a sound and globally acknowledged economy.[21]

South African Revenue Services' (SARS) mission statement is to optimise revenue yield, facilitate trade and enlist new tax contributors by promoting awareness of the obligation to comply voluntarily with South African tax and customs laws, and to provide a quality and responsive service to the public.[22]

Business objectives

BUSINESS OBJECTIVES
Business objectives are the things an organisation wants to achieve over a given period.

The objectives of a business are directly linked to its mission statement. Together, they set out the reason for the existence of the business. If there is nothing to achieve, there is no reason for a business to exist. Objectives are set at various levels of the business including at the corporate level, the strategic business unit level, and the functional level. Corporate objectives relate to the whole organisation, for example Absa Bank has overall objectives that apply to the entire organisation. Objectives at strategic business unit level relate to specific product markets. They apply only to organisations that are operating in several product markets, each of which may have its own strategies. For example, the home loans section, private banking section and car financing section within Absa will each have its own objectives. Functional-level objectives relate to functional areas of the organisation that support strategic business units and the organisation as a whole. Common functional areas in organisations include marketing, finance, production, procurement and human resource management, each of which will have its own objectives.

Within each level, some objectives apply to specific individuals, while others are shared by many (for example, departmental objectives). The managers at each level are ultimately responsible for ensuring that objectives at their level are met.

When formulating business objectives, it is important to ensure that they apply the SMART principle:

- **Specific:** Objectives should specify exactly what needs to be achieved. Organisations often have objectives relating to profits, market share, brand awareness, etc.
- **Measurable:** Objectives need to be measurable so that success can be easily tracked. For example, an objective in a specific business may be to increase market share by 10% by the end of the current year.
- **Achievable:** Objectives need to be challenging, but achievable. Managers who set objectives that are too high will cause their staff to become discouraged when they fail to reach their targets.

- **Relevant:** Objectives should add something useful to the organisation. It is important to ensure that lower-level objectives are aligned with overall organisational objectives.
- **Time-bound:** Objectives should be set within a time frame (usually a year, although long-term or short-term plans may have different time frames).

Corporate objectives

The person commonly referred to as the 'father of management studies', Peter Drucker, identified eight key result areas for businesses:[23]

- Market standing – products to sell, customers to serve, marketing channels to use and the share of market to capture
- Productivity – progressively lowering the ratio of inputs to outputs
- Innovation – often reflected in the form of new products or processes
- Physical and financial resources – management must ensure an adequate supply of physical and financial resources
- Profitability – targets should be put in place for this
- Management performance and development – measures should be in place to assess and promote the performance and development of people at all levels of the organisation
- Worker performance and attitudes – objectives should include performance standards and building employee relations
- Public and social responsibility – objectives should be set to ensure that the public and social responsibilities of the business are met.

Functional objectives

Functional objectives are set by the functional managers in each functional area. The marketing manager will thus be responsible for setting objectives for the marketing department. Functional objectives need to be in line with corporate objectives. Most marketing objectives relate to customer satisfaction; growth in sales and market share; business survival and growth, especially during difficult business times; and achievement of predetermined profit levels. Market managers also set objectives relating to each of the elements of the marketing mix, namely product, price, place (distribution) and promotion.

EXAMPLES OF MARKETING INSTRUMENT OBJECTIVES

- To grow the range of financial services provided to customers by 15% every year for the next three years (product objective).
- To open five new branches by the end of the year (distribution objective).
- To increase customer brand awareness by 20% by the end of the current year (promotion objective).
- To reduce customer service charges by 5% annually for the following three years (pricing objective).

When analysing the internal environment, the marketing manager should refer to the organisation's mission and objectives, and assess how well the business has performed in the past. Through this analysis, managers will know the areas in which they have done well and where they have failed. The next thing is to look for internal factors that can help explain why performance was the way it was. This is best done by looking at the resources, skills and capabilities of the business.

Resources, skills and capabilities

The internal resources, skills and capabilities of a business determine whether it will be able to exploit the opportunities in the external environment and counter the threats. The analysis of business resources, skills and capabilities will typically use information from all areas of the business. Table 2.3 provides a list of factors to consider during the internal analysis. It is neither possible nor desirable for marketing managers to assess all the variables in the internal environment when they identify strengths and weaknesses; the important thing is to identify the key success factors for a particular business.

Table 2.3 *Internal factors*

BUSINESS AREA	KEY INTERNAL FACTORS
Marketing management	▪ Product portfolio and quality ▪ Success rate of new product launches ▪ Market share relative to major competitors ▪ Customer care strategies ▪ Sales and profit margins for different products ▪ Sales force performance ▪ Promotional campaigns and their success rate ▪ Price competitiveness in relation to competitors' products
Financial management	▪ Cash flow ▪ Ability to generate internal funds ▪ Borrowing capacity ▪ Cost of capital
Organisational and human resources	▪ Organisational culture and structure ▪ Communication and information system ▪ Management style and interest ▪ Employee knowledge, skills and experience ▪ Utilisation of human resources ▪ Recruitment and training ▪ Employee morale and turnover
Research and development	▪ Investments in research and development ▪ Development of new products ▪ Introduction of new production technologies

BUSINESS AREA	KEY INTERNAL FACTORS
Production facilities and operations management	▪ Production capacity ▪ Supplier relationship ▪ Inventory turnover ▪ Location and layout of facilities ▪ Efficiency and cost advantages ▪ Quality control systems

Scanning the marketing environment

The marketing environment is always changing. Marketing managers need to scan for changes in the marketing environment and develop a system for assessing the possible impact of the changes on the ability of the business to achieve its objectives.

> **ENVIRONMENTAL SCANNING**
> Environmental scanning is the process of identifying, gathering and analysing information on changes in the marketing environment, including the macro-, market and internal environments.

The importance of environmental scanning can be summed up as follows:[24]

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

Businesses can engage in environment scanning continuously, periodically (once a year, for example) or irregularly. Continuous scanning allows a business to respond to threats in order to avoid or mitigate their impact, and to take advantage of opportunities before competitors do.

A variety of information sources are used in environmental scanning including industry reports, information from statistics offices such as Statistics South Africa and other government publications, media reports such as newspaper articles, as well as internal business records.

Managers are generally aware of the importance of environmental scanning and analyses. They are also aware of the problems and difficulties involved in monitoring environmental changes, for example time constraints. A monitoring system that helps to focus a manager's attention to relevant key environmental issues that will impact on the business can be very useful. This approach is known as strategic environmental issue management and consists of three stages:

- **Stage 1 – environmental scanning:** In this stage, management systematically seeks information about various elements of the environment in order to identify significant new developments.
- **Stage 2 – key environmental issue identification:** Certain new developments in the environment may have a significant impact on some activities of the organisation. These are isolated for further consideration. The key issues are evaluated in terms of the probability that the issue will materialise and the degree of impact it will have on the organisation.
- **Stage 3 – impact evaluation:** Four basic questions must be considered in order to determine the impact of a key environmental issue:
  - Does the issue represent an opportunity or threat to the organisation?
  - How significant will the impact be on the operations and performance of the organisation?
  - What is the likely timing of the impact?
  - What are the specific marketing areas on which it will impact?
- **Stage 4 – formulation of response strategy:** Given the foreseeable impact of a key environmental issue, managers formulate a response strategy. The response strategy can either be reactive (undertaken in response to a major environmental event) or proactive (formulated in anticipation of a major environmental event).

SWOT analysis

A SWOT analysis is a management planning tool commonly used to help understand the internal strengths and weaknesses of a business, and the external opportunities and threats facing it. SWOT stands for strengths, weaknesses, opportunities and threats.

SWOT ANALYSIS

- Strengths are the areas in which a business does particularly well, that set it apart from competitors.[25]
- Weaknesses are areas that a business needs to improve, should it not want its competitors to gain competitive advantage.[26]
- Opportunities are factors in the external environment that can benefit a business.
- Threats are factors in the external environment that can negatively affect a business.

Examples of strengths are strong financial resources, highly skilled employees, market leadership and strong buyer or supplier relations. Weaknesses are the opposite of strengths. Business strengths and weaknesses exist relative to competitors and the needs of the market that an organisation serves, or expects to serve. In many industries, customer service quality is considered the main factor that gives businesses leverage over competitors. Delivering superior customer service requires that employees have a customer-oriented mindset.

The external environment, consisting of the macro- and market environments, is where an organisation's opportunities and threats lie. The two main lenses through which a marketing manager will view environmental factors are:

- Business objectives – opportunities need to be compatible with business objectives and threats are worthy of much attention if they are likely to impact on the organisation's ability to achieve set objectives.
- Resources, skills and capabilities – these determine the ability of the business to capitalise on opportunities and neutralise threats.

A SWOT analysis is based on the assumption that an effective strategy capitalises on strengths and opportunities, while minimising the possible impact of weaknesses and threats. In conducting a SWOT analysis, managers look at the objectives of the business and identify the internal and external environmental factors that are favourable or unfavourable to achieving those objectives. It is a useful tool for planning and reviewing business objectives as well as strategies. Figure 2.2 provides a summary of strategic guidelines that flow from the SWOT analysis.

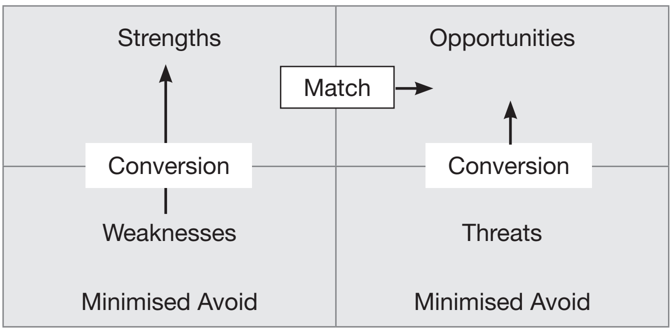

Figure 2.2 *Guidelines for strategic decisions*

CASE STUDY: MR ABRAM, THE INDEPENDENT GROCER

The future does not look promising for Mr Abram. His grocery outlet is no longer able to attract as many customers as it used to. Many in the community seem to be enjoying going to the mall and buying their supplies from the chain retailers. What can he do to make sure his business survives?

It all started 30 years ago, when Mr Abram decided to open a grocery store in his remote rural community in Mpumalanga. Back then the store was one of only three grocery outlets in the area, all of which were independently owned by individual members of the local community. Other competitors were located more than 15 km away. Mr Abram's grocery store was a favourite in his area. Most people were attracted to his shop because of his friendly disposition and the fact that he would often allow people to buy on credit.

Things have changed a lot in this rural community over the past 30 years. The major changes have, however, taken place over the last eight years, resulting mainly from government social and economic development projects in the area. Over this period, government has spent millions building a new hospital, two new high schools and a police station in the area. The population has grown significantly and many people, including professionals, have moved in to take up job opportunities in the new government establishments or to open up their own businesses. Two of the country's big banks have also opened local branches. Many of the locals have managed to find jobs in public and private establishments. The once remote rural community has quickly become a vibrant commercial area.

The growing economic activities in the area brought a lot of business to Mr Abram. His customer base grew quickly and he was granted a bank loan to expand. Until two years ago, things were looking very promising. Then a mall opened up nearby, with a number of chain retailers, including a big national supermarket operator. The supermarket is able to offer far lower prices than any independent retailer because, as part of a national chain, it is able to buy products in bulk straight from the manufacturers, thereby avoiding wholesaler mark-ups. The manufacturers undertake direct deliveries to the supermarket, while independent retailers bear the costs of having to provide their own transportation of goods from wholesalers. The large retail space occupied by the supermarket means it can provide a greater product variety and the added convenience of being able to find most products under one roof.

Independent grocers are finding it very difficult to compete with the supermarket and more than half have had to close. Mr Abram urgently needs to find new competitive strategies that can help ensure the survival of his business.

EXERCISE

1. Identify and discuss the macro-environment factors impacting on Mr Abram's grocery business.
2. Which major factors in the market environment are sources of threats to Mr Abram's grocery business? Give a reason for your answer.
3. What are the major strengths and weaknesses of Mr Abram's grocery business?
4. Mr Abrams needs to find new competitive strategies to ensure the survival of his business.
   a. Discuss the generic competitive strategies commonly followed by businesses.
   b. Which generic strategy would you recommend to Mr Abram and why?
   c. Provide examples of specific competitive actions that Mr Abram can take as he pursues your recommended generic strategy.

Summary

This chapter discussed the marketing environment in detail. The marketing environment consists of three parts, namely the macro-environment, the market environment and the internal environment. The management of an organisation has control over factors in the internal environment but cannot control factors in the external environment. The external environment is a source of opportunities and threats, while the internal environment is a source of strengths and weaknesses for a business.

It is important for marketing managers to monitor changes in the marketing environment so that they can develop strategies that take advantage of the opportunities, and avoid or minimise the potentially negative impact of the threats. The ultimate aim is for a business effectively to serve its customers better than its competitors are able to. Customers are the focal point of any business organisation. Chapter 3 provides a detailed discussion of consumers and the factors that affect consumer behaviour.

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UNDERSTANDING THE CONSUMER

CHAPTER 3

LEARNING OUTCOMES

After studying this chapter you should be able to:
- understand and explain the consumer decision-making process
- understand that there are differences in behaviour between in-store and online purchasing
- discuss the various influences on consumer-buyer behaviour
- explain the relationship between consumer purchasing and the stages of the family life cycle, and other demographic dimensions
- understand the consumer adoption process
- understand business-to-business customers and buyers
- explain the purchasing behaviour and the basic e-commerce methods usually employed in business-to-business marketing.

Introduction

Acquiring and retaining customers is central to the ongoing success of any organisation. It is for this reason that marketers need to have a clear understanding of the needs and wants of their customers, as well as their purchasing behaviour. To these ends, marketers must continually gather information about the factors that influence a customer's decision to buy or not to buy, as well as the processes that their customers follow when deciding on a purchase.

Broadly speaking, there are four basic views of consumer decision-making:
- An **economic** view, which assumes that consumers make rational decisions.
- A **passive** view, which sees consumers as irrational and impulsive.
- A **cognitive** view, which assumes that whilst consumers are not able to make perfect decisions, they try to find enough information to try make the best decision.
- An **emotional** view, which assumes that consumers often make impulsive and careless decisions they will end up regretting later.[1]

CONSUMER BEHAVIOUR

1. The dynamic interaction of affect and cognition, behaviour, and the environment by which human beings conduct the exchange aspects of their lives.
2. The overt actions of consumers.
3. The behaviour of the consumer or decision-maker in the marketplace of products and services. It often is used to describe the interdisciplinary field of scientific study that attempts to understand and describe such behaviour.[2]

Consumer-buying decisions vary with the type of product or service. Buying a washing detergent, television set, a new home or banking services are all quite different. Usually, if the risk associated with the purchase and the price is higher, then the level of buyer involvement will be higher. Therefore, more information about the product is required, the purchase is likely to take longer, and there will be a greater demand for alternatives and options. We call this EPS (extended problem solving). If the purchase is a simple one (routine- or occasion-based), we call this LPS (limited problem solving).

CONTINUUM OF CONSUMER-BUYING DECISIONS			
Involvement	**Low**	**Low to moderate**	**High**
Time	Short	Short to moderate	Long
Cost	Low	Low to moderate	High
Information search	Internal only	Mostly internal	Internal and external
Number of alternatives	One	Few	Many

Figure 3.1 *The continuum of consumer-buying decisions*[3]

For most consumers, spending their hard-earned cash creates a feeling of anxiety as they have a fear of making the wrong decisions. It is therefore important that marketers continually look for ways in which to decrease this sense of risk or anxiety that their consumers may start experiencing when buying their product. This chapter will describe the consumer buying decision-making process and examine consumer purchasing behaviour with all the factors that may influence a consumer's purchase decision.

Steps in the consumer decision-making process

Using your own experiences of buying products and services, you can easily identify the variety of goods people purchase, the individuality of each purchase event, and the degrees of purchasing complexity that apply to different kinds of buying processes. The steps in the consumer buying decision-making process are shown in Figure 3.2.

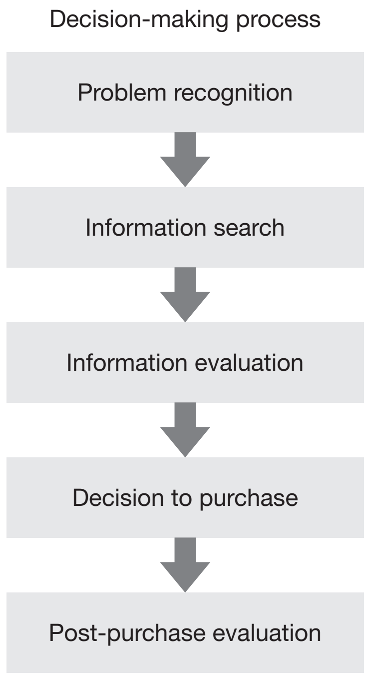

Figure 3.2 *The consumer buying decision-making process*[4]

Problem recognition

The first stage is the customer's awareness of unfulfilled need and can be explained as the 'difference between the actual condition and the desired state'. The process begins with the recognition that there is a 'problem', after which the customer takes steps to resolve it.

For example, when you experience hunger pangs, you recognise that you are hungry and solve the problem by buying and eating food. If a dashboard light comes on and indicates your car is running out of petrol, you solve the problem by buying petrol. Other problems can come about as the result of an event, for example the exhaust pipe falls off your car, 'triggering' the need to have it fixed.

Some problem situations are not so easy to define, however. In the case of psychological needs, recognising the problem can either be a slow realisation or a sudden impulse. For example, having had a long and tiring day, you may stop to purchase bread and milk but you end up also buying your favourite chocolate bar as a way of lifting your spirits. The problem here is based largely on a psychological feeling and the individual believes that the solution (in this case, based on impulse) could have been anything from a bar of chocolate to a glossy magazine or an expensive new coat; anything that would alleviate the feeling of anxiety. Although these examples have come from the customer inherently recognising a problem that needs a solution, it is also well known that a marketer can stimulate the recognition of a problem through the use of elements of the marketing mix. This is known as an 'inactive need' because the customer was not aware of it and only through seeing an advertisement (as an example), does he or she realise that a need exists. For example, if you see an advertisement for a new car that appeals to you, you may start thinking about replacing your current car and then move through the process of purchasing a new one. Steve Jobs was very successful in marketing the Apple range and convinced millions of people that they need to have an iPod or iPad to function in this fast-changing world of technology.

In the context of the decision-making process, prerequisites for the step of problem awareness include the customer's willingness and ability to fulfil the need.

Information search

The next step in the process is for the consumer to define parameters for the solution. He or she does this through gathering relevant information that will assist in making the most appropriate buying decision. Some information may be gathered passively and is referred to as an 'internal search'. This relies mainly on memory. Consumers are exposed to thousands of communication messages and as technology develops this bombardment grows even greater. Cell phone messages, Facebook, Twitter, illuminated billboards and the Internet are relatively new ways to reach your target markets. Marketers need clearly to position their product in the minds of potential consumers. If marketers are successful in doing this, their product(s) will be remembered as and when the need for the purchase occurs. When a consumer recalls the products that are available to purchase, it is called the 'evoked set'. For example, if a consumer's problem is hunger, the solution would be to go out for a meal. The evoked set in this example would be Chinese or Thai food, Italian pizza or pasta, a fast food hamburger and chips outlet, or Indian food.

When searching for additional possible solutions ('non-evoked set'), information may be actively sought from specialist media, marketing material, labels, Google, YouTube demonstrations as well as retailers, either in-store or online. The consumer may also ask experts or influential people who would have knowledge of the product. Word of mouth is considered to be powerful influencer during the search process as the source of the information is usually assumed to be trustworthy and objective. A successful information search leaves the consumer with a range of possible alternatives to solve the problem.

Information evaluation

The third step in the decision-making process is to evaluate the information that has been gathered. In order to do this, the consumer needs to have a basis of comparison. Relevant comparisons would be attributes such as benefits or features of the product that the consumer values – this could consist of location, speed of purchase, price and after-sales service.

In recent years, it has been discovered that consumers often link attributes to attitudes – that is, feelings of a positive or negative nature towards the product and the manufacturer or service provider. As it becomes more difficult to find and sustain clear product differentiators, corporate reputation is increasingly impacting the decision-making process and companies that are perceived to reflect similar values to the consumer, often tip the decision in their favour. This is called 'persuasive marketing' and it is defined by Brand.com as 'the act of explaining why consumers need to buy a given product by a given company'.

Look at the following example of the Good Business Journey implemented by Woolworths.

WOOLWORTHS GOOD BUSINESS JOURNEY

Our Good Business Journey is our comprehensive plan to make a difference in energy, water, waste, sustainable farming, sustainable fishing, transformation and social development.

Examples:

- Our Head Office is saving the Cape Town Municipality over 27 million litres of water a year by tapping into our underground water supply.
- Our hangers contain up to 50% recycled materials and are refurbished and re-used over and over again.
- Over 30% of our in-store signage is made from recyclable materials and all of our trolleys and baskets contain recycled materials.
- Woolworths became the first major South African retailer to begin using 30% rHDPE (recycled milk and juice bottles) in the packaging of selected earth-friendly and Woolworths cleaning products.
- 98% of our food packaging is now recyclable.

In light of this, marketers must determine which product attributes and attitudes are most important to their consumers and, on this basis, select a marketing mix that will differentiate them from competing products. These criteria for purchase selections could be objective, for example price or a benchmarked measure of speed; or subjective, for example the idea that the product carries enhanced status or better self-image, or that the manufacturer is trustworthy or caring for the planet or community. Once this is established, the consumer can weigh up the evoked set of alternatives and make an educated selection. If, after a thorough evaluation of alternatives, the consumer is still not able to make a choice, he or she may return to the process together more information.

Decision to purchase

This step is where the consumer makes his or her final decision to buy the product or service. This decision could be as simple as placing the chocolate bar in the shopping trolley or it may be more complex, involving negotiation and the finalisation of details such as payment, delivery or quantity, or anywhere in between. Often the level of complexity depends on the level of risk, and the consumer needs to give consideration to the level of interaction they wish to have with the supplier. Based on this, the consumer may decide that the risk is low enough to make the purchase online or that the risk requires interaction with the outlet. Although online shopping is growing rapidly, most consumers remain fearful of purchasing high-ticket items or complex products online. Purchase complexity is well illustrated in the prolonged buying process and human involvement needed to buy a house or property.

Of course, if the consumer is not satisfied with the outcome of the final negotiation, he or she may decide to forego the purchase completely or go back, re-evaluate and settle on another option. Marketers must make every effort to ensure 'ease of purchase'. Long queues, lack of assistance or bureaucratic procedures could cause consumers to cancel the purchase or switch to another alternative.

Post-purchase evaluation

It is a serious mistake for marketers to assume that once payment has been made, the consumer's involvement with the product is complete. This is certainly not the case – after purchasing the consumer goes through a certain degree of post-purchase evaluation during which he or she will assess whether the product has met his or her need and fulfilled expectations. This process is called a 'gap analysis' in which the consumer assesses whether a gap exists between his or her expectations of the product and what the product has actually delivered. If the product's performance does not meet the consumer's needs or expectations, there will be disappointment and dissatisfaction. If the product meets the consumer's expectations, the consumer would be satisfied. If the product exceeds the consumer's expectations, he or she would be delighted.[5]

If the purchasing process has been complex, lengthy or emotional, such as purchasing an overseas family holiday or undertaking renovations on a house, the consumer may feel a certain amount of cognitive dissonance. This is a psychological term for the feeling of discomfort caused by holding conflicting ideas simultaneously. In this context, the dissonance comes from the fear of possibly having made the wrong purchase decisions. This is also known as buyer's remorse.

Marketers need to recognise this and ensure that they implement some form of dissonance-reducing post-purchase reassurance, such as providing guarantees, warranties or after-sales service.

Although the five-step decision-making process seems relatively clear, consumers do not necessarily follow these steps in this sequence. Like any process, consumers may move in and out of the steps, returning to an earlier stage in the process to gather more information, or go right back to the 'drawing board' to redefine the problem. The consumer may also end the process at any stage and simply choose not to purchase, or may have solved the problem through other means.

Influences on the consumer decision-making process

Although the consumer decision-making process appears to be a clear step-by-step approach, marketers need to understand that as individuals, consumers have certain and varied influences that will impact on their purchasing behaviour and decisions.

Figure 3.3 shows a number of influences that may exert pressure on the consumer at any stage during the purchasing decision-making process. These can be grouped into individual, group, situational and marketing mix elements.

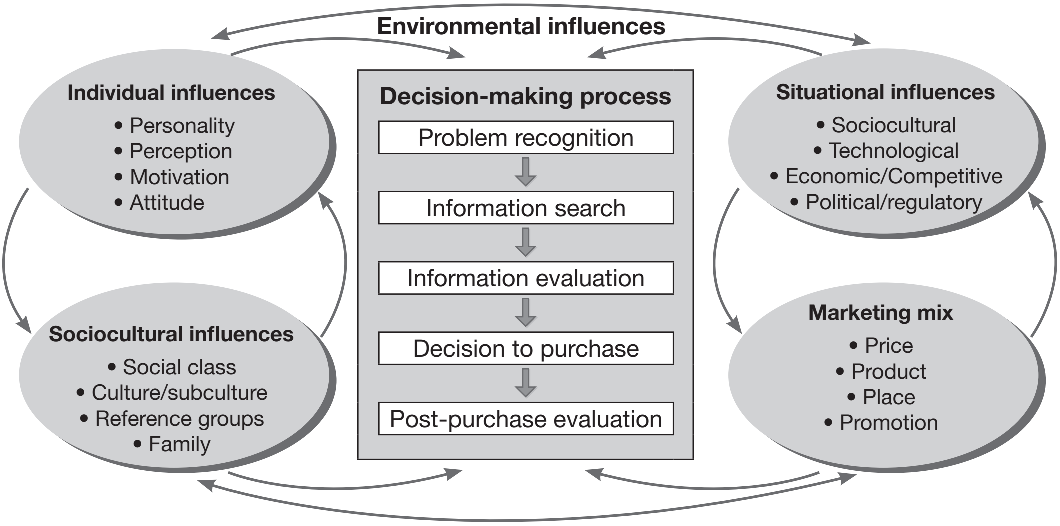

Figure 3.3 *Influences on the consumer decision-making process*[6]

Individual influences

Through the process of market segmentation (discussed in Chapter 5), marketers attempt to group individuals according to similar characteristics. But however valid certain generalisations may be, the unique personality, perceptions, motivations and attitudes of every individual within the defined segment will determine what happens in the buying process.

Personality

Distinctive personality traits, behaviours, experiences and their potential ability to influence purchasing decisions have long been a topic of research and discussion and thus far, no definite links have been proven. It is safe to assume, however, that if the purchasing decision relates to a high-involvement product where there are strong emotional and psychological needs to fulfil, then a consumer's personality traits would exert relatively more influence on the decision. When buying clothing, for example, an extroverted, confident person may select high style, brightly coloured or off-beat fashion items, whilst a shy, retiring individual might prefer more conservative, less conspicuous, or more traditional outfits. Other personality traits that may affect the buying process include compulsiveness, adaptability, ambitiousness, dogmatism, introversion, aggressiveness, competitiveness and friendliness.

Perception

Perception is the process of selecting, analysing and interpreting stimuli to produce meaning and assign relevance. Faced with a plethora of marketing communication stimuli (for example, advertising, packaging and merchandising displays), consumers make decisions and act on these decisions based on what they perceive to be reality. Marketers thus need to develop messages that have a greater chance of being noticed and remembered. There are three key issues regarding perception that are relevant to marketers, namely selective exposure, selective distortion and selective retention.

Selective exposure

Consumers usually only perceive and interpret stimuli that hold some form of meaning to them or that they choose to be exposed to. Consumers also tend to retain a message they have learnt from. For example, if a consumer heard about a new 'non-drowsy' treatment for hayfever through an advertisement, he or she would be more likely to remember the name when next in the pharmacy.

Another example of selective exposure is a couple that has just moved into a new home. They are unlikely to notice property billboards because they have just recently purchased a home.

We also know that often consumers leave the room, turn off the radio or turn the magazine page when faced with commercials. It is for this reason that marketers must continually attempt to find new and unconventional ways of attracting consumers to their communication messages. Restroom advertising, building wraps and street pole advertising are all fairly new and innovative ways of ensuring the target segment is exposed to the messages.

Selective distortion

Perception is affected by consumers' previous experiences and individual attitudes. People interpret stimuli in a way that best suits their perceptions. Negative associations with particular products or companies are likely to create negative attitudes towards certain products or services.

AN EXAMPLE OF SELECTIVE DISTORTION

When a consumer has had serious problems with a service provider such as MTN or Vodacom, advertisements for new products or special savings on services will most likely not have the desired effect. Consumers who have experienced these difficulties, for example a faulty phone, an unreliable network or bad service, will remember the dissatisfaction and will probably be more receptive or inclined to purchase from a competitor company.

Selective retention

Consumers are faced with high volumes of stimuli on a daily basis, and tend to filter out stimuli that do not support their beliefs and/or that they do not wish to remember. One of the ways to overcome this problem is through repeating adverts and reminding consumers about products using familiar and easily remembered stimuli such as logos, packaging colours and brand names. The now-famous Nando's advertisements, which are shown in various forms – mostly clever and humorous, over a long period – are a good example of how to 'jog consumers' memories of a product effectively and, in this way, to create a loyal consumer following.

Motivation

Motives are energising or driving forces (triggers) that drive people to fulfil their needs and wants. Individual actions are affected by a complex set of motives and often individuals themselves cannot identify what it is that motivates them to behave in a certain way at a certain time. For example, a couple travelling by car from Johannesburg to Durban may initially be relaxed and intend to have a pleasant drive, take in the scenery on the way, have a leisurely lunch, arrive at their destination in the afternoon, and find a comfortable place to spend the night. If on the way they experience lengthy delays due to road construction, they may arrive in Durban at 9 p.m., no longer wanting to find a comfortable hotel, but simply wanting to find any place that is still open and has available accommodation. Marketers take motivational influences such as these into account when designing a marketing mix. A well-lit hotel sign with messages such as 'vacancies' and 'open 24 hours' would appeal to tired and frustrated travellers.

Classifying motives can help the marketer to better understand human, and thus consumer, behaviour. Maslow's hierarchy of needs (refer to Figure 3.4 below) has long been used to classify basic individual motivations. Marketers need to determine at what level of the motivation hierarchy their target consumers are, in order to determine what kind of message would most effectively motivate their purchase of a particular product or service.

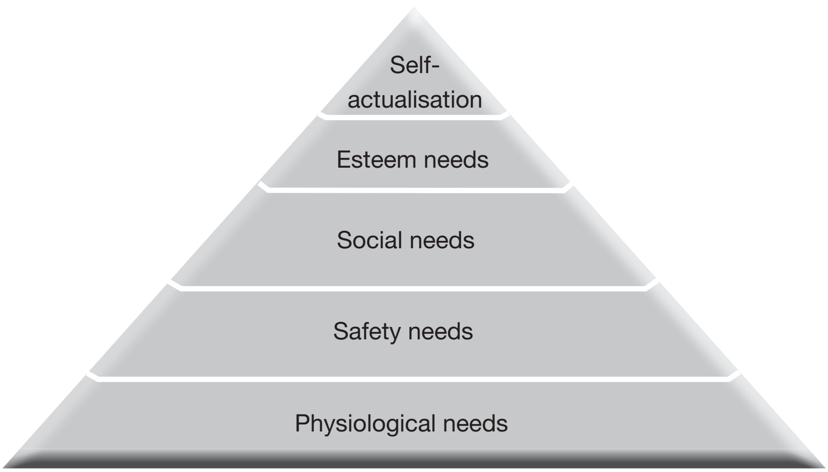

Figure 3.4 *Maslow's hierarchy of needs*[7]

Abraham Maslow identified a set of human motives and classified them in a hierarchy, with the largest and most fundamental needs at the bottom, and the need for self-actualisation at the top. Starting at the bottom of the pyramid, each need must be met before the next level of need arises.

Physiological needs: The most basic needs are the physiological requirements necessary for survival. These needs include food, water, sex and sleep. When consumers feel hungry or thirsty, they feel motivated to purchase food or a drink.

Safety needs: Once the needs for basic survival have been met, the next level of motivation arises, driven by the need for safety, health, shelter and security. The need for security may urge a consumer to install a security alarm system or join a medical aid scheme.

Social needs: After physiological and safety needs have been met, middle-order social motivations arise, for example the need for belonging, love, friendship and social acceptance. In this instance, people may buy fashionable clothing, cosmetics, and toiletries or pay for professional grooming services to meet their social needs or they might join a social club, or open a Facebook or Twitter account.

Esteem needs: Esteem motives arise once the bottom three needs have been met. The desire for status, prestige, respect and social standing drive the purchase of high-ticket items such as jewellery, perfumes and expensive branded clothing. Certain brands of cars are often purchased to satisfy esteem motives, such as BMW or Mercedes-Benz.

Self-actualisation needs: The need for self-fulfilment is the highest-order motivation. Self-actualisation means different things to different people. One person may feel self-actualised by becoming the CEO of an international company; another person may reach fulfilment by raising a healthy and happy family. Only the individual will know whether he or she has achieved a state of self-actualisation.

Attitude

Attitudes are made up of positive or negative feelings and beliefs about an object, an activity or an organisation. Consumers develop attitudes towards products through knowledge gained from experience and interaction. These attitudes greatly influence the extent to which a company's marketing strategies succeed or fail. Consumers tend to filter out information that conflicts with their attitudes and they may distort information or selectively retain certain aspects so that the information reinforces their existing attitudes.

Certain attitudes change with personal and lifestyle changes and may be susceptible to the influence of marketing, but other attitudes may be so firmly embedded that they are extremely difficult to change. Even if a consumer has a positive attitude towards a product or service, he or she may not buy it for a variety of reasons. Perhaps the product is unaffordable. Perhaps the consumer likes the brand, but prefers to buy another one. In order to influence consumer behaviour, marketers must understand the beliefs that underpin prevailing attitudes and the reasons for those attitudes.

Ways in which marketers can influence favourable consumer attitudes include:

- increasing the emphasis on an important and valued brand attribute (Volvo's clear positioning on safety)
- selecting a new, differentiating attribute and trying to influence consumers to attach a higher significance to that attribute (Dove's deodorant especially formulated for dark clothing)
- emphasising additional benefits received from a new attribute (Pick n Pay's online shopping service)
- changing the perception of a competing product through comparison to the competitive product's attributes. (Read up on the advertising wars between the brands Pepsi and Coke in the USA.) Direct comparative advertising is common in countries such as the USA, but is not allowed in South Africa.

Socio-cultural influences

Groups

Individuals form part of many diverse social groupings. These can be recognised units within society, such as the family, or informal groupings, such as reference groups. Purchasing decisions are often influenced by membership of social groupings, since these usually affect how individual consumers differentiate between what is essential and what is not. Socio-cultural group influences are very important in the final decision-making when limited resources demand that consumers prioritise their spending.

Social class

Social class can be viewed as a group of individuals who share a similar rank in society. It is traditionally a form of dividing society into layers, for example upper class, upper middle class, middle class, lower middle class and working class. There is an argument against using social class to distinguish between individuals in modern egalitarian societies. In the UK, class is largely determined by occupation, which, in turn, does tend to reflect back on the degree of affluence. In South Africa, class is largely defined by income. The demographic variable that influences the buying decision is seen as the 'ability to purchase'.

Certain theorists continue to argue that people in different classes seek out products to enhance their standing in that segment of society. Middle- and upper-middle class people may, for example, look for goods that will increase their self-esteem and social status, whilst the working class may be more motivated by family values and be less materialistic than other classes. People tend to see the world through the eyes of their own social class, so marketers must make themselves aware of what may be important to people from the various social classes that may or may not fall into their target market.

Culture and sub-culture

A culture can be described as a set of values, norms, morals and attitudes that determines the 'personality' of the society in which a person lives. Culture is passed on from generation to generation and may have a strong influence on the way of life or groups of individuals, including implicit standards and rules for the group.[8] Culture can influence what people buy, how they buy and when they buy. A product with benefits that are in line with what a specific culture values as important has a better chance of being successful in that market. Cultures manifest themselves in many ways, for example in what and when we eat. Breakfast for many people living in the UK and in South Africa may consist of cereal, toast, bacon, eggs, sausage, mushrooms, tomatoes, mealie meal (only in South Africa) and juice or tea, coffee or water. In continental Europe, breakfasts would usually consist of cold meats, cheeses, croissants and coffee. In Spain, lunch generally begins at 4 p.m. and supper is only served after 10 p.m. In central Europe, many restaurants close for the night at about 5 p.m. It is important for marketers to understand the values and belief system of their target market because the marketing strategy will fail unless it addresses the needs of that cultural group.

Any culture can be divided into sub-cultures, and certain sub-cultures transcend cultural groupings. Individuals belonging to a sub-culture are members of a broader cultural group but also show specific characteristics common to a smaller group. Sub-cultures can be identified in many ways, for example through ethnic origin, language, religious belief or lifestyle orientation. A South African marketer may see his or her country as a South African dominant culture with significant sub-cultures such as African South Africans (ethnic origin), Afrikaans teenagers (age, language and ethnic background) or Christian motorcyclists (religious beliefs and lifestyle orientation).

Reference groups

Reference groups are groups that individuals identify with (groups they belong to already, or groups to which they aspire to belong), and the extent to which those individuals take on many of the values and behaviours common to group members. Reference groups can be 'membership groups' such as professional bodies, social or activity-based associations. They may be 'automatic groups' to which individuals belong due to age, gender or occupation, for example teenagers, teachers, etc. Reference groups can also be 'aspirant groups'. These are groups to which individuals aspire to belong, such as a group with a higher status among peers (for example membership to the local country club), or the group surrounding a celebrity (such as the 'Beliebers' or the 'Monsters'). Finally, there are 'dissociative groups' – groups to which an individual does not want to belong (this will obviously be determined by individual values and behaviour).

Marketers must be aware of the target customer's frame of reference in respect to groups, since this exerts a strong influence on the buying process. A consumer often purchases a product to obtain or retain membership of a group. Peer pressure, especially amongst younger consumers, is a powerful factor in buying decisions.

Family

Even with changes in the modern family structure and behaviour, the family still remains a major influence of how, why and what people purchase. The marketing family life cycle devised in 1966 was updated in 1979 (refer to Table 3.1).[9]

***Table 3.1** The nine-stage family life cycle*[10]

1	Young; single
2	Young; married without children
3a	Young; divorced without children
3b	Young; married with children: infant, 4–12 years old, adolescent
3c	Young; divorced with children: infant, 4–12 years old, adolescent
4a	Middle-aged; married without children
4b	Middle-aged; divorced without children
4c	Middle-aged; married with children: young, adolescent
4d	Middle-aged; divorced with children: young, adolescent
4e	Middle-aged; married without dependant children
4f	Middle-aged; divorced without dependant children
5a	Older; married
5b	Older; unmarried, divorced, widowed
6	Others

Knowing where the target consumer is in the life cycle is essential for three main reasons:

1. **Disposable income**
   At different times during the life cycle, family members prioritise their income expenditure for different purposes. People who are middle-aged, married and without dependant children would probably be saving for retirement; whilst young married couples with children may be purchasing their first home, or buying a suitable education for their offspring.
   It is important to note that the role of the family member changes throughout the life cycle: for example, single people get married, parents become grandparents, etc. Thus this is an extremely useful tool for identifying certain influences of buying behaviour.

2. **Values and lifestyles**
   The stage of life cycle is often an indication of certain values and lifestyles. For example, if both parents are employed they will have a higher income level but less time, and thus needing more convenience goods such as fast foods or after-school care, whilst the older couples or single people may be retired and thus form good targets for holiday or travel.
3. **Socialisation influences**
   As individuals progress through their life cycles, they tend to learn customs and practices from their parents, as well as patterns of purchasing behaviour – for example, buying groceries on a monthly basis, or researching the relative attributes of appliances on the Internet rather than visiting the store. Often product preferences are developed as people adopt the brands their parents used.

   Whatever the family structure, members of the family can participate in the purchasing decisions of others, and the purchasing behaviour of most individuals is copied from their parents. In certain cases, individual members will make decisions that will affect the entire household, but they are usually influenced by other members of the family. The roles of each family member will change from purchase decision to purchase decision. At different times, different family members may play the role of initiator, user, influencer, decider or purchaser. Look at the example of a child wanting a new bicycle. The child is the 'initiator' and will be the 'user' of the purchase. (Never underestimate the 'pester power' of children; parents will often make great sacrifices to fulfil their children's needs.) In this example, perhaps the mother agrees that it would be a good idea for a birthday present and becomes an 'influencer' in the purchasing decision. Both parents may then agree to the purchase and are therefore both the 'deciders'. Perhaps the father goes alone to buy the bicycle and is therefore the 'purchaser'.

Situational influences

Socio-cultural

Consumers are also influenced by societal trends. For example, there has been a trend towards sustainability as an economic and moral imperative, and consumers are increasingly demanding 'green' and environmentally friendly products. Indeed in South Africa, with the recent release of the King III report on corporate governance, it has become regulated that organisations formally report on their 'triple bottom line', i.e. their social, environmental and financial statuses. Recent trends are indicating that consumers are moving towards responsible consumption, and companies would be well advised to respond by adopting ethical marketing and manufacturing practices (refer to the Woolworths example on page 68). Other socio-cultural influences on the buying process include levels of literacy (some food manufacturers use diagrams as directions for those who cannot read well), the impact of HIV/Aids on society (Anglo American communicate their fully comprehensive HIV/Aids support and counselling policy) and the use of children in advertising.

Marketers must identify which issues in the social environment may influence the consumer buying process in respect of their products and services.

> The Advertising Standards Authority of South Africa (ASASA) has, amongst its strict rules ones regarding advertising to and with children and states the following in the Advertising Code:
>
> **Section ii – General**
> 14.3 *Portrayal of children*
> Children should not be portrayed as sexually appealing, provocative or in any manner which involves any form of sexual innuendo.
>
> Source: www.asasa.org.za

Technological

Advances in technology influence both the consumer's buying behaviour and the marketer's ability to formulate increasingly appropriate marketing strategies. Database technology, for example, can track the movements of an individual consumer on a website and allow marketers to tailor what that individual sees on the website the next time he or she visits the site. Technology also allows for innovations in product development and distribution. Certain organisations are also using the Internet as a research tool to assist in better understanding their consumers' needs and wants. Increased communication media has also allowed for more contact points being made available to the marketer with cell phones being the most obvious.

Economic/competitive

The recent worldwide recession has had a major impact on consumer purchasing trends. As consumers have had to tighten their belts, they have had to hold back from making certain purchases and change their criteria for making purchase decisions, and may even stop buying certain products entirely. Price and value for money have come to the fore in many target markets as the strongest influence on the purchase decision. Some of the largest retailing groups in South Africa have reported that there is a permanent shift in the buying behaviour of their customers towards more frequent shopping trips, with less being spent on each trip.

Most consumers do not buy without at least some consideration of competitive offerings, so marketers must fully analyse what their competitors are doing. Direct competitors may be easy to identify – for example, a tyre manufacturer's competitors are the other tyre manufacturers active in the market. However, more lifestyle-oriented products such as movie theatres are competing not only with other movie theatres, but also with other leisure activities on which consumers may choose to spend their money – for example, restaurants, ice skating or picnicking. Marketers must thus ensure that the benefits of their products are clearly identifiable and easily comparable to those of their competitors to make the consumer's buying decision easier.

Political/regulatory

Political and regulatory influences may exert a heavy influence on the consumer's behaviour in the purchasing process. Safety regulations, packaging laws, consumer privacy and consumer rights are all beneficial to the consumer as they help to reduce the inherent perceived risks in the purchase and give some level of reassurance. The National Consumer Protection Act 68 of 2008 (CPA), implemented in 2009, goes a long way towards assisting consumers in providing protection against their unwilling purchases of poor or non-functioning products or services. As a marketer you should familiarise yourself with the basic contents of the act on www.gov.za.

Minimising risk for consumers is especially important when dealing with high-involvement products, where making the wrong decision could seriously affect the consumer's well-being. Education, children's daycare facilities and financial services are all examples of high-risk products.

The perception of political stability in a country may also have an influence on buying decisions. When Barack Obama was re-elected as the president of the USA, the US dollar took a fall on the currency markets. The Nkandla Report on President Zuma's spending of R206 million of taxpayers' money on his home upgrade, coupled with the Marikana 'massacre' and sustained labour unrest, was reflected in the lowering of consumer confidence locally and in terms of the expected loss of FDI (foreign direct investment).

The marketing mix

The marketing mix also makes up part of the external environment influencing the consumer purchasing process. When marketing a tangible good, marketers use the 4 Ps to make up their marketing mix – product, price, place and promotion. Marketers offering an intangible product or service use the extended marketing mix – the 7 Ps, namely product, price, place, promotion, physical evidence, process and people. We must understand that in modern-day marketing there are very few products that do not have a service element to them, so more often than not, marketers will be using the 7 P formula. Clearly these elements need to be tailored into a marketing mix that best suits the individuals in the target market.

The consumer adoption process

When a consumer is purchasing a product for the first time, the level of perceived risk is usually high. These perceived risks can fall into any one or more of the following categories:

- Financial risk (the money spent will be wasted if the product does not fully address the need)
- Functional risk (the product will not perform according to the consumer's expectations)
- Social risk (the product may lower the consumer's standing among contemporaries)
- Physical risk (the product may cause harm to the consumer's health).

In making the decision about whether to purchase a specific product or service, the consumer will usually move through five stages:

1. **Awareness:** The consumer becomes aware of the product or service but has no information about it.
2. **Interest:** The consumer becomes interested in the product or service and starts to gather information about it.
3. **Evaluation:** Based on the information the consumer has gathered, he or she considers whether to try the product.
4. **Trial:** The consumer decides to try the product on a limited first-buy basis, in order to improve his or her information about the product, based on experience.
5. **Adoption/rejection:** The consumer either makes a full commitment to adopting the product and uses it regularly or decides to reject it and continue the search.

Based on the information regarding the consumer's perception of risk and the stages of adoption/rejection, marketers must ensure that they formulate a marketing mix that will lessen the perceived risk as much as possible, or at least make the risk appear less severe than the risks associated with competitors' offerings.

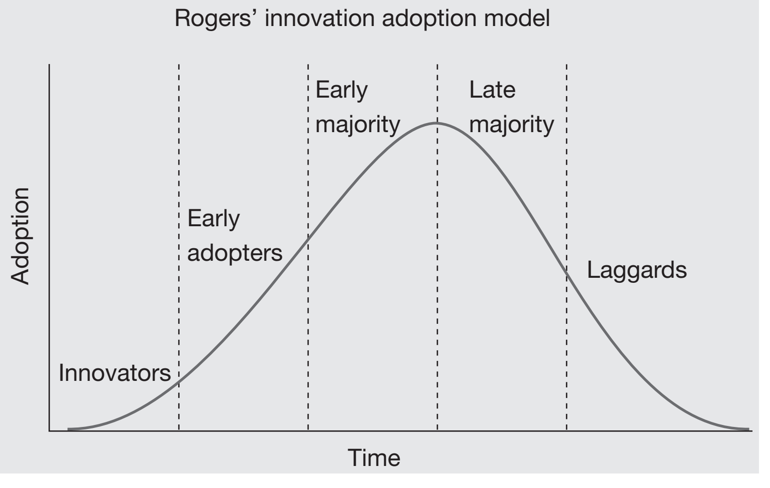

Figure 3.5 *Rogers' innovation adoption model*[11]

Rogers' innovation adoption process, shown in Figure 3.5, suggests that consumers differ greatly in their readiness to try a new product or innovation.

- **Innovators:** These consumers are adventurous risk-takers and are eager to try something new. Innovators tend to be younger, better educated and technology savvy.
- **Early adopters:** These are also well educated and are often opinion leaders within their communities. They are happy to adopt early, but are generally careful in their decisions and take calculated risks.

- **Early majority:** These people are more cautious consumers, preferring to adopt an innovation only after the product has proven successful.
- **Late majority:** This group is sceptical and will only adopt the product after the majority has purchased it. These consumers tend to be older and often only adopt the product because of external pressures.
- **Laggards:** This group dislikes change; they are generally conservative, traditional and suspicious of new things. These people will only adopt the product once it is seen to have developed its own traditional status.

To summarise, as a practising marketer, you need to analyse and understand the influences upon, and processes followed by, your target consumers fully and use this information to construct a marketing plan that will solve their problem more effectively than the competitive offering.

The organisational buying process

Although marketers have the same broad objective when addressing individual consumers and business/organisational consumers, the buying process that organisations follow is somewhat different from that of individual consumers.

- Business customers usually purchase products and services to fit a specific business need with the emphasis on economic benefits, and they follow a very rational decision-making process, whilst consumers usually buy products to meet individual or family needs and the emphasis is largely on meeting psychological needs. Therefore, the buying decisions of individuals tend to be more emotion-based.
- The purchasing (often called 'procurement') process within organisations tends to be far lengthier, more technical and usually involves a team of people. The purchases often involve larger quantities and investment than in the case of the individual consumer.
- Individual consumers may experience some irritation if a product fails or the supplier runs out of stock, and can generally find an easy substitute or switch brands and/or suppliers. The impact of product failure or supply disruption can be more severe in an organisational context, and switching to another supplier may be more difficult and time-consuming.

Organisations mainly engage in three types of buying, including the following:

- **Straight/routine re-buy:** The purchasing department regularly re-orders low-risk, frequently purchased items such as office supplies, cleaning materials or computer consumables. There is often an approved list of suppliers and the decision-making process is simple, with few people involved.
- **Modified re-buy:** This arises when there has been some prior experience with the product but a need exists for a review or modification. Perhaps there has been a change in product specifications, pricing or the terms and conditions of the service level agreement (SLA). A modified re-buy situation is more complex and costly

than a routine re-buy, and more people are involved. Proposals or tenders may be requested from more than one supplier, which will therefore require a thorough evaluation of what the various suppliers are offering before the decision is made to purchase.

- **New task buying:** This is when the organisation purchases a product for the first time. Because the organisation has no previous experience with the product, the number of people and divisions involved is likely to be greater (perhaps finance, engineering, sales, marketing and operations), and much more information (especially technical) will need to be gathered. The amount of effort that goes into new task buying will be proportional to the level of risk, cost and return, and it may take months to finalise.

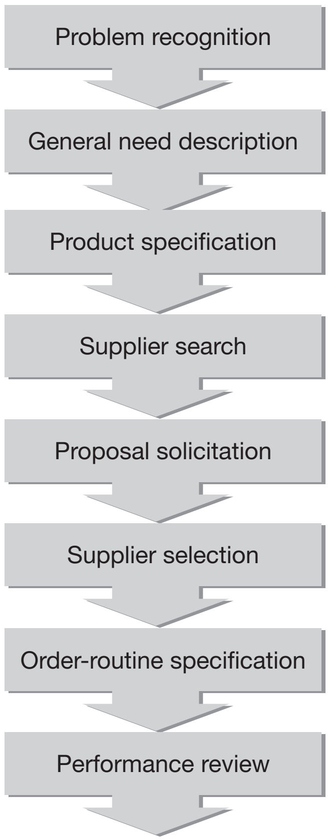

***Figure 3.6** Steps in the organisational buying process*[12]

Figure 3.6 shows that the additional complexities of the organisational buying process means that there are eight steps in the decision-making process. Compare this to the five steps that make up the individual consumer decision-making process (refer back to Figure 3.2).

The term 'buying centre' refers to the group of people who participate in the organisational buying process.

- **Initiators/users** are the people in the organisation who recognise the need for the product or service and initiate the buying process. They may also be users of the product. For example, the head of a call centre may identify the need for a new database management system.
- **Influencers** are people who have any kind of influence on the outcome of the decision-making process. This influence could be based on skills or expertise – for example, an accountant who works out the break-even point on the cost of the new system. The influence could also be more informal – for example, the personal preferences of an individual staff member.
- **Deciders** are the people who have the formal or informal authority to decide on the product specifications, or on the final approved suppliers. In the call centre example, the Chief Information Manager or the IT Manager would probably decide on what the exact requirements are and who can deliver them.
- **Buyers** have the formal authority to select suppliers, negotiate with them and conclude transactions. Junior buyers may be able to authorise straight re-buys, and more senior staff may have to be involved in new task purchases.
- **Gatekeepers** exercise control over purchasing decisions, or some aspect of purchasing decisions. They have the potential to influence the outcome of such a decision adversely. For example, a gatekeeper may be in a position to interfere with the flow of important information, or to restrict access to a key decision-maker.

Organisational buying decisions are also influenced by external influences such as environmental factors; internal factors such as organisational goals, policies and procedures; interpersonal relationships; and the factors that also apply to buyers as individuals.

CASE STUDY: EMOTIONAL BRANDING AND CONSUMER BEHAVIOUR[13]

In a recent article appearing on bizcommunity.com, Joseph Neusu is somewhat critical of the South African advertising industry (particularly those using newspaper advertisements), for utilising only rational and functional attributes, therefore showing an inability to 'tap into the power of consumers' emotions'. Furthermore, he feels that a number of marketing companies have 'dry and detached' marketing communications that fail to achieve the desired outcome from the target market.

The definition provided by Wikipedia for emotional branding is 'a term that refers to the practice of building brands that appeal directly to a consumer's emotional state, needs and aspirations'.

In the preceding chapter of this book, we discussed the importance of marketers in breaking through the 'clutter' and engaging the consumer on attributes as well as attitudes, thus causing them to choose their product over the competitor's. The use of emotional branding is a key way of achieving this.

As Neusu states, companies need to establish a 'love affair' between their consumers and their product. This is because most purchase behaviours are based not on the mind, but on the heart. He gives an example regarding Arsenal supporters who, despite their team's appalling performances of late, have not been deterred in the vigour in which they maintain their loyalty. Back in South Africa, the same can perhaps be said of the Blue Bulls supporters!

Reason, Neusu says, is usually not the basis on which purchases are made. Marketers must endeavour to build their brand loyalty to such an extent that no amount of rational thought will deter the market from purchasing 'their' brand.

In fact, many research projects focus on attempting to establish a consumer's propensity to switch to another brand. This statistic can become a company's key indicator of brand loyalty. Indeed, ask yourself if, as a consumer you would drive 20 kilometres to find your brand if the closer store was out of stock, or how brand loyal are you to petrol: do you fill up at the closest petrol station or would you drive for a while to ensure you use Engen, Shell, or Total?

This loyalty is the mentality of 'no matter what, this is the only brand for me'. A very telling quote in the article is that of a neurologist, Donald Calne, who says that the 'essential difference between emotion and reason is that emotion leads to action whilst reason leads to conclusions'.

Let's examine the realm of emotions in more detail.

Human emotions are varied but for the purposes of establishing a favourable consumer purchasing response, we will look at positive human emotions, which include the following: affection, awe, contentment, curiosity, confidence, desire, euphoria, excitement, gratitude, happiness, hope, interest, joy, love, pleasure, pride, relief, satisfaction, self-confidence, trust, wonder and zest.

It is important to note that proponents of emotional branding must also understand the need to address rational beliefs (which may be monetary and/or cultural) in order to build the relationship between brand and consumer fully.

It has become essential for marketers to address the emotional mind of their consumers to encourage the desired behaviour to purchase, but also to create sustained brand loyalty.

Visit the Forbes.com website and click on their 'most unforgettable ads of 2013' to view some thought-provoking advertisements and to see what the experts say on emotional branding and 'connecting' with the consumer.

The remarkable, and, sadly, late, Maya Angelou once said, 'People may not remember exactly what you did, or what you said, but they will always remember how you made them feel'.

EXERCISE

1. To which emotions from those listed above do you think Steve Jobs was appealing when building brand loyalty to Apple?
2. How do you think marketers in South Africa can use emotional branding in all aspects of their communication mix to build a relationship with their customers?
3. Select a product of your choice and detail what the plan should be at the 'search for alternatives' stage of the consumer decision-making process.
4. Thoroughly detail the purchasing process for each of the following products:
   a. A microwave oven
   b. A consumer magazine
   c. A pair of running shoes
   d. A nursery school for a toddler

Summary

In this chapter, you learnt about the consumer and organisational buying decision-making processes, and the various factors that influence these decisions. You also learnt about the various models that can be used to assist the marketer and how the organisational buying process differs from the consumer process.

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MARKETING INFORMATION AND MARKETING RESEARCH

CHAPTER 4

LEARNING OUTCOMES

After studying this chapter you should be able to:

- explain the difference between data and information
- explain how a marketing information system and a marketing decision support system can help marketing managers to make decisions
- discuss the marketing research process.

Introduction

In order to implement marketing decisions, marketers require information about the characteristics, needs and purchasing patterns of their target markets. Given the intense competition in today's marketplace, information is often the key to a successful marketing strategy. Marketing research and information systems provide information that can help businesses and other organisations to avoid assumptions and misunderstandings that could result in poor marketing performance.

The real value of marketing research and marketing information systems is measured by improvements in a marketer's ability to make decisions. Marketers weigh the costs of obtaining information against the benefits gained. Information is worthwhile if it results in marketing activities that lead to increased sales and profits, or helps the business to achieve some other goal, such as building customer relationships. The efficient management of marketing information and marketing research is currently considered a strategic priority of a business, as it can provide insight into possible future events.

The need for marketing information

Marketing managers should be future-oriented. They should be able to anticipate environmental changes, forecast the direction of and the impact that these changes will have on their businesses, and plan accordingly. In order to implement these tasks, management requires information regarding the various internal and external environmental variables that may affect the business. Information about the business micro-environment (internal environment) can be obtained from sources such as the financial, production, human resources, purchasing and marketing departments. External information can be collected from both the market and macro-environments in which the business operates. For example, consumers could be directly contacted for information about the market. Information on the economic, technological and political-legal environments, and competitors and suppliers, can be obtained by consulting secondary sources.

INFORMATION REQUIRED BY MARKETING MANAGERS

- Socio-cultural changes, such as the increasing urbanisation of the South African population; these may have an impact on demand and consumption patterns.
- Technological trends, such as the increasing use of cell phone technology heightening consumer pressures for product information, guarantees and service.
- Competitive activities, which may be intensifying in the face of globalisation, and in environments where there is privatisation and deregulation of government enterprises.
- Increasing complexity of marketing decision-making, such as shorter product life cycles and the associated need for more product development, expansion to new markets and the management of multiple distribution channels.

Fast-changing environmental conditions mean that every business has to manage its marketing information as efficiently as possible. Marketing managers often discover that their information problems are a result of too much data being available, rather than too little. Data and information are not the same thing. Data refers to all facts or recorded measures of certain phenomena, while **information** is a body of facts in a format suitable to support decision-making, or to define the relationship between two pieces of data.[1] Progress in communication media and data processing technology has resulted in a tremendous increase in the volume of available data.

DATA VS INFORMATION[2]

Edgars records thousands of unsummarised facts. A store clerk enters data into the computer system every time a customer purchases a product. Simultaneously, the data is also entered into a computerised inventory system. This data lacks any meaning. However, managers request the information system to translate the data into product sales totals by store, province or city so that they can undertake sales forecasts.

In addition, the complexity of data has progressed and increased, due to new data collection and presentation methods. This development has made it even more difficult to make the distinction between relevant data (in other words, information) and irrelevant data. The popular term for this phenomenon is 'the information explosion'.

Marketing information is useful only if it can help a marketing manager to make a decision. To be useful, information should be of high quality, relevant, timely and complete. [3] To be considered high quality, information should provide a good reflection of reality and it should therefore be accurate, valid and reliable. The information should also be relevant, in other words, it should clarify the questions that face the decision-maker. Marketing information should also be timely, as outdated information could lead to poor decisions. If, for example, the business intends to launch a new product in winter, all the research regarding details such as the price, packaging, name, logo, etc. should be conducted well in advance. Finally, it is also important that the information is complete.

The efficiency of a marketing information system is a key factor contributing to the speed and accuracy of marketing decision-making. An efficient marketing information system is one that filters the massive inflow of data and provides information to the appropriate decision-makers for decision-making purposes, when and where they need it, and in a form in which they can use it.

Information management

Marketing information systems

MARKETING INFORMATION SYSTEM[4]
A marketing information system (MIS) is a set of procedures and methods for the regular planning, collection, analysis and presentation of information that is used when making marketing decisions.

In a marketing context, information management refers to planning, organising, co-ordinating, controlling and providing leadership in respect of marketing information. It is of utter importance that the information requirements of the marketing decision-makers have been met. Information requirements have to be continually monitored and data sources must be up to date and accessible. Data reduction has to take place efficiently and the supply of the resulting information to decision-makers has to be timeous and in a useful format. The most common way of undertaking this process is to set up a marketing information system.

AN EXAMPLE OF A MARKETING INFORMATION SYSTEM[5]

The national Department of Agriculture, Forestry and Fisheries has developed an agricultural marketing information system that will provide farmers with very useful marketing information.

The system is web-based and the following alternative networks can be used to send this market information out as a way of expanding the agricultural marketing information system:

- Cell phone technology through the use of the short message system (SMS): crucial information on prices will be used to send out to farmers.
- Radio broadcasts: market prices for various products can be broadcast daily on radio stations for all major production areas or markets. Broadcasts should be suitable for most farmers as some farmers are illiterate; broadcasts should be in various languages and at the most convenient time for farmers to be listening. Radio stations should be convinced to see market information as a public service, equivalent to news broadcasts, and not a paid advertisement. For the MIS to have an impact on developing farmers, the provision of market information must be accompanied by the provision of advice for the farmers on interpreting the information. Ideally, special radio and television programmes should be aired at least once every four months, to explain the MIS, the information provided and how to use it. The MIS Unit can also prepare training materials to carry out the training programme themselves, or train the trainers in the provinces and districts, who should ideally be agricultural economists.
- The Agricultural Display Technology System (ADTS), which uses plasma displays (ideally situated in the provincial and district offices of agriculture, multipurpose community centres and agricultural development centres), connected centrally to computers which are connected by a network to a central computer from where the system is managed and updated daily. This system can display daily prices of products, commodity prices, exchange rates, weather conditions, fuel prices and any other important information the department sees fit.
- Newspapers or various kinds of print media.
- In addition to the expansion of the agricultural MIS, both the department and the entire agricultural industry will realise the importance of reliable information for agricultural markets to function efficiently. The department will facilitate a process leading to the establishment of information platforms similar to SAGIS (South African Grain Information Service) in the livestock and horticulture industries to provide these agricultural industries with vital marketing information.
- Establish a fully fledged agricultural MIS Unit to undertake collection, collation and dissemination of agricultural marketing information.

The marketing manager starts by defining a problem or opportunity and decides whether additional data should be collected. If the cost of collecting additional data exceeds its potential value, available data will rather be used. However, if a decision is made to gather additional data, external and internal data is collected. All data is then processed, analysed and transferred into information for marketing decision-making. Figure 4.1 on the next page illustrates the process of developing a marketing information system.

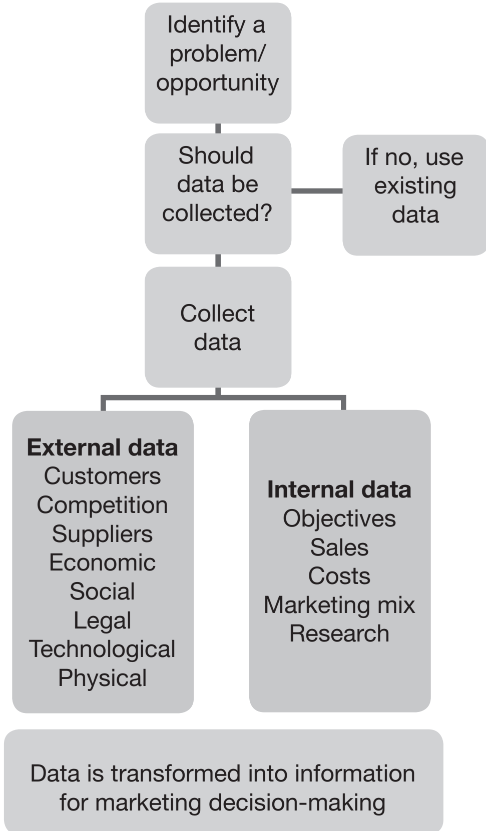

Figure 4.1 *The steps in developing a marketing information system*

A management information system comprises a routine data component and a special purpose data component (refer to Figure 4.2 on page 91).

For a local independent retailer, the routine data component could comprise information from internal sources on sales, stocks, debtors and creditors. Information such as local population growth, competitive activities and trade association statistics can be collected from external sources on a regular basis.

The special purpose component of the MIS is marketing research. The retailer, for example, could employ a marketing research agency to determine the feasibility of a particular retail space in a new shopping centre. This is called external marketing research. Other retailers may choose to do internal marketing research, for example by conducting a survey among existing customers to determine their degree of satisfaction. This constitutes internal marketing research, as it is launched from internal sources.

Collecting information about competitors, also known as competitive intelligence, has become extremely important.

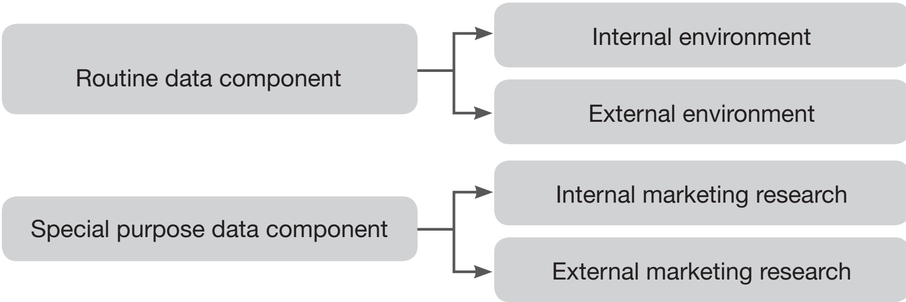

Figure 4.2 *Components of a marketing information system*

You will now look at the marketing research component of the MIS in detail.

USING COMPETITIVE INTELLIGENCE (CI)[6]

Competitive intelligence (CI) is a systematic and ethical approach for gathering and analysing information about competitors' activities and related trends. A Fortune 500 company survey showed that 55% make use of competitive information in composing business strategy. In a study to determine the current state of CI in South Africa, it was found that only 55% of the respondents were of the opinion that they cope above average with changes in the business environment, and 60% of the respondents strongly agreed that the most important CI activity in their organisation is to use CI to remain cognisant of government legislative trends. It was found that few South African organisations conduct CI in a formal systematic manner.

Companies make use of many different sources to collect the following:
- Information about their competitors
- Companies' annual and other financial reports
- Speeches by company representatives
- Government documents
- Online databases
- Trade organisations
- The business press.

The main goal of performing a competitor analysis is to develop a profile that illustrates the following possibilities:
- The nature of the kinds of strategy changes each competitor might make
- Each competitor's response to the range of likely strategic moves other firms could make
- Each competitor's likely reaction to industry changes and environmental shifts.

A company that does not constantly monitor and analyse key competitors is ill-equipped to compose and implement an effective competitive strategy, leaving itself and its markets vulnerable to attack. CI revolves around decisions that managers make. These decisions are focused on how the business positions itself to maximise the value of its capabilities that will set it apart from its competitors. If a business does not collect, analyse and act upon information obtained about its competitors, it could very well collapse.

Market research tends to focus on the problems associated with the profitable marketing of a company's products and services. The scope of competitive intelligence is far broader. CI is a value-added concept that sits over the top of business development, market research and strategic planning.

Examples of research objectives of a CI project could be:

- the manufacturing capabilities of the competitor
- analysis of alliances and/or joint ventures entered into by competitors
- the future plans of competitors and their strategies for specific markets, or product lines
- reasons behind changes in their corporate or business unit strategy.

Many business schools offer courses in CI. Training is difficult as students (and managers) are reluctant to share corporate strengths, weaknesses and plans. Computer programmes are not readily available to deal with and manage the information gathered in the marketplace. Most training in CI is therefore done internally and information is usually considered to be highly confidential. It is not acceptable if unethical methods are used in retrieving information about the activities of competitors.

Many large South African companies use CI, for example Sasol, Exxaro, African Bank and Nestlé. These companies have identified the sheer importance of gaining a competitive advantage over their competitors in a very dynamic and competitive environment.

Marketing decision support systems

> **MARKETING DECISION SUPPORT SYSTEM**[7]
> A computer-based system that helps marketing decision-makers to confront problems through direct interaction with databases and analytical software programmes.

In contrast to an MIS, which is mainly concerned with the preparation of routine reports, a marketing decision support system (MDSS) includes software to assist marketers in making difficult decisions.

Differences between an MDSS and an MIS[8]

- An MDSS is aimed at the less well-structured, under-specified problems that managers face. An MIS is aimed at problems that can be investigated using a relatively standard set of procedures and comparisons.

- An MDSS combines the use of models and analytical techniques and procedures with the more traditional data access and retrieval functions of an MIS.
- An MDSS specifically incorporates features that make it easy to use and interactive.
- An MDSS emphasises flexibility and adaptability. It can accommodate different decision-making styles and changing environmental conditions.

An MDSS helps to transform raw data, such as product sales from the previous day, into more useful information. For example, it may draw graphs to compare elements of the data set and show relationships between these elements. An MDSS could, for example, compare one day's sales with another's over a similar period. An MDSS might allow managers to see the potential outcome of changing an element in the situation. For example, a manager may want to estimate the probability of a percentage change in sales if the business expands into a new market area. The MDSS could require the manager to estimate what percentage of business could possibly be gained from each competitor in the market. Using this input and drawing on data in the database, the system would make a forecasted estimate of sales. An effective MDSS places a manager in a better position to study available data and make better marketing decisions more quickly.

The need for marketing research

According to the marketing concept, marketing managers should meet, as well as anticipate, the needs of customers. However, many marketing managers are isolated in business offices, far from their potential customers.

> **MARKETING RESEARCH**[9]
> Marketing research is the systematic design, collection, analysis and reporting of data that is relevant to a specific marketing situation facing an organisation.

Marketing managers need to rely on marketing research in order for them to keep up with all the changes taking place in the market. Marketing research refers to the procedures that are used to develop and analyse new information, which helps marketing managers to make informed decisions.

Marketing research is conducted on a special-project basis, with the research methods chosen to solve a specific problem. The research methods chosen also have to be adapted to changes in the environment. Marketing research is usually characterised by an in-depth analysis of major problems or issues. Often, this information is available only from sources outside the formal channels of information of a business. For example, a business may want to know something about its competitors or to gain an unbiased understanding of its own customers. In order for this to happen, they may require an independent investigation through marketing research.

HOW RESEARCH CAN PRODUCE RESULTS

A local award-winning marketing tool, the brand value index, is enabling manufacturers to have their products assessed by a sample of people and, from the results, predict market share.[10]

This index was used in determining the value and ideal positioning of the Jetta car brand when a new model was introduced two years ago. A new model Jetta was flown in from Germany prior to the South African launch. People were invited to a 'car clinic' to view the car, which was stripped of identifying marks. No test drives were permitted but the subjects were able to sit in the vehicle and view it from all sides, and then, by questionnaire, to rate the car.

The index provided feedback from customers as well as non-customers. To increase market share effectively, it was essential to understand and address the shortcomings of the brand from the perspective of people who were not buying it. The feedback also revealed where in the purchasing process the brand was eliminated.

The results indicated that most people (85%) buy cars for emotional reasons such as aesthetics and status. Only 15% make a purely rational decision when buying a specific car because it will get them from A to B reliably and economically.

The pre-launch market share forecast for the Jetta was very accurate, with a 0.1 percentage point difference between actual and predicted market penetration.

A construction company in San Francisco in the United States was trying to gain a competitive edge. They decided to do marketing research, and asked their customers about their competitors' worst habits. The customers told them about some of these, which included being impolite, uncaring about the dirt they brought into a house, and staff and equipment that looked shoddy. This was not acceptable to the majority of their customers, who were fairly wealthy.[11] This information convinced the construction company to improve their image. They bought new equipment, which they kept spotless, trained their workers to be polite and dressed them well to project a good image. The research and changes paid off. In less than two years, they increased their annual sales by 500%.

NutraSweet's patent on the artificial sweetener aspartame was due to expire. The company faced a disaster as chemical and sugar companies planned to enter the market. NutraSweet analysed its competitors' prices, customer relations, expansion plans and advertising campaigns. The company used this information to cut costs, improve service and preserve most of their market. They managed to maintain an 80% market share.[12]

The Internet has had a major impact on the marketing research industry by:[13]

- virtually replacing libraries and various printed materials as sources of secondary data
- serving as a vehicle for data collection
- aiding project management
- distributing reports
- communicating between team members working on a project.

Research reports can be published on the Internet in a wide variety of electronic forms, reaching people globally and instantaneously. Using search engines such as Google, full text searching is available not only of website pages, but also of documents, spreadsheets and presentations.

Reasons for marketing research[14]

- **Identify potential customers:** Who will be the users of your product or service? What is their age? What is their gender? Are they married, single or divorced? Do they have children? Where do they live? What is their level of education?
- **Understand your existing customers:** Why do customers prefer your products over those of competitors? Do they purchase from you because of the service, product quality or the prestige associated with consuming your product or service? Who influences their buying decisions? What magazines do they read? What websites do they visit?
- **Set realistic targets:** The information collected can be used to set realistic targets for areas such as growth, sales and the introduction of new products or services.
- **Develop effective strategies:** The information collected can help to develop strategies regarding the four marketing instruments, for example: how to price your product or service, how to distribute your product or service, which media channels to use (for example, newspaper, radio or direct marketing), or whether to develop a new product or service.
- **Examine and solve business problems:** If your sales have decreased you might discover that there are quality issues with your products, or that a new competitor has entered the market.
- **Prepare for business expansion:** Research will help you to identify areas for expansion and test the market's readiness for a new product or service.
- **Identify business opportunities:** Research could identify new business opportunities such as a gap in the market. You could identify changing market trends such as the longer lives of older people and increasing levels of education, which all impact on consumer purchasing patterns.

Some marketers conduct limited, low-cost research projects by searching their MIS databases to find data that can be turned into the information they can use. More often, a marketer requires very specific information to solve a problem and relies on marketing research to systematically gather relevant data.

Large companies such as Coca-Cola, have extensive marketing research capabilities to conduct their own research. Other companies may hire research companies to conduct some or all of the research they need to answer their marketing questions.

TYPES OF MARKETING RESEARCH COMPANIES[15]

Internal research providers

These are research departments or units that exist within a company. IBM, Kraft Foods and Kodak all have internal marketing research departments.

External research companies

These companies are known as marketing research suppliers and do all the aspects of the research for their clients, namely the study design, development of the questionnaire, interviewing, data analysis and interpretation, and the report preparation.

Customised research companies

These companies provide specialised services to clients. They concentrate on one specific research area, for instance brand name testing or new product development.

Standardised research companies

These companies provide general services and follow a common research approach so that the results of a study conducted for one client can be compared to norms from studies done for other clients.

The marketing research process[16]

To maintain the control needed for obtaining accurate information, marketers approach marketing research by using the four key steps shown in Figure 4.3.

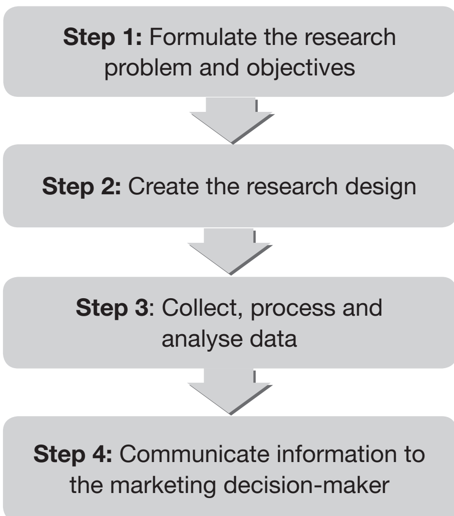

Figure 4.3 *Steps in the marketing research process*

Step 1: Formulate the research problem and objectives

A research project can only commence once the problem has been identified, and defined and its objectives are set. The old saying – A problem well-defined is half solved – applies well to marketing research. Problem formulation refers to those situations that might represent real problems to the marketing decision-maker, as well as to those situations that might be better described as opportunities.[17] Examples of problems may be an increase in competition, a change in consumer preferences, or the withdrawal of retailers from the distribution system of the manufacturer. These may be symptoms of larger problems that have to be clearly defined. A weak diagnosis may lead to an inefficient solution.

IDENTIFYING THE TRUE PROBLEM

A common error made in marketing research is to confuse a symptom with a true problem. For example, decreased sales may present as a problem, but may, in fact, be a symptom of a larger problem. To identify the real issue, the owner of the business must list all the possible factors that may have caused the problem. Useful questions for marketers to ask are: Is there new competition? Are the company's sales representatives impolite or not knowledgeable enough? Have customers' needs and wants changed? Is the product line too narrow? Do customers have trouble finding what they want?

After the marketing manager has explained how he or she sees the problem, the researcher would conduct an investigation into the real situation. The confirmation or rejection of the problem, as stated by the decision-maker, is a critical phase of the research project. The researcher conducts this investigation by consulting with relevant experts, especially those who are directly involved. Once the research problem has been confirmed and clearly defined or redefined, the research objectives should be established. If the objectives are successfully achieved, the marketing decision-maker will have the information he or she needs to solve the problem.[18]

REDEFINING A PROBLEM

The sales manager of a local soft drink manufacturer notices that the sales of a specific brand have been on the decline for two months in a row. He or she interprets the problem as 'ineffective advertising'. The manager instructs the marketing researcher to investigate the efficacy of the company's advertising campaign. The researcher conducts interviews with sales representatives, wholesalers and retailers, and discovers that retailer support has decreased because of a new soft drink introduced by a competitor that provides higher profit margins on sales. Retailers are therefore making more profit by selling the competitive product. This information makes it clear to the researcher that an investigation of advertising efficacy will not solve the problem. This means the problem needs to be redefined, in conjunction with the sales manager, as 'competitive pricing and profit margin tactics'.

Step 2: Create the research design

The research design is the plan according to which the research investigation will be conducted. It specifies the data that will be required and the broad framework of procedures for the collection, processing and analysis of the data. From the research design, an estimate can be made of the costs of the investigation. The marketer can then assess the desirability and feasibility of the research in relation to its potential value. There are various research designs that a researcher can employ, depending on the specific research objectives.

- **Exploratory research:** This research design is used when more information is needed about a problem, opportunity or phenomenon. Exploratory research is usually undertaken where more than one hypothesis (or reason) for a problem has been generated through discussions.
- **Descriptive research:** This research is necessary when knowledge about a particular market or other marketing aspect is vague. For example, an entrepreneur who is considering entering the hotel industry may have described the 'conference market' as one of his or her targets, but does not yet know enough about the market to take the next step. Descriptive research may also be necessary where the nature of the competition in a particular industry is vague.
- **Causal research:** This research is done to determine cause-and-effect relationships. For example, increased advertising expenditure (cause) should lead to an increase in sales (effect). With descriptive research, a possible relationship between certain variables is often revealed, while causal research confirms that this relationship exists and how it operates, or concludes that there is no causal relationship.
- **Predictive research:** This research is conducted to forecast future values, for example, sales income, market shares and retail orders. Political researchers use predictive research to forecast how many people will vote for a particular candidate in an upcoming election. Businesses engage in sales forecasting to predict sales of the products during a specific period, for example a financial year. Predictive research helps to anticipate the opportunities and threats that are likely to arise in the future.

The basic activities in research design creation consist of the following:

1. Determining data needs
2. Determining data sources
3. Determining the primary information collection method
4. Designing the research instrument
5. Designing the sampling plan.

Determining data needs

Marketing research objectives must be translated into specific data needs, and a distinction must be made between primary and secondary data.

- **Primary data** is data that does not yet exist, so it has to be generated through original research. Primary data collection is relatively expensive and slow, but the

data is usually more relevant to the research objectives than secondary data. This type of data usually requires some form of survey or another.
- **Secondary data** already exists, for example historical data that has been collected before, either by the business itself or by outsiders. Secondary data is usually cheaper and faster to obtain than primary data, but the researcher always has to consider its relevance, accuracy, reliability and timeousness. In the last few years, the rapid development of information sources on the Internet has eliminated much of the hard work associated with the collection of secondary data.

There are a number of advantages of using the Internet for marketing research.[19]
- Researchers can have immediate access to a large amount of information with reference to a particular topic. Search engines can, for example, retrieve a list of websites ranked according to their relevance to that particular subject in a few seconds.
- The Internet allows people to access sources in different parts of the world, regardless of geographic barriers. The Internet thus allows people to be exposed to other cultures' knowledge and views on a subject.
- Unfortunately, using the Internet also has some disadvantages. The information on the Internet is not always reliable. Timelines can also cause problems since information on the Internet is not always stable. A website might, for example, change its address, or disappear, or not display at any date. Plagiarism and copyright are also two disadvantages that come with using the Internet, as it easy to copy and paste directly from sources.

SPECIFIC DATA NEEDS: THE SOUTH AFRICAN POLICE SERVICE (SAPS)[20]

Suppose the SAPS wants to find out what steps it can take to improve the quality of recruits. The information necessary to satisfy this research objective might include:
- a detailed description of recruiting incentives currently being offered by the SAPS
- young people's attitudes toward existing recruiting incentives
- the demographic and lifestyle characteristics of current high-achiever police recruits
- a detailed description of recruiting activities currently in use at recruiting centres
- a forecast of unemployment rates for the next decade.

Time has an important value, even when it is directly linked to information. Information continuously changes and evolves, and the Internet aids people to access this up-to-date information. The Internet saves valuable staff time and cuts research and associated costs. The Internet is available at any time of the night or day, from any computer, anywhere in the world. Researchers may not have to travel to trade shows or conferences, struggle to contact people or 'listen to the grapevine'. Internet access is cheap and the information is often free. It is usually an excellent source of background information and many topics are covered in detail.

RESEARCHING ON THE INTERNET

The Internet is a worldwide network of computers that allows users access to information and documents from distant sources. It can be viewed as the world's largest public library. The World Wide Web (www) is a term referring to a range of websites and website pages, which can include textual information, documents, graphic images, video and sound clips.[21]

There are few subjects where information cannot be found on the Internet. Examples of useful information would be product information, public relations material, sales material, collaborative scientific, economic and social reports, government information, article reprints, mission statements of companies, library catalogues, current news and information about different countries.[22]

A researcher who finds a particular site or document on the Internet, or who is just looking for a resource list on a particular subject can use one of the many Internet search engines, the best known being Google. A search engine is a tool that allows the researcher to enter words as search criteria. The search engine then sifts through the millions of websites for matching words, ranking the results by various criteria, including the degree of relevance and how frequently the site has been visited.[23]

Major international search engines include: www.google.com, www.alltheweb.com, www.altavista.com, www.excite.com, www.hotbot.com, www.lycos.com, www.northernlight.com, http://webcrawler.com, and www.yahoo.com.[24] A list of 23 websites relevant to South Africa can be found at www.philb.com/cse/southafrica.htm.[25]

Over 2.4 billion people in the world use the Internet (refer to Table 4.1).

Determining data sources

Both primary and secondary data can be obtained from the internal company and/or external sources. This can be seen in Figure 4.4 on page 102.

Table 4.1 *World Internet usage and population statistics as at 30 June 2012*[26]

WORLD REGIONS	POPULATION (2010 EST.)	INTERNET USERS 31 DEC. 2000	INTERNET USERS: LATEST DATA	PENETRATION (% POPULA-TION)	GROWTH 2000–2010	USERS % OF TABLE
Africa	1 073 380 925	4 514 400	167 335 676	15.6%	3 606.7%	7.0%
Asia	3 922 066 987	114 304 000	1 076 681 059	27.5%	841.9%	44.8%
Europe	820 918 446	105 096 093	518 512 109	63.2%	393.4%	21.5%
Middle East	223 608 203	3 284 800	90 000 455	40.2%	2 639.9%	3.7%
North America	348 280 154	108 096 800	273 785 413	78.6%	153.3%	11.4%
Latin America/ Caribbean	593 688 638	18 068 919	254 915 745	42.9%	1 310.8%	10.6%
Oceania/ Australia	35 903 569	7 620 480	24 287 919	67.6%	218.7%	1.0%
World total	7 017 846 922	360 985 492	2 405 518 376	34.3%	566.4%	100.0%

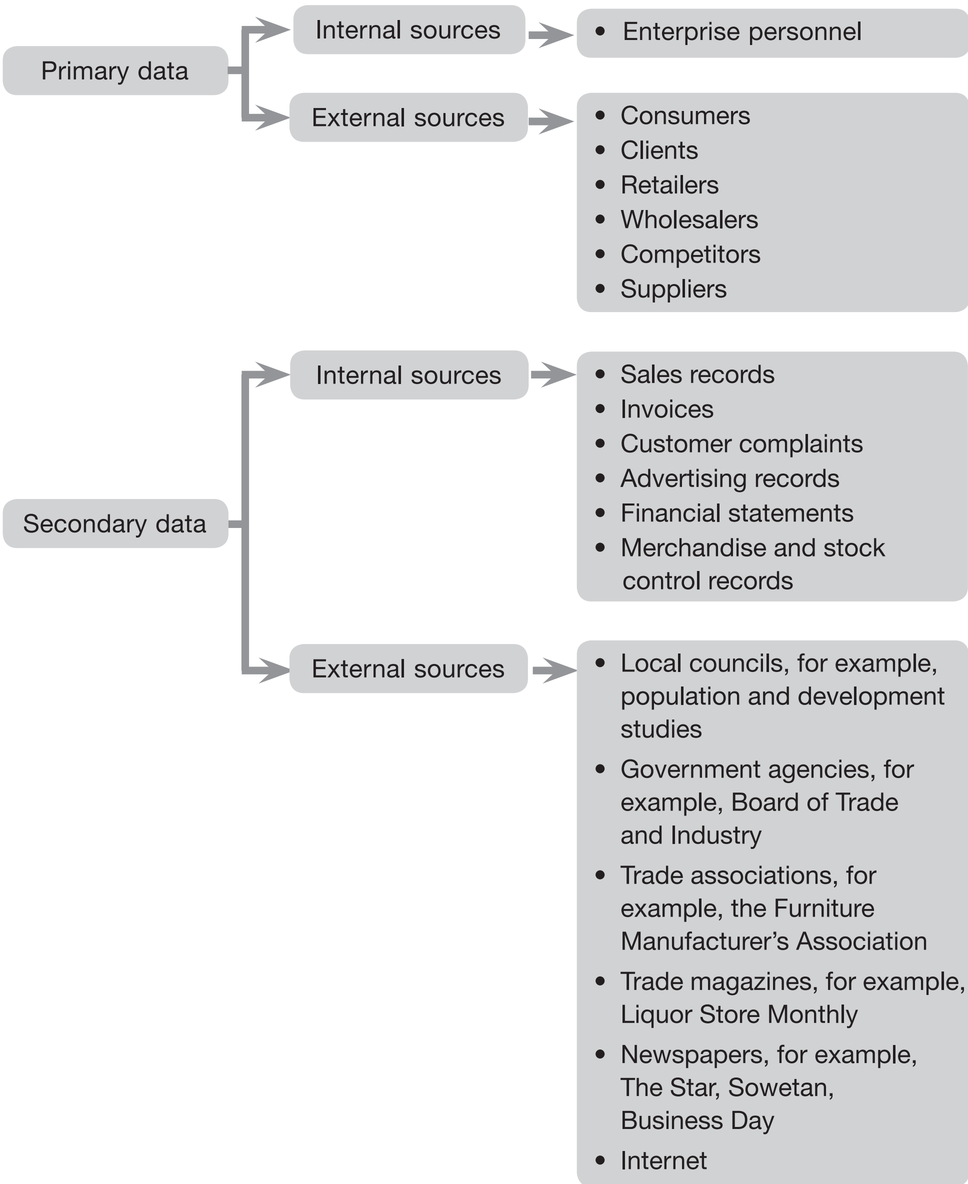

Figure 4.4 *Internal and external sources of primary and secondary data*

Determining the primary data collection method

The collection of secondary data is usually more straightforward, because the assistance of librarians and relevant government bodies, among others, could be used. Primary data can be collected by four methods, namely observational research, experimental research, focus groups and survey research.

Observational research is conducted by watching people and situations. It is the systematic process of witnessing and recording the behavioural patterns of objects, through human or artificial observation methods. Human observation is conducted when researchers, for example, personally monitor the number and behaviour of consumers in a supermarket. Researchers then register the data on predesigned forms. Artificial observation takes place through the use of mechanical or electronic equipment. For example, electronic television meters are used to determine the number of viewers of specific television programmes.

Experimental research involves testing something in controlled conditions and using the results to draw conclusions about the wider environment. For example, a supermarket chain store group may conduct an experiment in one of its stores to test the effects of a new display technique. The results shape decisions about whether the technique will be applied in the whole chain.

A **focus group** is a small group of people, usually between eight and 12, brought together and guided by a moderator through an unstructured, spontaneous discussion about some topic. It is called a 'focus' group because the moderator serves to focus the discussion of the topic and does not let the group move off onto tangents or irrelevant points. The goal of a focus group is to draw out ideas, feelings and experiences about a certain issue that would be obscured or stifled by more structured methods of data collection. A small group allows the operation of a group dynamic and aids in making the participants feel comfortable in a strange environment.

Focus groups have been useful for understanding basic shifts in consumer lifestyles, values and purchase patterns. Usually the focus group members share similar characteristics such as age (they may all be in their early 30s), job situations (they may all be sales managers), family composition (they may all have preschool children), or even leisure pursuits (they may all play tennis). The intention of assembling a group with similar characteristics is to minimise the risk of having differences in the group, which would have an effect on the conclusions the researcher would draw from the discussion.

PRACTICAL EXAMPLES OF OBSERVATIONAL RESEARCH[27]

A fast-growing chain of furniture stores hired a market research firm to videotape customers in one of its outlets. Analyses of the videotapes revealed that people shop for furniture in twos. The facial expressions and other body language of many male customers indicated that they did not feel comfortable wandering down the aisles of fluffed pillows and floral duvets. The head of the company realised that sales dropped when spouses or boyfriends felt uncomfortable, wanting their partners to leave the stores as soon as possible. As a result of the observation research, the company remodelled its 23 stores by including entertainment centres where sports fans could watch live events on television. This allowed women to shop at their leisure because their husbands or partners were doing something they enjoyed in a different part of the shop.

A shopping centre developer wondered whether one of his centres was attracting customers from all surrounding areas. He hired a company to record the registration numbers of cars in the parking lot. By using the registration information, he could plot on a map all of the shoppers' addresses. The research indicated that very few customers from one particular area were visiting the centre. The developer then aimed his direct mail advertising at the specific targeted area and was able to generate a substantial amount of new business.

A PRACTICAL EXAMPLE OF AN EXPERIMENTAL RESEARCH

Marketing managers for the Mars chocolate bar company used the experimental method to help solve a problem. They were losing customers to other sweet and snack companies and wanted to identify the reason. Surveys showed that many customers thought that the Mars bar, which was now being sold in a smaller size, was too small. They also did not want to pay more for a larger bar. The managers of Mars wanted to know if making their chocolate bar bigger would increase sales enough to offset the higher cost. To decide, they needed more information.

The company carefully varied the size of candy bars sold in different markets. Otherwise, the marketing mix stayed the same. Researchers then tracked sales in each market area to determine the effect of the different sizes. They saw a big difference immediately. It was clear that the added sales would more than offset the cost of a bigger candy bar. Marketing managers at Mars therefore made a decision that took them in the opposite direction from other candy companies. This experimental research proved to be a 'sweet' success.

A focus group of housewives may be invited to talk about their desires, preferences and buying behaviour with respect to various brands of cheese. The group will be similar with respect to their demographic and other characteristics. The focus group discussion can furnish qualitative data about these consumers on matters such as:

- language
- emotional and behavioural responses to advertising
- lifestyle
- relationships
- responses to the product category and specific brand
- unconscious consumer responses about the product category and specific brand
- unconscious consumer responses to product design, packaging, promotion or any other facet of the marketing programme under study.

When evaluating the results of a focus group discussion, always remember that focus group results are qualitative, not quantitative, and that a focus group is not large enough really to represent the larger population of people with those characteristics.

A PRACTICAL EXAMPLE OF FOCUS GROUP RESEARCH[28]

BMW made use of focus groups to design its Z3 model. They conducted focus groups in Japan, the United States, the United Kingdom and Germany to determine the needs of their consumers. The influence of American interviewees is, for instance, visible in the car's dual cup-holders, the coin-holder and the third brake light.

The newest development in group interviews is the online or cyber focus group.[29] A number of organisations are currently offering this new means of conducting focus group interviews on the Internet. The research firm builds a database of respondents via a screening questionnaire on its website. When a client approaches the company with a need for research reflecting the views of a particular focus group, researchers are able to identify individuals in the database who appear to fit the criteria and send them an e-mail to request that they log in to a particular website at a particular time scheduled for the group. A moderator runs the group by posting questions online for all those logged in to see. The group operates in a chat-room-type environment so that all participants see all the questions and responses. The complete text of the focus group discussion is therefore already captured and available for review after the group session. An online environment allows respondents to interact voluntarily and therefore encourages them to respond honestly and spontaneously.

A PRACTICAL EXAMPLE OF FOCUS GROUP RESEARCH[30]

A soft drink company made use of online focus groups to test teenagers' opinions of its new packaging ideas. The 10–15 minute Internet survey included dozens of questions, as well as 765 different images of labels and bottle shapes. About 600 teenagers participated over a three-to four-day period. A detailed analysis of the survey was completed and available just five days after all the responses had been received.

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

TYPES OF DATA IN A SURVEY RESEARCH

In a factual survey, respondents are asked questions such as, ‘Which type of car do you drive?’
In an opinion survey, respondents are asked to give opinions, although they believe they are reporting facts. An example of an opinion survey question is, ‘Which type of toothpaste tastes better?’

In a motivational survey, respondents are asked to interpret and report their motives. These surveys ask ‘why’ questions such as, ‘Why do you come to Cape Town for a holiday every year?’

Computer-assisted surveys have become very popular for collecting marketing research data. Researchers use two types of computer-assisted surveys, namely e-mail surveys and Internet surveys. An e-mail survey is a self-administered data collection technique in which the survey is delivered to and returned from the respondent by e-mail. The Internet survey is a self-administered questionnaire that is placed on a website for prospective subjects to read and complete.[31]

Computer-assisted surveys have many advantages. ‘Branding’ can, for instance, be incorporated so that respondents do not have to answer questions that are not applicable to them. Data collection may be much faster with electronic media and response times can be measured and recorded. Graphics can also be incorporated into questions and encoding, and other errors associated with manual labour are reduced, if not completely eliminated.

USING INTERNET SURVEYS[33]

In order to explore how users of a commercial social networking site who are focused on weight loss give and/or receive social support to/from other users, an Internet survey was conducted. 145 members of the Weight Watchers Facebook page completed the questionnaire.

This study revealed three groups – passive recipients, active supporters and casual browsers. Passive recipients receive a high level of informational and emotional support but do so by being passive communicators. Active supporters also receive a high level of both informational and emotional support yet are more active in their communication style. Casual browsers receive little social support and exhibit a passive communication style. Thus the survey revealed that even though members of a social network may share a common interest, the way members choose to participate and interact, and the benefits they accrue by doing so, differ substantially.

Designing the data collection instrument

Two types of research instruments are used for the collection of primary data and they include:

- mechanical and electronic instruments
- questionnaires.

Mechanical and electronic devices are instruments such as galvanometers (instruments that detect and measure small electrical currents), tachistoscopes (instruments that measure brief exposures of objects to the eye), cameras, and other electronic and mechanical meters. These instruments range from simple counting meters, for example, the number of people passing through a turnstile, to sophisticated reaction measurement instruments, for example, gauging the level of emotional reaction to a specific advertisement.

The **questionnaire** is the most common instrument used to collect primary data. Careful consideration must be given to the type of questions, and their format, wording and sequence. The nature of questions should be relevant and easily understood by the respondent. Questions can either be open, where respondents reply in their own words, or closed, where respondents select options from a list. The major problem with open-ended questions is that the clarity of response depends, to a large extent, on how the respondent is able to articulate himself or herself. Examples of open-ended questions would be, 'What is your opinion of the Toyota Fortuner?' or 'When I choose a new car, the most important consideration is…' Table 4.2 shows the difference between open- and closed-ended questions.

The wording of questions and instructions needs to be simple, clear and direct. Leading questions (those that give the respondent a clue as to how he or she should answer), should be avoided. The sequence of the questions also has to be considered when structuring questions. A 'funnel' approach, which uses a wide-to-narrow or general-to-specific flow of questions, works well. For example, the introductory questions should arouse interest and ensure co-operation, while the difficult and/or more personal questions should be asked towards the end of the questionnaire.

Before finalising the questionnaire, a final evaluation should be conducted on the entire instrument. A pre-test involves testing the survey on a small, representative set of respondents in order to reveal questionnaire errors and weaknesses. This is done so that these can be addressed before the survey is launched.

Table 4.2 Open- and closed-ended questions

OPEN-ENDED QUESTIONS	CLOSED-ENDED QUESTIONS
1. Totally open: What do you think of the Honda Jazz? ____________________ ____________________	1. Dichotomous (two choices): Do you think air bags should be standard in all new cars? Yes No
2. Sentence completion: When buying a new car, the most important thing to keep in mind is ____________________ ____________________	2. Multiple choice: What age group are you in? 20 or under ... 21–29 ... 30–39 ... 40–49 ... 50–59 ... 60 or over ...
3. Word association: Domestic cars Foreign cars Auto dealership Honda	3. Semantic differential: What words would you use to describe the Honda Jazz? Large ... Small ... Modern ... Old-fashioned ...
4. Picture completion:  	4. Rating scale: Customer service at Honda dealers is ____________________ 1. Excellent 2. Very good 3. Good 4. Fair 5. Poor

Designing the sampling plan

In this step of the research process, the elements from which the information will be collected must be selected. There are two ways in which to do this – a census or a sample. A census involves an investigation of all the individual elements or members of a defined target population.

EXAMPLES OF A CENSUS[33]

- A study on the marketing knowledge of supermarket retailers who are members of NAFCOC (the National African Federated Chamber of Commerce), revealed that only 200 members were supermarket retailers. Since this population was relatively small, all of the members were studied. This means that it was a census.
- Suppose Toyota South Africa want to survey people in the country who bought a new Toyota Yaris during the previous three years to assess their opinions about the car. The marketing manager could easily obtain a list of the names of these people. Then each buyer could be surveyed – most likely through e-mail. Since this particular survey would include all people in the population of Toyota Yaris owners, it would be a complete record, or census of the population.

When the population is very large, it might only be possible to use a sample. A sample is a segment of the population selected to represent the population as a whole. The sample should be representative so that the researcher can make accurate estimates of the thoughts and behaviours of the larger population.[34] Sampling can save the researcher both time and money. It would, for instance, be much more expensive and time-consuming to collect information about one million people (a census), than to gather information about one thousand people (a sample) from the group of one million.

EXAMPLES OF A SAMPLE

- If the expenditure of households in Soweto is being researched, the researcher may include all the households, which would be a census. However, the researcher may also decide to interview only a number of households, for example, 10% of the households, which is a sample.
- A shoe manufacturer who wanted to study the brand preferences of all teenagers between 13 and 16 years found it almost impossible to research all these teenagers and decided to draw a sample of 2 500 teenagers on the assumption that the findings could be generalised to the wider population.

In the sampling process, it is important to ask the question, 'Who do we want to study?' The target population is therefore the complete set of elements identified for the investigation. An element is a person or object from which data and information are required. The sampling unit, on the other hand, is a single element or group of elements subject to selection in the sample. If South African Airways, for instance, wants to sample its passengers, it may take the name of every 30th passenger to compile the sample. In this case, the sampling unit is the same as the elements. However, if the airline first selects certain flights as the sampling unit, then selects certain passengers on each flight, the sampling unit will contain many elements.[35]

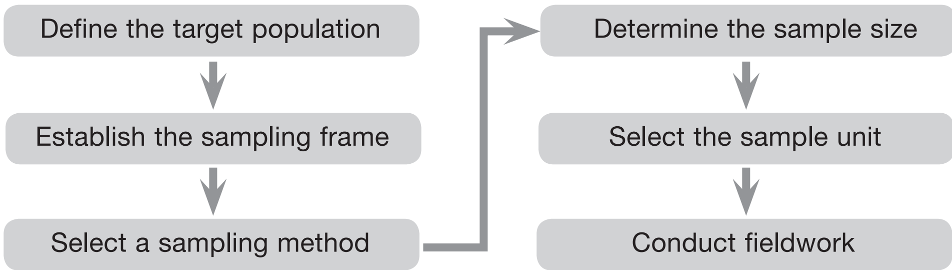

***Figure 4.5** The sampling process*[37]

After the target population has been defined, the researcher has to establish the sampling frame. This means that the researcher has to assemble a list of all eligible sampling units. Examples of sampling frames would be a list of all members or agencies of the Estate Agency Affairs Board of South Africa, or a list of all registered voters.

Once a sampling frame has been established, a sampling method must be selected. A good sampling plan will produce a sample that is representative of the characteristics of the population from which it is drawn. Two basic sampling methods are probability (random) samples and non-probability (non-random) samples.

A **probability** (or random) sample is a selection in which each item in a population has a known chance of being included through strict statistical procedures. It is the best way to ensure a representative sample. Methods of probability sampling include simple random sampling, stratified random sampling and systematic sampling.

PROBABILITY SAMPLING METHODS

- **Simple random sampling:** This is the same principle as picking random numbers from a hat. To draw a random sample of 10 flats from a block of flats, the researcher would list the entire population (compile a list of every flat). Flat numbers will then be drawn at random until the prescribed sample size has been reached (10).
- **Stratified random sampling:** This is when the population is divided into mutually exclusive groups (for example streets), and random samples are drawn from each group.
- In **systematic sampling**, a starting point is selected by a random process and then every nth number on the list (for example, every 10th number) is selected.

A **non-probability** (or non-random) sample is a selection in which not every item in a population has a known chance of being included because researcher judgement enters into the selection. The sample's level of representivity depends on the judgement of the researcher. Non-probability sampling can take three forms, namely convenience sampling, quota sampling and judgement sampling.

NON-PROBABILITY SAMPLING METHODS

- In the case of **convenience sampling**, the sampling units are chosen simply on the basis of convenience. Examples of this method include: on-the-street interviews, asking people in a supermarket their opinions about a new brand of detergent, and conducting taste tests with supermarket customers. Only the people who are in the same place and time as the researcher, have a chance of being included in the sample.[37]
- With **quota sampling** the researcher finds and interviews a prescribed number of people in several categories. A research company that wants to interview 20 first-year students of both genders might interview the first 10 men who walk past and then interview the first 10 women who walk past (this is based on the knowledge that the male:female ratio in the population is about 50:50).
- In the case of **judgement sampling**, units are chosen on the basis of the researcher's opinion as to their representivity. Examples of this method include selecting a sample of salespeople for their opinions as input for preparing a sales forecast and selecting cities in which to test the market's new products.

Once the sample method has been selected, the sample size can be determined. The sample size is the number of units included in the investigation. There are no fixed rules about the number of units that can be included, but some general norms and guidelines apply. Samples used in consumer research can often be less than 1% of the population, on condition that a probability sample and statistical formulae are used. In the case of industrial research, however, larger samples are used. This is for the simple reason that there are fewer industrial clients than individual consumers, making a larger sample feasible. Once the sample size has been determined, the operational procedures of selecting the sampling units and conducting fieldwork must be executed.

Step 3: Collect, process and analyse the data

Data collection is often the most expensive aspect of the research process and the possibility of gathering inaccurate data is high. The researcher has an important control task to perform. If respondents are not at home when the interviewer visits or phones, substitutes have to be found. Some respondents may refuse to co-operate, while others may provide dishonest answers or misinterpret the questions. The field worker may also make mistakes when asking questions or recording responses. Interviewer cheating may also occur – this refers to a situation when interviewers make no contact with respondents and fill in fake answers on questionnaires. Some interviewers fake part of a questionnaire to make it acceptable to a field supervisor, while others fake answers when they find questions embarrassing or difficult to ask because of sensitive issues. Clear instructions and relevant motivational and training methods have to be used to ensure that respondents and field workers are co-operative and honest.

Processing has to take place after the data has been collected. The collected data must be edited and organised in such a way to facilitate processing and analysis. Editing[38] involves checking the data collection forms for omissions, legibility and consistency in classification. Through editing, problems such as interviewer errors (for example, an answer recorded in the incorrect part of the questionnaire) are corrected before the data is transferred to the computer. Coding refers to meaningful categories and character symbols that are established for groups of responses before the data can be tabulated.

Data processing is followed by an analysis of the results. The researcher has to study the processed data and transform it into relevant information for decision-makers. Analysis is the application of reasoning to understand the data that has been collected. Various data analysis methods exist. They range from the very simple, – for example, working out averages and measures of dispersion of data, – to the highly sophisticated, – for example, using multi-variable techniques, such as cluster analysis. Various computer programmes exist to aid data processing and analysis, for example, SPSS (Statistical Package for the Social Sciences), Statgraphics and STATFORM.

AN EXAMPLE OF APPLYING THE RESULTS OF RESEARCH

A fast-food outlet asked 50 of its customers which new food they would like the outlet to provide. The results were as follows:

FOOD TYPE	NUMBER OF RESPONSES	PERCENTAGE
Pizza	12	24
Fried chicken	24	48
Self-help salads	8	16
Garlic bread	20	40

The owner of the fast-food outlet decided that she would add both fried chicken and garlic bread to her menu and would send a pamphlet to all her existing customers informing them of this.

Step 4: Communicate information to the marketing decision-maker

The last step in the marketing research process involves interpreting information for decision-making purposes. It also involves communicating this information to the relevant decision-maker, usually in the form of a report. It is important that the decision-making context is thoroughly grasped and that the communication takes place in an appropriate manner. This is because communication problems between researchers and line managers often arise, owing to their different backgrounds and work environments.

The research report should be of a high standard and should be:

- understandable
- relevant
- clear
- organised
- punctual
- accurate
- comprehensive.

In addition to the written report, an oral presentation is often made, which has to be planned and delivered according to the requirements of the decision-makers.

In the research report, the problem situation has been defined, and the information from secondary and primary sources has been analysed and interpreted. The findings are often indicated by means of graphs, tables and charts. Conclusions and recommendations are made. It is not the researcher's task to make decisions or to implement these. Decisions should be made and implemented by the marketer.

CASE STUDY: RESEARCHING ONLINE RETAILING[39]

For a long time, people thought about online retailing in South Africa in terms of questions such as, 'Is it a feasible model for the country?' Although online shopping has increased over the years, researchers have realised the importance of investigating what South African retailers can do to increase this trend even further.

A survey of 600 South African cell phone users was initiated by a marketing firm Jana. This survey found that two-thirds of South Africans reported shopping online at least some of the time (refer to Figure 4.6 below). According to Jana, 38% of South Africans report that the biggest obstacle to online shopping is delivery times. The MasterCard Worldwide Online Shopping Survey reported that the proportion of South African Internet users shopping online grew to 58% in 2012, up from 53% in 2010 and 44% in 2009. A similar survey of Internet users by the Digital Media and Marketing Association (DMMA) found that 52% of respondents reported shopping online, and that people who had spent at least five years using the Internet were 50% more likely to do so. This is an important finding because it means that the number of online shoppers will grow as more South African Internet users spend longer online. The DMMA also found that 39% of South Africans access the Internet over their cell phones and this group is set to grow as smartphone usage spreads.

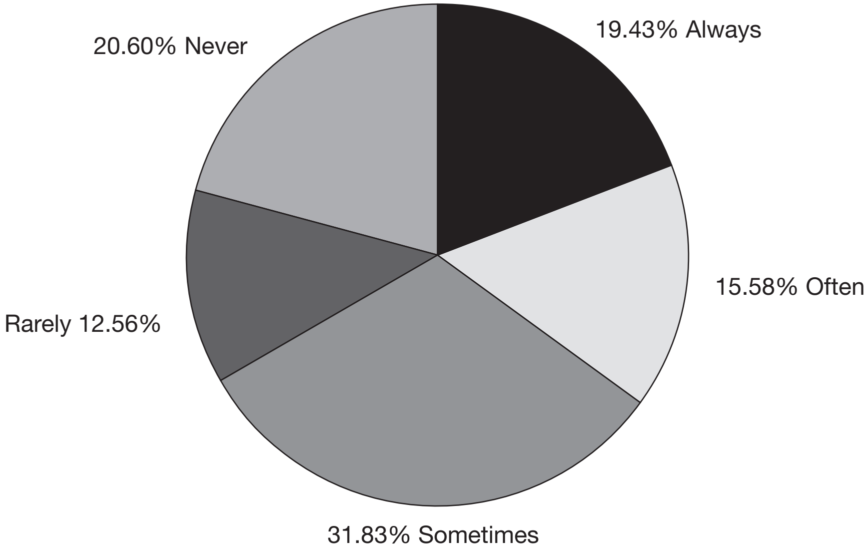

Figure 4.6 *A pie chart showing the survey findings performed by Jana*

Takealot.com predicts that online retailing in South Africa, currently worth about R2.5 billion, could grow to account for 3–6% of total retail sales over the next few years, making the industry worth between R30 billion and R60 billion.

The results of the surveys indicate that there is a huge opportunity for online retailers. After analysis of the results the following four strategies for online retailers were suggested.

1. DESIGN GOOD MOBILE RETAIL SITES

By designing good cell phone retail sites, online retailers can increase the potential number of Internet shoppers in South Africa and also increase their sales.

2. BETTER DELIVERY TIMES

This is in large part a reflection of the dangerous state of South Africa's road and postal infrastructure, and beyond the control of online retailers. However, they can use various tactics to improve the situation. They can, for instance, use the data they collect about their clients to identify where most of their shoppers are, and attempt to locate warehouses closer to these shoppers. Parcel tracking systems, smarter delivery vehicles (like the little Takealot three-wheelers), and better inventory management could all help to speed up delivery and encourage online shoppers.

3. EMPHASISE ONLINE SECURITY

Because many South Africans are anxious about the security of their online information, sites should explain their security procedures, guarantee refunds if data is compromised, and use social media to improve their reputations by allowing shoppers to share their stories with friends and show that online shopping is safe.

4. MAKE THE EXPERIENCE EASY AND INTUITIVE

Online retailers should make their sites easy to navigate and intuitive to use. Clothing retailers must, for instance, provide detail on sizing, while all sites should include customer reviews that allow people to share impressions of products and build confidence in the online experience.

EXERCISE

1. What was the objective of the research company's marketing research?
2. What type of data was collected during the research?
3. Explain the type of research that was conducted by Jana.
4. Did Jana's research make use of a sample or a census?
5. In which step of the marketing research process should the chart in the case study belong?
6. Suggest possible ways in which marketing decision-makers would be able to use the results of the research.

Summary

In this chapter you learnt about what marketing information and marketing research entail. Customers have many needs and wants and businesses have to conduct marketing research in order to determine what these needs and wants are. They also have to do research to find out how best to satisfy these needs and wants. Without making use of relevant marketing information and research methods, businesses will not be able to adapt their strategies in order to satisfy the needs and wants of their customers and achieve a competitive advantage.

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SEGMENTATION, TARGETING AND POSITIONING

CHAPTER 5

LEARNING OUTCOMES

After studying this chapter you should be able to:

- understand the theoretical concept of target market segmentation, and be able to segment appropriate product markets into sub-markets and then evaluate each one for relevance
- explain the various market segmentation variables that may be applicable and then apply the full process of segmenting a target market to find the most appropriate group
- understand the role of the South African Advertising Research Foundation (SAARF) LSMs (Living Standards Measures) as key methods of market segmentation
- identify and discuss the three different types of market coverage
- discuss the role of product positioning and be able to devise appropriate positioning maps.

Introduction

All organisations have resource constraints and limited available capacity, so it is therefore critical for these companies to 'cut their cloth to best suit their needs'. The marketing discipline involves matching scarce available resources (such as human skills and financial means) to address the best possible opportunities for profit and growth. These decisions in turn enable organisational sustainability. Marketers need to identify those individuals who are most likely to have an interest in, and benefit from, their company's specific product(s). As time goes on, we learn more and more about consumers and their unique and individual needs, wants, expectations and behaviours. It is obvious that in most cases a product or service cannot continually satisfy the needs of all consumers. Therefore, marketers need to conduct an in-depth analysis to determine the sections of the population that have similar (or homogeneous) needs, and that will respond most positively to the benefits of their product.

To these ends, the process of market segmentation entails a company's marketers dividing the entire potential market into smaller (more manageable and accessible) groups of consumers who share similar needs and behaviours. This enables the organisation to focus its marketing efforts on the consumer segment most likely to respond to the intervention and thus achieve the best possible sales and financial results. In this chapter we will clearly define the process of segmentation, targeting and positioning (STP). We will discuss the following four basic levels of market segmentation:

- mass marketing (broadly defined targets)
- segment marketing (segments defined around specific dimensions)
- niche marketing (smaller, premium target segments)
- micro-markets (extremely specific target markets with a very particular and defined need).

This chapter will also identify and discuss the various dimensions and variables on which the segmentation can be based. These include the variables of demographics, geographics, behaviour and psychographics.

Once a marketer has divided the potential market into suggested segments, they need to evaluate the potential within each identified segment carefully and ensure that, from the available choices, they select the target market or markets that are most likely to find functional and/or social benefits in their product offering. This is completed by a thorough segment assessment process. You will also learn about this segment assessment process in this chapter.

Finally, you will learn about the concept of target market 'coverage', the important issues that must be identified, as well as the steps of market positioning. These assist marketers in making the critical decision of whether they should select an undifferentiated, differentiated or concentrated marketing coverage.

MARKET SEGMENTATION

Market segmentation is the necessary process of dividing a very broad heterogeneous (dissimilar) group of individuals into smaller cluster groups of potential consumers exhibiting similar (homogeneous) needs, wants, desires and behaviours for an identified product with its performance attributes.[1]

Why do we need to segment a market?[2]

Marketers need to segment the total market for a number of reasons.

Attempting to address all the diverse needs and wants of a broad and large market (the mass marketing approach), is extremely costly and time-consuming. Organisations that do sell to a mass market adopt the 'one size fits all' approach but over time, they may find that it would work out better (for financial and logistics reasons) to find a smaller group of customers who are 'most likely' to have the need for, and thus purchase, the product.

Often smaller and previously 'unserved' markets may be successfully identified through the segmentation process and, if targeted with the appropriate marketing mix, could lead to increased profitable opportunities for the organisation.

Limited marketing resources can also be used more efficiently and effectively, thus achieving an improved return on the marketing investment (ROMI). Successful marketers have replaced their 'shotgun' approach with the 'rifle shot' approach. The 'shotgun' approach is where possible consumers are exposed to a very broad and general communication (in the hopes that if the organisation reaches out to everyone, some consumers will respond positively). The 'rifle shot' approach is when a more specific and appropriate marketing mix is planned and communication is angled and directed to people who are perceived to be most likely to have the need, desire, ability and authority to purchase their product. This also clearly reduces advertising and communication wastage.

DIFFERENT SEGMENTS FOR A SINGLE PRODUCT

Cotton wool provides a good example of differing needs occurring in different clusters of a larger market. Remember that each product need requires a different marketing mix. One group of cotton wool customers may be mothers who purchase the cotton wool to care for their newborn babies, to wipe their faces and clean their noses and ears. This group of customers most likely seek attributes of softness or gentleness, and would use those as the criteria on which they base their purchase decision.

Another group of cotton wool customers may be women who use it to remove mascara and eye make-up – these women may be swayed by the product's attributes of being soft and 'fibreless', due to the concern of stray fibres causing irritation in their eyes.

Another group of cotton wool customers are those in the medical field. These customers would essentially use the product to cleanse the skin before injections, swab a wound before dressing or applying an antiseptic treatment, and other medical uses. In this case, the decision to purchase may be based on the product's attributes of price, sterility, absorbency or the ability to purchase in bulk.

Let's take a look at the four levels of marketing segmentation. We begin with the broadest form of 'mass marketing' and then narrow it down to the most specific form of 'micro-marketing' (refer to Figure 5.1).

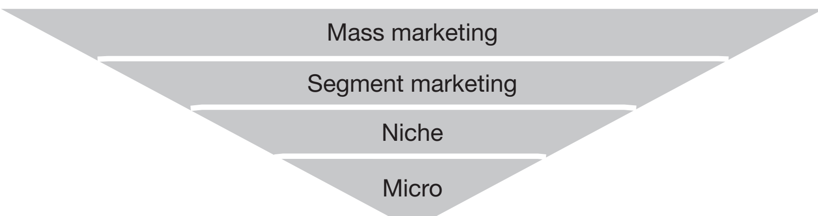

Figure 5.1 *The four levels of marketing segmentation*

The four levels of marketing segmentation[3]

Mass marketing

This type of marketing requires the very lowest form of segmentation and is usually based on the basic segmentation variables of geography and demography. It involves the production of a non-customised product and has a broad and large generic mass market; the key is that the product offering has few (if any) differentiating factors and can thus be targeted to a very large potential consumer base with common and basic needs. The product is mass-produced and therefore has a lower cost of sales and relies on volumes to achieve profits. The latest varied channels of distribution, the increased available media and a greater understanding of specific consumer needs and wants means that it is not as easy to succeed in a heterogeneous market with a mass-marketed product.

Examples of mass-marketed products that have remained successful are matches and table salt (although even certain salt manufacturers are differentiating their product from that of their competitors, based on source – for example, Maldon sea salt).

Segment marketing

Currently, most fast-moving consumer goods (FMCG) companies embark on a certain level of segment marketing. In these instances, the product is clearly directed at a particular group of people who have been identified as having similar needs and desires. One of the advantages of segment marketing is that the company can utilise its scarce marketing resources more efficiently by directly targeting the segment of the larger population they have identified as the most likely to purchase what the company has to offer.

Niche marketing

Niche marketing is when marketers identify a smaller group of potential consumers who have a clear and specific need. Naturally, because there are fewer consumers, the unit cost per potential customer is higher. However, because of the specific need or requirement, it is usually possible to charge a premium (higher price) for the more customised and specialised product. In South Africa, private banking is a worthy example. This is highly service-intensive owing to the fact that the private banks are required to provide a personalised and complete banking service to their high-net-worth individuals. This clientele can afford the premiums and are willing to pay for a higher level of service. All the major banks in South Africa (Absa, First National Bank, Nedbank and Standard Bank) have private bankers who serve their clientele of high-net-worth clients.

Micro-marketing

Whilst some people believe that micro-marketing is another term for niche marketing, it is actually a separate marketing strategy that involves the more precise and focused targeting of an even smaller market, usually in smaller service-based businesses.

Over time, micro-marketing has become more viable as computers, the Internet and databases now allow marketers to identify customers who have very specific needs for which a service can be customised. This segmentation exercise has also been called the market-of-one, meaning that each individual customer is regarded as a special segment in the marketplace. For example, every yacht built for the America's Cup is customised for a single customer's requirements.

Having established the desired level of marketing segmentation, the marketer then moves to the segmentation, targeting and positioning process.

The STP process[4]

The segmentation, targeting and positioning 'go-to-market' process is made up of six steps (refer to Figure 5.2).

1. Identify the segmentation variables and segment the market.
2. Develop profiles of the segments.
3. Evaluate the attractiveness of each segment.
4. Select the target segments.
5. Identify possible positioning concepts for each target segment.
6. Select, develop and communicate the chosen positioning concept.

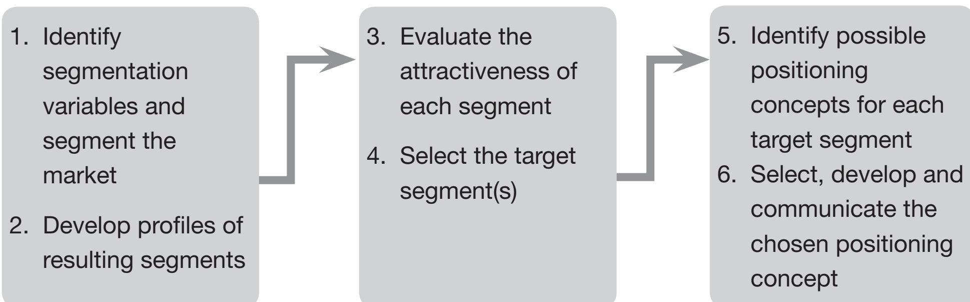

***Figure 5.2** The STP process*

- **Segmentation:** The process of segmentation is when you divide a group of individuals within a broad mass market into smaller groups of people with similar characteristics, who are expected to have similar expectations, and who are seeking similar benefits from a specific product.
- **Targeting:** The process of targeting involves a careful profiling and evaluation of each segment (revealed by the segmentation process), and then, on the basis of specified assessment criteria, deciding which segment or segments the company should target for its products. This guides the development of a marketing mix appropriate for each target group.
- **Positioning:** The process of positioning can be described as the 'position' a product holds in the mind of the consumer, relative to the offerings of competitors.

Positioning is not what marketers tell consumers about the product, which is naturally positive; it refers to actual consumer perceptions about the product. Marketers' efforts to position their products are based on various product attributes that consumers consider to be of value.

Deciding on a basis for segmentation

The first step is to consider the segmentation variables. There are five sets of variables that can be selected in the marketing segmentation process, the most basic of which are geographic variables (clustering people on the basis of location). Then, among the most popular choice of variables for grouping the market are those of demography, based on measurable and easily identifiable attributes. It must be noted, however, that these only give a basic, one-dimensional description of the customer. Further segmentation can be based on behavioural variables (for example, the required benefits), and psychographics.

The more a company needs or wants to know about its target customer, the more it will invest in the segmentation process. A marketer wanting to develop an intensive relationship with a customer would need to know as much about that customer as possible. This requires conducting in-depth segmentation aimed at identifying a psychographic profile of the target customer. An additional set of variables, namely geo-demographic variables aims to profile the target customer based on geographic, demographic and lifestyle attributes (refer to Table 5.1).

Table 5.1 *Bases of market segmentation*[5]

BASES OF SEGMENTATION	VARIABLES
Geographic segmentation	Region, size of city, density and climate
Demographic segmentation	Age, gender, family size, income, occupation, religion, race and education
Psychographic segmentation	Lifestyle, personality and social class
Benefits segmentation	Specific benefits required by customers
Market-value-based segmentation	Performance or social value of a product

Geographic segmentation

Examples of geographic variables are rural/urban, provinces/municipalities, cities/towns/villages, and local climate. Although this is a basic way of grouping people, it is still very relevant for the marketing of mass-market and undifferentiated products in which segments are easily developed on the basis of location. Depending on the type of product (beach umbrellas as an example), a company may decide that it will concentrate on a specific geographic area. Many freely available statistics can assist marketers to find out about where their target customers live, what the dominant languages in the area are, are a host of other demographic variables.

Table 5.2 *Provincial distribution of South Africa's population*[6]

)PROVINCE	POPULATION	PERCENTAGE (%)
KwaZulu-Natal	10 267 300	19.8
Gauteng	12 272 263	23.7
Eastern Cape	6 562 053	12.7
Limpopo	5 404 868	10.4
Western Cape	5 822 734	11.2
North West	3 509 953	6.8
Mpumalanga	4 039 939	7.8
Free State	2 745 590	5.3
Northern Cape	1 145 861	2.2
Total	**51 770 560**	**100.0**

Table 5.3 *Dominant language by province*[7]

PROVINCE	PROVINCIAL CAPITAL	MAJOR LANGUAGES BY NUMBER OF SPEAKERS
KwaZulu-Natal	Durban	isiZulu (77.8%) English isiXhosa Afrikaans
Gauteng	Johannesburg	isiZulu (19.8%) Afrikaans Sesotho English
Eastern Cape	Bhisho	isiXhosa (78.8%) Afrikaans English
Limpopo	Polokwane	Sepedi (52.9%) Xitsonga Tshivenda
Western Cape	Cape Town	Afrikaans (49.7%) English isiXhosa
North-West	Mafikeng	Setswana (64.4%) Afrikaans
Mpumalanga	Nelspruit	isiSwati (27.7%) isiZulu isiNdebele

PROVINCE	PROVINCIAL CAPITAL	MAJOR LANGUAGES BY NUMBER OF SPEAKERS	
Free State	Bloemfontein	Sesotho (64.2%) Afrikaans Xhosa	
Northern Cape	Kimberley	Afrikaans (53.8%) Setswana	
South Africa	Pretoria (administrative) Bloemfontein (judicial) Cape Town (legislative)	Afrikaans isiNdebele isiZulu Sesotho isiSwati Xitsonga	English isiXhosa Sepedi Setswana Tshivenda

Demographic segmentation

Demographic variables include: age, gender, education level, race, income level, family life-cycle stage, nationality, ethnicity, family size, religious choice, occupation, literacy level and social class. Because they are easy to identify and are based on existing statistics, demographic variables are often the most popular initial basis of segmentation. A marketer aiming one product at men and another at women would easily be able to ascertain just how many men and how many women live in South Africa. A marketer aiming at a certain age group would be able to determine how many people of that age live in various places in the country. Although basic demographic data is a useful starting point, it provides no more than a one-dimensional view of the potential customer.

Using age, gender or other demographic variables, the marketer's job is immediately made a little easier as it quickly defines the type of distribution channels and media that could be employed to reach the specific target audience.

USING DEMOGRAPHIC VARIABLES TO IDENTIFY A SUITABLE ADVERTISING CHANNEL

If the identified target segment is young people between the ages of 18 and 35 who live in urban Gauteng, then perhaps 94.7 Highveld Stereo radio station could be the most appropriate channel of communication. If, however, the target segment consists of young, educated new mothers living in metropolitan areas, then perhaps placing an advert in *Baby* magazine would be the most effective way to communicate with them.

It is extremely important to keep an eye on demographic trends. Table 5.4 shows quite clearly that the population is skewed towards the younger generation with 66.5% of the population falling below 35 years of age.

Table 5.4 South African population by age group[8]

AGE GROUP	% OF SOUTH AFRICAN POPULATION
Ageing 65+ years	5.4
Mature adulthood 35–64 years	28.1
Youth 14–34 years	37.4
Childhood 5–13 years	18.3
Infancy 0–4 years	10.8

Another demographic trend that marketers may need to take note of is the changing role of women in society. A growing proportion of the female population are working women, many of them single, and many of them are mothers. The larger percentage of economically active women means that women are making their own purchase decisions that were often, in the past, viewed to be the domain of men (for example, motor vehicles and insurance policies). In addition, time-strapped working mothers also have an increasing need for convenience products such as microwave ovens and other household appliances, childcare services, and foods that are microwavable or quick and easy to prepare.

The male market has also changed over the past years. With so many women now in the workplace, men are playing an ever-increasing role in assisting with childcare and are also now often involved in grocery-purchasing decisions. These changes in gender roles mean that gender may not be the best way to group individual consumers in certain product categories.

Table 5.5 South African population by gender and race[9]

POPULATION GROUP	% OF TOTAL POPULATION		
	MALE	FEMALE	TOTAL
African	79.0	79.3	79.3
Coloured	8.8	8.9	8.9
Indian/Asian	2.5	2.4	2.4
White	8.8	8.8	8.8
Other	0.6	0.4	0.6
Total	100.0	100.0	100.0

GENDER	% OF TOTAL POPULATION
Male	48.7
Female	51.3

Geo-demographic segmentation

The concept of using geo-demographic variables is fairly new, and refers to the grouping of people who are located together in neighbourhoods with similar demographics (for example, young married professionals with a young family living on a golfing estate). The basic idea is that similar individuals who live in a specific location are likely to share similar basic interests and needs.

Behaviour/'benefits sought' segmentation

If an in-depth knowledge of the customer is necessary for marketing purposes, the segmentation then needs to go deeper to discover more than what is possible using location and demographic variables. In this case, the market could be divided up on the basis of benefits sought or behavioural variables. Many organisations conduct ongoing usage and attitude (U & A) research studies for this kind of segmentation. People can be grouped on the basis of having similar behaviours, such as their product selection behaviour or how they spend their leisure time. See the statistics in Table 5.6, which refer to Internet usage behaviour across the South African population.

***Table 5.6** Internet behaviour statistics by % of population*

Via cell phone	16.3
From home	8.6
From elsewhere	5.6
From work	4.7
No access	64.8
Total	**100.00**

Benefits sought segmentation helps to identify groups of consumers who may buy the same product for different reasons – refer back to the cotton wool example on page 119 and the Milton example below.

> **BENEFITS SOUGHT SEGMENTATION**
>
> Because Milton bleach has multiple uses, its market can be segmented by means of benefits sought. One market segment will utilise Milton to disinfect baby bottles, another adds the bleach to water in a vase to prolong the life of flowers, and a third segment uses Milton as a general household disinfectant.

Psychographic segmentation

In order to determine the variables to use for dividing up the potential market into segments, look at the type of product on offer. If your product is aimed at the mass market, for example matches, you probably do not need more than the two most basic sets of segmentation variables – demographics and geographic attributes. On the other hand, if you wish to build a strong relationship with your customers, for example the kind of relationship a financial services organisation may be looking for, you will need to develop a far deeper understanding of your customers.

Psychographic and behavioural variables will help the marketer to understand more about the potential customer's behaviour and the reasoning behind why and how customers decide to purchase certain products. Psychographic segmentation is based on variables such as consumer lifestyles, personality traits and other characteristics, such as class and cultural attributes. The internationally used values and lifestyle (VALS) segmentation model uses the activities, interests and opinions of consumers to determine their resources (financial and personal), and key psychological motivations for behaving as they do.

Living Standards Measures (LSMs) segmentation

During the late 1980s, the South African Advertising Research Foundation (SAARF) began devising a way of segmenting the entire South African population into subgroups. This ground-breaking research divided the South African population into basic groups using a combination of non-personal variables called the Living Standards Measures (LSMs). This has now become 14 groups as SAARF have reviewed the research project and included new groups and high and low sectors within some levels. LSM groups are defined by their living standards using a combination of non-personal variables, such as level of urbanisation or the ownership of certain durables. Although income levels emerge during the analysis, income is never used as a distinct criterion for segmentation.

After a number of extensive reviews, the most recent of which was completed in 2013, the current SAARF Universal LSM index currently uses the descriptors listed in Table 5.7.

***Table 5.7** SAARF Universal LSM variables*[10]

1	Hot running water	16	Fewer than two radio sets in household
2	Fridge/freezer	17	Air conditioner
3	Microwave oven	18	Rural outside Gauteng/Western Cape
4	Flush toilet in/outside house	19	Built-in kitchen sink
5	No domestic in household	20	Home security service
6	Swimming pool	21	Deep freezer
7	Vacuum cleaner/floor polisher	22	Water in home/on plot
8	No cell phone in household	23	M-Net/DSTV subscription
9	Traditional hut	24	Dishwasher
10	Washing machine	25	Electricity
11	PC in home	26	Sewing machine
12	Electric stove	27	Gauteng
13	TV set	28	Western Cape
14	Tumble dryer	29	Motor vehicle in household
15	Home telephone		

Table 5.8 shows the current South African LSM groupings, and references the dominant living standards measures and characteristics.

Table 5.8 *LSM characteristics*[11]

LSM 1 (1.4% OF POPULATION)	LSM 2 (3.6% OF POPULATION)
Demographics	**Demographics**
Male and female 50+ Primary completed Small urban/rural Traditional hut R1 480 average household income per month	Male and female 15–24, 35–49, 50+ years old Some high school Small urban/rural Squatter hut shack, matchbox and traditional hut R2 216 average household income per month
Media Radio a major channel of media communication, African language services (ALS) – Umhlobo Wenene FM, Ukhozi FM and community	**Media** Radio: Commercial, mainly ALS – Ukhosi FM, Umhlobo Wenene FM
General Minimal access to services Minimal ownership of durables except radios Mzansi bank account Minimal participation in activities; singing	**General** Communal access to water Minimal ownership of durables except radio sets and stoves Mzansi bank account Minimal participation in activities; singing, attend burial society meetings and traditional gatherings
LSM 3 (5.9% OF POPULATION)	**LSM 4 (11.7% OF POPULATION)**
Demographics	**Demographics**
Male and female (with female bias) 15–34 years of age Some high school Small urban/rural Squatter hut shack, matchbox and traditional hut R2 581 average household income per month	Male and female (with female bias) 15–34, 50+ years of age Some high school Small urban/rural Squatter hut shack, matchbox and traditional hut R3 178 average household income per month

Media Radio, ALS stations, Ukhozi FM and Umhlobo Wenene FM **General** Water on plot or communal Minimal ownership of durables except radios and stoves Mzansi bank account Activities: Singing	**Media** Radio: Commercial, mainly ALS, Gagasi, Motsweding, Ukhosi, Umhlobo Wenene FM and community radio TV: SABC 1 **General** Electricity, water on plot or communal, non-flush toilet TV sets, electric hotplates Mzansi bank account Activities: Attend gatherings, go to night clubs
LSM 5 (16.9% OF POPULATION)	**LSM 6 (23.8% OF POPULATION)**
Demographics	**Demographics**
Male and female with female bias 15–34 Some high school Small urban/rural House, matchbox/matchbox improved R4 310 average household income per month **Media** Radio: commercial, mainly ALS stations, Lesedi FM, Motsweding FM, Ukhozai FM and community radio TV: SABC 1, 2, 3, eTV, Top TV **General** Electricity, water on plot, flush toilet outside, TV sets, hi-fi/radio, stove, fridge Mzansi accounts Activities: singing, bake for pleasure, go to night clubs, attend gatherings and buy lottery tickets	Male and female 15–49 Matric Large urban House/townhouse, cluster house R6 669 average household income per month **Media** Wide range of commercial and community radio TV: SABC 1, 2, 3, eTV, Top TV and Community TV Any AMPS newspaper Outdoor advertising **General** **Electricity, water in home, flush toilet in home, TV set stove, fridge/freezer, microwave oven** Savings and Mzansi accounts Activities: Hire DVDs, go to night clubs, take-away in the past four weeks, attend gatherings, buy lottery tickets, go to the gym
LSM 7 LOW (6.2% OF POPULATION)	**LSM 7 HIGH (5.9% OF POPULATION)**
Demographics	**Demographics**
Male and female with male bias 25+ Matric and higher Urban R10 069 average household income per month	Male and female with male bias 25–49 Matric and higher Urban R12 895 average household income per month

Media Wide range of commercial and community radio TV: SABC 1, 2, 3, eTV, DStv, Top TV and Community TV All print media Accessed Internet in past seven days Outdoor advertising **General** Full access to services Increased ownership of durables plus DVD and motor vehicle Participation in all activities Savings accounts	**Media** Wide range of commercial and community radio TV: SABC 1, 2, 3, eTV, M-Net, DStv, Top TV and Community TV All print Accessed Internet in past seven days Cinema and outdoor advertising **General** Full access to services including cheque and savings accounts Increased ownership of durables plus DVD and motor vehicle Participation in all activities
LSM 8 LOW (4.5% of population)	**LSM 8 HIGH (4.2% of population)**
Demographics	**Demographics**
Male and female with male bias 35+ Matric and higher Urban R15 590 average household income per month **Media** Wide range of commercial and community radio TV: SABC 1, 2, 3, eTV, M-Net, DStv, Top Tv and Community TV All print Accessed Internet in past seven days Cinema and outdoor advertising **General** Full access to services and bank accounts Full ownership of durables, including a PC Increased participation in activities	Male and female with female bias 25+ Matric and higher Urban R16 396 average household income per month **Media** Wide range of commercial and community radio TV: SABC 2, 3, eTV, M-Net, DSTV, Top TV and Community TV All print Accessed Internet in past seven days Cinema and outdoor advertising **General** Full access to services and bank accounts Full ownership of durables including a PC Increased participation in activities
LSM 9 LOW (4.9% OF POPULATION)	**LSM 9 HIGH (4.9% OF POPULATION)**
Demographics	**Demographics**
Male 35+ Matric and higher Urban R20 307 average household income per month	Male 35+ Matric and higher Urban R25 395 average household income per month

Media Wide range of commercial and community radio TV: SABC 2, 3, eTV, M-Net, DStv, Top TV and Community TV All print Accessed Internet in past seven days Cinema and outdoor advertising **General** Full access to services and bank accounts Full ownership of durables Increased participation in activities, excluding stokvel meetings	**Media** Wide range of commercial radio TV: SABC 2, 3, eTV, M-Net, DStv, Top TV and Community TV All print media Accessed Internet in past seven days Cinema and outdoor advertising **General** Full access to services and bank accounts Full ownership of durables Increased participation in activities, excluding stokvel meetings
LSM 10 LOW (3.4% OF POPULATION)	**LSM 10 HIGH (2.7% OF POPULATION)**
Demographics	**Demographics**
Male and female with male bias 35+ Matric and higher Urban R32 451 average household income per month **Media** Wide range of commercial radio TV: SABC 3, M-Net, DStv, Top TV and Community TV All print media Accessed Internet in past seven days Cinema and outdoor advertising **General** Full access to services and bank accounts Full ownership of durables Increased participation in activities, excluding stokvel meetings	Male 35+ Matric and higher Urban R40 695 average household income per month **Media** Wide range of commercial radio TV: M-Net, DStv, Top TV and Community TV All print media Accessed Internet in past seven days Cinema and outdoor advertising **General** Full access to services and bank accounts Full ownership of durables Increased participation in activities, excluding stokvel meetings

Developing and evaluating segment profiles

Once segments have been identified, the marketer must proceed by developing profiles of the emerged segments. Profiles must provide descriptions of each segment in order to help the marketer to identify which of the segments are the best ones to target with the marketing mix. A profile may look like this:

- **Segment A:** A group of employed male consumers, with tertiary education, living in an urban environment, aged 18–24 years, single and who enjoy sports, attending club meetings and get-togethers.

- **Segment B:** A group of black women living outside of the metropolitan areas, who are unemployed with families of two or more children, They are aged 35–45 years, have a Grade 10 education but have no individual income.

Marketers of a product such as condoms may be very interested in targeting the first group described in Segment A. Marketers of a handwashing powder detergent such as Omo, might be more than a little interested in the second detailed profile, Segment B.

Segment assessment

Once one or more target segments have been selected, the marketer needs to evaluate or assess each of the segments in terms of its attractiveness as a sustainable target market. This evaluation should be conducted by rating each potential target segment according to the following criteria:

- **Accessibility:** Is the selected target segment available to distribute to, and communicate with?
- **Defendability:** Does the company's product have a distinct differential advantage over the competitors' products so that it is able to defend its chosen position within the target segment?
- **Tangibility:** Is the target segment of a sufficient size to make it profitable and allow for a good return on the marketing investment?
- **Distinctiveness:** Is the target segment different enough from the other target segments to allow for the achievement of a clear product differential?

Other aspects that could be considered include:

- the growth rate of the segment
- the brand loyalty of the potential target customer
- the attainable market share possible in terms of money available for promotional expenditure compared to what competitors are able to spend.

Market coverage[12]

It is important for the organisation to decide on which and how many of the segments it will serve with its product range. This is called target market selection, where a target market can be defined as a group of consumers with similar characteristics and who thus share similar needs. There are three basic strategies that can be employed in determining target market coverage (refer to Tables 5.9 to 5.11).

- **Undifferentiated marketing:** The strategy of undifferentiated or mass marketing is employed by companies that do not differentiate between the varying needs of their potential consumers. Instead, they focus on the common needs and quantity, and therefore they target the whole market with one product. The product and its marketing plan thus focuses on appealing to the largest possible number of consumers (all segments – S1, S2 and S3, and all targets – T1, T2 and T3).

This strategy necessarily involves mass distribution and also utilises mass communication channels.

***Table 5.9** Undifferentiated marketing*

	S1	S2	S3
T1			
T2			
T3			

- **Differentiated marketing:** This strategy requires the organisation to target different market segments with different products. By targeting groups of people exhibiting different needs with specifically designed products, the company can reach more than one group of customers with more than one product and hope to achieve a higher return on the resource investment. It should be noted, however, that having a range of products with vastly differing marketing mixes may also increase the costs. For this reason, segment marketing is regarded as more expensive than mass marketing.

***Table 5.10** Differentiated marketing*

	S1	S2	S3
T1			
T2			
T3			

- **Concentrated marketing:** This form of marketing coverage involves targeting one product at a specific need within a larger segment. It provides a company with a chance to develop a strong market presence, based on in-depth knowledge of the segment. This could give smaller companies a competitive edge over other players. If a company employs this strategy, they need to recognise that there is a higher risk involved, as their turnover is dependent on only one target segment.

***Table 5.11** Concentrated marketing*

	S1	S2	S3
T1			
T2			
T3			

Once the selection of the most appropriate target market(s) has been conducted, i.e. those groups/segments that are most likely to show maximum return on the resources invested, the marketer will then need to formulate the best and most appropriate marketing mix (the 4 Ps or 7 Ps) that they feel will evolve into an implementable marketing plan.

Product positioning

This is the last step in the STP process. Product positioning is the place or position that the product holds in the consumers' minds, relative to the competitors' offerings. It is really the descriptor or image that an organisation wants its consumers to think of when the product is mentioned.

EXAMPLES OF PRODUCT POSITIONING

Volvos are strongly positioned in terms of safety, whilst Audi's positioning is on technical expertise ('Vorsprung durch Technik'). Nedbank has positioned itself as the 'green' bank, thus taking advantage of the hot topic of sustainability; Standard Bank has positioned itself on a 'moving forward' platform, suggesting a future, planning approach.

Through successful market positioning and establishing a subsequent set of valued product attributes and benefits, marketers can attempt to influence their products' demand by setting out these specific characteristics in their communications and branding, which establishes a clear image of the product in the customer's mind.

There are various bases on which to position a product. It is useful to draw up a series of 'positioning maps' (see Figure 5.3. as an example), utilising the attributes that the potential customer values most. A two-by-two matrix, as in the example, uses axes of relevant benefits or product attributes and allows marketers to position their own products, as well as plot the competitors' products. In doing this, they can ascertain any 'gaps' where their product can be differentiated from the competitors' offerings. These bases of positioning include the following:

- **Product attribute:** The company uses a distinctive attribute on which to position its product. An example is the dryness of Savanna Cider: 'It's dry, but you can drink it'.
- **Product benefit:** The company selects a unique product benefit. For example, Mitchum deodorant lasts longer: 'You can even miss a day'.
- **Price vs quality:** The positioning strategy focuses on superior quality or the best value for money/lowest price. For example, Woolworths is usually considered to be pricey whilst Pick n Pay prefers to position itself on best value, lowest price.
- **Use or application positioning:** This method is based on usage or application.
- **Product user:** Positioning is based on a consumer/end-user focus. Private banking is usually positioned as a professional, full-service offering for time-strapped business executives.

- **Competitor:** The company positions its product offering directly against its competitor. A good example is the highly competitive Pepsi/Coca-Cola positioning.
- **Origin:** The positioning focuses on where the product came from. A good example would be mineral water, which is often positioned as being pure spring water from the heart of a mountain range.

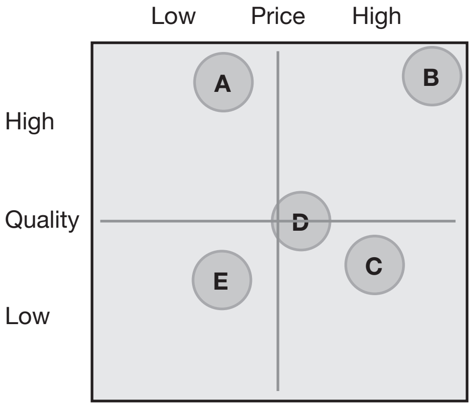

Figure 5.3 *Example of a positioning map*

If a product is copied by a competitor or in some way loses its relevance or its clear differentiating factor, then a marketer may have to undertake the process of repositioning. This is the process of altering the image and brand personality so that it appeals to a new, different or evolved target segment.

CASE STUDY: CAPITEC – WE BELIEVE THAT SIMPLICITY – OUR BRAND ESSENCE – WHEN DELIVERED TRANSPARENTLY, GIVES CLIENTS CONTROL[13]

Capitec, South Africa's youngest retail bank, has been named as one of Africa's 16 'most dynamic Global Growth Companies (GGCs)', making it the only bank in Africa, including South Africa, to crack the list.

Companies on the WEF list are viewed as 'trailblazers, shapers and innovators that are committed to improving the state of the world and are nominated on the strength of their ability to become global leaders'.

This follows three other accolades awarded to the bank this year, including winning the 2014 Business Times/Intellidex Bank of the Year survey, the Internet Banking SITEisfaction survey and setting the overall banking benchmark in the South African Customer Satisfaction Index for Banking.

Capitec's success can be attributed to its innovative business model and unique approach to market segmentation. By simplifying banking processes through pioneering the use of technology, Capitec has established itself as the bank for the wider South African population. In fact, in May 2013, AMPS announced that Capitec had surpassed Nedbank as South Africa's fourth largest bank.

Capitec has adopted the notion that everyday money management is required for clients to manage their daily lives.

According to the Capitec Annual Report 2014, Capitec's business building blocks are 'affordability, accessibility, personal service and simplicity'. In addition to this, they state clearly that their bank differentiates itself from other banks as it believes that the 'singular focus on retail banking by Capitec Bank and the innovative application of the building blocks across everything the bank has developed, make it unique as a service provider'.

Capitec has made it clear that its target is the individual – consumers who require simplified, value-for-money essential banking and are looking for personal support through an ongoing banking relationship. To successfully target this segment of the market, Capitec has designed innovative products and systems that are built specifically to address their market's unique needs for easy-to-use, low-cost banking. Access to Capitec's banking facilities are widespread, currently owning 744 ATMs and operating (in partnerships) a further 2 174. In addition to this, Capitec's clients can access low-cost cash withdrawals through all Checkers, Shoprite, Pick n Pay, Boxer and Pep stores, as well as some selected Spar retailers, (some 24 329 till points). Two years ago, clients were further delighted at the launch of Capitec's Internet and mobile banking service at no additional cost to them. Currently the bank has 356 000 active Internet banking clients and 2.9 million active mobile clients.

One of the bank's initial innovations is the use of a standard flat fee pricing structure, instead of the sliding scales used by traditional banks. They also don't discriminate between different income levels, whether earning R5 000 per month or R50 000, the product and service remain the same. When interviewed around the launch phase, Capitec's CEO at the time, Riaan Stassen, stated 'I have yet to understand why a high-net-worth customer and a blue collar worker should pay different charges for the same facilities.'

In times of economic difficulties, consumers in lower income groups often become inactive bank users when they lose employment, tending to manage their money in a 'hand-to-mouth' way, often attributed to inflexible bank charges.

Capitec Bank's transparent low cost price structure includes the following:

- Single monthly administration fee R5.00
- Minimum account balance R25.00
- Capitec ATM withdrawal fee R4.60
- Other ATM withdrawal fee R7.30
- Till point withdrawals R1.05
- ATM deposit 55c per R100.00
- Branch deposit R1.15

Capitec currently has a 12.7% market share with 5.4 million active clients. Of these clients, 2.2 million are identified as full bank clients, i.e. Capitec is their primary bank. Capitec continues to encourage existing clients to make use of all the transacting, saving and lending facilities. Its product offering is a single solution accessed via a single application which offers transacting, saving and lending solutions that can be defined by the client. All the bank's processes are characterised by simplicity.

South Africans are well known for low levels of saving. The Finscope SA 2013 Consumer Survey reveals that only 42% of individuals in South Africa indicate some saving behaviour. It goes on to show the following statistics:

- Most individuals who save make use of products at formal institutions other than traditional banks (14%), or save their money at home (6%).
- Only 13% of individuals prefer to save using bank products.

Capitec Bank is targeting the savings segment as brand confidence grows and increased brand awareness has led existing clients to open savings accounts. To date, it has managed to secure 4% of South Africa's bank saving clients.

Capitec also targets the lending market, and currently holds 18.5% of the unsecured credit market. However, the bank's focus on unsecured credit lending has landed it in deep waters recently when they had to write off R3.5 billion worth of bad debts compared to R1.8 billion in 2013. This problem was largely attributed to the tough economic environment which has led to lenders being unable to pay back loans.

Capitec's response was to tighten its credit criteria by implementing 'major rule changes', positively resulting in loan sales decreasing from R23 billion in 2013 to R18 billion in 2014. In addition to this, the average loan size is now smaller and the length of loan term, and the number of loans granted has decreased.

Despite this crunch in their lending business, the bank has generally performed well with its headline earnings up by 27%, as reported in their 2014 Annual Report.

According to Capitec, the biggest contribution to its success is the ability to provide targeted segments with lower-cost products, as well as accessibility, a feature which is becoming increasingly important to consumers. The bank has designed systems for the lowest possible cost infrastructure, which allows it to compete with bigger banks, which addresses the needs of a wider range of customers. This enables Capitec to compete with banks that have a significantly higher market share. And although Capitec Bank provides for the basic banking needs of the consumer, it positions itself in society as 'more than just a bank', utilising a 'business model that promotes the economic welfare of the communities in which it operates. Our leadership recognises that we have an important role to play in the development of those communities and society in general.'

Key facts:

- Capitec Bank was established on 1 March 2001 and listed on the Johannesburg Stock Exchange on 18 February 2002.
- Over 5.4 million clients are served in over 629 branches by 9 070 employees.
- Capitec Bank owns or operates 2 918 ATMs and has in excess of 240 000 point-of-sale machines.
- Capitec Bank has R10 billion in shareholder funds.
- Capitec Bank's Global One Banking facility addresses most savings, lending and transacting needs and is the most affordable money management facility. Cash withdrawals cost as little as R4.60 per transaction.
- Communication is structured in a way that allows clients to clearly understand what is being delivered and at what cost.
- Advanced technology such as fingerprint biometrics and photo verification is used to provide clients with easy access to their accounts and prevent illegal or unauthorised activity.
- Capitec staff are employed for potential and provided with skills training to ensure consistent quality at the service interface.
- Capitec is able to offer clients access to their branches seven days a week: 08h00 to 17h00 week days, 08h00 to 13h00 Saturdays, 09h00 to 13h00 Sundays.

EXERCISE

1. When selecting their target market, which variables do you think Capitec Bank used to segment the South African market? Explain if, and why you think, these variables are appropriate.
2. Describe the profile of Capitec's target market.
3. Explain which strategy of market coverage Capitec Bank has used and give reasons for your answers.
4. Upon which specific attributes has Capitec Bank positioned itself, relative to traditional banking institutions?

Summary

Marketers must realise that with the limited financial and human resources at their disposal, fulfilling the needs and wants of the entire market is not likely to be successful. They call the process of identifying the consumers who are most likely to purchase the product 'segmentation', using variables that will deliver the amount of information they require. Once the segmentation step is complete, it is necessary to evaluate each emerging segment against a set of business criteria to choose the best target segment or segments. The final step in the process involves mapping the product against those of the competitors and developing a clear and communicative image and bundle of attributes for the customer. This attempt at positioning their product in the minds of their target consumers is the foundation for developing the marketing mix of product, price, promotion and place, as well as the additional and often needed extra Ps of physical evidence, processes and people.

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PRODUCT DECISIONS

CHAPTER 6

LEARNING OUTCOMES

After studying this chapter you should be able to:
- understand how marketers define and classify products
- distinguish between the product item, product line and product mix
- differentiate between the various levels of a product
- explain the most important concepts relating to the life cycle of a product
- identify the significance of the levels of a product in obtaining a competitive advantage over rival products

Introduction

A product can be defined as 'everything, both favourable and unfavourable, tangible and intangible, received in an exchange of an idea, service or good.[1] In the context of marketing a product, there are various issues to consider which can compromise a physical good, service, idea or any mixture of these, including supporting services, such as installation, maintenance, guarantees, and a product that accompanies other products.

The product is the central element of a company's marketing mix. If a company does not have the 'right' product, the marketers are not likely to be able to fulfil the needs of their customers, which will influence customers' loyalty to the company.

Successful products change as the needs of the market change. Decisions have to be made about modifying existing products, introducing new products and scrapping existing products that are no longer successful.

Product decisions comprise every conscious decision made by a company regarding its products, and include three broad categories, namely:
- decisions about the types of products the organisation will manufacture and sell
- decisions about the features of the products
- decisions about the intangible or augmented product.

The product offering

Philip Kotler changed businesses' perceptions of what marketing comprises, in that he defined what marketing is as opposed to what marketers do. His approach changed marketing from something that is done by a specific department to something that involves the whole organisation. Kotler viewed marketing as a 'social process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others'.[2]

Kotler views a product as being more than a physical object. He regards a product as being anything that can be presented to a market for consideration, purchase, or use; or something that can satisfy a need or want. A product can thus vary from a physical good, a service, or even an idea, including the environment in which a product is sold, presented or displayed. A person, an organisation or a place can thus be a product in itself. Products satisfy the needs or wants of the customer.

Based on these assumptions, Kotler developed a model of a product that comprises five levels.

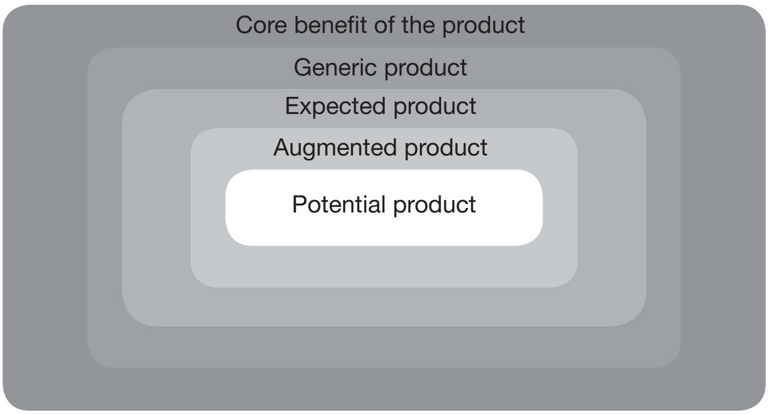

Figure 6.1 *The five product levels*[3]

Looking at the five levels of Kotler's model, the first level is the **core benefit**, which is not the tangible physical product. It comprises the fundamental need or want that is satisfied through the consumption of the product or service. It is thus the basic product that emphasises the purpose for which the product was envisioned, for example, a car is intended to get you from point A to point B.

The second level consists of the generic product, which signifies all the essential qualities of the product (these would be the qualities or attributes necessary for the product to function), for example a car requires an engine, four wheels, seats, etc.

The third level is the expected product comprising all the characteristics the consumers expect to get when they purchase products. In the case of a car, this would consist of parts like power steering, air conditioning, radio, etc.

The fourth level is the augmented product, which refers to the added (bonus) features that differentiate the product from its competition. Key characteristics here include: brand identity, image, service, warranty and value for money. For example, it may include the brand of a car, its service plan and warranty. The augmented product offered by Ferrari differs substantially to that of an entry level vehicle such as a Volkswagen Golf.

> **HYUNDAI PROVIDES VALUE FOR MONEY**
>
> Hyundai is renowned for the added value that it provides, for less money, for a product such as the Elantra model. This has created a growing market share in South Africa for people that want value for their money.

The **potential product** comprises all the modifications and changes a product might undergo in the future – for example, cars that could be powered by hydrogen in future.

Kotler distinguished three key components relating to a product:

- A **need** comprises the absence of a basic requirement, for example people have a need for food when they are hungry, or water when they are thirsty.
- A **want** comprises a specific requirement for a product or service to match a need, for example people want food and drinks to satisfy their needs.
- A **demand** encompasses the want and desire for specific products, together with both the willingness and ability to pay for them, for example a person who has the money goes to Steers and buys a burger and Fanta Grape.

A choice to purchase a product is based on the **perceived value** thereof and is determined by the extent to which the value of the product, when it is used, matches the perceived value at the time of purchase. A customer is satisfied when the actual value of something, when used, is the same or exceeds the perceived value. This is called **customer satisfaction**.

How value is added to a product

Products meet consumer needs through a tangible and an abstract value. The five product levels can be used to inform an organisation about developing the value of a product, both on the tangible and abstract value. Each level of the five product levels adds value for the customer. The more effort an organisation makes at each level, the greater its chance of standing out from its competitors and gaining customers. Refer to Figure 6.2, which shows a simplified model that distinguishes between the core, tangible and augmented product, and how value is added at each level.

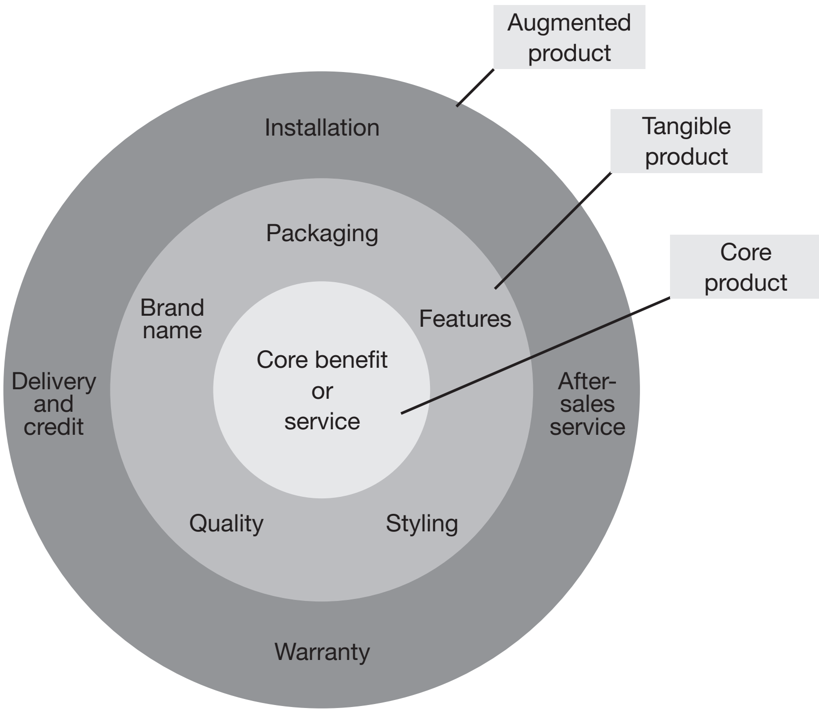

***Figure 6.2** Adding value to a product*[4]

Kotler noted that most of the competition takes place at the level of the augmented product, and not at the core benefit or expected product levels. We can understand this because most competitors deliver basically the same type of product to the market. The only place where differentiation can occur is on the augmented level.

Classifying products[5]

Products can be classified into two broad categories, namely consumer products and industrial or business products. Consumer products are products that satisfy personal or family needs. Industrial or business products are goods that are used to produce other products, or products used in an organisation in the process of manufacturing other products.

There are four types of consumer products:

- **Convenience products:** These are relatively low-cost products (compared to other forms), purchased on a regular basis with minimal purchasing effort and rapidly consumed. Examples include bread, milk, soft drinks and chocolates.
- **Shopping products:** These are goods that need more effort and care in choosing. A common example of a shopping product is clothing. This is something for which a person would shop around at a mall, for example to look at different styles and brands between different stores. The degree of effort used also varies between

different types of shopping products. For example, you will put in a lot more time and effort when purchasing a car than a new pair of jeans.

- **Speciality products:** These are products that are not purchased regularly for which the buyer does extensive research before purchasing the products. They are usually expensive and not easily replaced with another product. Examples include designer products such as dresses and jewellery.
- **Unsought products:** These are goods purchased when an unforeseen problem arises or when aggressive selling techniques are used to persuade a consumer to buy a product that he or she would not necessarily purchase otherwise. An example of unsought products could include insurance. These products are often only bought when people are persuaded to do so, and through 'buy now' marketing on television where people are offered products or services that they were not even aware they needed, but are persuaded to buy, often impulsively.

On the other hand, **industrial** or **business products** (also called B2B products),[6] are used to make other products, or used in the operations of an organisation. These products can be classified into seven categories according to their characteristics and intended uses:

- **Raw products:** These are the basic materials that become part of the final product such as wood, metal, basic agricultural products and chemicals. In the case of a car, sheet metal is used to make the car boot or door.
- **Major equipment:** Machines and large tools that are used in producing goods and services. Examples of this major equipment would be the machinery used in a production line for a car (for example, the presses).
- **Accessory equipment:** This refers to the smaller tools and equipment that do not become part of the final product, and that are used in the production of goods or in related administrative activities. Examples would be the tools used by a mechanic to repair a car, or pens, paper and ink used in the administration of a business.
- **Component parts:** These products comprise the components that become part of a physical product manufactured by the business, and comprise finished items that are assembled into a final product or are parts/products that require little processing before being assembled. Many computer manufacturers produce their final product with various parts such at motherboards, central processing units (CPUs) and ram chips sourced from external suppliers.
- **Process materials:** These materials are used directly in the manufacturing of other products; however, these are not easily identifiable.
- **Consumable supplies:** These are goods that enable production and operations but do not comprise part of the finished product. These can be divided into three sub-categories, namely maintenance, repair and operating supplies, such as lubrication for machines.
- **Industrial or business services:** These are the intangible products used in operations by organisations. A example of this service would be computer programming and research done by an organisation.

Deciding on the type of product

A company's product mix represents the sum of the products offered to the market. In an organisation, decisions regarding the type of product mix are made at the highest level. Other decisions that define the type of business that a company operates are made by lower levels of management.[7]

The product mix of an organisation is defined by the dimensions of width, length, depth and consistency. These are illustrated in Figure 6.3 on the next page.[8]

- **Width** refers to the overall number of product lines that the organisation offers to the market. An example would be a motor vehicle manufacturer that manufactures cars, trucks and tractors.
- **Length** relates to the number of brands in each of the product lines. An example would be the motor vehicle manufacturer that has two different brands of cars.
- **Depth** refers to the average number of alternatives of an organisation's products. For example, depth for the motor vehicle manufacturer could be two brands of cars each with three models, one brand of trucks with five models, and one brand of tractors with two models.
- **Consistency** indicates how closely related an organisation's product lines are to one another – for example, the features of the production process or distribution channel.

Types of decisions made on the level of the product mix

The width of the product mix needs to be determined. The types of decisions that need to be made on this level include:

- product categories to be offered, for example who the supplier of materials will be – components to producers of end products, or finished products to the end-user.
- the nature of the target market
- whether to provide full lines of products or specialised custom-made products
- becoming a leader with regards to innovation or being a follower of others
- the business criteria of each product line in order to meet the product mix – for example, the level of profitability, time to pay back investment and required sales volume.[9]

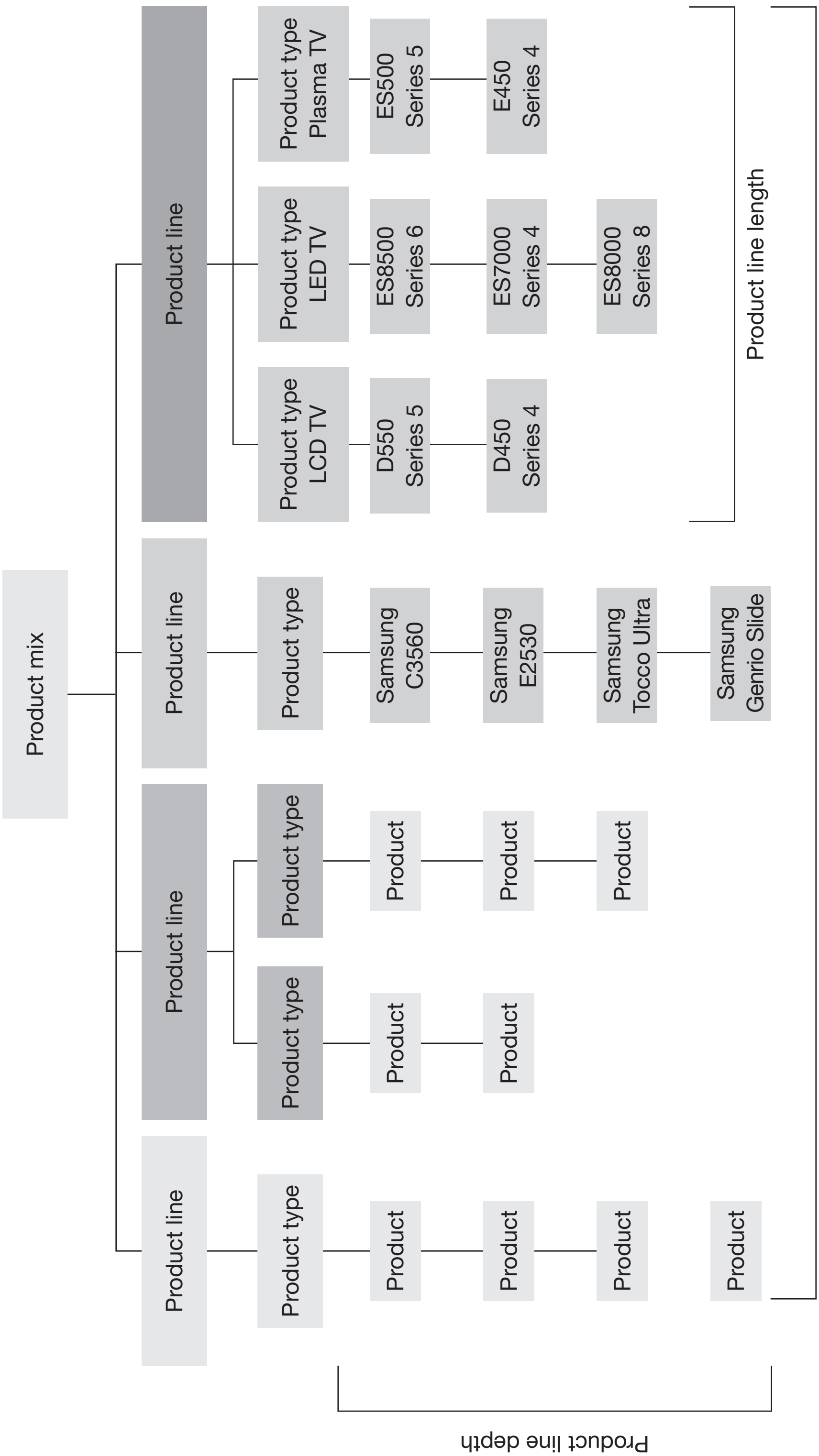

Figure 6.3 *The product mix*[10]

Decisions about the product line

Decisions about the product line include:

- the limit at which no other product should be added
- the number of different products included in the line and how they are differentiated from one another
- the number of models offered in each product line
- the business criteria each product must meet in order to be included in the line, such as profitability and sales volume
- the number of market segments in which the product line will compete
- whether or not unprofitable products should be kept in the product line to satisfy customers.[11]

There are a number of key benefits of having related products in product lines. These include the following:

- When several products are advertised under the umbrella product line, **advertising economies** are achieved. This could positively influence the advertising spent. Coca-Cola has generic advertisements that cover their whole product range i.e. their slogan 'Things go better with Coke' covers regular Coca-Cola as well as Coca-Cola Zero and Coca-Cola Light.
- When all the packages in a product line have a uniform appearance but still maintain their individual identities, it is called **package uniformity**.
- Product lines allow the standardisation of components**,** which reduces both manufacturing and inventory costs. An example of this is that all household plumbing components in South Africa use 15 mm or 22 mm piping.
- A product line contributes to efficient sales and distribution of the products as distributors are often more inclined to stock the products of an organisation that offers a complete line.
- The perception of equivalent quality is created among consumers in that they believe the products in a line are equal in quality.[12]

The design policy, which is closely related to the product line policy, addresses the following:

- The degree to which there is a focus on innovation, quality and reliability. For example, Apple focuses on all three of these aspects with their products, such as the iPhone and iPad.
- The degree to which products are made compatible with both a customer's emotional need (for example, styling), and rational need (for example, petrol consumption).
- The complexity of the design and construction of the product, which influences costs and the inventories of parts that need to be held. For example, Tata launched the Nano, the cheapest car in the world selling for around R30 000 in India, which was made possible by a simplified design and construction process.
- The quality of the materials in the production processes,[13] for example the use of plastic versus aluminium for the body of a cell phone.

Adjusting product items, lines and mixes

An organisation will find it necessary to adjust its product items, lines and mixes due to changes in the competitive environment, technological advances or new product developments. This can be done by:

- modifying existing products
- repositioning products
- extending or contracting product lines.

Product modification

When changes are made to one or more products' characteristics, it is called product modification. This happens through four different processes:

- **Quality modification** happens when changes are made to a product's dependability or durability. The quality of the product could be reduced, with accompanying reductions in manufacturing costs, in order to make it accessible to lower segments in the market. On the other hand, if a company increases its quality, it will improve brand loyalty, creating the opportunity to increase prices, or enable the organisation to move into higher segments in the market.
- When products are changed in their capabilities, effectiveness, convenience, or safety, it is called **functional modification**.
- When aesthetic changes are made to a product, it is called **style modification**. For instance, this would mean making a product more 'beautiful' or modifying its features, such as the Volkswagen Golf 7.
- When products are modified and those that are already sold become obsolete before they wear out,[14] it is called **planned obsolescence**. For example, Samsung launched their Galaxy S5 which made the earlier models such as the S4 and S3 obsolete in the eyes of many consumers who had purchased the earlier models.

Although these modifications may be reactions to changes in the marketplace, they can also be aimed at creating new demand within the marketplace.

Repositioning

When an organisation finds that the demographics in its marketplace have changed, there are changes in the social environment, or the sales of one of their products is declining, it may motivate the organisation to reposition its brands. When a consumer's perception changes regarding a brand, it is called repositioning.[15] An example of this is the Shoprite group that has repositioned its Checkers brand from one that traditionally catered for the lower-middle section of the market to one that now caters for more upmarket consumers.

LION LAGER REPOSITIONED OUT OF THE MARKET

Lion Lager was once upon a time the mainstay of the South African Breweries (SAB) group. It was around for more than a century and was a favourite alcoholic tipple of certain geographic areas in South Africa. It was widely associated with national sport teams such as rugby, and with national heritage and masculinity. With time came change and from the 1980s, the Lion brand went into decline as the original market went into decline. The SAB then decided to reposition Lion to focus on a younger, more metrosexual market, whilst changing the traditional packaging colours of gold and red to silver and blue. The taste of the beer also changed from bitter to more sweet. The Lion brand then went into a total tailspin as the new target market shunned the product and the old 'traditional' market felt totally estranged from this 'foreign' taste and packaging. And so Lion Lager went into demise, never to be resurrected!

Extending product lines

When an organisation adds products to an existing product line, it is known as a **product line extension**.[16]

Kotler[17] notes that product line extension can be made through line stretching, which happens when the organisation stretches its product line beyond its current range, i.e. from the upper end of the market to lower levels or vice versa. Alternately, line filling is where new products are added to a company's present line in order to take advantage of gaps in the market, and the company uses excess manufacturing capacity, builds its reputation and discourages competition from entering the market. Samsung has done this quite extensively with their smartphone range. With their Galaxy S being at the top of the range, they added Galaxy S Mini phones at the mid-range and then much cheaper Trend phones at the bottom of the range.

When an organisation introduces a new product and it takes away the market share from its existing products,[18] it is called **product cannibalisation**. Various forms of cannibalisation may occur. On a product/service level, there have been concerns about the geographical areas allocated to fast-food franchisees with a number of franchisees complaining that there are serious overlaps between franchisees of the same product or service in a certain area.

Contracting product lines

When an organisation discovers it has too many products in its line, it is called **product line overextension**. The symptoms of this include the following:

- Some products do not contribute to overall profitability of the organisation due to low sales levels.
- Some products cannibalise the sales of other products in the product line.
- There is a disproportionately large allocation of marketing or manufacturing resources allocated to slow-moving products.
- Some products are obsolete due to new products in the product line or new products offered by competitors.[19]

When an organisation decides to decrease the number of products in its product line it is known as **product line contraction**.[20] This has at least three key benefits: firstly, the organisation can concentrate its resources on more profitable products; secondly, the organisation no longer needs to waste resources on attempting to improve the sales and profits of underperforming products; and finally, new products are more likely to be successful as more human and financial resources are available to be allocated to these. (Refer to the section on the product life cycle on page 155 to see how product line contraction fits into the life cycle discussion.)

Decisions about the tangible/physical product

The following decisions need to be considered regarding the physical product:

Product quality

There is no absolute meaning for quality as it may mean different things to different customers under varying circumstances. Elements involved in determining the quality of a product include its physical, sensory or chemical properties, as well as its size and shape.[21] The company needs to decide on the quality of the products it produces in terms of:

- the level of quality compared to its competitors
- the range of quality embodied by the company's offerings
- the frequency, and under which circumstances, the quality of a product should be amended
- the emphasis placed on quality when promoting its products
- the degree of risk the company is willing to adopt when deciding to include innovations in and improvements to its products.[22]

The functional features of a product

Each product has a set of objectives that are translated into its unique functional features.[23] When considering the functional features of a product, the organisation needs to decide:

- which features to include in its products
- which features they will focus on for development of future products
- whether certain features should be held back for later models of a product
- which features should be emphasised when marketing the product.[24] KFC illustrates this in their advertising where they emphasise price with some of their meals such as their Streetwise Meals, flavour and freshness in the case of their burgers, and the quantity of food in the case of their Family Box Meal.

Product style

'Style refers to the sensory elements that communicate the aesthetic and human factors of a product or service'.[25] The style of a product must meet the expectations of the consumer and create an identity for the product. To a large extent, style refers to how well a product fits in with the lifestyle of the customers for whom it is intended where ergonomics (design and functional features) complements the aesthetics (beauty). Here you could think of the difference in style between clothes sold by a company such as Timberland or Hi-Tec, as opposed to Billabong or Hilton Weiner. People who wear clothes from these different brands differ quite dramatically in the type of lifestyle to which they adhere to, and what they regard as beautiful or stylish.

Decisions about the intangible or augmented product

The collection of intangible services and features that accompany a physical product is referred to as the augmented product. It comprises the entirety of benefits that the purchaser receives and experiences in the process of gaining and using the physical product. This includes:

- branding
- packaging
- warranties
- delivery
- supply of credit.

Branding

A brand is '[t]he public face, usually carefully constructed, of a marketable product, service or even person. The image of a commodity is often supported by a brand identity.'[26] Brands are created to capture a new audience for a product, to reposition an organisation or existing brand, or to offer something new to the market.[27]

Brand architecture refers to an organisation's approach to the design and management of its portfolio of brands.[28] In order to develop a powerful brand, management of an organisation needs to identify a clear set of brand attributes, also referred to as a brand personality[29] which is the characteristics, expressed as adjectives, associated with a particular brand. Examples of characteristics that an organisation may want to develop in relation to its brand include: exciting, competent, likeable, sophisticated, sporty, sincere, traditional or modern. Nike's slogan of 'Just do it' encapsulates this concept.

Brands are often structured into brand families with an umbrella brand and a number of sub-brands. The sub-brands can often have their separate identities and can compete in different markets or even with one another.

The benefits of a strong brand include the following:

- A successful brand name can become associated with a particular category of products.
- Powerful brands attract customers and build customer loyalty.
- Strong brands assist in building a corporate image, which makes it easier to introduce new products.
- Branding can assist in segmenting the market, i.e. an organisation can have different brands aimed at different segments in the market – for example Shoprite Holdings Ltd which comprises, amongst others, Shoprite Checkers supermarkets, Shoprite supermarkets, Checkers supermarkets, Checkers Hypers, and Usave stores.

- Brand names and trademarks offer legal safeguards for unique products, features preventing competitors from copying these. Features can relate to the design of a product that make it stand out from the competition, such as those possessed by Rolex watches or Porsche cars; alternative, they can refer to design or technical features that are superior to those of the competition, such as the integration offered between different Apple products.

Brand awareness is critical as customers will not consider a brand if they are not aware of it. Brand awareness refers to the degree to which customers can recognise, as well as recall and identify, a particular brand under different circumstances. It aids customers in the understanding of the relationship between particular products and accompanying product or service categories. It ensures that potential customers know which of their needs are satisfied by a brand through its product offering.

Key brand variables

The brand name refers to the written or spoken linguistic component of a brand, while brand identity relates to the external manifestation of a brand, which includes elements such as the name, trademark and visual appearance. Brand trust is important as it is the inherent faith that customers have in the market. Finally, brand parity relates to perceptions in the marketplace that some brands are the same, meaning that shoppers will make purchases within a group of accepted brands as opposed to insisting on one specific brand. Brand parity is in the eye of the beholder, for example when a consumer will settle for either Omo or Surf when they need washing powder. These two brands are seen as equal in the eyes of the decision-maker.

MOST TRUSTED BRANDS[30]

According to a consumer survey, 10 of the most trusted brands in South Africa are:

1. FNB
2. Pick n Pay
3. Standard Bank
4. Absa
5. Woolworths
6. Capitec Bank
7. Shoprite
8. Nedbank
9. Old Mutual
10. Vodacom

Branding strategies

In building a brand, an organisation has a choice of a number of strategies that it can use in order to build its brand in the marketplace. No strategy is necessarily better than any other as it will depend on the nature of the market and products being offered by the organisation. Organisations in the same markets can use completely different branding strategies on similar products. The ranges of branding strategies available to organisations include the following:

- Promoting the company or organisation's name where a strong brand is built around the organisation's name: Apple and Microsoft are strong examples of this.
- In the case of individual branding, a company may have a number of products, each with its own brand, and these may even compete with one another in the marketplace. The Hyundai motor corporation of South Korea has two brands that compete against each other, namely Hyundai and Kia. Each has its own individual brand which competes in the same target market.
- Attitude branding involves representing a larger feeling not automatically connected with the product or its consumption. Nike's slogan, 'Just do it', is an example of this.
- Every organisation dreams of creating iconic brands, which are brands that become part of the expression of their personal identity. A brand regarded as iconic in today's marketplace is Apple,[31] which involves almost ritualistic behaviour in purchasing and using of their products, i.e. people will queue for hours to purchase the latest Apple product. Apple received over two million pre-orders for their iPhone 5 within 24 hours.
- No-name branding is when a product does not have a brand, but becomes a brand in itself and is usually perceived as cheaper than its competitors. Large supermarket chains such as Shoprite and Pick n Pay make extensive use of the strategy.
- A number of companies have started to use no-name branding where they create packaging imitating generic no-name brands; however, the aim is to make themselves more conspicuous through the absence of a brand name. (Refer to the case study at the end of this chapter.)
- In the case of derived brands, the supplier of a key component used by a number of suppliers of an end product aims to ensure its own position by promoting that component as a brand in its own right. A powerful example is the computer chip maker Intel™, which positions itself in the PC market by PC makers placing the sticker 'Intel Inside' on their computers.[32]
- Brand extension and brand dilution involve using an existing strong brand name to launch new or modified products. Many famous people have launched fashion lines and perfumes such as Lady Gaga, who launched her 'FAME' perfume.
- Social media brands are digital brands based on the Internet through which a brand is built and enhanced through interactions with the followers using various social media platforms[33] such as Twitter, Google, YouTube, LinkedIn, Flickr, etc. People such as Katy Perry, Justin Bieber, Barack Obama and Lady Gaga have powerful social media brands with between 40 and 50 million followers on Twitter.[34] However, the reality is that in this age of the Internet, each of us has a social media brand.
- An organisation makes use of multi-brands when it deliberately launches totally new brands in apparent competition with its own existing strong brand, in order to gain a greater share of the market.
- A private label brand is when a retailer that has a strong identity launches its own brand in order to compete with other brands in the market. (Refer to the case study at the end of this chapter.)

- Individual brands treat the individuals and their careers as the products to be branded. Personal branding treats persons as brands. David Beckham is probably one of the most recognisable brands on the planet; however, he is being rivalled by the likes of Lionel Messi, Cristiano Ronaldo, Neymar and Ronaldinho.
- Crowdsourcing branding uses 'collective intelligence gathered from the public and uses that information to complete business-related tasks.'[35] The Wikipedia brand is based on this model, its the unpaid volunteers write its articles anonymously.
- Nation, place and destination branding is when an image and distinctive characteristics are created to promote the product, as well as the products stemming from it.[36] The marketing around the FIFA 2014 Soccer World Cup in Brazil is an example of this as it made the world aware of Brazil as a tourist destination, as well as of the products produced in Brazil.

Packaging

Mason and Rath[37] define packaging as 'the use of containers and wrapping material, plastic decoration and labelling to protect the product to help and promote its role, and make it convenient for the customer to use the product.' Although packaging has always served a functional purpose in that it protects goods and holds them together as they move to the industry's distribution channel, it is also considered to be a critical element of the marketing process.

Packaging serves a number of important functions, which include containing products, protecting products, promoting products, storing products and enabling their use. Packaging also creates a sense of convenience; however, at the same time, a greater emphasis is placed on recycling and reducing the environmental damage of packaging.[38]

The first function of packaging is to contain and protect products so that they can be transported and stored effectively and safely. Packaging keeps products together in the case of liquids or powders, but also protects products from damage while they are being transported and displayed. Packaging prevents the products from breaking, becoming contaminated, evaporating, spillage, spoilage, light, heat, cold, infestation, and a variety of other conditions.[39] Think of examples of packaging in your home environment; think about the various ways in which milk is packaged, for example.

The second function of packaging is to promote a product by differentiating it from competing products through the use of specific materials, colours, shapes and designs. Packaging also informs customers about important information, such as the 'Best before date', 'Sell by date', ingredients, storage instructions, recycling information, information on how to use the product, etc. The South African Consumer Protection Act prevents sellers from misleading consumers in terms of the claims that they make about the product. Producers are also required to indicate ingredients or components that could possibly harm a user. In the case of foodstuffs, manufacturers need to indicate the ingredients, additives, as well as any possible allergens. Information also needs to be presented in plain and understandable language.[40] Nando's is an example of a company that uses (sometimes controversial), messages that are short and effective, such as 'Devilishy hot Peri-Peri' and 'Hey Suarez chicken tastes better than Ivanovic'. These messages form part of their promotions campaign but are also incorporated into the packaging part of the product.

The third function of packaging is the storage, use and convenience of products. Wholesalers and retailers require products that are easily transported and stored and can fit onto the shelves efficiently. Consumers also require products that are tamper- and child-proof and that can be can be handled, opened and closed easily. Packaging utility can be used to segment particular markets – for example, foodstuffs such as biscuits and nuts that are packed into 'snack packages' are specifically aimed at mothers with children.

The fourth function of packaging refers more to the emphasis being placed on recycling and reducing the environmental impact of packaging. There is a movement that strongly encourages companies to use packaging that is biodegradable or re-usable. At the same time, environmentally friendly packaging also creates a unique marketing opportunity as there is a distinct demand in the marketplace for products that have environmentally friendly packaging. Many organisations are now using packaging that can be recycled, as well as using biodegradable materials that are environmentally friendly. Consol Glass uses this as a key aspect in the marketing of their products arguing against the use of plastics.

Product warranties

Whilst packaging aims to protect a product, warranties are aimed at protecting the consumer of the product. A warranty or guarantee is a confirmation of the quality, or level of performance, of a good or service. A distinction is made between an **expressed warranty**, which is a written guarantee, and an **implied warranty**, which is the unwritten guarantee that the good or service will meet the purpose for which it was sold.[41]

The South African Consumer Protection Act legislates certain warranties in that the Act guarantees the 'right to fair value, good quality and safety'. This means that the consumer has the right to safe, good-quality goods that:

- are reasonably suitable for the purposes for which they are generally intended
- are of good quality, in good working order and free of any defects
- will be useable and durable for a reasonable period of time
- comply with any applicable standards set under the Standards Act 29 of 1993, or any other public regulation.

If the goods do not meet any of these requirements, the consumer is entitled to return the goods within 10 working days and receive a full refund (less certain levies), or receive a replacement of the defective goods.

Delivery

A great deal of value is also derived from the way in which a product is delivered to the consumer. The less effort that the consumer needs to exert in obtaining a product, the more the product is worth in value to the consumer. Think of yourself buying beverages and food on campus that is often more expensive and sometimes of an inferior standard to the beverages and food that is available off campus, simply because it is more convenient. Similarly, online retailers have made huge inroads into the markets serviced by traditional retailers, such as the iTunes music store and stores such as Kalahari.com and takealot.com that sell just about anything.

Credit

Value can also be added to a product if it is offered on credit, thus enabling the consumer to satisfy his/her immediate needs without having the necessary funds available. Very few people would be able to afford a car, house or even furniture if the suppliers of these did not offer credit arrangements.

The industry and product life cycle, and its impact on product decisions

Both an industry and a product have a particular life cycle that impacts upon the marketing process and approach. Just like organisations, industries evolve and develop over time.[42] An industry is 'a particular form or branch of economic or commercial activity'.[43] The life cycle of a particular industry is affected, to a large extent, by innovations and technological innovations and, in turn, affects the potential profitability amongst competitors. Michael Porter[44] developed one of the most widely accepted models of the industry life cycle. Refer to Figure 6.4 below.

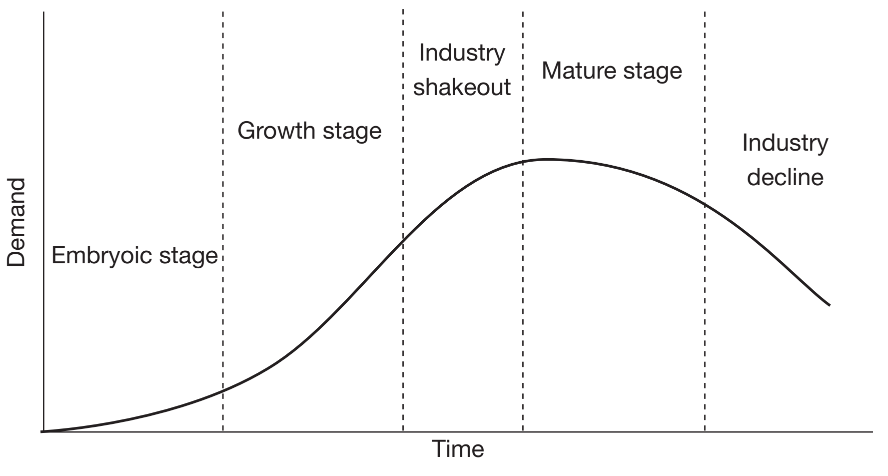

Figure 6.4 *Porter's five stages of the industry life cycle*[45]

The cell phone industry in South Africa will be used to illustrate this model. The embryonic stage is when a product is introduced to the market that is revolutionary in that it is something that has not been seen before and is often monopolised by one or two organisations. There are many risks at this stage, such as technical and design problems, as well as limited distribution and marketing. The marketplace often requires a paradigm shift before the industry and its products will be accepted. The first cell phone was introduced by Motorola in 1973, which weighed 1.1 kg.[46] The first cell phones were introduced to South Africa by Vodacom.[47]

The growth stage comes into play if the new product is successful and sales start to grow and new competitors enter the market. Competition is predominantly through product innovation and intense marketing. In the mid-1990s, new networks were created, smaller cell phones were introduced and a number of competitors entered the industry, such as Cell C.[48] Vodacom's first mover advantage is an established fact. It still holds about 50% of the market share in South Africa with MTN, its closest competitor, holding just more than 30%.

During the maturity stage, the industry production has been standardised, new and updated products are introduced regularly, and these are widely available with well-established distribution channels. Cost increasingly drives competition with the result that production of goods takes place in low-cost locations, such as China and other countries in the Far East, where salaries are considerably lower. The South African cell phone market is currently in the maturity phase with cell phone outlets widely distributed across the country and competition increasingly taking place on lowered call rates.

During the decline stage, there is a drop in demand for the products provided by the industry. It eventually disappears or needs to reinvent itself. The landline industry is in decline in the South African market due to the growth and development of the cell phone industry. There are pertinent questions being asked about whether the landline industry in South Africa in its current form will be able to survive the onslaught of the new competitors.

The product life cycle is similar to the industry life cycle (albeit on a smaller scale), in that it is also describes the cycle of birth to death; the product life cycle, however, is generally a lot shorter than the industry life cycle.

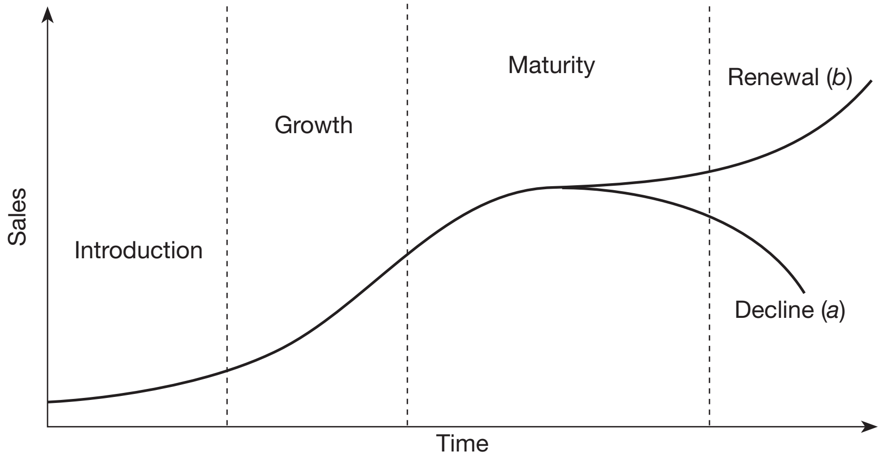

Figure 6.5 *The product life cycle*[49]

During the **introduction stage**, a new product is introduced to the market. Production and marketing costs are high, there is a small market, sales are limited and the price is often high. An example would be a new cell phone model that has not yet been widely sold in the market and is often quite expensive.

As sales increase, the product enters the **growth stage** that is characterised by a robust growth in both sales and profits. The organisation benefits from economies of scale in production, resulting in increased profits and increased marketing. An example is when the new model of a cell phone starts to become popular and there is an increased demand for it. You will usually see this advertised on a range of media platforms.

The **maturity stage** occurs when a product is well established and the organisation aims to maintain its market share. Competition is high and it becomes necessary to consider modifications or improvements to the product with intense marketing and promotions. An example of this is when a model of cell phone is well established and offered on a wide range of contracts, and a new model to succeed the current one is often on the horizon.

During the **decline stage**, the market for a product starts to decrease as the market becomes saturated. This means that all the customers who are going to buy the product have done so already, or a new product has been launched that has made it redundant. However, sometimes a product may move into a **renewal stage** when the organisation finds a new way to market it, or there is an unexpected renewed demand for the product. Cell phones have short life spans, on average less than two years, and are replaced by newer models with better features.

New product development process

An eight-stage model can be used to describe the process through which the development of a new product passes.[50] The purpose of each stage is to determine whether the product idea should be persevered with or discontinued. The eight stages are illustrated in Figure 6.6.

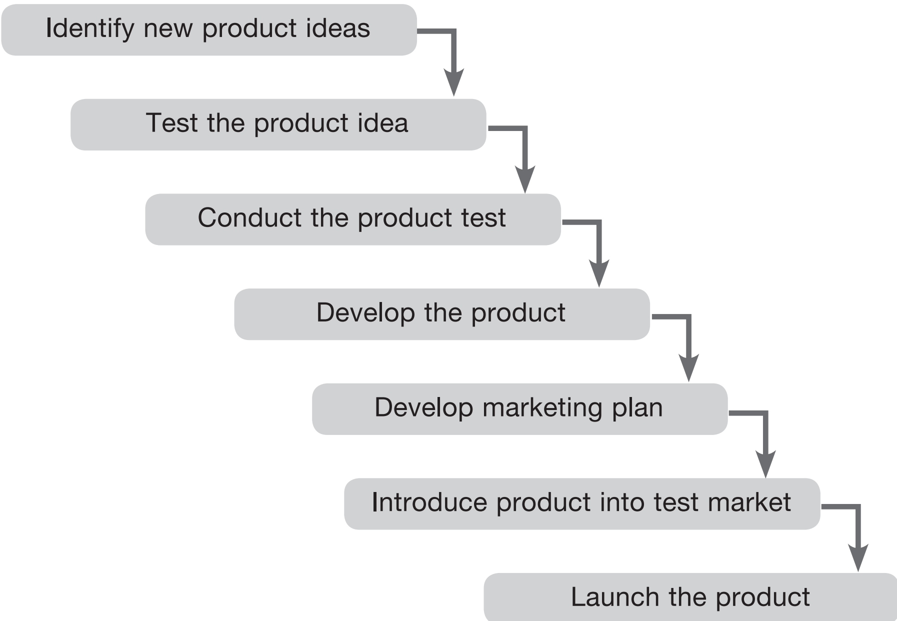

***Figure 6.6** The product development process*

The eight stages function as follows:[51]

1. During the **idea generation stage** new ideas are obtained from various sources such as the organisation's research and development department, market research, trends in the marketplace, employees, customers and even competitors' products.
2. The **idea screening stage** aims to exclude unrealistic ideas so that the organisation does not waste resources on developing products that are unlikely to be successful in the marketplace.
3. During the **concept development and testing stage**, a prototype of the product is developed and decisions are made about the design, features and benefits of the new product. Possible target markets, together with their features, are also identified.
4. The **business analysis phase** is when the organisation considers operational issues, such as the selling price of the product, estimated sales volume and projected profitability.

5. During the **beta testing and market testing phase**, a prototype of the product is tested on a sample from the proposed market/s to gauge their reaction. Focus groups are often used to test potential customers' reactions to the new product.
6. In the **technical implementation phase**, the product is finalised together with all the operational requirements of putting the product into production in the organisation.
7. The product is launched during the **commercialisation stage**, when the product is put out into the marketplace accompanied by advertisements and various forms of promotion.
8. The final stage is the **new product pricing stage**, in which the price is decided based on factors such as the perceived value of the product, competitor product prices and the prices of other products in the same product range.

CASE STUDY: PnP'S HOUSE BRANDS[52]

Over time, Pick n Pay has developed a range of four house brands:

PnP house brand

Figure 6.7 *PnP's house brand*

The PnP house brand product range is based on their statements 'There's a PnP product for whatever you need…' and that 'Our range of PnP products means that quality, affordability and choice are always within your reach'. Further to this they give a number of undertakings in the form of 'Our promise':

- Stay with quality and save on price.
- The PnP range offers you quality products at lower prices than you'd expect. For almost everything on your list, there's a great value PnP product to try. So look out for our colourful PnP branded products on its shelves.

- Guarantee: We are 100% sure about the quality of our products. If you are not 100% happy, you can return them for an exchange or full refund.

PnP no name brand

Figure 6.8 *PnP's no name brand*

The second range is the PnP no name range based on the concept of 'When you need to monitor your budget…' and 'For basics that fit your budget, the place to start is with Pick n Pay's no name products'.

They make the following claims regarding their no name range, namely:

- Tried and trusted everyday prices
- Keep within your budget with PnP no name products. All of your household essentials and everyday basics are priced just right, with no frills. Look for our blue and white products on the shelf.

They also supply a guarantee here, namely that '[w]e are 100% sure about the quality of our products. If you are not 100% happy, you can return them for an exchange or full refund'.

PnP Finest

Figure 6.9 *PnP's Finest brand*

The third range of PnP's house brands, 'PnP Finest', moves away from the other end of the spectrum, with the catchphrases 'Fine dining comes home …' and 'Introducing PnP Finest, a journey to be relished!'

They make the following claims about the PnP Finest range:

- The experience of PnP Finest is a journey to be relished. We have taken flavour influences from all around the world, and blended combinations from the world's richest traditions, so we can bring the best of fine dining flavour home for our customers.
- The premium ingredients for our PnP Finest products are very carefully selected at only the most authentic sources, such as Kalamata olives from the Greek Peloponnese, organic coffee from Antigua, fine Belgian chocolate and real South African Rooibos. So you can be sure that every item in the range is incredibly special, and extremely superior in every aspect.
- The range will also expand seasonally. You'll find new innovations popping up on a regular basis, and there'll always be something exciting for our most discerning customers.

PnP Organic

Figure 6.10 *PnP's Organic brand*

The final house brand is 'PnP Organic' that has the catchphrases 'When you need to be completely natural …' and 'When something earns our PnP Organic label, you can be sure it's been independently and officially certified organic and food safe'.

PnP makes a number of undertakings relating to this range in the form of 'PnP organic facts':

- No artificial food additives or chemicals
- No synthetic pesticides, herbicides or fertilisers
- Supports local farmers
- No genetically modified (GM) ingredients or products
- No irradiation
- Independently certified organic and food safe.

They further state that: 'This all means that when you buy PnP Organic, you know it is good for you and your environment. The range is constantly evolving and expanding to offer you more to choose from. Look for them by name'.

EXERCISE

1. Describe the product mix for PnP's house brands.
2. PnP clearly believes there is value in their brand. What branding strategies are they using here?
3. What are the key ways in which PnP has added value to each of its product lines?
4. Where would you plot the fast-moving consumer goods (FMCG) industry in South Africa, in terms of the industry life cycle?
5. Although each of the house brands constitutes a number of separate products, if you considered each of these as a broad product category, where would you place each of these in terms of the product life cycle?

Summary

Products differ in their degree of tangibility that varies for a physical good, a service, or even an idea, including the environment in which a product is sold, presented or displayed. An important distinction can also be made between consumer and industry or business products. Kotler's model distinguishes between five product levels in this regard, namely the core benefits, generic product, expected product, augmented product, and the potential product. Value is added at each of these levels, which serves to satisfy the needs, wants and demands of the consumer. An organisation thus needs to make decisions regarding the width, length, depth and consistency of its product mix in terms of which of the market's needs they will aim to satisfy. Decisions also need to be made at the augmented product level such as branding, packaging, warranties, delivery and credit.

Both products and industries, like living organisms, have a life cycle. This necessitates making changes to the product line and mix through product modification, repositioning and extending or contracting the product lines. In line with the product life cycle, the new product development process must be understood as the precursor to the product life cycle; in fact, these two concepts are invariably linked.

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DISTRIBUTION DECISIONS

CHAPTER 7

LEARNING OUTCOMES

After studying this chapter you should be able to:

- understand the place of the supply chain and the role of intermediaries in the distribution channel providing value to the customer
- analyse the distribution activities performed in the distribution channel
- illustrate with the aid of figures, how a product is pulled and pushed through the distribution channel
- differentiate between the different intermediaries in the various South African distribution channels
- understand why hybrid channels and vertical marketing systems are used in distribution channels
- show how the factors involved in selecting a suitable distribution channel are used to develop a distribution channel for a product or service
- discuss the merits of channel leadership or captaincy, and how channel conflict is handled in the distribution channel
- explain why marketing logistics is such an important factor of the distribution decision
- discuss the steps involved in managing a distribution channel.

Introduction

To manufacture a product or service and then to deliver it to the customer, is a comprehensive process that requires building relationships with a number of role-players in the supply chain. These role-players collectively make up the supply chain of an organisation. Broadly speaking, we can say that the supply chain consists of organisations that are involved, upstream or downstream from the manufacturer, each of which plays a role in eventually delivering a product or service to the customer and thus create value for the customer.

Upstream and downstream activities

The supply chain activities

Upstream activities include all the activities performed by suppliers of raw materials, capital equipment supplies such as manufacturing equipment, component manufacturers (i.e. in the motor industry), and financing. These organisations and the support activities are actively involved in helping to create the end product for the customers. Downstream activities include the well-known intermediaries such as wholesalers and retailers that deliver the final product to the customer. There are also reverse logistics in the supply chain. This refers to all the unwanted, damaged and outdated materials, products and services being returned to the source of supply.

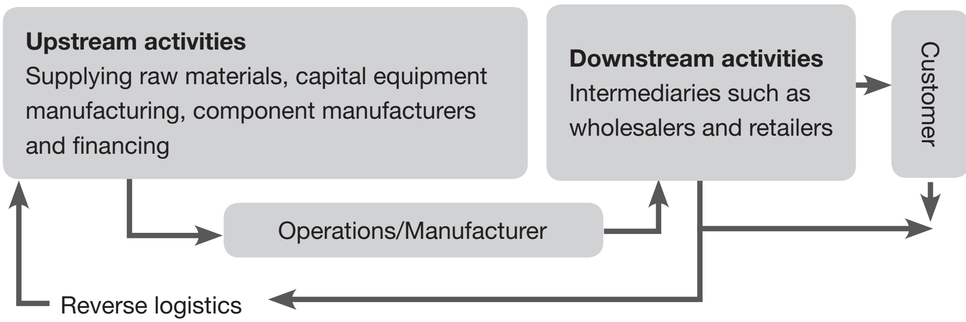

Figure 7.1 *The supply chain of an organisation*[1]

Refer to Figure 7.2 to get a better understanding of the functions of the supply chain. The supply chain of a cereal manufacturer such as Bokomo or Tiger Oats, might look like this:

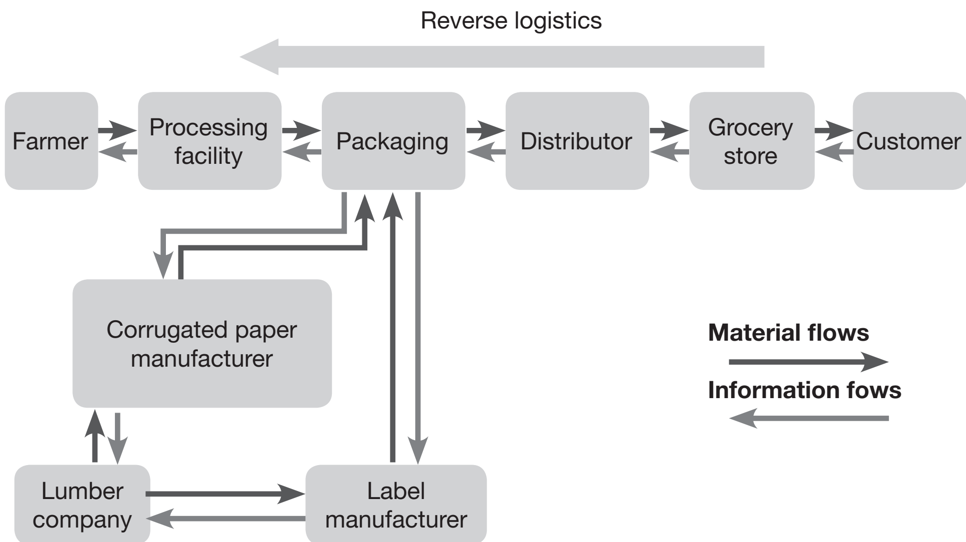

Figure 7.2 *The supply chain of an organisation*

You can see in Figure 7.2 that the upstream activities consist of farmers, and the suppliers are usually further upstream; namely the transport companies, banks, co-operatives, etc. and the processing facility. Activities involved in the packaging process, include support activities delivered by the lumber organisation that feeds the raw material (wood), to the corrugated paper manufacturer, who provides the paper boxes in which the cereal is packaged. The manufacturer of the labels is also involved in a supporting role. Once the cereal boxes leave the factory, the product is distributed through a wholesaler to a retailer and then sold to the customer. Reverse logistics refers to the flow back from any of the role-players in the supply chain back to a supplier. If, for example, the cereal containers are defective, they would be returned to the supplier to be written off.

Traditionally, marketing literature has focused more on the downstream activities of the supply chain. The distribution channel, also called the marketing channel, takes the product from the manufacturer and delivers the product or service to the final consumer. In this process, wholesalers, retailers and other intermediaries are used to present a product, service or idea to the final consumer. A gap usually exists between the manufacturer or provider of a product or service and the final consumer. Distribution activities are therefore the method through which the gap is closed and through which the product or service is made available to the final consumer.

PRACTICAL EXAMPLES OF DISTRIBUTION

- Woolworths Food Stop stores at Engen petrol filling stations sell groceries such as bread, milk, yoghurt, cheeses and other convenient foods to their customers.
- A university such as UNISA, electronically distributes study guides and related study materials to its students.
- Manufacturers sell to stores such as Pick n Pay, which sell and distribute goods to final customers.
- News media such as e-tv, M-Net, SAfm and Sunday Times distribute media items to their readers, listeners and viewers.
- Non-profit groups such as the Society for the Prevention of Cruelty to Animals (SPCA) and churches, distribute a service to their supporters or congregations.

The basic distribution decisions

Distribution decisions centre on two broad activities of equal importance, namely channel management and physical distribution management (refer to Figure 7.3 on the next page).[2]

Channel management concentrates on the transaction flow of the product or service through the distribution channel. The most optimal distribution channels have to be used to make the product available to the consumer. Channel management also includes the buying and selling activities, and is concerned with how many organisations are involved in distributing the product. For example, Coca-Cola uses supermarkets, wholesalers, cafés and convenience shops as distribution outlets to make its soft drinks available to consumers. By using these and other outlets, Coca-Cola is delivered virtually to the consumer's doorstep. It requires very little effort for the consumer to buy this product, making Coca-Cola a convenience product due to its extensive distribution coverage (refer to the planning section of this chapter).

Physical distribution management, also called marketing logistics, focuses on the physical flow of the product from the factory to the distribution outlet, or to the final consumer. For example, Coca-Cola uses road transport (delivery vehicles) to move cases containing 24 340 ml-Coke tins in a truck that carries thousands of tins at a time. This truck leaves from an Amalgamated Bottling Industries (ABI) bottling plant and covers a fixed route to all hypermarkets, supermarkets, cafés, schools and restaurants in a geographical area.

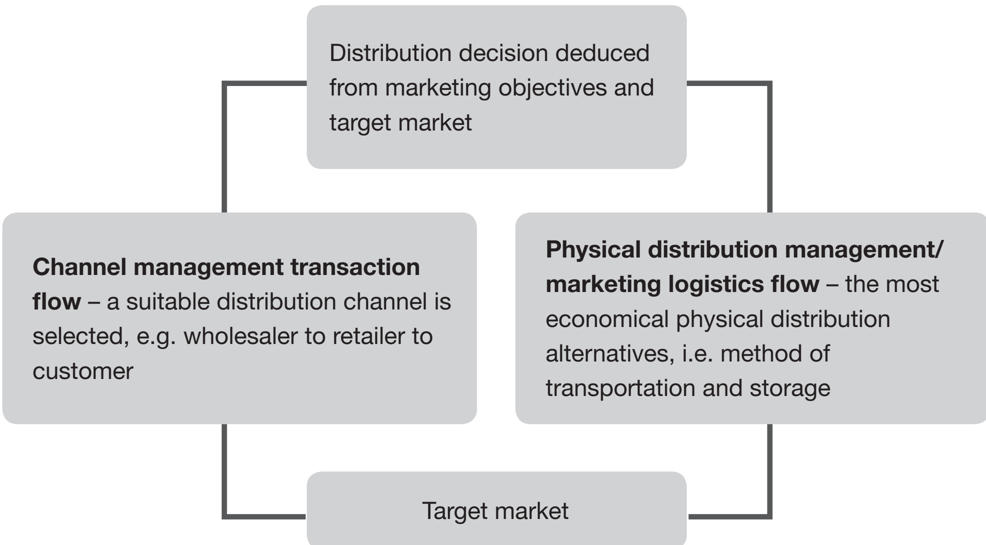

Figure 7.3 *The basic distribution decisions*[3]

Value activities performed in the distribution channel

The role-players in the distribution channel all work together to provide value to the customer. Value can be seen as the effort to provide a product or service in the most cost-effective way to the customer. In this process of creating value, certain activities need to be performed:

Buying and selling

The organisations ('members') involved in the distribution channel usually have to buy the products, thereby taking ownership of the product, to resell it further down the supply chain.

Risk taking

Any distribution channel member involved in buying and selling is taking on a risk, because the product could be damaged or stolen, or it could become obsolete, lowering the value of the product and resulting in a loss to the owner.

Transportation

By transporting a product, place value is added, making it possible for customers to buy a product at the local grocery shop, even if the factory is thousands of kilometres away.

Storage

Storage of a product creates time value by making storage at warehouses possible, which means that the product is always available. For example, the demand for maize meal in South Africa is fairly consistent throughout the year. However, maize is only harvested in the period between May and August in certain areas of the country, and needs to be stored in various forms by the distribution channel members. Members involved in the storage of this product include farmers, co-operatives, millers, wholesalers and retailers.

Rearrangement

Maize meal is one of thousands of products stocked by a supermarket. Different products must be accumulated and different assortments must be developed to fit the tastes of the consumer. Cake flour is packed into 50 kg bags but the ordinary consumer does not want more than a 500 mg or 2 kg bag. Distribution channel members such as wholesalers and retailers, bridge the quantity and ownership gap between the manufacturer and the consumer by, for example, repackaging cake flour into smaller quantities.

Creating possession value for the consumer

A growing trend in South Africa is for customers to use credit facilities such as a bank overdraft or credit card. By providing this service, the financial institution is making it easier for customers to buy products and is therefore creating value for the customers. Another kind of financing is when the retailer provides a shopping card to customers to buy food and clothing from stores such as Woolworths and Edgars. This credit facility adds value to the process of buying or selling of products and services as it makes immediate access to the product or service possible. Banks and specialised finance companies such as Wesbank, help consumers to buy more expensive products such as cars.

Providing information to the consumer

Facilitating the decision-making process through information, provides information value to the potential buyer. Members of the distribution channel help to identify the target market and to communicate information about the product or service to the customer. Motor car magazines such as Car and Drive carry advertisements placed by manufacturers, and do their own reviews of new models; hence making it easier for the customer to buy a car.

Ensuring a uniform quality standard of product

To ensure as little risk to the consumer as possible, products need to be of a uniform quality standard. This distribution activity creates value by, for example, giving after-sales service to the consumer in the form of guarantees or warranties. This benefits the consumer by giving him or her a greater peace of mind and less cognitive dissonance about purchasing a product. These distribution channel activities can be grouped together into three broad categories; namely transactional activities, logistical activities and facilitating activities (refer to Figure 7.4 below).

Basic distribution channels

A basic distribution channel can be described as a set of organisations working together to make the final product or service available to the customer. Once a distribution channel has been developed and implemented, it takes on a life of its own as the creation of the channel requires a long-term commitment from the role-players. This is why it is so important to select the right intermediaries as the wrong selection could have disastrous consequences for the distribution channel and all the upstream role-players. An intermediary is either an organisation such as a wholesaler or retailer, or it can be an agent that operates between the manufacturer and the final buyer of a product. They are all members of the basic distribution channel. Intermediaries that form the distribution channel can be divided into two broad categories, namely sales intermediaries and resellers (refer to Figure 7.5 on the next page).

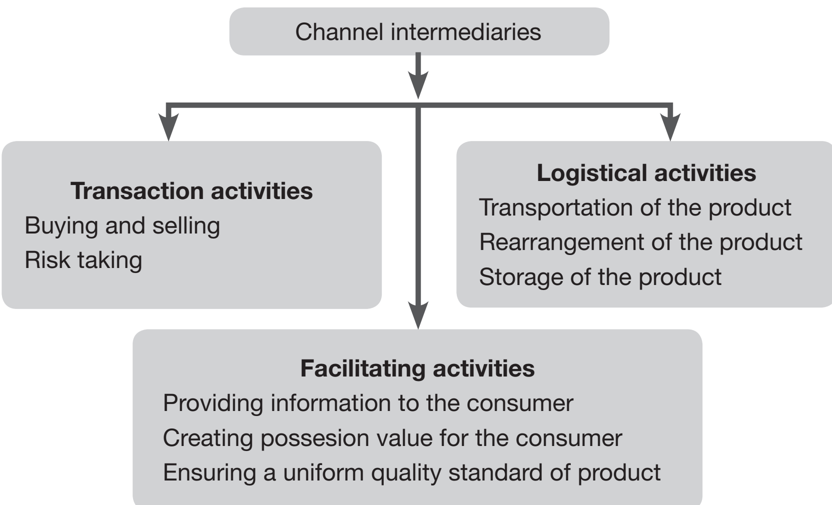

Figure 7.4 *Activities performed in the distribution channel*[4]

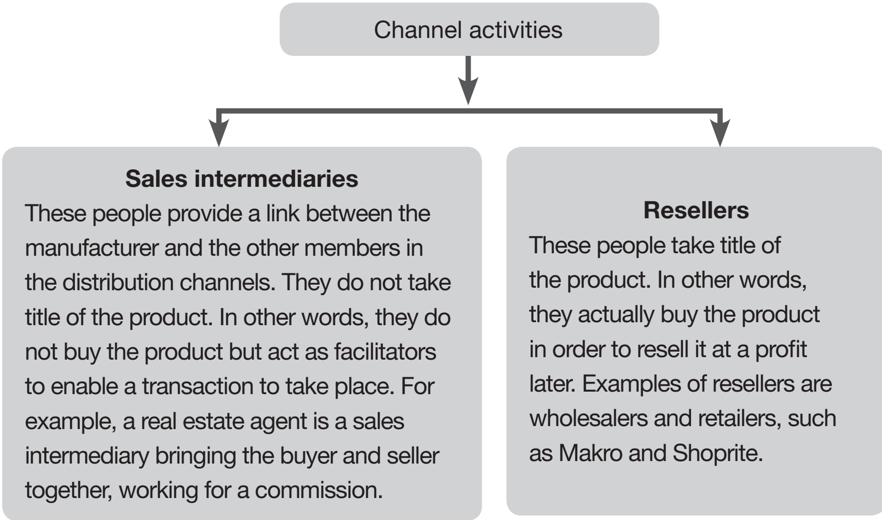

Figure 7.5 *Different types of intermediaries*

A wide range of products and services use distribution channels to distribute their goods. Distribution channels for consumer goods and services are different to those for industrial or business products.

Distribution channels for consumer goods

Look at the different distribution channels used to sell consumer products in Figure 7.6.

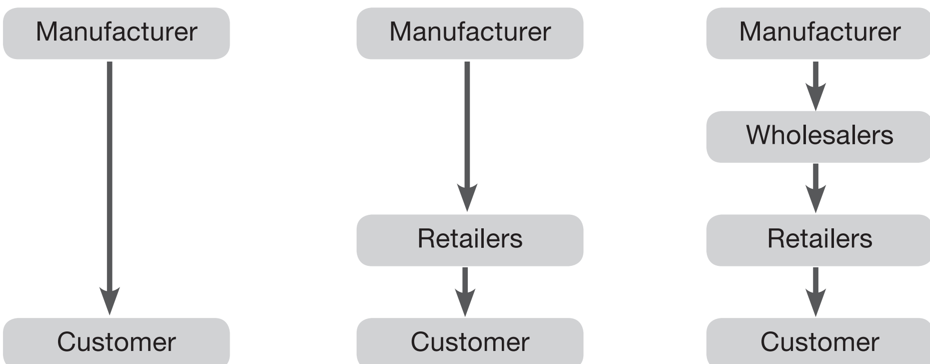

Figure 7.6 *Distribution channels for consumer goods*

The first channel is called the direct channel because the manufacturer or producer sells the product directly to the final consumer. For example, if you buy produce directly from the farmer at his fruit farm stall, you may even have the privilege of being able to pick your own apples or peaches.

The second distribution channel includes a retailer or group of retailers and is widely used in South Africa. The large retailers in South Africa include Pick n Pay and the Shoprite group, of which both have a major share of sales to the final consumer.

The third channel includes a wholesaler and a retailer and was, for almost a century, the most widely-used distribution mechanism in South Africa. It remains the most used channel for smaller retailers.

SPAR

Small businesses such as the SPAR group, a voluntary trade association, was established in 1963 as part of the WG Brown wholesaling group with its Head Office in KwaZulu-Natal. In 1988, SPAR became a wholly-owned Tiger Brands subsidiary, but was unbundled and separately listed on the JSE in October 2004. SPAR operates as a wholesaler and distributor of goods and services to independently-owned SPAR retail grocery stores, Build it hardware stores, and TOPS at SPAR liquor stores. The voluntary group offers retailer members independence and flexibility in its supply chain operations with suppliers.

As you can see from the example above, SPAR is able to compete with large retailing groups such as Pick n Pay. Other examples include the independent retailers such as the local café on the corner, the rural retailer, and township spaza shops. They buy from wholesalers such as Makro and Metro Cash and Carry, both of which are indirect distribution channels because there is no direct contact between the manufacturer and the final customer.

Distribution channels for consumer services

As is the case with consumer goods, consumer services are also distributed using distribution channels (refer to Figure 7.7 below). Services range from purely intangible goods or services, such as the consultation provided by a psychologist, to a situation where the service is partly intangible, like a doctor's appointment that may involve a tangible product such as an injection and a prescription for medicine.

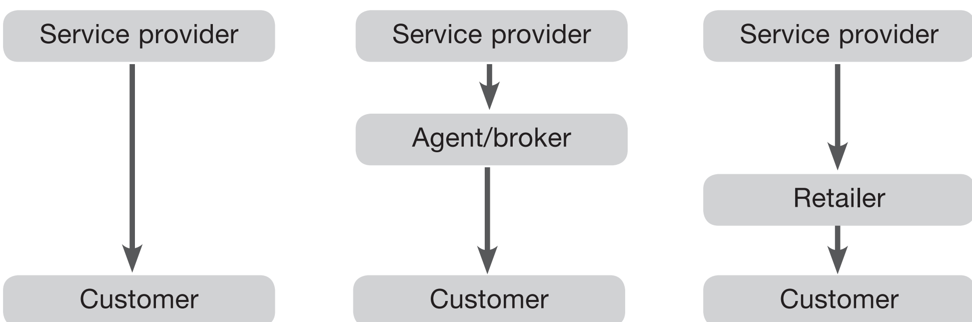

Figure 7.7 *Distribution channels for consumer services*

The first channel for consumer services is also the direct channel and is used by hotels to sell a service (accommodation) on a direct basis to the client. Examples include the Sheraton Hotel in Pretoria and hairdressers such as Hair for Africa. The commercial banks in South Africa also use this distribution channel. When a bank sells services to its customers through a branch, the branch could be seen as a kind of retailer.

The second channel includes an agent or broker who provides the service to the client. Airline and hotel reservations can be obtained through travel agents who provide a service to the client and work on a commission basis. Another example is South African estate agents who obtain 'stock' (the right to sell a house or a flat) and try to match a certain house with a prospective buyer.

The third channel is used where the consumer service is product-related, for example, providing after-sales service on a physical product (for example, a Toyota Land Cruiser). Middelburg Toyota provides the pre-delivery service on the car, as well as follow-up services.

Distribution channels for industrial products

Industrial or business-to-business (B2B) markets use fairly similar distribution channels to consumer products (refer to Figure 7.8 below).

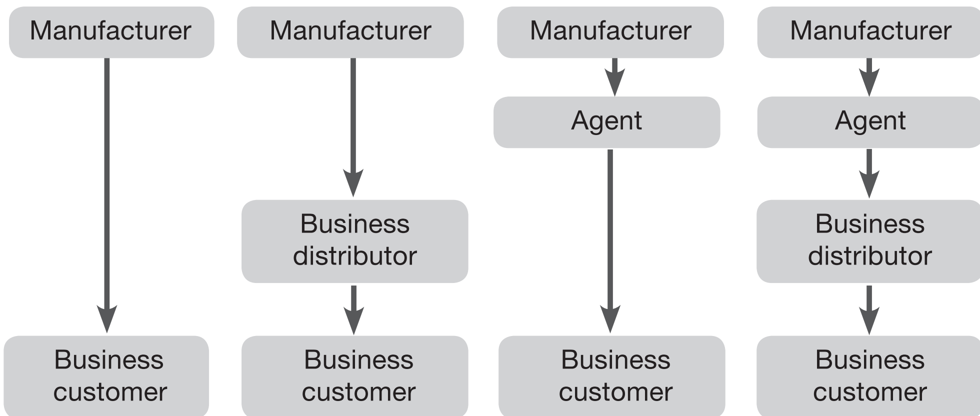

Figure 7.8 *B2B (industrial) distribution channels*

There is also a direct channel where the manufacturer sells directly to the industrial user, for example, Dell, the computer company, which sells directly to the South African government, or to any large company.

The second channel is used when a local manufacturer of industrial equipment appoints business (industrial) distributors throughout South Africa. Examples of products sold through this channel include electric water pumps for the mines and for irrigation on farms.

The third channel is when the industrial manufacturer is small and does not have the capital to develop its own distribution network. An agent is, therefore, appointed to distribute the product. This agent also provides an after-sales service.

The last channel is also used by small manufacturers who introduce a product to the market and use the distribution network of an agent to promote the product to the industrial distributor. Another example of this type of distribution channel is the international industrial manufacturer that appoints a local agent to promote the industrial product inside South Africa.

Multiple channels

Until now, the discussion of the development of a distribution channel focused on the selection of the single best distribution channel to distribute the product or service. The reliance on a single channel strategy allows the organisation to focus all their management efforts in building a more homogeneous and co-ordinated distribution system. What is also of importance is that the organisation limits channel conflict and can provide a better level of customer support.[6]

In a real-life situation, we see that a manufacturer may use multiple distribution channels to distribute a product or service. To use more than one distribution channel is to use multiple channels. A multiple distribution system can be defined as a multi-channel arrangement in which distribution tasks are performed by a combination of different channels.[7] The distribution channels are designed to satisfy the needs of diverse market segments by delivering a variety of product or service offerings.[8] Multiple channels are developed when a manufacturer or supplier of a consumer product, industrial product or a consumer service uses more than one channel at a time to sell a product.[9] Multiple channels may be a response to shifts in customer shopping behaviour so as to increase market share, the widening horizon of international markets which necessitates the use of additional distribution channels, and the advent of e-commerce (selling over the Internet) as a new, cost-effective distribution alternative.

> **DISINTERMEDIATION AND RE-INTERMEDIATION**
> The concept of disintermediation and its opposite, namely re-intermediation, are important in the proper functioning of supply chains. Disintermediation means the removal or cutting out of some of the intermediaries in the supply chain. In the past the traditional downstream distribution channel for grocery products was the channel manufacturer – wholesaler – retailer and customer. In the case of the large food retailers, this dominant group in the distribution channel decided to cut out wholesalers and to buy directly from the manufacturer. More recently, another form of disintermediation occurs with some manufacturers using e-commerce to sell directly to the final customer, therefore cutting out wholesalers and also some retailers. Disintermediation occurs especially in the fields of selling books (for example Kalahari.com); in the computer industry (for example Dell computers); in the travel agent business where most airlines are selling online tickets to passengers; and in the renting of videos and movies that are today sold by organisations such as DSTV.

Re-intermediation occurs when intermediaries were left out of the supply chain and then they are re-introduced into the supply chain. An example of this is Dell computers; they realised that selling directly online to the final customer limited the market, and subsequently opened up some retail stores in various part of the world.

There are obvious benefits from using multiple distribution strategies. Firstly it means that the organisation can adapt better to changing customer needs and shopping patterns. Secondly, organisations with a wide number of product lines benefit because they carry a range of products that are too broad to be marketed through a single distribution channel. It is unlikely that a single channel type will be optimal for all products in its product range. Finally, the availability of additional channels enables the organisation to focus more precisely on specific niche target markets, thereby improving competitiveness and penetration in the market.

Multiple distribution channels may place conflicting demands on the organisational resources such as capital, personnel, products and technology. Smaller manufacturers may find it difficult to supply enough personnel and money to ensure the smooth functioning of every distribution channel. This may result in conflicts which may reduce the customer satisfaction levels.

AN EXAMPLE OF MULTIPLE DISTRIBUTION CHANNELS

The manufacturer of Panado, a general painkiller, uses more than one channel to distribute the product. The product can be bought in Shoprite and it is also distributed through a wholesaler to any retail pharmacy and to SPAR. The product can also be directly dispensed by a General Practitioner (GP).

Vertical marketing systems (VMS)

Until now, we have discussed the distribution channels and the intermediaries operating in these channels as individuals operating independently in the system. If you work for your own interest, it could be detrimental towards the smooth functioning of the whole distribution channel. This is why vertical marketing systems were developed. A vertical marketing system can be described as a special kind of distribution channel where the various channel members are working closely together so as to obtain the best operating efficiencies for the whole channel.[10] The optimum degree of co-ordination and control in the VMS is obtained through one of three mechanisms:

1. Ownership of the different levels of the distribution channel
2. Contractual agreements between channel members
3. The market power of one or more of the channel members

Ownership of different levels in a distribution channel implies that a channel member owns the other members of the channel. This is called a corporate VMS which can be useful in a situation where the manufacturer also owns the retailing outlets through which its products are sold. This ties in with another strategic management aspect, namely that of vertical integration. When the manufacturer owns the wholesaler and retailer through which it sells its product, then it is called **forward vertical integration**. The opposite is also true, if the retailer owns the manufacturer and the manufacturer delivers products exclusively for the retailer, then it is called **backward vertical integration**.

Contractual agreements between independent members imply that the different levels of intermediaries in the distribution channel work together on a contractual agreement basis to obtain economies of scale. One of the most common examples of a contractual agreement VMS, is a franchising agreement. Franchising is a distribution system that enables the franchisor to reach a very wide target market through the efforts of the contracted business. It provides profitable opportunities for small and medium enterprises (SMEs), where the owner (franchisee) is prepared to work under the guidance of a franchisor.

Franchising is a business arrangement whereby a company or individual (the franchisor), grants an independent party (the franchisee), the right to sell the products or services of the business according to guidelines set down by the franchisor. The franchisee uses the company's name, goodwill, products and services, marketing procedures, expertise, systems and support facilities to sell the product or service. In exchange, the franchisee pays the business an upfront fee and ongoing management service fees (or royalties), as set out in the franchise agreement.

FRANCHISING IN SOUTH AFRICA[11]

Franchising started in the United States of America. The first franchise in South Africa started in the mid-1960s with the opening of the first Steers restaurant. The majority of local franchises used ideas developed by South African entrepreneurs during the long period of economic isolation under sanctions. The result is that, unlike in most other countries, most South African franchises are adapted to the demands of local consumers. There are over 550 franchised brands and close to 30 000 franchised outlets with food franchises still making up the majority of franchises at about 30% of the total franchise market.

About 40% of franchises are located in Gauteng, as this is the economic powerhouse of the country. Petrol stations account for the biggest proportion of franchise turnover in South Africa, followed by fast-food franchises (for example Wimpy, McDonald's, Steers and KFC), and retail convenience stores (for example Pick n Pay family stores).

The three basic types of franchises operating in South Africa are listed on the next page:

- **Manufacturer franchises** in which a manufacturer such as Toyota South Africa, gives the right (licensing agreement) to an independent dealer to sell its range of cars, subject to certain conditions.
- **Manufacturer to wholesaler franchise** such as Amalgamated Beverage Industries (ABI) selling Coca-Cola under licence from Coca-Cola in the United States of America.
- **Service sponsor franchise** where the service enterprise licenses a retailer to provide a specific package, such as a delivery system for fast food, for example Wimpy, Steers, Nando's and McDonald's.

The market power VMS, also called administered VMS, depends on the sheer authority of one of the members and their buying power to ensure co-operation in the distribution channel. The large retailers such as Shoprite and Pick n Pay are examples of the power of administered VMS at work in South Africa. This also ties in with the concept of channel leadership which is discussed below.

Channel conflict

Channel conflict is described as the situation where one intermediary perceives another intermediary that sells the same product as trying to injure or ruin the original intermediary.[12] If we look at multiple channels, we see that channel conflict occurs when one channel group sees another channel group as engaging in behaviour that prevents the first group from achieving its objectives (usually sales or market share). We can see that hybrid channel conflict occurs when one distribution group believes that another group is seeking to take away scarce resources such as capital, expertise, etc., at its expense. It can therefore be expected that channel conflict is a common occurrence when organisations make use of multiple channels and resources are limited.[13]

One of the most common reasons for channel conflict is when an intermediary sells a product as a loss leader, that is, sells a product below cost to try to buy market share. When a manufacturer wants to protect the image of the product and the retailer starts discounting the product, the scene is set for channel conflict.

Each of the role-players in the distribution channel has a degree of authority and power over other channel members. The more powerful channel members will therefore exert pressure on the less powerful members to conform to their wishes. These powerful channel members are called channel leaders. The authority and power wielded by these powerful members could therefore also provide conflict.

There are five sources of power in the distribution channel.[14]

- **Legitimate power** refers to the dominant position of the member in the distribution channel. Through sheer size this channel member can force other members to conform to its wishes. In the past, manufacturers had this kind of power, but this situation has been reversed with large retailing groups now being the legitimate powerhouses dominating the distribution channel. Ultimately, the customer should have the most power by virtue of his or her decision, regarding which distribution channel member to buy from.

- **Reward power** refers to the ability of a channel member to help other members reach their objectives. The manufacturer, for instance, could reward the retailers selling its products by giving discounts. Customers could be rewarded by giving them a present for buying the specific product.
- **Coercive power** is the opposite of reward power and intends to take positive results away from certain channel members, or to inflict punishment on those members. The manufacturer may, for example, slow down deliveries of a certain product to a certain retailer when it has wilfully decided to ignore manufacturer instructions. The retailer could do the same by giving the manufacturers' product poor exposure on the supermarket shelves, thus slowing down sales of the product.
- **Information power** refers to the old saying that 'knowledge is power'. Keeping information away from certain retailers can derail their sales volumes. Information regarding sales potential, market trends and usage rates could be vital for the intermediary. On the other hand, the retailers, being nearer to the customer, could be in a position to prevent important information from flowing back to the manufacturer.
- **Referent power** refers to the personal relationship that develops between members of the distribution channel. Salespeople who interact well on a personal level with retailers may help to push up sales volumes. If the relationship is not good, sales might suffer.

Traditional marketing channels have been dependent on the use of legitimate, reward and coercive power to get the channel moving the necessary products and services from the supplier to the customer. However, this situation has changed in recent years.

Currently, the focus is on developing collaborative distribution channels of supply chains where everyone is working together (a win-win situation) with reward and reference power coming more to the fore as methods of persuasion to get the distribution channel working. This also ties in with the supply chain concepts, as discussed at the beginning of this chapter.

Distribution decisions and the effect of public policy

The South African Government and its second and third-tier institutions such as municipalities, are also role-players or stakeholders in the various supply chains in South Africa. In the past two decades more questions are being asked regarding the supply chain arrangements of suppliers, manufacturers and intermediaries, such as wholesalers and retailers. In one of the most recent instances, the Competition Commission made an announcement about a raid on the offices of the global manufacturer and distributor Unilever, to obtain information regarding possible collusion on the price and distribution of margarine and edible oils in South Africa. Various other investigations have been initiated by government institutions against exclusive distribution agreements, such as the investigation of price collusion in the bread industry where large national organisations pleaded guilty on charges of collusion. The absolute power of intermediaries is always subject to the national and international laws of countries. Today it is clear that these stakeholders are carefully scrutinising the activities of organisations to try and identify and erase anti-competitive behaviour and collusion. Supply chain functionaries must therefore take cognisance of these developments in the planning and execution of their distribution activities.

Factors determining the design of the distribution channel

Certain characteristics can influence the design of a distribution channel and must be carefully considered by the marketer.[15]

Customer characteristics

The design of a specific channel has as the point of departure, the needs and wants of the consumer. In the case of an industrial user, it makes sense to deal directly with the manufacturer, so a short distribution channel is needed. If the target market for a consumer product is widely dispersed, the manufacturer would need help in reaching all the customers, for example, by using national retailers with a footprint all over the country. If small quantities are bought fairly frequently, then a longer channel is needed, probably involving wholesalers and retailers.

Characteristics of a product

The specific characteristics of the product also play a dominant role in the design of the specific distribution channel in the following ways:

- **Perishability:** perishable products, for example flowers, require a distribution channel that is fairly short, perhaps with only one intermediary; whereas non-perishable products could have a longer distribution channel which could include wholesalers and retailers.
- **Bulky products:** low-value bulky products, such as cement, follow a shorter channel than more expensive products such as jewellery, which is a high-value product.
- **Fashion products:** a short channel is used because fashion products are only in demand for a short time. Other clothing follows a much longer distribution channel.
- **Specialised products:** specialised products, for example Dell computers, move through a short channel which requires an after-sales service. Dell is well-known for its approach – customers can order computers with unique specifications over the Internet.
- **Standardised products:** standardised products follow a longer distribution channel than customised products. Standardised products such as canned food, could be sold using a long distribution channel. On the other hand, a customised product such as the development of a new beach house, will use a short channel of distribution.

Characteristics of the manufacturer

The size of the manufacturer will also have a determining input in the development of the distribution channel. The stronger the manufacturer, the better the chance of selling directly to a large retailer or to the final consumer. Small manufacturers do not have the resources to be able to dictate where and how their products must be sold and so they are totally dependent on intermediaries.

Characteristics of the existing distribution system

The availability and quality of existing intermediaries in the distribution system are also crucial factors in the channel development process. Some intermediaries will not carry an unproven or a new product; others do not want to carry stock at all. Sometimes the poor quality of existing intermediaries or the lack of intermediaries, forces manufacturers to develop their own distribution channel. A good example is the formal agreements between established car manufacturers and their dealers. This creates a barrier for entry to new car manufacturers such as Kia. Kia had to develop a new dealership system throughout the country to sell its cars in South Africa. The same happened when Honda broke off its dealer relationship with Mercedes Benz. The intermediaries on the downstream side of the supply chain are divided into two basic groups, namely wholesalers and retailers.

Different types of wholesalers

Wholesalers earn more than 50% of their total sales income from other businesses or organisations. Four types of wholesalers can be identified as:

- **Cash-and-carry wholesalers**, for example, Makro and Metro, where retailers or private customers buy for cash.
- **Rack-jobbers** who manage shelf space in retail stores, and usually specialise in certain areas, for example, supplying batteries to motor spares shops, where the retailer obtains a certain income (a percentage) from the sale of the product.
- **Truck-jobbers** who deliver perishable products, for example, vegetables and bread to retailers.
- **Mail-order wholesalers** who use the postal service or the telephone for orders and then dispatch these products, usually on a cash or cash-on-delivery (COD) basis.

Different types of retailers

Retailers earn more than 50% of their total sales from the general public for private consumption.

- **General dealers** are found in rural areas such as Lichtenburg (North-West) and Tulbagh (Western Cape). They sell a wide and diverse range of products, from bicycles to maize meal, women's dresses to headache tablets.
- **Department stores** are large stores, arranged in specific departments, such as lingerie, perfumes and men's clothing. Examples are Stuttafords and Edgars.

- **Speciality stores** have fewer product lines but a wide variety is carried in each product line. Examples include jewellery stores, such as American Swiss and Sterns, and boutique curry shops in Durban.
- **Chain stores** are similar to speciality stores, although they have several branches operating from various places and are controlled by a head office, for example, American Swiss jewellery stores. All chain stores are under the control of the head office.
- **Discount houses** usually sell at a low price mark-up and achieve a high turnover. Well-known examples are Dion and Game discount stores.
- **Supermarkets** sell mostly food-related products on a self-service basis. Shoprite and Checkers supermarkets are examples of this type of retailer.
- **Hypermarkets** are a larger version of a supermarket and sell a larger range of products. They also sell more non-food products such as fridges, sports equipment and hardware. Examples include Checkers Hyper and Pick n Pay Hypermarkets.
- **Spaza shops** are small informal shops that usually operate in townships. They sell basic foodstuffs in small quantities such as bread, salt, washing powder, and so on.
- **Convenience stores** include corner cafés selling items such as bread, magazines, milk and sweets during extended shopping hours, for example from 6 a.m. to 9 p.m. A more recent development is convenience stores at petrol filling stations, called forecourts, which contribute a sizeable percentage of the total sales and are in direct competition with the original convenience store concept of cafés.
- **Mail-order stores** sell products by mail, using a catalogue and advertisements. Well-known examples include Woolworths Leading Concepts that sells novel products, and Verimark that sells upmarket products, for example, leather briefcases and executive equipment, such as notepads.
- **Internet retailers** sell things through a cyber-mall, where a whole range of products is sold through a website rather than a physical store, and distribution (delivery of the product) takes place from a warehouse and the final product is delivered by mail or courier. Internet retailers (also called 'e-tailers'), which are currently doing well in South Africa, are those that combine an existing bricks-and-mortar store with Internet sales. One example is the e-tailing arm of Pick n Pay (picknpay.co.za) that combines the successful hypermarket stores concept with selling groceries on the Internet. Kalahari.com is a successful e-tailer which, among other things, sells textbooks to UNISA students.

Managing physical distribution activities (marketing logistics)[16]

Management must make decisions to ensure that their range of products and services are stored and moved in such a way that they are available to the customer in the right quantity, at the right place and at the right time. Marketing logistics therefore involves the process of planning, implementing and controlling the physical flow of products, services and information in such a manner that the customer receives the greatest value and the organisation incurs the lowest cost to do so. Marketing logistics includes both the basic upstream and downstream activities of the supply chain (refer back to Figure 7.1 on page 166), as well as reverse logistics, which entails the return of broken, unwanted and outdated products and services to the suppliers.

MARKETING LOGISTICS IN PRACTICE

An example of a marketing logistics objective would be to deliver 95% of all products of a manufacturer in South Africa within 48 hours, or to prevent out-of-stock situations occurring altogether. This type of objective makes sense if we look at the current inventory management system of just-in-time (JIT) used by motor manufacturers such as Toyota, Nissan and others. With this kind of system, an out-of-stock situation would mean that hundreds of workers would not be able to assemble cars, with a resulting loss for the manufacturer's workers and the country.

Marketing logistics, as part of the supply chain, is receiving more attention nowadays as it is seen as the most obvious place where cost and efficiency savings can be effected for the organisation, whilst also being used to improve service to the customer.

The functions of marketing logistics include warehousing, transportation, inventory management and logistics information management.

Warehousing

Because manufacturing and consumption cycles of products and services rarely match, the issue of how many and where warehouses are to be situated, is important. This is why it is so important that the right decisions be made to fulfil the stated objectives of being able to deliver the needed products within a specified time limit. Some large manufacturers based in Gauteng have warehouses in the Western Cape and in the Free State. With these locations or warehouses, they can deliver a service in line with the set objectives of the organisation.

THE UNINTENDED CONSEQUENCES OF E-TOLLS IN GAUTENG[17]

The use of E-tolls on Gauteng roads are a thorn in the flesh of many road users. There are also some unintended consequences for the South African logistics industry. The use of E-tolling on Gauteng freeways has made a significant impact on the warehousing and logistics operations of companies. One such group is the transport logistics and mobility company Super Group. The CEO of this group reported that the implementation of the Gauteng E-toll system would have a negative impact on all areas of the group's business and is of concern to distribution costs and the knock-on effect on the gross domestic product (GDP) of the country. Most E-toll costs would be recovered from the customer but in some instances, this could not be done. One such case is the transport of petrol where the E-toll component cannot be added to the petrol price which is regulated by the South African Government. E-tolling also will have an effect on the administrative costs of running a business and to the payment of E-tolls.

Other companies are already trying to mitigate the effect of E-tolling in the Gauteng province by instigating the following plans:[18]

- Through better planning, reducing the number of trips made on E-tolled roads
- Making use of alternative routes where it was financially-cost effective
- Moving warehouses to a site with less E-toll exposure; the monthly savings in E-tolls is potentially more than the office rent
- Allowing staff to work from home to avoid E-tolls
- Allowing only a limited number of vehicles in the fleet to use the tolled highways; other company vehicles are instructed to treat the E-tolled highways as no-go areas; the dedicated vehicles that uses the E-tolled roads must be used to maximise discounts and the utilisation of E-toll caps for frequent users
- Ensuring that all fleet vehicles are clearly branded, making it easier to verify from pictures whether it was indeed the specific truck that passed underneath the gantry.

Transportation

The choice of transportation has a direct effect on the pricing of the product or service, the delivery performance and the condition of goods on delivery. The modes of transport include air, road, rail, pipelines and water. Intermodal transport systems combine two or more modes of transport, for example imported goods arriving in the country by air and then being transported by road to the customer. The same factors mentioned in Figure 7.3 on page 168 should be considered when decisions are made about what mode of transport to use. Transnet is a major role-player in this field with strategic business units such as South African Airways, Spoornet (railways) and Portnet (harbours), heavily involved in the transportation of products and services.

Inventory management

There is usually a trade-off between cost, space, risk and required levels of customer satisfaction. The cost of carrying inventory must be balanced with the space necessary for doing so. This must furthermore be balanced with the risk of an out-of-stock situation which could result in lost sales and long-term buyer relationship problems. If, for example, a customer cannot find the products he or she is looking for, the customer will not be satisfied. The issue of optimisation of inventory management is vital for the success of the supply chain, as poor planning may result in the bullwhip effect.

THE BULLWHIP EFFECT[19]

Demand by customers is very rarely stable which makes it imperative for businesses to do demand forecasting so as to ensure that they do not run out of stock. Because of forecast errors, organisations often carry inventory buffer stock, also called the 'safety stock'. Each supply chain participant then makes its own forecasting, based on incorrect figures making the size of the safety stock needed even bigger, thus enlarging the oscillating demand variation. One of the ways to counteract the bullwhip effect is sufficient information sharing between members of the supply chain.

Logistics information management

Information is a critical component of any supply chain. The trend is to share information between members of the supply chain to assist all the members of the distribution channel to play their parts as well as possible. This information includes customer orders, inventory levels, billing for payment, etc. One of the methods for sharing information is electronic data interchange (EDI) on the Internet. Sharing information facilitates the smooth functioning of the supply chain.

Distribution management[20]

Once the organisation has evaluated all the alternatives and decided on the best supply chain, it must implement and manage the chain. Distribution management concentrates on managing the two major distribution activities, namely managing the distribution channel and managing the marketing logistics activities, as stated at the beginning of this chapter.

Managing the distribution channel

Planning, implementation and control are part of the management of a distribution channel.

Planning

The first step in the planning process is to determine the distribution objectives. The distribution objective is dependent on the organisation's objective and the marketing objectives. An example of a distribution objective is for McCarthy to open to new multi-franchising dealerships in South Africa, through which 10 000 units of Peugeot and Citroen cars will be sold by December 2017.

The second step is to decide on the channel to be used. The question is whether to use a single or a multiple channel.

The third step is to determine the number of intermediaries needed. Here, the manufacturer must decide on the intensity of distribution. Three alternatives are available, namely:

- **Intensive distribution:** the manufacturer uses all the available outlets. Products such as Coca-Cola, are distributed on an intensive distribution basis to all types of outlets in South Africa and neighbouring countries.

- **Selective distribution:** this is when fewer outlets are selected. Shopping products such as fridges, furniture and clothing are distributed in this way. For example, Defy washing machines are distributed through Furniture City, Game and various furniture stores throughout South Africa.
- **Exclusive distribution:** this is when only one or two selected intermediaries carry the product. Franchises follow this route of distribution, providing a franchisee with exclusive rights to a certain geographical area, for example, KFC.

The fourth step is to select suitable intermediaries. The best wholesalers or retailers must be selected if they are available. The financial position, quality of management and location of these intermediaries are important to the manufacturer in the selection process.

The fifth step is to motivate the intermediaries. Incentives such as 'push money' are used to make it financially attractive for the intermediary to sell the product. 'Push money' implies giving the retailer and his or her salespeople, financial incentives to sell the product and can be in the form of a discounts or sometimes prizes that can be won.

Implementation

The key issues include solving problems, resolving conflict and controlling the distribution channel.

- **Solving problems:** problems regarding conflicting objectives, pricing decisions, duties and responsibilities of channel members must be solved to the satisfaction of all participants.
- **Resolving conflict:** conflict between members of the channel will be to the disadvantage of all members, as well as to the final consumer. Conflict must therefore be avoided and close co-operation should be encouraged.

Controlling the distribution channel

The channel leader of a distribution channel must control the activities of the whole channel to ensure the satisfaction of the final consumer. The leader in the channel can either be the manufacturer or the retailer. The leader is often referred to as the channel 'captain'. A channel leader is the person or member who can control the distribution channel. In the past, manufacturers were usually strong enough, in other words, they had the capital, knowledge and/or infrastructure, to be the channel leader. The manufacturer decided on the distribution structure and the channel members had a well-known brand name to sell and proven guarantees on the product. The balance of power has changed now towards intermediaries, and especially retailers.

The shift in power towards retailers has occurred for the following reasons:

- The major retail groups in South Africa have surpassed the manufacturers in size and scope. An example is the Shoprite Checkers group with its massive turnover and large number of outlets. Refer to the case study below.
- The development and growth of retailers' own label products. These own label products are sometimes perceived to be of a higher quality than some of the manufacturers' labels.
- Market information is now in the hands of the intermediaries. Store scanning equipment provides so much information that manufacturers are now dependent on retailers for information regarding the customer.

CASE STUDY: ENTERING A RETAIL POWERHOUSE … HOW SMALL NEXT-DOOR NEIGHBOURS ARE ENTERING THE SOUTH AFRICAN MARKET[21]

Not many South Africans have heard of the retail chain Choppies. In a retail climate where the large South African retailers are aggressively moving into the rest of Africa, and where domestic retailers are keeping tabs on the 'invasion' from the south of Africa, this is something new. Choppies is a retail chain consisting of 67 stores in Botswana that grabbed a 32% market share in this country. It is so dominant in Botswana that Checkers and Pick n Pay are playing catch-up in this country.

Choppies started with a single store in Lobatse in 1986 which is on the other side of the South African border. Choppies CEO Ottapathu was initially the store's auditor. A second store was opened in 1993, and today there are 100 stores. As mentioned, 67 stores are in Botswana (22 in the capital Gaborone), 23 in South Africa and 13 in Zimbabwe. The group also plans to expand into Zambia and Namibia in the next two years. Choppies entered South Africa in 2010 with a different growth strategy than its larger brothers from south of the border, with most of its 23 stores dotted across the smaller towns in North-West, Limpopo and the Free State (provinces of South Africa nearest to Botswana). In order to serve this expanding range of retail stores in South Africa, Choppies built an 18 000 m^2 warehouse in Rustenburg, which should be capable of serving a network of 100 stores in South Africa. The question however arises, if Choppies can take on the large retailers such as Shoprite, Pick n Pay and SPAR in their backyard. The strategy of Choppies is that of flanking and encirclement of its much larger competitors in areas where the larger competitors do not have a footprint. This strategy is executed in the opening of retail stores in smaller mining towns where there is an undersupply of retailers. Choppies managed to increase turnover by 22% in 2013 which is a third year in a row that this rate of growth was attained. The CEO agrees that the South African margins are more competitive than that of Botswana. To counteract the pressure on margins, Choppies has now launched its own in-house brand which currently makes up 16% of turnover. A part of a vertical integrated distribution system, Choppies operates distribution and supply centres that function as the source of Choppies' stores, and together with a logistics company with 400 trucks and support vehicles, they keep the Choppies stores stocked.

EXERCISE

1. Mention the supply chain activities described in the case study of the Choppies group.
2. How is Choppies entering the South African market? Is this a viable approach?
3. Is the Choppies group using any type of vertical marketing systems? Explain your answer.
4. Does the Choppies group have any form of power in the Botswana market? How would you compare this with the power situation of the group in South Africa?
5. Provide examples of marketing logistics employed by the Choppies group.

Summary

In this chapter, you have learnt about the supply chain and the distribution decisions that are made in managing distribution channels. Products and services must be made available when, where and in enough quantity to the customers. The logistical activities such as transport and warehousing, are becoming more important for the smooth functioning of the supply chain. The management of the supply chain has become one of the most important aspects for cost saving and obtaining a sustainable competitive advantage in the business world.

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PRICING DECISIONS

CHAPTER 8

LEARNING OUTCOMES

After studying this chapter you should be able to:

- explain the various steps in the determination of the price of a product or service
- analyse the factors that will influence the determination of the price of a product or service
- describe the different pricing objectives that may be used by an organisation
- explain the relationship between cost, volume and profits
- describe how break-even analysis is used in price determination
- describe the three methods that may be used to select the approximate price level
- write an essay in which the steps followed to determine the price of a real product or service are explained.

Introduction

The price that is determined for the product or service, is the way that a business can generate an income to pay for all the costs incurred in the development and distribution of the product or service. The costs involved in developing new products are prohibitive, depending on the industry that is under discussion. For example, in order to bring a pharmaceutical product to the market, some figures show the cost between 4 and 11 billion US dollars. Some of the figures mentioned refer just to research and development (R & D) costs. In some instances however, some unintended consequences (for example, the Thalidomide drug that was used to prevent nausea of expecting mothers and led to the malformation of unborn babies' limbs), could result in failures that really do cost billions of dollars and are included in the cost of R & D. The fact is that on a global scale, the pharmaceutical industry is facing the serious problem of increasing failure rates and rising costs. On the other hand, there is an example of a pharmaceutical company Optimer, that brought a new antibiotic Dificid aimed at the drug-resistant clostriduim difficile bacteria to the market at much less cost. The total of costs that went into the product was US$175 million.

The product delivered US$24 million in sales during its first five months of being in the market.[1] It must be stated that the incidence of resistant bacteria is increasing and that this product is aimed at a specific market where there are not many alternatives available and that it is a life-saving product. Fact of the matter is that not all medicines are supposed to be so expensive, given the proliferation of generic products in the marketplace.

The price that is paid by the consumer represents the income generated for the business. If the price is set too low, the business will have difficulty surviving and if this situation continues for a long period, the business will go bankrupt.

As far as the consumer is concerned, the price that he or she pays must provide some form of value; it must match with what the product or service can do for him or her. If, for example, the consumer pays R159 000 for a Toyota Yaris, then he or she is buying not only the car, but the value that the car can provide. This value refers to the utility value of transportation, that will move the consumer from point A to point B, as well as the image value of being the owner of a new car carrying the Toyota brand name.

The nature of pricing

Price is not only the amount of money paid to a manufacturer for a product or service; it can also be in the form of payment in kind, for example when products are bartered (exchanged). South Africa has overcome the constraints of a lack of foreign exchange by exchanging maize for minerals. A person-to-person barter exchange may be accepting payment for work in the form of cell phone airtime or accepting a basketful of eggs from the farmer for work done.

PRICE
Price is the amount of money charged for a product or service. More broadly, price is the sum of the values consumers exchange for the benefits of having, or using the product or service of the manufacturer or service provider.

PRICING TERMINOLOGY IN EVERYDAY LIFE

The price you pay for the modules that you enrol for at a university or college, is called a tuition fee.

- The price you pay for borrowing money from the bank, is called **interest**.
- The price you pay for hiring industrial equipment, such as a portable power generator, is called **rent**.
- The **price** you pay when travelling on the Gauteng highways, is called a toll and it is the price you pay for using this road.
- The price you pay for using the services of an attorney or a doctor, is called a **fee** or a **retainer**.
- The price you pay for a taxi ride, is called a **fare**.
- The price you are paid by a company you work for, is often called a **salary**.

The steps in determining the price for a product or service are shown in Figure 8.1.

Step 1: Identify pricing constraints and objectives

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Step 2: Identify the pricing objectives

↓

Step 3: Estimate demand, supply and revenue

↓

Step 4: Determine cost, volume and profit relationships

↓

Step 5: Select an approximate price level

↓

Step 6: Set list or quoted price

↓

Step 7: Make special adjustments

↓

Step 8: Determine the final price

Figure 8.1 *Steps in determining the price of a product or service*

Step 1: Identify pricing constraints

Factors that influence the determination of a price

Various factors or constraints influence the determination of the price of a product or service. These factors can be grouped into two groups, namely organisational (internal) factors and environmental (external) factors.[2] These factors are depicted in Figure 8.2 below.

Pricing constraints

Internal factors:
- Cost of product development
- Business model
- The business objectives and marketing objectives
- Product life cycle
- Organisational structure and organisational culture

External factors:
- Price sensitivity of consumers
- Role of competitors
- Ethical considerations
- General economic conditions
- Legal considerations

Figure 8.2 *Factors that influence the price of a product or service*

Internal factors

A number of factors inside the organisation have an influence on the price determination process.

- **The business objectives and the marketing objectives:** the overall business objectives must be considered when setting the price. For example, when increasing market share is the strategic business objective, the marketing objective must support this. The business may decide to start reducing the price of the product in order to gain market share, as stated in the business objective.
- **The product life cycle:** the stage of the product's life cycle influences the setting of the price. If a product is in the introductory stage of its life cycle with little or no competition, the manufacturer is in a better position to set a price that will recover costs and attain a handsome profit (this is called a price-skimming pricing strategy and will be discussed later in this chapter). Innovative products such as a cancer cure, could actually demand any price during the introductory and growth stages of its life cycle.
- **Organisational structure and organisational culture:** these objectives could also have an influence on price determination. A business that is market-oriented takes into consideration what customers think and expect from them (this is called the value proposition, providing the customer with something of value for which the customer is prepared to pay a specified amount of money), the competitive situation in the market and the potential reactions from competitors. Other business units would follow the lead from top management, which could result in different pricing strategies being developed.
- **The cost to develop the product or service:** in some instances, tens of millions of rands may have to be spent to develop a product or service. For example, the long development process that new medicines go through before even being marketed to doctors and pharmacies. This invested capital must be recouped and the price charged would need to reflect this fact.
- **The business model:** understanding Pick n Pay's business model for example, explains how it is making a profit and keeping itself relevant in a cut-throat market with low-profit margins.

PICK N PAY'S BUSINESS MODEL: THE SLIM MARGIN[3]

- Gross margin = the difference between total revenue and the cost of goods sold, as a percentage of revenue.
- Trading margin = the gross margin, less expenses, as a percentage of revenue.
- Net margin = profitability after all costs, expenses and taxes have been paid, as a percentage of revenue.

Pick n Pay:

- Gross margin for 2013 was 17%
- Trading margin (gross margin less expenses was 1.4%)
- The net margin after tax: 0.9%

For the 2013 financial year, Pick n Pay made 0.9 (0.9%) cents profit for every rand spent in its stores. This 0.9 cents was used to pay dividends to shareholders and some was retained for growing the business. This margin is paper-thin and shows that the smallest financial mishap could be disastrous for Pick n Pay. What is interesting is that Pick n Pay and similar retailers, generate a hefty part of their profit through careful management of cash. Profit margins for food retailers in South Africa are extremely thin. The 0.9% profit that Pick n Pay turns is below average for a product mix that also includes speciality goods (such as microwave ovens and fridges), and other non-grocery items. The key issue is about the number of customers visiting and buying at Pick n Pay. What is also important is the stock turn rate (that is how fast goods are sold), and how the cash generated is managed. Large grocery retailers all over the world operate like banks, in a certain sense. They bank the cash received from customers on a daily basis and receive daily interest until the end of the month when they pay their suppliers. Trade payables exceed trade receivables by a degree and therefore creditor funding is a key part of the Pick n Pay business model.

External factors

- **Price sensitivity of consumers:** establishing the price of a product or service, depends on how price-sensitive the consumer is about that product or service. Consumers who are very knowledgeable about a product are likely to be very price-sensitive. For example, the prices of tickets for the 2010 FIFA Soccer World Cup were perceived to be high by soccer supporters and was a contributing factor for slow tickets sales. The more price-sensitive the consumer, the less leeway the business has to increase the price for the product or service. The price of the product could be low, but the product could be of such importance to the customer that any price increase could spark a national debate. The price of bread is one example.

THE DEMAND FOR ARMS IS NOT PRICE-SENSITIVE[4]

Even in the worst economic decline in the past few decades, the amounts spent on weapons has remained the same or increased slightly. In any given day of the year there are a number of wars taking place with a sizeable number occurring in Sub-Saharan Africa. The strong demand for weapons of war means that they are relatively price-insensitive which benefits the arms manufacturing industry worldwide.

The role of competitors

The amount of competition in the marketplace will have an influence on the price that could be charged for the product or service. The more competition between businesses selling the same product or service, the more keen the price competition is likely to be. This ties in with the concept of demand and supply which is covered in more detail below. The final price for a product or service is directly influenced by the demand from the consumer's side, as well as the supply of the product. If there is a strong demand for a product and a limited supply, then the price will probably increase. The opposite is also true. When there is a slow demand from the consumer and an oversupply from the manufacturer, the price will probably come down or be fixed at a lower point. However, the responsiveness of prices to demand and supply is distorted under certain market conditions. For example, Eskom has a monopoly to generate and sell electricity in South Africa and uses this to its advantage to increase annual electricity rates, more than the general inflation rate.

COMPETITION IN THE MARKETPLACE[5]

Economists distinguish between different types of market conditions, namely perfect competition, monopolistic competition, oligopoly and monopoly. You learnt more about this in Chapter.

1. **Perfect competition** refers to market conditions where there are many sellers of identical products and no one buyer or seller has control over the determination of the final price. It is furthermore easy to enter the market, and resources needed to manufacture the product, are freely available.
2. **Monopolistic competition** occurs when there are many manufacturers of a product that are not similar to each other (for example, additional services and guarantees are added, making it difficult for the customer to compare the products from different manufacturers). This is called the product differentiation process. Entry into the market is still easy and there is no collusion between the different suppliers. Prices may vary between suppliers.
3. **Oligopoly** is a market structure where there are only a few suppliers of a product or service that could be identical or differentiated to a certain extent. Reasons for the small number of businesses competing may be because of high start-up costs, capital requirements, or strict legislation. There is usually a large demand for products or services delivered by this sector, and not much price competition in such a marketplace. An oligopolistic marketplace may be the breeding ground for cartel-forming. A cartel is some form of overt agreement among the few businesses in the industry, to manipulate prices or business activities related to marketing or manufacturing, in such a manner, to increase all participant businesses' profits by limiting competition. Activities could include the price fixing of products and services, limiting the total manufacturing output of the sector, allocation of a certain share of the market, the allocation of geographic sales areas per competitor and collusion to rig tender bids. A classic example of a cartel and the collusion between members of the cartel can be found in the South African construction industry.[6] 15 South African construction firms were fined R1.46 billion over cartel arrangements relating to tender bids between 2006 and 2011. This includes some of the prestigious sport stadiums built for the FIFA 2010 Soccer World Cup. Another example is the bread cartel that is explained in more detail in the case study at the end of this chapter.

The dominance of the South African banks (ABSA or Barclays Africa, Nedbank, Standard Bank, First National Bank and newcomer Capitec Bank), is an example of an oligopoly.

4. **Monopoly** is a market structure where there is only one supplier of a product or service with millions of consumers asking for the product. Prices are usually set quite high, making it a very profitable situation for the supplier.

Ethical considerations

Ethics also has an important role to play. The question here is whether or not the price should truly reflect the cost of the product and its value for the consumer.

The arrival of roughly 600 000 foreign tourists for the month-long FIFA Soccer World Cup tournament in Brazil that began in mid-June 2014, caused substantial increases in the prices of airline tickets, restaurant meals and hotel rooms in the eight major cities of Brazil where the games were played. These three sectors account for about one-tenth of the weighting of the inflation rate, which is already high at more than 6% per annum.

The FIFA Soccer World Cup incurred cost overruns, delays in infrastructure projects and fatal accidents.[7]

Some small businesses believed it was acceptable to charge foreign supporters high prices because the government said the World Cup would be an opportunity for small businesses to make big money. The soccer and tourism authorities were concerned about the greedy and irrational practices and called on businesses to exercise restraint, saying their high prices could scare potential visitors away, and undermine international tourism to Brazil in the long run.

General economic conditions

The general economic conditions are a very important constraint, depending on the type of product or service being sold. For example, for some basic commodities such as petrol, the demand was largely insensitive to general economic conditions (although this started to change during the global economic crisis that started in 2009 and continued to have an impact today). The extended period of recession in the 1980s and early 1990s, did not dampen the demand for basic commodities such as petrol or beer. Luxury goods such as jewellery, diamonds and fur coats are more sensitive to economic fluctuations and the level of disposable income. Some of the smaller jewellery stores in Johannesburg closed down during the recession because of the lack of disposable income among customers. On the manufacturing side, poor economic conditions usually lead to a 'wait-and-see' attitude and a lack of capital investment. A characteristic of such a period of economic decline is the increase in price sensitivity on the part of the consumer. Price becomes a major concern and price wars between retailers are prevalent.

Another economic factor that needs to be considered is the inflation rate. In February 2014, the inflation rate was 5.9%, which was within the Reserve Bank's target band of 3 to 6%.[8] This is relatively low by South African standards, but the first part of 2014 showed drastic increases in the inflation rate, which raises fears of interest rate hikes. The South African consumers grew accustomed to single-digit inflation figures in the first-half of the decade. An extended period of low inflation dampens inflation expectations and results in a more discerning customer who will actually demand more value for money and also better after-sales service. The opposite is also true with higher inflation expectations and less competition, as was the case in the period between 1985 and 1990.

Legal considerations

Legal considerations is an important issue for most people buying certain types of products such as a property or car. Government legislation exerts an influence on the final price you would pay for your car, through the car deposit that is required and the payback period. The banks can charge the consumer a maximum interest rate (previously governed under the Usury Act, and now regulated under the National Credit Act introduced in 2007). Value Added Tax (VAT) is another factor that must be considered in the pricing decision. Some basic foodstuffs such as milk and a standard loaf of bread, are exempt from VAT. For other products and services, a 14% VAT rate applies. The price that the customer pays normally includes a VAT of 14%.

Step 2: Identify pricing objectives

Three types of pricing objectives can be identified (refer to Figure 8.3 below). These objectives are derived from the overall objectives set by the business.

> **PRICING OBJECTIVE**
> A pricing objective is a general goal that describes what a business hopes to achieve through its pricing activities. Pricing objectives should be measurable so that they can be evaluated.

Profit-oriented objectives

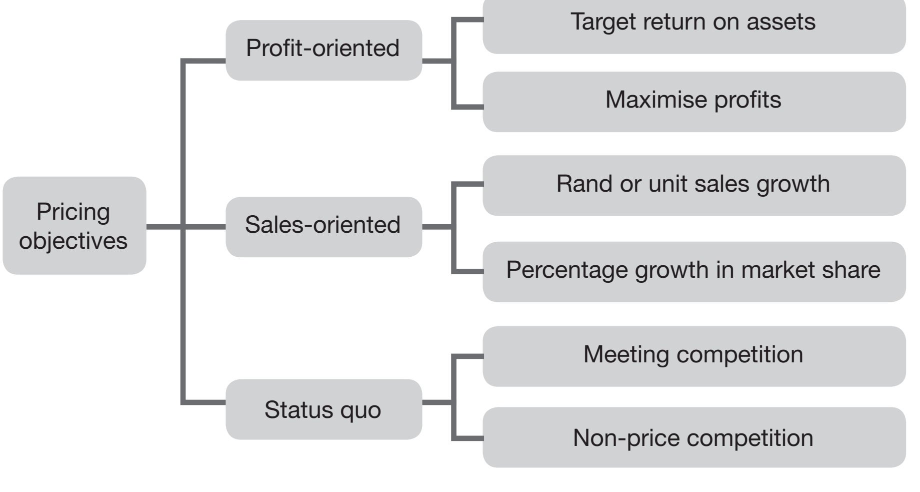

Figure 8.3 *Possible pricing objectives*[9]

A business may also strive to achieve maximum profits. This means that a price is selected that results in the highest profit possible. South Africa's domestic cement industry is an example of an industry trying to maximise profits.[10] The industry is dominated by the following cement manufacturers; namely PPC, Afrisam, NPC and French multi-national Lafarge. There are also imports from Pakistan and some Indian cement manufacturers. Sephaku, funded by Nigeria-based Dangote Cement, is a new entrant in the market. Despite rises in the cost of production due to fuel and electricity increases, excellent growth is anticipated, but prices will have to increase to maximise profit in this industry.

RETURN ON ASSETS (ROA)

Underlying calculation:

- Income (for example sales, commission, fees, retainer) minus (–) costs (all costs, such as the telephone bill and wages, etc.) = profit.
- Profit minus tax = net profit.
- Rate of return on total assets = $\frac{\text{net profit after tax} \times 100}{\textbf{Total assets}}$

Practical example

The net profit, after a tax deduction of 35% of Flangers, an industrial organisation that manufactures flangers, is R144 000. Total investment in equipment, tools and office furniture is R900 000.

Therefore: ROA = $\frac{\text{R144 000} \times 100}{\text{R90 000}}$ =16%

Flangers should ask itself: is this return good enough to make it worth continuing with this kind of business?

Sales-oriented objectives

Rand sales or units sold is a sales-oriented objective and can be quantified. The same applies to a percentage growth in market share.

HYUNDAI'S AGGRESSIVE SALES OBJECTIVES

Hyundai is now the world's fifth largest motor manufacturer. Its reputation for aggressive sales objectives is both good and bad for this company. Since starting in 1977 to sell cars in South Korea, Hyundai has sold its five millionth car in Europe by the end of 2011. It reached the 1 million sales mark in Europe in 1996, 2 million in 2001, 3 million in 2005, and 4 million in 2008.[11] This type of drastic increase has in the past, resulted in compromising manufacturing quality and eventually leading to a dilution in the brand equity of this manufacturer. The market leader Toyota has also been hampered by numerous manufacturing recalls of various production models during the past number of years.

PHARMACEUTICAL MARKET SHARE CONCERNS[12]

Aspen Pharmacare, Africa's largest pharmaceutical group, stated that it would retain market share in the pharmaceutical market through organic growth (growing its own range of product). By developing its relationship with British counterpart GlaxoSmithKline (GSK), and through seeking new acquisitions, it aims to retain its current market share.

STATUS QUO OBJECTIVES

The question of using status quo pricing is linked to a basic decision that the business must take, regarding whether to compete in price in the market, or to follow the route of non-price competition.

Meeting a competitor's prices implies that the business is satisfied with its current market position. The business can decide to meet a competitor's prices, that is, to be a price follower. This is illustrated in the South African motor vehicle market where a price increase by one manufacturer, for example, Toyota, is quickly followed by similar increases in the prices of competing manufacturers such as Nissan, Mazda and Ford. In this example, Toyota is the price leader and the other manufacturers are the price followers.

Another form of status quo pricing occurs when the business in a certain industry follows a strategy of price stability. This implies that there is little difference between the prices of a competitor's products and services. By doing this, price competition is limited and price stability in the market prevails. Cinema tickets in South Africa are priced by following a strategy of price stability. Price competition, on the other hand, degenerates into destructive price wars which adversely affect the long-term profitability of all the competitors. A South African example was the price war in the early 1970s between the 'late' Inter-Continental Breweries, which sold products such as Kronenbrau and Luyt Lager beer, and South African Breweries. Both companies had weaker financial year-end results because of a destructive price war.

CIGARETTES IN SOUTH AFRICA[13]

During the decade until 2001, cigarette consumption in South Africa had fallen by more than 30% because of the prohibition of advertising and the steep increase in the price of a packet of cigarettes. By 2013, the tax on cigarettes had risen by 60c to R10.92 per packet of 20. This meant the recommended retail price for British American Tobacco (BAT) South Africa's, Peter Stuyvesant, increased by R1 to R28.50.

Non-price competition is an active strategy followed by a business to add value to its range of products and services. The objective is to differentiate the product or service to such an extent that the consumer is prepared to pay more for the product or service, instead of buying the cheaper competitor's offering. Usually heavy promotional spending is needed to help ensure the differentiation of the product or service in the mind of the consumer. For example, the Apple range of products does not try to compete in price with other computer manufacturers.[14] (Refer to the example box that follows.)

Step 3: Estimate demand, supply and revenue

The third step in the process of determining the price of a product or service is to estimate the demand and supply for it. This issue is linked to market research, where information is gathered to ascertain the price range that the customer is prepared to pay for a product or service (demand), and the competitors who are producing similar products (supply). Too many competitors may result in an over-supply and this will cause the price to drop.

APPLE FOLLOWS THE ROUTE OF NON-PRICE COMPETITION

It is accepted in the marketplace that Apple is a premium brand that demands and earns a price premium against its competitors. This price premium spans the entire Apple product line-up encompassing the Macintosh, iPod, iPhone, iPad, software, and accessories. Apple's positioning is aligned with its targeting of a less price-sensitive customer. As a result, Apple's culture and internal activities are focused to meet the needs of these customers, so-called needs-based positioning approach. Apple has thus created a culture and a set of activities to differentiate it from its competitors, in order to meet the needs of their target customers (who are niche customers). If Apple was to focus on competing in all customer segments, it would have to reduce product prices. The problem with such an approach is that it would not only dilute the company's premium brand image, but it would also undermine the company's culture of innovation and internal activities focused on being at the forefront of technology. This short-gain approach could eventually destroy the company.

How demand and supply are set

When a customer makes a decision about what to purchase, he or she forms part of the process of how the demand for a product or service is determined. The producers of fruit or the manufacturers of a product such as canned food, provide (supply) the product to the customer. Supply therefore refers to the quantity of a product or service that a business is willing and able to supply. The following example illustrates the point of how the demand and supply for a product is recorded.

Thabang Foods is a small company that owns a few farms in North-West upon which they grow farm produce. This produce is shipped to the Housewife's Market.

After doing research, the Chief Executive Officer of the company developed the following demand and supply schedule (refer to page 200) for sales of fresh produce (tomatoes) to the Housewife's Market. Thabang Foods has an exclusive supply agreement with Housewife's Market.

Table 8.1 *The supply and demand schedule for tomatoes for the Housewife's Market*

PRICE PER PACKAGE OF TOMATOES	PACKAGES DEMANDED BY HOUSEWIFE'S MARKET (×)	PACKAGES SUPPLIED BY THABANG FOODS (*)
R15.00	100	600
R12.50	200	500
R10.00	300	400
R7.50	400	300
R5.00	500	200
R2.50	600	100

The demand and supply schedule is shown in Figure 8.4.

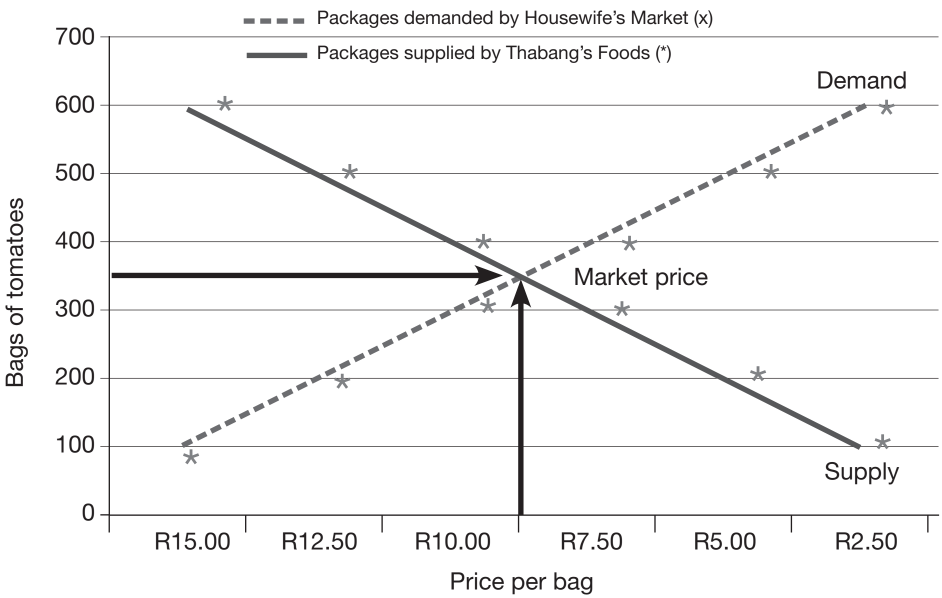

Figure 8.4 *Supply and demand and the price of tomatoes*

At a low price (say R2.50), the Housewife's Market will want to obtain the biggest supply of tomatoes (600); whilst Thabang would like to sell the smallest quantity of its tomatoes (100). As can further be seen in Figure 8.4, there is a point where the demand and supply curves meet, that is at a price of R8.75 and a supply of 350 bags. The market price is therefore the point where the supply and demand for a product is equal. In the above example this point is reached at a price of R8.75 and a supply of 350 bags.

What is also important to understand is the price elasticity of the demand for products and services by customers. The price elasticity of a customer is defined as the responsiveness to the quantity demanded when the price changes. The responsiveness is determined as a percentage change in the quantity demanded by the customer, relative to the change in the price for the product.[15] Businesses must understand how price changes would impact on the demand for the product. Two price concepts must be understood, namely elastic demand and inelastic demand.

If the demand for a product hardly changes when there is small change in the price, it is defined as an inelastic demand. If the demand changes considerably with the small change in price, the demand is elastic. Demand for a product is usually experienced as less elastic when:

- in a monopoly situation (a single supplier), or where there are no substitutes for the product
- customers do not respond to small price increases on the products and services
- customers are so comfortable with the product they are slow to react to changes in price by looking for lower-priced products elsewhere; over the short term there might be no change in demand, but this could eventually change over the long term
- the customer acknowledges that a higher price is justified.

For many years, a commodity product such as petrol, was seen as being subject to inelastic demand. However, things have changed in recent years.

PETROL PRICE INCREASES AND THE SLUMP IN DEMAND FOR PETROL[16]

South African fuel consumption has fallen significantly since 2009 and the decline is estimated to be between 10 and 20%. The decline can be ascribed to various reasons of which the steady fuel price increase is one. Since early 2008, fuel prices increased by 76%. This refers to the economic fact of price elasticity, which implies that as a product gets more expensive, the demand for the product would decline.

Furthermore, more petrol-efficient cars are currently available, for instance the Toyota Aygo, apparently consumes only 4.6l/100 km – well down from the 13l/100 km of an entry-level car ten years ago.

Since 2013, the decline in fuel sales has been more pronounced. Fuel demand contracted by 5.4% per year. Both refinery output and finished fuel product imports plunged in this year, just showing that the fuel price of today is really price-elastic.

By analysing likely supply and demand, a business is able to estimate price levels for its products and services, and therefore project what its total revenue is likely to be.

Step 4: Determine cost, volume and profit relationships

The next step in determining the price of a product or service is to establish the cost, volume and profit relationships. Costs to the business can broadly be classified into two categories, namely fixed costs (FC) and variable costs (VC).

- **Fixed costs** are expenses to the business that are stable and do not change according to the quantity of a product or service that is manufactured and sold (within a certain production capacity range). Examples of fixed costs are rent on the building, executive salaries and insurance.
- **Variable costs** are costs that change according to the quantity of products or goods that are produced. Examples of variable costs are the cost of labour, materials and overheads such as electricity.
- **Total costs** (TC) are the total expenses incurred by the business in manufacturing and selling the product. Total costs are the sum of fixed costs and variable costs. The equation is therefore: Total Cost (TC) = FC + VC.

In Step 3, total expected revenue (TR) at different price levels, was determined. Now we have also defined the total costs (TC) for the product. The next step is to calculate the profit. The profit of the business can be determined by using the following equation:

Profit = TR − TC

CALCULATING PROFIT AND LOSS FOR FOUR KINGS MILLING

Four Kings Milling is a small miller and manufacturer of maize meal in Lichtenburg, North-West. The current situation is as follows:

- Probable price per kg = R10.
- Variable costs per cent (UVC) per kg = R7.
- Fixed costs (FC) = R1 000 000 (invested in machines and equipment).
- Four Jacks sells 1 000 000 kg of maize meal (Q) per year.

Calculation of the profit of Four Kings Milling:

Profit = TR (Q × Price) − [FC + (UVC − Q)]
= (1 000 000 × R10) − [R1 000 000 + (R7 × 1 000 000)]
= R10 000 000 − R8 000 000
= R2 000 000

Four Kings Milling should now decide whether or not the profit of R2 million per year is acceptable. Should the price per kilogram perhaps be increased or decreased?

Step 5: Select an approximate price level

In this step, all the background information regarding demand, supply and break-even point discussed above are now gathered. The business now has a good idea of the actual costs to manufacture and sell a product or service. At this stage, three basic methods of selecting an approximate price level must be considered (refer to Figure 8.5 below).[17] (Refer to Table 8.2 on page 206 for a summary of the unique characteristics of each of these methods.)

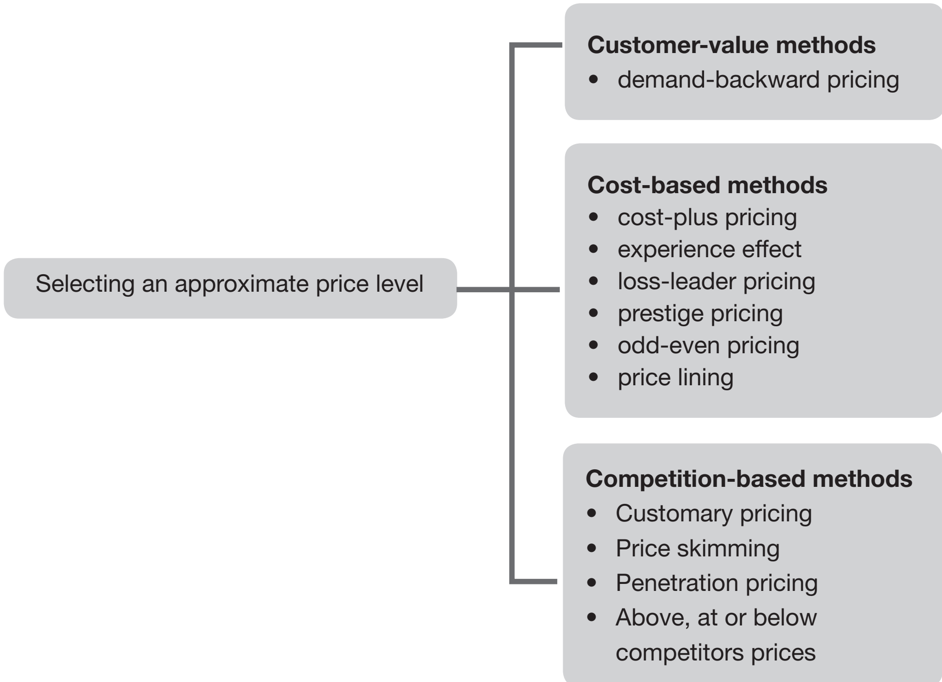

Figure 8.5 *Methods of selecting an approximate price level*

Customer value-based methods

The customer value-based method of pricing implies that the price for a product or service is determined from the customer's viewpoint.

Demand-backward pricing

This is an excellent way of determining the price of a product or service. By doing some market research, the business determines what the final consumer perceived to be the value of the product or service, and what he or she is prepared to pay for this product or service. By starting at the final price, the business can now work backwards and determine the mark-up percentages for the intermediaries and determine the cost price for the business. This will provide the business with information to determine if it would be possible to manufacture this product or deliver this service and still make a profit.

However, it is difficult to communicate value to the customer, because he or she is subjected to a great number of promotional messages. Three levels of communicating value to a customer may be considered.[18]

- Communicating product features is the traditional way of informing the customer of the value of the product, for example the strength of a car engine measured in kilowatts. In most cases, the customer does not care very much about these features.
- Communicating customer value benefits is a more positive experience for customers because they are interested in hearing about the benefits of the product.
- Communicating benefits that meet customer needs is when customers are more likely to hear and remember the message, because they are strongly interested in having their needs met. The kind of promotional message for a car that may reach the customer in this way is how safe the car is for carrying babies and toddlers.

Cost-based methods

Cost-based pricing methods use the information supplied by the management accounting system of the business to determine the price. This means that, among other things, the fixed and variable components of the product or service must be determined. The following cost-based methods are used in basing the price of a product or service on cost information available:

- **Cost-plus pricing:** this is one of the most popular methods used to determine the price of a product or service. The cost of the product is determined and a set percentage is added to the cost price as the profit margin. If this percentage is too high, the product becomes expensive and may not sell well. The opposite is also true. If the mark-up is too low, the product or service could be selling at a loss, which could harm the sustainability of the business.
- **The experience effect:** the cost price declines as a business accumulates experience in manufacturing and delivering products. Cost savings can lead to lower prices. The most famous example is that of the Model T Ford, which was the first mass-manufactured car in the world. The price of the car dropped by more than 50% in the 20 odd years that it was manufactured.
- **Loss-leader pricing:** this method is used when a product or service is priced at, or below cost, in order to attract customers. In such a situation, the business hopes that customers will also buy high-margin products and so increase the sales volume and profits of the organisation. This type of pricing is familiar to the average South African consumer. Promotions gain consumers' attention with messages such as 'Incredible sale' and 'Prices below cost'. Usually three or four products are advertised at really low prices. The less obvious condition is that these products are available in very limited quantities. This is a favourite ploy used when a new store is opened. The objective is to encourage customers to visit the store and to assume that all the products are cheap.
- **Prestige pricing:** here price is used to indicate the quality or prestige of your product or service. Your business could follow a high-margin high-price strategy if your customers think that a high price indicates high quality. This strategy works

quite well in the high-income or high-status segment of the market. For example, if you start a dry-cleaning business, your prices could be higher than those of the rest of your competitors.

- **Odd-even pricing:** this refers to the use of prices that end in odd numbers. A good example is the now traditional R99.99 because it appears to be much less than R100.00. This type of pricing is extensively applied in South African supermarkets.
- **Price lining:** a limited number of prices are set for a group of merchandise or a certain product line. For example, should you want to buy running shoes, price lines are set at R699; R799; R999 and R1 299. In each of the price lines, you will find branded running shoes of Nike, Reebok and Adidas.

Consumers often maintain a price-quality association. The higher the price of a product, the better it is perceived to be. Cost savings can be used to pay for extra promotion and consequently a higher demand. This means the marketing manager must consider the cost-based price very carefully. However, the price cannot be allowed to drop below cost for a significant period of time, for obvious reasons.

Competition-based methods

When using competition-based pricing, a business sets prices based on its competitor's prices; rather than using information regarding its own costs and revenue. The following methods can be used:

- **Price skimming:** this method is normally used when a new, unique product is launched into the market, such as a treatment for cancer. The pharmaceutical organisation selects a high price to recover the costs of research and development as soon as possible – that is, skimming the cream of rich profits. The problem with this method is that it could attract new competitors to the market because it is so lucrative. Entry barriers, easily allowing competition, are usually quite low when price skimming is used. Patents can, however, protect organisations for a certain period from direction competition. The fashion house Chanel uses the price skimming strategy. It would rather destroy branded goods than discount them.
- **Penetration pricing:** this is the opposite of price skimming. Here, the organisation decides to introduce the product at a low price, which just covers the cost of manufacturing the product. The reason for keeping the price level low is to make it more difficult for competitors to enter the market. We therefore say that the entry barriers are higher because the profit margin is much lower, making it more difficult (less profitable) for a competitor to consider entering the market. The business will have more time to penetrate this market at a time when it is difficult for competitors to enter the market because of the low-profit margin.
- **Customary pricing:** products and services are priced, based on tradition, and the prices of competitors are also the same. This is usually found with vending machines where snacks and beverages are sold. For example, a soft drink bought at a vending machine will cost R10.00 and all the brands cost the same amount.

Table 8.2 *Alternative approaches to setting the price*[19]

ASPECT	COST-BASED METHODS	COMPETITION-BASED METHODS	CUSTOMER VALUE-BASED METHODS
Definition	Cost-based approach determines prices primarily with inputs from the management accounting section	Competition-based pricing uses anticipated or observed price levels of competitors as a primary source for setting prices	Use the value a product or service delivers to an identified segment in the market as the main factor for setting prices
Examples	Cost-plus pricing, mark-up pricing and target-return pricing	Penetration and skim pricing, parallel pricing, and umbrella pricing	Demand-backward pricing
Main strength	Historical data always available	Data from competitors available	Take the customer into account when setting the prices
Main weaknesses	Do not take competition into account; do not take the customer into account	Do not take the customer into account	Research data difficult to get and understand; may lead to high prices; need to take long-term profitability into account; customer value is not a well-known aspect but must be promoted to the customer
Overall evaluation	Weakest of the three approaches	Not the ideal option; can work for commodities where the product or service cannot be differentiated	Best approach; linked to the customers' needs and will eventually result in improved bottom-line for the business

- **Above, at or below competitors' prices:** with this approach, the business is trying to establish the price level, taking competitors' pricing structures into consideration. To set a price above the market price, it requires justifying the higher price in the customer's mind by means of better after-sales service, better quality or a better location. Pricing at the market price suggests that a company does not have a competitive advantage over its competitors' products, or it wants to avoid competing on price. Pricing below the market price is a way of increasing sales volumes in the hope that higher sales will compensate for lower margins.

Step 6: Set the list or quoted price

After all the factors mentioned in the previous sections have been considered, it is now necessary to determine the list price. In other words, this is the price at which the product or service will be sold to the intermediary or the final consumer.

THE PRICE OF A LOAF OF BREAD

Expenses make up 40% of the total cost of bread (this includes production cost of 15%, distribution cost of 15% and an administration cost of 7%). The raw materials used to produce a bread cost 60% (this includes flour which constitutes 48% of the cost, additional ingredients such as yeast, salt, etc., which costs 8% and packaging costs account for 4%).

Step 7: Make special adjustments

After the list price has been determined, the final fine-tuning or adjustments can be made. These adjustments are described below.

Allowances

To encourage intermediaries such as wholesalers and retailers to perform the functions mentioned earlier in this chapter, various allowances are extended to wholesalers and retailers, as well as the end-users who form part of the distribution channel. One allowance is a trade-in allowance, which is familiar to those who have had contact with vehicle, cell phone and industrial machinery businesses in South Africa. Many consumers have had the experience of having traded-in a well-kept car, where the price they receive is far below their expectations. Another form of allowance is a promotional allowance. This kind of allowance is used by the manufacturer to encourage intermediaries to carry and sell more products. The intermediary could also be given a cash allowance for advertising the product in the market in the specific location where it is operating.

Discounts

A common practice in the industrial and consumer product market is to offer a discount. The following types of discounts are used:[20]

- **Quantity discounts:** this is one way of encouraging customers to buy larger volumes. The popular method in South Africa is 'buy one and get one absolutely free' or 'buy two suits and get the cheaper one free'.
- **Cash discounts:** cash discounts are a straightforward encouragement to the customer to pay cash. This is a method used to improve the cash flow of the business. For example, the buyer who pays within 14 days may be offered a 5% cash discount.
- **Trade discounts:** these are discounts offered to the intermediaries to promote higher sales or to move slow-selling products.
- **Seasonal discounts:** these are given to retailers to encourage them to stock up on certain items before the season starts. A good example is collapsible Christmas trees that are seasonally discounted in September and October.

THE CHERRY-PICKING CUSTOMER[21]

Cherry pickers are defined as those customers who are extremely price-sensitive and visit different retail stores to pick the best-priced items. Research found that these cherry-picking customers not only save money but that the savings are enough to offset the time it takes to do the extra shopping. There were also a substantial number of shoppers who were intelligent and diligent enough to make cherry picking pay off.

This research has implications for retailers who are the targets of cherry pickers. The message is to not try and prevent cherry pickers from buying from the store and risk alienating customers; instead, try to entice cherry pickers into buying higher-margin items. An interesting fact is that cherry pickers visit more stores per day than other customers.

The rationale for cherry picking is explained by the researchers in the following manner: 'When people go cherry picking, two things happen: They double the number of discount opportunities that will be available to them because they go to two stores. And, because stores have deals on more than one item, that expands the opportunities for cherry pickers to save money. But even this in itself would not necessarily make cherry picking worth the effort of driving to more than one store. The second thing, the thing that really makes cherry picking worth it, is that these shoppers buy more items than other shoppers. To make cherry picking pay off, you have to buy a lot of stuff. Cherry pickers understand that they need to increase economies of scale to take advantage of the discounts available. They plan in advance to buy a lot.'

Geographical adjustments

Prices may differ based on geographical distance. In Durban, for example, the price of unleaded petrol is a few cents lower than in the Gauteng area. The price of the same petrol in North-West is even higher than in the Gauteng area.

Step 8: Determine the final price

Once the list price has been adjusted to accommodate allowances, discounts and geographical allowances, the final price for the product or service has been determined.

CASE STUDY: THE IMPACT OF CARTELS ON THE PRICE OF BREAD[22]

The Competition Tribunal levied a fine of R195.7 million on Pioneer Foods which was the last remaining member of the bread cartel. The initial four members of this cartel were:

- Tiger Brands. which uses the brand name Albany.
- Foodcorp, which uses the brand name Sunbake.
- Premier, which uses the brand name Blue Ribbon.
- Pioneer, which has two brands' namely Sasko and Duens.

These four members controlled 60% of the total bread market in South Africa. Premier was the first member of the cartel to ask for leniency. Premier shared additional information that implicated Tiger, Foodcorp and Pioneer. For this information, Premier was excused from having to pay penalties in 2007. Tiger also secured an amnesty and acknowledged its role in the cartel and paid a fine of R98.9 million. In January 2009, Foodcorp followed the same route and paid a fine of R45 million.

Pioneer was therefore the only member prepared to argue the case in court. Pioneer lost the case and was fined the maximum fine, namely 10% of turnover, resulting in a fine of R195.7 million.

The Competition Board's opinion was that this cartel was responsible for higher prices of this staple food, resulting in less consumer freedom of choice and inferior customer service.

In November 2010, the Competition Tribunal accepted a Pioneer Foods offer of R855.7 million to settle all outstanding allegations of collusion and price-fixing against the corporation, meaning that Pioneer paid almost R1 billion in fines.[23]

These high-profile victories by the Competition Board against cartels in the bread, construction and other sectors, have left most companies hesitant on what type of collaboration is allowed in South Africa between members of the industry. In fact it is sometimes necessary to conduct legitimate collaboration between competitors, which enhances industry efficiency in total. The sharing of data regarding procurement, health and safety issues and overall manufacturing capacity for instance, is seen as neutral information that benefits the whole industry. However, no-go areas that can be defined as illegitimate, could include information sharing between competitors regarding sales and production targets, business strategy, pricing, costs, rebates, discounts and customer information.[24]

EXERCISE

1. Read the section in this chapter on pricing constraints, and state the factors that should have played a role in determining the price of bread, if the cartel was not in operation.
2. What type of competitive situation was occurring during the time of the bread cartel in South Africa?
3. Explain the cost volume and profit relationship for the bread market under the cartel setup.
4. Was there any effect on the demand and supply situation in the market during the period discussed above? Explain your answer.
5. Did the manufacturers of bread embark on a strategy to ensure price stability in the market?
6. What type of information can the bread manufacturers share that would not lead to accusations of cartel-forming?

Summary

The four decision-making areas that have influenced marketing decisions have been discussed in isolation. All four marketing instruments must now be combined in a single strategy so that one decision supports and reinforces the others. It would serve no purpose, for example, to decide on a price that potential customers are willing to pay, that covers costs and delivers a handsome profit, if the product is not available in the stores, or if the marketing communication message gives incorrect details. In Chapter 11, you will learn about the combination of the four marketing instruments into a marketing strategy that must be planned, implemented and controlled.

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CHAPTER 9

MARKETING COMMUNICATION DECISIONS

LEARNING OUTCOMES

After studying this chapter you should be able to:

- show how integrated marketing communication (IMC) can help develop the optimal marketing communication mix for the organisation
- explain the steps in the integrated marketing communication campaign
- advise on the budgeting techniques that must be used in this process
- design an advertising campaign
- explain the role and types of direct marketing
- describe the personal selling process
- explain the types of sales promotions
- describe public relations and publicity.

Introduction

We live in a society where communication is of the utmost importance and where dramatic changes are occurring in communications technology. In our daily life we see the influence of the communication revolution – we have cell phones, the Internet and television which connect us to the rest of the world. This communication equipment links us with the global village where something is happening every minute of the day. We can share in the tragedies and triumphs of the world when we are able to watch wars in the Middle East, famine in Africa or the FIFA Soccer World Cup from the comfort of our own living rooms. The business world also communicates with its external markets – which in most cases, is the ordinary consumer. This is called its promotion or marketing communication and can be defined as the communication by marketers that informs, persuades, and reminds potential buyers of a product or service in order to positively influence their opinion and to get them to respond.[1]

Let's take a closer look at the key words of this definition.

- Marketers must inform the potential customer about the availability of the product or service. Most of us have viewed with interest, the promotional material used to promote the new flat screens, which replaced the old television sets. This promotional material is the effort by the manufacturers to inform us (the potential target market) about the advantages of this technology and also to tell us where the product can be bought. An example is the launch of the 'Share a Coke' campaign of Coca-Cola in South Africa where, *inter alia*, television and printed advertisements were used.
- Persuasion is a vital component of most marketing communication with the customer or target markets. Coca-Cola's 'Share a Coke' campaign persuaded consumers to buy the soft drink in hopes that they would find their name on a Coca-Cola bottle or can. The campaign started with 600 of the most popular names in South Africa appearing on 550 ml Coke bottles and 330 ml cans. The campaign started in late November 2013 and by December 2013, Coca-Cola South Africa grew as a business in volume by more than 9%.[2]
- Customers tend to forget marketing communication messages. This is why marketers must remind potential customers about their products and services. Do you remember the last Berocca advertisement? Berocca, a Vitamin-B Complex product, was advertised with the following message: 'Be ready, be sharp, be somebody – Berocca.' The advertisement has had numerous advertisements based around this product, with the businessman or athlete running ahead of the train being one of them. This was done so that customers would be continually reminded to buy and use Berocca.

Integrated marketing communication

In order to develop the optimal marketing communication message to an organisation's customers, the organisation must optimise the various communication instruments at its disposal. To this end, it is important to obtain integrated marketing communication (IMC). Integrated marketing communications can be described as the process of planning marketing communications, which acknowledges the importance of a comprehensive plan that evaluates the strategic use of the variety of communication disciplines. For our purposes, these disciplines include: advertising, direct marketing, personal selling, sales promotion, public relations and publicity. These disciplines are combined to obtain clarity, consistency and maximum communications impact.[3] The IMC process, depicted in Figure 9.1 on the next page, is necessary to obtain synergy in the effort to communicate with the customer.

Review the marketing plan and objectives

The marketing plan will give an indication as to where the company has been, its current market position, where it intends to go and how it plans to get there. This information is vital for developing an integrated marketing communication programme.

As you can see in Figure 9.1, the whole IMC process starts with the review of the marketing plan and objectives. Coca-Cola's marketing objective for the 'Share a Coke' campaign could for instance be: to have an increase of 10% in purchases of Coke by the end of 2014.

Set marketing communication objectives

The marketing communication objectives should support the marketing objectives set above. They should be clear, specific and achievable. Objectives could be aimed at *inter alia*, creating awareness of a product, building positive images of products in people's minds or at keeping customers.

Figure 9.1 *The IMC process*

The marketing communication objectives of the 'Share a Coke' campaign were to persuade the target audience to increase consumption of Coca-Cola over the summer period and to get people talking about it again. The marketing communication objectives could be formulated as 'To increase the preference for the "Share a Coke" products in age groups 12 to 24'.

Identify the target audience

In order to design an effective marketing communication campaign, the marketer should have a definite target audience in mind. The target market selected will influence decisions regarding what will be said in the marketing communication elements, how it will be said, when it will be said, where it will be said and who will say it.[4]

Determine the marketing communications budget

The budget to attain the set objectives is a very important part of the IMC process. There are two basic sets of budgeting techniques that can be used, the one is judgement-based and the other is data-driven. Table 9.1 below summarises these two categories of budgeting.

The judgement-based techniques include the following:

- The percentage-of-sales method is one of the easiest to use. It is based on a certain fixed percentage of sales of the previous year. The argument is that communication is a cost and should be directly related to the turnover or sales of the business for the previous period.

***Table 9.1** Different types of IMC budgeting techniques*[5]

JUDGEMENT-BASED TECHNIQUES	DATA-DRIVEN TECHNIQUES
1. Percentage-of-sales method	**1.** Objective-and-task method
2. Units-sold method	**2.** Competitive-parity method
3. All-that-we-can-afford method	**3.** Experimentation-and-testing method
4. Arbitrary allocation	**4.** Modelling-and-simulation method

- The units-sold method uses experience and historical figures to determine the amount of communication money that is needed to sell one unit of product. For instance, if you have sold 1 000 units of the product the previous year, and you spent R10 000 on promoting the product, you can deduce that an average of R10 is spent on promoting and selling one unit. Therefore, should you want to sell 20 000 units in the current year, you would need to spend R200 000 on marketing communications.
- The all-that-we-can-afford method is used by top management which decides what the organisation can afford to spend on promotion per year. This is based upon historical figures.
- Arbitrary allocation is similar to the all-we-can-afford method in that top management decides, without any information, or without any reason why, an amount is budgeted for.

The data-driven budget techniques include the following:

- The objective-and-task method starts with the communication objectives. If the objective is to increase sales by 10% in the 65+ year old category of people living in homes for the elderly, then the company must ascertain what communication media it will use to get exposure to this group of people. It could be that personal selling is the best communication method, which means that the organisation must employ a salesforce of ten people, which will cost an average of R200 000 per salesperson per year. This means that the communication budget would be R2 million for the year.

- The competitive-parity method uses data obtained from sources about what the competition is spending on promotion and the organisation then follows with the same budgeted amount.
- The experimentation-and-testing method is where the organisation experiments in the market and monitors the results. If, for instance, the company spends R500 000 and gets sales of 1 000 units, they know that they must spend more in the next period to increase sales.
- The modelling-and-simulation method uses sophisticated computer programming to predict 'what-if' scenarios. This kind of method is used by larger organisations in South Africa.

Select the marketing communication elements

The company must distribute the marketing communication budget among the marketing communication elements chosen. The elements which the company can use for its promotion are advertising, sales promotion, direct marketing, personal selling and publicity or public relations.

Companies can choose one of two marketing communication mix strategies – a push strategy or a pull strategy.[6] These two strategies are illustrated in Figure 9.2 below. With a push strategy, the product is pushed through the distribution channel to final consumers. The manufacturer directs its marketing activities at channel members to induce them to carry the product and to promote it to final consumers.

When using a pull strategy, the manufacturer directs its marketing activities at final consumers to convince them to purchase the product. If the strategy is effective, consumers will demand the product from distribution channel members and they will demand it from the manufacturers. Consumer demand will therefore 'pull' the product through the channel.

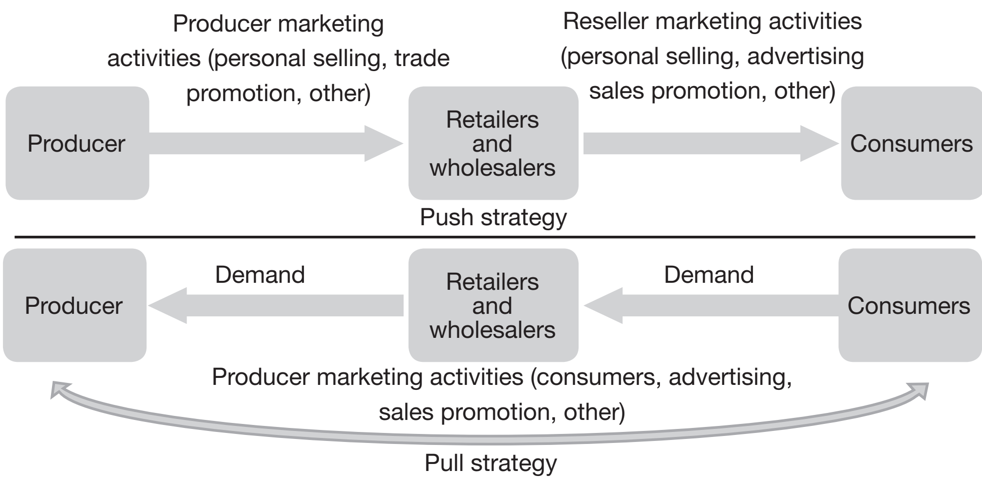

***Figure 9.2** Push and pull strategies*[7]

The particular marketing communication mix chosen by a company depends on a number of factors.

Nature of the product

Personal selling is used more than the other marketing communication elements for industrial products, because salespeople must explain and demonstrate the operation of products and answer the customers' questions. Because consumer products are not custom-made, they do not require the selling efforts of a salesperson and advertising is thus used mainly for consumer products to create brand familiarity. Personal selling is generally used more for expensive products and products which involve more perceived risk.

Product life-cycle stage

Marketers also have to consider the product's life-cycle stage when deciding on the marketing communication mix. In the introduction stage, advertising and public relations are used for making consumers aware of the product, while sales promotion is used to convince consumers to try the product. Personal selling is used to induce the trade to carry the product. In the growth stage, advertising and public relations should still be used, but sales can be reduced because fewer incentives are needed. During the maturity stage, sales promotion becomes more important than advertising, since consumers already know the brand and need only be reminded about it through advertising. During the decline stage of the product life cycle, advertising should be reduced, but personal selling and sales promotion can be continued at retail level.

The target market

Companies marketing to household consumers should use different marketing communication methods to those marketing to organisational consumers. Where household consumers are concerned, advertising is more important since these consumers do not go through a formal buying process; it is relatively easy to identify the decision-maker for a product and because of the self-service nature of the products. Personal selling plays a larger role when selling to organisational customers.[8]

The marketing communication elements chosen also depend on the type of consumer buying decision. For routine decisions, such as buying toothpaste, advertising and sales promotion are used to draw attention to the brand (for example Colgate), or to remind the consumer about the brand. For complex decisions, such as buying a motor vehicle, personal selling is used, since consumers depend on the salesperson to provide them with information and to reach a decision.

A target audience with widely-scattered potential customers, highly informed buyers and brand-loyal customers require more advertising and sales promotion, and less personal selling. When products are sold in markets where potential customers are difficult to locate, print advertising can be used to reach them. Potential customers can be invited to call for more information, and salespeople are then sent to visit them.[9]

Budget factors

The money available for marketing communication will greatly determine the marketing communication elements selected for a campaign. A company that is not strong financially will have to concentrate only on certain marketing communication elements, for example free publicity. Television advertising is very expensive and will therefore not be an option for a smaller company.

Implement the marketing communication campaign

The specifics of the campaign now have to be spelt out, such as the media to use, the expenditure and time schedules. All these specifics must then be assigned to specific people who will take responsibility for the different tasks, for example an advertising agency or a public relations consultant. The campaign can then be implemented.

Monitor, evaluate and control

In the final stage of the integrated marketing communication process, it is essential to establish how well the campaign is meeting the marketing communication objectives and helping the company to accomplish its overall marketing objectives. It is important to not only determine how well the campaign is doing, but to also determine why it is doing well or not. The reasons for the results are important in order to be able to take corrective steps.

In the following sections you will learn about the different marketing communication elements.

Advertising

Advertising is the most visible part of marketing communication and is seen as the communication instrument which can deliver the communication message to the largest number of customers (a mass communication method).

ADVERTISING

Advertising can be defined as the non-personal presentation and promotion of ideas, products and services by a sponsor that can be identified and who has paid for this communication. Looking at this definition, we see the following key characteristics of advertising:

1. Non-personal presentation implies that advertising is not one-on-one, personal communication. It is a mass-media communication method. Examples of mass-media communication can be seen on television, in newspapers and heard on the radio.
2. The second key aspect that is mentioned is the promotion of ideas, services and products. Advertising can be used to promote more than just physical products. It can, for example, be used to promote the buying of South African products, for example the 'Buy South Africa Campaign'. Advertising can also be used, for example, to promote the services of a dry cleaner in the local newspaper, or to promote the sale of KWV wines on television.

3. The third aspect is the identifiable sponsor. Advertising is tied to a person or organisation that is sponsoring the advertisement. In most cases, this makes sense. Why, for example, would a company advertise a product, without telling the customer where he or she can buy it?
4. The last aspect of the definition is payment. There is always a sponsor who is prepared to pay money to promote a product or service.

Types of advertising

There are different types of advertising that can be used by a company. Product advertising promotes the benefits of a specific branded product or service. Every time we see a television advertisement promoting the Toyota Hilux or the Davis Cup tennis, we see product advertising in action. The product or service's stage in the life cycle will influence the specific type of product or service advertising that will be used. We know that traditionally, a product or service moves through four phases in the life cycle; namely the introductory, the growth, the maturity and the decline phase. For each phase, a different form of advertising can be used, for example in the introduction phase – pioneering advertising, in the growth phase – competitive advertising, and in the maturity phase – comparative advertising.

- **Pioneer advertising** is used to promote the use of a new product or service. When cell phones were first introduced in South Africa, this form of advertising was used to promote the use of this product and the services related to it.
- **Competitive advertising** is used when the product or service enters the growth phase in its life cycle and competitors enter the market. When the organisation realises that there is now a threat to its product, it starts building demand for its own brand. The main objective is to get brand recall for the brand, for example Kia Picanto cars, not just cars in general. Look at the following Virgin Mobile cell phone advertisement below, which is a good example of competitive advertising. Virgin was a late entrant in the cell phone market and has to compete for subscriptions against established competitors such as Vodacom, MTN and Cell C.

Figure 9.3 *Scenes from Virgin Money advertisements*

- **Comparative advertising** is used by the organisation when two or more products are compared in an advertisement and the message is usually that the one product or brand is better than the other. This type of advertisement is used extensively in countries such as the USA, but is prohibited in South Africa. The nearest to comparative advertising that we see in South Africa, is where one motor company will compare its product with its major counterparts. The brand names of the two competitors are not spelt out but the audience can draw their own conclusions as to which competitors are being referred. Factors such as price, engine capacity and added features such as assisted braking, airbags, etc. are compared in the advertisement.
- **Reminder adversting** is one other form of advertising also used in the maturity phase of the product. This type of advertising is used on a regular basis by the organisation to remind the customer that the product is still available. One of the best examples of reminder advertising is the Cremora advertisement that was flighted for several years with the same message: 'Cremora – it's not inside, it's on top'.
- **Institutional advertising** is used to promote an idea or the corporation as a whole. When the South African Blood Transfusion Service urges people to donate blood, it is seen as institutional advertising. It is promoting the idea that people must donate blood because of the decline in reserves during the holiday season. Another form of institutional advertising is where the corporation advertises to enhance their corporate image. The Pick n Pay group of supermarkets did this after it had a poisoned goods scare some years ago. This was done to thank the customers who had stayed loyal to them and to promote the overall image of Pick n Pay.

Steps in the advertising campaign

There are nine steps that must be followed in the management of an advertising campaign. Figure 9.4 provides a schematic presentation of the management of the advertising campaign.

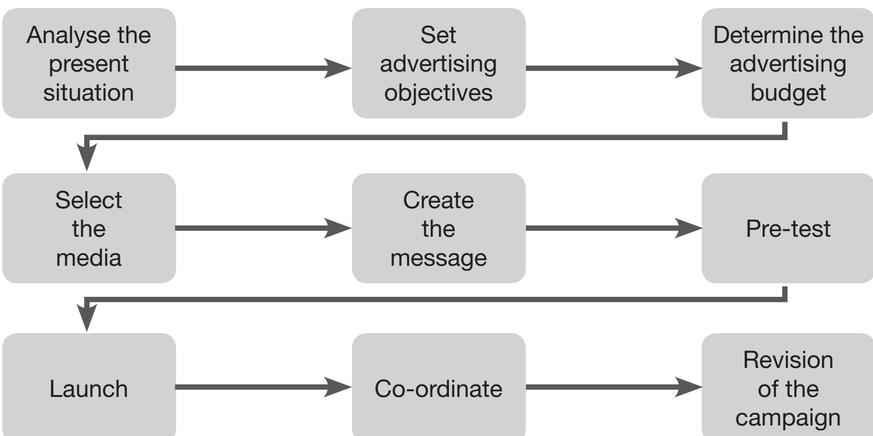

Figure 9.4 *Managing an advertising campaign*

Analyse the present situation

Analysing the situation in which the organisation operates forms part of the environmental scanning process that must be done continuously. In this analysis, the broad market environment must be scanned and specific attention must be focused on competitors. What is of real importance is to understand who the customers are that use the product, their preferences, reasons for buying or for not buying the product, etc. Competitors must also be scrutinised. The organisation must examine their products and services, as well as their advertising campaigns. The organisation's products or services must also be investigated to see where the weaknesses are and to identify the competitive advantage(s).

Set the advertising objectives

An advertising objective must have a specific communication task, that is, it must be aimed at a specific target market for a specific time period. The advertising objective may be to increase awareness of the organisation's product from the present 10% to 20% by the end of the financial year. This could mean a situation where a product is currently unknown, and success could be one in five people in the designated target market knowing about the product.

Set the advertising budget

As mentioned above, various methods may be used to determine the amount of money that will be spent on the advertising campaign.

Select the media

In order to select the advertising media, four steps should be followed.[10]

1. **Decide on the reach, frequency and impact:** decisions must first of all be made, regarding the reach and frequency required to achieve the advertising objectives. Reach refers to the number of different target consumers who are exposed to an advertisement at least once during a specific period, usually four weeks.[11] Reach is usually emphasised when companies are introducing a new product or when it wants to increase brand awareness. Frequency is a measure of how many times the average person in the target market is exposed to the advertising message. Impact is the impression made on the audience by the advertising message. High impact can be reached by using bright colours and large sizes. The more reach, frequency and impact the company wants to achieve, the higher the advertising budget will have to be.
2. **Choose among the major media types:** there are different types of advertising media that may be used. The basic media alternatives are:
   - **Printed media:** examples of printed media are newspapers, magazines and billboards.
   - **Audio-visual media:** an example of this is television which is used by a number of large organisations. Radio and cinema are other examples of this type of media and are usually used by small- and medium-sized organisations. Radio

is used specifically by small and medium organisations where the regional stations provide enough focus to reach its potential audience. Another example of audio-visual media is the Internet, which has a more limited market reach because fewer people can access it.

The advantages and disadvantages of the major media types are indicated in Table 9.2 eblow. The type of media which the target market prefers, the nature of the product, the cost of the medium and the type of message will greatly determine the media chosen.

***Table 9.2** Advantages and disadvantages of different types of media*[12]

MEDIA	ADVANTAGES	DISADVANTAGES
Television	Mass coverage High reach Impact of sight, sound and motion High prestige Low cost per exposure Attention-grabbing Favourable image	Low selectivity Short message life High absolute cost High production costs Clutter
Radio	Local coverage Low cost High frequency Flexible Low production costs Well-segmented audience	Audio only Clutter Low attention grabbing Fleeting message
Magazines	Segmentation potential Quality reproduction High information content Longevity Multiple readers	Long lead time for ad placement Visuals only Lack of flexibility
Newspapers	High coverage Low cost Short lead time for placing ads Ads can be placed in interest sections Timely or current Reader controls exposure Can be used for coupons	Short life Clutter Low attention-grabbing capabilities Poor reproduction quality Selective reader exposure
Outdoor	Location-specific High repetition Easily noticed	Short exposure time requires short ad Local restrictions
Internet and interactive media	User selects product information User attention and involvement Interactive relationship Direct selling potential Flexible message platform	Crowded access Technology limitations Few valid measurement techniques Limited reach

3. **Select specific media vehicles:** once the major media type has been chosen, the advertiser must choose specific media within each general media type, for example, a specific radio programme, television show or magazine. If, for example, a clothing company has chosen women's magazines as a medium for their advertisement, they must choose a specific magazine, such as Fair Lady or Femina. Some of the media that was used in the 'Share a Coke' campaign are digital display, television, cinema, print and radio advertising. Companies should determine the cost per thousand persons reached by the different vehicles and select those with the lower cost per thousand for reaching the target market.
4. **Decide on media scheduling:** the next step is for advertisers to draw up a media schedule. A media schedule indicates the medium to be used (for example, magazine or television), the specific vehicle chosen (for example, Car magazine or Carte Blanche television show), and the dates on which the advertisements will appear in these vehicles. The following different types of media schedules can be drawn up:[13]
   - **Continuous media schedule**, where the advertisement runs steadily throughout the advertising period. This usually applies to reminder advertising, for example advertisements for Coca-Cola.
   - **Flighted media schedule**, where the advertiser must schedule the advertisements heavily every other month, or every two weeks to achieve more impact with an increased frequency and reach at those times.
   - **Pulsing media schedule**, which combines the continuous and flighted media schedules. Here, advertising is heavier during the best sales periods. For instance, Waltons might advertise their stationery right throughout the year, but advertise more heavily during the holidays, just before school starts again.
   - **Seasonal media schedule**, where products are advertised only during certain seasons. Nivea sunscreens are for instance, advertised during the summer.

Create the message

Different approaches are used by advertisers to create a message which will relate to the target market and be memorable enough to overcome the many barriers that consumers nowadays employ to screen out advertising messages. Some of these approaches are:

- **Rational approach:** this approach uses facts so that the consumer can obtain an objective and factual account of what the product or service can do for them. An advertisement for the Toyota Fortuner in which it is stated that this specific model is an investment, and that the resale value is guaranteed to be the same after a three-year period, is an example of a rational approach.
- **Emotional approach:** a mood is created for an emotional appeal, such as a romantic setting with candlelight and roses for a jewellery advertisement. The 'Share a Coke' campaign made use of a television advertisement, namely 'Share a Coke with Bobby' in which a dog interacts with many people during a search for his own name.

- **Humorous approach:** this type of approach is a favourite of many advertisers. 'Red Bull gives you wings' is an example of a humorous approach. Another organisation that follows this approach is kulula.com, the no-frills airline. Their pay-off line is, 'Now anyone can fly'.
- **Fear-inducing approach:** this approach is used to show customers what the negative effects are of using certain products. The Road and Safety campaign used scare-tactics to drive home the message that you must not drink-and-drive, that you must take rest-breaks and be careful to avoid pedestrians on South African roads. Another example of the fear-inducing approach is the anti-smoking campaign where advertisements are used which show the negative effects of smoking.
- **A slice-of-life approach:** this type of advertisement makes an appeal to which everybody in the same situation can relate. The advertisement where the little girl helps her mom prepare dinner, but the dinner lands up a complete mess on the floor is a good example here. Her mom then saves the day by buying KFC and says that she bought the food because her daughter needed the night off from cooking.

A fantasy approach: this approach uses extreme exaggeration. Story-book characters, people from outer space and monsters are used to create a fantasy approach. The advertisement draws attention, but sometimes falls outside the background of the receiver. It can thus be interpreted incorrectly. The Lehning shampoo advertisement in Figure 9.5 is a good example of this approach:

Figure 9.5 *Lehning shampoo – a fictional tree with hair*

- **Testimonial approach:** an important personality is used to deliver the message. An ordinary person can be used at a lower cost, as long as the receiver perceives this person to be an expert on a specific topic. An example of such an expert could be a doctor who testifies about the positive results of a well-known headache tablet.
- **Slogans and jingles:** these are unique approaches with high impact. The word 'slogan' means 'battle cry'. A slogan sums up the approach in a single sentence, giving the reason why a product is better than its competitors. Successful and innovative slogans become common knowledge. If possible, the name of the product or service must be part of the slogan. A slogan is often set to music, resulting in a jingle which will allow potential customers to sing along. Well-known examples are 'Everything keeps going right, Toyota' and 'Them Stones, them Stones, them Firestones'.

Pre-test the advertising campaign

In most cases, advertisements must be pre-tested to determine if the message is clearly understood and will result in getting the anticipated results. A panel of potential customers is selected and their reaction toward the advertisement is evaluated.

Different types of pre-tests can be used.[14] In a portfolio test, participants are given a portfolio which contains the advertisement and other advertisements. They are then asked questions, such as whether the advertisement was informative, or memorable. A jury test can also be used where a panel of consumers view the advertisements and they then rate it according to how attractive and informative it was and how successfully it caught their attention. Sometimes major problems regarding cultural interpretation can be circumvented in the pre-testing stage.

Launch the advertising campaign

The advertising campaign is planned with a certain due date in mind. If a new product is launched, close co-ordination between the manufacturing and marketing sections are needed to ensure that the organisation can fulfil the demand created by the advertising campaign.

Co-ordinate the advertising campaign

The advertising campaign must be co-ordinated via an internal marketing campaign so that all the employees are aware of what the message states and what is expected of them.

Review the campaign

The problem with advertisements is that it is difficult to ascertain if the advertising campaign reached the stated objectives. Questions such as: 'Did we get 10% more people buying the product?' must be answered. Usually marketing research needs to be done to ascertain if the stated objectives were reached.

The following types of post-tests can be used:[15]

- **Aided recall:** consumers are shown an advertisement and then asked certain questions, for example 'Where have you seen it in the past?' and 'Was it something you read, heard or saw?'
- **Unaided recall:** consumers are asked what advertisements they saw recently, for example 'What is the most outstanding television advertisement you have seen in the last month?'
- **Attitude tests:** these tests measure how effective an advertisement is in creating favourable attitudes towards a product, service or company. Consumers can be asked to rate a company and its products and services relative to competitors.
- **Inquiry tests:** these tests determine how an advertisement affects consumers' buying behaviour. Coupons, samples or a telephone number one can phone to get free information are included in the advertisement, and the number of enquiries that result, is used to determine the effectiveness of the advertisement.
- **Sales tests:** these tests are done to determine how the advertisement has influenced sales. Marketers can for instance, compare the sales reached in the old advertising campaign, with the sales reached in the new advertising campaign.

The results of the post-test can be used to revise the advertising campaign. If for instance the tests show that the advertising message was misunderstood by a large percentage of the target market, the advertisement should be changed.

Direct marketing

Direct marketing is another communication alternative that can be used.

> **DIRECT MARKETING**
> Direct marketing is defined as a two-way process that uses one or more advertising options (for example direct mail, telephone or Internet) to obtain a measurable reply from the customer.[16]

Analysing the definition, we can describe the focus of direct marketing as follows:

- **Two-way process:** direct marketing is an interactive process, where two parties are involved, namely a supplier and a customer.
- **Measurable reply:** direct marketing aims at customers to react to a proposal, for example, to send in order forms by mail or by means of the Internet, or by making phone calls in response to invitations and offers.
- **Databases:** databases are constructed to keep records of all the active clients.
- **Overall strategy:** direct marketing must be seen as part of an overall marketing communications strategy.

Some of the best examples of direct marketers in South Africa are Verimark and Glomail. Both these institutions have developed a long-term, sustainable, competitive advantage with direct marketing being the cornerstone of their activities.

VERIMARK – DIRECT MARKETING'S SUCCESS STORY IN SOUTH AFRICA[17]

Verimark started out in 1977. Its aim is to source the best products in the houseware, health and fitness, do-it-yourself, automotive and cosmetic ranges. The business model of Verimark works in the following way:

1. **Direct marketing especially Direct Response Television (DRTV):** Verimark is one of the largest buyers of airtime on television in southern Africa. These advertisements can usually be seen late at night and early in the mornings, with Saturdays and Sundays as the best days to see these advertisements.
2. **Stocking products in the retail sector's chain stores** Verimark's products are placed on special shelves, so that a shop-within-a-shop is created. Products are stocked in more than 2 000 chain stores. Hyperama, Game and Pick n Pay have these products in their stores.
3. **Company-owned and franchised stores** There are currently 81 'As seen on TV' stores in shopping centres in South Africa.
4. Verimark participates in international consumer and trade shows to broaden their exposure to the market.
5. Verimark also uses Internet and database marketing aimed at a specific target market which they have on their database.

The benefits of direct marketing for the customer can be seen when customers can do business from the comfort of their homes, therefore resulting in greater shopping convenience and getting a higher quality of service, which is an advantage for people afraid of the possibility of crime. Furthermore, it helps to encourage a cashless society, since debit and credit cards are used.

The benefits for the direct marketer are found in the fact that a long-term relationship can be built with the customer, the message can be directed at a specific customer, a database can be developed and results can be precisely measured. There are various direct marketing methods that can be used. Figure 9.6 below summarises the alternatives.

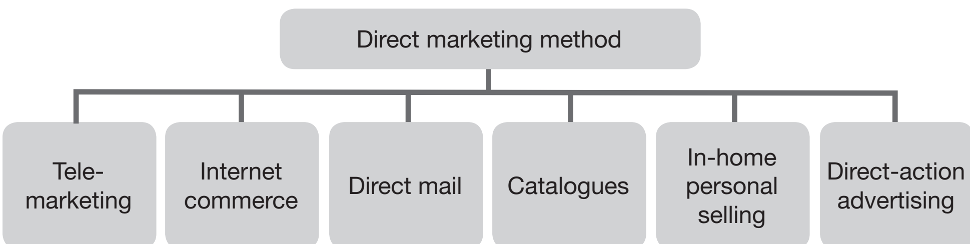

Figure 9.6 *Direct marketing methods*

- Telemarketing is marketing done via the telephone. Inbound telemarketing occurs when the customer makes the call in response to the direct marketer's advertisement on television. Outbound telemarketing originates from the marketer where the operator calls the customer. Cell phone and time-share companies often make use of this method.

- Direct mail makes use of the postal service or private delivery organisations to deliver the product or message to the customer. It usually contains a specially-designed despatch envelope, a letter, a brochure, a response aid (coupon or reply-paid envelope), and an incentive to respond quickly.
- The catalogue is one of the older direct marketing techniques. A wide range of products can be ordered from catalogues. Today, many companies also display their catalogues on the Internet.
- Direct-action/response advertising is used extensively by Verimark. Mass media is used (for example, television and newspapers), and customers react by phoning a toll-free number. More recent variations are shows, direct mail and direct sales points inside chain stores and self-standing stores.
- Internet commerce is a newer form of interactive electronic media. Every computer terminal that is linked, can be used and payment is done by using a debit or credit card. Plane tickets, Internet banking and the purchase of almost any product is possible through the Internet.
- In-home personal selling is also in the declining phase of its life cycle. One of the best examples is the 'so-called' Tupperware parties that are held at a person's home, where friends and neighbours are invited to attend. Miglio and Honey jewellery is also sold in this way.

Personal selling

Personal selling can be described as one-to-one personal communication between the organisation (through its representatives) and the customer, so as to convince the customer to purchase the product or service of the organisation.

Looking at this description, we can identify the following key aspects:

- Personal selling is face-to-face communication.
- There are higher costs involved in reaching the customer than with some of the other communication media.
- There is usually a greater impact on the customer since the customer is directly confronted by the salesperson selling the product or service.
- There is flexible communication in that the salesperson can adjust his or her message to provide additional information and/or to overcome objections of the customer.
- Certain products, such as expensive durable products (for example, a car or furniture), actually require the services of a salesperson to secure the sale.

Types of salespeople

Three types of salespeople can be identified, namely:

- **Order-getters** who prospect for new customers. To illustrate this we can look at the sales representative of a paint company in Gauteng. He will visit new hardware shops in order to try and get the owner to buy paint from the company. By performing this activity, the salesperson generates new orders.

- **Order takers** are salespeople that, to use the paint example again, visit existing customers (hardware shops) in order to see if they want to purchase another order of paint from the company. These salespeople are interested in repeat sales from the existing customers.
- **Support personnel** are salespeople who supply administrative support to the order-getters and order-takers. Still using the paint example, we may classify the technical person that provides advice on the toll-free number to retailers and to the final customers as an example of support personnel.

Steps in the personal selling process

There are six basic steps that can be identified in the personal selling process:

1. **Prospecting for customers:** the focus is to identify new customers or organisations, or existing customers that are on the customer database. Salespeople should use as many leads as possible. They can get referrals from other customers or use referral sources such as suppliers or dealers. They can also get the names from newspapers or directories. Once the salespeople have identified the leads, they should qualify them, in other words identify the good ones and eliminate the poor ones. Qualifying factors to consider include financial ability, location, possibilities for growth, etc.
2. **Preparation for the sale:** before the salesperson will go on to visit the customer, he or she must first obtain enough information about the customer or organisation and its buyers in order to understand the needs of the customer. Doing this will enhance the chances of the salesperson to make a sale.
3. **Presentation:** the salesperson should know how to greet the buyer and get the relationship off to a good start. The appearance of the salesperson is also very important. The presentation is the foundation of the sale. The salesperson must stimulate interest. He or she may use the technique of being a problem solver – for instance, by concentrating on the needs of the do-it-yourself market. The salesperson may demonstrate to the hardware owner, ways to clean rollers and paint-brushes, which would make it easier to sell the new non-toxic thinners product that he or she is marketing. This can be done by a physical demonstration of the product. When buyers can see or handle the product, they remember it better.
4. **Handling objections:** there are usually objections raised by the prospective buyer, and salespeople need to be trained with regard to handling objections. A generic objection, for instance, is that the price of the product is too high. A good salesperson will anticipate this type of objection and counter the objection by referring to the new revolutionary benefits of the product, for example, non-toxic, no-fumes and so on.
5. **Closing the sale:** it is important that the customers are reassured that they are making the right decision in buying the product. The paint salesperson may for instance, close the sale by asking for a delivery date. If the answer is positive and

a delivery date is agreed upon, the sales transaction is closed. There are many other methods to close a sale, for instance the salesperson can ask for the order, offer to help write up the order, ask which particular model the buyer would like, or indicate that the buyer will lose out if he or she does not buy now.

6. **Follow-up:** the importance of following up on a sale cannot be over-emphasised. The salesperson must ensure that the customer is happy with the product. This can be done, for instance, by phoning or calling on the customer after a few weeks to enquire whether or not the customer is satisfied with the performance of the product. This will increase goodwill towards the company and provide an opportunity to prevent major dissatisfaction, which could destroy the long-term relationship with the customer. Following up helps to maintain customer loyalty, generate repeat sales and also helps to sell additional products or services to the same customer.

SALES PROMOTION

Sales promotion can be defined as: 'The direct encouragement or incentive to the sales force of the organisation, the distribution channel members or the consumer, with the objective of ultimately creating an immediate sale'.[18]

From this definition, we can identify certain key elements, namely:

- Sales promotion is a short-term communication tool to help promote the organisation's products and services. Sales promotions can therefore not change the customer's buying behaviour over the long term.
- Sales promotions work in a complementary way to the other marketing communication tools such as advertising and personal selling, to get customers to buy the product or service. Sales promotion on its own will not be able to obtain the overall promotion objectives of the organisation.
- Sales promotions generally create a positive customer attitude because the perception is created that the customer gets a present. One of the best examples of sales promotions is the discount coupon that you receive, for example the Edgars voucher, which states that you will get R150 discount on sales of at least R500.

Types of sales promotions

There are three different types of sales promotions, namely:

- sales promotions aimed at the final customer
- sales promotions aimed at the distribution channel members, also called trade promotions
- sales-force promotions aimed at the salespeople of the organisation doing the personal selling.

The different types and examples of each are depicted in Figure 9.7 on the next page.

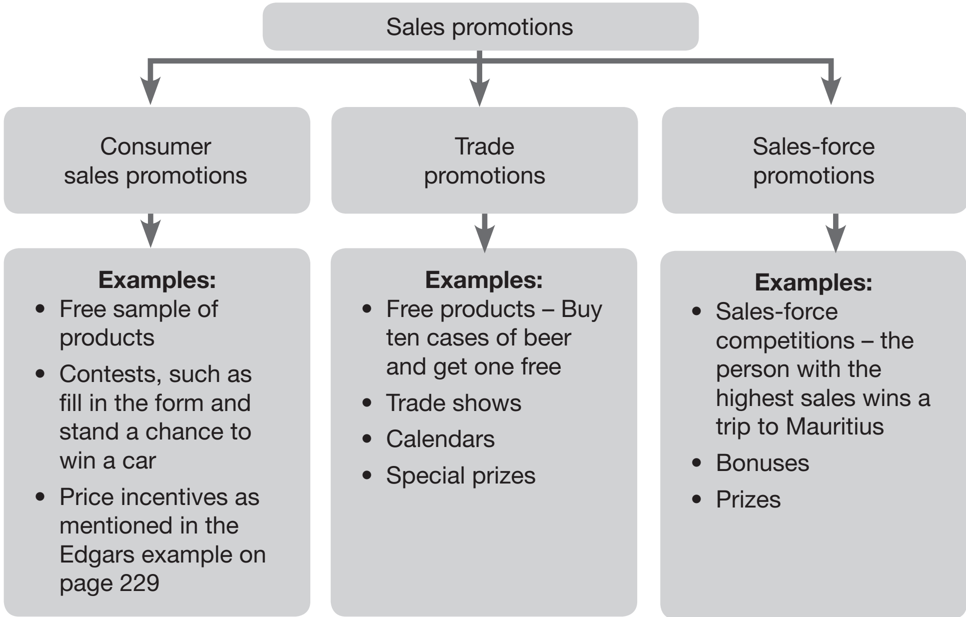

Figure 9.7 *The three types of sales promotions*

- **Consumer sales promotions** are seen as an aid to getting a specific response from the consumers, for instance, getting them to buy a certain brand of washing powder. It can also help to counteract promotion campaigns of the competition. If the competition advertises strongly on television that their brand is the cheapest, an organisation may react by launching a sales promotion campaign in which they hand out free samples of the product to show people how good their product is.
- **Trade promotions** are used to get the distribution channel members, for instance, the wholesalers and retailers, to buy large quantities and to sell these products to the customers. A sales contest can be launched aimed at the different retailers selling the product, where the first prize is a trip to Mauritius for the store manager whose store sells most of the product.
- **Sales-force promotions** are aimed at the salespeople of the organisation as a means of encouraging them to sell more of the organisation's product to the intermediaries and the final customer. Sales conventions are held where salespeople are motivated to sell more. This is further linked to a contest to determine the salesperson who sold the most during the previous financial year. Prizes could be overseas holidays, financial incentives and awards.

Public relations and publicity

The public relations function of a business is a separate function that is sometimes confused with the marketing function. However, there is a place for both of these functions in the organisation. It is necessary also to explain the differences between the terms 'public relations' and 'publicity'. As mentioned, public relations is a management function similar to that of marketing and finance. The aim of public relations is to build good relations with the different stakeholders of the organisation (for example, internally with the employees and the shareholders, as well as externally with the government, suppliers and competitors). One of the instruments of the public relations function is publicity, which can be described as news items about the organisation and its products and services, or its people, that appear in the mass media.[19]

To summarise, we see that public relations is a management function to portray the organisation in a favourable light and to counteract unfavourable publicity. One of the methods with which to obtain favourable publicity is sponsorships. A sponsorship can be described as an investment of cash or something in an activity, in return for access to the exploitable commercial potential, which is expected from this activity.[20] An example of a sponsorship is that of SPAR, the South African grocery retail chain, which sponsors various sports as indicated below. It spends millions of rands to get coverage in an event, which is televised to thousands of people all over South Africa, in order to gain goodwill and to gain a favourable change in the consumer behaviour of customers.

PUBLICITY: SPAR'S SPORT SPONSORSHIPS[21]

In the past 20 years, SPAR has supported women's sport in particular, recognising the need to assist in an area that has been traditionally overlooked by sponsors. SPAR sponsors the following women sports:

Women's Race
SPAR sponsors the well-known SPAR Women's Race. This annual event began in 1992 and was initially held in Durban and Johannesburg. Cape Town, Port Elizabeth and Pretoria following suit in 1993. These races offer a challenge to accommodate every runner's level of fitness.

SPAR Grand Prix Challenge
The SPAR Grand Prix Challenge is the competitive side of the SPAR Women's Race. This event allows South Africa's top female runners to race for substantial cash prizes by accumulating points at every race they participate in. At the end of the year, the points are totalled and the runners with the most points in their race category, are presented with cash prizes.

AmaZulu Soccer
The popular KwaZulu-Natal soccer club AmaZulu, is one of the oldest football clubs in South Africa and is also sponsored by SPAR.

Netball
SPAR also sponsors Women's Netball in southern Africa. The SPAR South African Netball Team, The SPAR National Netball Championships and The Botswana Women's Netball League are among its sponsorships.

From the previous example, it is clear that the public relations function has a wide range of audiences that it is targeting, whilst the marketing function concentrates more on the direct customer or potential customer.

Some basic public relations activities are summarised in Table 9.3 below.

Table 9.3 *Examples of public relations activities*

Open-house policy and fairs	The value of a plant tour, if you are the manufacturer of a product, cannot be underestimated. Visits by ordinary people create a feeling of transparency and goodwill. Guided tours are done by organisations such as Amalgamated Beverage Industries (ABI), Toyota, BMW and South African Breweries (SAB) in South Africa.
Exhibitions and shows	Exhibitions at shows such as the Pretoria Show or the Rand Easter Show, raise the exposure of organisations and their ranges of products or services.
Organised social activities	An organisation's yearly golf day is an example of an organised social activity that is used to project a favourable image of the organisation. It also provides an opportunity for networking with the organisation's external stakeholders.
Lobbying	Lobbyists are used by certain organisations to lobby with stakeholders, such as governmental institutions. The alcohol and tobacco organisations in South Africa are using lobbyists to communicate with, and hopefully influence decision-makers.
Press news releases	News-worthy information is provided to the press for publication.
Special events	A special event is organised to attract attention to a new holiday destination and can be promoted by inviting journalists to a free weekend with the expectation that it will bring favourable publicity.
Sponsorships	Sport sponsorships in South Africa represent a major method to obtain publicity. SPAR sponsors women's sports. The Cape Argus Pick n Pay cycle tour is an example of a sponsorship.

Ethical marketing communication

Ethical issues are of extreme importance in marketing communication. When companies do not adhere to ethical standards, a lot of negative and damaging publicity can result from it. Marketing communication is often criticised as untruthful or deceptive, offensive or as exploiting certain target markets.

In direct marketing for instance, the photos provided are often unrealistic, misleading or deceptive. Consumers order products such as diamond earrings from pictures, only to receive earrings that are much smaller than the 'real size' portrayed in the photos.

Ethical considerations are also important in advertising. Companies should guard against advertisements that are viewed by consumers as offensive and in bad taste.

Many consumers object to advertisements that show products such as contraceptives and personal hygiene factors, women as sex objects, nudity, sex scenes and advertisements that shock people. Advertisements that are viewed as exploiting a certain target group such as children, should also be avoided.

Unethical marketing communication can negatively influence the product sales and profitability of a company and marketers should do thorough research into ethical issues before a marketing communication campaign is developed.

THE OFFENSIVE NANDO'S ADVERTISEMENT[22]

Nando's enraged the African National Congress Youth League (ANCYL) just before the general elections in 2009 by flighting an advertisement that mocked the ANCYL leader's demand for change. The advertisement depicted Julius Malema as a ventriloquist's puppet, wearing a '100% Julius' badge, saying: 'You order a quarter peri-peri chicken with chips and a cooldrink for R33.95. You pay with R40, you get R6.05 change, but if you pay with R100, you get R66.05 change. That's more change than you paid for the meal in the first place.'

Julius Malema and the ANCYL were of the opinion that it was a racist advertisement that was disgusting, ridiculous and disrespectful to African leaders. The ANCYL also threatened Nando's with militant action should they not withdraw the advertisement.

Although Nando's defended the advertisement by saying that they did not want to poke fun at Malema, but merely wanted to bring light heartedness during the serious time of the elections, the ANCYL did not feel the same way, and Nando's had to withdraw the advertisement.

CASE STUDY: THE NEDBANK 'MAKE YOUR SAVVY LIFE HAPPEN' CAMPAIGN[23]

Nedbank's new advertising campaign communicates with consumers in a humorous way. The advertisement portrays real-life circumstances and decision-making processes in the lives of consumers, using interactive advertisements showing the intuitive capabilities of consumers.

The advertisement was produced by the advertising agency Joe Public and the production company Bouffant. The 'Make your Savvy Life Happen' campaign provides a fresh take on consumer financial education and is aimed at increasing awareness on building financial fitness. The campaign reflects on the behaviours of ordinary people when making financial decisions. It draws on scenarios that differentiate the concept of needs *versus* wants, using the voice of reason played by Michael Richards and the campaign's brand ambassador, Eugene Khoza. According to Xolisa Dyeshana, Executive Creative Director at Joe Public, the concept needed to help bring to life familiar financial decision moments. He says: 'We all wish we had someone to lend us a helping hand or nudge us in the right direction when faced with such decisions. That's how we came up with the idea of using Eugene within those situations and having Nedbank as his companion or voice of reason, giving him some tips and advice as he makes his own savvy life happen.

Vanessa Singh who is the Head of Marketing for Retail and Business Banking at Nedbank, explains that the brief to Joe Public was to illustrate consumer pain points in a light and exciting way that resonates with the target market. 'The creative concept is informed by insight into the day in the life of an upwardly mobile client looking at questions that we all have and need answered in a manner that is easy to understand. The campaign also illustrates the evolution of our marketing strategy focusing on the psyche of the consumer, seamlessly blending everyday living with a savvy lifestyle solution for the 21st century consumer.'

Singh says that 'The advertisement, is simply about the savvy lifestyle of a savvy individual who knows what she or he wants and understands that the financial decisions they make today could impact their future.'The new Nedbank Savvy Bundle account aims to provide a one-stop banking solution for aspirant consumers, who are tech-savvy and looking for clutter-free and convenient banking.

EXERCISE

1. What is the objective of Nedbank's advertising campaign?
2. Which target audience is the Nedbank advertising campaign aimed at?
3. What approaches to the message have been used in the advertisements?

Summary

In this chapter, external communication and more specifically marketing communication, was addressed as a way in which an organisation communicates with its target audience. The basic functions of marketing communications were discussed, namely to inform, persuade and remind. It was mentioned that an integrated marketing communications campaign is used by organisations and Figure 9.1 depicted the functioning of the IMC campaign. This figure is the key to understanding this entire chapter. You also learnt about the various marketing communication alternatives; namely advertising, direct marketing, personal selling, sales promotions, public relations and publicity. It must be remembered that these communication alternatives are discussed in isolation, but that in practice, all the options could be used to develop an integrated marketing communications campaign, which adheres to ethical principles.

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CHAPTER 10

DEVELOPING A MARKETING MIX FOR SERVICE PRODUCTS

LEARNING OUTCOMES

After studying this chapter you should be able to:

- clearly distinguish between a service product and a physical product
- classify the different types of services that can be provided
- explain the distinguishing features that are unique to the service product
- describe the components of the service product
- combine the elements of the expanded marketing mix for services into appropriate marketing programmes.

Introduction

Physical products are tangible and therefore we tend to notice them more than we do services, which are intangible. Whether we fully notice them or not, services are part of our everyday life and form a crucial component of our economy. Most people, when thinking about the different types of services, tend to identify the common types of services such as banks, lawyers, restaurants, and hotels for example. However, the types of services we encounter in our daily lives go well beyond this. You might catch a taxi or bus to your college or university. A plumber will fix a faulty tap. An electrician will repair faulty wiring. Your cell phone provider keeps you connected with the rest of the world. A hairdresser will cut your hair. Services are everywhere and they make our lives a lot easier.

Services are everywhere and we use them every day. These services add value to our lives. There is an important difference between a service product and customer service.

Service companies primarily provide a service product, for example travel bookings or entertainment. Service (or client service) is something that needs to be provided by those businesses offering a service product, as well as those businesses offering a physical product such as a car or a television. Client service is offered in support of the core product or service. This chapter focuses solely on the concept of service businesses. Please note that in the case of service businesses, customers are generally referred to as clients, and as such, this term will be used throughout this chapter.

In previous chapters we saw that the marketing mix consisted of the 4 Ps – product, price, place (distribution) and promotion. As you know, these traditional 4 Ps relate mainly to the development of marketing programmes for physical goods, such as a car or a bar of soap. When dealing with the marketing of services, such as plumbing or banking for example, the marketer has some additional important factors that need to be considered. Different marketing texts refer to a differing number of factors, but for the purposes of this chapter, we will focus on the three most common additional factors.

What is a service?

The main difference, and the most obvious difference between goods and services is that goods are physically produced and services are performed. Consider the difference between buying a tin of paint (physical product) to paint a bedroom and hiring a painter to paint a room (service to be performed). The complex nature and diversity of service products has given rise to different definitions of services.

SERVICES

- 'Services are deeds, processes and performances'… 'Services include all economic activities whose output is not a physical product or construction, is generally consumed at the time it is produced, and provides added value in forms that are essentially intangible concerns of its first purchaser.'[1]
- 'Services are the production of an essentially intangible benefit, either in its own right or as a significant element of a tangible product, which through some form of exchange, satisfies an identified need.'[2]
- 'Services are economic activities offered by one party to another. Often time-based, performances bring about desired results to recipients, objects, or other assets for which purchasers have responsibility. In exchange for money, time, and effort; service customers expect value from access to goods, labour, professional skills, facilities, networks, and systems; but they do not normally take ownership of any of the physical elements involved.'[3]

Two points are clear from the definitions you just read: 1) services are performances of a task, and 2) the client does not take possession of the service, but simply makes use of it at a point in time. We can illustrate these two points by means of a few examples. When you purchase an airline ticket you do not purchase the aircraft or even the seat, but simply the right to occupy a seat on the aircraft for the duration of the flight. When you hire a painter to paint your house you do not own the painter or his equipment. The service that the painter provides is to paint the walls of your house in a manner that makes the house look attractive, using the most appropriate paints to ensure durability.

Tangibility spectrum

Products and services have varying degrees of tangibility attached to them. Tangibility, in the services marketing context, refers to the extent to which a product can be held. Figure 10.1 below identifies these differing degrees of tangibility for products and services on a continuum, starting with pure goods on the extreme left of the figure, through to pure services on the extreme right side of the figure.

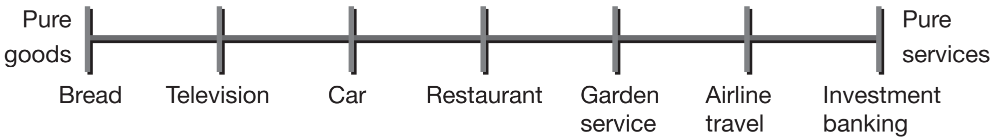

Figure 10.1 *The tangibility of goods and services continuum*

It should be quite apparent that physical goods have a service component attached to them (cars in the form of financing arrangements or the servicing of the car itself), and service products have a tangible component to them (for example, restaurants and the food that is served there). Services are generally speaking those that are found to have a dominant intangible component to them, that is, those 'products' found to the right of the continuum.

Kotler proposes five categories that explain the different degrees of tangibility:[4]

- **Pure tangible goods:** the product that is produced is entirely tangible with no accompanying services. A pen or a bottle of shampoo can be classified as a purely tangible product that has no service element.
- **Tangible goods with accompanying services:** a tangible product is provided with services that add overall value to the tangible product. For example, when a computer is purchased (tangible goods), a technician might help you install the product, and support is also provided should any difficulties be experienced.
- **Hybrid offers:** in this case, the tangible and intangible components of the product are virtually equal. Restaurants, for example, offer tangible goods for sale in terms of the food and drink, but also have an intangible component in that they cook the food for you, bring it to your table and in some cases, entertainment is provided in the form of music.
- **Major services with accompanying minor goods and services:** the bulk of the offering is intangible in nature but there are some tangible elements that are offered to support the main service. A hotel is an example of this. The main offering is accommodation, which is intangible. Supporting the main service are tangible items such as meals and drinks, as well as other supporting services such as room service and laundry services.
- **Pure services:** the offering here is purely a service with no accompanying tangible elements. Consulting services, doctors, dentists, and investment advisers fall into this category.

The focus of the discussion in this chapter relates to those services and offerings that tend to fall towards the right-hand side of the continuum, that is, pure services.

Unique characteristics of service products

Taking the definitions of services and the degrees of tangibility into account, it can be seen that there are distinct differences between service products and physical products. These differences need to be considered by the marketing manager when developing marketing programmes for a service product. Over the years, five main characteristics of services that distinguish services from physical products have emerged. These are namely intangibility, inseparability, perishability, heterogeneity, and ownership.[5]

- **Intangibility:** when purchasing a service you cannot touch it, see it, smell it, test it or taste it prior to the purchase. This makes it more difficult and more risky for the client when deciding whether to purchase the product or not. The service provider has to overcome this perceived risk and try to make the service seem more 'tangible'. Evidence of the service and its quality needs to be given to the client.
- **Inseparability:** the production of the service normally occurs at the same time that the client consumes it. This means that ultimately the client forms an integral part of the production of the service by the service provider, and in many cases, requires the active participation of the client in the process. This leaves little room for error on the part of the service provider. If a mistake is made or an error occurs, the client is immediately aware of it and experiences it as it occurs. In the case of a physical product, if an error occurs during manufacturing, then the necessary corrective measures can be taken to ensure that the client is not exposed to the error, or a defective item can simply be replaced.
- **Perishability:** a service cannot be stored like a tangible product. This means that a service product cannot be produced a week in advance and then stored until it is needed. It has to be produced and used (or experienced) when demanded. Take for example an airline seat: if there are ten unoccupied seats on a scheduled flight, then the potential income on that particular flight for those particular seats, is lost. They cannot be carried over to the next flight; they can never be sold. Because of this characteristic, the marketer has the added pressure of trying to manage the supply and demand.
- **Heterogeneity:** the level of service provided on Monday might be slightly different from the level of service provided on Tuesday. The fact that human beings are involved in the delivery of a service product results in unavoidable variations in the service that is delivered to individual clients. Each client might receive a different service, depending on the time of the day, the mood of the service delivery person and/or numerous other influences that affect the circumstances at the time the service is performed. Quality control and employee training play an important role for the service provider.

- **Ownership:** when you purchase a physical product you take ownership of the product. When you purchase a service product you do not take ownership of anything tangible. You purchase the right to temporarily access something or the temporary use of something but you have no claim to ownership. If you watch a movie in a cinema, you purchase the right to watch the movie and to sit in the allocated seat. You do not own the seat or the movie at the end of the performance.

A MASSAGE AT THE DAY SPA

You decide to go to the Chicama day spa for a massage treatment. A massage is intangible; you cannot hold it or take it home with you once it is finished. Production and consumption take place at the same time. The client has to be present for the service to be rendered. The client will experience the service immediately and will immediately be aware if the masseuse is doing a good or bad job. For Chicama, if they have no bookings for one of the sessions during the day, then the potential revenue that could have been generated from the massage room is lost forever. It cannot be carried over to the next day. Heterogeneity is clearly a key issue here.

Even though essentially the same service is being delivered (a back massage for example), a client on Monday might have a better experience than a client on Tuesday, because a more experienced masseuse is working on the Monday and not on the Tuesday. The experience could be affected by a whole range of factors – perhaps the air conditioning is set too cold on the Tuesday resulting in a negative experience, compared to the experience they might have received on the previous day when the air conditioning was set just right. Finally, once the massage is over, the client does not own the massage table, the massage oils or the masseuse. The client only has the temporary use of the facilities and services of the masseuse.

Classification of services

No perfect classification of services exists. Different academics have developed different classification schemes. Some classify services based on the type of service that is provided, for example healthcare services, financial services, professional services or communication services. Others look at whether the service provided is people or equipment-based, the degree of dependence on the presence of the client and whether the service is destined for personal or business use. In this section we will look at ways of classifying services identified by Christopher Lovelock.[6]

- The degree of tangibility or intangibility of service processes: In this case we must identify whether the service being provided contains a physical element, such as providing food, or whether it is a pure service with no tangible components such as investment services.
- Who or what is the direct recipient of the service process? Is the service performed on the client himself or herself or on something that belongs to the client? When

watching a movie in a cinema the client is the direct recipient. Jewellery repair is performed on an object, with or without the client being present.

- The place and time of service delivery: in this instance we need to identify whether the service provider needs to go to the client or whether the client has to go to the service provider to receive the service. In many cases the client has to go to a place designated by the service provider. The client has to go to the airport to catch a flight or to the cinema to watch a movie. To repair a washing machine it might be necessary for the service provider to go to the client's home. Banking services were previously only provided in a bank; now they can be done on the Internet or over the phone.
- Customisation *versus* standardisation: do all clients receive the same standard of service or is the service offering tailored to individual client requirements? On the one hand, financial services such as household insurance through Alexander Forbes, might be tailored to an individual's specific needs. On the other hand, standardisation is when all clients receive the same standard of service delivered in an identical fashion. For example, when studying a course in marketing all students receive the same book, the same study guides, the same assignments, and the same examination. Many services might follow a standard procedure but deliver a customised output.
- Nature of the relationship with the clients: here we look at whether a personal relationship is developed with the client, as in the case of private banking or a doctor, or whether the service encounter is a once-off impersonal transaction, for example a bus ride or the purchase of a ticket through Computicket.
- Extent to which demand and supply are in balance: the tourism industry is highly seasonal and there are extreme variations in demand, which places pressure on supply. The marketer must try to balance demand and supply by either adjusting capacity or by implementing marketing strategies that will smooth consumer demand.
- Extent to which facilities, equipment and people are part of the service experience: some services rely heavily on physical facilities, equipment and people. An airline is very equipment (aeroplane) and people- (cabin crew) intensive. An insurance salesperson might only need a car to travel to a client's home or may even be able to provide the service over the phone or by e-mail.

The services marketing triangle

The unique characteristics associated with services and the various classifications that can be identified, present the marketer with a set of challenges different from those encountered by a marketer of a physically tangible product. Any services marketer who wants to be successful will have to carefully consider the various issues that are associated with services marketing. In this regard we will consider the make-up of the services marketing triangle, the elements of the traditional marketing mix (4 Ps), as well as the expanded marketing mix for services.

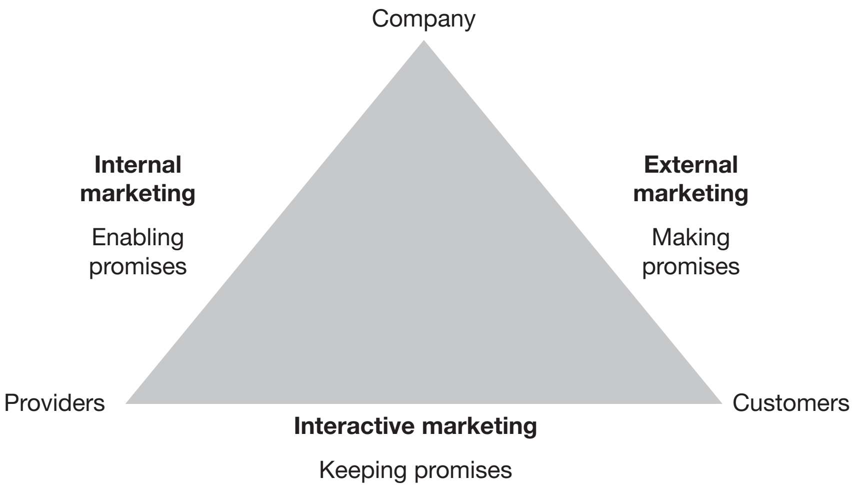

Figure 10.2 *The services marketing triangle*[7]

The services marketing triangle identifies three role-players that are essential to ensure the success of a service offering. Figure 10.2 above identifies the three role-players as (1) the company, (2) the providers, and (3) the clients. Positive interaction among these three role-players is essential to ensure that a quality service is delivered. To improve the chance of success, it is essential that these three role-players be managed. This is done by carrying out three types of marketing. Figure 10.2 identifies these three types of marketing as external marketing, internal marketing, and interactive marketing. Take note how each type of marketing is linked to the role-players to facilitate the interactions needed for success.

Let's look at each of these three types of marketing:

External marketing: Making promises

External marketing involves communication from the company to the consumer to offer its services and establish expectations about the service level that the client can expect from the company. This communication may be in the form of a television advertisement, a magazine advertisement, personal selling, e-mails, or via a website promotion for example. In services marketing, as you will see later in the chapter, physical evidence such as the appearance of the business's premises and the appearance of staff, also play a role in communicating the quality of service offered by the service business. The primary focus of this arm of the services marketing triangle is to make promises. It goes without saying that the business is under considerable pressure to ensure that they are able to keep the promises that they make.

Interactive marketing: Keeping promises

Interactive marketing occurs between the client and the service delivery personnel. This interactive marketing occurs at the time when the client and service delivery staff members come into contact and the service is performed. Every effort needs to be made by the client contact staff to ensure that the service that is delivered to the client is of the highest quality and/or value, and matches or exceeds the clients' expectations.

Internal marketing: Enabling promises

Internal marketing is something that is being taken seriously by many businesses. Quite simply it means training the employees and giving them the necessary tools and skills to perform the jobs at the highest level, so that the client is satisfied with the service that is delivered or performed. Without this internal marketing, the danger exists that the client will not receive the expected service; with the result that the client takes his or her business elsewhere and possibly spreads negative word-of-mouth to friends and family (or worse, complaints get published on social media sites such as Facebook or Twitter).

The services marketing mix

You have already learnt about the elements of the marketing mix, which are product, price, promotion and place. These four elements are also important and relevant for service products, although there are naturally some adaptations that have to be made and other points that have to be considered given the unique characteristics of the service product. The intangible nature of the services products, and the fact that production and consumption occur simultaneously, leads to the identification of three additional elements to the traditional marketing mix in an attempt to accommodate these unique characteristics. These three additional elements are people, processes, and physical evidence (additional 3 Ps).

Each of the traditional 4 Ps and the additional 3 Ps are discussed in the following sections.

The service product

A product has already been defined as a physical object, an intangible service, an idea, programme or a personality that can be offered to a market for attention, use, acquisition or consumption so that a consumer's needs can be satisfied. In the case of the services product, a company is offering an intangible product to the client. When developing the service product, it is important for the marketer to remember that the client purchases the product because of the benefits it will offer him or her and the accompanying satisfaction. With the service product, a certain service level is expected. The level of service provided determines a client's level of satisfaction or dissatisfaction.

The services marketer needs to pay attention to four service product levels; namely, the core service, the expected service, the desired service, and the unexpected service.[8] These are all illustrated in Figure 10.3 on the next page.

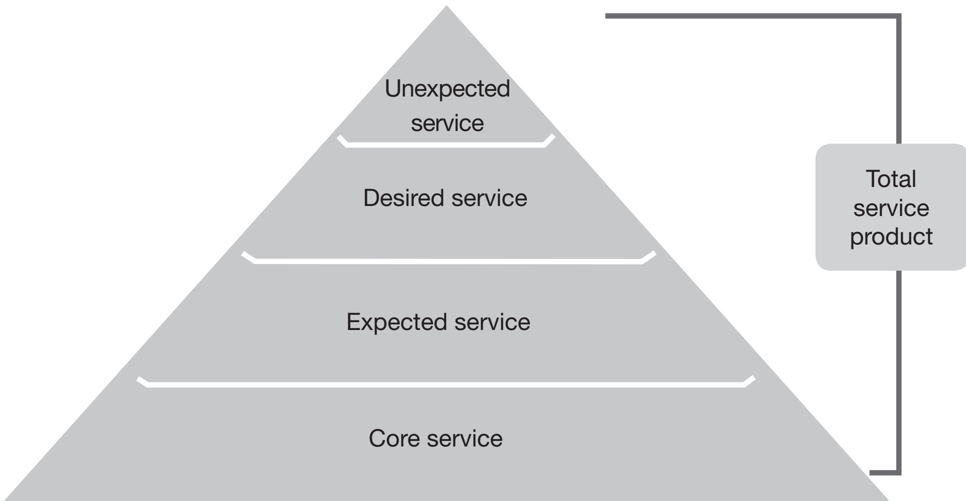

Figure 10.3 *The four service product levels*

- **Core service:** this is the basic service offered to the client and must be performed to deliver any form of satisfaction. The core service is the reason the organisation is in business. The Gautrain offers as its core service transport from point A to point B.
- **Expected service:** this is the minimum level of service expected by the client and must be present if any level of satisfaction is to be experienced by the client. The expected service is the level of service expected by the client by any provider of a similar service in a specific industry. When taking a car for a service, apart from checking the mechanical functioning of the car, most people expect that their car will also be washed before it is returned. If it is not washed, most clients will be dissatisfied even though the car wash does not form a part of the core service.
- **Desired service:** this level of service represents a client's ideal service but it is over and above the expected service level. A business that can offer the client these desired levels of service is creating a point of differentiation for themselves from competitors. The client does not necessarily expect this level of service, but is impressed when he or she receives it. A gym that offers its clients personalised training programmes, as well as advice from personal trainers while the person is training, is looking to distinguish itself from competitors and offer its clients a service that adds value to their gym experience.
- **Unexpected service:** this level of service exceeds a client's expectations and desired level of service. The unexpected service comes as a real surprise to the client and adds significant value to the service in the eyes of the client. It is a strong differentiating point from competitors. An example is a medical aid scheme that offers mothers-to-be special discounts on expensive items such as nappies and car seats, and also provides a help line for any pregnancy-related questions. These added offerings are an unexpected service that is not offered by the majority of the other competing medical aid schemes.

When designing the service product, the marketer must ensure that all the core and expected elements are present. The features of the service must be carefully considered and adapted to the unique nature and market of the service in question. Careful analysis of competing services must lead to a service offering being developed that gives the company a competitive advantage over its competitors. Remember: 'No Competitive Advantage, No Cash Advantage'.

Positioning has been referred to as finding a niche (gap) for the product in the minds of the client in order to create a unique place for the product in the marketplace. When developing the positioning strategy it is essential that the marketer positions the service from the perspective of the consumer. In other words, consider how the consumer perceives the service offering and not how you as the marketer perceives the service offering. Make sure that you focus on the client's determinant attributes and not simply the important attributes of the service when positioning the service.

Positioning plays a crucial role in the development of a service product. By effectively positioning a service product, you can add a degree of tangibility to the service product, which will reduce the perceived risk to the client when deciding between competing service providers. If successful, this will provide the company with a significant competitive advantage over any competitors.

ATTRIBUTES

- **Important attributes** are attributes such as safety, image and convenience that the consumer considers important when deciding between competing services.
- **Determinant attributes** are those attributes that actually determine the buyer's final choice of service. A determinant attribute does not have to be the most important attribute, but it is the attribute that the consumer uses to ultimately distinguish one service offering from another.[9]
- **The difference between important and determinant attributes:** When considering which airline to use on a trip from Cape Town to Johannesburg, the consumer might view safety, cleanliness of aircraft, friendliness of cabin crew and comfort as being important attributes. However, whilst safety, cleanliness of aircraft and friendliness of cabin crew are important attributes, any normal passenger might expect these attributes to be present with each competing airline and thus do not use them to determine their final choice. Pricing of the ticket, however, might be a key issue to the client and is the attribute upon which the final decision is made. Price in this case, is therefore the determinant attribute, and not the other important attributes that have been mentioned.

Promotion of services

A key element in the marketing of physical products or service products is that a company should be able to deliver what it promises in its marketing communication efforts. If a company cannot keep its promises, it will create a bad reputation for its business. Marketing communications for a service business are particularly important because of the intangible nature of the service product. The increased role played by the staff, particularly the front-line staff, in terms of direct client contact, also heightens the importance of marketing communications for services.

Marketing communication

You have already learnt that the main objectives of marketing communication are to inform, persuade and remind. In the case of services, this means you must first let consumers know about the service that you are offering and where to find it; convince consumers that your service will provide the best package of benefits, and then remind them to take action and use the service whenever they require any similar service.

As you know by now, there are distinct differences between services and goods. These differences have implications for the marketing communications developed by the services marketer.[10]

- **Intangible nature of services:** through visual representations and other promotional devices, efforts can be made to add a tangible element to the service product. When advertising their businesses, many restaurants show their venue, the ambiance as well as plates of their food being enjoyed by their patrons.
- **Client-contact personnel's involvement in service production:** you will notice that in many advertisements for service products there is an image of the contact staff. These people are always smiling and shown as being very helpful. It is essential that this visual representation be carried through in reality. In other words, what is shown and promised in the advertisements, must be communicated to the employees and delivered to the client.
- **Client involvement in production:** communications can be used to educate consumers on what to expect in the service delivery process and what their role in that process is. Should there be any changes in the way that the service is delivered, communications should inform clients of this change so that they perform their role appropriately when they next make use of the service. In order to ensure that people enjoy watching a pop concert at the large stadiums, many communications are released advising people of the best ways of getting to the stadium on time.
- **Incorrectly targeted communications:** if a message reaches an untargeted or unintended market for physical goods such as feminine products for women, the results would not be serious if men saw the communications as well. The untargeted persons (men in this example) would simply not purchase the products and there would be no impact on the actual target market. Even if some men did purchase the products in response to the communications, there would be no impact on the intended or targeted audience. The situation is different in the case of some services. In this case, should some of the untargeted audience respond to the incorrectly targeted communications, they could influence the experience of the targeted audience. Opera appeals to a specific niche of people. If a group of people (incorrectly targeted) with no interest in opera attend the performance, they may talk and fidget during the performance, thereby reducing the enjoyment of those who do enjoy opera.
- **Balancing supply and demand:** as has been mentioned already, service products cannot be stored. Marketing communications can play a crucial role in stimulating short-term demand in periods of low demand and smoothing out demand during high-demand periods. Many hotels use marketing communications to offer mid-week breaks at short notice to increase occupancy rates during these sluggish periods.

The marketing communication mix

You have dealt with the elements of the marketing communication mix in some detail already; in the following section, we will briefly outline some specific points that relate to each element with regard to services marketing.

Advertising

Advertising is very good at reaching a large audience very quickly. For many service products, advertising is the first point of contact with the client. It sets the scene for service expectations and establishes an image in the minds of consumers. Five roles can be identified for services advertising.[11]

1. Introduce the service to the client and create a general awareness of the service.
2. Develop a personality for the service that matches the requirements of clients.
3. Match the values and capabilities of the service business with those of the client.
4. Set the scene of what clients can expect from the service and motivate employees to live up to the expectations created in the advertisement.
5. Form a foundation for sales representatives so that the clients they call on already have a favourable impression of the service business and know what to expect.

It is extremely important that the expectations created in the advertisements can be delivered to the client, otherwise there will be client dissatisfaction and he or she will look elsewhere.

Sales promotion

Sales promotions are short-term incentives used to stimulate buying. They can be particularly useful in stimulating demand during periods of low demand or to create additional awareness of a service being introduced to the market. The various sales promotion tools that are available to the services marketer, as well as examples of each, are highlighted in Table 10.1 below and on the next page.

Table 10.1 *Sales promotion tools that could be used to market services*

TOOL	DESCRIPTION	EXAMPLE
Sampling	The client has the opportunity to use the service, free for a limited period of time.	A free week trial period at a gym before signing a longer term contract.
Coupons	Used to stimulate sales in the short term. The client receives a voucher that entitles him or her to a prescribed discount on the service provided.	Some car service centres place coupons in newspapers and offer the client a 10% reduction for the servicing of their car on presentation of the coupon.

TOOL	DESCRIPTION	EXAMPLE
Gift premiums	Free services or merchandise offered when a particular service is utilised.	Many fast-food outlets (such as Steers or McDonald's) offer free toys for children when a particular product combo is purchased.
Competitions	Help to stimulate the trial of a service. The client is persuaded to try the service through the possibility of winning a desirable prize after using the service.	Some banks offer clients the chance of winning their home loan free if they apply for a mortgage with the bank.
Price discounts	The price charged for a service is reduced for a limited period in order to stimulate interest in a service offering with the hope that the customer becomes a loyal user over time.	Airlines might, in order to increase demand and thus fill more seats, reduce their prices on certain flights at certain times during the year, or during times when demand is low.
Loyalty programmes	These programmes are long term in nature and focus on building loyalty over time. The more you make use of a particular service the more rewards you can receive.	South African Airways Voyager programme: the more you fly with the airline, the more Voyager miles you earn. Once you have accumulated a certain amount of miles you can claim 'free' flights.
Specialities	These are give-away items that a service provider gives to its clients in order to continuously remind them of the services that they offer.	An insurance salesperson might give you a pen with his or her contact details on it. Many businesses give their client calendars or desk pads, which have contact details printed on them.
Sign-up rebates	In order to persuade consumers to sign up or make use of a service, the initial sign-up fees are waived.	In order to encourage people to sign up with DSTV, free installation of the dish might be offered.

A well-designed sales promotion strategy can effectively complement an advertising strategy and create a sustainable competitive advantage for the service business.

Personal selling

The very nature of the service product means that great emphasis is placed on personal selling activities. Advertising creates an awareness of the service business, whilst personal selling facilitates the transaction and brings in revenue. Front-office personnel can be considered to be performing a selling function. Sales representatives, agents and other company representatives involved in selling the company's services, play a crucial role in developing relationships with clients, which is crucial for long-term loyalty. Once again, the unique characteristics of the service product mean that personal selling for service products can be more complex. Eight differences between selling goods and selling services can be identified.[12]

1. From a consumer perspective, the purchase of a service product entails more risk (particularly due to the intangible nature of the service).
2. The purchase of a service product is viewed as being less predictable than for goods due to the perceived risks and the unknowns.
3. The mental image that the client has of the service business is an important consideration when deciding on the purchase of the service.
4. The intangible nature of the service product means that the client places a great deal of importance on the service provided by the salesperson.
5. Consumers place greater importance on personal recommendations when deciding on the purchase of the service product.
6. Fewer price comparisons are made for service product purchases.
7. Clients are involved to a larger extent in the purchase of a service product than for a physical good.
8. The sales personnel of a service business must be good listeners and must be knowlegeable in their fields of expertise, in order to provide clients with sufficient information on the service to reduce any fears or uncertainties that they may have.

Direct marketing

Direct marketing, as described in Chapter 9, is a two-way communication process that requires an action or response from the consumer. Direct marketing offers the advantage that it can be personalised to each individual client and in this way, a relationship can be developed. As you already know, relationships are important in the services marketing context.

The success of direct marketing relies to a large extent, on accurate and comprehensive databases. In services marketing, many businesses already have quite comprehensive lists of the client base which serve as a good starting point for marketing. Think of your bank for example: it already has all of your details on record, as well as those of every other client. In order to sell their accident insurance policies, all they have to do is access the information on their internal database and contact the client. The same applies to opticians; if they want to promote a range of prescription sunglasses, they can start by accessing their database of current and past clients.

Public relations

The ultimate aim of public relations is to generate goodwill towards the company from outside interest groups. Public relations are seen as being more credible than other forms of promotion because they come from an impartial source. As a result, a strong positive image for the company can be developed. The following are key tasks for public relations:

- Develop and maintain the image of the service business.
- Give support to other promotional activities of the business.
- Manage problems that may arise with regard to the business and its image in the market.

- Reinforce the positioning of the business and the services that are offered.
- Influence the various publics that have an interest in the business and its activities.
- Help with the launching of new services into the market.
- Become involved in community projects.

The various interest groups (or publics) to which public relations are directed, as well as the tools that can be used in public relations, are all described in Chapter 9.

Distribution of services

Distribution for services relates to the availability and accessibility of a service to clients. Availability means the service is available to the client whenever he or she wants it. Accessibility refers to the relative ease with which the client can conduct a transaction with the service provider.

The nature of the service being provided will go a long way to determining the location of the service provider, as well as the extent of the facilities that will be required. In this regard, we need to consider the types of interactions that are involved between the client and the service provider. These three interactions consist of the following:

- **The client goes to the service provider's premises:** an example of this is when you want to eat at a restaurant or go and watch a movie, you have to go to the service provider's premises. For the service provider, the choice of a good location that creates the desired image is important as the client comes into contact with the provider's facilities. These facilities serve as a quality cue for the client and will influence the client's level of satisfaction.
- **The service provider goes to the client:** in this case, an insurance salesperson will visit the client at home or a plumber will make a house call. Location and image of physical facilities do not play an important role in this case because the consumer does not see the service provider's premises.
- **No contact at all between the service provider and the client:** Internet banking involves no physical contact between the provider and the client. Telkom provides a telephone line service where the service is provided to the client without any need for contact with the service provider. Even complaints related to the service can be handled without direct contact.

As with the distribution of physical goods, a number of channel options are available to the services marketer when deciding how best to make their services available to consumers. The very nature of the service product (intangibility and inseparability of production and consumption in particular) generally means that the distribution channel is shorter for service products than for physical goods. The various options that are available include direct channels, indirect channels and multi-channels (refer to Figure 10.4 on the next page).[13]

- **Direct channels:** this simply entails the service provider providing the service directly to clients. For example, a client goes to a restaurant and the service provider serves a meal to the client.

- **Indirect channels:** in this case there are intermediaries between the client and the service provider, which ensure that the desired service offering is delivered to the client. As an example of this channel, a service provider, such as Computicket or Webticket, acts as an intermediary between the client and a service provider by selling tickets to the client for a play or concert at a particular venue.
- **Multi-channels:** the service marketer might decide that more than one of the channels, as identified in Figure 10.4, is needed to reach the selected target market. A theatre might sell tickets to its performances from the theatre itself (direct channel) and also make use of an intermediary such as Webticket (indirect channel).

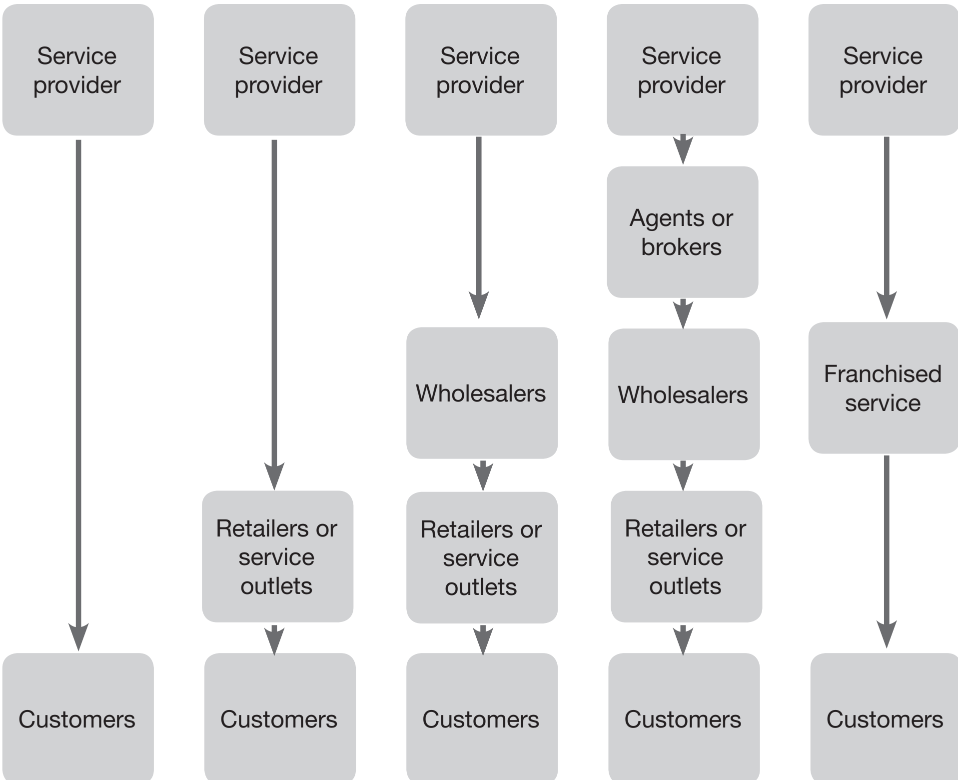

Figure 10.4 *Distribution channels for services*

The choice of channel and the number of channels utilised are important decisions for the services marketer. It should not be too difficult for clients to receive the service, nor should they be inconvenienced in the process. This is not always possible (think of the time and effort it requires to catch a flight), but the service provider should manage the inconvenience. Inefficient distribution channels are likely to result in clients seeking alternative service providers for future purchases.

Pricing the service product

In previous chapters, you have learnt about pricing decisions. Price is one element that a consumer can use to distinguish between competing services. It can also be used to evaluate the quality of the service that is being offered. In the context of services, pricing can be a complex issue. The unique characteristics of the service product could mean that ten clients could each end up paying a different price for the same service. Additionally, ten clients that pay the same price for a particular service could receive a different service due to the involvement of people in the production and delivery of the service. Marketing managers need to approach pricing of service products cautiously to ensure that they attract clients whilst maximising yield and capacity.

Zeithaml and Bitner, two prominent authors in the field of services marketing, identify three key aspects relating to consumer perceptions of services that need to be kept in mind by the services marketer when looking at pricing their offerings. These are: client knowledge of prices, the role of non-monetary costs, and price as an indicator of quality. [14] Let's briefly consider some important points relating to these three aspects.

Client knowledge of prices

For the client, this is usually relatively limited, except for those services that are utilised frequently. Even then that is no guarantee. There are a number of reasons for this relative lack of knowledge.

- **Service heterogeneity limits knowledge:** because each service delivered to each client could be different, it is difficult to set one standard price that will be levied to the client. Even with an individual client, the price charged today might be different tomorrow, due to differing circumstances or slight variations to the overall service requested. A doctor might give you a flu injection one week and then the next week, treat a broken leg. The medical bill will be different for these two services.
- **Provider unwillingness to estimate prices:** in many cases, it is difficult to determine the price prior to delivering the actual service. It is not until the final service has been delivered that all components of the service can be totalled to determine the final bill. Let's use the example of a washing machine repair to highlight this point. Until the service provider sees exactly what needs to be done and what needs to be replaced, the exact price to charge will be difficult to determine because different spare parts might be required and the amount of labour might vary.
- **Individual client needs vary:** each individual client has different requirements and might require a different level of service to be performed. What one client pays for a service might be totally different to what another client pays for a similar service. This difference makes it difficult for clients to compare prices and therefore they do not really know what a standard price for the service might be. At a gym, one client may want the full personal training experience during peak hours and will pay R680 per month, whilst another client may want to use only the basic facilities during off-peak times of the day and pay only R350 per month.

- **Price information is overwhelming in services:** gathering information on competing services is a lengthy and intensive task for clients. They will have to spend a lot of time and effort looking for information for comparison purposes.
- **Prices are not visible:** prices of competing physical goods on a shelf in a supermarket, are readily visible and facilitate easy comparisons. With services, the prices of competing services are not readily visible and this leads to consumers having only limited knowledge of the price of services.

The role of non-monetary costs

These are costs to the consumer that do not involve an actual monetary cost but involve other forms of perceived risks. A consumer will, either consciously or subconsciously, evaluate these non-monetary costs when deciding to make use of a particular service. The non-monetary costs include time, search, convenience costs, and psychological costs.

- **Time costs:** as previously mentioned, the client in most cases is directly involved in the performance of the service. This requires that clients have to give up some of their valuable time in order to take 'delivery' of the service. In many cases the length of time to deliver the service cannot be specifically determined and therefore a waiting period is required. Think of the number of times you have made an appointment with your General Practitioner (GP) for 10 a.m. and have had to wait for an hour (or more) before you actually saw the doctor!
- **Search costs:** much effort is required when searching for the preferred service provider. The consumer has to expend a lot of effort in order to gather information on the different service providers and the prices of the different services. This task is made even more difficult because the different service providers do not provide exactly the same service and some might only deal with particular brands (for example, repairmen that only repair Samsung products).
- **Convenience costs:** whether the client goes to the service provider or the service provider comes to the client, the client still has to arrange time in his or her schedule for the appointment, which can sometimes be very difficult, especially in households with two working adults. In some cases, a lot of preparation may be needed to prepare for the service to be provided. Distance learning institutions are more convenient than residential institutions in that students do not have to go to classes on a daily basis, but can study according to their own schedule. In this case an element of inconvenience is eliminated (although the comparison between the two types of institutions is more complex than this).
- **Psychological costs:** with all the factors that need to be considered, especially the client's lack of knowledge of the service being provided, it is not surprising that clients have a number of fears that affect them when considering the purchase of service products. These fears can also be as a result of previous bad experiences with a particular service. Anyone who has built a house or had a root canal treatment at a dentist can attest to this.

Price as an indicator of quality

Service marketers must carefully consider the messages that they send to the client through the prices they set for their services. In situations where the risk of purchase is high to the client, where there is little information available, or where it is difficult to compare the quality of different service providers, clients will use the price of the service as an indicator of quality. If the price is too low it might be perceived as being of lower quality. Conversely, if the price is too high, a client may have unrealistic expectations of the service that will be provided.

Taking what you have just learnt about pricing, you can see that it is an extremely important issue that needs close attention from the service marketer. Lovelock sums up the pricing issue by identifying seven key questions that the services marketer needs to keep in mind when deciding on how to price his or her offerings.[15] These seven questions are summed up in Table 10.2 below.

Table 10.2 *Seven questions to be addressed when pricing a service*

QUESTION	UNDERLYING ISSUES
How much should be charged for this service?	What costs is the business trying to recover? Is the business trying to achieve a specific profit margin or return on investment by selling this product? How sensitive are customers to different prices? What prices are competitors charging? Should discounts be offered from the basic prices? Are psychological pricing points used?
What should be the basis of pricing?	Execution of a specific task? Admission to a service facility? Units of time? Percentage commission on the value of the transaction? Physical resources consumed? Geographic distance covered? Weight or size of object serviced? Should each service element be billed independently? Should a single price be charged for a bundled package?
Who should collect payment?	The business that provides the service? A specialist intermediary (agent, bank, etc.)? How should the intermediary be compensated for the work – flat fee, commission, or a combination?
Where should payment be made?	The location at which the service is delivered? A convenient retail outlet or financial intermediary? The purchaser's home? Electronic medium via the Internet?
When should payment be made?	Before or after delivery of the service? At which times of the day? On which days of the week?

QUESTION	UNDERLYING ISSUES
How should payment be made?	Cash? Token? Stored value card? Cheque? Electronic funds transfer? Credit or debit card? Credit account with service provider? Vouchers? Third party payment?
How should prices be communicated to the market?	Through what communication medium (advertising, salespeople, promotions, etc.)? What will the message content be? (What role should price play in these communications?)

Physical evidence

We have seen that service products are essentially intangible. In order to add an element of tangibility, the service marketer will make use of physical evidence to create an atmosphere and image for the business. This 'so-called' physical evidence gives the client an indication of the quality and reliability of the service provided and gives him or her the reassurance that the service purchased will meet expectations.

PHYSICAL EVIDENCE
Physical evidence is defined as 'all aspects of the organisation's physical facility, as well as other forms of tangible communication'.[16]

In other words, physical evidence is what the offices of the business look like, what their vehicles look like, what their stationery looks like, and what the feel or atmosphere of their business premises is. Table 10.3 below identifies the main elements of physical evidence.[17] The combination of these three elements forms an image in the minds of clients. Marketers should ensure that the correct image is created in order to attract the desired target audience.

Table 10.3 *The main elements of physical evidence*

SERVICESCAPE	OTHER TANGIBLES
Facility exterior: ▪ exterior design ▪ signage ▪ parking ▪ landscape ▪ surrounding environment	▪ business cards ▪ stationery ▪ billing statements ▪ reports ▪ employee dress code ▪ uniforms ▪ brochures ▪ Internet and web pages ▪ company-branded vehicles

SERVICESCAPE	OTHER TANGIBLES
Facility interior: ▪ interior design ▪ equipment ▪ signage ▪ layout	
Ambient factors: ▪ air quality ▪ air temperature ▪ music and other sounds ▪ noise ▪ lighting	

Servicescape

The concept of servicescape is introduced in Table 10.3. It is a very important concept in the context of services marketing. Servicescape refers to the appearance of the physical surroundings (interior and exterior), where the interaction between the client and the service takes place. It also includes the atmospherics or ambient factors of the surroundings, for example smells and sounds within the business's buildings.

- **Exterior design:** the design of the service location should match the image created in the consumer's mind. Banks, for example, should give an impression of security and trustworthiness. A plumber's premises does not need to look like those of a bank because the consumer has different expectations of a plumber. Signage is an important aspect in all businesses. They should clearly identify the business and inform potential clients where to go, times of operations and the services offered. Signage also includes the logos on the trucks or vans used by the business when contact personnel travel to the homes of clients to perform a service.
- **Interior design:** the reception area of a business is normally the first thing a client sees when entering the premises. It immediately communicates a message to the client and can have a lasting effect. Once again, the design of the interior should match the client's expectations and should complement the exterior design. Interior design also includes items such as the furniture in the reception area, the use of pot plants, the placement of equipment, the colour of the paint on the walls, and the general neatness of the interior. The availability of forms to be filled in if necessary (such as deposit slips in a bank or forms at your local SARS office), is also an important consideration.
- **Ambient factors:** this term refers to the general feel of the building of the business and the atmosphere. The various ambient factors (or atmospherics) include smells and aromas, sounds and music, and the light and temperature. The aromas in a restaurant must make clients feel hungry and must make them want to eat their food. Just imagine what your reaction would be if you could smell burnt food in a restaurant. Would you want to eat there? People respond differently to different styles of music. Certain restaurants, such as the Spur steak ranches, play

commercial music to create a family atmosphere. Other more sophisticated restaurants that serve speciality foods to upmarket clients might play classical music, which enhances the feeling of exclusivity.

Sounds also help create a certain image and atmosphere. In a Spur steak ranch you can hear the food sizzling on the grills, the waiters carrying glasses and other customers talking throughout the restaurant. In a restaurant that wants to create a more upmarket, exclusive feel, there is a lot less noise and the entire atmosphere is far more sedate. Temperature is also important: if a building is too hot or stuffy, then it forms a negative impression in the client's mind. Added to this, lighting can be very effectively used to create an atmosphere or mood for a service business. Lighting can be used to highlight certain features or set a tone of exclusivity: bright lights seem to indicate a vibrant atmosphere whilst duller and focused lighting creates a more exclusive image.

Other tangible elements

Referring back to Table 10.3 on pages 255 and 256, other tangible elements include items such as business cards, business stationery, statements, appearance of staff and the design of the service's website. Each of these elements serves to provide clients with an element of tangibility that makes it easier for them to evaluate the service they are purchasing. This serves to reduce the perceived risk associated with the purchase of the service. As a simple example, think of your monthly bank statement. If it arrived scribbled on the back of an old piece of paper you would not be impressed or have a high opinion of the way the bank does business. On the other hand, if it comes to you neatly laid out with the company logo you would have a higher opinion of them. The same applies to a service provider's website. If it is neat, easy to navigate, and is attractive; it will create a better impression than one that is dull, poorly structured and provides insufficient information. It is very important that service marketers fully understand the services that they are marketing and the image that they want to portray. This image must be incorporated into the design of the physical evidence that the client will encounter when visiting the service providers' premises or when the service provider visits the client's home to perform the service. Providing an element of tangibility to an otherwise intangible service, is crucial in assuring the client of the quality and reliability of the service that will be provided.

Processes

In producing the service product there are a number of steps that are followed to deliver each component of the service. Viewed from a managerial perspective, we can say that delivering the service product is a process.

> **PROCESS**
> A process includes the actual procedures, mechanisms and flow of activities by which the service is delivered – the service delivery and operating systems.[18]

Some service businesses have relatively simple products and therefore relatively simple processes for the delivery of their service (think of a washing machine repairs service or a dry cleaning service). Others have services that are a lot more complex and therefore require carefully planned and managed strategies (think of banks, hospitals, and airlines, for example).

The importance of managing these processes cannot be underestimated. If the process does not run smoothly then delays or problems will arise. Problems at any stage of the process can create a negative impression. Even worse is that a small problem at the beginning of the process, can snowball at successive stages and create a seemingly never-ending string of delays. This will result in unhappy clients and the business developing a negative image. It is therefore essential that all aspects within the business function smoothly to ensure that an appropriate level of service is delivered to the client.

Two very important concepts are particularly valuable to the services marketer in managing the service delivery process, namely: critical incidents and service blueprinting.

- **Critical incidents** are specific interactions between the client and the service provider that are especially satisfying or dissatisfying.[19]
- A **service blueprint** is a graphic representation of the essential components of the service performance. It identifies the service personnel, the points of interaction between clients and service providers, the contact points between workers and other workers, and the front-stage evidence and the backstage processes or activities.[20]

Simply stated, a critical incident refers to particular points of contact during the service delivery process between the client and the service provider. Each point of contact has a significant bearing on the satisfaction or the perceived quality of the service delivered. Refer to Figure 10.5 on the next page for an illustration of the various critical incidents in a dental appointment.

Service blueprinting is a visual representation of the activities that are essential in the process of delivering a requested service. A clear distinction is made between those activities that occur in view of the client, and those that occur behind the scenes and thus not seen by the client. As can be seen in Figure 10.5, activities that occur in view of the client are referred to as 'front-stage activities', and those that occur out of the client's sight are referred to as 'backstage activities'.

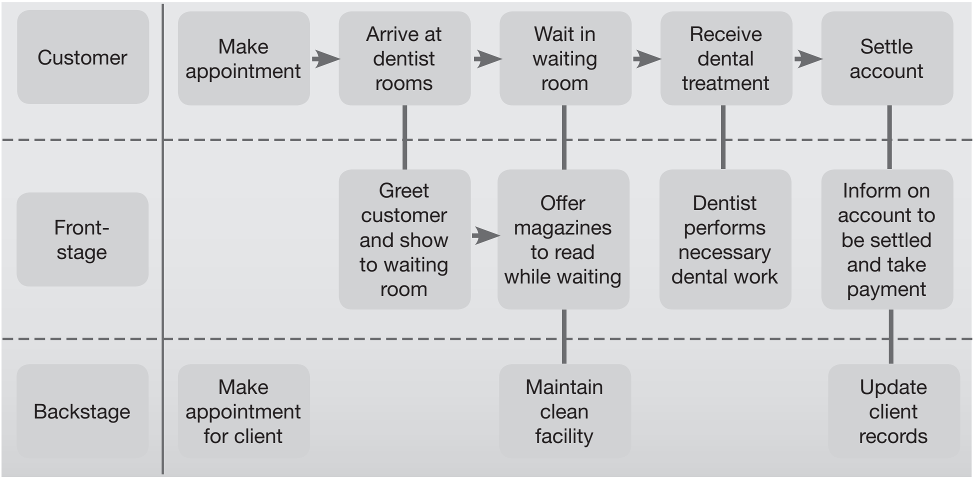

Figure 10.5 *Service blueprint for a dental appointment*

People

As you have probably realised, services rely heavily on people – people to deliver the service to people, people to provide people with information, people to handle reception activities, and people to manage the entire process. In this section we will look at the people involved in the delivery of the service and their interactions with each other. More specifically, we will look at three specific areas: Employees as part of the service product, clients as part of the service process, and the client-employee contact situation.

Employees

Employees have an important role to play in the delivery of the service product. They play a role in the production of the product, the marketing of the product, and in many cases, form part of the service product. A hairdresser would be a good example of this, given that they physically perform the service on their clients personally. With this in mind, it should be clear to the reader that a lot of attention needs to be given to the employees to ensure that they are properly recruited, trained, and motivated to deliver a quality service to the clients.

The concept of internal marketing arose from the need to ensure that internal staff members understand and accept the marketing plans being implemented by the business. The concept is quite logical: inform your employees of the products being offered to the market and give them training on how to sell and support the product. Three different situations can be identified where internal marketing is most appropriate:[21]

- **Developing a service culture:** in this case the employees are informed of the business strategies of the business and the directions that are being taken. Also, positive relationships are developed and employees are taught service skills and how to communicate with clients.

- **Maintaining a service culture:** this situation logically builds on the previous situation. The main focus is to maintain and further develop the relationships that have been built internally and thereby ensure that the desired image is perceived by clients. It is extremely important that the employee receives management's support in this situation.
- **Introducing new goods, services, marketing activities and campaigns:** the focus here is to gain employee acceptance of new products and marketing campaigns that are being launched. It is also important to inform employees (and gain their acceptance) of any new systems or processes that are being introduced, and how their actions need to be modified to ensure that they continue providing a superior service to the business's clients.

The key to the success of any internal marketing programme is the support of all interest groups; top management through to the client-contact and support personnel.

To effectively and efficiently serve clients, the right people need to be recruited. This, however, is much easier said than done. Careful consideration needs to be given to the nature of the service being offered and then an appropriate job description needs to be developed. Naturally, certain characteristics are more desirable for front-line staff than are necessary for back-room staff. Every effort must be made to identify those candidates who have the charisma and energy to deal with clients on a daily basis. Training can overcome certain shortcomings in personnel, but it is no substitute for appointing the correct candidate from the outset. The core focus of training and development is to provide employees with the necessary knowledge and skills to ensure that they operate optimally in their job. Staff development is concerned with providing employees with additional skills and knowledge that are necessary for any new activities that the business may engage in.

Two important concepts when dealing with employees can be identified. These are empowerment and enabling:

- **Empowerment** refers to giving the client-contact personnel the authority to make decisions and take action in problem-solving situations that may arise. Naturally, there are limits to the amount of authority that can be given to these employees; due to a number of legal and financial implications that may exist.
- **Enabling** refers to providing the employees with the necessary support and structures so that they are able to make the independent decisions that are permissible because of empowerment. For enabling to be effective there needs to be management support, knowledge support, and technical support. Without this support there is no empowerment.[22]

Empowerment and enabling of employees is important because it means that client contact personnel are able to provide a quicker response or better solution to clients, which ultimately helps build client loyalty.

Clients

It has been mentioned on many occasions that clients are very involved in the production of the service product. You may remember that we highlighted inseparability as being one of the unique characteristics of services marketing. This related to the simultaneous production and consumption of the service, which means that client contact personnel are particularly important in services marketing. How a client experiences this service production process and his or her feelings during this activity, have a huge impact on the overall satisfaction with the service. As a result, the service provider must ensure that the service that is delivered, is delivered in a controlled and well-managed manner.

When developing a system to manage clients in the service-delivery process, it is important to understand the needs and expectations of clients. Refer to Chapter 3 to refresh your knowledge on the theoretical concepts relating to consumer behaviour. It is important, however, to understand that there are certain levels of consumer expectations that can be identified, each of which needs to be understood in order to meet the consumer's expectations. These levels of consumer expectations include:

- **Ideal service:** in a perfect world this is the service the client receives where there are no problems and everything goes according to plan.
- **Desired service:** this is the service the client would ideally like to receive. This expectation is based on previous experiences and is more realistic than the ideal service level expectation.
- **Adequate service:** this refers to the minimum level of service that the client is willing to accept. Anything below this level will lead to dissatisfaction.
- **Predicted service:** based on previous experience, the client will have an idea of the service level to expect. The higher the predicted service level, the higher the adequate service level.
- **Unanticipated service:** this represents the additional services or items that a client receives which were not expected, but add significant levels of satisfaction and value to a client's service experience.
- **Zone of tolerance:** between the adequate service level and the desired service level is a zone of tolerance. In this zone the client will accept the service level that is delivered, without complaining, and without being particularly satisfied.

The obvious goal of the service provider would be to provide a service that is as close as possible to, or even exceeds, the desired service-level expectations of the client. The service marketer needs to address three areas in order to effectively manage clients:[23]

- **The management of client waiting periods:** most clients will probably have had many bad experiences with regard to waiting. The queues at the Department of Home Affairs or the licensing department are well-known and are a source of frustration for many people because of the amount of time that is wasted, the heat, the crowdedness, and the boredom. It is essential that a service business implements a system to reduce client waiting time. This can be done by implementing reservation systems, better management of capacity, and providing alternatives for making use of the particular service. Each service operation, depending on the nature of the service that is provided, will have to design its own waiting management system to accommodate the unique nature of their service.

- **The management of client participation:** it is possible to involve clients in the delivery of the service product to a greater extent. This involves an element of self-service. For relatively simple service products, this is a good option because the client is able to perform the task without the risk of making a costly mistake. For example, clients purchasing concert tickets over the Internet or selecting their own brochures in a travel agency, are relatively simple tasks and hold minimal risk for the client and the service provider. On the other hand, more complex services are more risky, as a client would have little knowledge of the service and therefore self-service would be less of an option. Just imagine if your financial advisor told you to look through some of his investment management books and told you to let him know where he must invest your money! It is a trial and error process for the service provider to identify which aspects are suitable for self-service and which are not.
- **Handling difficult clients:** most people will have had to deal with, or seen difficult clients in a shop. It is important to realise that no matter what the complaint or how angry or calm the client is, a complaint needs to be handled decisively and professionally. Angry and complaining clients can be very destructive and can result in your business gaining a bad name (fairly or unfairly). However, a strategy does need to be in place to effectively handle any complaints that may arise in the course of doing business.

Client-employee contact

The nature of the service product means that client contact personnel and clients come into contact with one another. Each one has his or her own objectives and instructions. Individual employees and clients will respond in different ways to different situations. It is important for the service provider to realise this and to work out the necessary strategies. Many of the difficult situations that arise have to do with control or perceived control. Clients want to feel in control of the process because they are the ones paying the money. Client contact personnel want to feel in control because they are the ones delivering the service. The management of a service business wants to feel in control of its employees because they are the ones who direct the employees' performance and ultimately by implication, the performance of the business.

Management must balance this 'so-called' fight for control. Strategies must be developed to ensure that service personnel feel that they have sufficient control over the service delivery to ensure that they can deliver a quality service. Strategies must also be developed to make clients feel that they have some form of control over the process and make them feel more involved in the service that is being produced for them. This can be achieved by making them feel that they have a say in the service that is produced, or by providing them with information or knowledge about the service in question. Knowledge is power, as the saying goes. The more information a client has of the service being provided, the more in control he or she feels.

CASE STUDY: FLYSAFAIR PREPARING FOR TAKE-OFF[24]

New company hoping to get the model right, even as three other would-be airlines have spent the past two years threatening to take to domestic skies.

Figure 10.6 *FlySafair's logo*

Just two years after the demise of low-cost airline operator 1time Holdings, another budget start-up, FlySafair, is preparing for take-off. The new company is hoping to get the model right, even as three other would-be airlines have spent the past two years threatening to take to the domestic skies. FlySafair received its operating licence at the end of March.

It plans initially to operate flights between Johannesburg and Cape Town from the second-half of the year, using two Boeing 737-400 jets.

Figure 10.7 *A FlySafair's domestic aeroplane*

But why does FlySafair think it can make it in a market dominated by two established competitors, which have been at it for 80 years and which enjoy unlimited shareholder support?

'We believe there's a gap in the market for another low-cost airline,' says Elmar Conradie, FlySafair's chief financial officer. He says the gap has been created by flight prices, which have risen by between 30% and 40%, since the demise of 1time and that of the short-lived Velvet Sky in 2011. Since 1time ceased operations, ticket prices have shot up to the current R1 300 return flight between Johannesburg and Durban, from about R1 000 at the time, and from about R800 before Velvet Sky crashed in 2011.

Conradie says the company is well capitalised and is '...in for the long haul. We'll have the lowest operating costs in the market, which means we charge slightly lower prices.' He will not make promises about the price range, however, as the company is weary of triggering a competitive price war among the incumbent operators.

Fixed operating costs will be aided by FlySafair's ownership, rather than leasing, of its aircraft. It is owned by the 46-year-old Safair, which operates an aerial logistics business that includes cargo and a charter company, leasing and maintenance.

'Our existing business will help us maintain lower overhead costs because we will be able to use our office infrastructure and people for the airline,' says Conradie.

Mango Airlines also came in with a promise to lower prices in 2006, boasting the lowest operating costs. It temporarily delivered on that promise, and offered prices as low as R400 on one-way tickets between Johannesburg and Durban. It could afford to take losses – its parent company, SA Airways, has been doing so for the better part of its 80 years, thanks to taxpayer bailouts.

South Africa's aviation market has been merciless since it was liberalised in 1991. But Safair is no stranger to this market. It was owned by Imperial Holdings before being sold to an Irish company in 2008, along with aircraft maintenance company Safair Technical, which was bought by 1time two years before its own demise.

The market has destroyed the ambitions of no fewer than six airline companies, starting with Flitestar early in 1994, through Nationwide Airlines, to Velvet Sky and 1time, which collapsed in liquidation in November 2012.

Since then, the former owners of 1time have been trying to launch a new airline, called SkyWise. With much fanfare and media hype, the SA National Taxi Alliance Co. even conducted a demonstration flight to Bhisho in the Eastern Cape, and said it would launch a commercial route there. That was over two years ago.

Lonrho Plc-owned Fastjet has also spent the past two years trying to obtain a domestic operating licence, but was blocked by the regulatory requirements of a 75% local shareholding.

FlySafair also had to jump those hurdles, and obtained the licence after a court case that delayed the decision for four months.

Conradie says the company has already settled the guarantees needed by suppliers in order to start operations. 'Fuel suppliers need guarantees and banks want guarantees, as does the Airports Company, before they can start supplying you. Everybody wants guarantees.'

Having put the guarantees in place even before beginning operations, Conradie feels the company will be starting from a position of strength. 'We'll start selling tickets once we have sorted the landing slots we've applied for,' he says.

EXERCISE

1. Discuss how the unique characteristics of services apply to a service provider such as FlySafair.
2. Explain the concept of the total service product in terms of FlySafair and the service it intends on providing.
3. FlySafair is making a bold move in entering a highly competitive market where numerous other airlines have failed in the past. The case study states that the new airline does not want to compete solely based on pricing strategy at the risk of initiating a price war. With reference to the other elements of the services marketing mix, discuss how you think the new airline should compete in the market.
4. Considering that FlySafair intends on following a low-cost strategy, discuss how this strategy will influence their use of the servicescape.
5. Develop a basic service blueprint for FlySafair where you map out the service process and identify the relevant critical incidents.
6. Clients have different levels of service expectations. With regard to FlySafair, what client service expectations do you think would be included at each level?

Summary

This chapter focused on the key issue of services marketing and the application of the elements of the extended marketing mix to the services environment. We clearly saw that service products are different from physical goods. The marketing mix for services was explored in depth. It is important to note that, in addition to the traditional 4 Ps of the marketing mix for physical goods, there are three additional marketing mix elements for the marketing of service products; namely processes, people and physical evidence (the 3 Ps).

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INTEGRATED MARKETING

CHAPTER 11

LEARNING OUTCOMES

After studying this chapter you should be able to:

- explain how the marketing concept relates to the critical marketing decisions
- explain how marketing information can be obtained through the marketing information system (MIS)
- explain the effect of the environment on the design of the marketing mix
- discuss how the determinants of consumer behaviour influence marketing decision-making
- identify how the choice of target market determines the design of the market offering
- discuss the decisions made for each of the marketing mix elements
- explain what changes have been made to the marketing mix in terms of a service product
- discuss the effect of marketing ethics on a business.

Introduction

The previous chapters have established the core analysis and information sources that need to be identified, researched and discussed before any marketing decisions can be made. These core information areas form the basis for designing an informed and effective market offering. There is a strong tendency to discuss solutions or to prepare answers before the problem has been identified. The preceding chapters also highlighted the decisions and processes in the two major areas of a marketing strategy, namely choosing a target market (segmenting, targeting and positioning) and designing the marketing mix. In this chapter, we review how each of the previous chapters affect the decisions made by marketers in terms of offering a product or service to the marketplace. An example of using segments to help drive strategy can be found at MMI, the third largest insurer by market capitalisation in South Africa.[1] They revised their operating structure to be more client-centric and less product-centric. They have four segments which they target, and have used these as a basis for structuring the units. In the retail insurance space, Momentum Retail targets the middle- to upper-income clients, while Metropolitan Retail targets the lower-income clients. The third segment is the corporate sector, the fourth segment being the international business segment. Each is the basis for a specific business unit and will have their own marketing mix to address the needs of the specific segment.

We will now try to integrate the chapters by establishing the link between these core information areas and the market decisions.

The marketing process

Traditionally, there have been four major areas about which marketing management must make decisions. Once the target market is chosen, the marketer must make decisions about what to offer (the product), the place where the product is to be sold or delivered to the customer (distribution of the product), how the customer will be informed about the product (marketing communications), and the price of the product, which should reflect the value of the product to the customer. The four variables combine to represent the market offering which the marketer develops in order to meet and satisfy the customers' needs. Collectively, these 4 Ps are the marketing mix.

Figure 11.1 on the next page shows how the core analysis and topics discussed in the previous chapters interact in the marketing process to facilitate the achievement of an organisation's objectives. Once the target market is chosen and its needs properly understood through research, the marketing mix can be developed in order to meet the market needs. If this is done successfully, the marketer can contribute to the main objective of any business, namely the maximisation of profitability in the long term. This occurs within the context of a dynamic marketing environment.

Gaborone-based retail chain Choppies has managed to maintain a 20% growth rate in revenue over three years, and has been very successful in South Africa against strong competitors, such as Shoprite and Pick n Pay.[2] It achieved this by choosing smaller underserviced towns as its target market and then used a strong marketing mix to deliver value. It has a large range of in-house brands, national branded lines, good service delivery, strong central sourcing and logistics, and competitive pricing relative to the bigger rivals.

The fact that many businesses now have a large service component in their value proposition aimed at specific target markets, means that the traditional marketing mix (the 4 Ps) is not adequate for marketing service products – an issue covered in the previous chapter.

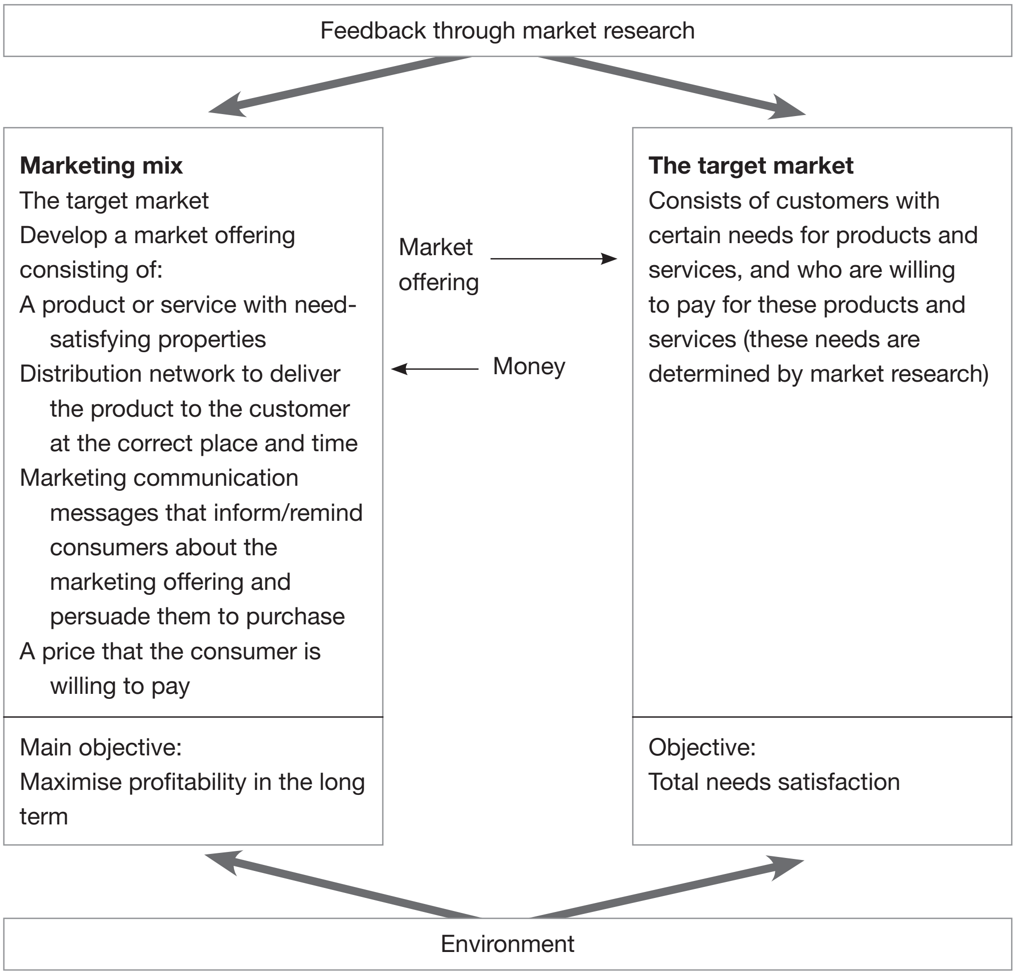

Figure 11.1 *The marketing process*

As you already know the three elements added to the traditional mix to form this expanded mix are:

- **Customer service:** this helps marketing management to differentiate the business and helps to build closer relationships with customers.
- **People:** the staff members form an integral part of the product, especially those employees who are involved in high levels of contact with customers.
- **Processes:** the policies and procedures of the business influence how a product or service is created or delivered to customers.

In 2012, in an effort to increase convenience for its service and product offers to its customers, Vodacom launched a service that allowed its customers to purchase Lotto tickets through their cell phones.[3] It also launched a funeral cover insurance plan through its M-Pesa product line. These resulted from a desire by Vodacom to increase its service delivery to its customers, and required changes to its business processes to take into account the Lotto and insurance aspects of its expanded range.

Market orientation

An organisation with a marketing orientation, and following the well-known marketing concept, has four important characteristics:

- **Customer focus:** this refers to the efforts made to discover customers' needs so that satisfaction can be delivered.
- **A team approach:** this means using cross-functional teams and an integrated approach to develop and deliver customer solutions.
- **Competitor orientation:** this refers to the continuous recognition of where competitors have an advantage, their competitive position and marketing strategies.
- **Social responsibility orientation:** this means that all of the above three factors must be implemented within the scope of acting in a socially-responsible manner. All the actions of the organisation must be checked off against this prerequisite to ensure the organisation protects its 'licence to operate' in society.

These four key characteristics lead to a business being in a position to deliver satisfaction to its customers. If this is measured and if the business performs in delivering satisfaction to the customer effectively, the profitability of the business can be enhanced through better customer retention and increased loyalty. This is evident by a number of benefits that a loyal customer can provide for a business over a period of time; these benefits include:[4]

- increased purchases
- reduced operating costs
- referrals to other potential customers
- the ability to justify a price premium to differentiate the product from those offered by competitors.

When this marketing orientation is coupled to effectiveness in the marketplace, the profitability of the business is reinforced. Peter Drucker, a famous management expert, is credited with the statement that an organisation has two main tasks: acquiring customers, and innovation. The ultimate goal of a strong marketing orientation is to develop and implement marketing strategies that attract, satisfy and retain target-market customers. This is done through the marketing strategy, which includes the target market and the marketing mix, as shown in Figure 11.2 below.

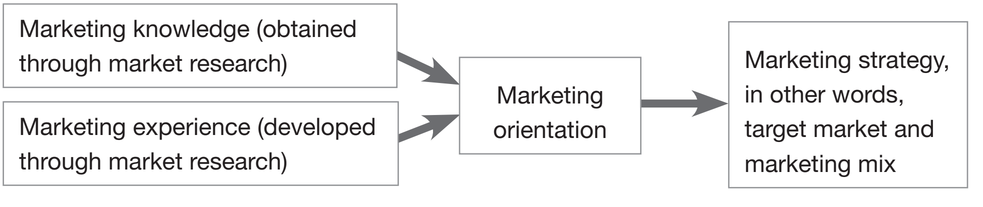

Figure 11.2 *How marketing orientation shapes marketing decisions*

Kotler feels that the trends in the marketing environment have led to the recognition that a more comprehensive, interdependent integrated approach is needed to take this environmental volatility into account in the marketing concept. This 'holistic marketing concept' has four broad components:[5]

- **Relationship marketing:** the aim is to build win-win relationships with key role-players such as customers, employees, marketing partners, and members of the financial community. This network, if built up successfully, can facilitate the achievement of the organisation's objectives.
- **Integrated marketing:** the marketing mix is the combination of marketing activities and tools needed to meet customers' needs. They should work together to deliver value to the customer. They should work together to provide a synergistic effect, that is, the effective management and design of the mix must maximise the joint effect of all the activities in the mix. The focal point should be the delivery of benefits for the customer.
- **Internal marketing:** this makes sure everyone working in the business embraces and supports the marketing effort by co-ordinating the functions and efforts of the staff. It is essential to make sure all the marketing functions such as marketing and sales work together; then to make sure that every department and level of management is aligned to the same marketing view.
- **Performance marketing:** this incorporates operating in a socially-responsible manner, as well as understanding the marketing metrics and scorecards that impact on the financial performance of the business. The relationship of marketing activities to profits has received much attention in the last few years, and the marketing function in a business has the responsibility of ensuring that the company's actions are seen to be measurable and based on sound business principles.

Local South African insurance companies had a tough time in the last decade due to the pressure of growth from the past recession.[6] Rising costs, increased regulation, loss of talented staff and volatile equity markets were some of the issues they had to face. Insurers struggled to incur income due to the pressure on household incomes and lapse rates increased, as consumers cancelled policies or opted to cash them in. The forecast was optimistic however, as growth in mass-market business and focusing on other African markets may recoup some of the difficulties the insurers had faced.

The marketing environment

It has already been established that the marketing environment of a company is dynamic and made up of a number of sub-environments which interact with one another. As discussed in detail in Chapter 2, changes in the macro-environment (economic, political, social and technological) fall outside the control of the organisation.

Marketing managers need to understand the wider business environment (macro-environment), but they should concentrate on those aspects that can be influenced, such as the controllable variables of product, price, communication and distribution. This is illustrated in Figure 11.3 on the next page.

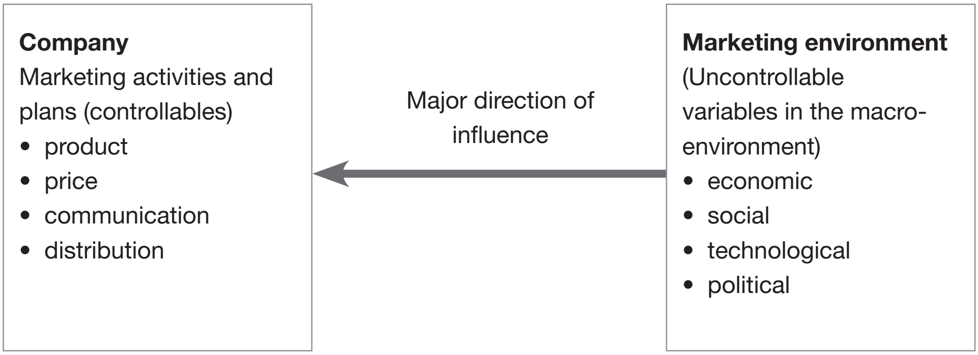

Figure 11.3 *Environmental influences and marketing management*

The effectiveness of marketing will be determined by how well it can match the offerings of the organisation to the requirements of the marketplace. Marketers therefore need to develop an 'outside-in' orientation – being led by the market. This can be seen as the strategic role of the marketing function in the organisation. This is no easy task, and can be seen by the failure of organisations that no longer exist, or have lost market share to competitors. There is a tendency for organisations to become preoccupied with their daily operational problems (often termed 'fire-fighting'), which leads to a loss of contact with the needs of customers and changes in the environment. Small changes may well be the precursors of more significant changes, so marketers must continually monitor what is going on and be willing to respond. Figure 11.4 illustrates a framework for environmental monitoring and adaption.[7] Environmental monitoring identifies short-run changes and long-term trends. These are classified as opportunities, threats or inconsequential events. If adaptation is required, it can only take place within the controllable aspects of the marketing mix.

WINDS OF CHANGE (DIGITISATION AND MARKETING)

McKinsey, in a recent article, noted that many executives in banking, retail, and other sectors are still struggling to devise the perfect cross-channel experiences for their customers that use digitisation to provide customers with targeted, just-in-time product or service information in an effective and seamless way.

They feel that in the next few years, marketers are likely to see a radical integration of the consumer experience across physical and virtual environments. Already, the consumer decision journey has been altered, because of the digital opportunities and the fact that customers now have many different online and offline options at their fingertips for researching and buying new products and services. McKinsey feels that by 2016, the web will influence more than half of all retail transactions, representing a potential sales opportunity of almost US$2 trillion.

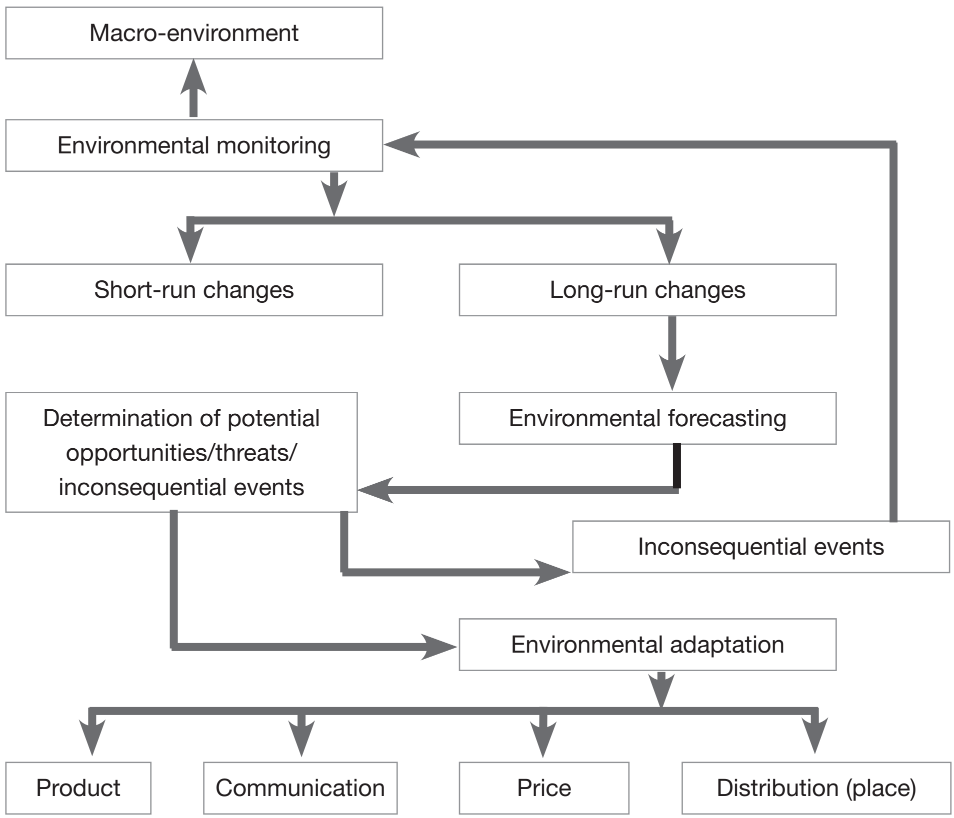

Figure 11.4 *Environmental adaptation and monitoring*

Four key drivers of environmental change

We are all aware that we are in an 'information age', something which requires fundamental strategic responses from management to four important drivers of change.[8]

- **The globalisation of markets:** changes in communication and transportation mean that any business can launch a website and market its offerings globally, as easily as if it was marketing to customers just around the corner. Companies such as Microsoft, Intel, Merck and McDonald's are selling in key global markets. Smaller companies must be innovative and flexible to compete on the global stage – visit the www.stormkoek.co.za site to see how one South African wine producer is using innovative ways of selling its wines to a global market.
- **Changing industrial structures:** old traditional markets have declined and new markets have emerged. These markets offer good profit opportunities for those marketers that can move fast enough to capitalise. Many economies are shifting to being information-based, with corresponding shifts in the structures and ways of distributing products and services. Visit www.amazon.com to see how many products are available for delivery as a download, rather than a physical item such as a book or CD.

- **The information revolution:** the Internet and broadband networks have created an explosion in connectivity that has revolutionised almost every aspect of business. Intranets have changed the way a business can operate, making it possible to facilitate cross-functional teams working together through informal networks to produce and support products. Levi's has an ongoing information feed from its retailers on the sizes and styles of its jeans being sold, which enables it to ensure that an order for fabric from its supplier Miliken, can be placed for immediate delivery. Miliken responds by ordering more fibre from its supplier, Du Pont. In this way costs have been reduced, service and delivery have sped up, and response time to consumer demand has improved.
- **Rising customer expectations:** the three trends listed above and on the previous page, have led to a rise in customer expectations. Market segmentation was the initial response to meeting customers' needs. Companies made an increasing number of variants to meet customers' needs for example, Nike had 347 different types of running shoes. This high level of the number of variants led to higher costs and limited effectiveness. The information advances led to a new strategy – mass customisation, where media and products could be tailored and made to order for the individual customer! The explosion in information meant that companies could gather information on a customer from many sources, and store it, using it to gain insights into individual customers to be able to better meet the specific needs of that customer and communicate directly with individual customers. For example, Dell computers could deliver a customised computer solution to a customer's door within 48 hours of the order being received.

Obtaining and using marketing information

It is essential for a marketing organisation to have an effective marketing information system (MIS) – refer back to the discussion in Chapter 4. Such a system helps to integrate all the different types of marketing information and makes this information available to the decision-makers in a useful and timely form, as illustrated in Figure 11.5 below.

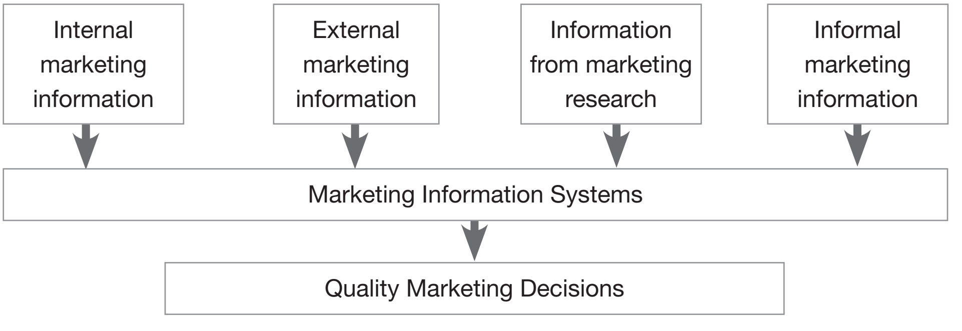

Figure 11.5 *Sources of information for an MIS*

The purpose of the MIS is to collect, analyse and evaluate all the information that is likely to be of value when making marketing and other decisions. The idea is to uncover customer insights that can be used to develop a value proposition that meets a customer's needs and provides differential advantage against competitive offerings. The information system is therefore the interface between marketers making decisions and the marketing environment. The MIS provides key information for every other function within the organisation, including, but not limited to production, operations, and research and development (R & D). Many large organisations have formal MIS structures. Some small businesses do not have a formal system, but very effectively use informal channels to keep in touch with the market.

Figure 11.6 on the following page shows the connection between the information gathered and marketing decisions. Any responses to the environment are then monitored and evaluated to determine whether or not they are succeeding in better aligning the organisation to the market.

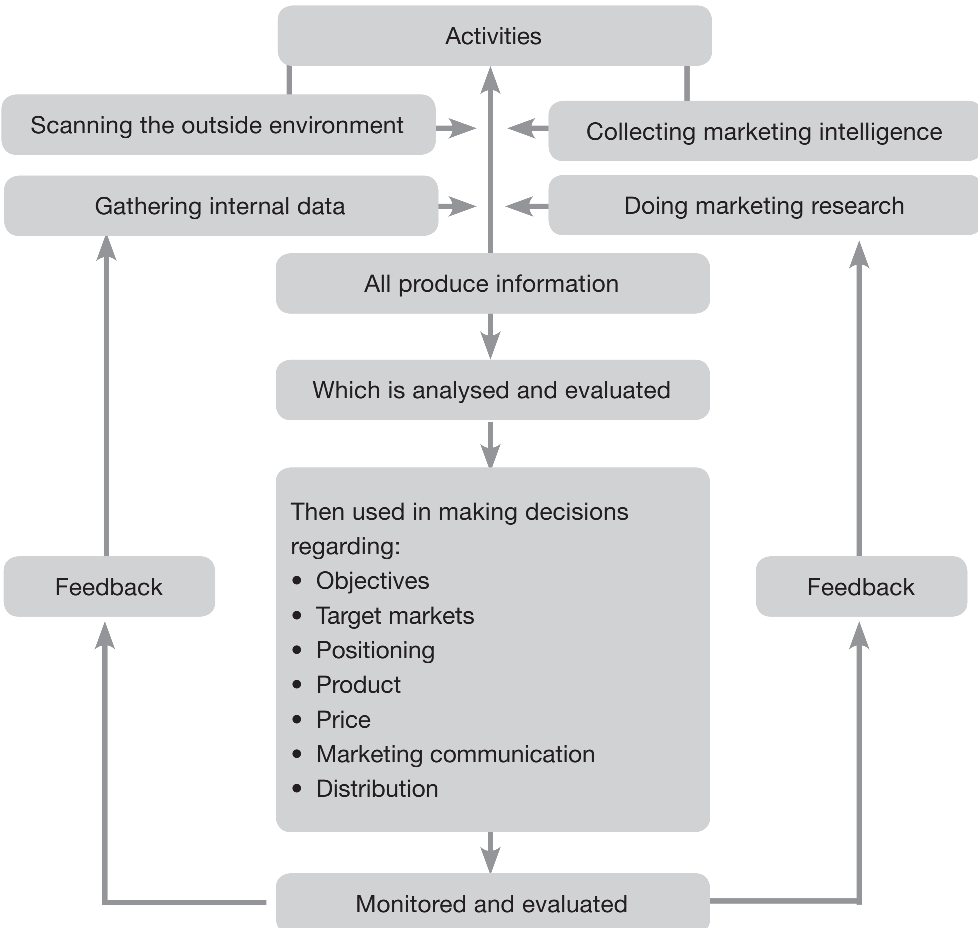

Figure 11.6 *MIS and marketing decision-making*

Perspectives on consumer behaviour

One of the basic premises of marketing is that by understanding consumers and their purchasing habits, marketers can design an effective offering to help them achieve their objectives.

There are many basic questions that any marketer must be able to answer about the market, such as who the consumers are and why they buy certain things. This information is critical because marketing is supposed to be the link between the customers and the organisation. Figure 11.7 on the following page illustrates the relationship between the environment, the marketer and the consumer.

THE CASE OF ENCYCLOPAEDIA BRITANNICA

The Encyclopaedia Britannica brand was one of the strongest and well-known brands of encyclopaedias in the world for over two centuries. The evolution of the information age and home computing, however, led to declining sales. Parents' behaviour had changed, so they bought computers for their children, and connectivity, rather than printed encyclopaedias. The cost of producing a printed set of the Britannica encyclopaedia was about £250, and sold for £1 300–£2 200 in the UK. It still marketed through expensive direct marketing channels. Microsoft and other companies launched CD-ROM versions of their reference publications, which cost about £1 to make and be sold for £50, but more often were given away or bundled with computer or software sales. Also, they were easier to use, had sophisticated electronic features, including advanced search capability. They also included sounds, music, images and films.

Britannica saw the threat finally, but when it launched its own CD-ROM, it charged £755, to avoid undercutting the sales personnel selling the physical product. Only in 1997 was the decision taken to abandon the salesforce, and the product was placed on the Internet to salvage its eroding market position. It now offers the print, DVD and online versions, but other sites such as Wikipedia, are still effectively challenging its position.

Britannica's management had failed to recognise the implications of the environmental trends, or that its salesforce had become an expensive liability, and that the real competitor was the computer and the Internet.

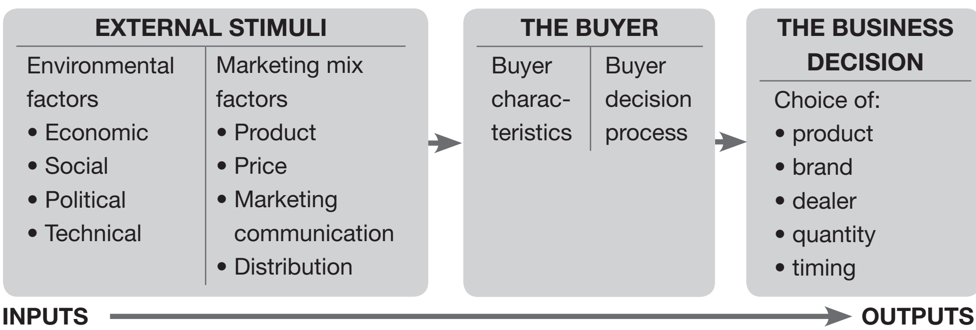

Figure 11.7 *A simple model of buyer behaviour*

The environmental variables under which all the market players operate, also have an influence on the consumer. Likewise, the marketing mix designed by the marketer should also have an impact on the consumer. These two aspects are external stimuli to the customer. There are also internal stimuli that affect the decisions made by the customer. The buyer's own characteristics, for example, will affect his or her decisions. Different customers will have different perceptions and expectations, and the manner in which the customer proceeds through the decision-making process, will also affect the purchasing decision. Each customer may have different individual or group influences, and no two customers are exactly alike. The level of involvement of the buyer with the product, will determine how seriously and systematically he or she proceeds through the steps in the decision-making process. Lastly, the buyer will make a number of decisions. The marketer's job, through the marketing mix, is to persuade the buyer to buy the marketer's products, and to deliver the need satisfaction that will hopefully ensure that the buyer will remain a loyal consumer.

Just as the marketing environment is constantly changing, consumers are also affected by changes in the environment, and their needs will also change. Any business must be aware of the changing characteristics and needs of its consumer base. These could be significant changes, which the business will have to address through its marketing activities.

Wilson and Gilligan have identified a number of characteristics which are associated with what they term the 'new' consumer:[9]

- The development of new value systems
- Greater emphasis on value for money
- Higher levels of price awareness and price sensitivity
- An increased demand for and a willingness to accept more and exciting new products
- Less fear of technology
- Lower levels of brand and supplier loyalty
- Greater willingness to experiment with new products, ideas and delivery systems
- A greater cynicism
- Higher levels of environmental awareness
- Greater scepticism about politicians, big business and traditional institutions
- The changing roles of men and women.

The end result is that consumers are more demanding, more aware of offers, less brand loyal, and more ready and willing to complain than before. These changes are evident when we consider at what age young consumers are already becoming conversant with both technology and its usage. A recent report by Ofcom[10] found that nearly half of three and four-year-olds are technologically savvy, and that one in ten is already using a product such as an iPad to visit websites, watch films and programmes, and play games. About 37% of these children already used the Internet via a PC or laptop, and 3% surfed the web using mobile technology. This creates a challenge for many parents to keep up with technology and its uses to keep pace with the abilities of their children.

The core of any marketing strategy is a commitment to understanding consumers' needs and problems. Refer to Figure 11.8 below.

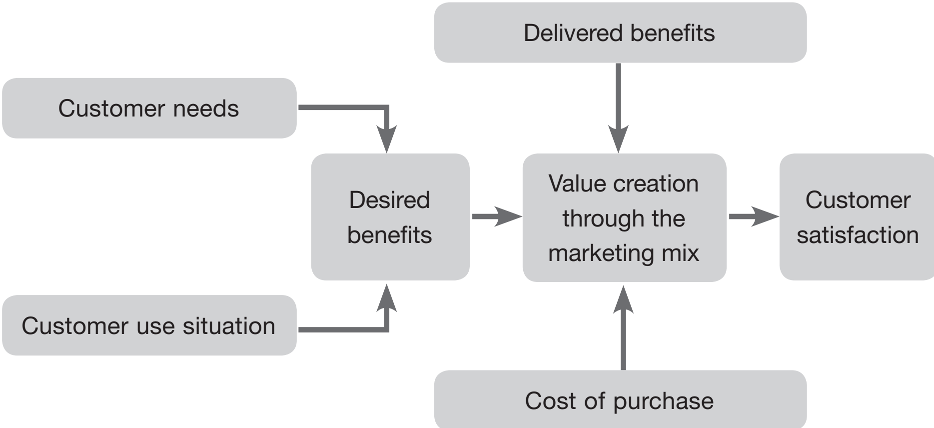

Figure 11.8 *Consumer analysis and the marketing mix*

In Figure 11.8, we see that an organisation must monitor the changing consumers' needs and the changing ways in which the consumers use the product. These two factors will affect the benefits which the consumer is seeking. The business responds to these through changes in some aspect of the marketing mix. By successfully meeting these consumers' needs and delivering the benefits desired, the business can satisfy its consumers, increasing the likelihood of success. Note that the consumers determine what value they receive from a business by weighing up the benefits which they perceive as being delivered to them against the cost of the product or service. Marketers must therefore ensure that their customers believe that they are receiving value for money compared to what is available from competing companies.

BUYING BETTER BANKING: CONSUMER CHOICES

A 2012 Ernst & Young survey found that the balance of power was shifting from banks to consumers. The demand for better service and value means that customers are looking for more transparency over fees, and will favour banks that reward loyalty and personalise products to suit different market segments and individual customers. Although price competitiveness is still important, consumers want a brand that appeals to them and that actually delivers the brand experience that it promises. Customers are more demanding, taking greater control of their banking relationships, switching banks if unhappy, and demanding improvements and transparency. The survey found that 71% of respondents seek advice on banking products and services from friends, family or colleagues, highlighting that social media is now an important influencer on customer opinion.

Target-market selection and positioning

The importance of target-market selection and positioning is best understood in terms of the phenomenon of fragmentation,[11] whereby technology and cultural differences contribute to the splintering of the market into diverse groups. These are environmental aspects, many of which work together. In selecting a target market, marketers need to understand how to recognise the various groups that make up the total market. This process relies on marketing research (you learnt about this in Chapter 4), which assists the marketer to find the best way to segment the market (you learnt about this in Chapter 5). Once the different segments have been identified, the market potential of each segment must be established. Again, market research is instrumental in the selection of segments that will help the company to achieve its objectives.

Having decided on a specific target market(s), the marketer will have to determine how to position the product in the target market. In order to do this, further market research in terms of the competitor positions and need satisfaction, may be required. Once the positioning strategy has been established, the marketing mix must be tailored to meet consumers' needs effectively. If correctly designed, the marketing mix is how the marketer will meet the needs of the consumers in such a way that the consumers' perceptions of the product matches the positioning strategy selected by the marketer.

Note that there are continuous changes in the market, so the environment must be monitored continuously to determine whether repositioning is needed. Figure 11.9 below shows the segmenting, targeting, positioning and designing progression when developing the marketing mix.

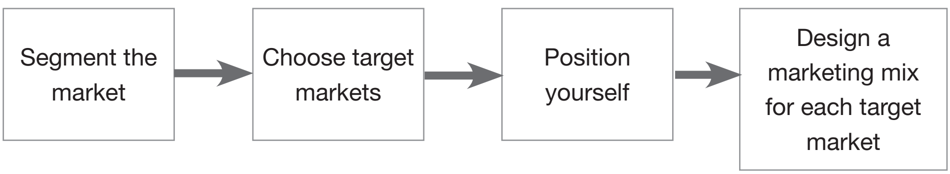

Figure 11.9 *Progression for pinpointing the market*

The marketing mix

The previous sections of this chapter formed the basis for an information base from which marketing decisions can be made. These are the building blocks upon which any effective marketing campaign is based. The care and attention to detail exercised by the marketer with these building blocks, will help make key decisions in respect of the target market and the marketing mix that is required to address that market.

The traditional marketing mix is a combination of marketing decisions designed to influence customers to buy the enterprise's products and/or services, the well-known 4 Ps described in detail in Chapter 6 (product), Chapter 7 (distribution or place), Chapter 8 (price) and Chapter 9 (promotion). See Figure 11.10 on page 279.

Product decisions

The marketer must determine what the actual product offers, as well as the need-satisfying benefits which should be included. The marketer needs to make decisions regarding the range of different types of product and/or service to make, and offer. This is called the product mix.

HARLEY DAVIDSON AND THE 4 PS

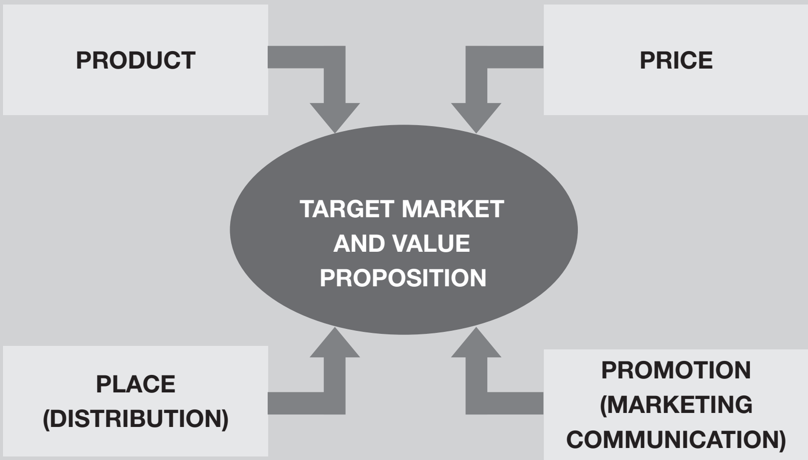

Figure 11.10 *The marketing mix*

Harley Davidson used the 4 Ps of marketing to position its motorcycles to a new customer segment: the baby boomer generation in the United States. The product was changed by introducing a new engine, but retaining the 'heavy metal' look. The promotional strategy was changed by shifting the advertising to promote a softer image. It featured celebrities such as Elizabeth Taylor on a Harley Davidson. The objective was to attract the high-income segment. It changed its distribution strategy by cleaning up the dealerships so that they did not look so dark and so that they were more customer-friendly. Harley Davidson expanded its product range to include motorcycle fashion accessories displayed in a clean, bright atmosphere. They priced their motorcycles to reflect the value that the high-income earners place on living out their fantasies on a Harley Davidson motorcycle. (The upper end of the motorcycle range often runs into the US$20 000 price range.) The company has established a group called the Harley Owners' Group (HOG) that offers networking benefits and rides to special events. It has also established an extensive website devoted to the group with accessories, information and events. All these components demonstrate a well-co-ordinated marketing mix targeted to a specific segment of the market.

Specific product strategies must be established: whether the product mix will be extended through product diversification; whether it will be reduced for more specialisation; whether to standardise the product range; how to differentiate or distinguish the product from other competitive products; and decisions on how to manage possible obsolescence of the product. A plan for the development and commercialisation of the products must be developed. The product design and package design are an important component of product decisions. The whole issue of a brand name and the branding decisions must be addressed, and plans made to establish brand awareness within the selected target markets.

Although product is usually the first component of the marketing mix addressed by marketing, the development and design of the product offering and package are totally dependent on input from the environmental analysis and consumer analyses. Without researching these two areas, the marketer cannot effectively design a product offering to meet the needs of the consumer. For example, changing economic conditions may necessitate developing a lower-priced product item. Mercedes-Benz launched its A and B range of models and BMW South Africa developed its 1 and 3 series as a response to economic changes in the marketplace that required entry-level motor car offerings. Evolving use of products may necessitate packaging design changes. Both of these could lead to new product opportunities and/or brand extensions.

Pricing decisions

As you have already learnt in Chapter 8, price is important because it is the only element in the marketing mix that generates revenue. It is also important because it affects the enterprise in a direct way, namely the profitability of the business. The marketer will need to establish the price sensitivity of the target customers, and will then need to establish the basic price. This can be done on the basis of costs, on the basis of the demand for a product, or on the basis of competitive pricing structures. All three of these factors will influence the setting of a price. The marketer must also establish flexibility in the pricing structure through the use of adjustments. These factors could include different types of discounts and the geographic location of the customers.

We have referred to the effect of the environment on pricing, by noting that economic conditions could lead a marketer to develop a lower-priced alternative. The marketer must monitor the environment to analyse the effect of the environmental factors on pricing. New developments in materials and processes can have significant impact on the bottom line of a business as a result of its impact in pricing and margins. Technology, in particular, has provided significant threats to many businesses by its accelerating rate of change, yet it also provides opportunities to improve bottom-line performance by improving profitability. Developments such as just-in-time, materials management systems and e-commerce have had a significant impact on the profit margins of motor car manufacturers. Many cars are now sold over the Internet, with significant impact on promotion and distribution costs, and therefore on pricing. Marketers must also carefully research and monitor the target market's sensitivity to its pricing strategy. Marlboro is the leading cigarette brand in the world, yet it had to implement a significant price decrease a few years ago, when research revealed that it was losing market share because smokers were switching to lower-priced or generic cigarettes. The price decrease, although unusual in terms of traditional marketing strategy, succeeded in regaining lost market share.

Distribution decisions

The marketer will have to establish the intensity of distribution needed to meet the market's needs and expectations. This could be intensive, selective or exclusive distribution intensity. The marketer will also have to decide on the type of distribution channel through which to deliver the product or service to the final consumers. There are many options to consider here, from direct channels through to those that utilise intermediaries such as retailers, wholesalers and agents. The effect of the physical position of the marketer's own business could be included here, as the location of a business is often the most critical determinant of possible success.

Distribution decisions and distribution channel design are areas where rapid changes are occurring in terms of the marketing mix. Amazon, the well-known e-tailer, has opened an online wine marketplace.[12] It sold more than 1 000 wines from the United States, and hoped to add more, but highlighted the difficulties it faced with regulations governing the sale and delivery of alcohol across state lines in the United States. The advantage of a marketplace approach over a traditional distribution approach, is that it lets smaller wineries reach more consumers directly. It is critical for marketers to monitor both changes in the environment and consumer expectations of where they want to purchase products. In so doing, they will always be able to meet consumer needs by providing the right product at the right time.

Promotion decisions

It is essential for marketers to inform current and potential consumers in the marketplace about their products and their marketing activities. This communication can be done by using marketing communication tools such as advertising, sales promotion, personal selling and publicity.

It is clear that a number of decisions are associated with the use of these communication tools, such as what message to deliver, what media to use, what size budget is required, and what promotional support activities to implement. All of these must be implemented, co-ordinated and evaluated. The marketer must also communicate internally throughout the organisation, to ensure that the employees and staff are aware of what the expectations are in the marketplace, and what message the organisation is delivering to its target audiences.

Media choices are an area to which marketers must pay particular attention. The growing number of media choices (Internet, hot air balloons, travelling billboards, SMS, new magazines and new television stations such as satellite television and e-tv) means that marketers have to pay particular attention to making the correct choices for communicating with the target markets effectively. This requires systematic research of the consumer base to monitor trends in terms of media, as well as advertising campaign impact. Nando's, for example, has been particularly effective in designing campaigns that are related to current events in South Africa. Its success is as a result of monitoring the environment for opportunities.

Adaptation of the traditional marketing mix

At the beginning of this chapter it was said that the traditional view of the marketing mix has been expanded to seven elements (7 Ps) to take into account the growing importance of people, process and physical evidence in the marketing of service products).[13] Table 11.1 on the following page explains this in more detail.

Table 11.1 *The expanded marketing mix elements for service products*

PEOPLE	PROCESS	PHYSICAL EVIDENCE
Employees	Activity flow	Facility design
Customer interaction	Standardisation	Atmosphere
Internal marketing	Customisation	Equipment
Capabilities	Service delivery	Signage
Effectiveness	Database management	Employee dress
Availability	Technology	Literature
Selection		
Training		
Motivation		

The importance of people in the marketing mix

All of the people involved in the delivery of service to the customer will affect how the customer perceives the service itself. These perceptions are influenced by many factors, such as how the people are dressed, their personal appearance, their attitude and their behaviour. The actual person providing the service, who we will call the contact person, is probably the most important person in terms of the consumer's perceptions. These people are the focal point of the service encounter and they have a tremendous influence on how a consumer perceives the total service experience. We only have to think of our own experience of people doing this kind of work (for example bank tellers, waiters, counter clerks, retail salespeople) to become aware of how critical they are to the organisation.

This implies that there are serious considerations for an organisation in terms of staff productivity and training. The staff must have the ability to cope with all types of customers, they have to deliver service reliably, and they have to help present a consistent image to the customers. One way of helping to ensure that this occurs, is by means of internal marketing. Internal marketing is marketing to the employees so that they are informed, committed and motivated to deliver the required standard of service on a consistent basis.

The marketer of a service product has to carefully plan this ‘people’ factor of the expanded marketing mix. He or she has to clearly spell out exactly what is expected from all staff in their interactions with customers. All parts of the Human Resources function must be included in marketing decision-making to ensure a favourable impact on the customer.

These activities include the recruitment, training, motivating and rewarding of staff. Disney World in Orlando, USA, is well-known for the excellent service culture it has developed. Many South African organisations, such as Pick n Pay, have sent their own staff to Disney World to attend courses in service and people management skills.

Process in the marketing mix

Process includes the flow of activities by which the service is delivered. These activities can be illustrated by the service delivery system and the operations system. The actual way in which the service is delivered to a consumer is used as a means by which consumers judge whether the service is satisfactory or not. This means that the production of the service – the process – is an important part of marketing. The aim is for smooth, efficient, customer-friendly procedures designed with the consumer’s satisfaction in mind. The delivery process must therefore be designed as if from the consumer’s point of view. Many procedures and processes may be useful to the organisation, but from the customer point of view, may simply be seen as bureaucracy, and may be detrimental to good customer service.

Types of process activities

A number of different types of process activities have been identified.[14] One type is those that have been established in support of the service encounter. These could include administrative systems, data-processing systems, consumer tracking and database management systems. Other processes are not visible to the customer but help to ensure that the service delivery proceeds smoothly. This includes organising and planning activities. Planning is important to ensure that the customer experiences the service with the least inconvenience. This would be reflected in the design of forms, the information requested from customers, the payment procedures, the credit procedures, and the design of queuing systems. Some organisations cause consumer frustration because of complicated bureaucratic procedures and policies that they follow. These may appear to be unreasonable or illogical.

A related aspect is whether the service process is a standardised process or it is customised to each consumer. McDonald’s, for example, is renowned for the process design that allows it to provide a quality meal very quickly in a consistent manner. Other competitors, such as Burger King (now in South Africa), advertise the fact that customers can have it their own way, as they will prepare the burger the way the customer wants it. Another example of this concept is a comparison of two successful airline companies, Southwest in the United States and Singapore Airlines. Southwest is a no-frills, no exceptions, low-priced airline that offers frequent, relatively short-length domestic flights. All of the evidence that it provides is consistent with its vision and market position. Singapore Airlines, on the other hand, focuses on the business traveller and is concerned with meeting individual traveller needs. Thus, its processes are customised to the individual, and employees are empowered to provide a non-standard service, when needed. In South Africa, we have British Airways and kulula.com, which are run by the same company, yet follow very different models for delivering a travel experience.

Physical evidence in the marketing mix

It is often said that 'seeing is believing', yet one of the characteristics of service is that service is intangible to consumers. This means that they cannot see it, hear it or touch it. The fact that a consumer cannot see a service before it is actually consumed, means that the risks of purchasing a service are greater than purchasing a traditional physical product. You cannot, for example, see a haircut on the shelf before deciding whether you would like your hair cut. This means that it is extremely important for the marketer to give the consumer tangible evidence of the nature or quality of the service so that the consumer's risk perception is reduced.

Physical evidence can be explained as the tangible elements that support the service delivery, and that help to give clues about the positioning of the service product. It also gives the consumer evidence that symbolises the intangible benefits that they may have received. A consumer looking at a travel package could be provided with a brochure that describes the highlights of the tour and gives colour photographs of the hotels and sights that the customer is likely to see. The more glossy and detailed the brochure, the more evidence is provided to the customer as to the value of the trip. Other examples of physical evidence include letterheads, business cards, report formats, signage and equipment. When the service product is such that consumers do not have much with which to judge the actual quality, they will look for these clues as a basis for judging the quality. Bear in mind that people and processes also provide clues to the consumer. Physical evidence gives a business an ideal opportunity to indicate to consumers the level of service that they will receive. Woolworths put a sign near the tills in its stores encouraging the customer to call a cell number if the queue for the till was too long; this emphasises its response to delivering good service.

Types of physical evidence

There are two different types of physical evidence, namely essential evidence and peripheral evidence.[15]

Essential evidence is critical to the service, and contributes significantly to the consumer's purchase decision. For example, a tour bus operator could provide essential evidence through the type, appearance and newness of the buses it runs. For a university, the library and computer facilities could be considered essential. The actual lecture venues and their equipment would also be essential.

Peripheral evidence is not as important to the service delivery and usually consists of things that the consumer can keep or use. There are many examples of this. Banks provide cheque book and credit card holders. Hairdressers or medical professionals provide appointment cards. Hotels make available a range of toiletries (such as soap, shampoo and bath gel) for their guests to use and take with them. These items enhance the service and make its delivery easier, and may add value to the service in small ways that the consumer appreciates.

Marketing ethics

The whole issue of ethical behaviour in business is gaining more momentum because of the importance of sustainability in the governance and operations of a business. Ethics are the public's perception of an organisation's standards of behaviour. Marketing ethics would then be the public's perceptions of the organisation's marketing actions, and involves the moral judgement of the consequences of what the organisation does and says in relation to marketing activities.[16] Although we would like to believe that all marketing actions are integrated within an ethical and moral system guiding all business, it is clear that many times this is not the case. Refer back to Chapter 1 for more information on ethics in marketing.

SOME ISSUES AROUND MARKETING ETHICS

Research done in 2000 identified some of the pressing issues facing marketing ethics at the time. These included bribery, fairness, honesty, pricing, products, personnel, confidentiality, advertising, data manipulation, and purchasing.

Products

Consumers satisfy their needs and wants through products and services. One of the long, debated ethical issues around products is product safety. Consumers use products every day believing that they or their friends and families will not be harmed or injured. It is very difficult, however, for a consumer to have the knowledge and expertise to judge whether a product is safe or not, so society relies on business to consciously develop safe products and promote the safe usage of those products. The principle of due care says that the manufacturer has more knowledge and expertise than the consumer, so the manufacturer or service provider has an obligation, above and beyond any possible contract, to make sure that the consumers are safe from being injured by defective products and service. Two well-known global brand names have faced challenges which underline this issue of safety.

The recent case of defective accelerators in Toyota motor vehicles is a perfect example of the problems that can arise from this issue. Toyota was severely criticised for its lack of action around a problem which, in some cases, may have led to loss of life. The actions of management in hiding the reports of malfunction and denying the problem led to senior managers being required to account for this in front of US lawmakers and global impact on the brand. The lawsuits themselves have yet to be sorted out, and the share price of Toyota suffered as a result. In South Africa, Toyota South Africa handled the issue better, and made a concerted attempt to recall all cars possibly affected. As a result the brand has not suffered as much damage here. Even service providers need to be careful, as shown by the well-known case of McDonald's being successfully sued by a customer who burned herself because the coffee she spilled on herself was too hot. The courts held that McDonald's had not taken enough care with the temperature and the processes it used to avoid the accident.[17]

Product quality

Bottled water sales are booming, but who is responsible for assuring the quality of that water and the authenticity of its claimed source of origin – a spring? Consumers have a right to get what they pay for, so business has a general responsibility to make sure the quality matches the claims that it is making about the product. Warranties are a method of ensuring compliance with this notion.[18] Express warranties are those that the seller explicitly state about the product's character, durability, and in the packaging, labelling and advertising of the product. Many 'low-fat' products are under consumer watchdog eyes because of the vagueness of the claim on the packaging that does not reflect the authentic qualities or contents of the product. Implied warranties revolve around the claim, implicit in a sale, that the product is fit for the intended use or application it is usually used for. This does not mean the product has to be perfect; rather that it is suitable for what it is ordinarily used for. Another issue is the willingness of the company to deliver on a warranty. Many car owners claim that car manufacturers have denied valid warranty claims or made the process very difficult to reduce the likelihood of having to pay out on the warranty.

Pricing

Pricing has often been an ethical minefield for retailers and marketers. In South Africa, the passage into law of the National Credit Act helped strengthen the position of the consumer against unscrupulous retailers and manufacturers. Retailers often use 'bait and switch' pricing tactics. This involves advertising an item at a low price, but stocking so few units that the item is quickly sold out. This is done to give sales staff an opportunity to try to convince consumers to buy a more expensive item.

One of the big ethical issues in pricing is that of pricing that hides the true cost – or hidden pricing. Interest, surcharges and other 'stealth fees' such as insurance, can increase the price of a product significantly beyond the advertised price. Another form of this tactic is to reduce the quality or quantity of a product. Promotional pricing may be misleading, for example when a retailer sells a product 'on special' but on an inflated mark-up. Rebates that consumers have to claim is another problem area, because businesses know that many consumers will not send in the necessary documentation.

Price fixing has been in the news regularly in South Africa, with companies such as Sasol, Tiger, Murray & Roberts, Pioneer Foods, and PPC Cement suffering reputation damage through the actions of some of its managers.

Horizontal price fixing is when competitors agree to collude on pricing. Vertical price fixing is when manufacturers and retailers agree to set prices. SABMiller recently contested accusations by the Competition Board that it uses its market power to force retailers to sell at certain prices.

Price gouging is when a seller exploits a short-term situation where buyers have little option for a product by raising prices substantially. During the FIFA 2014 Soccer World Cup tournament, a fan was arrested for scalping tickets to World Cup games. In the travel industry, the high-season, low-season use of price discrimination is often a bone of contention for most consumers.

Labelling and packaging

These methods are where consumers get their primary information, yet often they don't tell consumers the right information or what they need to know. The information, even if correct, can be hard to understand or misleading, such as products that claim to be 'low-fat' but in fact are not. Unscrupulous marketers look for loopholes to exploit. New symbols on packaging are also confusing, such as the carbon footprint-neutral symbol and 'green' claims. This has led to the term 'greenwashing' – the communication of a misleading environmentally-friendly claim by a marketer. Packages can also be misleading through their shape and size – for example, a large package may contain an inappropriately small item. Ethical marketing is based on the idea that marketers have a moral obligation to provide usable information and packaging that is truthful. The Advertising Standards Authority (ASA) website provides information on many cases where misleading labelling and packaging claims were allegedly made, and the ASA rulings on those cases (www.asasa.org.za).

Invasion of privacy

The ill-considered use of telesales by many South African marketers has highlighted the ethical aspects related to this form of direct marketing. The South African consumer landscape is being increasingly regulated, and the Consumer Protection Act and National Credit Act, among other laws, will make it necessary for marketers to be very careful about compliance or face legal repercussions. Internet spam (junk e-mail) and the use of Internet 'cookies' (feedback software downloaded to a user's computer without permission), are two of the more controversial current issues in electronic media.

Advertising

The concern of advertising to children has always been a major ethical issue, and much work has been done to legislate what is allowed or not. The goals of advertising are to inform, persuade and remind consumers about a product or service, so as to influence the purchasing decisions of consumers. Although much legislation exists on managing this, there are still areas of concern. The delivery of clear, truthful information is thought of as the basis for advertising, but many marketers use deceptive techniques to achieve their aims.[19]

- **Ambiguity:** an advertisement may be vague enough to be understood in two or more ways. A well-known food marketer promoted 'light' desserts, implying these had fewer calories than its other desserts. When challenged, the company responded by saying the word 'light' referred to the texture of the product.
- **Concealment of facts:** here the marketer suppresses facts that may not be advantageous to their product, or purposefully avoids saying anything that would make the product less attractive. For example, Bayer Aspirin advertised that it had 'the ingredient that doctors recommend most', without saying the ingredient was aspirin.
- **Exaggeration:** this is when the marketer makes claims that are not supported by evidence. In an ASA ruling, the ASA Directorate held that Supreme Slim's weight loss and appetite suppressant claims, as well as the product name (Supreme Slim), created an unsubstantiated impression that using this product would result in weight loss. The advertisement appeared on www.supremeslim.co.za, and promoted the respondent's slimming product with claims which included 'Appetite Suppressant • Suitable for men & women • Accelerates Metabolism • Non-Addictive • No Chemicals • Get results without exercise • Increases energy levels • Body Detoxification • Fat Burner • Healthy eating plan included'. The marketer was instructed to withdraw the name 'Supreme Slim' and the claims with immediate effect and not to use them again in future.
- **Psychological appeals:** this is an appeal using primarily emotion, not reason as its basis. These appeals would include power, sex, masculinity, aspiration, and the like to sell, and can raise serious moral issues. The advertisements for brands such as Calvin Klein and Axe Deodorant are examples of adverts using blatant sex appeal. Recent complaints have been levelled at advertisers making use of photography editing software to severely alter the appearance of models in their images, creating an unrealistic idea of what constitutes beauty. Dove soap responded to this theme by launching its 'real beauty' campaign using 'real women' to promote its products, to build stronger brand associations with its female target markets.

CASE STUDY: INNOVATION AND INTEGRATED MARKETING AT NEDBANK

In 2012, Ingrid Johnson was the head of the retail and business division at Nedbank. 'You can't compete for clients on one value proposition,' says Ingrid Johnson, during an interview to discuss the bank's innovation strategy.

She felt that for Nedbank, innovation was a holistic approach that encompassed the bank's systems and procedures, from how they treated customers to launching the latest innovations. Ms Johnson felt Nedbank had quietly been developing and implementing its innovation strategy. This was in contrast to the strategy of rivals who had been taking every opportunity to announce an array of first-to-market developments. 'It is not as if we have not been doing something,' she said. 'It is just that we do things differently.'

The big banks have taken to innovation like ducks to water as they develop new products and delivery platforms, not only to retain, but to expand their retail and business customer bases. They are also learning to understand the value, and potential threats, of social media. Companies in developed economies are already using social media to follow up on leads, and also to manage and protect their reputation.

Experts at global companies, such as Accenture and Bain, say tomorrow's bank customer will be more demanding than the present generation, and banks will have to adopt innovation as a constantly evolving strategy. Ms Johnson agreed, and said Nedbank was thinking ahead to the next customer. For example, it targeted school-going children to teach them about financial literacy in the hopes of eventually establishing a cradle-to-grave relationship with them.

She felt that at the time, Nedbank had to get its brand positioning right before embarking on its innovation strategy. This included developing a common vision that she subsequently shared with the retail and business unit's 17 000 staff.

'You need a shared vision and our staff are key to what we are doing to innovate,' she said. Staff were encouraged to contribute ideas on how to innovate. Staff at rival First National Bank (FNB) – which claimed to be the market leader among the big four in innovations – also held an annual competition to reward those whose innovations have been adopted by the bank.

Among other innovations, Nedbank recently became the third bank, after FNB and Standard Bank, to launch its banking app. The bank's innovation chief, Chris Wood, said it had been downloaded 60 000 times since August 2012. FNB's banking app was launched in July 2011 and had more than 230 000 active users as of August 2012, while Standard's head of personal and business banking, Peter Schlebusch, said the bank had 90 000 unique users in 2012. ABSA was the only one of the big four retail banks that has yet to launch an app in 2012, although the Barclays-owned group said the launch would be in 2012, or in the first quarter of 2013.

Ms Johnson said she was probably most proud of Nedbank's new financial fitness package called MyFinancialLife. It provided an online tool that had six core functions – which included calculating one's net worth based on financial and non-financial assets, tracking personal expenditure, and recommending areas to curtail spending. Ms Johnson wanted further functionality added – installing a retirement planner to help customers plan and save for retirement.

Nedbank had also entered the digital account opening era. The group could open a customer's account using paperless biometric technology. Ms Johnson said Nedbank was also using innovation to capture a larger market share in the small and medium business sector which provides up to 45% of formal-sector employment.

She said the bank had, among other initiatives, developed a dedicated online networking portal where business owners could network with each other. Ms Johnson said social media was a new tool banks were beginning to use in 2012 to manage their brands, to track customer complaints and feedback, and to monitor the activities of their competitors.

She said Nedbank's social media platform was integrated with the bank's customer service strategy so that it was not an isolated activity, but was linked to the other processes and systems to 'enhance the customer experience'. An example of the importance of Twitter was given when Nedbank recently tracked a customer who had complained about poor service at one of the bank's branches in Johannesburg and managed to resolve his complaint.

'This is just one of the uses of social media, and for us it is a journey. The key thing is to integrate social media with our customer service strategy, because on its own, it might not be as effective as we wants it to be as a platform,' Ms Johnson said.

EXERCISE

1. How did Nedbank integrate the 'people' component of the marketing mix to ensure they could add value to Nedbank's operations and value delivery to its customers?
2. Explain how the bank used process development and changes to process to improve value delivery.
3. Where and how was social media added to the promotion mix to aid innovation for the bank?

Summary

In this chapter, we have established how the topics covered in the previous chapters help to shape the decisions made by marketers in terms of the marketing mix. In fact, a number of analyses were needed in order to accomplish this.

Firstly, the marketing orientation of the business was analysed to ensure that the company culture is correct and proactive. Secondly, the marketing environment and its effect in all the decision-making areas of marketing were highlighted. Thirdly, we emphasised the importance of marketing research in order to align the market offering with the marketing environment and to meet customers' needs. This all entails a thorough understanding of the customer and the characteristics that affect the decisions made in terms of purchasing. Lastly, target market selection and positioning are critical, as all the decisions made by marketing are made as a result of selection and positioning. These are the main considerations for all marketing decisions and the development of the marketing mix to meet the needs of the chosen target market. Figure 11.10 presents a visual diagram of this viewpoint. Nick Smith, the MD of Accenture's Marketing Transformation group, identifies four characteristics that will define the marketing leaders of the future:

- A foundation built on a well-tuned integrated marketing operation that is central to all functions in the business and helps produce and take advantage of innovation and growth.

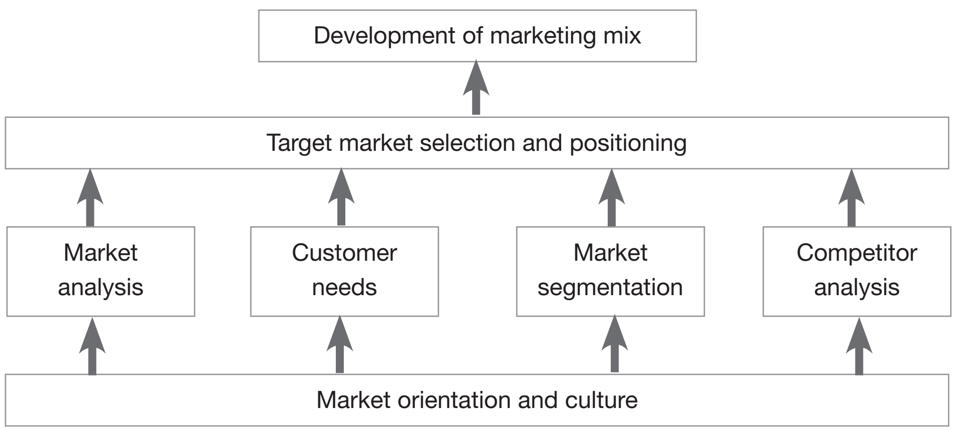

Figure 11.11 *Core analysis for marketing decisions*

- The capability to generate data-driven insights into customer preferences and behaviours, and to act on them.
- The use of the insights to develop relevant, innovative, differentiated value propositions, and offers and designs meaningful interaction with targeted customers.
- The ability to facilitate customer engagement by creating opportunities for ongoing dialogue with customers.

As Smith highlights in the points above, the company that is willing to look for growth strategies led by the customer (a customer-centric company), will create its own favourable future.

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16 Adapted from Rensburg, R & Cant, M. 2009. *Public relations: African perspectives*. Heinemann: Johannesburg, p 252.

17 Both of these cases can be Googled easily for more information.

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CHAPTER 12

MARKETING AND THE INTERNET

LEARNING OUTCOMES

After studying this chapter you should be able to:
- define the concepts of the Internet and the World Wide Web (www)
- identify the benefits of the Internet
- describe the virtual environment in which the Internet operates
- identify areas in which the Internet can create value for the marketer.

Introduction

Most people are very familiar with the Internet and the World Wide Web (www); the same is true for most businesses. Many organisations are already using the Internet to a greater or lesser extent. Others, while they probably know about the Internet, are still biding their time before they climb on board. Some businesses might even question why they need to consider using the Internet at all. Looking at the statistics depicted in Table 12.1 below, businesses who still harbour doubts about using the Internet, may need to reconsider:

Table 12.1 *Internet statistics*[1]

Number of Internet users in 2014	2.89 billion
Number of websites in 2014	985.7 million
Number of Internet users in South Africa in 2014	24.909 million

Let's look at the South African Internet usage statistics in perspective:
- The South African population is 53.139 million strong
- The number of Internet users grew by 14% from 2013 to 2014
- 46.88% of the South African population have access to the Internet.

There are several reasons for the accelerated growth in the number of users in South Africa. One is the varied range of application services and social networking platforms such as Facebook and Twitter available to local users. We will look at social networking later in this chapter. Another reason is the increased use of the Internet on handheld devices, such as smartphones and other smart mobile devices, such as tablets. Looking at these statistics, South African organisations should carefully consider their Internet strategy. When applied well, the Internet is a powerful tool in the marketing sector.

Businesses are using the Internet in many different ways, including to advertise their goods, generate publicity, transact sales online, communicate with customers, suppliers and business partners, provide customer support, procure goods, automate their business functions, integrate their business activities with those of their partners in the value chain, send electronic invoices, make and receive electronic payments, and much more. This chapter specifically looks at Internet marketing – the marketing concept in a virtual world, the marketing mix, and the role of the Internet in enabling marketing activities such as customer relationship marketing.

What is the Internet?

The Internet can generally be defined as a worldwide interconnected network of computer networks, which allows people to share information and connect with each other.[2] The Internet enables a computer or network in one part of the world to communicate with a computer or network located somewhere else in the world, using either an ordinary telephone line or a special dedicated data line.

In other words, the Internet is little more than the global networking infrastructure that enables computer networks around the world to communicate with each other. The Transmission Control Protocol/Internet Protocol (TCP/IP) represents a set of standards that allows different types of computers with different operating systems and different applications to communicate with each other and share data. Thus, the Internet is the underlying infrastructure, while the IP is the 'language' that the computers on the Internet use to 'talk' to each other.[3] Each computer on the Internet is represented by a unique number known as an IP address. Figure 12.1 on the next page, illustrates the reach of the global Internet.

Figure 12.1 *The Internet – a network of computer networks*[4]

The power of this global system of interconnected computer networks comes from the fact that:

- it provides an easy-to-use communications channel for millions of individual and corporate Internet users
- the information available on all of these computer networks is now available to everyone
- the Internet infrastructure facilitates the conducting of various business activities such as advertising, publicity, procurement, account payment, data-sharing and sales transactions.

Previously, only users on a specific network had access to the information on that particular network. Of course, much of the information is still proprietary and thus password-protected. Nevertheless, there remains gigabyte upon gigabyte of information freely available via the Internet, bringing about an information explosion in which everybody with Internet access has virtually unlimited information and knowledge about almost any topic.

The World Wide Web

The terms 'Internet' and 'World Wide Web' (www or Web) are often used interchangeably, but do not quite mean the same thing. The Web can be defined as the system of connected documents on the Internet, which often contains colour pictures, video and sound, and can be searched for information about a particular subject.[5] It is a sub-set of the Internet, comprising billions of web pages on hundreds of millions of websites. These pages contain clickable links (hyperlinks) to other parts of the same website, or to a document on the site, or to another website or document. This is schematically represented in Figure 12.2 below.

***Figure 12.2** Interlinked pages on the World Wide Web*[6]

The Web was created in 1989 at CERN, Switzerland's nuclear research facility, by Tim Berners-Lee. The term 'Web' was coined by Berners-Lee in 1990 to describe information spanning the planet like a giant spider's web, with threads linking knowledge and information from all over the globe, making it available to a worldwide audience.[7] The actual tool that you use to view website pages is a software programme called a web browser. There are many programmes, but the most popular could be said to be Microsoft Internet Explorer, Mozilla Firefox and Google Chrome.

There have been few developments in the modern world that have grabbed the imagination of people across the globe in quite the same way as the World Wide Web. In a complex world of technology, the Web is easy to use and incorporates pictures, sounds, animations, photographs, video and other multimedia features, adding to its attraction and intuitiveness.

Advantages of the Internet for business include the following:[8]

- Large amounts of information can easily be stored and updated on the Internet and are accessible to anyone connected to the Internet.
- Information that was previously only available as paper-based documents to a limited audience because of the cost involved in wider distribution can now be made available quickly and easily to all interested parties and to a much wider, international, audience.

- Any information published on the Internet is immediately available to a global audience.
- The information can be presented in multimedia form, including text, sound, video, photographs and animations, making it very user-friendly.
- The information is interactive. The user can complete a reply or order form, or send an e-mail message to the company concerned, and can also navigate between sites located at the opposite sides of the globe or around the corner.
- A web-based document and its contents can be electronically linked to a wealth of supporting documentation all over the world.
- Information is available 24 hours a day and 365 days a year.
- The medium is intuitive.
- A website is an affordable environment to use for both the user and supplier of information and services.
- The Web allows you reach the masses – a market of over 600 million users at present, expected to rise to one billion in the next few years.
- The Web allows you to customise your information to meet the needs of each individual customer (often referred to as mass customisation).
- You can transact sales directly on the Web.
- Using Internet-based technology, firms can integrate, automate and synchronise their businesses with those of their suppliers, customers and partner organisations.

The Internet is now being linked to other information and communication technologies such as cell phones and other smart devices, thereby extending its capability and reach. Not only is it possible to send messages from cell phones to a web user and vice versa, but also to share information. It is this sharing of information that is of critical importance when using the Internet as a marketing tool.

Marketing and the Internet

INTERNET MARKETING
Internet marketing can be defined as 'the application of the Internet and related digital technologies in conjunction with traditional communication to achieve marketing objectives'.[9]

An important point is that the Internet does not change the fundamentals of marketing. However, it provides an important new distribution channel for businesses to reach their customers. It may well require a new approach to marketing, but the core elements of the marketing concept discussed at the beginning of this book remain. There is still a customer whose needs must be satisfied (customer orientation); the business still strives to make money (profit orientation); and it is still necessary to make effective and efficient use of all of the resources available to the business in order to satisfy customer needs (systems orientation).

In addition, the business must still deal with the micro-, market and macro-environments discussed earlier in this book, and it still has control over the four main variables that comprise the marketing mix; namely the product, as well as its price, promotion and distribution. All of these elements remain in place. Perhaps one significant difference between traditional marketing and Internet marketing is that an additional environment comes into play, namely the virtual environment.

The virtual environment

The virtual environment is made up of the digital 'bits and bytes space' found in the world of microchips, computers and electronic networks. The fact that you, as a marketer, now have to consider the implications of working in a virtual world brings another dimension to marketing. The virtual environment has its own peculiarities and requires a different approach by marketers.

In the case of the Internet, the virtual environment is represented by the computer screen and all interactions happen in that display. The virtual environment crosses the other three environments, namely the micro-, market and macro-environments, as depicted in Figure 12.3 below.

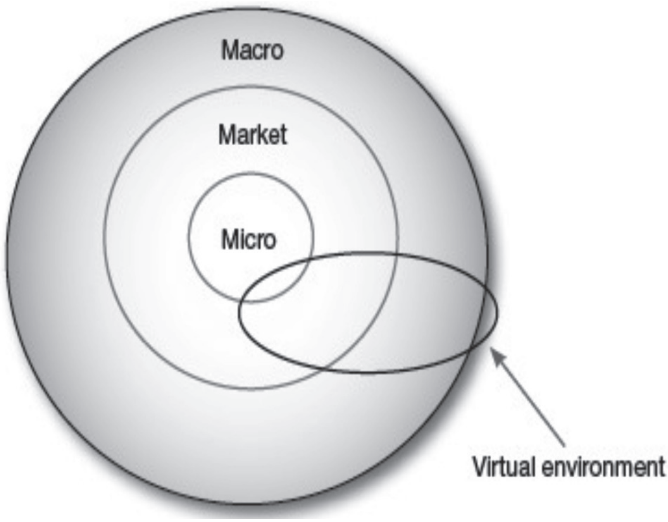

Figure 12.3 *The virtual environment comprises all environments on a single interface*

For example, in the case of the micro-environment, a company's intranet (an internal Internet-based network, accessible only to staff), places company information and online communication channels at the disposal of staff. In the case of the market environment, the company's website can be accessed by (and even integrated with) those of suppliers, customers and business partners. Finally, in the case of the macro-environment, the business can use the Internet to access and keep track of (or 'tune in to') macro information and developments.

The marketspace *versus* the marketplace

As early as 1994, Rayport and Sviokla wrote in the Harvard Business Review that the Internet has brought with it a virtual realm that they termed the 'marketspace', with which organisations in all spheres of business and of all sizes need to come to terms.[10] The marketspace, they pointed out, is a virtual world where products and services exist as digital information and where transactions and interactions occur electronically. This new world, they said, requires new and innovative ways of marketing products and providing value-added services to customers. The marketspace is very different from the physical world or 'marketplace' that marketers are familiar with, where interactions occur between physical buyers and sellers at actual locations.

This idea of a marketspace is very similar to the idea of a 'virtual environment'. The concept of an 'environment', however, fits in with the more traditional marketing view of the micro-, market and macro-environments.

Marketing activities and the Internet

Notwithstanding the myriad ways in which companies are already putting the Internet to work, there are still a number of key marketing areas where this medium can be of use in business. The Internet and the Web can help the marketing activities of a business by:

- enhancing marketing communications
- facilitating the marketing mix of the business
- undertaking marketing research
- disseminating information
- transacting sales
- facilitating customer service and support.

Marketing communications

The Internet provides a global standard for information exchange. Spanning the world, the open standard of the Internet represents an extensive and powerful communications network, improving inter- and intra-organisational communications. This is achieved through various means, including through the use of:

- websites
- e-mail marketing
- e-newsletters
- e-zines
- e-forms
- auto-responders
- use-net newsgroups
- frequently asked questions

- discussion forums
- advertising
- search engine marketing and search engine optimisation (SEO)
- viral media
- social media.

These online 'tools' are used extensively by businesses to communicate marketing messages to customers and potential customers.

Websites

Websites are considered a form of communication in their own right, as they contain information in the form of text, sound, video, graphics and animations available to any visitor (refer to Figure 12.4 for examples). At the same time, in addition to facilitating this outgoing form of communicating, websites make it possible to create reciprocal communication channels by enabling customers to send information to the owner of the site. This is achieved by way of reply forms and/or questionnaires that customers must complete in order to obtain additional information, to make enquiries, or to supply data for further processing.

www.toyota.co.za www.checkers.co.za www.kulula.com

Figure 12.4 *Examples of corporate websites in South Africa*

Stokes identifies three fundamental aspects of a successful website: good design, good search engine visibility, and a high level of usability.[11]

Design

A website needs to have the user or customer in mind and must have clearly set goals. A site might sell products and services to the user, or request the user to submit information or sign up for e-mail newsletters, or the user may need to download information from the site. The website should be credible and one of the means of doing this is through good design. Easy-to-find contact information, believable testimonials, credible third-party references and fresh content that is updated regularly all add to the credibility of a website.

Search engine visibility and optimisation

Internet users most commonly use search engines such as Google, Yahoo, Ask Jeeves and Overture. Once a search criterion has been entered, a number of pages emerge from the search, usually quite a few, known as a search engine results page (SERP).[12] Swanepoel notes that users most commonly only pay attention to the first 10 to 50 sites listed on the results page (depending on the search engine or preference settings). A large amount of traffic (measured by the number of visits to a website) is crucial for any website to be successful and is one of the criteria that is most commonly used by search engines to rank results.[13] Without website traffic, the marketing goals for the website might not be reached. In order to optimise the number of visitors from search engine searches, marketers should take the following into consideration:

- A website should have a search-engine-friendly structure, free from technical barriers and errors.
- Users search by means of keywords. Marketers should research the most common words customers/users will use in order to find the information, products or services they are looking for, and ensure that the company uses the same terms to describe its own offerings. The aim is to get as many users as possible to visit the company's site first, before considering visiting those of competitors.
- The content of the site is the most important part of any website, and it should obviously relate to the keywords that have been chosen. The content should be targeted at specific search keywords and key phrases.
- The more links to your website from a search engine or another website, the more relevant and important your website is perceived to be. Marketers can stimulate the creation of links by writing valuable and relevant content that people would like to read. Creating tools and documents other users or customers would like to use might be to the benefit of the website.
- Lastly, marketers need to ensure that users return, repeatedly visiting the site and spending time to see what it has to offer. Valuable and relevant sites develop higher search engine rankings, thus ensuring more visits to company sites.

Usability

Usability refers to how easy users or customers find it to complete a task on a website, whether it be searching for information, purchasing a product or signing up for a newsletter. The better a website functions, the better the impression.

E-mail marketing

25% of the human population has an e-mail address.[14] Electronic mail, better known as e-mail, is a method of sending an electronic message in the form of a computer text file from one computer to another. It is one of the most important services available on the Internet, as well as being one of its earliest applications. E-mail competes directly with both the land-based postal system, as well as with telephone and fax services, but offers a number of unique benefits over these traditional forms of communication.

- **Affordability:** e-mail is considerably cheaper than the telephone, fax or post.
- **Attachments:** one of the most powerful advantages of e-mail is the ability to attach additional computer files, such as word-processing documents, spreadsheets, graphics, presentations and engineering drawings.
- **Place:** the recipient does not have to go to a particular physical place to receive an e-mail as is the case with physical post or faxes. E-mail can be downloaded anywhere in the world.
- **Format:** e-mail is a digital format that allows the recipient to cut and paste content without having to retype it; it can be forwarded to others; it can be electronically filed; and it can also be printed if necessary.
- **Avoiding gatekeepers:** telephone calls, faxes and post are often channelled through a third person, for example a personal assistant; managers often still access their own e-mail, enabling direct communication with them.
- **Communication processing:** recipients can decide when and if they want to read a particular message.
- **Mailing lists:** e-mail allows you to create mailing lists and to send a standard communication to a number of people at the same time (batch processing).
- **Interactivity:** e-mail provides a degree of interactivity which may include multimedia elements and links to websites.
- **Management:** filing, storing and finding e-mail messages is easy and efficient as everything is in electronic format. Follow-up correspondence is also more efficient as old messages can be re-accessed from appropriate file folders and replied to at a convenient time, with the user knowing that the correct address and original correspondence is embedded in the message.
- **Critical mass:** e-mail is fast becoming the preferred means of communication.

Marketers need to be aware that due to the large number of e-mails customers receive, many mails are simply ignored. An e-mail marketing campaign needs to be ingenious and fresh, and delivers useful e-mails that customers or users would want to read. One of the problems with e-mail is its ease of use. With an increasing number of companies and individuals using e-mail, the numbers of e-mail messages being sent and received over the Internet is increasing exponentially (refer to Table 12.2). Handling large volumes of e-mails is a problem that most companies already have to face. Marketers also need to be aware that their e-mails might be marked as spam by web servers and not delivered. Spam (junk e-mail) is an e-mail sent without the user requesting it.

Table 12.2 *The use of e-mail around the world 2012*[15]

E-mail traffic per day worldwide	144 billion
The number of e-mail users worldwide	4.3 billion
The percentage of e-mails that were spam	68.8%

Although e-mail might seem relatively archaic in Internet marketing terms, it should not be ruled out as a successful marketing tool. E-mail has a far higher return on investment and click-through rate than any other online marketing channel. It is relatively cheap, can be used for a wide range of communication, and can be used to develop close customer relationships. Following communication technology trends, marketers need to ensure that their e-mail marketing campaigns and messages are accessible on mobile devices, as 64% of decision-makers read their e-mails on cell phones, with 35% of business professionals checking e-mails on their cell phones.[16]

E-newsletters

An electronic newsletter (or e-newsletter) uses the same technology as e-mail. The difference is that an e-mail is usually a short, specific and directed message; an e-newsletter is more 'newsy' in nature. Newsletters are usually focused on a particular topic, may consist of several sub-topics and pages, and are sent to a number of readers simultaneously, usually to the members of an e-mail mailing list (such as a customer database). E-newsletters can be very powerful marketing tools if they address a topic of interest to their readers (refer to Figure 12.5 for an example).

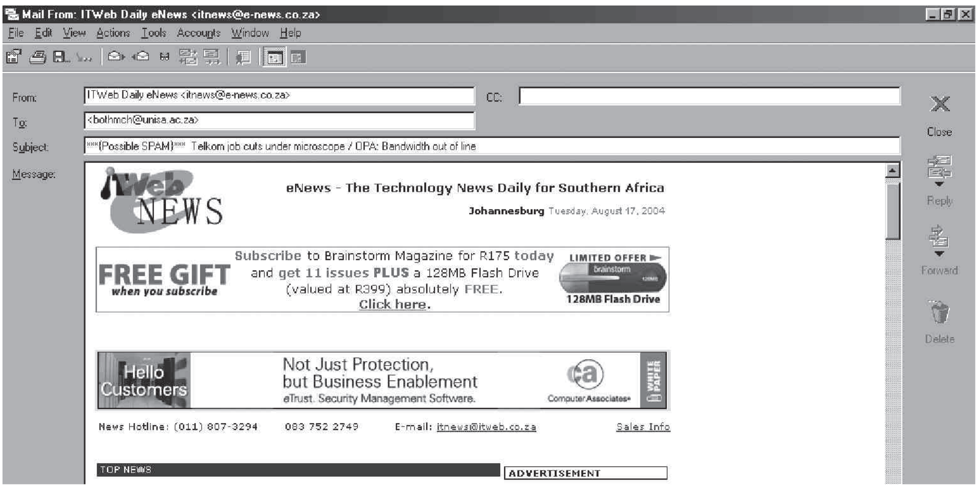

Figure 12.5 *The ITWeb newsletter*

E-zines

An electronic magazine (or e-zine) is similar in concept to an e-mail newsletter. E-zines are usually web-based rather than e-mail-based (although e-mail-based e-zines do exist) and they are much more graphic, involving multimedia features; they more closely mimic their physical magazine counterparts. E-zines may appear as highly dynamic and newsy websites.

E-forms

Electronic forms (or e-forms) are extremely popular in the online world and are used for gathering information for a wide variety of purposes, from registering for seminars or to receive e-newsletters, to business order forms, questionnaires and database query forms. Forms represent an important design element in web pages. They bring with them a degree of interactivity, they open up a communications channel between the customer and the company, and they are dynamic in nature.

Equally important to the company is the fact that forms represent a valuable marketing tool. The data gathered from forms can be added to the company's marketing and customer database, which, in turn, can be used for database-marketing purposes. In addition, developing an in-depth understanding of the wants and needs of a customer is a prelude to developing a closer relationship with that customer.

Autoresponders

Autoresponders, also referred to as 'mailbots', are becoming critical tools in the marketing activities of many modern businesses. An autoresponder is software that filters incoming e-mails and then sends automated responses to the sender, based on the information contained in the originating e-mail. Autoresponders also range from very expensive, sophisticated programmes using artificial intelligence to cheaper, less powerful ones (indeed, your e-mail programme probably has a built-in autoresponder). For a company receiving thousands of e-mails every day, an autoresponder is as important as a call centre handling thousands of telephone calls daily.

In a world where some companies are receiving tens of thousands of e-mails daily, autoresponders ensure that every customer is immediately dealt with and helps to enhance the customer experience. They help in sending back instant acknowledgements, channelling enquiries, pre-empting the need for human-generated replies by pointing customers to frequently asked questions (FAQs), and forwarding product and sales information or articles to interested parties. As such, they fulfil an important role in the marketing process.

Usenet newsgroups

Newsgroups form part of the Usenet network, which represents a collection of some 50 000 discussion groups that function on an e-mail-like basis where users post and read messages covering a wide range of topics. It is an electronic bulletin board used to discuss a particular topic such as sport, hobby or business area.[17] Usenet is a service that can be accessed by users using an e-mail programme, such as Microsoft Outlook Express. Generally, however, users will need to log in to a dedicated Usenet news server, generally hosted by their Internet service providers (ISPs). Once logged in, they can subscribe to a newsgroup of interest to them (even though they are subscribing, there is no cost) and can read what the participants are saying. Alternatively, users can access newsgroups via Google's 'News facility', which provides web-based access to the Usenet network (refer to Figure 12.6).

Figure 12.6 *Google's News facility*

There are newsgroups for every conceivable topic, as well as for many business topics (such as importing, exporting, advertising, customer service, local events, exhibitions and marketing). Usenet and newsgroups can serve as a useful tool in communicating with and marketing to both customers and potential customers, and a lot of valuable information is shared on the Usenet network. The problem with Usenet is the 'noise'. A lot of spam can be found in these newsgroups and users may need to wade through a lot of articles before finding those relevant to them. Nevertheless, many companies put considerable effort into marketing on the Usenet service and achieve quite a bit of success through this medium.

Frequently asked questions (FAQs)

FAQs, while somewhat static, are powerful tools with which to assist the customer. An FAQ consists of a commonly asked question and a corresponding reply. The reply may not only provide the required answer, but may contain links to a wealth of supporting information, perhaps highlighting other services and products available from the company, and so helps in the important tasks of up-selling and cross-selling. An FAQ list is important because it helps to overcome common problems that your customers may be experiencing. Providing a swift answer to a problem helps to bring the customer closer to the organisation and contributes to a positive customer experience.

Discussion forums

Discussion forums are online services where a user can post a message that can be viewed by other users. Readers of these (generally) text-based messages can then post a reply to the original message. Subsequent readers can then either post replies to the original message or to the replies (known as 'threads'). Discussion forums are very similar to newsgroups but the main difference is that they are run by a specific organisation for that organisation's benefit. They are also asynchronous in nature (that is, the individuals are not 'talking' to each other at the same moment – one person posts a comment and someone else may reply several hours, days or even weeks later).

Discussion forums are useful when a strong community exists, such as between programmers that use a particular programming language, where members may want to share ideas and discuss issues among themselves.

Online advertising

Online advertising refers to advertising on the Internet. It includes adverts on search engine results (known as pay-per-click or PPC advertising), as well as adverts placed everywhere else on the Internet. PPC advertising will be discussed in more detail at the end of this section. Online advertising has two main goals: to build a brand or to promote sales.

The benefit of advertising on the Internet is that it is an interactive medium. Instead of the business sending out a one-way message, the customer comes to the website of the business and can choose to interact with the advertisement and with the website. There is thus a move away from supplier-push advertising to customer-pull advertising. In fact, this is indicative generally of marketing on the Web, not only of advertising.

Some of the most common online advertising methods include:

- interstitial banners
- pop-ups and pop-unders
- map adverts
- floating adverts
- wallpaper adverts
- banner adverts.

Advantages of advertising online

There are a number of advantages of advertising on the Web.[18]

- **Rapid presentation:** you can get an online advertisement or an e-mail sent out in a few hours, versus a few days or weeks (even months) in the case of newspaper or magazine print, or television, or radio. What is more, it is immediately available to a global audience.
- **Easy modification:** changing a television advert can prove to be extremely expensive. Even a newspaper advert is costly to revamp. A website, on the other hand, can be updated or modified relatively quickly and cheaply.

- **Affordability:** given the relatively low cost of a website and e-mail, and their potential reach, the cost per viewer is considerably lower compared with other forms of advertising.
- **No space or time limits:** a television advert can only be screened a few times per month and a newspaper advert only lasts as long as the newspaper is current, which is probably no longer than a day or so. In addition, television, radio, the print media and other advertising media such as billboards are all limited in terms of space. The Internet, however, has no such limits. The advert is always available to the viewing public, 24 hours a day, 365 days a year, and there is no limit to the amount of information that can be made available via the Internet. The advert can also be changed and corrected at any time, because users will only see the current version when they visit the website.
- **Multimedia elements:** the power of the Internet comes from the fact that it is a multimedia environment. It can deliver not only text, graphics, animations and photographs, but stereo sound and video as well. Indeed, the Internet combines the widest range of media to impact on the viewer. It is possible, therefore, to demonstrate aspects of the product in a way and in such depth that cannot be achieved with other advertising media.
- **Buyer involvement:** the Internet is an interactive medium. Customers can be encouraged to interact with the advert by filling in forms, leaving messages, completing questionnaires, asking questions, pushing buttons, or requesting more information. What is more, visitors to a website can choose what they want to view. They can explore the advert in greater detail or depth, or only scan those parts of the advert in which they are interested. Although some of the other media also offer a degree of interactivity, there is no other advertising medium that is as interactive as the Web.
- **Measurability and data gathering:** this is perhaps the largest benefit of banner advertising (see page page 308) – it is measurable. Marketers can get an exact measure of the number of users responding to their advertisement, by means of electronically counting the click-through rate. A click-through rate refers to the number of clicks on the advertised link, divided by the number of times the link was exposed. This is usually given as a percentage. Marketers can determine the success of their banner adverts and adjust the advert accordingly.
- **The advertising benefit of e-mail and e-newsletters:** besides the more traditional advertising opportunities offered by the Web and websites, simple e-mail programmes available as a standard on most computers can be used in conjunction with lists of addresses (also called 'address books' or 'distribution lists') to send out e-mails with an advertising slant. The use of e-mail for advertising is growing steadily. Innovative companies should also consider creating e-newsletters that offer value-added information that would be useful to a select group of prospects. The e-mail newsletter can be promoted on the company's website, encouraging visitors to subscribe to the newsletter with the promise that they will be receiving useful information related to the topic in question. In this way, the viewer initiates

the contact and the e-mail newsletter is not being forced on the viewer. The advertising benefit comes from the fact that the business that produces the newsletter (a) becomes associated with the newsletter and, as long as it is a good newsletter, this association should have a positive impact on the business; and (b) within the newsletter, the business can unobtrusively advertise its products and services

Online marketing communication models

Traditionally, marketing communication has been seen as a one-to-many communications model. This means that the business creates an advertising message that 'pushes' to customers using mass media such as the radio, television, newspaper or magazines. Alternatively, in the case of direct marketing (such as with direct mail), the model is a one-to-one model. In this instance, the business creates a personalised advertising message that it sends to its individual customers. The Internet, however, offers various communications models (refer to Figure 12.7 on the next page).

- **One-to-one:** as with direct mail in the physical world, it is possible to create highly personalised marketing communications messages and to direct these to individual customers using the Internet (with the added advantage that the customer can immediately reply or respond to the communication).
- **One-to-many:** once again, the Internet can serve as a one-to-many communications medium and most corporate websites and mass e-mail marketing campaigns fall into this category (they have a fixed message that is communicated to all).
- **Many-to-many:** in this case, through the use of third-party websites (called 'portals'), it is possible to facilitate two-way marketing interactions and communications between many different organisations and customers (in this model, it is even possible for customers to communicate with other customers).

Advertising using third-party websites

In addition to the advertising options we have discussed so far, it is also possible for businesses to advertise on other third-party websites. Such websites would usually be well-known and popular websites that generate a lot of visitor traffic, for example the MWEB website.

In this instance, it is common to make use of banner advertisements. These are advertisement-like banners or strips that appear at the top, bottom or side of a web page and which, when clicked, will take you to the advertiser's web page. Banner advertisements have generally been limited with their success, except in the case where the third-party website in question has a very large and highly targeted audience.

Take ITWeb in South Africa, for example. This is one of the premier portals focusing on news and information about the information technology (IT) industry. Because ITWeb has a very large and loyal audience, if you wanted to target people in the IT industry, placing a banner advertisement on ITWeb would most likely prove very successful.

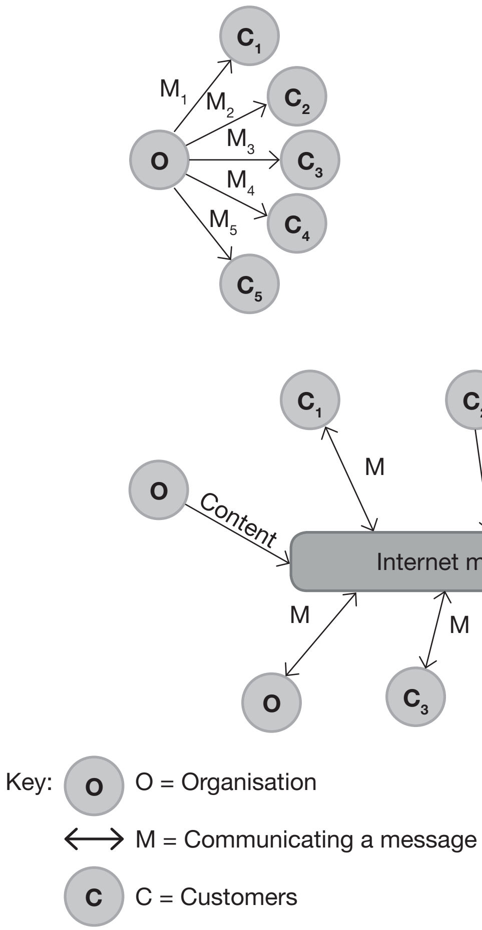

Figure 12.7 *Various Internet-based marketing communications models*[19]

Most adverts are sold on the number of page views, measured in thousands and referred to as a 'cost per thousand' or 'cpm'. Thus a R250 cpm means that it will cost R250 to get 1 000 visitors to view (but not necessarily click-through-to) the banner advert. Other ways of negotiating online advertising would be to sponsor a web page for a flat fee (probably the best arrangement if you are not sure of how many visitors the website is getting), or to arrange some kind of affiliate relationship. An affiliate programme operates by creating a partnership between two online organisations in such a way that the one organisation pays the other for the referrals generated by hosting a link (usually in the form of a button) on the latter organisation's website that points to the first organisation's website.[20]

Pay-per-click (PPC) or paid search advertising

As the name suggests, pay-per-click (PPC) or paid search advertising is an advertising system in which the advertiser only pays for each click on its advert. It is most often used on search engines or banner advertising. Here the advertiser pays for the number of clicks on the advert instead of the number of times the advert is viewed.

Google generates most of its income from advertising. At the end of 2013, Google's revenue increased by 22% from 2012 to a total of US$15.7 billion.[21] Over US$50 million in revenue was generated through advertising on Google alone.[22] PPC adverts are usually listed as sponsored links. Refer to Figure 12.8 for an example.

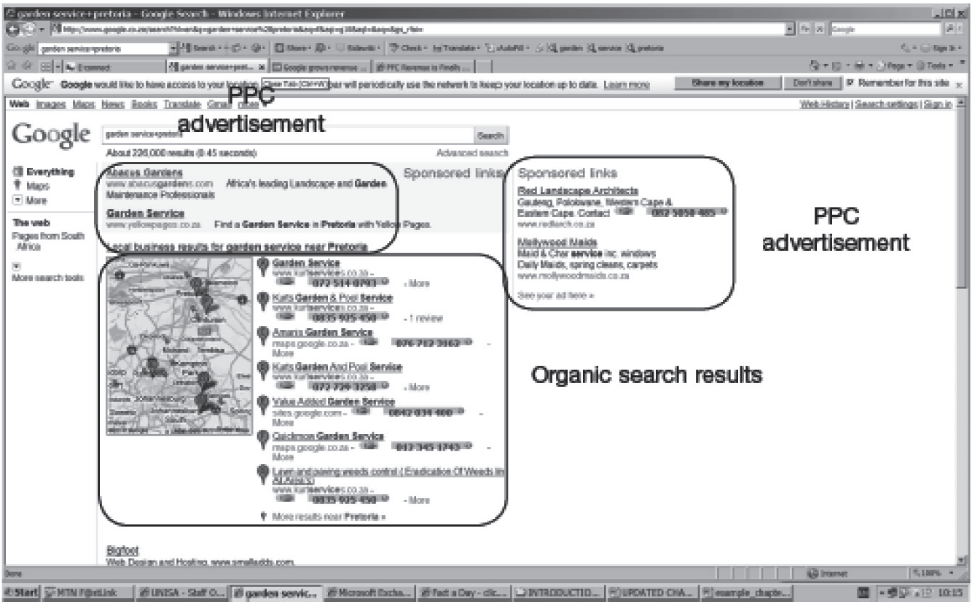

Figure 12.8 *Pay-per-click advertising and organic search results on Google*

PPC advertisements are also keyword-based, and the benefit of this is that the users show intent, by means of their search. In other words, the customer is already in the process of buying or looking for information. The benefits of PPC adverts are the same for general online advertisements, but with the added benefit that they cost very little to set up, and a marketer can track every cent spent on the advert on keyword level. This will let the marketer know what works and what does not. PPC and search engine optimisation – as discussed above – should lead to an effective search engine marketing strategy.

Search engine marketing

When a user enters search criteria in a search engine, the results shown are referred to as the search engine results page (SERP). These results are usually shown on the left-hand side of the search engine. These results are not influenced by any financial gain for the search engine, and are thus referred to as organic listing or organic search results. Figure 12.8 on page 310 shows where organic search results are found on the SERP of the Google search engine. The relevance of the results of the search engine over time will determine the success of the search engine. Search engine optimisation (SEO) focuses on the improvement of the ranks of the organic search results. SEO is something that marketers can increase by ensuring that their websites are search-engine friendly, relevant and up to date.

Authors seem to be unsure of whether SEO or PPC advertising is more successful.[23, 24] However, successful search engine marketing focuses on both the SEO of websites, and the PPC advertising of a website. Internet marketers need to know that search engine marketing (SEO and PPC advertising) is important to any website and therefore to the company for a number of reasons.[25]

- The customer or user is the driver of the search. They find what they are looking for by means of a search. A search engine search drives a customer or user to the company website, which leads to awareness, information and, ultimately, sales.
- The search engine is the doorway to the Internet. Without active and relevant presence on the search engine, a website will not succeed.
- The number of Google searches alone per day is over 3.5 billion.[26] In order to be part of the search results, websites need to be listed on major search engines and also close enough to the top of the listing to have a chance of a click-through.
- Users trust organic search results more than PPC results, but a PPC strategy could create enough interest while the company website increases its organic listing by means of SEO. A PPC strategy should not be used alone, but rather in combination with an organic search strategy (SEO).

Viral marketing (buzz marketing)

Should you receive e-mails from friends, think of the number of times you might have forwarded a catchy advertisement, silly video or song featuring a brand. It happens every day. Viral or buzz marketing is the electronic version of word-of-mouth. Stokes splits viral marketing into two types; namely organic viral marketing and controlled viral marketing.[27]

1. Organic viral marketing

This refers to a campaign that is neither planned nor has any input by the marketer. If this is successful, a brand's equity can be boosted at very little cost. The communication takes place between consumers without any influence from the marketer. An organic viral campaign can be beneficial to a company should the message be positive, but it can have a detrimental effect should the message be negative.

2. Controlled viral marketing

Controlled viral marketing campaigns are strategically planned and have defined goals for the brand being marketed. For a viral marketing campaign to be successful, a number of aspects should be considered.[28]

- **Use tactics to build awareness and trial:** the goal of a viral campaign is not only to create awareness of a brand, but also for customers to try out the brand or product. Viral marketers need to set the scene for this to happen. Customers should want, and not be forced, to tell others about their experience with a product encouraging others to try it as well.
- **No acquisition without identification:** marketers need to know whether their campaign has had any effect on sales or further recommendations. They need to put measures in place in order to capture details of consumers to determine the effect of the viral campaign, such as collecting an e-mail address, signing up the customer for an opt-in newsletter programme or tracking offer redemption.
- **Look beyond the transaction:** once a customer has been exposed to the viral campaign and marketers have recorded details, it is up to the marketer to keep in contact with the customer. What is strived for is a long-term advocacy role by the customer to the company, product or brand. Passing on an e-mail or application does not mean that the customer is loyal to the organisation or brand. Marketers could use their valued customers to participate in special events and forums to make them feel more active and connected to the brand.
- **Connect your advocates to product development:** viral marketing should allow customers to give suggestions or vote on an idea. This will allow the customer to feel part of the brand and will lead to customers becoming brand advocates. Simba-had a 'What's your lekker flavour?' competition campaign calling on customers to suggest uniquely South African flavours for a new chips range. The reward for the winning flavour was R200 000 and 1% of all future sales. A fast-selling flavour could mean earning up to R500 000 each year, forever, for the winner of the best flavour. South African singer/songwriter Bobby van Jaarsveld asked his fans on Facebook to select a cover for his new album from three possible options in August 2012. Facebook followers could vote on his page and the most voted option was used. Within 24 hours of the album being available it reached Gold Status in terms of sales.

Although viral marketing can be very unpredictable, if planned well it can be immensely beneficial. Viral marketing, more often than not, is linked to social media.

MERCEDES VERSUS JAGUAR ADVERTISEMENTS

Watch: http://www.youtube.com/watch?v=o1BiFTk5Acw

NANDO'S AND SANLAM COMMERCIAL BANTER

Watch: http://www.youtube.com/watch?v=8xjQAYZCQAc

Social media

There are currently more than 802 million daily active Facebook users worldwide, 609 million mobile daily users, 81.2% of the daily active users are outside of the USA and Canada.[29] In South Africa, Facebook has more than 10.8 million users.[30] 87% of South African Facebook users access the network by means of mobile devices.[31] Twitter has 5.5 million active South African users;[32] 255 million monthly users worldwide, with 78% of Twitter accounts accessed from mobile devices; 500 million Tweets are sent per day.[33] With these statistics in mind, it becomes clear that marketers should understand the workings of social media and embrace the opportunities they present. In the past, the objective of an online marketing campaign might have been to get users or customers to click through to the company's website; now, it is to create sustained engagement with customers.[34]

Social media is media created, published and shared by individuals on the Internet.[35] It includes images, videos, general posts and a lot more. Social networking sites include MySpace, Facebook and Twitter, and an example of a business networking site is LinkedIn. Users use blogs to record their opinions and feelings about topics and receive comments in turn on their posts. Users share podcasts and share information by means of collaborative sites such as Wikipedia. Social media allows users constantly to be in touch with their world. Vollmer refers to this as being 'always on' and therefore a very viable communication target.[36] The Internet is now the number one source of media for consumers at work and second place at home. Furthermore, many consumers see social media as a more trustworthy source of information about products and services than corporate communication.[37]

CORPORATE SA WAKES UP TO SOCIAL MEDIA

Read: http://www.worldwideworx.com/corporate-social-2012/

OBAMA VICTORY TWEET MOST POPULAR EVER

Read: http://www.news24.com/Technology/News/Obama-declares-victory-on-Twitter-20121107

ELLEN DEGENERES'S OSCARS SELFIE BEATS OBAMA RETWEET RECORD ON TWITTER

Read: http://www.theguardian.com/film/2014/mar/03/ellen-degeneres-selfie-retweet-obama

WHATSAPP TAKES SA BY STORM

Read: http://www.worldwideworx.com/whatsapp/

Blogs

A blog is a condensed word for 'web log' and is typically a website that allows users (bloggers) to post entries on different topics and allows readers to comment on posts.[38] In 2011 there were 181 million blogs.[39] Blogs could have anything on them, including links, text, videos, audio and images; anybody can start a blog, and anyone can write anything on their blog. This allows individuals and companies alike, the opportunity to publish and share ideas and invite responses. Refer to Figures 12.9 and 12.10 on the next page, for two entirely different blogs.

Corporate blogging is an excellent way for staff, investors and prospective customers to communicate. Blogging assists in the fostering of a community around a brand. In order for a corporate blog to be successful it is important for staff to be well informed. Transparency and honesty is key, but there should be a clear stipulation about which information is sensitive and off-limits to bloggers.

Blogs can be extremely powerful as a marketing tool because consumers place a lot of trust in them. The views they express are available long after they were posted. To marketers, blogs give a momentary view of a brand or product. It allows marketers to see how people really feel about it. Blogs work extremely well with a viral campaign as they get people talking, forwarding information and linking people to a company website. This leads to brand awareness.

Twitter is a microblogging site that allows users to publish short updates (limited to 140 characters). Twitter is an example of a microblogging network. As with ordinary blogs, microblogging can add tremendously to a viral campaign. It allows users to send links of viral videos and other viral marketing links.

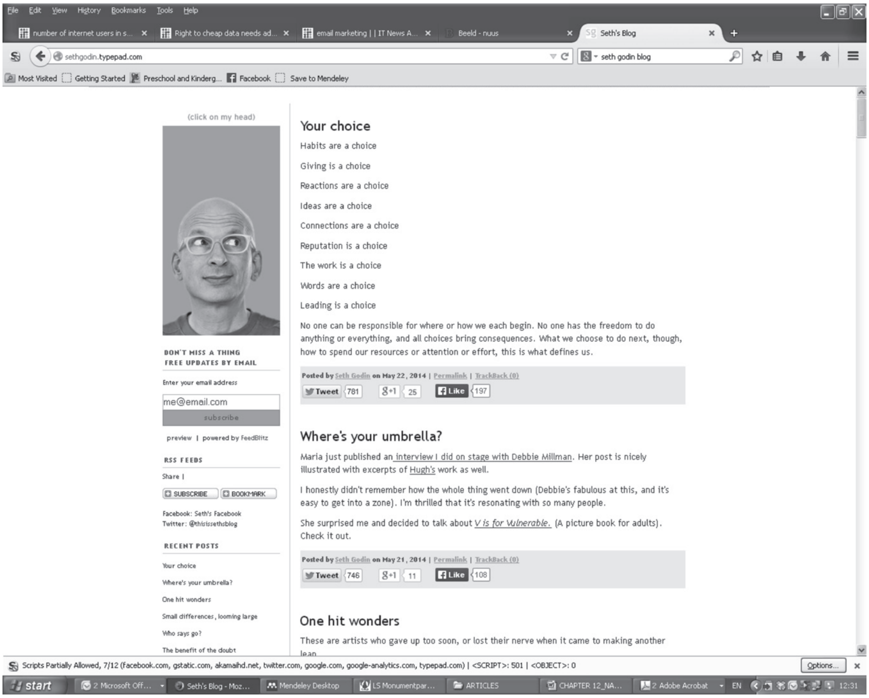

Figure 12.9 *Seth Godin's blog (http://sethgodin.typepad.com/)*

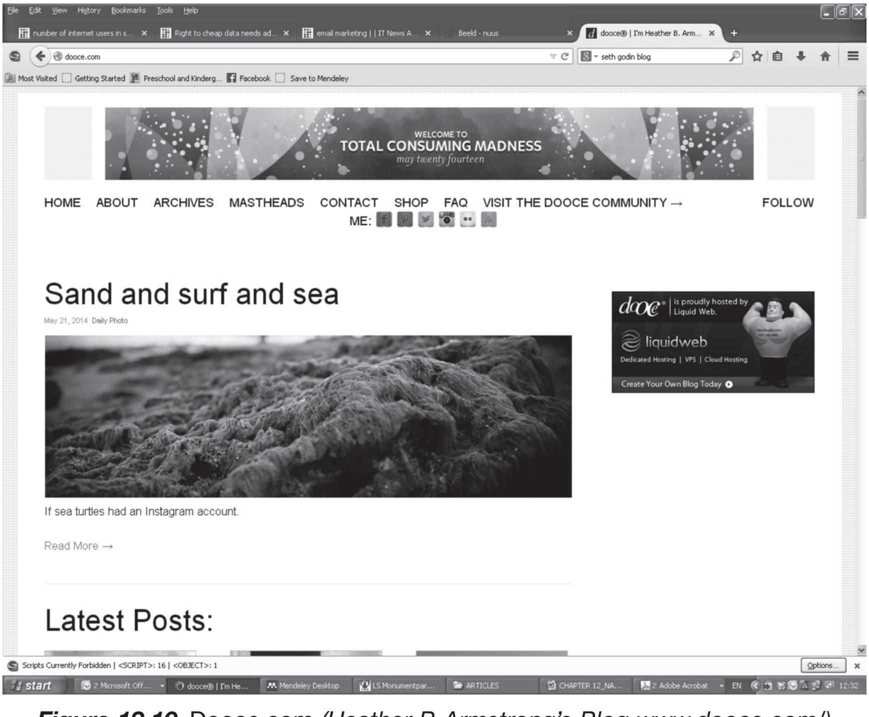

Figure 12.10 Dooce.com *(Heather B Armstrong's Blog www.dooce.com/)*

Social networking sites

The most popular social networking sites are MySpace, Facebook and LinkedIn. On these sites, users create a profile and can interact with their connections by means of sharing updates, links and multimedia. Social networking sites are usually free to members and generate revenue from advertising. They gather demographic information from members which, in turn, can be used by advertisers to target their adverts at a particular audience. Marketers can also create pages and have customers become 'fans' of their pages. It allows marketers the platform to interact and communicate with customers, while also allowing customers the opportunity to voice any issues they might have with the brand, product or company. This has the potential to build customer relationships. See Figure 12.11 below, for a view of a Facebook page for a small business named Pixel Pro. You read about Pixel Pro previously; it posts updates every day, which include product offerings, comments from customers, promotions and general information.

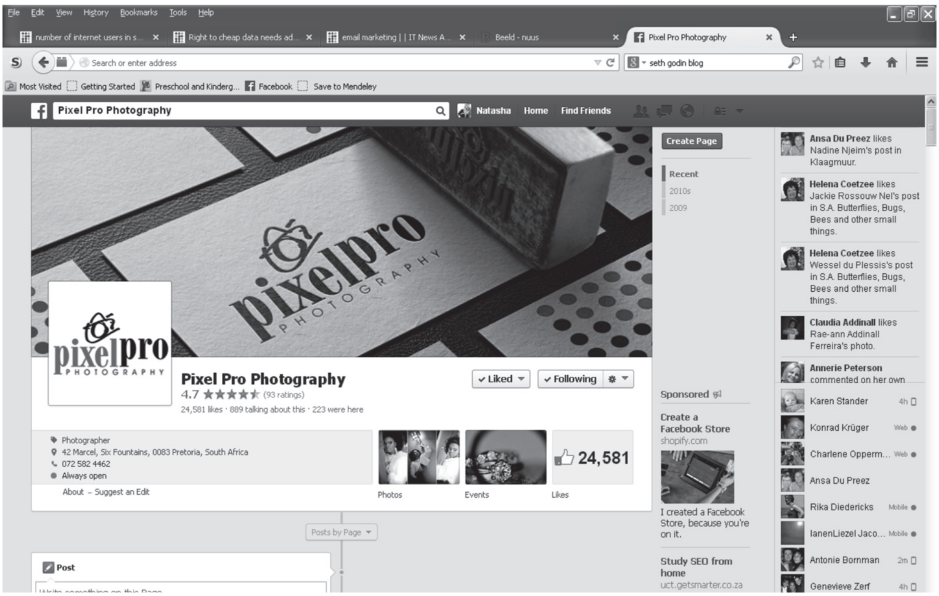

Figure 12.11 *Pixel Pro's Facebook page (www.facebook.com)*

Podcasts

A podcast is a method of publishing audio programmes via the Internet. Users can create their own self-published radio shows. Podcasting became very popular with the availability of iTunes. Radio stations have jumped on the bandwagon and realised that podcasting allows listeners to listen to their programmes over the Internet at a convenient time. In South Africa, nearly all radio stations offer podcasts (refer to Figure 12.12 on the next page for an example). Universities and other education institutions have realised that podcasting is a powerful tool to provide students with additional tuition, or to assist students who are unable to attend lectures.

Figure 12.12 *Podcasts of Talk Radio 702 (http://www.702.co.za/podcast/podcasts.asp)*

Podcasts can be a marketer's dream because they are relatively inexpensive and their content can reach a niche market, making it extremely targetable. Marketers can also see exactly how many users download a podcast. The content is controlled by the marketer. Marketers can have a blog that works side-by-side with the podcast, which allows users to respond to the podcast, providing feedback for marketers to do it better next time. For podcasts to be successful, marketers need to ensure that the content is of a high quality with relevant content, which is real (and not an audio format of the corporate brochure).

Video and knowledge sharing

YouTube is perhaps the best known website for users to upload, view and share videos. These videos range from music, amateur videos, video logs, jokes, information programmes and advertisements. More than 1 billion unique users visit YouTube each month, more than 6 billion hours of video is watched each month and 100 hours of video is uploaded on YouTube, every minute.[40] The South African equivalent of sites such as YouTube are Zoopy and MyVideo. Marketers realised that there is no time limit for an online advertisement as is the case with television. This allows marketers to extend their creativity and message to users. It all comes down to the content of the video. If the content is relevant and worth watching, there will be viewers.

Knowledge sharing occurs mainly though a web page named a wiki. This type of web page allows readers to add, edit and update its content without the need for much technical knowledge. The page provides readers with tools to monitor the changing state of the wiki easily. Users can discuss the issues about the content until a consensus can be reached. Possibly the most well used and known wiki is Wikipedia.

With social media, the user or customer is in charge of the communication message, not the marketer. This can be unfamiliar or uncomfortable territory for marketers who are used to being at the helm of any and every marketing message. So, how should a marketer proceed using this new medium? The answer lies in the integration of the online communication tools with the offline communication tools. Internet marketing will not be successful if not followed through with offline methods. The bottom line to successful marketing with social media is to listen to the customer when providing feedback, and make the customer part of the marketing campaign, instead of only the target.

In this 'always on' environment, turning off is what people do when faced with a poor marketing campaign. It is important for marketers not to lose focus on their core marketing activities, as set out in the previous chapters of this book. We discussed the marketing mix at length in the previous chapters of this book. Let us recap how the Internet can be used with the marketing mix.

The Internet and the marketing mix

The unique features of the Internet, such as its multimedia environment, permanent availability, global reach, affordability, ease of use, ability to store vast amounts of information, speed, interactivity, ability to reach a mass market, ability to customise information for individual users, and ability to transact sales all make the Internet a very powerful marketing tool. If we revisit the 4 Ps marketing mix discussed earlier in this book in the context of the online world, we will have a better idea of how the Internet impacts on each of these elements.

Product

The Internet can be used to gather market information that will help to shape how the product should be adapted to meet customers' needs (which is important, for instance, in the new product development process). The Internet can also be used to keep product developers abreast of up-to-date information on the latest product and technology developments in other companies and in other parts of the world.

The Internet is also being used very successfully to procure production materials and other, often cheaper, inputs to the production process, online. By integrating a company's online customer relationship management activities with the organisation's production and supply-chain management activities, information gathered from customers can translate into faster, or even real-time, inputs to the production department and production engineers. If a change in consumer demand or consumer tastes, or an extraordinary number of complaints, are received, this data can immediately be fed through the system to the production department, where engineers will take whatever action is necessary. This action might be to increase or decrease production, or to fix a production problem that is causing the errors. The Internet can also be used to gather information about competing products to see how the product compares with others (i.e. benchmarking).

Price

The Internet can impact on price by helping to save costs and by keeping the organisation in tune with competitive prices. Searching the Internet will quickly reveal which prices competitors are charging. Also, a company can use the Internet to communicate the prices to its customers, and they can make its online price lists easily changeable to keep up with changing circumstances.

From a cost point of view, the Internet serves as an extremely affordable marketing and advertising tool allowing companies to reach a global audience at a fraction of the old cost. As a communications tool, e-mail is cheap compared with other communication media, such as the telephone and fax. The Internet allows companies to target and transact directly with their customers, thereby bypassing the many intermediaries in traditional marketing channels. This process is referred to as disintermediation. In some instances, the Internet can even be used as an extremely cheap distribution medium for electronic products, such as books, designs and software.

These factors, either individually or in combination, allow a business to achieve quite considerable savings, which can be translated into lower prices for customers, or greater margins for the business. It also enables the business to be more flexible with its pricing policies.

Promotion

This is perhaps where the Internet is at its most powerful. The multimedia nature of the Internet, combined with its capacity to deliver huge amounts of information to users, means that it is the perfect medium for advertising and promoting products.

Businesses can now not only publicise their companies over the Internet, but can also advertise their products and services to a global audience at a fraction of the cost of traditional advertising. Internet advertising is easy to update and easy to expand – there is no real limit on how much information can be made available. Furthermore, the business can focus on the product, providing video footage, audio clips, detailed graphics, photographs and animations, in addition to text. This enables the business to provide a level of detail not possible with other advertising media.

Traditional advertising and promotion is often out of the league of all but the largest companies. The Internet has changed this. Combined with e-mail, e-newsletters and e-zines, even the smallest business is now able to advertise and promote its products very effectively to a global audience at a very affordable cost.

What is more, any intermediaries the business may be using, including its sales staff, agents, distributors and even the customers themselves, can be kept informed of new price lists, new product introductions, product updates and other related information, via the Internet. Another area where the Internet can prove valuable,is in sales promotion. Marketing, after all, ends in selling and the Internet offers one of the most affordable ways of reaching an audience and enabling that audience to transact with companies. We discuss Internet advertising and online sales transaction again later in this chapter.

Distribution

Although not appropriate for most products, the Internet has been used quite successfully as a distribution medium for products and service offerings such as software, books, magazines, certain consulting services, engineering drawings, language translations and graphic design, or any other type of product or service that can be transmitted in electronic format. Indeed, many software companies have tapped into markets around the world very effectively by advertising and distributing their programmes over the Internet. Many users today would rather download the latest software off the Internet than go to the local computer store to buy an often more expensive copy of the software. At least off the Internet, people are more likely to get a later version of the software at a cheaper rate more quickly.

In other instances, where physical products need to be packed and sent off by ship, air or parcel post, the Internet can play a valuable role in putting all the appropriate distribution information at the customer's disposal. It also allows a business to identify and compare transport companies and freight forwarders, and puts customs duties, freight rates, exchange rates and other relevant information at your fingertips in real time.

Today, parcel delivery companies such as DHL, FedEx, UPS and Dawn Wing allow customers to track their parcel(s) via their websites, ensuring that the customer is always in control of where his or her parcel is. The Internet has become integral to their operations and a part of their customers' service expectations.

The Internet and marketing research

Marketing research is the task of locating or gathering information that will gain the company a business advantage. Online market research is the practice of using online surveys and information sources to conduct market research. The Internet is nothing less than the largest library of information in the world, and information can be found on virtually any subject. Marketers can:

- conduct desk research on the Web
- conduct surveys on the Web
- send out questionnaires using e-mail.

Using the Internet, it is possible to gather information about markets, industries, competitors, countries and even individual customers. Most of this information is already available on the Internet and the amount of information available is growing daily, as is the quality of the information. This information is published by companies, industry bodies, trade associations, governments, research houses, chambers of commerce and other similar organisations.

Conducting online desk research is about browsing or searching the Internet for the information you want. This involves learning how to use the many search engines and keeping record of useful websites that serve as a 'springboard' to other relevant information. This is not an easy task, but the marketer who makes an effort to search the Internet regularly for marketing information will undoubtedly reap the rewards.

What is more, businesses are increasingly using the Internet to send out questionnaires and to conduct online surveys. These surveys range from surveys of individuals to online group surveys (such as conducting an online focus group, which Internet technology now makes possible). Some surveys are simply posted on the Web, with the request that visitors to the website complete the survey (which usually comprises a number of questions linked to several checkboxes). With other surveys, the questionnaire is sent to respondents by e-mail, with the request that they complete the questionnaire, returning it to the researcher with the click of a button. On the researcher's side, the system can be programmed to analyse the incoming information automatically.

In the case of Web-based surveys, one drawback is that you only reach those persons who visit the website. As only about a fifth of the South African population has access to the Internet and of those, only a small percentage may visit the site in question, the survey is likely to be somewhat biased. E-mail-based surveys are usually better, as a far greater percentage of the population have access to e-mail, but there are still portions of the population who will be excluded because of lack of access to the technology concerned. Nevertheless, online research is gaining popularity because it is one of the easiest ways to launch a survey, and the results can also be quickly and automatically analysed.

The Internet and information dissemination

Companies often store useful information (for example, detailed product specifications) that they would like to distribute to their customers, but this can be very expensive in the physical world. In addition, television and radio advertisements are restricted in the amount of space or time they have available. Even product brochures are expensive to produce and, again, they can only contain a limited amount of information.

By contrast, the Internet is a very cheap way to disseminate (distribute) information. For many businesses, the Internet is as a means of getting useful information that would otherwise only be stored away in filing cabinets to customers and to interested stakeholders (for example, shareholders and staff). It is also a useful way of getting breaking news and other critical marketing or public relations information to the marketplace quickly. An announcement of some impending development (a take-over bid, for example) can be disseminated to shareholders within the hour using the Internet.

The Internet and corporate publicity

Positive publicity can be a powerful weapon in bringing awareness, acceptance and desirability to a business. In this regard, the Internet is a useful medium for promoting and publicising a business and its activities. The Internet is a lot like the grapevine – it is the rich soil in which the seed of a publicity message can germinate very quickly, especially when using social media such as corporate blogs. It is an environment where people eager for information come to share ideas, information, interests and news. The key to successful publicity is to listen to customers, respond to others and to build a voice for the company by means of an online presence.

An online presence could start with a website. A creative, trendy website can bring a lot of positive publicity to an innovative business (for example the Nando's site: www.nandos.co.za). An online presence goes further than a website alone, of course. Public relations practitioners are encouraged to use Internet marketing communication tools to increase the reach of the entire marketing strategy.

Publicising and branding the activities of a business on the Web are certainly a lot faster than the more traditional publicity machinery, such as mail-shots and press releases, and businesses also have more control over their messages, whereas a magazine editor may cut his or her public relations message to fit a particular page. In addition, as more and more people in a growing number of industries turn to the Web for relevant market and industry information, so the Internet grows in its effectiveness as a means of promoting the company and its activities. It is also relatively cheap.

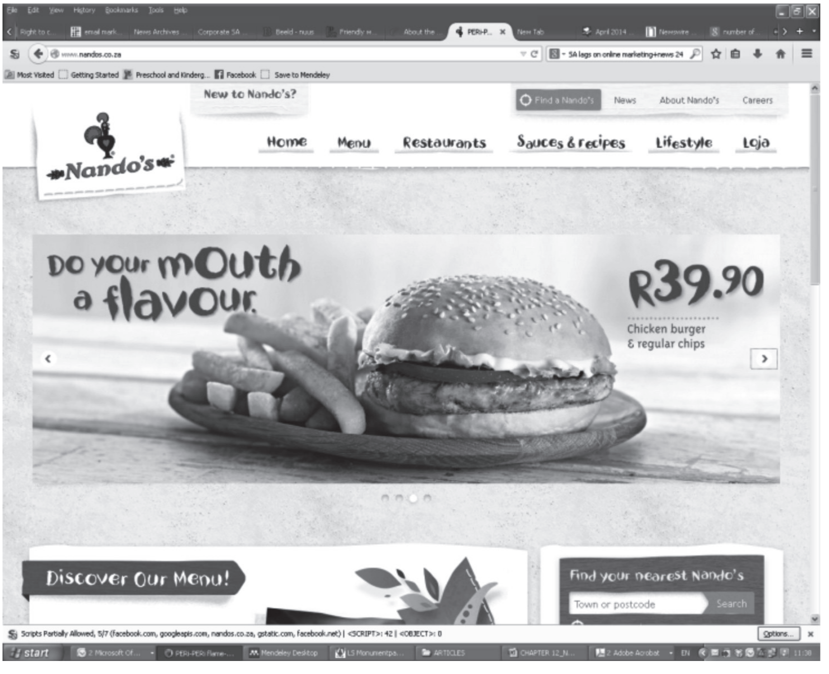

Figure 12.13 *Nando's – a public relations website (www.nandos.co.za)*

Transacting sales online

77% of South Africans with Internet access are shopping online. The most frequent purchases are books, CDs and DVDs, with electronics reaching second place.[41] The ultimate goal of marketing is to maximise profitability. Therefore, a comprehensive Internet marketing plan should focus on three objectives: increasing sales, decreasing the cost of doing business, and improving communications with all stakeholders, the last of which should help to achieve the first two objectives.

To date, the Web does not conclusively prove to increase sales, but it does have a proven track record of decreasing costs and improving stakeholder communications. The situation is changing, however, as the Internet reaches its critical mass.

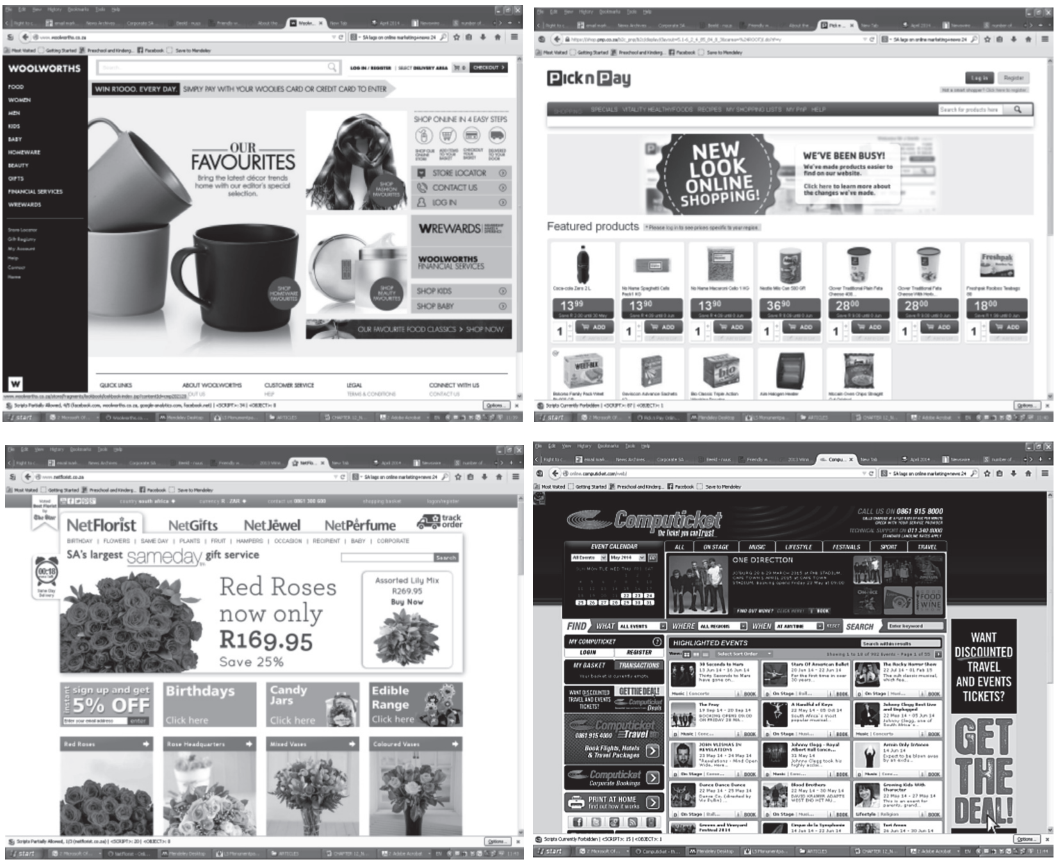

Figure 12.14 *Popular transaction websites in South Africa*

2013 E COMMERCE AWARD WINNERS

Read: http://www.ecommerceawards.co.za/2013-winners/

There are several reasons why the Web has not yet proved highly successful at increasing sales. The first hurdle is the question of payment. Users have been reluctant to give credit card and other banking details over the Internet for the fear of these being compromised. This situation is being remedied with powerful encryption programmes being developed. Most South African banks are now advertising the fact that clients can undertake a broad base of banking activities using the Internet. For many buyers (and sellers) dealing with distant, unknown clients, buyer insecurity can represent a very real stumbling block.

FRIENDLY WEBSITE GETS USERS' VOTE FOR ITS SIMPLICITY

Read: http://www.bdlive.co.za/business/financial/2014/03/23/friendly-website-gets-users-vote-for-its-simplicity

Finally, this is a new phenomenon and users also need to get used to it. There will always be those who will buy over the Internet and those who will not, just as some people readily buy from direct-mail companies and others do not. As the Internet reaches a greater portion of the population, so the number of Internet shoppers will increase. Increasing pressure on individual leisure time will encourage people to shop online from the comfort of their homes, rather than use their free time to jostle with other shoppers for a limited selection of products and services in packed outlets.

From a business perspective, as interest in online shopping increases, so it will become more viable and attractive to use the Internet as a business medium. It can be expected, however, that the nature of business in the marketspace of the Internet versus that in the traditional marketplace will change. As an example, intermediaries, in the traditional sense, are expected to disappear with a more direct producer-to-customer channel taking their place. At the same time, a number of new cyber-mediaries are expected to come onto the business scene soon and influence the way business is done.

Nevertheless, the Web does offer considerable opportunities for facilitating virtual transactions. There are a number of well-known international companies that have been extremely successful selling their products on the Web, including Amazon and Dell. In South Africa, we have a large number of online retailers. Some retailers have a physical presence, such as Woolworths and Computicket, while others exist mainly online, such as Kalahari.net and Netflorist. Refer back to to Figure 12.15 on page 323.

SOUTH AFRICANS HIGHLY SATISFIED WITH ONLINE SHOPPING – MASTERCARD SURVEY

Read: http://newsroom.mastercard.com/press-releases/south-africans-highly-satisfied-with-online-shopping-mastercard-survey/

Customer service and support

Customer service takes different forms in different industries and in different foreign markets. In some cases, the support is targeted at resellers and distributors, while in other instances, the support may be aimed at the final consumer, or a combination of both.

The idea of the support is to help the customers or distributors receive as much value-added benefit from the products. This customer service will include not only customer support but also training, customer helplines, news about new product developments, price changes, etc.

Benefits of online support services

- **Automate routine procedures:** it is possible, using Web technology, to automate responses to customer enquiries. For example, should a customer lodge a query, file a complaint, or request certain information, the company's website will automatically respond with an e-mail acknowledging receipt of the query, which should generate positive customer response (this is called an autoresponder, as mentioned earlier in this chapter). Alternatively, the company may post answers to FAQs, so that when a customer has a question, he or she may well find an answer already posted on the FAQ section.
- **Offer 24-hour support:** the Internet is available 24 hours a day, 365 days a year. This means that the customer can log on to the website any time of the day and request information or assistance, or look up product information. With the ability to automatically respond to an enquiry, it is also possible to arrange that an acknowledgement be e-mailed automatically to the customer. Thus, the customer can lodge an enquiry at 2 a.m. and receive an initial reply almost immediately!
- **Keep technical information accurate and up-to-date:** using the enormous space available on the Web, product catalogues, technical manuals and data, as well as price lists, can now be made available online. In addition, this information can easily be updated. This makes it possible to keep customers fully informed, with the option to access whatever information they require without having to interact with a company representative first.
- **Slash hard-copy distribution costs:** the distribution of printed marketing material is often one of the undesirable expenses incurred by many businesses, especially when distributing overseas. This can have the effect of reducing the amount of material that is distributed to customers in order to keep costs down. Using the Web, however, there is virtually no cost attached to distributing large amounts of information, so greater amounts of information and material can be made available on a more regular basis.
- **Give the customer more control:** with a website, the customer has control. Customers decide when to get the information they want, as well as what information they want. There is no need to play 'telephone tag' with sales representatives or technicians (leave messages that may not receive a response at a convenient time). Customers can also choose to subscribe to the company e-newsletter to receive selected news of interest to them.

- **Get closer to the customer:** by inviting the customer to respond to customer surveys and by giving the customer greater control over the product information, the purchase decision and follow-up support, the company is able get closer to the customer. This is a prelude to developing an ongoing and long-term relationship with the customer.
- **Turn paper manuals into digital documents:** too often a business generates vast amounts of paper-based information. This information inevitably lies on desks and in filing cabinets and is seldom distributed, even though it could be of value to customers, distributors, suppliers, staff and other stakeholders. However, with the Web this information can now easily, cheaply and quickly be turned into online information sources for all to see, regardless of where in the world they are.
- **Develop a relationship with the customer:** we have already said that the Web is most powerful at developing relationships between businesses and customers. Relationship-building goes beyond drawing the business and customer closer together. It is about sharing a common interest, where the customer proactively seeks out the business and its products. Locking customers into the value proposition of a business through the integration of their systems with its own makes it less likely that a customer would want to move to the business's competitors. Forging a closer relationship with customers adds considerable weight to the marketing efforts of a business and ultimately helps to reduce risk.

Customer relationship management (CRM)

The Web is accelerating the process in which selling products becomes more a matter of establishing an ongoing relationship than of performing a single isolated transaction. In an environment where a competitor is a click away, it is essential to create an online environment that locks the customer into the business. This will only happen if a company succeeds in providing the customer with business value and a pleasant online experience. The two go hand in hand. Business value in an unpleasant online environment will not hold customers but, at the same time, customers are not there just to enjoy their online experiences – they are looking for business opportunities and value.

It is important to bear in mind that business value can be provided on three fronts. Firstly, the online environment can be developed in such a way that it adds value to the customer in its own right. An adaptive, intelligent customer front-end can go a long way towards personalising the online experience for the customer. Secondly, and perhaps most importantly, the product or service that the business sells must add value in itself. It's no use having a great website with lots of useful features and that is easy and fun to navigate, but the product that is being sold is undesirable. Finally, the staff and physical business processes (for example distribution logistics) of a business must be geared towards enhancing the customer's experience with the business. Remember that the Internet is one way of interacting with the customer.

Behind the scenes, however, it is important that the front-end of the business and underlying systems facilitate customer interaction and two-way communication at any time or place. Every suitable communications channel – from e-mail to discussion forums – should be used to this end. The system should be able to track customers and their preferences, habits and buying patterns, and to remember them when they return. This knowledge must be actionable and repeatable. The front-end and content will be customised or personalised, based on the knowledge that has been gathered about each customer, and presented when he or she visits the site again. The broad objectives behind implementing an online CRM system include:[42]

- segmenting customers into different value and profile groups
- improving two-way, any-time, any-place communication with customers
- involving customers in improving the service levels of the business by soliciting constant feedback from them
- ensuring that customers receive consistent service
- reducing the cost of getting customers, particularly the second time around
- ensuring that customers stay loyal to a company over a lifetime
- increasing the share of customers
- reducing the prospect-to-sale cycle time
- leveraging value from cross-selling and up-selling
- enabling a business to harness value of its customers as an actionable, durable asset.

Perhaps the most important aspect of successful customer relationship management online is that it leads to improved customer loyalty.[43] It is a well-known fact that it costs a company more to attract a new customer than it does to implement a retention strategy. Using the Internet is another means to ensure a level of customer loyalty that benefits the company as a whole.

IS BRICKS AND CLICKS THE RIGHT MIX?

For online marketing and online shopping to be successful, some people might suggest that a bricks-and-mortar organisation has better success in online shopping (bricks-and-clicks), than organisations that have an online presence (clicks-only). But is this the case?

Considering the success of sites such as Amazon.com and our local Kalahari.com, it might not be a prerequisite for success to have a physical presence, together with the online presence. South Africans' most favourite e-commerce sites were, in fact, Kalahari.com, didorbuy.co.za and takealot.com, as per the 2013 e-commerce awards, with sites selling books, CDs and DVDs remaining popular among South African online customers (MasterCard, 2013). The question comes to mind whether more personal items, such as clothing and fashion wear, will enjoy the same success as these sites. South Africa has seen several fashion and apparel sites in the recent years, such as Spree.co.za and Zando.co.za. Neither of these sites has a physical (bricks-and-mortar) presence, yet they have seen immense success in the past couple of years. Let's have a look at Zando as an example.

A site such as Zando offers local brands the opportunity to distribute their products without having a physical store or an additional distribution point to their current market coverage. Additional marketing communication can also be delivered directly to the market.

What does it take for e-commerce sites to sway customers to purchase online? According to the 2013 MasterCard Online Shopping Survey, 90% of respondents noted that secure payment facilities and convenient payment methods were the most important considerations when making an online purchase. 89% said that the price of the items to be purchased was a leading consideration, while 86% said that low or no extra charges for delivery or shipping played a role in the decision to shop online.

'Even though shopping online means that consumers are spared the inconvenience of parking, queues and crowds, they still prefer online stores that offer extra added value, with 65% of respondents indicating that promotional offers, discounts or free gifts are important when it comes to choosing an online retailer,' says Philip Panaino, Division President, MasterCard South Africa.

When asked how online shopping could be improved in future, free or minimal delivery or shipping charges topped the list. Stated by 79% of shoppers, this was the most sought-after improvement by a significant margin. The next most popular suggestion made by half of the respondents was that online purchases should not incur additional service charges (MasterCard, 2013). From the results of the survey it would seem that Zando gets most of the pre-requisites right that customers want from an online store!

As online shopping becomes more of the norm for consumers, online retailers must continue to be cognisant of the suggestions and feedback from their customers so as to constantly improve their offerings and further enhance the overall online shopping experience. Zando seems to be taking this to heart with a keen interest in their customer service – the site was voted as runner-up in the 2013 E-Commerce Awards for site with the best customer service.

In this case, a bricks-and-mortar organisation is not required to be successful online. Understanding what is important to the customer, however, is paramount.

Watch this YouTube video about Zando: http://www.youtube.com/watch?v=TxsWdirD-p8, and visit their site (www.zando.co.za), for a better idea of what they offer.

Ethics and Internet marketing

Privacy, trust and honesty are issues that exist not only in the physical world, but in the virtual world of the Internet as well. Not so long ago, customers were very concerned for the safety of the credit card information on transaction websites – so much so that it prohibited potential customers from using the Internet for online shopping. Sites continuously have to assure their customers that their information is safe when doing transactions. Companies need to ensure that their Internet security is continuously updated to keep the information of their customers safe. A further measure is to inform customers of any possible irregularity that might occur. Banks providing Internet banking, for example, provide customers with regular warnings and additional information on their websites about possible scams that might do rounds. Another feature marketers could implement online is to provide customers with options to increase their privacy. Marketers could also give customers the option to receive further marketing information, giving the customer the power to decide whether future marketing should be targeted to him or her.

Another ethical issue that concerns marketers is the fact that Internet users are not always who they say they are. A user may be a child using his or her parents' computer or an Internet café. The issue is not so much that the material a company places on the Web might be harmful to a child, but rather that it is unethical to market to a child. Companies need to put measures in place that will help them to determine whether the person receiving online marketing messages is indeed an adult.

Customers should be able to trust a website not only for the products or services it sells, but also for what the company represents by means of its online presence. This requires a level of transparency and honesty. Companies need to have a united marketing approach that is supported online as well as offline.

SA LAGS IN ONLINE MARKETING

Read: http://www.news24.com/Technology/News/SA-lags-in-online-marketing-20130724

CASE STUDY: PIXEL PRO

Pixel Pro is a South African, Pretoria-based company specialising in photography and video production. They have been associated with the exclusive pictures of various South African celebrities and corporate events – some of which are presented annually. Pixel Pro has embraced the use of the Internet wholeheartedly. Visit the Pixel Pro website (www.pixelpro.co.za) and you will notice the extensive use of social media, which includes the use of Facebook, Instagram, Pinterest, Vimeo, YouTube, Twitter and LinkedIn.

The website provides information on the range of products that can be purchased and booked online. Their Facebook community has close to 25 000 members and they have over 2 578 regular followers on Twitter. Visit the website and explore what it has to offer, then answer the questions that follow.

EXERCISE

1. Which further online marketing tools would you suggest to Pixel Pro?
2. How could Pixel Pro apply social networking even better?
3. Discuss the Pixel Pro website in the context of the 4 Ps of the marketing mix.
4. How would you suggest Pixel Pro builds an online relationship with their customers?
5. Which ethical issues do you think Pixel Pro should be aware of?

Summary

We began the chapter by looking at what the Internet is, examined the link between the Internet and the World Wide Web, and highlighted the benefits of the Internet and the World Wide Web. We went on to relate the marketing concept to the virtual world, discussed the marketing mix in the context of the online realm, and identified the characteristics of a new environment that marketers need to come to terms with, namely the virtual environment or marketspace.

Finally, we identified several areas within the marketing activities of a business where the Internet can be put to work. These include marketing research, the marketing mix, advertising, customer service and support, corporate publicity, sales transactions, and export marketing. Some of these areas will be more relevant for some businesses than for others. We suggest that marketers need to consider their business activities very carefully to see where and how the Internet might play a role.

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