2.1 The role of marketing

Marketing	Finding out the needs of consumers and demonstrating how a business fulfils those needs so that its sales increase
Target Market	People who share characteristics e.g. age, income etc.

Factors which influence marketing:

Finance - how much finance is available to spend on research and development of the new product or an advertising campaign?

Who the marketing is aimed at - young people may be more likely to respond to advertisements on social media. Different people may require different products, for example, some older people may like a mobile phone that has large buttons and is easy to use; only rich people may be willing to pay high prices for top quality goods

Location of potential customers - which country or region of a country do they live and what language do they speak

Purposes of the marketing function

Identifying and understanding customers

- who are they (age, gender etc.)
- answers to these questions are found through market research

Increasing sales

- can be done by reducing price, introducing new products, selling in different places or different methods
- 4Ps - product, place, price, promotion

Informing customers

- advertise on TV, in papers, on billboards, social media
- how much it does will depend on how much it can afford and who they need to inform

Working with other departments:

HR – work with them to check there are enough workers to support anticipated level of sales

Operations – inform them of the anticipated sales predictions to allow them to plan production

Finance – check there is enough money to pay for the resources

2.2 Market research

Market Research	The collections of data on customer habits to help decision-making in marketing
Target market	Group of customers to whom a business aims to sell its products/services. This may also be other businesses as well as consumers
Primary research	Data that is collected first hand, often in the form of questionnaires, interviews and focus groups. Often referred to as 'field' research
Secondary research	The collection of data using research and information provided by others e.g. magazines, internet etc. Often called desk research
Qualitative data	Data based on the opinions of those being asked
Quantitative data	Data collected that is based on facts or numbers, it is usually easier to analyse than quantitative data

Marketing involves the 4Ps:

Product

Place

Price

Promotion

Market research aims to find out information about the target market:

- Their age
- Their economic status
- Their culture
- Where they are
- What they want

Good market research helps a business to be successful and avoid expensive mistakes by finding out:

- The product the customers want
- The price its customers are willing to pay
- The design of the product that will attract customers
- How many products customers will buy
- How to target customers
- Where and how to sell the goods and services

What is market research?

Market research provides information about:

- the market itself (size and make-up – i.e. age, gender, income, tastes)
- customer feedback
- promotional methods
- sales data
- competitors
- effect of price on market

Businesses use the information they gather to design new products and modify existing ones. This approach helps to maximise the potential success of products and services.

Qualitative or Quantitative?

Qualitative = usually primary as it involves finding out the opinions of customers

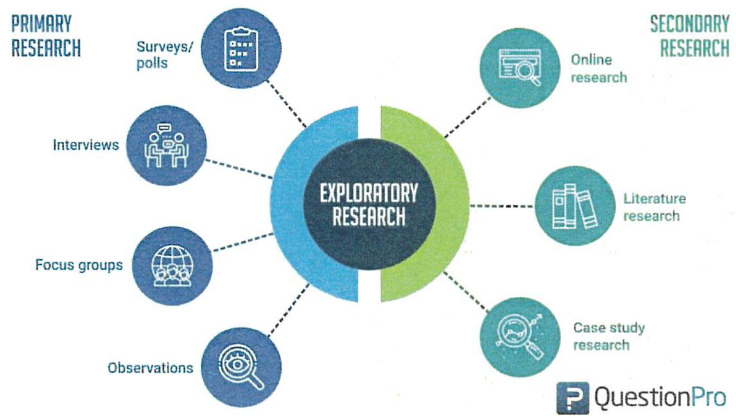
Quantitative = provides facts e.g. what do customers want to spend

	Advantages	**Disadvantages**
Qualitative	Helps the business understand what customers are thinking and what they want	Information may only be provided by a limited amount of people
Quantitative	Easy to analyse and can be gathered from a lot of people	Limits how much people can say about what they like or dislike

Primary/field Research

Field research is information that is first-hand information. It has been collected by the business for a specific reason.
Methods include:

- face-to-face interviews
- postal survey
- focus group
- hall test
- telephone interview
- online survey
- observation



Secondary/desk Research

Desk research is information that is second hand. It has already been collected by someone else. Methods include:

- Sales figures
- Newspapers
- Websites
- Government publications e.g. social trends
- Commercial publication e.g. Keynote and Mintel reports

Advantages	Disadvantages
Only firm that collects data has access to it	Expensive to collect
Collected for a specific purpose	Time consuming

Advantages	Disadvantages
Saves time	Not specific to the business
Relatively inexpensive	May be out of date
Widely available	May contain bias

Questionnaires	Interview	Trials	Focus Groups
A set of questions sent out to selected people in the post or online, or in the street	A person asks an individual or a group of people quesions (in person or over the phone) and records their answers	A product is sold for a short period of time, usually in one region of a country. If it sells well the business will go into full production	A small group of people are asked to use a product or think about an advertisement and give their opinion. The feedback helps the business to re-design the product or advert
✓ Cheap to carry out ✓ Easy to target customers	✓ The questions can be explained ✓ It is easy to target certain types of consumers	✓ A good way to see if the product is what people want ✓ It reduces the risk involved in producing large quantities	✓ The people chosen will be representative of potential customers ✓ Detailed feedback can be obtained
✗ People may not understand the questions ✗ People may not be interested in the product, so may answer dishonestly or not at all	✗ It is an expensive method ✗ Not everyone likes being interviewed	✗ The people or area tested must be representative of the total market, otherwise the findings will not help the business ✗ Very expensive to set up as you need to produce the product to trial it	✗ It will only be a small group of people ✗ It is usually costly to carry out ✗ It is hard to arrange a time when everyone is available

Method	Description	Advantages	Disadvantages
Census data	The national census finds out information about all UK households every 10 years It includes information about the numbers of people living in the household, their income and where they live	▪ Information comes from a lot of people - almost the whole population of the country ▪ It is already collected and analysed, reducing the cost to the business	▪ Information has not been collected to meet the specific needs of the business ▪ The information will need careful interpretation
Newspapers and magazines	Articles in publications often describe peoples interests and current fashions	▪ Up to date, cheap and is a good source of ideas	▪ Information will be general and not specific to the business
Websites	Information about other companies can be found, including what they sell and the prices they charge	▪ Cheap to collect and readily available.	▪ Information needs careful interpretation by the business
Internal data	This is data collected by the business about, for example, its past sales and profits as well as customer feedback	▪ Cheap to collect ▪ Readily availabl ▪ Specific to the business	▪ Data is historical - it looks at what has happened, not what will happen

Knowledge and understanding

2.3 Market Segmentation

Market Segmentation Splitting the market for a product or service into different parts or segments

Ways of segmenting the market

Age
e.g. magazines aimed at teenage girls
Magazines aimed at women in the 20 to 40 age range

Location
e.g. business suits for people living and working in a city
Tweed for those living in the countryside

Gender
e.g. different coloured running shoes for men and women

Income
e.g. Patek Philippe watches for the very wealthy
Casio watches for low income customers

Lifestyle
e.g. lycra for the cycle enthusiast
Large flat screen TVs for viewing enthusiasts

Advantages	Disadvantages
Increased sales - design and produce products specifically aimed at groups	Promotional costs might be high - different advertisements and promotions needed for different groups
Helps identify gaps in the market - those not currently being targeted	Cost of market research for that specific group or to find out the market segment
Avoids wasting money - marketing will be focused on that specific group	Lack of information and data - some markets are poorly researched
Higher market share	Hard to reach customer segments sometimes

People in different segments often want different kinds of products or services. Businesses need to know this so that they can target their products at the different needs of customers of each segment. When a business targets the different segments in its market, it will need to consider the following:

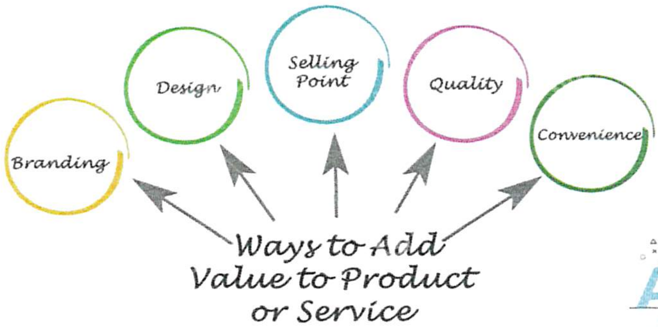
- Whether to produce different products for different markets - the business may consider offering male/female versions or basic and more sophisticated models
- What price to charge - high or low?
- How to promote the products - the type of media to use and what message this method may give
- Where to locate shops - town centre, shopping mall, holiday resort - and whether to sell online or not?

2.4 The marketing mix - product

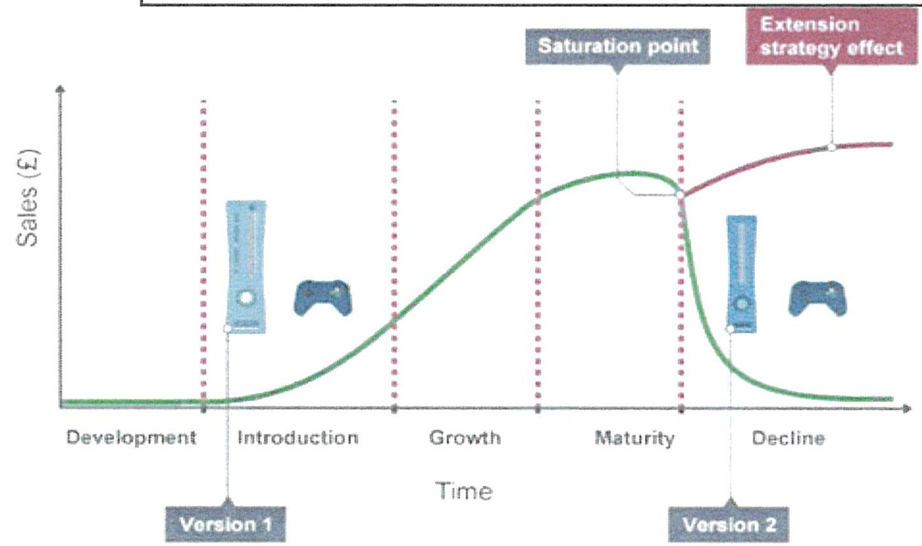
A product is goods or a service that is sold to customer or other businesses. Customers buy a product to **meet a need**.

Activity	Meaning
Design	When a business plans what a product will do [its function] and what it will look like [its style]
Invention	When a business comes up with a new product or service
Innovation	When a business improves a product which already exists

Product differentiation:
- Establishing a **strong brand image**
- Making clear the **unique selling point (USP)**
- Offering a **better location, features, functions, design or selling price** than rival products



Product life cycle - the life of a product shown as a graph divided up into four stages



1. Introduction

Product is new, sales are just beginning

2. Growth

Sales grow quickly

3. Maturity

Sales reach their peak

4. Decline

Sales begin to fall

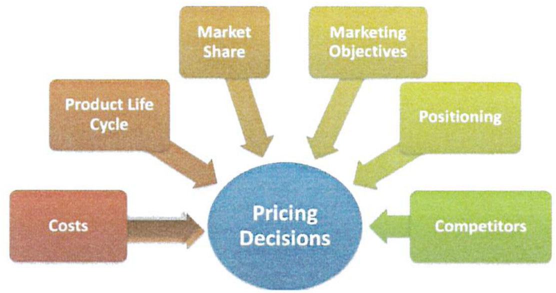
Uses of Product Life Cycle
1. Identifies when to introduce extension strategies
2. Identifies when to change marketing techniques/spending
3. Identifies when a product should be discontinued

Limitations of Product Life Cycle
1. Doesn't consider what competitors are doing
2. Doesn't consider social trends and changes in taste
3. Past performance isn't always a good indicator of future performance

2.4 The marketing mix - price

Penetration pricing	When a business is new to a crowded market, they price their products below that of competitors.
Cost plus	The costs of manufacturing plus what profit is wanted created the selling price. COST + PROFIT = COST PLUS
Promotional	A reduction in the price to attract customers, boost sales or get rid of old stock. 
Skimming	When a business has something new and unique it can set a high price until competition come into the market.
Competitor	When there is a lot of competition, a business will look at what other competitors charge and charge the same.

Main factors that influence pricing



Why is price important?
- Directly affects revenue
- Must be consistent with the other 3Ps as it will affect the consumer's perception of a good or service
- Wrong decisions can have a serious effect on sales and cash flow

Price Penetration		Cost Plus		Promotional Pricing	
Advantages	Disadvantages	Advantages	Disadvantages	Advantages	Disadvantages
• Builds customer loyalty • Can help to develop long-term profitability of higher sales and higher market share	• In the short term, it is likely to result in lower profits than if prices were higher • Difficult to raise the selling price in future	• Profit is guaranteed on each item	• If the mark-up is set too high the price may be expensive compared to rivals	• Cash flow and market share improve as sales increase • Can lead to loyal customers as they will trial it	• Customer may only buy when it's on promotion • Brand image may be affected by too many sales
Price Skimming		**Competitor Pricing**		**Loss Leader**	
Advantages	Disadvantages	Advantages	Disadvantages	Advantages	Disadvantages
• Higher profits straight away • Product may get a reputation for quality encouraging brand loyalty	• Cannot last long as competitors create rival products • More slow sales as its expensive and no more customers can afford it	• Selling prices in line with rivals so should attract customers	• May need other ways to attract customer other than price • Must research competitors - increase costs	• Will attract customers to the business who will hopefully buy other more profitable products	• However if not then the business will not make any profit on these items alone

2.4 The marketing mix – promotion

Promotion is about **informing customer** about what is for sale and **persuading them to buy**. There are four key aims of promotion you need to be aware of:

1. To inform customers about a product or service (especially when new or changed)
2. To keep a business ahead of its competitors
3. To create or change the image of a business, its products and services
4. To maintain or increase sales

Promotion is divided into two main areas; **point of sale promotion** and **advertising**.

1. **Point of sale promotion** – offers available when purchasing a product (all types shown below). Although the business makes a loss on these it is hoped customers will be tempted to buy other more profitable products at the time of purchase.
2. **Promotional advertising media** – ways a company can advertise goods e.g. website, social media etc. (all types shown below)

POINT OF SALE PROMOTIONS	
Price reductions (sales) 	Use to sell off old stock mainly e.g. winter clothes as spring approaches. The disadvantage is the business will make less profit or even a loss than if the product was sold at original price.
Competitions 	Person who buys a product is also entered into a competition e.g. win a free holiday. Customers 'win' by finding a voucher usually.
Loss Leaders 	Some goods are sold at a loss to encourage customers to come shop in the hope they will do all their shopping there. E.g. Tesco petrol
Free Samples 	Given to tempt people to buy the product e.g. cheese at supermarkets

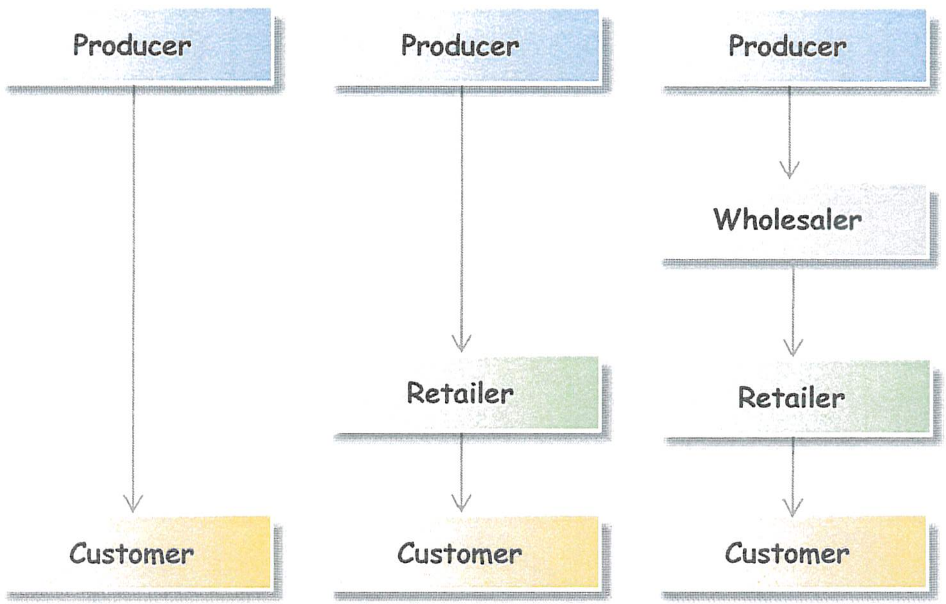
ADVERTISING	
Social media	Cheap way to communicate with large numbers of people and target customers. E.g. Instagram, Facebook, Twitter. However, not everyone uses social media.
Websites	Provides a lot of information e.g. videos, written info and diagrams for customers. It can cost a lot of money to keep up to date.
TV	Very expensive but is good at reaching a wide audience. Advertisers know which likely channels target customers watch and what time of day.
Print media	Includes newspapers, magazines and leaflets. Can easily target your market e.g. a supermarket would use a national newspaper. However, not many people read these now.
Radio	Cheaper than TV and is usually best for local advertising as products cannot be seen.

Point of sale	Quick boost of sales Encourages trials of a product	Customer expect sales May damage brand image
Advertising	Wide coverage Build brand loyalty Repetition will help with sales	Often expensive One-way communication Lacks flexibility

knowledge and understanding

2.4 The marketing mix – place

Physical distribution is the movement of goods from the producer to the consumer. There are 3 different physical distribution channels:



Channel 1	by missing out wholesalers and retailers, the producer makes more profit, rather than sharing it with a wholesaler and/or retailer
Channel 2	selling directly to the retailer means the producer can benefit from keeping some of the profit that would have been made by the wholesaler, while being confident the retailer will be able to market the goods to consumers.
Channel 3	a wholesaler can break up bulk stock and offer retailers the goods in the quantities that they can afford, and which they can sell, so, more retailers are willing to sell the goods.

Digital distribution is when the product can be downloaded by the consumer directly from the seller, as in the case of books from Amazon onto a Kindle or music from Spotify onto a MP3 player.

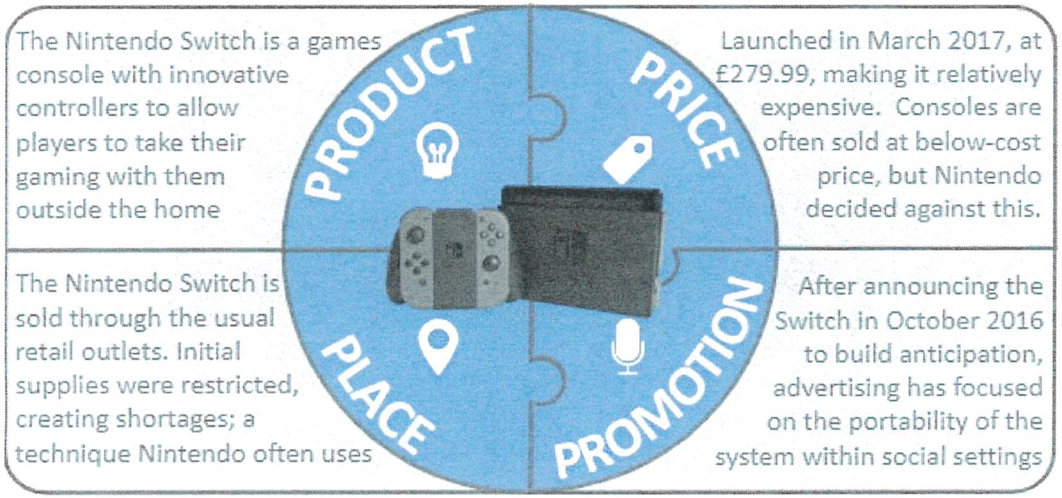
Advantages	Disadvantages
▪ The consumer can buy the product 24/7 ▪ It is a method of selling, without the costs of a physical shop or transport ▪ The business can sell throughout the world and so has more potential customers ▪ A business may be able to improve its image with skillful use of websites ▪ Less staff may be needed which will cut costs	▪ Physical goods cannot be distributed digitally ▪ It is a very competitive market as consumers can compare prices and products online ▪ Customers who do not own a computer will be unable to buy online ▪ Some customers do not like sharing their bank or credit card details online ▪ Digital content can easily be copied and illegally shared for free online

3.4 How the '4 P's' work together and the use of data

The elements of the marketing mix must work and fit together. If they do not complement each other than the product is unlikely to be successful

An example of a poor marketing mix would be:

A successful marketing mix will ensure that different elements work together, and complement each other



Data can be used to aid marketing decisions:
Market data – information that can help make marketing decisions. E.g. market share, changes in demand etc.
Market Share – percentage of total sales of a product that a business has made.

$$\text{MARKET GROWTH (\%)} = \frac{\text{NEW MARKET SIZE} - \text{ORIGINAL SIZE OF MARKET}}{\text{ORIGINAL SIZE OF MARKET}} \times 100$$

Target market – group of consumers to whom the business tries to sell its products.

Example of data	Example use of data
Changes in demand	Inform possible changes to: • price - increase or reduce • advertising - more or less needed • the type of advertising • promotional offers • introduce a new product
Target market	To decide: • the design of the product • how much to charge for the product • where, when and how to advertise • which retail outlets to use • which promotional offers, if any, to use
Market share	To help decide whether to change or to maintain the current marketing mix
Product changes	The first decision will be whether or not the business needs to introduce a new product to match consumer needs and/or competitor products
Effect of promotion	Use data to evaluate the effectiveness of any current promotion and make changes if necessary