

## **COURSE GUIDE**

### **MKT 201 ELEMENTS OF MARKETING**

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## INTRODUCTION

**MKT 201:** Elements of Marketing is a one semester, three credit units' course. It is available to all 200 level undergraduate programmes in Business Administration, Marketing, Tourism, Hotel and Catering Management, etc. The course consists of 16 study units, covering such general areas as needs, wants, markets, marketing and its environment, marketing mix and others.

This course guide tells you briefly what the course is about, relevant textbooks to consult, and how you can work your way through these materials. It also contains some guidelines on your tutor-marked assignments.

## WHAT YOU WILL LEARN IN THIS COURSE

The major aim of the principles of marketing is to introduce you to the field of marketing. The field of marketing is interesting, challenging and rewarding. However, sometimes, it could be disappointing and even frustrating. It is a field which is encompassing, especially in modern economic activities. It is the fundamental routine in modern exchange process.

Marketing is everywhere in our economy, and thus, it touches everyone irrespective of age, personality, job, etc., for example, shopping for food, clothing, travelling, manufacturing goods/services, etc. All these rely on marketing. Manufacturers rely on sales forces for product ideas, consumers on price setting, and distributors for warehousing of goods produced. Each of these activities is marketing based decision. Thus, all these marketing decisions are based on the principles you will learn about in this course.

I do not know how life will look like without marketing. For example, you require marketing for consuming goods which are produced outside your own country, watching news, events, etc. globally, paying for goods and services through e-marketing, and making business negotiation without physically having contact. You can see by these examples that marketing is more than just a business activity. It is an act that one does quite often, either as a professional marketer or consumer.

## COURSE AIMS

The course aims to give you a broad knowledge of marketing, and how this knowledge gained would be used in planning, coordinating and executing all the necessary activities in the exchange process. This will be achieved through:

- Introducing you to the principles and concepts of marketing
- examining the environmental factors that shape an organisation's activities
- explaining how to develop a marketing mix that will achieve goals in the target markets
- explaining how to determine the base price of a product

- explaining the role of research in marketing, and ways of conducting marketing research.

## **COURSE OBJECTIVES**

In order to achieve the aims set out above, the course sets overall objectives. You will also realise that each course unit objectives are always included at the beginning of each unit. Therefore, you are advised to kindly read through the specific objectives before studying through the unit. However, the following are some of the broad objectives of the course. While looking through the course, you should have achieved the aims of the course as a whole. After studying through the course, you should be able to:

- describe needs, wants, market and marketing
- explain variables that shape marketing activities
- define product(s) and their classifications
- explain various channels of distribution/marketing
- describe who a middleman is, his roles and types
- explain why there is a product life cycle (PLC)
- define a new product, new product ideas generation etc.
- define marketing mix and how they influence marketing activities
- describe various forms of market segmentation
- explain brand name, trademark and packaging
- describe labelling
- define price and determination of base pricing
- explain marketing communication
- explain advertising, personal selling, promotion and publicity
- explain marketing research as it applies to marketing activities.

The aim of this course as pointed out earlier is to expose you to the concept of human resource management.

This will be achieved by aiming to:

- introduce you to the basic concepts and principles of human resource management
- compare issues relationships authority and responsibility in the organisation
- give an insight in leadership and personnel system in the organisation
- explore job design and job analysis
- appraise the important and function of training in any organisation
- have an over view what happens in Human Resource Department of any organisation.

## WORKING THROUGH THIS COURSE

It is expedient that you patiently read through the units, and consult the suggested texts and other related materials. The units contain self-assessment exercises and tutor-marked assignments to help you.

### Course Materials

Major components of the course are:

1. Course Guide
2. Study Units
3. Further Readings
4. Activities and Tutor-Marked Assignments
5. References and suggested textbooks

## STUDY UNITS

There are 16 study units in the course. These are:

### Module 1

Unit 1	Introduction to Marketing
Unit 2	Marketing Environment
Unit 3	Product Classifications
Unit 4	Channels of Distribution
Unit 5	The role of Middlemen in Marketing Activities

### Module 2

Unit 1	Product Life Cycle and New Product Development
Unit 2	The Marketing Mix
Unit 3	Market Segmentation
Unit 4	Packing
Unit 5	Branding

You should note that there are no compulsory textbooks for the course. Notwithstanding, you are encouraged to consult some of those listed for further reading at the end of each unit.

## ASSIGNMENT FILE

The assignment file will be made available to you. There you will find all the details of the work you must submit to your tutor for marking.

The marks you obtained for these assignments will count towards the final mark you will obtain for the course. However, any further information on assignment will be found in the assignment file.

## ASSESSMENT

Your performance in this course will be based on two major approaches.

First, there are Tutor-Marked Assignments (TMAs). The second method is through a written examination.

Your assessment for this course is made up of two components:

Tutor-Marked Assignment	30%
Final Examination	<u>70%</u>
<b>Total</b>	<b><u>100%</u></b>

The practice exercises (or activity) are not part of your final assessments, but it is important to complete all of them. If you do the practice exercises, it will facilitate your understanding of the subject matter or topic and your TMA.

## TUTOR-MARKED ASSIGNMENT

At the end of each unit, there is a Tutor-Marked Assignment (TMA), which you are encouraged to do and submit accordingly. The study centre manager/tutorial facilitator will guide you on the number of TMAs to be submitted for grading.

Each unit of this course has a TMA attached to it. You can only do this assignment after covering the materials and exercise in each unit. Normally the TMAs are kept in a separate file. Your tutor will mark and comment on it. Pay attention to such feedback from your tutor and use it to improve your other assignment.

You can write the assignments by using materials from your study units and from textbooks or other sources. It is however preferable. You should demonstrate evidence of wide reading especially from texts and other sources, something to show that you have read widely.

The assignments are in most cases essay question. Examples from your own experience or environment are useful when you answer such question. This allows you to apply theory to real life situations.

## FINAL EXAMINATION AND GRADING

At the end of this course, you are expected to sit for a final examination of three hours duration. The final examination grade is 70 per cent while the remaining 30 per cent is from TMAs. The final examination is a reflection of what you have read and previous TMAs Encountered Hence, you are advised to prepare adequately for the examination.

## **HOW TO GET THE MOST FROM THIS COURSE**

The distance learning system of education is quite different from the traditional university system. Here, the study units replace the university lecturers, thus conferring a unique advantage on you. For instance, you can read and work through specially designed study materials at your own pace and at a time and place that suit you best.

You should understand right from the onset that the contents of the course are to be worked at and understood step by step and not to be read like a novel. The best way is to read a unit quickly in order to see the general run of the contents and then to re-read it carefully, making sure that the contents are understood step by step. You should be prepared at this stage to spend a much longer quality time on some units that may appear difficult. A paper and pencil are necessary. Ensure that you make necessary notes and summaries where necessary for future reference.

## **FACILITATORS/TUTORS AND TUTORIALS**

Detailed information about learning support services or tutorial contact hours will be communicated to you. You will also be notified of the dates, times and location of these tutorials, together with the name, and phone numbers of your tutors. Your tutor will mark and comment on your assignments, keep a close watch on your progress and on any difficulties you might encounter, and provide assistance to you during the course.

You should endeavour to attend tutorial classes, since this is the only opportunity at your disposal to make physical and personal contact with your tutor and to ask questions which will be promptly answered.

Before attending tutorial classes, you are advised to thoroughly go through the study units and then prepare a question list. This will afford you the opportunity of participating very actively in the discussions.

## **SUMMARY**

Marketing is a discipline that identifies customer needs and wants, determines which target markets the organisation can serve best and designs appropriate products, services and programmes to serve these markets. It is a philosophy that guides the entire organisation.

Marketing aims to create customer-satisfaction profitably through a constant relationship with the target customers and timely production of products and services. However, the marketing department cannot do all these alone; hence, it works with other departments and their team members in the organisation.



Therefore, it is the total business activities that must be executed by all and sundry in the organisation and maintain a good relationship with the outside world.

Welcome to the world of marketing, we wish you a successful study.


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## **UNIT 1 INTRODUCTION TO MARKETING**

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### **1.0 INTRODUCTION**

In this course, we are principally concerned with management and exchange and the process between a firm and its customers. A firm offers a product or a service to the potential customer who has a need for it. The marketing process matches the firm's offer and the customer's need in such a way that both benefit one in terms of profit and the other in terms of need satisfaction.

Different people with different objectives would opt to learn marketing. However, marketing, as you will soon see, is important whether you are in the marketing function or any other function of a business. Besides, marketing is a very exciting field. It requires creativity for success. Thus, you have embarked on the study of an exciting subject which can also increase your creativity.

This course has been designed primarily to develop your awareness of the marketing orientation. It is assumed that such knowledge about marketing decisions and process will not only improve your personal competence but will also help in attaining your organisation's objectives. The first unit introduces the definitions of marketing and goes on to describe the various marketing decisions.

## 2.0 OBJECTIVES

At the end of this unit, you should be able to:

- define the term marketing
- outline the concepts of needs, wants and demands
- discuss the importance of marketing
- list the functions of marketing in economic development.

## 3.0 MAIN CONTENT

### 3.1 Definitions of Marketing

The term 'Marketing' has been defined in many ways by different authorities. It is useful to pause for a while and consult some of these definitions:

- (a) Marketing consists of the performance of business activities that direct the flow of goods and services from producer to consumer or user (American Marketing Association).
- (b) Marketing is the management function that organises and directs all business activities involved in assessing and converting consumer purchasing power into effective demand for a specific product or service, and in moving it to the final consumer or user so as to achieve the profit target or other objectives set by the company (British Institute of Marketing).
- (c) Marketing is a social process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others (Kotler, 1984).
- (d) Marketing is a total system of business activities designed to plan, price, promote and distribute want-satisfying goods and services to present and potential customers (Stanton, 1964).
- (e) Marketing is the business function that identifies customers' needs and wants, determines which target markets the organisation can serve best, and designs appropriate products, services, and programmes to serve these markets (Kotler and Armstrong, 1996).
- (f) Marketing is the business process by which products are matched with markets and through which transfer of ownership is effected (Cundiff and Still, 1964).

These definitions are better explained through the examination of the following terms: needs, wants, demands, products, exchange, and some others.

## **3.2 Basic Concepts Underlying Marketing**

### **3.3 Needs**

The most basic concept underlying marketing is that of human needs. Human needs are states of felt deprivation. These needs include basic physical needs for food, clothing, shelter and safety; social needs for belonging and affection; and individual needs for knowledge and self-expression. The needs are in-built in human nature itself. It is not invented by marketers. That is, they naturally exist in the composition of human biology and human condition. When the needs are not satisfied, a person will try to reduce the need or look for an object that will satisfy it.

### **SELF-ASSESSMENT EXERCISE**

Before you proceed further, what do you understand by the term marketing?

#### **3.3.1 Wants**

Human wants are desires for specific satisfaction of deeper needs. For example, a man in the village needs rain and food and wants fertilizer. Also, a man may want yam, rice, body cream, a bag, a wrist-watch, etc. but needs money. Human needs may be few, but their wants are numerous. These wants are continually shaped and re-shaped by social forces and institutions such as families, church, schools and business corporations. Marketers do not create needs; needs pre-exist in marketing. Marketers, along with other operatives in society, influence wants. They suggest and inform consumers about certain products and persuade them to purchase, stressing the benefits of such products

#### **3.3.2 Demands**

People have almost unlimited wants but limited resources. They want to choose products that provide the most value and satisfaction for their money. When backed by purchasing power, wants become demand.

That is, demand want for specific products that backed up by an ability and willingness to buy them. For example, many desire a car such as Mercedes Benz, Toyota, BMW, Honda, etc. but only a few are really willing and able to buy one. It is therefore important for marketing executives to measure not only how many people want their company's products, but also measure how many of them would actually be willing and able to buy them.

#### **3.3.3 Products**

People normally satisfy their wants and needs with products offered in the market. Broadly, a product can be defined as anything that can be offered to someone to satisfy a need or want. Specifically, a product can be defined as an object, service,

activity, person, place, organisation or idea. It should be noted that people do not buy physical objects for their own sake. For example, a lipstick is bought to supply service (beautify); toothpaste for whiter teeth – prevent germs or give fresh breath or sex appeal. The marketer's job is to sell the service packages built into physical products. If one critically looks at physical products, one realises that their importance lies not so much in owning them as in using them to satisfy our wants. For example, we do not buy a bed just to admire it, but because it aids resting better.

### **3.3.4 Exchange**

Marketing takes place when people decide to satisfy needs and wants through exchange. Exchange is therefore the act of obtaining a desired object from someone by offering something in return. Exchange is only one of the many ways people can obtain a desired object. For example, hungry people can find food by hunting, fishing or gathering fruits. They could offer money, another food or a service in return for food. Marketing focuses on this last option. As a means of satisfying needs, exchange has much in its favour, people do not have to depend on others, nor must they possess the skills to produce every necessity for themselves. They can concentrate on making things they are good at in exchange for the needed items made by others. Thus, exchange allows a society to produce much more than it would.

However, Kotler (1984) states that for exchange to take place, it must satisfy five conditions, namely:

- (i) There are at least two parties.
- (ii) Each party has something that might be of value to the other party.
- (iii) Each party is capable of communication and delivery.
- (iv) Each party is free to accept or reject the offer.
- (v) Each party believes it is appropriate or desirable to deal with the other party.

These five conditions make exchange possible. Whether exchange actually takes place, however depends on the parties coming to an agreement. It is often concluded that the act of exchange has left both of them better off, or at least not worse off. Hence, exchange creates value just as production creates value. It gives people more consumption possibilities.

### **3.3.5 Relationship Marketing**

Relationship marketing is a process of creating, maintaining and enhancing strong value-laden relationships with customers and other stockholders.

### **3.3.6 Markets**

A market is defined as a set of all actual and potential buyers of a product and service. These buyers share particular needs or wants that can be satisfied through exchange. The size of a market depends on the need of people with common needs and has

resources to engage in exchange, and is willing to offer these resources in exchange for what they want.

Originally, the term 'market' stood for the place where buyers and sellers gathered to exchange their goods, such as a village square. However, Economists often use the term to refer to a collection of buyers and sellers who transact in a particular product class, such as clothing market electronic market, cattle market, etc.

### **3.3.7 Marketers**

A marketer is someone seeking a resource from someone else and willing to offer something of value in exchange. A marketer could be a buyer and a seller. For example, Mr. X sells TV to Mr. Y or Mr. X produces TV sets in XYZ Company which he bought for personal use.

## **3.4 Approaches to the Study of Marketing**

You should understand right from the onset that the contents of the course are to be worked at and understood step by step and not to be read like a novel. The best way is to read a unit quickly in order to see the general run of the content and then to re-read it carefully, making sure that the content is understood step by step. You should be prepared at this stage to spend a very longer quality time on some units that may look difficult. A paper and pencil are necessary. Ensure that you make necessary notes and summaries where necessary for future references.

## **3.5 The Evolution of Marketing**

Marketing develops as the society and its economic activities develop. The need for marketing arises and grows as the society moves from an economy of Agriculture and self-sufficiency to an economy built around division of labour, industrialization and urbanization.

In during agrarian economy, the people largely self-sufficient – they grew their own food, produce their own clothes, built their own houses, etc. There was no marketing, because there was no exchange.

However, as time went on, the concept of division of labour began to evolve. People began to produce more than they needed of some items. And whenever people make more than they wanted, the foundation was laid for trade, and trade (exchange) is the heart of marketing.

At first, the exchange process was a simple one. The emphasis was largely on the production of basic needs which usually was in short supply. Little or no attention was devoted to marketing, and exchange was very local.

Then came the era of marketing, when some producers began to manufacture their goods in large quantities in anticipation of future demands. At this juncture, it can be stated that marketing evolved in the United States as a by-product of the industrial revolution. Therefore, up to 1910, the American economy was very low. It was characterised by shortages of economic resources (goods). The middlemen were very strong. The main problem was that of production and distribution. Modern marketing came of age after the World War I and II when surplus and overproduction became an important part of the economic activities. In 1929 (the manufacturing era), there was manufacturing of goods and services, but below the expected demand. The main concern was to produce enough to meet the demands hand.

Between 1930 and the 1940s (sales era/depression era), there was enough production of consumer goods and services. The major problem in hand was that of marketing distribution. The concern was to design the most effective channel of distribution among the various alternatives.

Between 1940 and the 1950s (war era), all efforts were geared towards the production of war equipment at the expense of consumer goods. When the war came to an end, there were shortages of consumer goods. Hence, efforts were geared towards the production of consumer goods. During these periods, various authors came up with different theories such as Professor Joe Robinson, who wrote on monopolistic economy. His assumption was that if a company can produce an item in such a way that the marginal returns will offset its price from the marginal costs, and the markets are segmented equally, then such company would be able to maximise her profits. Later, people became interested in this theory.

There was another author named Wanded Smith. He wrote an article on ‘Why people must segment their markets and differentiate their products’. His argument was based on the fact that various companies use different machines for the production of war equipment. Besides, consumer purchasing power and tastes are not the same.

During this period, the marketing concept evolved. ‘Marketing concept’ is a business philosophy that states what the consumers want – satisfaction - is the economic and social justification for a firm’s existence. It is a managerial philosophy for performing business activities, which sees the entire business activities as a unit to be planned, and mobilised to produce goods and services to satisfy consumers’ needs in such a way as to enhance the profit of the firm.

### **1960s (Marketing Control Era)**

This is the period when the marketing department became well known and so much important in the U. S. A. One of the authors of the time, Peter Drunker states that marketing department is so complex that it can’t be handled by a single individual. The attention at this period was directed toward markets. Also, consumerism came up due to the failure of the marketing concept. Consumerism is an organised movement of citizens and government to strengthen the rights and power of buyers in relation to



sellers. Consumerists seek to increase the amount of consumer information, education and protection.

### **1980's to-Date (Societal Era)**

During this period, communication has turned the whole world into a global village. Effort was on how to satisfy the society needs, and consumers became conscious of their rights.

## **3.6 Functions of Marketing**

The functions of marketing can be classified into three: namely merchandising function, physical distribution and auxiliary function.

### **(A) Merchandising Function**

#### **1. Product Planning and Development**

Product planning starts with idea generation, idea screening and development of a prototype product. It also takes into consideration the purchasing power of the consumers, taste and market segmentation. Research and development is established for the analyses of ideas generated.

#### **2. Standardisation and Grading**

This is concerned with setting certain standards/levels to accomplish the produced goods. This is carried out by the production department and regulated by some government agencies, such as Standards Organisation of Nigeria. For example, Sprite is 30 cl, Coke is 35 cl, etc.

#### **3. Buying and Assembling**

Here, we are concerned with the marketing institutions that purchase goods or services at cheaper prices in order to resell at minimum prices to the end-users. These marketing institutions include the wholesalers, retailers and agents.

#### **4. Selling**

This is concerned with selling of the finished goods to the end-users either through the manufacturers or the marketing channels. In order to get the attention of their target consumers, they embark on various promotional strategies, such as discounts, promo tools, bundle sales, bonuses, etc.

**(B) Physical Distribution****1. Storage**

Storing of goods to meet future demands and for time and other utilities.

**2. Transportation**

The movement of goods from the manufacturer down to the target consumers. This includes material handling, warehousing, etc.

**(C) Auxiliary Function****1. Marketing Finance**

That is, allowing credits to customers and as well as obtaining credit from customers, such as Banks, individuals, etc.

**2. Risk-Bearing**

Risk means 'uncertainty'. Entering into a business entails risks, such as loss of items, road attack, weather risk, etc

**3. Market Information**

Gathering necessary information about the markets, the target consumers in terms of their purchasing power, taste, colour, choices, competition, and their products.

**3.7 The Role of Marketing**

1. The first and foremost role is that it stimulates potential aggregate demand and thus, enlarges the size of the market. You might ask, how does it help in the economic growth of a country? The answer is that through stimulation of demand people are motivated to work harder and earn additional money (income) to buy the various ideas, goods and services being marketed. An additional advantage which accrues in the above context is that it accelerates the process of monetizing the economy, which in turn facilitates the transfer of investible resources.
2. Another important role which marketing plays is that it helps in the discovery of entrepreneurial talent. Peter Drucker, a celebrated writer in the field of Management, makes this point very succinctly when he observes that marketing is a multiplier of managers and entrepreneurs.
3. It helps in sustaining and improving the existing levels of employment. You may ask, how does it happen? The answer is that when a country advances economically, it takes more and more people to distribute goods and proportionately a lesser number to make them. That is, from the employment

point of view, production becomes relatively less significant than marketing and the related services of transportation, finance, communication, insurance, etc. which spring around it.

#### **4.0 CONCLUSION**

In this unit, you have learned about the term 'marketing', its functions and roles in the socio-economic development of a nation. You also learned some basic terms which are regarded as the basic concepts underlying marketing.

#### **5.0 SUMMARY**

Although marketing cannot operate in isolation of other sectors of the economy, marketing plays an important role in any economic development, since goods by themselves cannot get to the target users except through marketing institutions. Stages of marketing era were examined in order to appreciate the role of marketing in nation building.

#### **6.0 TUTOR-MARKED ASSIGNMENT**

1. With the aid of examples, differentiate between 'needs' and 'wants'.
2. Itemise the importance of marketing in an economy.

#### **7.0 REFERENCES/FURTHER READINGS**

Kotler, P. (2000). *Marketing Management – Analysis, Planning, Implementation and Control*, 8th Edition. India New Delhi: Prentice-Hall.

Stanton, W. J. (1981). *Fundamentals of Marketing*, 5th Edition. New York: McGraw-Hill, Inc.

## UNIT 2      **MARKETING ENVIRONMENT**

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    - 3.6.1 SWOT Analysis
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- 7.0 References/Further Reading

### **1.0 INTRODUCTION**

Nigeria is now part of the ‘global economy’ and the ‘global village’. These expressions imply that the Nigerian economy and businesses are affected by things that happen throughout the world. The economic consequences of the decline of the Far-Eastern economies are already impacting on the Nigerian economy, and also on each and every business as well as on every Nigerian citizen. These consequences include a decline in exports to these countries and a drop in the Nigerian Naira exchange rate against the major currencies of the world such as the British pound and the American dollar. This will make it more expensive to import foreign products but will hopefully make Nigeria’s products cheaper when exported.

The flip side, however, is that with the devaluation of the Far East’s monetary units (e.g. the Singapore dollar, Malaysian ringgit and the baht of Thailand) exporting from these countries will also be more competitive, thus, creating an extremely competitive international marketplace. This is but one example of the influence of the marketing environment on our country, its businesses, employees, and citizens.

Some of the effects of the market environment are felt more directly by enterprises, while others have a more indirect way of influencing the business environment. For example, a major slump in the economic activity of a country such as Nigeria brought about by a poor agricultural output as a result of inadequate rainfall will have a resounding effect on the employment figures in the agricultural industry. This will then have a knock-on effect on tertiary industries such as the tractor repair and service industry, food sales and the general economic survival of several rural towns in

Nigeria. This is an example of the more indirect manner in which variables of the marketing environment may influence Nigerian enterprises and citizens.

Taking into account the effects of variables such as those discussed above, it is therefore necessary to understand the functioning of the marketing environment. Within the marketing environment there are three sub-environments (i.e. micro-environment, market environment and macro-environment) – each of which affects the day-to-day running of an enterprise.

The Chief Executive Officer (CEO) of an enterprise and its management team should evaluate the effects of the marketing environment on business, and one of the ways of doing this would be by means of a SWOT analysis (i.e. identifying the Strengths and Weaknesses of, the Opportunities for and the Threats to the business). Remember that any business should be able to do a SWOT analysis, and that most enterprises are doing so on a regular basis!

## **2.0 OBJECTIVES**

At the end of this unit, you should be able to:

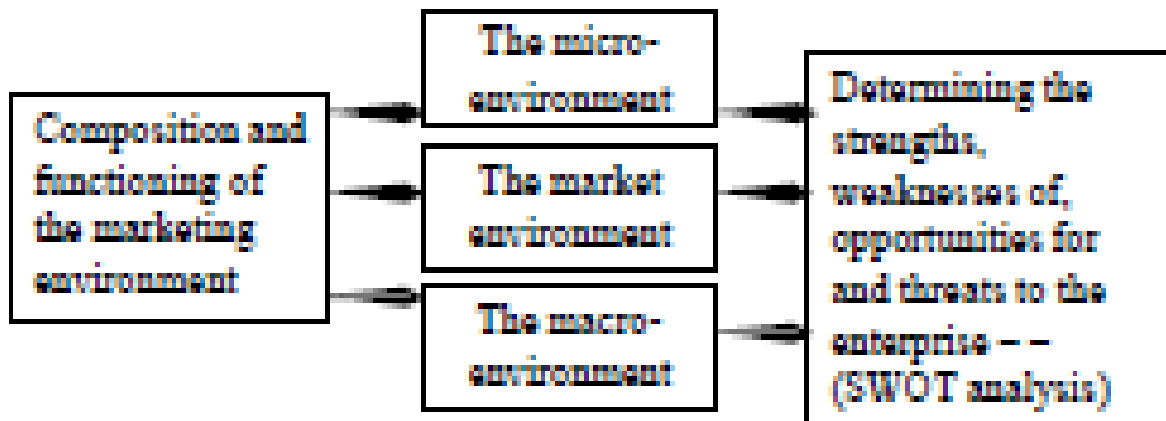
- explain the marketing environment
- explain micro-environmental variables
- explain macro-environmental variables
- differentiate between opportunities and threats
- explain the implications of these variables to marketing companies.

## **3.0 MAIN CONTENT**

### **3.1 The Marketing Environment**

### **3.2 Composition and Functioning of the Marketing Environment**

The marketing environment consists of three components, also called sub-environments, which are known as the micro-environment, market environment, and macro-environment. Each of these sub-environments consists of variables which can influence an enterprise, its workers and their families. In the market environment, for example, competition may have a very negative influence on the enterprise, lowering the profitability of the enterprise and impacting negatively on wage negotiations with the labour force. This is but one instance of how a variable beyond the control of an enterprise can influence the running of the enterprise. Note that this kind of competition is not only encountered in the formal sector of the economy (e.g. in the case of a price competition on groceries between Shoprite Checkers and Pick 'n' Pay) but can also exist in the informal sector between two electronics shops trading on the same street in Tinubu Square, Lagos, for example:



### 3.3 The Micro-Environment

The micro-environment of an enterprise refers to all the activities that are executed by that enterprise. An enterprise must perform diverse activities in order to function properly and to attain the profit objectives that have been decided on. To put this into a clearer perspective, let us look at the Hajiya Amina Florist Shop in Balogun Market, Lagos. Hajiya Amina employs two permanent flower arrangers as well as a delivery person. Her rent per month is N3,000.00. She must pay N600.00 per month on the delivery vehicle that she has leased. The flowers that she buys from the market must be paid for in cash. Within these limitations of the micro-environment, Hajiya Amina must fulfil her commitments and still earn enough to make a living for herself and her two children!

This example illustrates the influence of the micro-environment on the enterprise and shows that she can control most of the activities which are part of the micro-environment (e.g. she may decide to employ less staff or to move to cheaper premises). These variables in the micro-environment must all be managed by Hajiya Amina to ensure success.

These variables are also known as controllable variables.

These variables in the micro-environment are discussed below:

#### (a) The Product

Managing the product entails planning and developing the right products and/or services to be marketed by the company's executives. Guidelines are needed for changing existing products, adding new ones, and taking other actions that affect the assortment of products carried. Branding, packaging and various other product features need to be considered as well.

#### (b) Price

Determining the right base price for its (company's) products is one of the crucial micro-variable factors to be considered by the enterprise. Also, establishing policies

concerning discounts, freight payments, and many other price related variables form part of the management responsibility to ensure that the enterprise objectives are attained.

### (c) **Promotion**

Promotion entails those weapons used to inform and persuade the markets, regarding a company's products. These include advertising, personal selling, publicity and sales promotion.

### (d) **Distribution/Place**

This is the management of the marketing intermediaries for the distribution of the company's products. Management's responsibility is to select and manage the trade channels through which the products will reach the right target markets at the right time and to develop a distribution system for physical handling and transporting of these goods. Note, the management or marketing executives can manipulate these variables to meet their company's objectives. For example, the product features can be changed, prices can be increased or reduced depending on the market situation, the most appropriate promotional media can be chosen, etc.

## 3.4 **The Market Environment**

The key variables in the market environment are:

- consumers
- competitors
- intermediaries
- suppliers.

These variables will influence the enterprise, which makes it imperative for management to react to opportunities and threats in the market environment.

**Consumers** are the people buying your enterprise's products and services. Identifying the target market for your product or service is therefore one of the most important management activities to be undertaken by management.

**Competitors** are a natural part of a capitalistic society. We are accustomed to the fact that various competitors compete for our money in the case of most products and services. The example of Toyota and the competitive environment in which it operates illustrates this point.

**Intermediaries:** The question of the gaps that exist between the manufacturer and the final consumer was addressed in topic 1. Intermediaries such as wholesalers and retailers evolved to bridge the gap between the manufacturer and the supplier. New developments in this field constitute opportunities for, or threats to, certain enterprises

operating in this particular industry. One such example is the development of convenience shops at petrol filling stations and the resultant threat to the traditional convenience stores, such as cafes, in Nigeria.

**Suppliers:** An enterprise is dependent on suppliers to run its business. One such example of a supplier is the supplier of capital to an enterprise. Traditionally, the commercial banks are the suppliers of capital to small and medium businesses. Listed companies such as Nigerian Bottling Company, makers of Coca cola have an additional supply of capital provided by their shareholders.

### 3.5 The Macro-Environment

It is important to realise that the enterprise operates within a wider macro-environment, in which variables directly or indirectly influence the enterprise and its market environment. The enterprise cannot always control these variables and they must be continually evaluated to ensure that potential opportunities or threats are correctly identified. The increase in the world crude oil price during Iraq's aggressive expansionist period in the early nineties (i.e. during the Gulf War) is an example of the influence of a macro-variable on business in general and more specifically on the ordinary citizens of a country. (Remember the drastic increase in the price of petrol in Nigeria.).

The following six macro-variables in the macro-environment may either individually, or together, affect the enterprise at any time:

- the technological environment
- the economic environment
- the social environment
- the natural or physical environment
- the institutional/political environment
- the international environment.

You should have identified six variables which may affect Hajjiya Amina Enterprises in different ways. Let us examine them now!

- **The Technological Environment**

This environment is affected by innovation and change. For example, new manufacturing processes and new technology may influence the type and quality of clothing being sold by wholesalers and retailers in Nigeria. One needs only to think of the new types of material available, such as those combining natural and synthetic fibres to create crease-resistant material.



- **The economic environment**

This variable is well known to everyone. An increase in the inflation rate, changes in the exchange rate and a higher rate of personal income tax are examples of how the economic environment may influence wholesales and retails in Nigeria.

- **The social environment**

Social changes are prevalent throughout the world and Nigeria in particular. A decline in the population growth rate may eventually have a negative impact on sales of trendy imported clothing in the affected market. The changing role of women in society (e.g. more women in full-time position and more career women as experienced in this democratic dispensation) may be a positive variable in the case of Hajiya Amina Enterprises, and may result in a higher turnover. To add to the complexity of the task facing marketing executives, cultural patterns such as lifestyles, beliefs, norms, values, folkways, etc. are changing faster than they used to; therefore, management must be alert to them.

- **The natural or physical environment**

This variable is of great concern to people all over the world. Scarce resources for example are utilised in the packaging of clothing and wastage of packaging material must be of concern to Hajiya Amina Enterprises, for example.

- **The political/governmental, also called institutional environment**

This variable in the macro-environment would be of particular concern to Hajiya Amina Enterprises. One example of the effect of this variable would be surcharges on imported clothing. This would have a direct influence on the selling price of the clothing sold by Hajiya Amina Enterprises in Nigeria. Other variables include general and fiscal policies.

- **The international environment**

As was said at the beginning of this topic, Nigeria is part of the global village. As such, our economy and its businesses are directly influenced by economic development in the Far Eastern countries, for example. In the case of Hajiya Amina Enterprises, it may benefit from a better exchange rate, enabling Mr. Audu Giya to import his clothing at a cheaper price.

By now you should have realised that the macro-environment is an active force which influences each and every enterprise operating in Nigeria and which no business, whether big or small, can ignore. Since it cannot be controlled, but influenced to the company's advantage, then management should be alert to changes in the macro-environment.

### 3.6 Determining the Strengths and Weaknesses of Opportunities for and Threats to the Enterprise (SWOT Analysis)

In order to ensure the success of an enterprise, the management must take a careful look at the marketing environment. This can be done by means of a SWOT analysis. This means that the enterprise's strengths and weaknesses must be identified, as well as the opportunities and threats that exist in the environment.

**Strengths** may include specialised management skills, a productive and well-trained workforce, enough capital, and so on.

**Weaknesses** within the microenvironment may include an obsolete product range, unacceptable levels of pilferage and lack of capital. Lack of capital is one of the major problems experienced by small and medium enterprises (SMEs) in Nigeria. One of the greatest strengths of SMEs is their management adaptability to a changing business environment. Hawkers selling groceries in the major towns and cities of Nigeria are able to adapt to changes in consumer demand almost immediately, whereas the village seller for example, would take longer to do so.

**Opportunities** for the enterprise can be found in the market and macro-environment. For instance, look around you and you will see that there has literally been an explosion of fast-food businesses in Nigeria. It would therefore seem that quite a number of budding entrepreneurs in Nigeria have identified opportunities in this sector.

**Threats** are also found in the market and macro-environment. For example, a drastic fall in the Naira/dollar exchange rate is a threat to importers of luxury goods such as cars. At the same time such a decline may be seen as an opportunity for exporters of Nigerian products to African countries, European Union and the USA. (They will be able to obtain a higher price in naira for their products).

#### 3.6.1 SWOT Analysis

Executing a SWOT analysis is a must for any enterprise that wants to be successful in the business world. The following Self-Assessment Exercise will help to familiarise you with the elements of the SWOT analysis.

#### SELF-ASSESSMENT EXERCISE

You are the owner of Fati's Pizza Shop in Umuahia in Abia State of Nigeria. Your business has been operating for the past four years and made a handsome profit, in the first three years. However, the current year's sales figures are bad with a 20 per cent decline in turnover. Yesterday evening you listened to the news at seven and heard about the following major developments in the economy:

- i. A decline in the inflation rate of 2 per cent for the year.

- ii. A decrease in the interest rate of 2 per cent for the past year.
- iii. An increase in unemployment of 5 per cent, with specific reference to the high level of unemployment in the country.
- iv. A growth in fast-food enterprises of 20 per cent over the last year.
- v. A decline in the per capita personal disposable income of 10 per cent during the last year.
- vi. New legislation whereby more females must be employed in the existing workforce.
- vii. After listening to this news you spent the whole night thinking about it and the implications for your business. This morning you phoned the nearest branch of the Small Business Development Corporation (SBDC) for advice. The consultant advised you to do a SWOT analysis of your business. Draw up a list of its strengths and weaknesses, and current opportunities and threats.

#### **4.0 CONCLUSION**

In this unit, you have learnt about the micro and macro-environmental variables and their implications for marketing firms.

#### **5.0 SUMMARY**

An enterprise functions within certain marketing environmental variables. These variables are known as controllable and uncontrollable variables. These variables influence the activities of an enterprise. Therefore, it is the task of management to evaluate these variables and their impact on the enterprise and to recommend strategies to utilise the opportunities and counteract the threats.

#### **6.0 TUTOR-MARKED ASSIGNMENT**

Why are the 4ps (promotion, price, product and price) referred to as controllable variables?

#### **7.0 REFERENCES/FURTHER READINGS**

Kotler, P. (2000). *Marketing Management – Analysis, Planning, Implementation and Control*, 8th Edition. New Delhi, India: Prentice-Hall.

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## **UNIT 3     PRODUCT CLASSIFICATION**

### **CONTENTS**

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
  - 3.1 What is a Product?
  - 3.2 Product Levels
  - 3.3 Classification of Products
  - 3.4 Consumer Products
    - 3.4.1 Convenience Products
    - 3.4.2 Shopping Goods
    - 3.4.3 Specialty Goods
    - 3.4.4 Unsought Goods
  - 3.5 Industrial Goods
    - 3.5.1 Installation
    - 3.5.2 Equipment, Tools and Accessories
    - 3.5.3 Raw Materials
    - 3.5.4 Semi-Processed Components and Parts
    - 3.5.5 Consumables and Operating Supplies
  - 3.6 Characteristics of Industrial Products
  - 3.7 Marketing Strategies for Consumer and Industrial Goods
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

### **1.0 INTRODUCTION**

Businesses are set up to produce products or goods and services. These products are sold to members of the society for money. Goods consist of items with attributes that have the ability to satisfy people's needs and wants. Goods are normally tangible items. Services are intangible items that can provide value and satisfaction and are also classified as products. This unit introduces you to various definitions of a product, classification of products and their characteristics.

### **2.0 OBJECTIVES**

At the end of this unit, you should be able to:

- define a product
- classify products into either consumer or industrial products
- explain the characteristics of industrial products.

### **3.0 MAIN CONTENT**

#### **3.1 What is a Product?**

In order to be effective at selling or marketing, it is necessary to have a proper perspective of the meaning of a product or how it should be viewed from a marketing angle. You may like to think a little deeply on what is meant by the word 'product'. Let us understand this with the aid of an illustration – While conducting seminar for operational salesmen who had been on the field for 10 to 12 years, the salesmen were asked a question, 'What are you selling?'

Different answers were received from different groups. One group answered, 'Soaps'. When asked, 'What? What did you say?' the salesmen would immediately answer back, 'soaps, soaps, soaps'. They even tried to help the seminar leader by putting forward their right hand with the first finger and the thumb holding something rectangular, thereby assisting him to visualise soap – others claimed they sold 'bulbs, drills, etc.'

A product is the key marketing mix variable on which all the other marketing mix variables revolve. It cannot be divested from other marketing mix variables because all of them contribute to form the images of the product from the point of view of the buyers. These images determine the values and satisfaction expected from a given product and how much the buyers will offer for it. It is therefore important for the manufacturers and marketers to understand what a product means to consumers and their expectations from that product.

Hence, a product can be described as goods, services, ideas, people, places, and even organisations that are offered for exchange. Or, a product is the bundle of benefits or satisfaction offered to a customer. Also, a product is defined as anything offered or sold for the purpose of satisfying a need or want on both sides of the exchange process. It includes a tangible object that marketers refers to as a good, as well as an intangible service (such as ideas, a place, an event, an organisation), or any combination of tangible objects and intangible services.

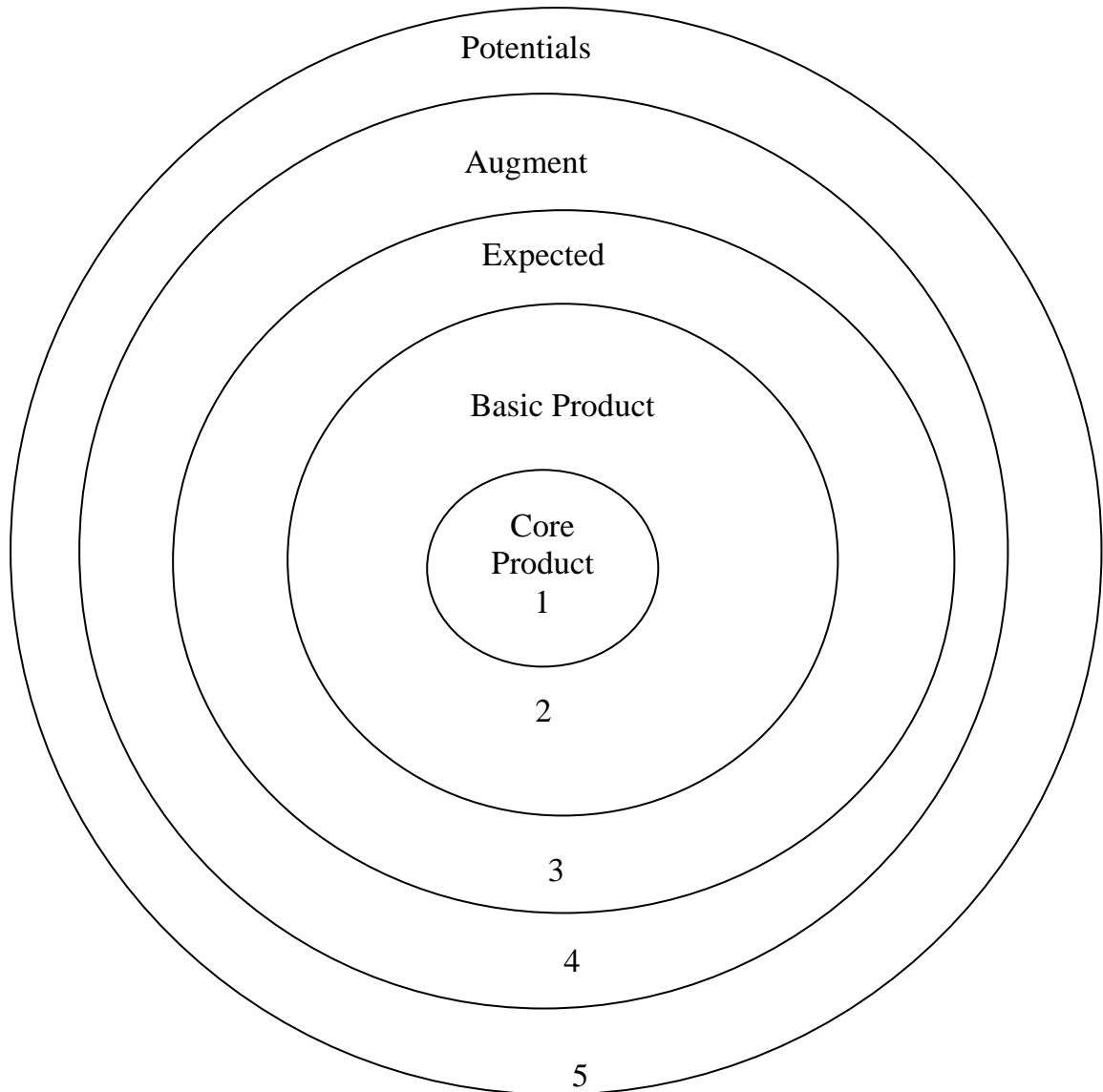
However, Stanton (1981:161) defines a product as a set of tangible and intangible attributes including packaging, colour, price, manufacturer's prestige, retailer's prestige, and manufacturer's and retailer's services, which the buyer may accept as offering want-satisfaction.

It should however be noted that the consumer is not interested in your goods. He/she is interested in himself or herself and what 'benefits' he/she will get, and not in you or your organisation.

#### **3.2 Product Levels**

This can be illustrated with the aid of a diagram as shown below:

## Levels of a Product



**Source:** Kotler, P. (1987). Principles of Marketing

- (a) The Core Benefits: i.e. the fundamental service or benefit that the customer is really buying. For instance, the core benefit enjoyed by a guest in a hotel is rest and sleep.
- (b) The Basic Product: Here, marketers have to turn the core benefit into a basic product. For example, in the case of the hotel, such things as a bed, table, chair, bathroom, and dresser are the basic products enjoyed by a guest in the hotel.
- (c) The Expected Product: Here, marketers prepare an expected product, i.e. a set of attributes and conditions buyers normally expect when they purchase a product. For example, in a hotel, guests expect a clean bed, fresh towels, constant power supply, and a relatively quiet environment.

- (d) **Augment Product:** Marketers are concerned with preparing augmented products that exceed customers' expectations. For example, a hotel may have a remote controlled TV set, remote controlled air conditioner, fresh flowers, etc.
- (e) **Potential Product:** This consists of all the possible augmentations and transformations the product might undergo in the future, just as we have new products in our markets daily due to modifications and diversifications undertaken by manufacturers.

### **3.3 Classification of Products**

Generally, products are classified into two types namely: consumer products and industrial products.

### **3.4 Consumer Products**

Consumer goods are those which are used by ultimate consumers or households and in such form that they can be used without further commercial processing. Consumer goods can further be classified according to the amount of efforts consumers are willing to expend for purchases and the extent of their preferences for such products and services. Thus, consumer goods can be divided into:

- convenience goods
- shopping goods
- specialty goods
- unsought goods.

The functions of marketing can be classified into three, namely merchandising function, physical distribution, and auxiliary function as discussed in unit one.

#### **3.4.1 Convenience Products/Goods**

These are standardised products and services usually of low unit values that consumers wish to buy immediately as needs arise and with little buying efforts. That is, goods which consumers generally purchase frequently with little effort. The purchase is almost spontaneous and the person has already, a predetermined brand in mind. These convenience goods include soaps, newspapers, toothpastes, cigarettes, etc. Often, convenience goods are bought impulsively or spontaneously. For example, when a person goes for shopping and sees a product which attracts his eyes, he buys it on impulse. Such goods are not purchased on a regular basis.

#### **3.4.2 Shopping Goods**

These are goods which are purchased after going around shops and comparing the different alternatives offered by different manufacturers and retailers. In other words, these are durable items with differentiated product attributes that consumers wish to

compare in order to be able to find the most suitable for their needs before buying. In this case, the emphasis is on quality, price, fashion, style, etc. They therefore have to be marketed differently. Examples of such goods are clothing, household appliances, and furniture.

### **3.4.3 Specialty Goods**

These are products that consumers insist on having. The buyers are willing to wait until the right products are available before they buy them. Consumers have either developed special taste or liking for such goods. Specialty products are usually specific branded items rather than product categories. They are specific products which have passed the brand preference stage and reached the brand insistence stage. Examples of these are cars, jewellery, fashion clothing, photocopy machines, and cameras. They are usually very costly items and include luxury items.

### **3.4.4 Unsought Goods**

These are goods that people do not seek, either because they did not plan ahead to buy them or they did not know about their existence before they saw them on displays at the point of purchase. Most new and recently introduced products will fall into this class. Therefore, aggressive and continuous promotion is necessary for them. Examples of unsought products include life insurance, encyclopedia, and blood donation to the Red Cross Society.

## **SELF-ASSESSMENT EXERCISE**

- i. What is a product?
- ii. What are the levels of a product?

## **3.5 Industrial Products**

These are products that are used by producers who convert them into consumables or consume them in their processes of conversion or production of their goods. Industrial products are those purchased for further processing or for use in conducting a business. The distinction between consumer and industrial goods is based on the purpose for which the particular product was bought. The classification of industrial goods is based on how they are used by industries. Akanbi (2002) classifies industrial products into five namely:

- Installation
- Equipment, Tools and Accessories
- Raw Materials
- Semi-Processed Components and Parts
- Consumables and Operating Supplies.



### **3.5.1 Installation**

These are major capital items that form the main assets of production firms. They are very costly items that need major decisions before they are purchased. They include product items as buildings, heavy manufacturing machines, computers, etc. These are usually custom made items that will require direct negotiations between the buyers and the sellers.

### **3.5.2 Equipment, Tools and Accessories**

These are usually standardised items that are used by a wide range of industrial users. They are products like typewriters, hand tools, filing cabinets, and air conditioners. They are production operating items.

### **3.5.3 Raw Materials**

They form the major parts of the finished items. They are the materials that go through the production line to make up the finished items. They include the raw materials of agricultural products, mining products, forestry products, sea and water products. They are usually standardised items that are sold on the basis of quality and their reliability of supply.

### **3.5.4 Semi-Processed Components and Parts**

These types of industrial goods also form part of the finished items, although some of them are finished items already like buttons for shirts, radio and batteries for cars. Parts can be used by themselves or can be used to form components of the final items.

**3.5.5 Consumables and Operating Supplies** These are the convenience items of industrial products. They are used to aid the running and maintenance of the organisation's equipment and for keeping the organisations and their machines in proper shape. They are usually standardised items and of low prices. Examples are stationery, fuel, water, grease, etc.

## **3.6 Characteristics of Industrial Products**

- (i) The demand for industrial goods is derived from the demand for the final goods which they are used to produce. The higher the demand for the final item, the higher will be the demand for the industrial goods and vice versa.
- (ii) The demand for industrial goods is mostly inelastic. The amount of items bought of an industrial product remains essentially the same regardless of the price. This is because most items are not made of one single product, but a combination of products. For example, a car is made of the body, tyres, radio, air conditioners, lights and so on. If the price of the items is increased, they will still need the same number for each car. Although if the price falls, they may buy more to stock in anticipation of a rise in price in future.

- (iii) Most industrial goods have joint demands with other industrial items. As in (ii) above, most finished goods are a combination of very many products and an increase in the demand for one item will lead to an increase in the demand for the other product.
- (iv) The industrial goods markets are usually concentrated and few in number than the consumer goods markets. Most of the users of industrial goods are usually concentrated in industrial estates. Government, parastatals and other institutions that use industrial goods are usually concentrated in few locations. The typical industrial buyer is very well informed about what they want to buy. They also know the alternative sources of these items.
- (v) The industrial buying process is usually more rational or the decisions to buy them are more economically based than in the consumer buying process.

### **3.6.1 Marketing Strategies for Consumer and Industrial Products**

Industrial products are generally subject to greater standardization, as against certain consumer products which require frequent changes in fashion and style. Advertising normally is an important promotional tool for consumer products, but may not be so in the case of industrial products. Personal selling and after sales service are generally more important for industrial products. Industrial products generally involve high value purchases and this involves competitive bidding based on price competition. Selling is done on the basis of quality or tangible attributes. As against this, consumer products are very often sold for psychological satisfaction. For example, in case of soaps, Lux soap is said to offer you a complexion like that of a film star!

Consumer products require elaborate channels of distribution, but industrial products are sold through fewer outlets and often directly by the organisation itself. These are some of the salient features of marketing of consumer products as against industrial products.

## **4.0 CONCLUSION**

A product is the key marketing mix variable on which all the other marketing mix variables revolve. It cannot be diverted from other marketing mix variables, because all of them contribute to form the images of the product from the point of view of the buyers. These images determine the values and satisfaction expected from a given product and how much the buyers will offer for it. It is therefore important for the manufacturers and marketers to understand what a product means to consumers and their expectations from that product.

## **5.0 SUMMARY**

In this unit, you learnt what a product means, various classifications of products and necessary strategies adopted for consumer and industrial products.

## **6.0 TUTOR-MARKED ASSIGNMENT**

1. What is a product?
2. Differentiate the following with the aid of examples:
  - (a) Convenience goods.
  - (b) Specialty goods
  - (c) Shopping goods.

## **7.0 REFERENCES/FURTHER READINGS**

Akanbi, I.A. (2002). *Fundamentals of Marketing*. Kaduna, Nigeria: Ayokunle Printer Limited.

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## **UNIT 4 CHANNELS OF DISTRIBUTION**

### **CONTENTS**

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
  - 3.1 Channels of Distribution
    - 3.1.1 Distribution Channel Functions
  - 3.2 Types of Marketing Channels
  - 3.3 The Importance of Channels of Distribution
  - 3.4 Selecting an Appropriate Channel
  - 3.5 Physical Distribution Tasks
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

### **1.0 INTRODUCTION**

Placing goods and services where they are required and when they are wanted is the area of concern of this unit. Marketing channel decisions are among the most important decisions that management faces. A company's channel decision directly affects every other marketing decision. For example, the company's pricing depends on whether it uses mass merchandise or high quality specialty stores. The firm's sales force and advertising decisions depend on how much persuasion, training and motivation the dealers need. Whether a company develops or acquires certain new products, may depend on how well those products fit the abilities of its channel members. Most producers use intermediaries to bring their products to the market. They try to forge a distribution channel either using the existing channels or creating a new independent channel. The use of intermediates has become necessary in making goods available to target markets, since they cannot have access to the producers directly.

### **2.0 OBJECTIVES**

At the end of this unit, you should be able to:

- explain marketing channels
- explain types of channels
- describe the role of distribution channels in the overall marketing of products
- state the factors involved in selection of an appropriate channel mix.

### **3.0 MAIN CONTENT**

#### **3.1 Channels of Distribution**

The term channel of distribution is used to refer to the various intermediaries who help in moving products from the producer to consumers. There are a variety of middlemen and merchants who act as intermediaries between the producers and consumers. Stanton (1981:283) defines a channel of distribution for a product as 'the route taken by the title to the ultimate consumer or industrial users'. A channel always includes both the producer and the final customer for the product, as well as all middlemen involved in the title transfer. Even though agent middlemen do not take actual title to the goods, they are included as part of a distribution channel. This is because they play such an active role in the transfer of ownership. A channel of distribution is also defined as 'a system designed to move goods and services from producers to customers, which consists of people and organizations supported by various facilities, equipment, and information resources'. However, Armstrong and Kotler (1994) reports that distribution channel is 'a set of interdependent organisations involved in the process of making a product or service available for use or consumption by the consumer or industrial user'.

Channels of distribution are the most powerful element among marketing mix elements. Many products which were intrinsically sound have died in their infancy because they never had the right road to the market. However, by developing a sound distribution network and launching aggressive advertisement campaigns, a company can carve out a niche for itself. Many Nigerian manufacturers took advantage of the distribution network built by erstwhile companies. This may be attributed to costs and time and goodwill of the distributors concerned.

However, it is better to study the distribution network before launching a product. Channels of distribution help movement of goods from one place to another and thus create place utility. They make it possible for the consumer to get the goods when he wants them and thus create time utility. They bring goods to the consumer in a convenient shape, unit, size, style and package and thus create convenient value. They make it possible for the consumer to obtain goods at a price he is willing to pay and under conditions which bring him satisfaction and pride of ownership and thus create possession utility.

It should however be noted that the concept of marketing channels is not limited to the distribution of physical goods alone. Producers of services and ideas also face the problem of making their goods accessible to their target consumers. Channels of distribution can be grouped under two major headings namely, Direct Selling by Manufacturers and Indirect Selling through Middlemen.

##### **3.1.1 Distribution**

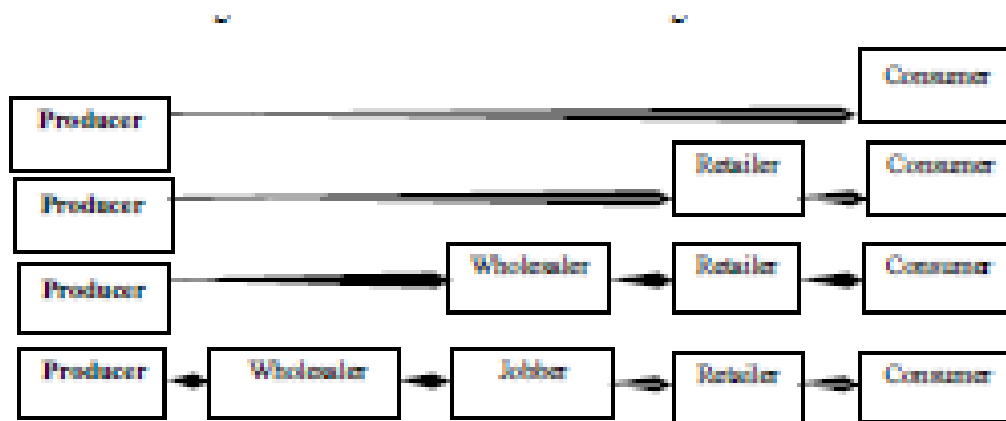
The functions performed by the members of the marketing channels include:

- (a) Information: Gathering and distributing marketing research and intelligence information about actors and forces in the marketing environment, needed for planning and aiding exchange.
- (b) Promotion: Developing and spreading persuasive communications about an offer.
- (c) Contact: Finding and communicating with prospective buyers and suppliers.
- (d) Matching: Shaping and fitting the offer to the buyer's needs, including such activities as manufacturing, grading, assembling and packaging.
- (e) Negotiation: Reaching an agreement on price and other terms of the offer so that ownership or possession can be transferred.
- (f) Physical distribution: Transferring and storing goods.
- (g) Financing: Acquiring and using funds to cover the costs of the channel work.
- (h) Risk-taking: Assuming the risks of carrying out the channel work.

### 3.2 Types of Marketing Channels

Marketing channels can be described by the number of channel levels involved. Each layer of middlemen that perform some work in bringing the product and its ownership closer to the final buyer is a channel level. Because the producer and the final consumer both perform some work, they are part of every channel. We use the number of intermediary levels to indicate the length of a channel. All of the institutions in the channel are connected by several types of flows. These include the physical flow of products, the flow of ownership, the payment flow, the information flow, and the promotion flow.

We shall now take a look at two types of marketing channels – channels for consumer goods and channels for industrial goods.



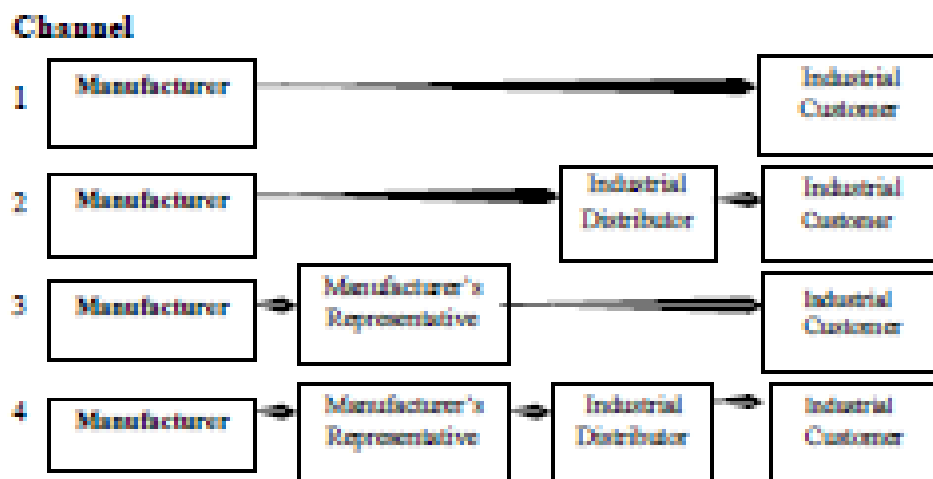
**Fig. 1: A Channel for Consumer Goods**

**Source:** Amstrong & Kotler (1984)

- (1) **Producer to the Consumers:** When there are no intermediaries between the producer and the consumer, the channel is direct. This type of channel is most commonly used with organisational products, especially where the product is

new. This is aimed at creating awareness and to gain access to target consumers.

- (2) **Producer to Retailer to the Consumer:** The channel from producer to retailer to the consumer is common when the retail establishments involved are relatively large.
- (3) **Producer to Wholesaler to Retailer to the Consumer:** The most common channel for consumer goods. It employs a wholesaler to take care of the shipping and transportation needs. Wholesalers offer the accumulating and allocating functions that allow small producers to interact with large retailers, and vice versa.
- (4) **Producer to Wholesaler to Jobber to Retailer to the Consumer:** the producer chooses to use agents (Jobbers) to assist the wholesalers in marketing goods. The use of Jobbers could be attributed to their specialised experiences.



**Fig. 2:** Channels for Industrial Goods

**Source:** Amstrong & Kotler (1994)

- (1) **Manufacturer to Industrial Customer (Buyer):** From the diagram above, manufacturers use direct marketing to distribute their products to the industrial users. This is mostly associated with complex products that require a good deal of pre-sale and post-sale support. It should be noted that post-sale support is often best handled through a direct channel, because the manufacturer might be the only entity with sufficient expertise to help the customer because these large accounts generate enough business to support the sales effort involved, and because large customers have a habit of going through their economic weight to demand for personalised service.
- (2) **Manufacturer to Industrial Distributor to Industrial Customer:** This is the most used channel for industrial products. Distributors take title to the goods and specialise in different lines of goods. Some of the disadvantages associated with this channel are that:
  - (a) Distributors will want access to large accounts that the manufacturer may try to keep for itself

- (b) Distributors try to keep their product selections wide, which frequently means carrying competing lines
- (c) Sometimes distributors do not always respond to manufacturers' advice regarding promotions, pricing and operational policies.
- (3) This channel of distribution for industrial goods is mostly adopted by manufacturers which wish to maintain control over their products. It also applies to those goods that are sold across countries. Other factors include ` cultural factors, and government policies, etc.
- (4) The fourth channel of distribution is adopted by manufacturers which wish to have control of marketing activities of their products. However, some titles to the goods are given to industrial distributors, who sell to the industrial customers when needed and at the quantity needed.

### 3.3 The Importance of Channels of Distribution

The importance of channels of distribution is summarised below:

- (1) Channels of distribution are the most powerful element among marketing mix elements. Many products which were intrinsically sound died in their infancy because they never found the right road to the markets.
- (2) Channels take care of the transaction aspects of marketing, including the selling, the financing and the risk taking associated with strong products in anticipation of future sales.
- (3) They perform the logical function of moving products from the point of production to the point of purchase.
- (4) They help producers promote goods and services.

### 3.4 Selecting an Appropriate Channel

The channel decisions are important (for two reasons). The costs involved in the use of a channel entail the price that the consumer has to pay. The channel decision also has a bearing on other marketing decisions like pricing and product line. Through proper market feedback, an appropriate selection of channels can reduce fluctuations in production. A rational decision regarding choice of channels of distribution should ensure:

- (a) maximum geographical coverage of the markets
- (b) maximum promotional efforts, and
- (c) minimum cost.

The following factors usually govern the selection of channels:

#### (1) The Type of Product

For selling perishable products like bread and milk or vegetable, it is important to have a short channel of distribution which facilitates quick movement from the factory



to the consumers. Limited channels may also be employed where the movement of goods involves heavy freight and poses problems of transportation for such goods as furniture, refrigerators, and air conditioners. But distribution of products having lower units and high turnover involves a large number of middlemen as in the case of products matches, soap, and toothpaste. When the product requires after-sale service as in the case of television, air conditioners, and automobiles, the choice of middlemen may be limited to only those who are in a position to provide these services. Since not many middlemen may be capable of providing such services, again their number may be limited.

## **(2) Nature and Extent of the Market**

If the number of consumers is small as in number ... is the case of bulky and expensive machinery, the manufacturer may approach the customer directly through his own sales force; so also, if the consumers are concentrated in a limited geographical area. If the above conditions are not applicable, a longer channel may have to be chosen. However, for industrial goods where such goods are bulky, manufacturers may adopt direct selling/marketing.

## **(3) Competitive Characteristics**

It is a wise policy to study the existing channels of distribution, particularly those used by competitors. Channels design is influenced by the competitors' channels. Producers may want to compete in or near the same outlets carrying the competition channels. However, where an established channel exists, the manufacturer may make use of customary channels. For example, for soap and toothpaste, grocery stores are commonly used.

## **(4) Costs Involved in Distribution**

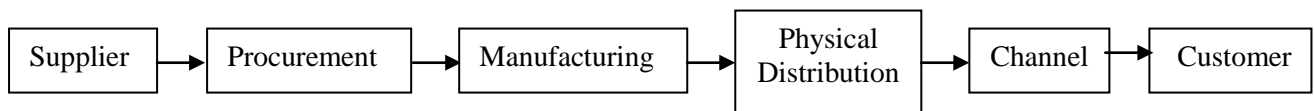
Cost, no doubt, is a very important consideration. The longer the channel of distribution, the greater its cost. Thus, manufacturers look for ways to keep down the cost and prefer distribution through middlemen who have their own established sales force as it is more economical and involves less financial commitment. Wholesalers shoulder some of the responsibilities of cost of stocking and transporting goods. But the manufacturers have to provide them with a margin which will either reduce their costs or increase the cost to the buyers.

However, in making a choice, the manufacturer has to consider his objectives, resources and the channels available to him after considering the above factors. He/she would like to use the channel of distribution which will produce the combination of sales volume and cost that yields the maximum amount of profits. There are no set guidelines for channel selection; therefore, manufacturers will have to take their own decisions in the light of their own judgments and experience. But most companies like to use multiple channels of distribution to ensure that their products reach the maximum number of people.

The task of manufacturers does not end after the channels have been selected. They have to review the services performed by these agencies involved at fairly frequent intervals. They should keep in close touch with the changes related to the distribution of their products, and seek to improve their marketing methods constantly.

### 3.5 Physical Distribution Tasks

Producers/manufacturers must decide on the best way to store, handle and move their goods and services so that they are available to customers at the right time and place. Producers typically need to employ the services of physical firms – warehouses and transportation companies - to assist in this task. Armstrong and Kotler (1994) observed that physical distribution involves planning, implementing, and controlling the physical flow of materials and final goods, from points of origin to points of use, to meet customer requirements at a profit. The aim of physical distribution is to manage supply chains and value-added flows from suppliers to final users, as shown below:



**Source:** Armstrong and Kotler (1994). Principles of Marketing. 6<sup>th</sup> Edition. Englewood Cliffs, New Jersey.

There are several tasks that have to be accomplished as part of physical distribution. These are:

#### (1) Location of Manufacturing Facilities

There are two interrelated issues. Firstly, where to locate the manufacturing facility and secondly, how many facilities should be set up. The basic decisional parameters would be the availability of the basic raw material and the location of the market. It may decide to locate the manufacturing facility nearer to the source of supply and ship the finished outputs to the outlying markets or to erect the production facility near the geographical market to be served and arrange the shipment of the inputs. The location of NNPC for example, in Port Harcourt was based on the availability of raw material (crude oil) yonder. The basic consideration involved obviously is the relative costs of transporting inputs and outputs, including the economics of different modes of transportation which may be used to transport raw materials and finished products.

#### (2) Location of Warehouses

One important consideration in this context is the nature of the product being sold. If the product is a household item, such as tea, soap, or toothpaste, the retail outlets will be at the bottom of the distribution channel. A manufacturer of capital equipment on

the other hand, can have only one centralised warehouse for the main product, but has to maintain a number of service centres to stock spare parts.

### **(3) Mode and Method of Transportation**

There are several key decisional points in this context which for long were considered the heart of distribution management.

These are:

- (a) Which mode of transportation would be optimal?
- (b) Which method of distribution would be optimal?

### **(4) Inventory Decisions**

Inventory holding costs are always on the increase due to all round increase in prices as well as cost of capital. As a result, very careful attention has to be paid to how much inventory should be maintained, of what items and where. Many of these decisions have to be taken, keeping in view the broader corporate objective of service reliability, i.e. the capacity of the firm to deliver on time.

### **(5) Using External Distribution Agencies**

Much of what has been discussed above refers to firms which want to distribute products on their own. However, a firm may decide that because of resource constraints or lack of in-house expertise, it would like to concentrate on production and leave the task of distribution to an outside agency such as Independent Marketers in Nigeria. Whether to contract out distribution or not, is a major decision and would require an in-depth analysis of the relative costs and benefits, both tangible and intangible, of the alternative courses of action.

## **4.0 CONCLUSION**

Distribution is the all-important link between a manufacturer and his customers. The concern is for designing a distribution strategy to facilitate the smooth physical flow of products from the manufacturers to the place where the customers can buy them. Channels of distribution refer to the alternative paths through which the goods can be routed. Direct selling and indirect selling through intermediaries such as wholesalers and retailers are the two alternative channels of distribution to choose from. The final choice will depend on the type of product which you are dealing with, number and location of customers and their buying habits and costs involved. The manufacturers should also consider the specific advantages of each type of intermediary before taking a final decision.

## **5.0 SUMMARY**

In this unit, you learnt what marketing channels are, the role of distribution channels in the overall marketing of products, and factors responsible for selecting an appropriate channel mix.

## **6.0 TUTOR-MARKED ASSIGNMENT**

1. Explain factors to be considered while selecting an appropriate channel of distribution.
2. Briefly explain the term “Marketing Channels”.

## **7.0 REFERENCES/FURTHER READINGS**

Armstrong, G. & Kotler, P. (1994). Principles of Marketing. 6th Edition. New Jersey: Englewood Cliffs.

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## **UNIT 5 THE ROLE OF MIDDLEMEN IN MARKETING ACTIVITIES**

### **CONTENTS**

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
  - 3.1 The Role of Middlemen in Marketing
  - 3.2 Types of Middlemen
    - 3.2.1 Wholesalers
    - 3.2.2 Retailers
    - 3.2.3 Agents
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

### **1.0 INTRODUCTION**

Let us eliminate the middlemen because middlemen make all the “profits”, are cries that have been echoed by consumers, business people and legislators over the years. These complaints are most often focused on middlemen (wholesalers and retailers). However, middlemen have been powerful figures in marketing finished products and/or services. Over the years, some manufacturers have made attempts to eliminate some of these middlemen, most especially wholesalers, from their trade channels; yet, wholesaling middlemen continue to be important and in many cases, dominate the distribution system.

Most manufacturing companies in Nigeria are small in nature and specialise in all kinds of production. They lack the capital needed to maintain a sales force large enough to contact their target customers. Even for manufacturers who have sufficient capital, the end benefits are too small to justify the necessary sales force costs. Besides, most of these target consumers are in small number groups, with limited knowledge of the market and the suppliers. Thus, middlemen bridge these gaps by selling in quantities needed and locating their wares close to these target customers. This unit is designed to appraise the role of middlemen in a marketing economy and to explain various types of middlemen.

### **2.0 OBJECTIVES**

At the end of this unit, you should be able to:

- explain who is a middleman
- list types of middlemen
- appraise the role of middlemen in marketing activities.

### 3.0 MAIN CONTENT

#### 3.1 The Role of Middlemen in the Marketing of Goods

Middlemen are very important in many cases, in fact, in virtually all cases where consumers are involved. Usually, it is simple but not practical for a producer to deal directly with ultimate consumers. For example, think for a moment how inconvenient it would be if there were no retail middlemen – no drug stores, newspaper/vendors, supermarkets or fuel stations, hawkers, etc.

There is an old saying in marketing that you can eliminate the middlemen, but not their functions. Wholesalers are those merchants who act as intermediaries between the primary producers, manufacturers or importers, on one side, and retailers or industrial consumers on the other. They buy goods and commodities in large quantities with a view to selling them to retailers in smaller quantities. They assemble merchandise from many sources warehouses and regroup the goods for convenient buying by end users. Thus, wholesalers make it possible for the manufacturers to sell to a large number of retailers to whom the merchandise cannot be easily sold directly from the factory. The wholesalers perform the following functions of marketing:

- **Assembling** – The wholesalers collect varieties of products from different manufacturers and keep them in store for sale to the retailers at the time they need them.
- **Dispersion** – The products assembled and stocked by the wholesalers are supplied to the retailers who may be widely scattered.
- **Warehousing** – The goods purchased by the wholesalers from the manufacturers and producers have to be stocked in warehouses pending their sale to the retailers. The arrangement for such storage is the responsibility of the wholesalers.
- **Transportation** – The wholesalers have to move the goods from the various factories to their own warehouses and from there to the retailers' stores.
- **Financing** – The wholesalers in most cases sell goods on credit to the retailers.
- **Risk Assuming** – Wholesalers assume risks arising out of the changes in prices and demand and as well as losses due to spoilage or destruction of goods in their warehouses and while in transit.
- **Grading and Packaging** – Wholesalers have to sort out different grades of products according to quality and other considerations and package the goods into smaller lots for retailers.

Services provided to the manufacturers by wholesalers include:

- **The Manufacturers Get the Benefit of Bulk Orders from Wholesalers:**

Manufacturers need not take the trouble or incur the expenses of procuring large numbers of small orders.

- **Wholesalers Provide Up-to-Date Information for Future**

Planning. Wholesalers remain in close touch with the retailers and keep themselves informed about the changes in the direction and pattern of demand and thus help the manufacturers in planning their production.

- **Wholesalers Place Bulk Orders**

The wholesalers place bulk orders with the manufacturer and thus enable him to concentrate on production.

- **Wholesalers Relieve the Manufacturers**

The manufacturers are relieved of worries by wholesalers through performance of most marketing functions as discussed in unit one.

### 3.1.1 Classes of Wholesalers

- 1) **Merchants Wholesalers:** Independently owned businesses that take title to the merchandise they handled. In different trades, they are called different names, such as Jobbers, distributors or mill supply houses. They fall into two categories: Full-service Wholesalers and Limited-service Wholesalers.
- 2) **Full-Service Wholesalers: Provide a full line of services:** carrying stocks, maintaining a sales force, offering credit, making deliveries, and providing management assistance. There are two types of full-service wholesalers: wholesale merchants and industrial distributors.
- 3) **Limited-Service Wholesalers:** Offer fewer services to their suppliers and customers than full-service wholesalers. Limited-service wholesalers are of several types: cash and carry wholesalers, truck wholesalers, drop shippers, rack jobbers, producers' cooperatives, and mail-order wholesalers.

It should be noted that there are several other types of wholesalers which you can research on at your convenience.

### 3.1.2 Retailers

Retailing includes all the marketing activities carried out by the retailers, aimed to satisfy the consumers' demands while making profits. This involves selling of goods or services directly to final consumers for their personal and business uses.

A retailer is defined as a middleman who sells mainly to the ultimate consumer. He may sell to institutions but most of his sales are made to industrial or household consumers. He usually sells in small lots.

The retailer is the last link and the most important intermediary in the chain of distribution. Mass production in the present day set-up is geared to the requirements of the ultimate consumers. Retailers are directly and ultimately in touch with the ultimate consumers and thus occupy a strategic position in the whole chain of distribution. The basic features of retail trading are the purchase of goods from wholesalers and selling in small lots to consumers.

The retail shops especially in Nigeria are one of the oldest and most widely used business establishments in a country. Retail business originated through the use of peddlers engaged in house to house sales.

This was followed by opening up of small retail shops usually owned by sole proprietors or small partnership firms, which are frequented by customers for obtaining their requirements. Examples of these retailers are those small business owners located at our house-step premises.

These include Mama Iyabo's Retail Store, Alhaji Bala's Retail Store, Mr. Okoro's Spare Parts Store, etc.

## **FUNCTIONS OF RETAILERS**

The following are some of the functions of retailers:

- Estimation of the probable demands of the consumers for various types of goods dealt with.
- Assembling of various types of goods from different wholesalers.
- Sale of various kinds of products to the consumers as and when needed by target consumers.
- Physical movement of goods from the wholesaler's warehouses to their own stores.
- Storage of goods to maintain uninterrupted supply of goods to the consumers.
- Assumption of risk of loss of goods by fire, theft, deterioration, etc. as long as they are not disposed of to the consumers.
- Extension of credit to some selected regular customers.
- Providing information about consumer tastes and preferences to wholesalers/manufacturers.

## **SELF-ASSESSMENT EXERCISE**

Before you proceed further, do assess the role of retail stores in your premises.

## **TYPES OF RETAILERS**

There is a wide variety of retail trading establishments. They vary from hawkers and peddlers to big departmental stores. Hawkers and peddlers move from door-to-door or to residential houses to sell their goods. Pavement shops usually arrange their wares at



busy street corners or busy streets as found in all the streets in Lagos, Kano, Kaduna, Aba, etc. Some traders sell their wares at weekly markets as applies to the rural markets in our communities in Nigeria. Our discussion will be limited to some selected retail stores, namely:

- (i) **Specialty Stores:** Carry a narrow product line with a deep assortment with limited line: apparel stores, sporting-goods stores, furniture stores, florists and bookstores. Specialty stores can be sub-classified by the degree of narrowness in their product line. A clothing store would be a single-line store; a men's clothing store would be a limited-line store; and a men's custom-shirt would be a super specialty store, etc.
- (ii) **Department Stores:** Carry several product lines – typically clothing, home furnishing, and household goods with each line operated as a separate department managed by specialist sellers or merchandisers.
- (iii) **Supermarkets:** Relatively large, low-cost, low-margin, high-volume, self-service operations designed to serve the consumer's total needs for food, laundry, and household maintenance products. Supermarkets earn an operating profit of only about 1% on their sales and 10% on their net worth. Despite strong competition from new and innovative competitors like superstores and discount stores, supermarkets remain the most frequently shopped type of retail store, by average Nigerians, especially among the bankers, oil workers, politicians, etc.
- (iv) **Convenience Stores:** Relatively small stores that are located near residential areas, open long hours, seven days a week, and carry a limited line of high-turnover convenience products. Their long hours and their accessibility by consumers mainly for fill-in purchases make them relatively high-price operators.
- (v) **Catalogue-Showrooms:** Sell a broad selection of high-mark-up, fast-moving, brand-name goods at discount prices. These include jewellery, power-tools, cameras, suitcases, small appliances, toys, and sporting goods. Customers order the goods through a catalogue or visit the showrooms, pick these goods as and when visiting such stores. Catalogue showrooms make their money by cutting costs and margins to provide low prices that will attract a higher volume of sales.
- (vi) **Cooperative Stores:** Consumers sometimes come together to form cooperative societies to sell goods on retail basis. The basic purpose is to eliminate middlemen and obtain their requirements at lower prices. The capital is subscribed by the members through the purchase of shares of small denominations. Cooperative stores purchase their requirements in bulk from manufacturers or wholesalers, thus enabling the cooperative stores to sell their products at lower prices than the ordinary retailers.

It should be noted that there are other types of retail outlets as well.

## **SELF-ASSESSMENT EXERCISE**

List five major advantages of convenience stores over supermarkets.

### **ADVANTAGES**

- (1) Consumers can be sure of the quality of goods in the sense that there is no possibility of adulteration practiced by some retailers in the private sector.
- (2) These stores are able to offer various products at more reasonable prices than most other retailers.
- (3) Consumers are assured of availability of certain products even when there is an overall shortage in the market and also at reasonable prices.

### **WEAKNESSES**

- (1) Consumers do not patronise these stores regularly.
- (2) Large cooperative stores tend to suffer from all the drawbacks of bureaucratic management.

### **Brokers**

A broker brings buyers and sellers together and assists in negotiation.

Brokers are paid by the parties hiring them. They do not carry inventory, yet involved in financing or assume risk. The most familiar examples are food brokers, real estate brokers, insurance brokers and security brokers. It should be noted that brokers' main function is to aid in buying and selling, and for these services they earn a commission on the selling price. A broker is an intermediary whose function is only to establish a link between the manufacturer and customer.

### **Agents**

Agents represent buyers or sellers on a more permanent basis. There are several types, for example, manufacturers' agents which are the most common type of agent wholesaler. They represent two or more manufacturers of related lines. They usually have a formal agreement with manufacturers: covering prices, territories, order-handling procedures, delivery and warranties and commission rates. They know each manufacturer's product line and use their wide contacts to sell the products. Most manufacturers' agents are small entities, with only a few employees who are skilled salespeople. They are hired by small producers who want to open new territories or sell in areas that cannot support full-time salespersons.

Apart from the manufacturer's agent, there are other types namely:

Selling agents, purchasing agents, commission merchants, etc.

## **4.0 CONCLUSION**

Blood is vital in the life of a man, so also middlemen are inevitable in any economy, most especially in developing countries like Nigeria where technologies for facilitating buying and selling of goods/services are still low. The existence of middlemen in the distribution channels creates and actualises choices of consumers. Even though they are sometimes criticised as creating artificial scarcity, convenience and time saving created for consumers are issues to be reckoned with.

## **5.0 SUMMARY**

With an understanding of the retailing and wholesaling institutional structures as a foundation, marketing executives are in a position to design and manage distribution channel systems for their companies. In this unit, you learnt who middlemen are, their roles in marketing of goods/services, types of middlemen and their functions.

## **6.0 TUTOR-MARKED ASSIGNMENTS**

Why are retailers considered vital in the distribution of goods/services?

## **7.0 REFERENCES/FURTHER READINGS**

- Armstrong, G. & Kotler, P. (1994). Principles of Marketing. 6th Edition. New Jersey: Paramount Communications Company.
- Kotler, P. (2000). Marketing Management – Analysis, Planning, Implementation and Control, 8th Edition. New Delhi: New Delhi, Prentice-Hall.
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## MODULE 2

Unit 1	Product Life Cycle and New Product Development
Unit 2	The Marketing Mix
Unit 3	Market Segmentation
Unit 4	Branding
Unit 5	Packing

### UNIT 1     **PRODUCT LIFE CYCLE AND NEW PRODUCT DEVELOPMENT**

#### CONTENTS

1.0	Introduction
2.0	Objectives
3.0	Main Content
	3.1    The Product Life Cycle Concept
	3.2    Marketing Mix at Different Stages
	3.3    Options in Declining Stage
	3.4    New Product Development Strategy'
4.0	Conclusion
5.0	Summary
6.0	Tutor-Marked Assignment
7.0	References/Further Reading

#### 1.0    **INTRODUCTION**

Most products have a limited profitable life. This unit will give you a complete picture of what happens from the time a new product is introduced till it declines, and will show you how the decline can, to a certain extent, be postponed. Product development involves careful planning and implementation. Sometimes organisations revive declining products by modification or else they follow several steps ranging from identification of market opportunity to launching of new products to replace the declining products. The greater is the competitiveness of markets, the greater the need for product development.

#### 2.0    **OBJECTIVES**

At the end of this unit, you should be able to:

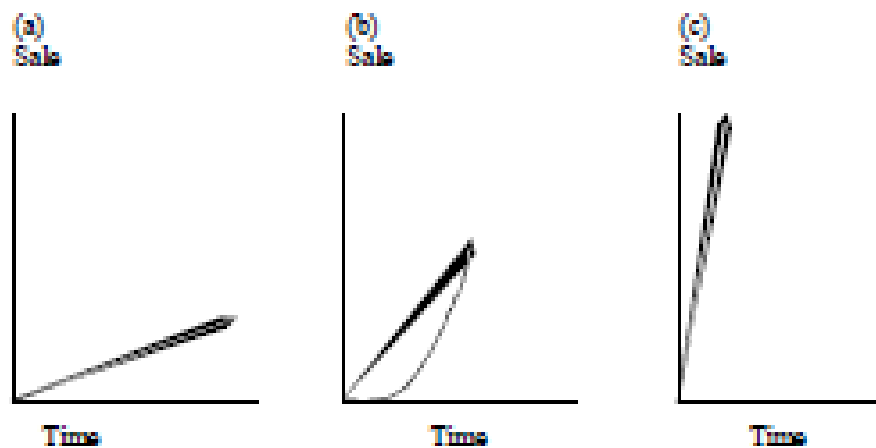
- concept of product life cycle
- stages in the product life cycle, and the different types of marketing mix required at each stage
- need for product modifications

- need for new product development and the process through which a product has to pass before it is finally launched into the market.

### 3.0 MAIN CONTENT

#### 3.1 The Product Life Cycle Concept

A company which introduces a new product naturally hopes that the product will contribute to the profits and provide consumer satisfaction for a long period of time. This however, does not always happen in practice. So, progressive organisations try to remain aware of what is happening throughout the life of the product in terms of the sales and the resultant profits.



**Fig. sales Trend – Introductory Stage**

#### The introductory stage

Let us start thinking from the very beginning about what happens when a new product is introduced in the market.

Figure 1 gives three optimistic alternatives as to the likely sales trend. If the product is well-designed, the sales would not increase slowly but would shoot up after some time as in (a). Rarely would there be a case where they would shoot up as in (b). A poorly designed product may experience a slow take off as shown in (a). Thus, (b) represents a suitable sales trend for a new product. This stage is called the ‘introduction’ or ‘innovation’ stage in the life cycle of a product.

Since the product has just been introduced, it is natural to expect that it will take some time before the sales pick up. There are some prerequisites for that too. The product must be brought to the notice of the customer. It must be available at the distribution outlets and all this takes some time. Therefore, a likely picture of the sales trend in this stage would be (b) as given in figure 1.

**The growth stage**

In case the product launched is successful, the sales must start picking up or rise more rapidly. The next stage is then reached which is known as the 'growth stage'. Here, the sales would climb up fast and profit picture will also improve considerably. This is because the cost of distribution and promotion is now spread over a larger volume of sales.

As the volume of production is increased, the manufacturing cost per unit tends to decline. Thus, from the point of view of product strategy, this is a very critical stage.

**The maturity stage**

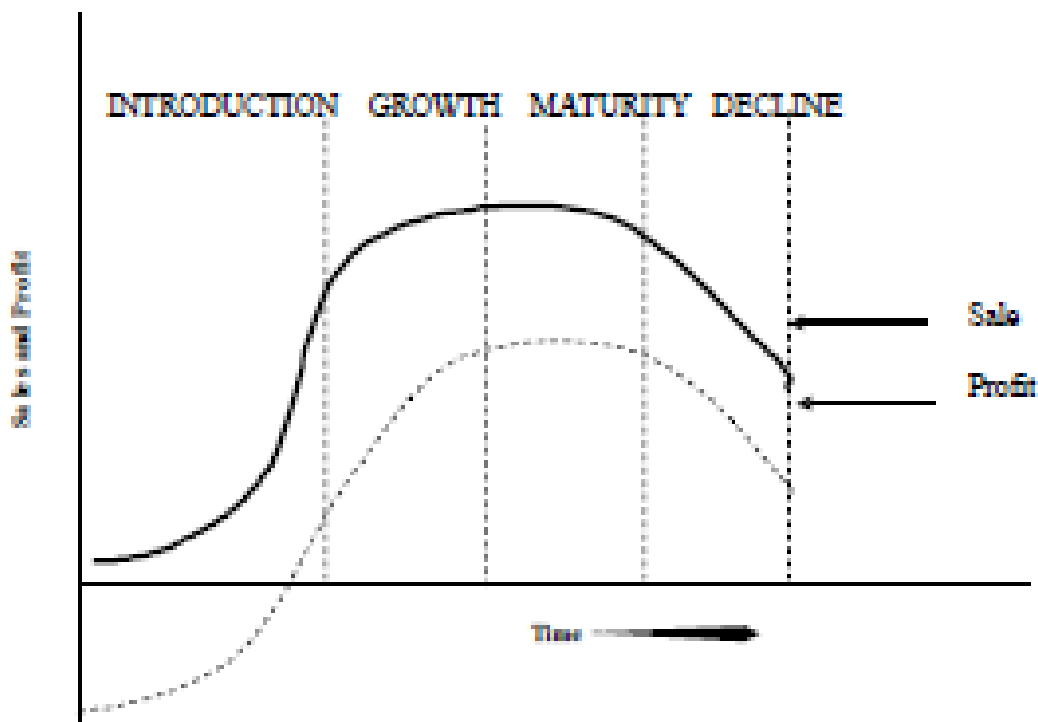
It is too optimistic to think that sales will keep shooting up. At this stage, it is more likely that the competitors become more active. In case your product is a novel one, by now competitors will come out with a similar product in the market to compete with yours. Therefore, the sales are likely to be pushed downwards by the competitors while your promotional efforts would have to be increased to try and sustain the sales. Thus, the sales reach a plateau. This is called the 'maturity stage' or 'saturation'. At this point, it is difficult to push sales up. With regard to the 'profit' picture, the profits are likely to stabilise or start declining as more promotional effort has to be made now in order to meet competition. Unless, of course, you have the largest market share with your product and it needs no extra push in the market.

**The decline or obsolescence stage**

Thereafter, the sales are likely to decline and the product could reach the 'obsolescence' stage. Steps should be taken to prevent this obsolescence and avoid the decline. This decline that generally follows would be due to several reasons such as consumer changes and taste, improvement in technology and introduction of better substitutes. This is the stage where the profits drop rapidly and ultimately, the last stage emerges.

Retaining such a profit after this stage may be risky, and certainly not profitable to the organisation.

**Figure 2** shows the 'product life cycle' and the different stages.



**Fig. 2: The Profit Life Cycle**

### 3.2 Marketing Mix at Different Stages

Increase Reduce Improve Any other, ls. specify

#### (1) Introduction Stage

- (a) Price    ( ) ( ) ( ) ( )
- (b) Physical    ( ) ( ) ( ) ( )  
Distribution    ( ) ( ) ( ) ( )
- (c) Promotion    ( ) ( ) ( ) ( )
- (d) Product    ( ) ( ) ( ) ( )

#### (2) Growth Stage

- (a) Pricing    ( ) ( ) ( ) ( )
- (b) Physical    ( ) ( ) ( ) ( )  
Distribution    ( ) ( ) ( ) ( )
- (c) Promotion    ( ) ( ) ( ) ( )
- (d) Product    ( ) ( ) ( ) ( )

At the introductory stage, we have to increase and thus spend a lot on physical distribution and promotion. This is because we have to create an awareness and acceptance of our product. We must also increase its availability. Very often in this country, it is noticed that a product is advertised but is not available at the distribution

outlets. This is a waste of promotional expenses. We must make optimum use of the available resources of the organisation. Thus, distribution should be arranged before the product is launched.

In any case, in these two areas, substantial amounts would have to be spent. We have to also counter the reluctance of customers to change their established patterns and make them purchase our product, particularly if it is of a novel nature. As against this, if it is a novel one, people may even buy it out of sheer 'curiosity'.

Next is the growth stage, when the sales shoot up and we are satisfied with the profit generated by the product; competitors will now enter the market and perhaps offer new product features. Therefore, we may have to think of improving our product so that we do not reach the ultimate 'decline' stage too quickly. The promotional expenditure is maintained at the same level or is raised slightly in order to meet competition.

We now come to the next stage called the maturity stage. This stage generally lasts longer than the other stages and poses problems for the management in maintaining the sales level. Actually, there is a slow-down in the growth rate of sales in case of such mature products. The decline can be arrested by improvements in the product and promotion. We should, however, at this time, seriously think in terms of a new product mix, that is, the elimination or redesign of the current product within the near future.

Finally, the decline stage catches up. The decline may be slow or rapid. It may be due to better substitute products, better competition, technological advances with which we have not kept up and several other reasons.

Such a product now proves expensive for the organisation. One must, therefore, be willing to consider the elimination of such marginal or unprofitable products. Eventually, the last weapon is to reduce the price. This is dangerous because this is a very crucial time when extra promotional effort is required to be put in to prop up the product's sales. Reducing the price may soon land the company in a loss situation.

### **3.3 Options in the Decline Stage**

Having considered the product life cycle and the inevitability of product decline, the question which comes to one's mind is what should be done to avoid or postpone this decline.

Consider some of the following points to avoid decline:

- i. improve product quality
- ii. add new product features resulting in extra benefits
- iii. penetrate new market segments
- iv. give incentives to distribution channels
- v. expand the number of your distribution channels; and



- vi. improve advertising and sales effort.

Perhaps, the answer lies in the word ‘innovation’. That is why it is sometimes said that innovation is the life-blood of marketing. Innovation can be in any of the 4P’s of marketing. In connection with the product, it would mean quality improvement or improvement in features. Ultimately, a time may come when the product will have to be removed from the product mix.

### **SELF-ASSESSMENT EXERCISE**

Identify at least two products in each stage of product life cycle in Nigeria:

- (i) Introductory Stage:

.....

- (ii) Growth Stage:

.....

- (iii) Maturity Stage:

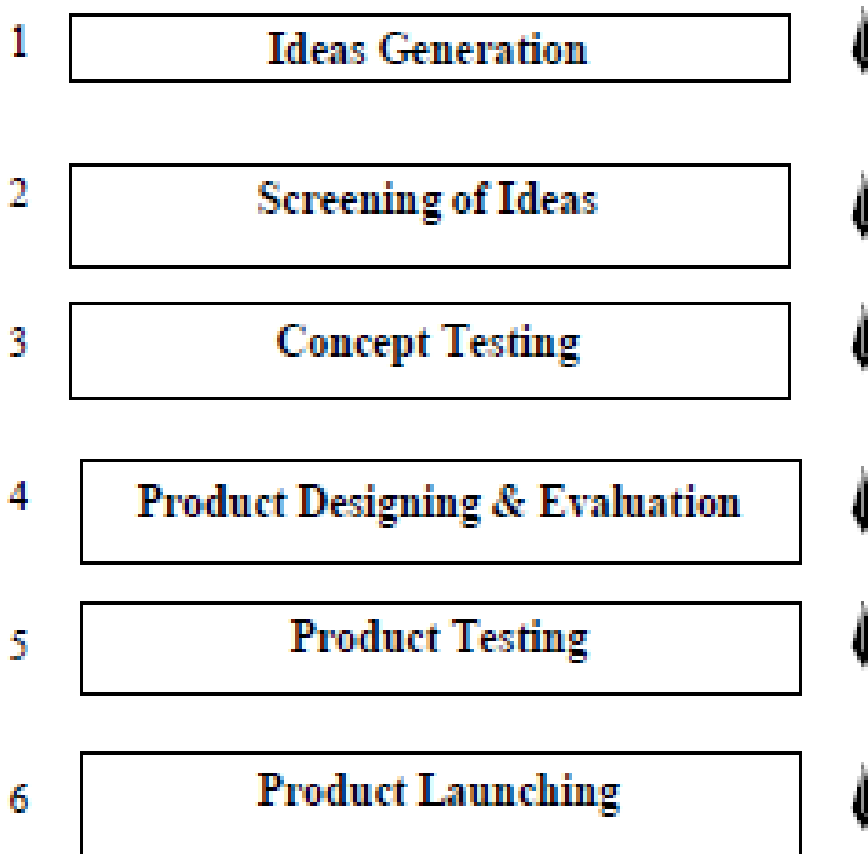
.....

- (iv) Decline Stage:

.....

### **3.4 New Product Development Strategy**

As you must have realised by now, it is very important to have a strategy for developing new products. Many products fail, and in order to keep expanding company sales, we must have new products. Some products of Unilever have failed, but still they remain leading manufacturers because they have continuously added to their lines and added product lines to their product mix. Several stages must be defined. Figure 3 gives the stages in new product development. These will now be discussed in details.



**Fig. 3:** Stages in New Product Development

### **Generation of New Product Ideas**

The first step obviously is to get ideas with regard to possible new products. Can you think of the sources from which you can get such product ideas? Your answer should have been: Customers, Company Salesmen, Competitors, Company Executives, and Employees within the organisation including technical people.

As marketing is aimed at satisfaction of consumer needs, an alert marketer can get some ideas from the customers for possible new products by keeping his eyes and ears open and more particularly the mind to perceive even needs which are so far unexpressed. For example, in the case of refrigerators, someone conceived the idea of having a 'two-door' refrigerator; another conceived the idea of the ball-point pen which obviated the need for constantly filling fountain pens. Thus, new ideas can come from customer needs or problems requiring a solution.

Company salesmen are in an excellent position to help. This is because they are in constant touch with the market, that is, both consumers and competitors. Watching competitors and what they introduce can also be useful for new ideas. Finally, company executives and even the lower staff can be brought in for discussions.

The interesting method here is what is known as brainstorming. This is basically done to have a flow of ideas – good and bad. A number of people, say executives of the organisation, are called together and asked a question for new ideas or ideas for new products. They are asked to mention it without evaluation. None is criticised. The answers are recorded on a tape recorder so that the flow is not interrupted. Thereafter, the answers generated are evaluated as will be explained in the next stage.

**Evaluation or Screening of the Ideas** So far, from the first stage, we have received a number of ideas – good and bad. We have now to screen and evaluate them to reduce their number to what is likely to be useful. This is known as the 'evaluation' or 'screening' of ideas stage in this process. Poor ideas must be dropped immediately because unnecessary cost has to be incurred to process them further. The ideas must be consistent with the company's philosophy, objectives and strategies and be in terms of the resources available in the organisation. In general, the ideas are screened in terms of:

- possible profitability
- good market potential (market size)
- availability of production facility
- availability of raw materials for such a product, if selected
- availability of finance
- availability of managerial ability
- uniqueness of product.

### **Product Concept Development and Evaluation**

Particularly when the product idea is rather revolutionary, the concept itself must be tested. For example, people talk about 'battery driven cars' to save on petrol. This is a concept which has to be tested in the environment in which the product is sought to be introduced.

For example, Hindustan Lever failed with their Hima peas and Fast Foods. This was a failure of concept testing.

### **Product Designing and Evaluation**

If the product idea or the concept passes the test, we then proceed to the engineering or the production or the Research and Development stage. So far, what we had was only a description or an idea. Now this has to be converted into a product. Prototypes are developed and tested. The test can be done under laboratory or field conditions. At this stage of product development, the technical problems, if any, must be solved. This is because the product must not suffer from complaints regarding quality in use. Even a small defect might shorten the life cycle of the product as well as spoil the company's image.

## Product Testing

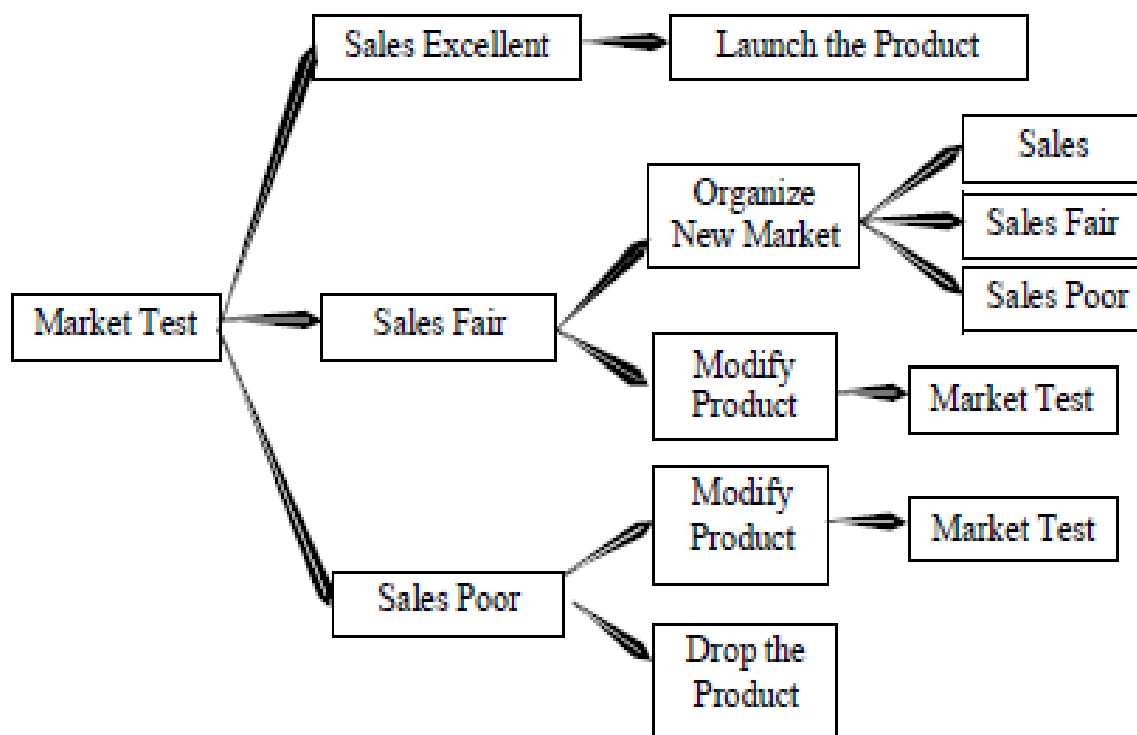
Apart from mechanical performance, customer acceptance is essential. In fact, the following can be stated as requirements for the new product, after it is designed:

- satisfactory performance
- customer acceptance
- economical production
- adequate distribution
- adequate servicing arrangements where required, and
- effective packaging and branding.

A market test should, therefore, be conducted before launching the new product. This will help us find out whether the product can be launched successfully on a commercial scale or not.

## Launching the New Product

The test marketing may show up something as depicted in Figure 4.



**Fig. 4: Market Test Decision Tree (Alternative Decisions)**

It may show that the sales are ‘excellent’, in which case, our decision is easy and we can proceed to launch the product. As against this, if it shows that the sales are ‘poor’, there are generally two alternatives available from a practical viewpoint. We can drop the product or modify it and test it again. If the sales are ‘fair’, we may modify the

product or conduct a new market test. The latter is done when we feel that perhaps there is something wrong with the market test just completed.

An alternative, generally available, is to modify the product in terms of the feedback which has been received from the market test, and then test again before the final decision is taken to launch the product commercially or to drop it. One must, however, remember that constant testing involves further costs. A decision must, therefore, be arrived at as early as practicable.

#### **4.0 CONCLUSION**

The introduction of a new product is not an easy decision. It has to be weighed very carefully in terms of possible markets, the costs involved and potential profits.

#### **5.0 SUMMARY**

In this unit, we discussed:

- product life cycle concept
- marketing mix at different stages
- options in decline stage; and
- new product development strategy.

#### **6.0 TUTOR-MARKED ASSIGNMENT**

What are the available marketing strategies at the decline stage of a product life cycle (PLC)?

#### **7.0 REFERENCES/FURTHER READINGS**

Davar, R. S. (1969). *Modern Marketing Management*. Bombay: Progressive Corporation Private Limited.

Kotler, P. (1987). *Principles of Marketing*. 5th Edition. New Delhi: Prentice Hall of India Private Limited.

## **UNIT 2     MARKETING MIX**

### **CONTENTS**

- 1.0     Introduction
- 2.0     Objectives
- 3.0     Main Content
  - 3.1    The Marketing Mix
  - 3.2    The Product
  - 3.3    Pricing
  - 3.4    Promotion
  - 3.5    Place/Distribution
  - 3.6    New Product Development and Marketing Mix
  - 3.7    Roles of Pricing and Advertising in Marketing Mix
- 4.0     Conclusion
- 5.0     Summary
- 6.0     Tutor-Marked Assignment
- 7.0     References/Further Reading

### **1.0     INTRODUCTION**

It is not enough to generate product ideas. These ideas must be turned to appropriate products or services desired by the consumers; otherwise, the products are as useless as if they did not come into existence. In addition, these products must be adequately priced, promoted and distributed through the most appropriate media at minimum costs to reach the target consumers. These activities involve a lot of tasks which must be adequately planned and executed by individuals saddled with such responsibilities. In this unit, we shall examine the marketing mix known as the 4ps and its implications on marketing activities.

### **2.0     OBJECTIVES**

At the end of this unit, you should be able to:

- explain the 4ps of the marketing mix
- discuss the importance of the marketing mix in marketing
- state the role of 4ps in marketing activities.

### **3.0     MAIN CONTENT**

#### **3.1    The Marketing Mix**

Once the company has decided on its overall competitive marketing strategy, it is ready to begin planning the details of the marketing mix. The marketing mix is one of the major concepts in modern marketing. Marketing mix is defined as the set of controllable, tactical marketing tools that the firm blends together to produce the

response it wants in the target market. In other words, the marketing mix consists of everything the firm can do to influence the demand for its product. It is also described as the combination of the four inputs that constitute the core of a company's marketing system: the product, the price, place and the promotion.

It should be noted however that the four ingredients in the mix are interrelated. Also, the decisions in one area usually affect action in the others. Each of these four variables contains countless variables. For instance, a company may market one product or several related or unrelated products. It may distribute its products/services through wholesalers, or directly to retailers, and so on. It therefore implies that management must select the combination that will best adapt to the environment. In essence, management is seeking the mix that will lead to the optimal synergistic results.

### **3.2 The Product**

Product means the goods and services' combination the company offers to the target market. A product, service or idea may be defined as something which is given to consumers in exchange for a price. Managing the product ingredients includes planning and developing the right products and/or services to be marketed by the company. Guidelines are needed for changing existing products, adding new ones, and taking other actions that affect the assortment of products carried. Activities related to a product, service or idea include the following: quality, features, style, brand name, packaging, sizes, services, warranties, returns, etc.

Research and experience in the marketplace have indicated that a marketer should treat the product as a bundle of satisfaction offered to consumers rather than as a physical item. This is so, because consumers really seek satisfaction of their needs and desires rather than physical products. For example, the purchaser of a refrigerator wants trouble-free operation, space, convenience, an aesthetic design rather than just a refrigerator cabinet and motor. Also, the buyer of a wristwatch wants accurate timing, reliability, status, attractive design and no maintenance, not merely pieces of metal, plastic, and glass. Therefore, marketers who view the product as a bundle of satisfaction are able to fulfil their mission of servicing the consumer, and can benefit accordingly through increased sales.

Do kindly attempt this question:

#### **SELF-ASSESSMENT EXERCISE**

List the product attributes or bundle of satisfaction that a purchaser would want in the case of the following products:

- i. Colour film
- ii. Personal computer
- iii. A book.

### 3.3 The Price

Price is defined as the amount of money that consumers must pay in exchange for the product, service or idea. Generally, marketers consider the following factors in setting prices:

- (a) **Target customers:** How much they will buy at various prices, in other words, price elasticity of demand.
- (b) **Cost:** How much it costs to produce and market the product i.e. both production and distribution costs.
- (c) **Competition:** Severe competition may indicate a lower price than when there is monopoly or little competition.
- (d) **The Law:** Government authorities place numerous restrictions on pricing activities.
- (e) **Social Responsibility:** Pricing affects many parties, including employees, shareholders and the public at large. These should be considered while pricing.

There are other factors as well, besides the ones listed above which a marketer has to consider.

### 3.3 Place or Distribution

Basically, place or distribution activities are used to transfer ownership to consumers and to place products, services or ideas at the right time and place. Distribution is made up of two components: (1) physical distribution, and (2) channels of distribution.

**Physical Distribution:** Consists of the activities involved in moving products or services from producer to consumer. Examples include:

- (1) Transportation
- (2) Warehousing and storage
- (3) Order processing
- (4) Inventory control
- (5) Location.

Often, the objective of physical distribution is to move goods to consumers at minimum cost. The physical distribution network should be oriented towards the needs and desires of target consumers.

**The Channels of Distribution:** Those routes through which the ownership of goods, services and ideas flows on the way from producer to consumer. In establishing channels of distribution, marketers should decide which marketing functions are needed in order to satisfy target consumers, and then determine which institution (such as wholesalers and retailers or the manufacturer himself) can best perform these



functions. The overall objective is to maximise service to the consumer at a profit to the marketer.

### 3.4 The Promotion

Promotional activities consist of various means of communicating persuasively with the target audience. The important promotional methods are:

- (a) **Advertising** – where an identified sponsor pays media (NTA, for instance) to transmit messages to target consumers.
- (b) **Personal selling** – where sales representatives employed by the firm engage in interpersonal communications with individual consumers and prospective customers.
- (c) **Sales promotion** – where the marketer utilises displays, demonstrations, premiums, contests, or similar devices to supplement advertising and personal selling.
- (d) **Publicity and public relations** – where both publicity and public relations are used to stimulate supportive news items about the firm and its products that have greater credibility with the public than advertising.

Like other elements of the marketing mix, promotion should be aimed at the target audience rather than at consumers at large. If target consumers are in the upper income group, promotional messages for, say, colour TV sets might highlight movies such as status, and prestige associated with owning a colour television, whereas if they are in the lower-income group, the price of a model might be emphasised. If target consumers tend to be highly educated, promotion messages should be more sophisticated than when target consumers have low levels of education. Failure to consider the unique characteristics of the target consumer can result in ineffective promotional efforts.

### 3.5 New Product Development and Marketing Mix

The product is one component of the marketing mix and is usually the core part, so the product is developed first. However, there are occasions when the product is designed to fit some other component of the mix. For example, the product may be developed to fit a price range, an image slot or a channel. But you must not forget that the various elements of a marketing mix are conceptually interconnected to meet some want and so there must be a procedural interconnection in designing the various components.

In drawing up a tentative marketing mix as part of any new product development programme, first let us take the element of promotion. It is a key consideration when the want is likely to be latent or passive for the majority of the members of the target market. In general terms, the motivation to buy is based preferably on some core advantage and the benefits that might be stressed in the advertising copy or sales appeal.

In the case of pricing, price can be important not just in terms of cost to the consumer, but as contributing to the image of the product. Pricing needs to be considered in relation to both the buying inducement and the rest of the offering or mix.

Finally, the role of a distribution strategy in new product development should not be underestimated. It should, however, be noted that if distribution i.e. availability in the target market cannot be assured, all other things will fail. Hence, the role which distribution channels are expected to play must be investigated at the earliest stage possible.

You must not, however, forget the overall important fact emphasised earlier that all elements of the marketing mix, i.e. promotion, pricing, place and distribution strategies need to be brought together and coordinated in the overall marketing mix

### **SELF-ASSESSMENT EXERCISE**

Nowadays, a number of well-established companies are trying to diversify into both existing as well as new areas. New companies are being started. For example, Guinness and Coca-cola have diversified some of their products. Find out three or four cases of diversification or entry into existing fields and study the advertisements issued by these companies and identify the critical advantage or the core benefit stressed in the advertising copy.

### **3.6 Roles of Pricing and Advertising in Marketing Mix**

- (a) **Advertising** – Most often, only a few firms directly compete with one another in the same target market. Economists call such a situation an oligopolistic situation. In this type of situation, many firms prefer to increase their share by increasing demand through advertising rather than by reducing prices. The question that arises is – why do firms prefer such a strategy? The reason is that building up an image through advertising can be more difficult to match than a price cut. The assumption behind this preferred approach is that the firm can achieve a competitive edge in advertising and that it does not possess such a large cost advantage over competition as to make price cutting an attractive pre-empting strategy.
- (b) **Pricing** – Price may be the major element in the marketing mix. Pricing decisions should be carefully coordinated with decisions on product, promotion and distribution. For example, the luxury segments of consumer markets suggest a quality, branded product, extra-touches, high class outlets, appeals and media that capture the luxury image and a high price to match.

### **SELF-ASSESSMENT EXERCISE**

- i. Are price and promotion, to some extent, substitutable?
- ii. State whether the following statements are true or false:

1. Advertising can have a wider reach and establish an image for a product that cannot be matched in personal selling. (True or False).
2. Advertising can close a sale. (True or False).
3. Advertising can distinguish suspects from prospects. (True or False).
4. Advertising can act as liaison between the company and the buyers (True or False).

#### **4.0 CONCLUSION**

The objective of a marketer is to combine the various elements of the marketing mix viz. price, product, promotion and distribution in such a way that he/she will achieve the necessary volume of sales at a cost that will permit him/her to make a desired profit. The way these elements are to be combined will basically depend on the target market to be served. This means that the needs and wants of the target consumers have to be studied and interpreted and a unique blend of various elements of the marketing mix has to be designed to reach a specific group of consumers.

#### **5.0 SUMMARY**

In this unit, we discussed marketing mix and its elements as they affect marketing activities.

#### **6.0 TUTOR-MARKED ASSIGNMENT**

Are price and promotion to some extent substitutable?

#### **7.0 REFERENCES/FURTHER READINGS**

Fray, W. (1981). Advertising. 3rd Edition. New York: Ronald Press.

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## **UNIT 3     MARKET SEGMENTATION**

### **CONTENTS**

- 1.0     Introduction
- 2.0     Objectives
- 3.0     Main Content
  - 3.1     The Concept of a Market
  - 3.2     The Concept of a Segment
  - 3.3     Market Segmentation
  - 3.4     Benefits of Market Segmentation
  - 3.5     Conditions for Effective Segmentation
  - 3.6     Bases for Segmenting Consumer Markets
    - 3.6.1   Geographical Segmentation
    - 3.6.2   Demographic Segmentation
    - 3.6.3   Psychographic Segmentation
    - 3.6.4   Behavioural Segmentation
  - 3.7     Segmenting Industrial/Business Markets
    - 3.7.1   Methods of Segment Selection
    - 3.7.2   Selection of Segments
- 4.0     Conclusion
- 5.0     Summary
- 6.0     Tutor-Marked Assignment
- 7.0     References/Further Readings

### **1.0     INTRODUCTION**

All corporate marketing activities have to be necessarily carried out in such a way that they lead to generation of surplus funds. Even in the case of non-profit and non-manufacturing set-ups, it becomes important to achieve marketing goals in the most economical way. This is so primarily because of budgetary constraints in such organisations. One of the ways to obtain economies in marketing is to concentrate and focus the marketing efforts in respect of a well defined homogeneous cluster of potential customers. That is, to choose its markets and serve them through target marketing. In target marketing, sellers distinguish the major market segments, target one or more of these segments, and develop products and marketing programmes tailored to each segment. This approach known as market segmentation helps in optimizing the marketing mix for a segment. In this unit, we will examine the concept and bases for market segmentation.

## 2.0 OBJECTIVES

At the end of through this unit, you should be able to:

- explain the term market segmentation
- discuss the bases for market segmentation
- explain benefits derived from market segmentation
- explain methods of segment selection.

## 3.0 MAIN CONTENT

### 3.1 The Concept of a Market

Unless you know the exact market(s) to which your organisation wants to cater, your focus will be wrong and your planning will be faulty, and you will fail to develop an appropriate marketing strategy or effort to meet the needs of your target market. To identify the target market, let us first define the term 'Market'. The term market has more than one meaning:

- (a) A market is a place where people gather to transact business mainly to sell and buy commodities and other physical goods.
- (b) It can be used in respect of the network of institutions like wholesalers and brokers dealing in a product.
- (c) It can also be used to refer to the nature of demand for the product, as when we speak of the market for soap.
- (d) A market can be referred to as people with needs and wants, with enough disposable income to spend on goods and services provided to satisfy their special needs and wants and the willingness to expend their income on these goods and services.
- (e) Stanton (1981:65) defines a market as people with needs to satisfy, money to spend and willingness to spend it.

Before you proceed further, do attempt this exercise

### SELF-ASSESSMENT EXERCISE

- i. In your own word(s), Can you then stop and explain what a market means?
- ii. In the market demand for any given product or service, there are three factors to be considered – people with needs, their purchasing power and their buying behaviour.

### 3.2 The Concept of a Segment

The previous discussion must have helped you to understand the term 'market'. On the basis of market definition given earlier, we can reiterate that buyers in the same market seek products for broadly the same function. But different buyers have

different evaluative criteria about what constitutes the right choice for performing the function. As a consequence, different offerings will attract different buyers.

For example, all brands of colour television sets will appeal, to some degree, to those in the market for a colour TV, but some brands will appeal to some groups than others. If there were only one brand of colour TV set, there will be no choice for the buyers. But as the market develops, manufacturers seek to cater more closely to some groups than to others, and buyers' choice widens as a result.

At the most detailed level, buyer is a market in himself, for every buyer's want is probably distinct in some way. But on the basis of similarities and differences, such unique wants can be grouped into sub-classes. What it means is that wants within a sub-class are more related to each other than wants between sub-classes.

Based on the above discussion, we can now attempt to explain Market Segments and Process of Market Segmentation.

### **3.3 Market Segmentation**

Market segments refer to the sub-classes of the market reflecting sub-classes of wants and the process of conceptually distinguishing segments is known as 'Market Segmentation'.

A market segment consists of a large identifiable group within a market.

Stanton (1981) defines market segmentation as the process of dividing the total, heterogeneous market for a product into several sub-markets or segments, each of which tends to be homogeneous in all significant aspects.

Akanbi (2002) defines it as the process of dividing the consumers in a given economy into target markets.

Segmentation is a midpoint between mass marketing and individual marketing. Market segmentation is a customer-oriented philosophy. The consumers belonging to a segment are assumed to be quite similar in their wants and needs. Yet they are not identical. Some segment members will want additional features or benefits not included in the offer, while others would gladly give up something that they don't want very much. For example, in buying a car, some consumers may buy those windows with manual winders, while others may reject them.

Again, in a hotel, some may want to find more items in their room(s), such as fan, machine, cable TV, etc. while others may prefer fewer amenities and a lower price.

As part of the strategy of segmenting its markets, a company will frequently develop a different variety of the basic product for each segment. However, market segmentation can also be accomplished with no change in the product, but rather with separate programmes, each tailored to a given market segment. A producer of pain

relief drugs such as ‘Panadol’ can market the product to the youth market, and a different product for the old-people market. Here, the promotional programmes for the two markets will be different.

### 3.4 Benefits of Market Segmentation

Segment marketing offers several benefits, which include the following:

- (a) The company can create a more fine-tuned product or service offer and price it appropriately for the target audience.
- (b) The choice of distribution channels and communication channels becomes much easier.
- (c) Such a company may face few competitors if fewer competitors are focusing on this market segment.
- (d) Segmentation helps a company to exploit its market better by selecting market niches (suitable segments) that are compatible with its resources.
- (e) Segmentation helps in focusing strategies more sharply on target groups.
- (f) Segmentation is more likely to result in instilling customers’ loyalty since the firm’s offering is better matched to those in the segment.

### 3.5 Conditions for Effective Segmentation

There are many ways to segment a market but not all segmentations are effective. However, to be useful, market segments must have the following characteristics:

- (1) **Measurability:** The size, purchasing power and profiles of the segments should be measurable. However, certain segmentation variables are difficult to measure. For example, Kotler (1997) reported that there were 24 million left-handed people in the United States – almost equalling the entire population of Canada.  
Yet few products were targeted towards this segment. The major problem may be that the segment is hard to identify and measure.
- (2) **Accessibility:** The market segments should be effectively reached and served. Suppose a perfume company finds that heavy users of its brand are single men, who stay out late and socialise a lot. Unless this group lives or shops at certain places and exposed to certain media, its members will be difficult to reach.
- (3) **Substitutability:** The market segments should be large or profitable enough to be served. A segment should be the largest possible homogeneous group worth pursuing with tailored marketing programmes.
- (4) **Actionability:** Effective programmes should be designed in order to be attractive and to serve the segment(s) better. A case of this

## **3.6 Bases for Segmenting Consumer Markets**

There is no single way to segment a market. A marketer has to try different segmentation variables, alone and in combination, to find the best way to view the market structure. Here, we examine major variables.

### **3.6.1 Geographical Segmentation**

Geographical segmentation calls for dividing the market into different geographical units such as nations, states, regions, countries, cities or neighbourhoods. A company may decide to operate in one or a few geographical areas, or to operate in all areas but pay attention to geographical differences in needs and wants. Many companies today are regionalising their marketing programmes – localising their products, advertising, promotion, and sales efforts to fit the needs of individual regions, cities, and even neighbourhoods. Coca-cola and Pepsi-cola uses this method for their products.

### **3.6.2 Demographic Segmentation**

This consists of dividing the market into groups based on variables such as age, gender, family size, family life cycle, income, occupation, education, religion, race and nationality. Demographic factors are the most popular bases for segmenting customer groups. One reason is that consumer needs, wants, and usage rates often vary closely with demographic variables. Another is that demographic variables are easier to measure than most other types of variables. Even when market segments are first defined using other bases, such as personality or behaviour, their demographic characteristics must be known in order to assess the size of the target market and to reach it efficiently.

#### **Age and life cycle stage**

Consumer needs and wants change with age. Some companies, for example, use age and life cycle segmentation, offering different products or using different marketing approaches for different age and life cycle groups. Marketers must, however, be careful to guard against stereotypes when using age and life cycle segmentation. For example, a seventy-year old man might be in wheel chair, while another might be in the tennis court(s). Other elements are gender, income, etc.

### **3.6.3 Psychographic Segmentation**

This involves dividing buyers into different groups based on social class, life styles or personality characteristics. People in the same demographic group can have very different psychographic make-ups such as:

- (a) Social Class – Many companies design products or services for specific social classes, building in features that appeal to these classes. Wristwatches, clothing, etc. are good examples of this.



- (b) Lifestyle – People’s interest in various goods is affected by their lifestyles and the goods they buy express those lifestyles. Examples of this are films, books, magazines, etc.
- (c) Personality – Marketers also use personality variables to segment markets, giving their products personalities that correspond to consumer personalities. Successful market segmentation strategies based on personality have been used for products such as cosmetics, cigarettes, insurance and liquor.

### SELF-ASSESSMENT EXERCISE

Why is demographic segmentation considered the most popular?

#### 3.6.4 Behavioural Segmentation

This involves dividing buyers into groups based on their knowledge, attitudes, uses, or responses to a product. Many marketers believe that behavioural variables are the best starting point for building market segments.

- a) **Occasions** – Buyers can be grouped according to occasions when they get the idea to buy, actually make their purchase, or use the purchased item. Occasion segmentation can help firms build up product usage. An hotelier can use this variable for his/her hotel rooms.
- b) **Benefits Sought** – A powerful form of segmentation is to group buyers according to the different benefits that they seek from the product. Benefit segmentation requires finding the major benefits people look for in the product class, and the kinds of people who look for each benefit. Colgate Palmolive for example, used benefit segmentation to reposition its Irish spring soap. Others are Close-Up, Maclean, Beauty soap, Dettol soap, Delta soap, etc. Others could be flower and product appearance, brightness, etc.
- c) **User Status** – Markets can be segmented into groups of non-users, ex-users, potential users, first-time users, and regular users of a product. Note, potential and regular users may require different kinds of marketing appeals.
- d) **Usage Rate** – Markets can also be segmented into light, medium, and heavy-user groups. Industrial products are easily classified under this, such as: salt, starch, sugar, cement, roofing sheets, etc.
- e) **Attitude Towards Product** – People in a market can be enthusiastic, positive, indifferent, negative or hostile about a product. These are variables of behavioural segmentation.

#### 3.7 Segmenting Industrial/Business Markets

You might assume that the bases for segmentation will differ between industrial and consumer markets. However, they have much in common i.e. industrial markets can be segmented with many of the same variables used in consumer market segmentation.

For instance, segmenting markets on the basis of end-user application is essentially benefit segmentation; a demographic basis is geographical location; while a behaviour basis is the way the company buys. As knowledge of industrial customers advances, segmentation can take account of the buying criteria, technical, economic, etc. as applied to the selection of suppliers.

### **SELF-ASSESSMENT EXERCISE**

Do kindly attempt this question before you proceed further.

Please suggest suitable lifestyles that a marketer may use in the case of the following products:

- (a) Men's clothing
- (b) Motorcycles
- (c) Soft drinks
- (d) Tea.

#### **3.7.1 Methods of Segment Selection**

Before selecting a basis, you must arm yourself with substantial knowledge about the buyer. The basis selected should be such that it evokes a sufficient purchase response to justify cultivating that segment. It should however be noted that if it were easy to identify the various mixes of benefits sought by the various groups in the market, segmentation would hardly present any problem. But the major problem lies in determining what benefits the prospective buyers are seeking, and what is the relative ranking of these benefits that distinguish various buyer groups in the market?

For instance, how does one discover that consumers discriminate among, say, different brands of toilet soap on the basis of price, image, cosmetics power, size, packaging, hygiene effect, smoothness, freshness, etc? Also, what relative weights do they assign to these variables?

Another problem that arises is that consumers do not actively seek what they would buy if it were available. As such there is no standard answer to what basis is the best in a particular case, and companies resort to one or more of the following:

- (1) **Intuition and Experience** – Many marketers try to segment their market on the basis of their empathetic understanding of the situation. But they must not forget to check such intuitive thinking against the evidence which may be there in support of such hypothesis.
- (2) **Trial and Error** – Trial and error is another method which is used to divide a market into different groups based on product attributes, and to subsequently check such groups is proving meaningful in terms of market response.
- (3) **Research on Consumption Systems** – Observing and studying the total consumption system associated with the product in use helps generate new

ideas for segmentation. (4) Research on Attitude and Perceptions – This is an area which currently arouses the greatest interest. This type of research is being used in respect of quite a few of the consumer products that are being introduced by large-sized companies. Perceptual mapping is one technique which is used for such research.

### 3.7.2 Selection of Segments

Before we conclude this unit, let us examine how companies select their segments. Both general factors which are used to evaluate any economic opportunity and the factors specific to the situation would be considered.

#### (1) General Factors

- a) **Company Thrust** – The company that is segmenting its market needs to identify the requirements for success in the concerned target market. Also, it must determine what particular business system consisting of marketing, production, finance, personnel, etc. will be needed to meet the requirements for success in that segment. As far as possible, the firm's thrust should be such that it gives the company a critical advantage in that segment.
- b) **Size and Growth Potential** – Not only the present size but also the future growth potential of the concerned target market must be considered. The current market demand by itself may prove misleading. Besides the measurement might also create its own problem.
- c) **Investment Needed** – Investment needed for tapping that particular target market is another factor to be considered, and you must take care to see that both entry costs and costs associated with building market share have been included.
- d) **Profitability** – The question of profitability is associated with investment decisions. To calculate it, we have to estimate both future sales and costs in the concerned segment. What must also be considered is value-added to the product that is to be marketed in that target segment.
- e) **Risk** – There are risks associated with the extent to which a particular target market would respond. Other risks should as well be considered.
- f) **Competition** – The selection of target market also underlies selecting the competitors with whom the company will compete.

Another important point to note in this context is that the segment may be large, but may already be well served by several well-entrenched competitors. The question naturally would be whether one would like to enter such a segment.

#### (2) Specific Factors

- segment durability
- mobility
- visibility

- accessibility.

## **SELF-ASSESSMENT EXERCISE**

Take any consumer product and describe the step by step procedure that you would follow in segmenting the market for that product. Some of the products could be:

- cellular phones
- toothpaste
- paper.

## **4.0 CONCLUSION**

A sound marketing programme starts with the identification and analysis of the market for a product or service. A market is people with money to spend and the willingness to spend it. For most products, the total market is too broad and heterogeneous for a strategy of market aggregation. A more effective strategy is market segmentation, in which the total market is viewed as several smaller but more uniform sub-markets.

## **5.0 SUMMARY**

We started this unit by defining the two concepts, viz. market and segment. Market for this purpose was defined to mean the market for a particular product which in effect means the functions served by the product. Next, we discussed benefits of market segmentation, conditions for effective segmentation, bases for consumer and industrial markets segmentation, and methods for segment selection.

## **6.0 TUTOR-MARKED ASSIGNMENT**

As the market becomes more and more competitive, does that necessitate more segmentation?

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## UNIT 4    **BRANDING**

### CONTENTS

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- 2.0    Objectives
- 3.0    Main Content
  - 3.1    Branding
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### **1.0    INTRODUCTION**

In developing a marketing strategy for individual products, the seller has to confront the branding decision. Branding is a major issue in product strategy. For instance, developing a branded product requires a great deal of long-term investment spending especially for advertising, promotion and packaging. Many brand oriented companies subcontract manufacturing to other companies. For example, Taiwanese Manufacturers make a great amount of the world's clothing, consumer electronics, and computers, but not under Taiwanese brand names.

Besides, some manufacturers observe that market power lies with the brand name companies. Even when these companies can no longer afford to manufacture their products in their homeland, the brand names continue to command customer loyalty. Powerful brand names have consumer franchise – they command strong consumer loyalty. A sufficient number of customers demand these brands and refuse substitutes, even if the substitutes are offered at somewhat lower prices. These companies around the world invest heavily to create strong national or even global recognition and preference for their brand names. In this unit, we examine brand names and their implications for marketing products and services.

### **2.0    OBJECTIVES**

At the end of this unit, you should be able to:

- define a brand name
- differentiate various types of brand names in our markets

- give reasons why companies invest millions of naira in choosing a brand name
- explain the characteristics of a good brand name.

### **3.0 MAIN CONTENT**

#### **3.1 Branding**

A crucial step in the branding strategy is deciding on a specific brand name for the product that is being introduced. In earlier times, when the concept and practice of branding was much less developed, very often the family name or surname was used. Some of those are still very much alive, for example, Siemens or Ford. The other common method of branding was by way of addressing the product range of the company. Two famous examples are General Motors and General Electric. It seems the function that brands were supposed to perform was either to indicate the source or the origin of the product (family name) or indicate the product range. However, a brand name has emerged as one of the most important elements of the merchandising function in recent times, and will become more and more crucial as the competition becomes more severe in Nigeria and other parts of the world. Let us examine the conceptual meaning of the terms brand and brand name.

#### **What is a brand?**

Perhaps the most distinctive skill of professional marketers is their ability to create, maintain, protect, and enhance brands. Marketers say that branding is the art and cornerstone of marketing.

A brand is a word, mark, symbol, device or a combination thereof, used to identify some product or service. The definition clearly focuses on the function of a brand, that is, to identify, irrespective of the specific means employed for the identification.

Akanbi (2002) reports that ‘brand is the name, term, symbol, or design or a combination of these which is employed to identify the goods or services of one seller or group of sellers, and to differentiate them from those of competitors’.

The American Marketing Association defines a brand as ‘a name, term, sign, symbol or design or a combination of them, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors’.

#### **What then is a brand name?**

As we have just seen, the American Marketing Association defines it thus:

‘Brand name is a part of a brand consisting of a word, letter, group of words or letters comprising a name which is intended to identify the goods or services of a seller or a group of sellers and to differentiate them from those of competitors’.

Comparing this definition with that of other authorities, it is found that the function remains the same. A brand name is only one of the means that the brand can use for identification. Examples of brand names are: Toyota, Honda, Mercedes, Mobil, Shell, Lux and Omo.

**A Brand Mark** – A brand mark is the part of the brand that is in the form of a symbol, design or distinctive colouring or lettering. Examples include: ‘the Lion’ for Peugeot cars, the ‘Star’ for Mercedes Benz cars and a ‘Stallion’ for Union Bank of Nigeria Plc.

**A Trademark** – This is a brand that is given legal protection as an exclusive use of a particular company. Trademarks are brands, but not all brands are legally protected. Hence, any mark that is not legally protected cannot be referred to as a trademark.

The American Marketing Association defines a trademark as ‘a brand that is given legal protection, because under the law, it has been appropriated by one seller’. Thus, trademark is essentially a legal term. All trademarks are brands and thus include the words, letters or numbers that can be pronounced. They also include a pictorial design (brand mark). Some people erroneously believe that the trademark is only the pictorial part of the brand.

### 3.2 Importance of Branding

The importance of branding is as follows:

- (1) Brands make it easy for consumers to identify products or services.
- (2) Brands also assure purchasers that they are getting comparable quality when they reorder.
- (3) For sellers, brands are something that can be advertised and that will be recognized when displayed on shelves in a store.
- (4) Brands also help sellers to control their share of the market, because buyers will not confuse one product with another.
- (5) Branding reduces price comparisons, because it is hard to compare prices on two items with different brands.
- (6) For sellers, branding can add a measure of prestige to otherwise ordinary commodities, such as Gulder, Star, Coca-Cola, Mercedes’ products, Sony’s products, etc.

#### SELF-ASSESSMENT EXERCISE

- i. Differentiate between brand name and brand mark and trademark.
- ii. Some people are of the opinion that branding is not important, provided the product(s) or service concerned can serve its purpose. Discuss.



### 3.3 Reasons for Branding

There are various reasons why a company may wish to adopt a brand name and/or trademark. Some of these include the following:

- (1) Branding enables a company to differentiate its product. It gives the marketer a different product to promote. Each market segment will have a specific version of the same product from the company.
- (2) Brands help to ascertain who the producer of the product is. A company's name is built around the brand name which can be used to stimulate the sales of the product.
- (3) Branding enables a company to control the distribution and the price of its product because of its distinct nature.
- (4) The promotion of a brand will help the company to increase its market share in the country. It helps to build loyalty for the product and increase repeat purchases.
- (5) Branding can aid a marketer to increase his product lines. The qualities associated with an established line can be exploited to reflect on a new product marketed under the same brand name.

### 3.4 Reasons for not Branding

Some of the reasons for not branding include the following:

- (1) Many firms do not brand their products because they are unable or unwilling to assume the two major responsibilities inherent in brand ownership: (a) to promote the brand and (b) to maintain a consistent quality of output.
- (2) Some items are not branded because of the difficulties of differentiating the products of one firm from those of another. For example, clothes pins, nails and industrial raw materials (coal, cotton, and wheat) are examples of goods for which product differentiation is generally unknown. In addition, the physical nature of some items, such as fresh fruits and vegetables, may discourage branding (although, these days, they are packaged in tins/cans).
- (3) Producers frequently do not brand that part of their product (output) that is below their regular quality. Products graded as 'seconds' or 'imperfects' are sold at a reduced price and are often distributed through channels different from those used for regular quality goods.

### 3.5 Characteristics of a Good Brand

A good brand should possess as many of the following characteristics as possible. It is extremely difficult to find a brand that has all of them. A brand should:

- (1) Suggest something about the product's characteristics – the benefits, use or action. Some names suggest desirable benefits including cold spot, craftsman

(tools), etc. Product use and action is suggested by minute rice, thermo pane, spic and span, etc.

- (2) Be easy to pronounce, spell, and remember, simple, short, one-syllable names such as Omo, Mobil, Total, Toyota, Shell, etc. Are helpful.
- (3) Be distinctive. Brands with names like national, star, ideal or standard fail on this point.
- (4) Be adaptable to new products that may be added to the product line.
- (5) Be capable of being registered and legally protected under the Acts or other statutory laws.

### 3.6 Branding Decisions

Having an appropriate brand has emerged as the most important activity in the area of marketing of products, especially consumer products. Several decisions need to be taken, though not simultaneously, with regard to brand selection and its use.

Whether to brand a product or not is a decision which can be taken only after considering the nature of the product, the type of outlets envisaged for the product, the perceived advantages of branding and the estimated costs of developing the brand.

In addition, marketers also have to decide at the outset whether they would like to adopt a family brand under which all the products of the company would be sold or to brand each product separately. For instance, companies like GE or Philips follow the family name strategy while GM follows the individual brand strategy.

These are the advantages in either approach:

#### (A) Family Brand

- (1) It reduces the costs of product launching and ongoing promotional expenditure substantially. The firm has to promote only one brand which, if successful, would be able to sell the entire product line. Lining up the distribution channel members also becomes comparatively easier. A family brand name has been found to be very cost effective in tyre marketing.
- (2) If one product does exceptionally well, it is perfectly possible that there would be positive fallouts for other products being marketed under the same brand.
- (3) A greater weakness of this strategy is that it does not recognise that each product can be given a specific identity by a suitable brand which can go a long way to make it successful.

#### (B) Individual Brand

- (1) If there is a product failure, its damaging effect will be limited to that particular product and will not extend to the entire product line.
- (2) Individual brand strategy can immensely influence the decisions.

- (3) The basic disadvantage lies in the economics of developing an individual brand. It is obviously a costlier strategy than the family brand.
- (4) The other disadvantage is that the brand does not directly derive any benefit from the reputation of the firm.

### **3.7 Brand Repositioning**

Over the life cycle of a product, several market parameters might undergo a change such as introduction of a competing product, shifts in consumer preferences, identification of new needs, etc. All and each of such changes call for a re-look as to whether the original positioning of the product is still optimal or not. Stagnating or declining sales also point to a need for reassessment of the original product positioning.

A classic story of successful brand repositioning is the Seven-up campaign. Seven-up was one of several soft drinks bought primarily by older people who wanted a brand, lemon flavour drink. Research indicated that while a majority of soft drink consumers preferred a cola, they did not prefer it all the time and many other consumers were non- cola drinkers.

Seven-up went up for leadership in the non-cola market by executing a brilliant campaign, calling itself the Uncola. The campaign featured the Uncola as a youthful and refreshing drink, the one to reach for instead of a cola. Seven-up created a new way for consumers to view the soft market, as consisting of colas and uncolas, with seven-up leading the uncolas. It thus repositioned seven-up as an alternative to the traditional soft drink, not just another soft drink. Another exciting story of brand repositioning is Pepsi Cola's campaign to reincarnate its flagging 30- year old Mountain Dew brand.

### **SELF-ASSESSMENT EXERCISE**

Pay a visit to any market of your choice. Find/look for a product which has been repositioned. Find out reasons for the repositioning of such product(s).

### **4.0 CONCLUSION**

Brand management is one of the most important areas of marketing especially with reference to consumer products. The name gives the product the unique personality and is so well associated with the product that the brand name sometimes even takes the place of the generic product name. Surf and Omo are two classic examples where the brand names connote the generic product category, i.e. detergent. The selection of brand name is an important decision. You can choose any brand name you like as long as it is unique, easy to read, write and pronounce and remember, and does not have any unfavourable or negative meanings associated with it.

## **5.0 SUMMARY**

In this unit, we discussed, branding, brand name, brand mark, trademark, reasons for and against branding, importance of branding, classes of branding and brand repositioning.

## **6.0 TUTOR-MARKED ASSIGNMENT**

Identify the basic factors that prompt a company to brand its products.

## **7.0 REFERENCES/FURTHER READINGS**

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## **UNIT 5     PACKAGING**

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### **1.0     INTRODUCTION**

The demand of some products these days is a function of its packaging. Some products are highly demanded by consumers, not because of their performance, but due to their attractive packages. Nowadays, consumers want self-service with minimum time wastage. Packaging is one of the marketing tools that marketing executives use to attract, to promote and to protect their products. In this unit, we will discuss/examine what packaging is, reasons for packaging, functions of packaging and other features of packaging.

These days, packaging is synonymous with contents/services offered. Hence, millions of naira is spent by marketing executives to produce packages for their products. Some companies' products fail not because of their products performance, but because the packages are defective.

All these and others are examined in this unit.

### **2.0     OBJECTIVES**

At the end of this unit, you should be able to:

- define and explain what packaging is
- give reasons for packaging
- explain functions of packaging
- argue against packaging in our environment.

### **3.0 MAIN CONTENT**

#### **3.1 Packaging**

Packaging has been variously defined in both technical and marketing literature. One of the most quoted definitions is, packaging is the art, science and technology of preparing goods for transport and sale. Kotler (1997:458) defines packaging as including the activities of designing and producing the container or wrapper for a product.

Stanton (1981) also agrees with this definition when he defines it as “the general group of activities in product planning that involves designing and producing the container or wrapper for a product.”

An understanding of the packaging industry is necessary to fully appreciate the packaging revolution that has occurred in the consumer and industrial goods sectors. The packaging industry consists primarily of two distinct segments – firms which manufacture the packaging materials and the marketing research agencies which conduct specialised packaging research, generally for packaging development and adoption.

Newer materials are constantly emerging in the packaging field and in many cases, which have eliminated or threatened the older materials, such as wood and steel, because of the relative cost advantage or better performance characteristics. The important packaging materials today are:

- (a) Metals - Aluminium, Tinplate and steel
- (b) Plastics - PVC, HDPE, etc.
- (c) Wood - Wood and cellulose film
- (d) Paper - Paper, board, corrugated board, etc.
- (e) Glass - Clear, tinted, etc.
- (f) Laminated - Aluminium, foils, plastic film, etc.

#### **3.2 Reasons for Packaging**

There are various reasons for packaging, among these are:

- (1) Packaging is used to protect the contents of the product from spoilage or wastage. Packages ensure that consumers receive the products in good condition and then derive the best benefit from them. This protective package is referred to as the primary package.
- (2) Packages can also be used as a form of promotion. The primary package can be so designed as to attract customers to the product. Some of the packages can be used after the main content has been used up. Designs, sites and colours of packages can also be employed as means of promoting the product at their points of sale.

- (3) Packaging may implement a company's marketing programme. Packaging helps to identify a product and thus may prevent substitution of competitive goods. A package may be the only significant way in which a firm can differentiate its product. In the case of convenience goods or industrial operating supplies, for example, most buyers feel that one well known brand is about as good as another. Retailers recognise that effective protection and promotion features in a package can cut their costs and increase sales.
- (4) Management may package its product in such a way as to increase profit possibilities. A package may be so attractive that customers will pay more attention to get the special package even though the increase in price exceeds the additional cost of the package. Also, an increase in ease of handling or a reduction in damage losses will cut marketing costs, again increasing profit.

### 3.3 Functions of Packaging

Packaging provides the following functions:

- (1) **Protection:** This is the one which is the oldest and most basic. The primary function is to protect the products from environmental and physical hazards to which the product can be exposed, in transit from the manufacturer's plant to the retailer's shelves and while on display on the shelves. The specific types of hazards against which protection has to be sought would obviously vary from product to product. It is however possible to identify the principal hazards which are almost universal. These are:
  - (a) Breakage/damage due to rough mechanical or manual handling during transportation.
  - (b) Extremes of climatic conditions which can lead to melting, freezing, etc.
  - (c) Contamination either bacterial or non-bacterial, such as by dirt or chemical elements.
  - (d) Absorption of moisture or odours of foreign elements.
  - (e) Loss of liquid or vapour.
- (2) **Appeal:** The package is increasingly being used as a marketing tool, especially in certain types of consumer products such as perfumes or several other gift articles. The importance is also substantially due to the changed structure of retail business, especially the emergence of self-service stores.

In the case of consumer products, the package serves as a silent salesman. This is true irrespective of whether the product is a luxury, semi-luxury or an ordinary everyday use product. The following characteristics have been identified to help a package perform the self-selling tasks:

- (a) The package must attract attention.
- (b) The package must tell the product industry.
- (c) The package must build confidence.

- (d) The package must look clean and hygienic.
- (e) The package must be convenient to handle.
- (f) The package must reflect good value.

Packaging, however, is of greater importance in the case of certain specific types of articles. Industry-wide studies in several countries showed that packaging costs in the cosmetics industry far outrun those of other industries. This excessively high incidence is not due to the packaging which is required for the protective function, but for making the product attractive, a status symbol and ego-satisfying. Other products, such as chocolates in gift packs also are instances where packaging performs a basic marketing function by making the products more appealing.

Consumer research on packaging has basically concentrated on two aspects which are presumed to have an influence on consumer purchase decisions. The first one is **colour** and the second is the **package or container design**.

Almost all researchers have come to the conclusion that each colour has its own distinct characteristics and, therefore, has to be used in the package so that there is no mismatch between what is expected of the package and the colour used in the packaging.

One additional problem in this area is that nationals in different countries display divergent colour preferences, due to their diverse socio-cultural-religious backgrounds. Similarly, research has been carried out on the desirable properties of a container. Slender, cute- containers are often used for beauty-care products for the feminine sex, as these are expected to create an appropriate image of the product. Graphics and logo-types are also important in designing and conveying the total product image.

There are several accepted promotional packaging techniques. Some of these are:

- a. **Money-off Pack:** A 'flush' in distinctive colour is superimposed on the package, announcing the specific price discount being offered. This is the most widely used form.
  - b. **Coupon-pack:** A coupon, either as a part of the package or placed separately in the package, of a certain value can be redeemed after the purchase of the product.
  - c. **Pack-in-premium:** A premium, i.e. the gift, is packed within the original product, e.g. a handkerchief.
  - d. **Premium-package:** A specially made package having either a re-use or prestige value. Instant coffee packed in drinking glasses having closures is an example of the first type. The set of audio cassettes of Tagore songs released by the gramophone company of India in 1986 which was presented in a specially designed wooden box is an example of the second type.
- (3) **Performance:** This is the third function of a package. It must be able to perform the task for which it is designed. This aspect becomes crucial in



certain types of packaging. For example, an aerosol spray is not only a package but also an engineering device. If the package does not function, the product itself becomes totally useless.

- (4) **Convenience:** The package must be designed in a way which is convenient to use. The important point to be appreciated however is that it should be convenient, not only to the end-users, but also to the distribution channel members, such as wholesalers and retailers. From their standpoint, the convenience will relate to handling and stocking of packages. The specific attributes they would seek in a package in this context are:

The package must be convenient to stock.

- a. The package must be convenient to display.
- b. The package does not waste shelf-space.
- c. The package retains its looks during the shelf-life.
- d. The master packages/cartons are easy to dispose of.

Because of the increasing concern with solid-waste disposal, the last factor has assumed importance in developed countries. However, from the standpoint of domestic or institutional end-users, convenience would refer to the use of the package, such as opening and closure of the package, the repetitive use value, disposability, etc.

- (5) **Cost Effectiveness:** The package finally must be cost-effective. Packaging cost as a percentage of product cost varies dramatically from one industry to another. It is important to appreciate that while analyzing packaging costs, it is not enough to consider only the cost of package. This is only one, though the most important, element of the total costs associated with packaging. Cost in this chain consists of:

- a. Package costs incurred in inward delivery to the factory when the product is purchased from outside.
- b. Storage and handling costs of the empty packages.
- c. Storage costs of the filled packages.
- d. Transport cost for distributing filled packages.
- e. Insurance cost for the transit period, etc.

### **SELF-ASSESSMENT EXERCISE**

Do kindly attempt this question before you read further:

Colgate recently introduced a small size packaging for its toothpaste and backed it with heavy advertising. Despite Colgate's market strength, the small pack did not perform as expected in the market.

1. Find out the differences between the existing and the new packaging.

2. Do you think the specific attributes of the new package were in any way responsible for the failure of these small packs? If yes, identify the specific package attributes which contributed to the failure.

### 3.4 The Growth of Packaging Usage

There are several factors responsible for the growth of packaging usage globally. Among them are:

- (1) **Self-service:** An increasing number of products are sold on a self-service basis in supermarkets and discount houses. Kotler (1997) reported that in an average supermarket, which stocks 15,000 items, the typical shopper passes by some 300 items per minute. Given that 53% of all purchases are made on impulse the effective package operates as a five-second commercial. The package must perform many of the sales tasks. It must attract attention, describe the product's features, create consumer confidence, and make a favourable overall impression.
- (2) **Consumer Affluence:** Rising consumer affluence means consumers are willing to pay a little more for the convenience, appearance, dependability and prestige of better packages.
- (3) **Company and Brand Image:** Companies are recognizing the power of well-designed packages to contribute to instant recognition of the company or brand. The Campbell Soap Company estimates that the average shopper sees its familiar red and white can 76 times a year, creating the equivalent of US\$26 million worth of advertising.
- (4) **Innovation Opportunity:** Innovative packaging can bring large benefits to consumers and profits to producers. For example, toothpaste pump dispensers have captured 12% of the toothpaste market because, for many consumers, they are more convenient and less messy.

### 3.5 Legal Dimensions of Packaging

While managing the packaging function, constant attention needs to be given to the various regulations that the government has laid down in this respect. Government regulations are many and encompass areas such as the use of specific packaging materials for certain products, consumer protection, transportation of hazardous cargo, etc.

The most pervasive among these is the regulation relating to the information a manufacturer is obliged to provide in the package on the product itself. This is commonly known as labelling requirement and covers a host of commodities. Principal among these are food products, cosmetics and pharmaceuticals.

Statutory requirements relate generally to:

- (a) Net weight, when packed.

- (b) Date of manufacture.
- (c) Date of expiry.
- (d) Maximum retail price including or excluding local taxes.
- (e) Directions for use, including dosage requirements.
- (f) Directions for storage.

### **3.6 Criticisms of Packaging**

Packaging is in the socio-economic forefront today because of its relationship to environmental pollution issues. Perhaps, the biggest challenge facing packagers is how to dispose of used containers, which are a major contributor to the solid-waste disposal problem. However, consumers' desire for convenience conflicts with their desire for a clean environment.

Other socio-economic criticisms of packaging are:

- a) Packaging depletes our natural resources. This criticism is offset, to some extent, as packagers increasingly make use of recycled materials.
- b) Packaging is excessively expensive – cosmetic packaging is often cited as an example here. But even in seemingly simple packaging, beer, for example, half the production cost goes for the container. On the other hand, effective packaging reduces transportation costs and losses from product spoilage.
- c) Health hazards occur from some forms of plastic packaging and some aerosol cans although government regulations have banned the use of several of these suspect packaging materials.

### **4.0 CONCLUSION**

Packaging is becoming increasingly important as sellers recognize the environmental pollution issues, as well as the marketing opportunities involved in packaging. Packaging is another crucial aspect of marketing which plays an important role in determining the success of a product. Marketing decisions such as those related to pricing and distribution are not so obviously critical from the customers' viewpoint, simply because they are not so aware of them, but the implications of your packaging decision are obvious since the customer confronts it face-to-face. There are so many instances of good products having failed because of poor packaging. A good packaging must protect the contents stored inside it, be attractive to the customer, be convenient to handle, store and use and perform the functions required of it. The Nigerian market is today flooded with exciting new types of packaging materials which have replaced the traditional packages. These new packaging materials have made it possible to market products such as water, beer, foods, and snacks.

### **5.0 SUMMARY**

In this unit, we discussed packaging, the functions, rationale for packaging, etc. as a marketing tool that marketing executives use to increase sales and profits.

## **6.0 TUTOR-MARKED ASSIGNMENT**

Most often, packaging is described as deceptive and excessively expensive, yet marketing executives cannot do without packaging. Explain why.

## **7.0 REFERENCES/FURTHER READINGS**

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## MODULE 3

Unit 1	Labelling
Unit 2	Price Policies and Practices
Unit 3	Marketing Communication
Unit 4	Advertising and Publicity
Unit 5	Personal Selling and Sales Promotion
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### UNIT 1 LABELLING

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#### 1.0 INTRODUCTION

Research is ongoing on the development of new products and improvement on the existing ones. These products are sold across the world in different markets to various classes of consumers by different companies. These companies have to differentiate their products from other competitors' products in the market. Companies differentiate their products by labelling differently. Label is one of the legal requirements in identifying one company's product(s) from other companies' products. Label is an important aspect of marketing. This is because it describes the product, its elements and other details about the product. This unit examines what a label is, its characteristics and various forms of labelling.

#### 2.0 OBJECTIVES

At the end of this unit, you should be able to:

- define/describe a label
- discuss its role in marketing
- explain various forms of label

- explain its legal consideration.

### **3.0 MAIN CONTENT**

#### **3.1 Definition of Labelling**

Labelling is another product feature that requires managerial attention.

The label is the part of a product that carries verbal information about the product or the seller. A label may be part of a package, or it may be a tag attached directly to the product. Labelling is a subset of packaging. Labels may range from simple tags attached to products to complex graphics that are part of the package. It should be noted that there is a close relationship between labelling and packaging, and between labelling and branding.

#### **3.2 Functions of Labels**

Labels perform several functions, and the seller has to decide which one to use. They include the following:

- (1) A label identifies the product or brand, such as the crown in Mercedes cars.
- (2) A label grades the product, such as canned peaches are grade- labelled A, B and C.
- (3) A label describes several things about the product – Who made it? Where it was made? When it was made? Its content? How it is to be used? How to use it safely?
- (4) A label promotes products through attractive graphics. Before we proceed further, kindly attempt the following exercise:

#### **SELF -ASSESSMENT EXERCISE**

Describe four basic functions of labels.

#### **3.3 Forms of Labels**

Labels are classed as brand, grade and descriptive.

- (a) A brand label is simply the brand alone applied to the product or to the package. For example, some oranges are brand-labelled (stamped) Sunkist or Blue Goose, and some clothes carry the brand label Sentionised.
- (b) A grade label identifies the quality with a letter, number or word. For example, canned peaches are grade-labelled A, B and C, and corn and wheat are grade-labelled 1 and 2. Also, Peak milk is graded Nigeria and Holland made.
- (c) Descriptive labels give objective information about the use, construction, care, performance or other features of the products. For example, in a descriptive

label for a can of corn, there will be statements concerning the type of corn (Golden Sweet), the style (Creamed or in Niblet Romels) and the can size, number of servings, other ingredients and nutritional contents.

### **3.4 Argument For and Against Labelling**

Brand labelling creates very little stir among critics. While it is an accessible form of labelling, the severe limitation is that it does not supply sufficient information to a buyer. The real fight centres on grade versus descriptive labelling, and whether grade labelling should be mandatory.

The proponents of grade labelling argue that it is simple, definite and easy to use. They also point out that if grade labels were used, prices would be more related to quality. They equally argue that grade labelling might increase competition, because consumers would be able to judge products on the basis of both price and known quality. The cost of grade labelling is very low, so it would not place a greater burden on the manufacturer.

However, those who object to grade labelling point out that it is not possible to grade differences in flavour and taste, or in style and fashion. A very low score on one grading characteristic can be offset by very high scores on other factors. For example, regarding Coke and Pepsi, some people claim that Coca-cola is of high quality but has high gas content, while Pepsi Cola is of low quality but has less gas content.

Companies selling products that score high within a given grade would be hurt by grade labelling. It would not be possible for these companies to justify a higher price than that charged for another.

Some people also argue that grades are an inaccurate guide for consumer buying, because the characteristics selected for grading, weights assigned to them and the means of measuring them are all established on an arbitrary basis.

Labels eventually become outmoded and need freshening; hence, marketing executives should ensure that their labels meet the changes in the business environment.

### **3.5 Legal Consideration for Labelling**

There is a long history of legal concerns surrounding labels, packaging and generally products. In 1914, the US Federal Trade Commission Act held that false, misleading or deceptive labels or packages constituted unfair competition. The fair packaging and labelling Act, passed by the US Congress in 1967, set mandatory labelling requirements, and encouraged voluntary industry packaging standards.

For example, in the past, the labelling of clothing, furs and piece goods was often confusing and misleading to the consumer. As a result, three important labelling laws

were passed. The Wool Products Labelling Act (1940) provides that a clothing Product containing any wool must be labelled to explain clearly what kind of wool is used (virgin, reprocessed, etc.) and what percentage of each type is included in the product. The Fur Products Labelling Act (1951) provides that in identifying a fur garment, the label must state the usual or natural name of the fur and its country of origin. And the Textile Fibre Products Identification Act (1958) provides that clothing garments and household textiles, including rugs, must carry the generic description of the fibre content.

The food and drug administration has also established a set of labelling standards for processed foods to ensure full disclosure of their nutritional content. Labels must clearly state the amounts of protein, fat, carbohydrate and calories contained in the contents of the package. Vitamin and mineral content must be expressed as a percentage of the recommended daily allowance. Also, ingredients must be listed in the order in which they are contained in the product.

It should be noted that this is not exhaustive; there are other legal considerations/requirements.

#### **4.0 CONCLUSION**

Consumers' desire to satisfy their taste, choice and other marketing mix elements leads to mass production of goods and/or services by manufacturers. These goods/services must be differentiated from one company to another. Labelling is one way of differentiating these.

Labelling is so important that most consumers do not remember brand names of some products consumed, but identify them through labels attached to them. Therefore, a label must be well designed and shaped in order to catch the attention of the target and prospective consumers. The social significance of labelling should be considered as well. Necessary legal requirements in respect of labels were exhaustively examined.

#### **5.0 SUMMARY**

In this unit, we examined label as one of the features of a product and its planning. Also, discussed in this unit are:

- Functions of labels
- Forms of label
- Its legal requirements
- Necessary arguments put forward on labelling.

#### **6.0 TUTOR-MARKED ASSIGNMENT**

Brand names identifies a product/service, thus, labelling is unnecessary waste of resources. Discuss.



## **7.0 REFERENCES/FURTHER READINGS**

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## UNIT 2 PRICING POLICIES AND PRACTICES

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  - 3.4 Objectives of Pricing Policy
  - 3.5 Consumer Psychology and Pricing
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### 1.0 INTRODUCTION

Price is an important element of the marketing mix. It can be used as a strategic marketing variable to meet competition. It is also a direct source of revenue for the firm. It must not only cover the costs but leave some margin to generate profit for the firm. However, price should not be so high as to frighten the customers. Price is also an element, which is highly perceptible to customers and significantly affects their decisions to buy a product. In general, price directly determines the quality to be sold. That is why electric fans are sold at lower prices and hotels reduce their tariffs during off-season periods to attract customers. This unit examines pricing policies and some strategies adopted by company executives.

### 2.0 OBJECTIVES

At the end of this unit, you should be able to:

- state the factors affecting the pricing decision
- state the importance and role of cost in pricing
- identify the different methods used in pricing
- explain how pricing can be used to achieve the objectives at each stage of the products life-cycle
- state the difference in pricing of customer and industrial products

- outline how pricing can help position a product in relation to other competing products.

### **3.0 MAIN CONTENT**

#### **3.1 Determinants of Pricing**

Pricing decisions are usually determined by cost, demand and competition. We shall discuss each of these factors separately. We take demand first.

##### **(a) Demand**

The popular 'Law of Demand' states that "the higher the price; the lower the demand, and vice versa, other things remaining the same". In season, due to plentiful supplies of certain, agricultural products, the prices are low and because of low price, the demand for them increases substantially. You can test the validity of this law yourself in your daily life. There is an inverse relationship between price and quantity demanded. If price rises, demand falls and if the price falls, the demand goes up. Of course, the law of demand assumes that there should be no change in the other factors influencing demand except price. If any one or more of the factors, for instance, income, the price of the substitutes, taste and preferences of the consumers, advertising, expenditures, etc. vary, the demand may rise in spite of a price rise, or alternatively, the demand may fall in spite of a fall in price. However, there are important exceptions to the law of demand.

There are some goods, which are purchased mainly for their 'snob appeal'. When prices of such goods rise, their snob appeal increases and they are purchased in larger quantities; therefore, their demand falls. Diamonds provide a good example.

In the speculative market, a rise in price is frequently followed by larger purchases and a fall in prices by smaller purchases. This is especially applicable to purchases of industrial raw materials.

More important than the law of demand is the elasticity of demand. While the law of demand tells us the direction of change in demand, elasticity of demand tells us the extent of change in demand. Elasticity of demand refers to the response of demand to a change in price.

It is necessary for the marketer to know what would be the reaction of the consumers to the change he wishes to make in the price. Let us take some examples. Smokers are usually so addicted to smoking that they will not give up smoking even if prices of cigarettes increase. So also the demand for salt or for that of wheat is not likely to go down even if the prices increase. Another example of inelastic demand is the demand for technical journals, which are sold mainly to libraries. On the other hand, a reduction in the price of television will bring in more than a proportionate increase in demand. Some of the factors determining the price-elasticity of demand are the nature

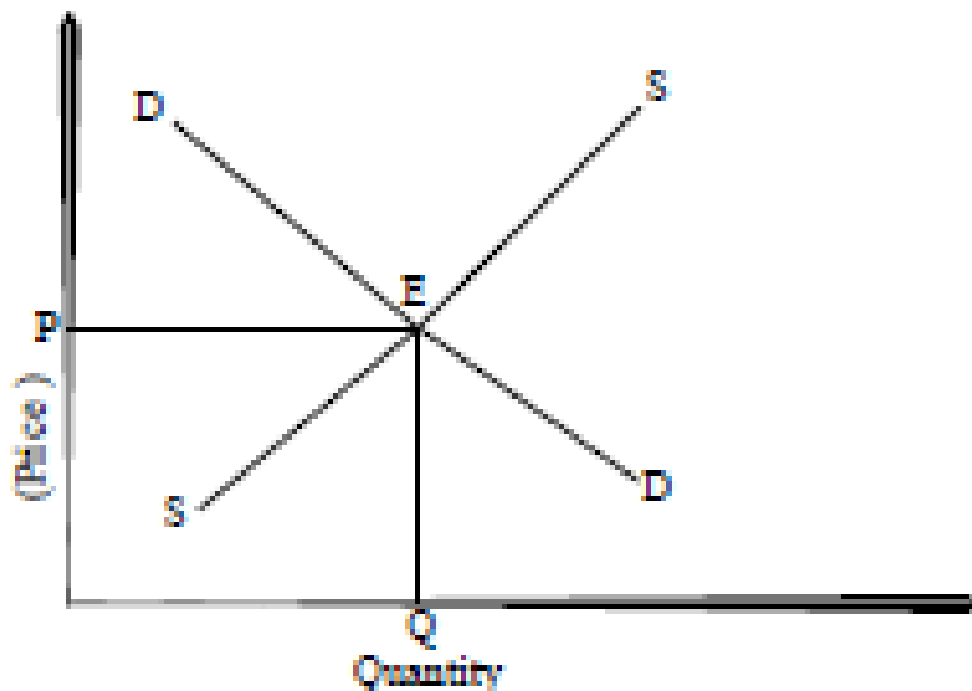
of the commodity, whether it is a necessity or luxury, extent of use, range of substitutes, urgency of demand and frequency of purchase of the product.

The concept of elasticity of demand becomes crucial when a marketer is thinking of lowering his price to increase the demand for his product and to get a larger market share. If the increase in sales is more than proportionate to the decline in price, his total sale proceeds and his profits might be higher. If the increase in sales is less than proportionate, his total sales proceeds will decline and his profits will definitely be less. Thus, knowledge of the elasticity of demand for his products will help a marketer to determine whether and to what extent he can cut the price or pass on the increase in cost to the consumer.

It may also be noted that the price elasticity of demand for a certain commodity and the price elasticity of demand for a certain brand of that commodity may be radically different. For example, while cigarettes as such, may be highly inelastic, the price elasticity of demand for 'Capstan' or 'Charms' may be highly elastic. The reasons for these are weak brand loyalty and the availability of substitutes.

### Competition

The degree of control over prices, which the sellers may exercise, varies widely with the competitive situation in which they operate. Sellers operating under conditions of pure competition do not have any control over the prices they receive. A monopolist, on the other hand, may have some pricing discretion. The marketer; therefore, needs to know the degree of pricing discretion enjoyed by him. Let us take up each of these cases individually.



**Fig. 1: Pricing under Perfect Competition**

DD = Demand Curve

SS = Supply Curve

E = Point of Equilibrium

In pure competition, all that the individual seller can do is to accept the price prevailing in the market i.e. he is in the position of a price taker. If he wants to charge a higher price, buyers will purchase from other sellers. And he need not charge less since he can sell his small supply at the going market price.

Under a monopoly, a single producer has complete control of the entire supply of a certain product. Railways and telephones are examples of monopoly. The main features of a monopoly are (i) there is only one seller of a particular good or service and (ii) rivalry from the producers of substitutes is so remote that it is almost insignificant. As a result, the monopolist is in a position to set the price himself. Thus, he is in the position of a price setter.

However, even in the case of a monopolist, there are limits to the extent to which he can increase his prices. Much depends on the elasticity of demand for the product. This, in turn, depends on the extent of availability of substitutes for the products. And in most cases, there is rather an infinite series of closely competing substitutes. Even railways and telephone organisations must take into account potential competition by alternative services – railways may be substituted by motor transport and telephone calls by telegrams. The closer the substitute and greater the elasticity of the demand for a monopolist's product, the less he can raise his price without frightening away his customers. The high price of oil has led to the development of alternative sources of energy, such as solar energy.

Monopolies are constantly reducing due to the following reasons:

- 1) shifts in consumer demand
- 2) continuous process of innovation and technological developments leading to development of substitutes
- 3) lack of stimulus to efficiency provided by competition
- 4) entry of new competitors Intervention by governments.

Oligopoly is a market situation characterised by a few sellers, each having an appreciable share in the total output of the commodity. The automobile, cement, tyre, infant food, dry batter, tractor, cigarette, aluminium and razor blade industries provide examples of oligopolies. In each of these industries, each seller knows his competitors individually in each market.

Each oligopolist realises that any change in his price and advertising policy may lead rivals to change their policies. Hence, an individual firm must consider the possible reactions of the other firms to its own policies. In such cases, there is a strong tendency towards close collaboration in policy determination in regard to both production and prices. Thus, oligopolists follow the philosophy of 'live and let live'.

Oligopolistic industries are usually characterised by what is known as price leadership – a situation where firms fix their price in a manner dependent upon the price charged by one of the firms in the industry, called the price leader. The price leader has lower costs and adequate financial resources, a substantial share of the market and a reputation for sound pricing decisions. Price leaders with the strongest position in the market may often increase their prices with the hope that competitors will follow suit. Price followers may delay raising their prices in the hope of snatching a part of the market share away from the leader.

Monopolistic competition is a market situation, in which there are many sellers of a particular product, but the product of each seller is in some way differentiated in the minds of consumers from the product of every other seller. None of the sellers is in a position to control a major part of the total supply of the commodity, but every seller so differentiates his/her portion of the supply from the portions sold by others, that buyers hesitate to shift their purchases from his/her product to that of another in response to price differences. At times, one manufacturer may differentiate his/her own products.

For example, a blade manufacturer may manufacture more than 25 brands of blades. This differentiation of products by each manufacturer by giving it a brand name gives him some amount of monopoly if he is able to create goodwill for his products and he may therefore be able to charge higher prices to some extent. Still, his product will have to compete with similar products of other manufacturers, which puts a limit on his pricing discretion. If he charges too high a price, consumers may shift their loyalty to other competing suppliers. You can find it out yourself by going to the market, to see that a large number of consumer goods like toothpaste, soap, cigarettes; radios, etc. are subject to a large degree of product differentiation as a means of attracting customers.

As long as a consumer has an impression that a particular product brand is different and superior to others, he/she will be willing to pay more for that brand than for any other brand of the same commodity. The differences, real or illusory, may be built up in his or her mind by:

- (a) recommendations by friends,
- (b) advertising and
- (c) his own experience and observation.

The producer gains and retains his customers by

- (a) competitive advertising and sales promotion,
- (b) the use of brand names, quite as much as by
- (c) price competition.

Product differentiation is more typical of the present day economic system, than either pure competition or monopoly. And, in most cases, an individual firm has to face

monopolistic competition. It tries to maintain its position and promote its sales by either:

- a) changing its price and indulging in price competition, or
- b) intensifying the differentiation of its product, and /or
- c) increasing its advertisement and sales promotion efforts.

There is a popular belief that costs determine price. It is because the cost data constitute the fundamental element in the price setting process.

However, their relevance to the pricing decision must neither be underestimated nor exaggerated. For setting prices, apart from costs, a number of other factors have to be taken into consideration. Demand is of equal, and in some cases of greater importance than costs. An increase in price is possible, even without any increase in costs.

Very often, price determines the cost that may be incurred. The product is tailored to the requirements of the potential consumers and their capacity to pay for it. For example, radio manufacturers in India realised that if they had to capture the mass market prevailing in India, they had to price it low, which could be done only by reducing the cost – reducing the number of wave – bands in the radio. And now a single wave band radio is available at about N100.

If costs were to determine prices, why do so many companies report losses? There are marked differences in costs between one producer and another. Yet the fact remains that the prices are quite close for a somewhat similar product. This is the best evidence that costs are not the determining factor in pricing.

Price decisions cannot be based merely on cost because it is very difficult to measure costs accurately. Costs are affected by volume, and volume affected by price. The management has to assume some desired price and volume relationship for determining costs. That is why costs play even a less important role in case of new products as compared to existing products. It is not possible to determine costs without having an idea of what volumes or numbers can be sold. But, since there is no experience of volumes, costs and prices, one starts with the going market price for similar products.

All this discussion does not purport to show that costs should be ignored altogether while setting prices. Costs have to be taken into consideration. In fact, in the long run, if costs are not covered, manufacturers will withdraw from the market and supply will be reduced which, in turn, may lead to higher prices. The point that needs emphasis is that cost is not the only factors in setting prices. Cost must be regarded only as an indicator of the price, which ought to be set after taking into consideration the demand, the competitive situation, and other factors.

Costs determine the profit consequences of the various pricing alternatives. Cost calculations may also help in determining whether the product, whose price is determined by its demand, is to be included in the product line or not.

### **SELF-ASSESSMENT EXERCISE**

In the example stated in Exercise 1, the cost behaviour changes levels of production as follows:

No. of units manufactured	Cost Price per unit (N)
50,000	450
45,000	470
55,000	440
60,000	430
70,000	420
100,000	400

Considering the price levels and expected sales mentioned earlier in

### **SELF-ASSESSMENT EXERCISE**

What would be the optimal price under above behaviour situation?

## **3.2 Pricing Methods**

After discussing the various considerations affecting pricing policies, it would be useful to discuss the alternative pricing methods most commonly used. These methods are:

- 1) Cost-plus or Full-cost pricing
- 2) Pricing for a rate of return, also called target pricing
- 3) Marginal cost pricing
- 4) Going rate pricing, and
- 5) Customary prices.

The first three methods are cost-oriented, as the prices are determined on the basis of costs. The last two methods are competition-oriented, as the prices here are set on the basis of what competitors are charging.

## **3.3 Cost-Plus or Full-Cost Pricing**

This is the most common method used in pricing. Under this method, the price is set to cover costs (materials, labour and overhead) and a predetermined percentage for profit. The percentage differs strikingly among industries, among member-firms and



even among products of the same firm. This may reflect differences in competitive intensity, differences in cost base and differences in the rate of turnover and risk.

In fact, it denotes some vague notion of just profit.

What determines the normal profit? Ordinarily margins charged are highly sensitive to the market situation. They may, however, tend to be inflexible in the following cases:

- 1) They may become merely a matter of common practice.
- 2) Mark-ups may be determined by trade associations either by means of advisory price lists or by actual lists of mark-ups distributed to members.
- 3) Profits sanctioned under price control as the maximum profit margins remain the same even after the price control is discontinued. These margins are considered ethical as well as reasonable. Their inadequacies are:
  - a) **It ignores demand** – there is no necessary relationship between cost and what people will pay for a product.
  - b) **It fails to reflect the forces of competition adequately-** Regardless of the margin of profit added, no profit is made unless what is produced is actually sold.
  - c) **Any method of allocating overheads is arbitrary and may be unrealistic.** Insofar as different prices would give rise to different sales volumes, unit costs are a function of price, and therefore, cannot provide a suitable basis for fixing prices. The situation becomes more difficult in multi-product firms.
  - d) It may be based on a concept of cost which may not be relevant for the pricing decision.

### **Explanation for the widespread use of Full-cost Pricing**

A clear explanation cannot be given for the widespread use of full-cost pricing, as firms vary greatly in size, product characteristics and product range, and face varying degrees of competition in markets for their products. However, the following points may explain its popularity:

- 1 Price based on full-cost looks factual and precise and may be more defensible on moral grounds than prices established by other means.
- 2 Firms preferring stability, use full-cost as a guide to pricing in an uncertain market where knowledge is incomplete. In cases where costs of getting information are high and the process of trial and error is costly, they use it to reduce the cost of decision-making.
- 3 In practice, firms are uncertain about the shape of their demand curve and about the probable response to any price change. This makes it too risky to move away from full-cost pricing.
- 4 Fixed costs must be covered in the long run and firms feel insecure if they are not covered in the long run either.

- 5 A major uncertainty in setting a price is the unknown reaction of rivals to that price. When products and production processes are similar, cost-plus pricing may offer a source of competitive stability by setting a price that is more likely to yield acceptable profit to most other members of the industry also.
- 6 Management tends to know more about product costs than factors which are relevant to pricing.
- 7 Cost-plus pricing is especially useful in the following cases:
- a) Public utilities such as electricity supply, and transport, where the objective is to provide basic amenities to society at a price which even the poorest can afford.
  - b) Product tailoring, i.e. determining the product design when the selling price is predetermined. The selling price may be determined by government, as in the case of certain drugs, cement, and fertilizers. By working back from this price, the design and the permissible cost is decided upon. This approach takes into account the market realities by looking from the viewpoint of the buyer in terms of what he wants and what he will pay.
  - c) Pricing products that are designed to the specification of a single buyer as applicable in case of a turnkey project. The basis of pricing is estimated cost plus gross margin that the firm could have got by using facilities otherwise.
  - d) Monophony buying – where the buyers know a great deal about suppliers' costs as in the case of an automobile maker buying components from its ancillary units. They may make the products themselves if they do not like the price. The more relevant cost is the cost that the buying company, say the automobile manufacturer, would incur if it made the product itself.

### 3.3.1 Pricing for a Rate of Return

An important problem that a firm might have to face is one of adjusting the prices to changes in costs. For this, popular policies that are often followed are as:

- 1 Revise prices to maintain a constant percentage mark-up over costs.
- 2 Revise prices to maintain profits as a constant percentage of total sales.
- 3 Revise prices to maintain a constant return on invested capital

The use of the above policies is illustrated below:

#### ILLUSTRATION

A firm sells 100,000 units per year at a factory price of N12 per unit.

The various costs are given below:

Variable Costs	Materials	N360,000
	Labour	N420,000
Fixed Costs	Overhead	N120,000

Selling & Administrative charges	N180,000
Total investment in cash, inventory and equipment	N800,000
Total investment in cash, inventory and equipment	N800,000

Suppose the labour and materials cost increases by 10 per cent. The question is how to revise price according to the three policies discussed above.

The above data reveal that costs are N1,080,000. The profits as percentage of costs, sales and capital employed (according to the three policies are):

1	Percentage over Costs	$\frac{120,000}{1,080,000}$	= 11.1
2	Percentage on Sales	$\frac{120,000}{1,200,000}$	= 10
3	Percentage on Capital employed	$\frac{120,000}{800,000}$	= 15

The revised costs are N1,158,000 (N1,080,000 + 36,000 + 42,000)

According to the first formula, we have to earn a profit of 11.1 per cent on costs. Our revised profits should be #128,667 and sales volume on this basis would be N1,286,667. The selling price would, therefore be N12.87 per unit.

Under the second formula, the profit should be 10 per cent on sales. If sales are (S), the profit would be S/10 and cost would be 9S/10. The cost known to us and we have to find out the sales.

If  $9S/10 = N1,158,000$  then  $S = N1,286,667$

Therefore, the price per unit is N12.87.

Under the third formula, we assume that the capital investment is the same. Therefore, the required profit is N120,000 (15 per cent on N800,000). The sales value would then be N1,278,000 and the selling price per unit would be N12.78.

Rate of return pricing is a refined variant of full-cost pricing. Naturally, it has the same inadequacies, viz. it tends to ignore demand and fails to reflect competition adequately. It is based upon a concept of cost, which may not be relevant to the pricing decision in hand and overplays the precision of allocated fixed costs and capital employed.

### 3.3.2 Marginal Cost Pricing

Under full-cost and rate-of -return pricing, prices are based on total costs comprising fixed and variable costs. Under marginal cost pricing, fixed costs are ignored and prices are determined on the basis of marginal cost. The firm uses only those costs that are directly attributable to the output of a specific product.

With marginal cost pricing, the firm seeks to fix its prices so as to maximise its total contribution to fixed costs and profit. Unless the manufacturer's products are in direct competition with each other, this objective is achieved by considering each product in isolation and fixing its price at a level, which is calculated to maximise its total contribution.

#### Advantages

1. With marginal cost pricing, prices are never rendered uncompetitive merely because of a higher fixed overhead structure. The firm's price will be rendered uncompetitive by higher variable costs, and these are controllable in the short run while certain fixed costs are not.
2. Marginal cost pricing permits a manufacturer to develop a far more aggressive pricing policy than does full-cost pricing. An aggressive pricing policy should lead to higher sales and possibly reduced marginal costs through increased marginal physical productivity and lower input factor prices.
3. Marginal cost pricing is more useful over the life-cycle of a product, which requires short-run marginal cost and separable fixed data relevant to each particular state of the cycle, not long- run full-cost data.

Marginal cost pricing is more effective than full-cost pricing because of two characteristics of modern business:

- 1) The prevalence of multi-product, multi-process and market concerns makes the absorption of fixed costs into product costs absurd. The total costs of separate products can never be estimated satisfactorily, and the optimal relationships between costs and prices will vary substantially both among different products and between markets.
- 2) In many businesses, the dominant force is innovation combined with constant scientific and technological development, and the long-run situation is often highly unpredictable. There is a series of short runs. When rapid developments are taking place, fixed costs and demand conditions may change from one short run to another, and only by maximising contribution in each short run will profit be maximized in the long-range.

#### Limitations

1. The encouragement to take on business, which makes only a small contribution to the business, arises. Such business may have to be foregone

because of inadequate free capacity, unless there is an expansion in organisation and facilities, with the attendant increase in fixed costs.

2. In a period of business recession, firms using marginal cost pricing may lower prices in order to maintain business and this may lead other firms to reduce their prices, leading to cut-throat competition. With the existence of idle capacity and the pressure of fixed costs, firms may successively cut down prices to a point at which no one is earning sufficient total contribution to cover its fixed costs and earn a fair return on capital employed.

In spite of its advantage, due to its inherent weakness of not ensuring the coverage of fixed costs, marginal cost pricing has usually been confined to pricing decision relating to special orders.

### **3.3.3 Going-Rate Pricing**

Instead of the cost, the emphasis here is on the market. The firm adjusts its own price policy to the general pricing structure in the industry. Where costs are particularly difficult to measure, this may seem to be the logical first step in a rational pricing policy. Many cases of this type are situations of pricing leadership. Where price leadership is well established, charging according to what competitors are charging may be the only safe policy.

It must be noted that 'going-rate pricing' is not quite the same as accepting a price impersonally set by a near perfect market. Rather it would seem that the firm has some power to set its own price and could be a price maker if it chooses to face all the consequences. It prefers, however, to take the safe course and conform to the price of others.

### **3.3.4 Customary Pricing**

Prices of certain goods become more or less fixed, not by deliberate action on the seller's part but as a result of their having prevailed for a considerable period of time. With such goods, changes in costs are usually reflected in changes in quality or quantity. Costs change significantly only when the customary prices of these goods are changed.

Customary prices may be maintained even when products are changed. For example, the new model of an electric fan may be priced at the same level as the discontinued model. This is usually so even in the face of lower costs. A lower price may cause an adverse reaction on the competitors leading to a price war so also on the consumers who may think that the quality of the new model is inferior. Perhaps, going with the prices as long as possible is a factor in the pricing of many products.

If a change in customary prices is intended, the pricing executive must study the pricing policies and practices of competing firms and the behaviour and emotional make-up of his opposite number in those firms. Another possible way out, especially

when an upward move is sought is to test the new prices in a limited market to determine the consumer reaction.

### 3.4 Objectives of Pricing Policy

Before a marketer fixes a price, he should keep in mind certain basic considerations. The pricing policy he adopts is closely related to his other policies, like production programme, advertising policy, and selling methods. For example, it may be necessary to reduce the price to offset the probable loss of sales from a lower advertising budget or to enable fuller utilisation of plant capacity more quickly. Aggressive sales campaign may be necessary to meet the advent of a new competitor. Your price should not be so high that it attracts others to compete with you. A low price may result in such a high volume of sales and low unit costs that profits are maximised even at low prices.

If a marketing manager is to make effective pricing decisions, he should be clear about the firm's long-term marketing objectives for the entire range of products and services. If the firm is interested in increased market share, it would have to resort to penetration pricing. If it is interested in short-term profitability, it may have a higher price even at the expense of sales volume and market share. The following table gives a summary of some marketing objectives and their pricing implications:

#### Some Marketing Objectives & their Pricing Implications

Marketing Area	Marketing Objectives	Pricing Implication
Product	Improve Quality Acceptance	Higher cost = Price increase or lower profit.
Advertising and Promotion	Stronger Support	Increased Advertising and Publicity budget = Price increase or lower profit
Distribution	Additional Selling points	Possibly higher Distribution costs (margin increase)
Consumers/Users	General Acceptance	Increase Advertising and Publicity effort.

**Source:** J.J. Ward (Editor), (1985). *The Export Marketing Management*. Geneva: International Trade Centre.

### 3.5 Consumer Psychology and Pricing

Sensitivity to price change will vary from consumer to consumer. In a particular situation, the behaviour of one individual may not be the same as that of the other. Some important characteristics of the consumer as revealed by research and experience are detailed below:

1. From the point of view of the consumer, prices are quantitative and precise whereas product quality, product image, customer service, promotion and similar factors are qualitative and ambiguous. It is easier to speculate about

what consumers would do if prices rose by 5 per cent than if the quality improved by 5 per cent.

2. Price constitutes a barrier to demand when it is too low just as when it is too high. Above a particular price, the article is regarded as too expensive and, below another price, as constituting a risk of not giving adequate value. If the price is too low, consumers will tend to think that a product is of inferior quality.

Balsara, manufacturers of 'Odonil' and 'Promise' realised that pricing a product too low could adversely affect its sales by creating a credibility problem. Consequently, they began to price their products with higher unit margins, to make higher advertising outlays to emphasise product attributes rather than the price and provide more attractive margins to dealers to push up their products (Business India, April 28-May 11, 1980, 35).

3. Price inevitably enters into the consumer's assessment of quality.

There are two reasons for this:

- (a) It needs expert knowledge and appropriate equipment to test the quality or durability of some particular products (to say nothing of the time and cost involved in carrying out a proper test).
- (b) Customers tend to look upon price itself as a reasonably reliable indicator of quality. What is costly is thought to be of high quality. A higher price is ordinarily taken to be a symbol of extra quality, or extra value of extra prestige. It is very difficult to convince people that something cheap is of good quality and that something expensive is of poor quality. It may be easier to prove that an expensive product is of superior quality than to prove that a cheap product is of good quality. This is especially true of durable consumer goods which are very often differentiated, at least psychologically, through branding, packaging and advertising. In such cases, the sale of certain goods could be stimulated more effectively through higher rather than lower prices for two reasons:
  - (i) The higher price increases the snob appeal of the goods.
  - (ii) The higher price creates confidence in the customer that he/she is getting good quality.
  - (iii) To conclude, in many cases, price is used by the prospective customer as a clue for sizing up the quality of the product. This price quality association is well established.
  - (iv) With an improvement in incomes, the average consumer becomes quality-conscious. An improvement may, therefore, lead to an increase in demand. If this is so, a time may come when a rise in prices results in an increase in demand. This extreme situation may arise if price in increasingly affluent societies comes to serve merely as an indicator of quality.
  - (v) Consumers may be persuaded to pay more for heavily advertised goods. A firm's size, its financial success, and even its age are often perceived by consumers as measures of quality. Well known firms very often assert that by

virtue of their reputation they are able to charge 5 to 10 per cent higher than other firms but definitely not much more.

- (vi) In a comprehensive survey of consumer consciousness, it was revealed that the basic postulate of the demand theory, i.e., the consumer has an appropriate knowledge of market prices, was not fundamentally wrong.

An experimental study in Nigeria showed that more than 50 per cent of the respondents revised their ratings of ready-made shirts after knowing their prices, indicating thereby that price information does have a significant effect on quality perception.

In fact, higher prices that increase consumer readiness to buy may sound uneconomic, but may not be unrealistic. The price-quality concept has equal relevance to new product pricing. The lesson from this discussion is that the producer has considerable flexibility in pricing his products, provided he can create a psychological image of quality.

### **3.6 Nature and Use of Price Discounts**

There are two popular types of discounts:

- 1) Quantity discounts
- 2) Cash Discounts.

#### **Quantity Discounts**

Quantity discounts are price reductions related to the quantities purchased. Quantity discounts may be related to the size of the order being measured in terms of physical units of a particular commodity. This is practicable where the commodities are homogeneous or identical in nature, or where they may be measured in terms of truck-loads. However, this method is not possible in case of heterogeneous commodities which are hard to add in terms of physical units or truck-load. The drug industry and the textile industry offer examples of these types. Here, quantity discounts are based upon the money value of the quantity ordered. Money becomes a common denominator of value.

Quantity discounts based on physical units become important where cost of packing is a significant factor and orders of less than standard quantities, say, less than a case of 6 pressure cookers, may involve higher packing charges per cooker since the space remains unutilised. Thus, quantity discounts may be employed to induce full carton purchasing.

In some cases, quantity discounts may be based on the cumulative purchases made during a particular period, usually a year or a season, e.g. Christmas discounts may be given on the basis of cumulative purchases made during the Christmas season spread over October to December.



One important objective of quantity discounts is to reduce the number of small orders and thereby avoid the high cost of servicing them. Quantity discounts can facilitate economic size order in three ways:

1. A given set of customers is encouraged to buy the same quantity but in bigger lots
2. The customers may be induced to give the seller a larger share of their total requirements by giving preference over competitors.
3. Small size purchasers may be discouraged and bigger size customers may be attracted.

In many cases, discounts have become a matter for trade customers. Quantity discounts are most useful in the marketing of materials and supplies but are rarely used for marketing equipment and components.

### **Cash Discounts**

Cash discounts are price reductions based on promptness of payment. An example of discount can be 2 per cent off if paid in ten days, full invoice price min 30 days. In practice, the term cash discounts may vary widely.

Cash discount is a convenient device to identify and overcome bad credit risks. In certain trades where credit risk is high, cash discounts would be high. If a buyer decides to purchase goods on credit, this reflects his weak bargaining position, and he has to pay a higher price by foregoing the cash discount.

By prompt collections, manufacturers reduce their working capital requirements and thus save their interest costs. However, allowing discounts may involve paying 36.5 per cent in order to save 18 per cent.

On the basis of 2 per cent off if paid in 10 days, full invoice price in 30 days, the seller's cost comes to 36.5 per cent (for getting the money 20 days before he has to lose 2 per cent which amounts to 36.5 per cent per year). He could get accommodation from any bank at about 18 per cent.

Thus, it is the reduction in collection expenses and in risks rather than savings on interest, which should be the guiding consideration for cash discounts.

### **3.7 Product Positioning and Price**

By 'positioning' we mean the way a product is viewed by the customers in comparison with similar products. Price is just one element of the marketing mix and it must reflect the product's position in the market. A toilet soap meant to be a novelty to attract the elite must be sold at a higher price. This is the basic idea behind product differentiation, i.e. to avoid a situation where the product has to compete only on the basis of price.

Pricing is an important element of the marketing mix. Pricing is affected not only by the cost of manufacturing the product, but also by:

- (i) the company's objectives in relation to market share and sales
- (ii) the nature and intensity of competition
- (iii) stage of the product life-cycle at which the product is currently positioned
- (iv) nature of product whether as consumer or industrial product, and if the former, whether it is a luxury or necessity. Before making any pricing decision it is important to understand all these factors.

There are various methods of pricing. The four most commonly used methods are full cost pricing, pricing for rate of return, going rate pricing and customary pricing. While the first two methods are based on the costs incurred, the latter methods are based on the competition's pricing. While from the company's point of view, price represents a kind of 'maximum' that it can charge given its own costs and nature of competition, from the costumer's viewpoint it is a representation of quality of the product.

#### **4.0 CONCLUSION**

Pricing policies are considered one of the most marketing mix elements. The psychological pricing affects mainly from one consumer, to another. The importance attached to the price of a company's product by the consumer is of significant importance to the marketing activities. Thus, in fixing a price for a product, marketing executives should consider necessary pricing policies and other market elements.

#### **5.0 SUMMARY**

In this unit, we examined:

- Pricing methods
- Objectives of pricing policy
- Nature and use of pricing discounts
- Product positioning and price.

#### **6.0 TUTOR-MARKED ASSIGNMENTS**

Let us assume that consumer behaviour in terms of units bought of this manufacturer is as follows:

Price	No. of units sold
22	50,000
21	60,000
20	70,000
23	40,000
24	30,000

25

20,000

What is the price at which the manufacturer should sell the product?

### **7.0 REFERENCES/FURTHER READINGS**

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## UNIT 3     **MARKETING COMMUNICATION**

### **CONTENTS**

- 1.0     Introduction
- 2.0     Objectives
- 3.0     Main Content
  - 3.1    How Communication Works?
  - 3.2    How Communication Influence the Role of Promotion in Market?
  - 3.3    The Promotion Mix
  - 3.4    Determining the Promotion Mix
  - 3.5    The Promotion Budget
- 4.0     Conclusion
- 6.0     Summary
- 6.0     Tutor-Marked Assignment
- 7.0     Reference/Further Readings

### **1.0     INTRODUCTION**

The word ‘communication’ is based on the Latin word meaning ‘common’. Thus, the term communication has come to mean sharing something of common use. In marketing, communication has a very important place. It is that function of marketing which is charged with the task of informing the target customer about the nature and type of the firm’s products and services, their unique benefits, uses and features as well as the price and place at which those would be available in the market-place. Marketing communication is more commonly called ‘promotion’ and constitutes one of the Ps of the marketing mix.

A study of marketing communication, therefore, is a study of the promotion function of marketing. Notwithstanding the continuing debate, whether promotion is the first element of the marketing mix or the last, the fact remains that sound management of the marketing function is dependent on effective management of its promotion function. For example, in the success of the following products and services the promotion function played a role of greater importance: Hot-shot camera, Maggie 2-minute noodles, KST fans, etc. to mention only a few. Similarly, examples of the products which misfired due to faulty management of the promotion function are not far to seek.

With growing competition in the market, as well as the customers becoming better informed and more choosy, it is imperative now that marketing communications of the right kind only are made to the right group of target buyers. In order to understand how the promotion function can be managed effectively, let us begin by first taking a look at how communications work.

## 2.0 OBJECTIVES

At the end of this unit, you will be able to:

- outline the process of marketing communication
- identify the various promotional methods
- define advertising, personal selling, sales promotion and publicity
- discuss the factors that influence a firm's choice of the promotion mix
- explain how promotion budgets are set.

## 3.0 MAIN CONTENT

### 3.1 How Communication Works

We know by now that communication, simply speaking, is sharing of information between the two parties. Such an exchange could be oral or written, personal or public, using words, figures, symbols or a combination. The process of communication begins when one party (called source, sender or communicator) wishes to communicate with another party (the receiver). Communication is complete when the receiver understands in the same sense what the sender wishes to communicate. The various elements of a typical communication process are given in Figure 1.

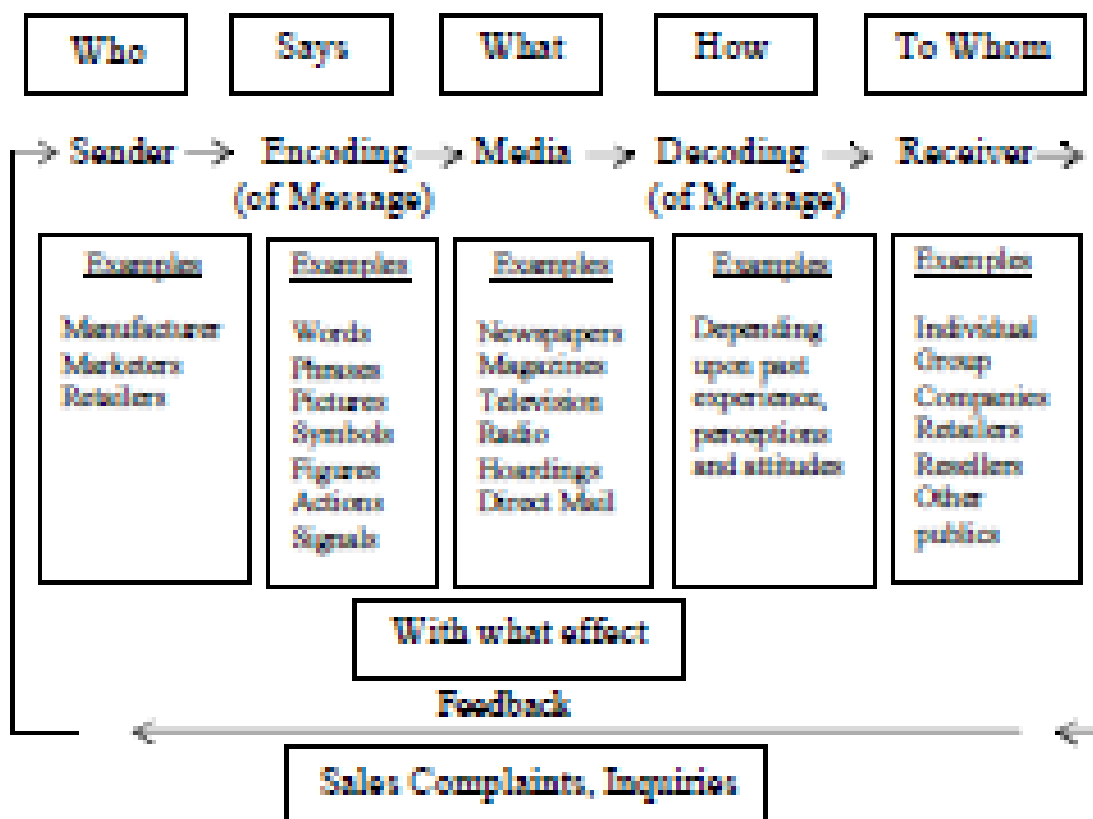


Fig. 1: Elements of the Communication Process

**Source:** (1) Phillip Kotler, Marketing Management – Analysis, Planning and Control, and (2) Ralph M Gaedeke & Danish, M. Tootelian. Marketing: Principles and Applications.

As stated above, communication will be completed only when the receiver understands in the same sense what the sender wished to convey. The effectiveness of the communication process, therefore, is dependent upon the level of congruity and compatibility obtaining among the various elements of the communication process, i.e., between the sender and the message, the message and media, the media and the receiver, and so on. Incongruity and/or incompatibility between the various elements of the communication process might make the promotion function, and in turn the marketing function, ineffective as is reported to have happened in the following two cases for example:

- 1) It is said that pork, launched more than a decade ago in Northern Nigeria, failed to take off primarily due to the manufacturer's inability to get the concept of pork perceived distinctively from that of beef.
- 2) Not much different was the fate of an advertising campaign of a leading US detergent marketer who while extending the campaign to the vernacular press of the Middle East, erred in not reversing the direction of the visuals used, to make these compatible with the right to left reading characteristic of the media. Consequently, what the readers saw was that white and bright clothes when washed in the company's brand of detergent came out dirty and soiled, thus, going totally contrary to what the advertiser desired.

### **3.2 How Communications Influence the Role of Promotion in Marketing**

Mutually satisfying exchange being the ultimate goal of marketing, the role of promotion, therefore, is to encourage such an exchange through linking communications with the product adoption process of the buyer. Motivating the adoption of the promoted product as well as effecting the desired change in the consumer behaviour are the goals of the promotion function. The attainment of these goals presupposes that product purchase process be understood by the marketers before marketing communications are designed. While there are many models that help to conceptualise the buying process, two very specific models that aid in understanding the buying process as well as in framing communication are: 'AIDA' and 'Hierarchy-of-effects' models.

**The AIDA acronym stands for:** Attention (also called awareness), Interest, Desire and Action. According to AIDA model, a marketer should begin by winning attention or gaining awareness, creating interest, inspiring desire and precipitating the action for purchase, in the prospects in order to enable its product to be adopted by the target public.

Under the hierarchy-of-effects model, the buyer's purchase decision is preceded by steps such as conviction about the product benefits, preference for the brand, liking for the brand, knowledge relating to the benefits and features of the product, after an awareness of the product has been gained.

The basic implication of these models is that the function of persuasive communication or promotion should be handled deftly at every stage of the buyer's adoption process. Based on Lavidge and Steiner's research, Gaedeke and Tootelian illustrate the various promotional tools that might be relevant to each stage of the hierarchy-of-effects model that are available to marketers for making marketing communications.

Hierarch – of – effects stage (movement toward purchase)	Promotion that might be relevant to various stage
Awareness ↓ Knowledge ↓ Liking ↓ Preference ↓ Conviction ↓ Purchase	Teaser Campaigns Jingles and Slogans Classified advertisement Point – of – Purchase display publicity
	Informative or descriptive advertisement Status or glamour appeals Demonstration Image advertisement Comparative advertisement
	Testimonials Coupons, discounts, other incentives Points – of – purchase displays Retail Store advertisement Reminder advertisement

**Fig. 2:** Promotion and the Hierarchy – of – Effects Model

**Source:** Adapted: Robert J. Lavidge and Gary A. Steiner, "A Model for Predictive Measurement of Advertising Effectiveness" *Journal of Marketing*, 25 (October 1961) p. 61, Quoted in Ralph M. Gaedeke and Dennis H. Tootelian. *Marketing Principles and Applications* p. 385.

### SELF-ASSESSMENT EXERCISE

In your own words, what is marketing communication?

### 3.3 The Promotion Mix

In our daily life, we all are exposed to various tools of promotion aiming at communicating one thing or the other to us. To illustrate this, while at home we come across advertisements when reading a newspaper, watching TV, listening to radio or

even examining the water, electricity or telephone bills; on our way to the office similar communications face us on bus panels, roadside hoardings, neon signs, posters and banners, etc. At a retail shop, these take the shape of traffic builders, product displays, streamers, hangers, bins, etc., all sharing information relating to a specific product of a company.

Listed above are just few types of the various promotion tools available to a marketer. Before proceeding, let us take a look at the definitions of the four major methods of promotion. These are: advertising, personal selling, sales promotion and publicity. The committee on Definitions of the American Marketing Association defined these components as follows:

### **Advertising**

Any paid form of non-personal presentation and promotion of ideas, goods, or services by an identified sponsor. It includes the use of such media as magazines, newspaper, outdoor posters, direct mail novelties, radio, television, bus posters, catalogues, directories, programmes and circulars.

### **Personal Selling**

Oral presentation is a conversation with one or more prospective purchasers for the purpose of making sales.

### **Sales Promotion**

Those marketing activities, other than personal selling, advertising, and publicity, that stimulate consumer purchasing and dealer effectiveness such as non-routine selling efforts. These are usually short-term activities.

### **Publicity**

Non-personal stimulation of demand for a product, service or business unit by generating commercially significant news about it in published media or obtaining favourable presentation of it on radio, television, or stage. Unlike advertising, this form of promotion is not paid for by the sponsor.



**Table 1: Relatives Advantages and Disadvantages of Promotion**

Promotional Component	Scope	Cost	Advantages	Disadvantages
Advertising	Mass	Relatively inexpensive per contact	Allows expressive-ness and control over message	Hard to measure result
Personal Selling	Personal	Expensive per contact	Permits flexible presentation and gains immediate response	Costs more than all other forms per contact
Sales Promotion	Mass	Can be costly	Gains attention and has immediate effect to imitate	Easy for others
Publicity	Mass	Inexpensive	Has a high degree of credibility	Not as easily controlled as other forms

**Source:** Adapted from David J. Rachman and Elaine Romano (1980). Marketing, Dryden, P. 450.

Although definitions vary about the number of components that constitute promotion, marketing practice shows that almost all marketing activities influence the promotion function. Notably, packaging performs the promotion function in addition to providing protection to the product. By incorporating creativity in its design, a package can add the 'pick-me-up appeal to the product and also help to communicate its features, uses and benefits more effectively. The promotion aspect of packaging is witnessing a bit of revolution in Nigeria nowadays with the introduction of innovative package in the field of consumer goods, for example, package design of Pepsi and edible oils, etc.

Public relations, likewise, performs an important role in promotion insofar as it helps to create a favourable image of the firm and allows the public to experience better satisfaction in dealing with the firm.

High and consistent product quality, provision of superior customer services, and price promotions as a way of increasing short-term sales and compatibility between the character of distribution outlets and the product are the other ways which contribute to the promotion function of firm.

### **SELF-ASSESSMENT EXERCISE**

In what ways has Marketing Communication influenced your choice of consumption?

### 3.5 Determining the Promotion Mix

Marketers rarely rely on only one promotion method. They make use of two or more methods to accomplish promotion and marketing objectives. When a firm makes use of more than one promotion method for one product, the promotion methods used constitute the promotion mix for that product. For example, while TV spots, newspaper and fashion magazine advertisements, and attractive festival displays at the authorised retail shops constitute the promotion mix of textile fabrics specialised industry magazines and participation in national and international exhibition of clothing materials and cosmetics goods may constitute the promotion for women generally.

The promotion function being linked with the ever changing market environment is a dynamic function. The promotion mix, therefore, acquires the dimension of dynamism and varies from product to product over a period of time. Quite similar to the problems faced by a marketer in the determination of the optimal marketing mix are the problems faced in the determination of the promotion mix. The task involved is rather more complex due to cross-substitutability of the various promotion methods (i.e. each method is capable of achieving what the other method may achieve) thereby making the measurement of promotional effectiveness more difficult. Notwithstanding these difficulties, factors as mentioned below act as the major determinants of the promotion mix:

- 1 Type of product
- 2 Nature of market
- 3 Stage of product in its life-cycle
- 4 Available budget, and
- 5 Company policy.

#### 1) Type of Product

In terms of the promotion task involved, the type of product is the major influence on the promotion-mix. For example, a low priced, frequently purchased, consumer convenience item, say a toilet soap, a brand of toothpaste or a cigarette will require that repeat message influencing and reminding the existing consumers, and persuading the new consumers, be used in a mass manner and at a high frequency. Newspaper and magazine advertisements, TV spots and Cinema Slides, offer of incentives to consumers and organisation of contests will, therefore, constitute the 'promotion mix' of such consumer goods. Now let us think of an industrial product, say a special purpose machine tool washing machine, which has a high unit value, is technical in nature, is purchased in-frequently and requires demonstration and conviction before it gets sold. Personal selling, quite obviously, becomes indispensable for such a product along with organising product demonstrations and exhibitions, holding seminars, etc. These then constitute the promotion mix in the case of an industrial good with newspaper advertising playing only the limited role of keeping the public informed

about the company's activities and accomplishments. Publicity, however, to the extent that it projects the desired image of the company, plays a more important role.

## **2) Nature of Market**

The locational characteristics of the customers, intensity of competition in the marketplace and the requirements of wholesalers and retailers influence the promotion mix relating to the product in their own way. For example, if the target audience of a consumer product is both large as well as widely dispersed in different parts of the country such as soft drink like Coca-Cola, Pepsi-Cola, and double cola, advertising and sales promotions emerge to be both more effective and economical promotional methods than the others. This is why advertising and sales promotions are so dominant among consumer goods companies. Personal selling also has a role to play among consumer goods companies but limited mainly to wholesalers and retailers who receive greater focus for activities such as pushing inventories, conducting displays, etc.

## **3) Stage in Product Life Cycle**

The promotion mix changes with the movement of the product from one stage to the other in its life cycle. For example, when the product is in the introduction and early growth stages, and the tasks involved are that of building and motivating trials of the product, the promotion mix comprises publicity, informative advertising, consumer sales promotions and trade deals. Later, as the product reaches the maturity stage, and goals of maintaining brand loyalty and creating brand preferences become more important, aggressive brand advertising and dealer promotions become the key components of the promotion mix.

## **4) The Available Budget**

Each method of promotion has certain costs associated with it. The level at which each promotion method is to be used and the selection of the promotion mix is dependent on the promotion budget of the firm. Firms with small promotional budgets have to be content with more localised area activity, using dealer displays, wall writings, personal selling, and other less sophisticated methods. It needs to be emphasised here that for the promotion function to be effective the minimum threshold level must always be exceeded.

## **5) Company Policy**

In the final analysis an aggressive consideration of the above four determinants of the company's own marketing and promotion policy determines the mix. Important factors here include the conviction of the top management in the role of promotion and its various components, the product marketing company strategy, and the type of corporate image it wants to project. For example, a company even under the seller's

market might still believe in keeping a high profile in public and thus may go for extensive publicity and advertising programmes. Yet another company in the same industry may rely more on personal selling, and continue to grow by maintaining its promotions at a low key.

### **SELF-ASSESSMENT EXERCISE**

What promotion mix would you suggest for each of the following products? Assume you have a large budget. In each case give reasons for your answer.

- i. Chewing-gum
- ii. Colour Television
- iii. Sports Footwear
- iv. Light Commercial Vehicles.

### **3.6 The Promotion Budget**

As we noted above, the promotion budget influences the level of promotional activity as well as the promotion mix used by the firm. Budgeting for promotion is yet another area where a lot of subjectivity prevails regarding what is the right amount to be spent on the promotion function. Pending any clear-cut relationship between the promotion expenditure and the achievement of promotion objectives, some decisions are made based on the rules of the thumb. These are:

- Incremental promotional expenditure yields incremental sales to a certain extent;
- A minimum level of promotion activity must be exceeded for promotion to have a meaningful effect. Often such a minimum level of promotion is set by the competitor or more appropriately by an average of the industry.
- Promotion activities when well integrated with other elements of the marketing mix produce greater than the planned results.

The above discussion should not, however, lead us to understand that no attempts have been made to shed light on the inherent uncertainty shrouding the cause-effect relationship in this area of promotion budgeting. In fact, quite a few notable attempts have been made by economists in terms of application of marginal cost and marginal revenue principle (additional promotional expenditure and additional revenue and profits made), and by marketing researchers through experimentation and model building approaches. The substance of their findings is that results of the promotion function should be constantly monitored in order to establish more reliable parameters of cost-benefit relationship. Further, cost-benefit analysis should form the basis of the trade-off before the promotion budget is finalised by using any one of the following methods. These methods include per cent-of-sales method, fixed sum per unit, affordable funds, competitive parity, and objective and task method.

### **Percent-of-Sales**

This method views promotion budget determination by linking the appropriation to a fixed percentage of sales of the company products. Such sales may relate to the previous year, an average of sales of the previous few years, projected sale of the next year or years, or an average of the previous few years sales, as well as the projected sales of the next years.

This method though simple to use fails to account for the changing promotional costs, and relating the appropriations made to the product- market needs. Particular difficulties are faced if the sales curve of a company is not smooth, hence resulting in lower outlays for the years that follow the bad sales years. Also, the forecast sales realisations remain uncertain. The way out attempted has been the adjustment provision of a fixed percentage to the average expenditure of the past (i.e. last year plus 15%), or use of this method in combination with the others that are discussed below:

### **Fixed-Sum per Unit**

Very much like the per cent-of-sales, under this method the promotion budget is determined by allocation of a fixed amount of money per physical unit of product for either past or future sales or a combination of the two. The only differentiating point of this method from the percent-of-sales method is that the base for budgeting, instead of being naira sales, is the number of product unit sold or targeted to be sold.

This method thus, has almost the same strengths and weaknesses as the ones associated with per cent-of-sales method, namely, simplicity in the determination but arbitrariness in arriving at the percentage of per unit allocation.

### **Affordable Funds**

Continuing to think on the plan that promotion expenditure is one of those business costs which are desirable or avoidable as per the convenience of the top management, the funds for promotion are appropriated on a discretionary basis under this method. No wonder then, that companies adopting this method find their promotion appropriations fluctuating from year to year depending on the top management's thinking for the year.

### **Competitive Parity**

Incorporating a measure of competitiveness in planning, this method guides the budget determination in terms of relativity to what the competitors are likely to allocate. Being a slightly more market-oriented method than the ones discussed so far, since it is based on the representative average of the industry promotion expenditure; it becomes a good norm to moderate the promotion expenditure of a company.

## **Objective and Task Method**

This is one of the most scientific methods of budget determination. It approaches the budget exercise by first setting the specific objectives to be achieved. It then identifies the tasks involved in achieving the said objectives followed by ascertaining the costs involved in the performance of each task required. The result of the exercise is an estimation of the amount required for accomplishing the set promotion goals. Typical objectives might be to increase awareness say by 15% or increase message/theme recall say by 25%.

Indeed, it is a good method as far as promotion budgeting for new products is concerned, or when a new thrust to the image of a company and its products is to be provided. This method presupposes that objectives set are realistic and promotion results can be measured precisely. These assumptions continue to be the subject of unending debate at the one end, and of pursuit of research on the other. It is as a result of the continuing research that some models for promotion budgeting have been developed and are now being refined to be of practical utility to marketers.

## **The Practice**

In practice, most companies make use of more than one method for determining the promotion budget. The research into the practices of companies in Nigeria in this regard revealed the above finding. Among the individual methods used, the affordable funds method emerged as the most popular, most especially among the small firms. There were, however, quite a few companies which had started using the approach of objective and task' in setting their promotion budget either exclusively or in combination with other methods. Most of such companies especially the multinationals, were dealing in consumer goods.

The practices of the companies using a combination of methods for determining the promotion budget pointed to the efforts they were putting in together with competitive promotion outlay and its apportioning to various promotion components.

## **4.0 CONCLUSION**

Communication deals with sharing of information. This is a key function of marketing. The marketing techniques used to communicate with existing and potential customers are called promotion. The four major promotion methods available to a marketer are: advertisement, personal selling, sales promotion and publicity. Packaging, public relation and other elements of the marketing mix supplement the promotion efforts of the marketer in their own way.

Marketers devise a suitable promotion mix (use more than one promotion method) for promoting their products and services. The determination of the promotion mix is influenced by factors such as type of product, nature of market, stage of product in the product life-cycle, the available budget and company policy. The level of promotional

activity of a company is dependent upon the outlay earmarked for it, i.e. the company's promotion budget.

The promotion budget is set by using one or more of the following methods: per cent-of-sales, fixed-sum per unit, affordable funds, competitive parity and objective and task method. The objective and task method is the most logical. Marketing communications being persuasive in nature and aiming inter alia at affecting the desired behaviour in the consumer should be skillfully managed. This then requires that not only the buyer's product adoption process using AIDA and hierarchy-of-effects models be understood, but also appropriate promotion methods be used at each stage of the process to achieve the desired response.

## **5.0 SUMMARY**

In this unit, we defined marketing communication as the study of the promotion function of marketing. It was noted that with the growing competition in the market place as well as the customers becoming better informed and more choosy, it is imperative that these days that marketing communications of the right kind only are made to the right group of target buyers. Hence, we examined how communication influenced the role of promotion in marketing, the promotion mix, promotion budget, etc. However, marketing communications being persuasive in nature and aiming inter alia at affecting the desired behaviour in consumer should be skillfully managed.

## **6.0 TUTOR-MARKED ASSIGNMENT**

In setting a promotion budget, the objective and task method is referred to as the most logical. Why?

## **7.0 REFERENCE/FURTHER READING**

Kotler, P. (1987). *Marketing Management: Analysis, Planning and Control*. New Delhi: Prentice-Hall of India Limited.

## **UNIT 4    ADVERTISING AND PUBLICITY**

### **CONTENTS**

- 1.0        Introduction
- 2.0        Objectives
- 3.0        Main Content
  - 3.1        How Advertising Works
  - 3.2        Types of Advertising
  - 3.3        Role of Advertising
  - 3.4        Advertising Management
  - 3.5        Selecting and Scheduling Media
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- 4.0        Conclusion
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### **1.0        INTRODUCTION**

In modern times advertising prevails in all walks of life. It has acquired the distinction of being the most visible and glamorous method of marketing communication. You would recall that advertising was defined as any paid form of non-personal presentation and promotion of ideas, goods or services by an identified sponsor. Some of the major marketing and communication functions performed by advertising today include informing, entertaining, persuading, influencing, reminding, reassuring and adding value to the product or service advertised. Before going to the role of advertising, let us acquaint ourselves with how advertising works and what are the various types of advertising. First, let us look at the objectives of this unit.

### **2.0        OBJECTIVES**

At the end of this unit, you will be able to:

- list the roles and types of advertising
- list different kinds of advertising objectives
- explain how media planning is done
- explain the need for planning publicity.

### **3.0        MAIN CONTENT**

#### **3.1        How Advertising Works**

In order to perform the various marketing and communication functions listed above, according to Paul E.J. Gerald, advertising moves through the following stages before accomplishing its purpose:



- It gets planned and brought into existence
- It is reproduced and delivered and exposed to people
- It is received and assimilated
- It affects ideas, intentions and attitudes
- It affects buying and the buying process
- It responds to time (situation and repeated expose)
- It affects trade effort and supply
- It changes sales and profits
- it changes the market (size, quality mix, intensity of competition, trade relations, consumerism, etc.)

### **SELF-ASSESSMENT EXERCISE**

List (8) eight possible ways by which advertisement works?

### **3.2 Types of Advertising**

Depending upon the nature of the task involved, type of product represented or the focus of activity transacted, advertising efforts are grouped into various types. Let us take a few examples. Advertisements for machinery and machine tools form part of industrial advertising, and the ones for footwear, cornflakes or edible oil, form consumer advertising. The advertisements aimed at improving the corporate image are forms of institutional advertising and ones promoting a company's products, product advertising. Likewise, advertisements promoting the consumption of tea or carpets are called primary demand creating advertisements whereas those relating to say spare parts and coffee are selective brand advertising. Advertisement aimed at effecting immediate sale of the product advertised is called direct advertising, and the ones performing tasks like announcing the launch of the new product, building purchase intentions, creating interest in customers or changing their attitudes towards the product, are termed indirect action advertising. The advertisements which are sponsored and paid for by the manufacturers are manufacturer advertising, and such advertisements whose costs are shared by the manufacturer and wholesales or retailers are co-operative advertising. Co-operative advertisements aim at increasing the demand of a specific product of a manufacturer through a particular wholesale or retailer. On the other hand, when a retailer advertises for his shop entirely on his own, to attract traffic to his shop it is retail advertising.

In short, the major types of advertising are: industrial and consumer, product and institutional, primary demand and brand-demand, direct (sales) demand and indirect (awareness, intentions and attitudes) action advertising, and manufacturer, co-operative and retail advertising.

### **3.3 Role of Advertising**

In the pursuit of its purpose, the economic and social effects of advertising have become the subject of continuing debate. A quick flavour of the arguments put

forward on both sides can be had from Table 14.1. The table presents two viewpoints, one considering advertising as an information disseminating utility function and the other viewing advertising as a source of market power.

On balance, advertising has carved out an indispensable place for itself in the marketing mix of a firm. Phillip Kotler very aptly refers to the following situations where advertising is likely to make greater contribution. The situations are:

- When buyer awareness is minimal
- When industry sales are rising rather than remaining stable or declining
- When the product has features normally not observable to the buyer
- When opportunities for product differentiation are strong
- When primary instead of secondary motives can be tapped.

Are there some limitations to the role of advertising? The answer is obviously is in the affirmative. Advertising, in the words of Richard H. Stansfield, cannot do the following:

- Sell a bad product twice.
- Sell an overpriced or otherwise non-competitive product.
- Sell a poorly distributed product.
- Sell a seasonal product out of season (significantly).
- Sell products to persons having no use for them.
- Work overnight.
- Do the selling job alone.

The usefulness of advertising, which has for long been accused of being a capitalist tool and a bane of the market economy, is now being realised by the planned and communist economies too. While Yugoslavia, USSR, Poland and Hungary shed their hostility to advertising quite a few years ago, China is welcoming advertisements propelled marketing now.

### **3.4 Advertising Management**

Advertising constitutes one of the four components of a firm's promotion mix, which in turn forms an integral element of the firm's marketing mix. In order to implement the marketing concept and to achieve the objectives of integration among different elements of marketing mix, it is necessary that the advertising functions be systematically planned.

In particular, the link of advertising with the promotion and marketing objectives of the firm on the one hand, and with factors like product positioning objectives, role of sales force, dealer support plan and the buying habits of consumers, on the other hand, must be clearly established. This link helps a firm to achieve the desired push-pull strategy objectives, and enables the product to have a distinct personality. The task

involved in advertising is, therefore, complex and its management requires systematic decision-making.

**Table 1:** Advertising Campaign: Questions and Answers

<b>To Make This Decision</b>	<b>One Must Choose</b>	<b>Using</b>
What to say	A theme, copy platform	Concept tests, positioning
To who	Target audience	Market segmentation studies
How to say it	Copy commercial execution	Copy research commercial test
How often	Frequency of exposure	Studies of repetition
Where	Media plan	Media research modes
How much to spend	Budget level	Sales analysis, marketing models

**Source:** Charles Ramond, (1976). Advertising Research: The State of the Art Association of National Advertisers, pp.3-4. New York.

In short, the basic decision-areas in advertising are:

- setting advertising objectives
- determining the advertising budget
- developing advertisement copy and message
- selecting and scheduling media
- measuring advertising effectiveness.

### 3.5 Setting Advertising Objectives

An advertisement is either good or bad in its ability to achieve its objectives. Though advertising is largely informative and persuasive in nature, yet to do a good job, the objectives of each advertising campaign need to be clearly spelt out in measurable terms, in order to focus clearly on the target audience, and on the period over which these are to be achieved.

Russel H. Colley called for the need to provide an explicit link between advertising goals and advertising results in his pioneering approach nicknamed DAGMAR - Defining Advertising Goals for Measured Advertising Results. Colley distinguished 52 advertising goals that might be used in connection with a single advertisement, a year's campaign for a product or a company's entire advertising philosophy. Some of such goals are as follows:

- announce a special reason for 'buying now' (price, premium and so on)
- build familiarity and easy recognition of the package or trademark
- place advertiser in position to select preferred distributors and dealers
- persuade prospect to visit a showroom, ask for a demonstration
- build up the moral of company sales force
- correct false impression, misinformation and other obstacles to sales
- implant information or attitude regarding benefits and superior features of brand.

According to DAGMAR, the communication task of the brand is to gain (a) awareness, (b) Comprehension, (c) Conviction, (d) Image and, (e) Action. Advertising goals should, therefore, be specific to the communication task(s) to be performed. The process of advertising goal- setting thus, should begin by understanding the dynamics of marketing communication effectively.

Further, let us also understand that improving sales is not the only objective of advertising. Advertising is only one of the factors influencing sales, the other being: (a) different elements of the marketing mix, (b) the competitive position of the firm, and (c) the purchasing power and the need of buyer. Also, the impact of advertising often occurs over the long run and not necessarily immediately, since consumers may belong to different stages of the product adoption process at a point in time. The advertising objectives are to:

- inform and build awareness
- create brand knowledge
- reinforce position attitudes about the brand
- precipitate buying action
- increase sales
- build up an image.

### **SELF-ASSESSMENT EXERCISE**

- i. State the main objectives of advertising.
- ii. To facilitate the realisation of advertising objectives, it is necessary that these are laid down in specific operational terms and are linked to the time span during which these are to be accomplished.

### **3.6 Publicity**

Let us recall that publicity is non-personal stimulation of demand for a product, service or business unit by placing commercially significant news about it in a published medium or obtaining favourable presentation of it upon radio, television, or stage that is not paid for by the sponsor.

The crucial aspect of publicity is that it should emanate from a neutral and impartial source such as editorial material and is not paid for by the sponsor. To achieve the aim of credibility it should not raise any doubts regarding interested sponsorship. Publicity and public relations have a lot in common. In fact, publicity is one of the tools of public relations.

#### **Uses of Publicity**

Publicity, which is essentially aimed at building position image, goodwill or favourable visibility, has acquired a sound footing to assist a company in its marketing efforts. Specifically, it has a vital role in disseminating information regarding new

products; warranty terms; product replacement policies and customer service arrangements; new R & D findings; successful bids or contracts won; contributions made to the promotion of sports, culture, and technology; employees' welfare, policies; dealer training and promotion activities; membership of top and senior employees in governmental and international bodies; community development programmes; promotion of company trademark and slogans; and issues of public interest and welfare from time to time.

### **SELF-ASSESSMENT EXERCISE**

Before you proceed, list the uses of publicity.

### **Measuring Effectiveness of Publicity**

Rating received on corporate image studies carried out by independent bodies, awareness of the company's efforts, and the change in attitudes of the public towards the company are the major methods through which the effectiveness of publicity can be measured. Both periodic surveys as well as before and after-event surveys can be conducted to gauge the level of exposure, awareness and the type of opinions and attitudes held by public.

Publicity when used in an integrated way with other elements of the promotion mix adds punch and provides considerable mileage to a firm's promotion efforts.

## **4.0 CONCLUSION**

Advertising is an impersonal mass selling and communication method. It makes use of various types of media to reach the target public in a short time. Being persuasive in nature, advertising broadly aims at gaining exposure, creating awareness, changing attitudes of target customers in favour of sponsor's products and services, and is also an effective/defensive tool in managing competition.

Measurement of effective advertising requires that the process be initiated by setting of measurable and realistic goals. Identification and knowledge of the economic, demographic, cultural and psychological characteristics of the target customers should trigger the process of advertising planning. This should be followed by selection of appropriate appeals, proper illustrations and unique copy themes in the language, which the audience understands and should be transmitted to them through media vehicles, which have a meaningful reach and desired credibility.

The spread of a good word through editorial space of neutral agencies, i.e., publicity, adds significant credibility to a firm's efforts in building and strengthening its image. Organisation of newsworthy events and good relations with media can help. Organised publicity and public relations activities help in correcting misinformation and providing an opportunity to the public to view a firm in its right perspective.

## **5.0 SUMMARY**

In modern terms, advertising prevails in all aspects of human behaviour. It has been reported that some of the major marketing and communication functions performed by advertising today include informing, entertaining, persuading, etc., while publicity is seen as non- personal stimulation of demand for a product, service or business unit by placing commercially significant news about it in a published medium. In this unit, we examined how advertising works, types of advertising, as well as uses of publicity.

## **6.0 TUTOR-MARKED ASSIGNMENT**

1. List and explain four types of advertising.
2. List five uses of publicity.

## **7.0 REFERENCES/FURTHER READINGS**

- Aaker, David A. & John, G. Myres (1975). Advertising Management. Bombay: Prentice Hall.
- Burnett, John J. (1984). Promotion Management: A Strategic Approach. West Publishing Company.
- Capel, John (1977). Tested Advertising Methods, Fourth edition. England-Cliffs: Prentice Hall Inc.

## **UNIT 5      PERSONAL PROMOTION SELLING AND SALES**

### **CONTENTS**

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
  - 3.1 Role of Personal Selling
  - 3.2 Types of Selling Jobs
  - 3.3 The Selling Process
  - 3.4 Sales Promotion
  - 3.5 Sales Promotion Objectives
  - 3.6 Sales Promotion Methods
  - 3.7 Towards Promotional Strategy
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Reading

### **1.0 INTRODUCTION**

In contrast to advertising and publicity, which use impersonal methods of communication, personal selling makes use of direct personal communications to influence the target customers. Personal selling is a highly distinctive method of promotion, and makes use of oral presentation in conversation with existing and potential customers, for the purpose of making a sale.

It is one of the oldest methods of business promotion. The contributions made by personal selling in making the promotion function more effective have earned it the distinction of being the most reliable promotion method. Though, it is the most expensive method of promotion, yet we see an increasing number of firms making use of it, and a good number of them realise that they cannot, perhaps, live without it. Increasing competition and the growing sophistication of the buyer and his/her buying process are making personal selling more or less indispensable. Sales promotion is the only method that makes use of incentives to complete the push-pull promotional strategy of motivating the sales force, the dealer and the consumer in transacting a sale.

### **2.0 OBJECTIVES**

At the end of this unit, you should be able to:

- explain the nature and role of personal selling and sales promotion
- list different types of sales position and sales promotion schemes
- describe the steps involved in the selling process

- explain the growing importance of sales promotion in Nigeria.
- explain the process involved in planning sales promotions
- outline the need for integration among the different methods of promotion.

### **3.0 MAIN CONTENT**

#### **3.1 Role of Personal Selling**

Personal selling is defined as ‘Oral presentation in a conversation with or more prospective purchasers for the purpose of making sales’. Personal selling, as the name implies, is an individual selling. It, therefore, carries the distinctive advantage of flexibility in terms of tailoring the sales presentation to the needs of the buyer. Another unique advantage comes from its two-way communication and human interaction, thereby providing instant feedback. These two unique advantages make personal selling the most result-oriented promotion method.

Generally speaking, the nature of goods marketed, as well as the distribution system adopted; determine the role of personal selling in a firm. Therefore, personal selling is used extensively in the case of industrial goods, where the salesperson performs functions such as assisting the customer in designing the product specifications, product installation, product commissioning, solving technical problems through providing service after sales and helping the customer to have optimal utilisation of the product. In the case of consumer goods, on the other hand, the role of personal selling gets usually restricted to the dealer level. The scope of the tasks performed include obtaining periodic orders, ensuring supplies, offering tips to dealers on product display and attaining desired levels of stock movement. Similarly, the role played by personal selling is more in a firm, which uses the door-to-door selling method through its sale force than in the firm, which sells through large stockists, distributors or sole-selling agents.

Notwithstanding the varying role of personal selling in the strategies followed by different companies, the nature of the selling function requires that the following tasks be performed:

- Sales generation
- Feedback and market information collection
- Provision of customer service covering aspects such as delivery of goods, warranty administration, timely availability of repair and spares, etc.
- Performance of sales support activities such as monitoring the distribution function, credit collection, improving manufacturer- dealer relations, implementing the promotional programmes, etc.

In practice, the complexity of the selling task actually performed varies from company to company even under the above four categories.



## **SELF-ASSESSMENT EXERCISE**

Define personal selling. Name two advantages personal selling have over other kinds of promotion.

### **3.2 Types of Selling Jobs**

From the foregoing discussion, we understand that while sales as a function has a common purpose that is to effect sales the selling situations differ due to the interplay of various factors. These factors are nature of goods sold, type of distribution system used, nature of demand and the type of sales strategy followed by the firm. These factors require the sales force to possess different traits and abilities suitable to the selling situation with which they are associated. To underscore the differences, Robert N. McCurry in 'The Mystique of Super-salesmanship' classifies individual sales positions based on the degree of creativity required into seven categories. These seven categories are described below.

#### **Merchandise Deliveries**

This is the sales person, whose primary job is to deliver the product usually against routine orders, popularly called sales and delivery boys.

#### **Inside Order-taker**

Working inside a store the primary job of such a salesperson is to service the customer's request or suggest appropriate products to meet customer wants. Such type of salespersons are popularly called retail salesman.

#### **Outside Order-Taker**

The salespersons engaged in the task of taking orders from the resellers. They normally do not use the hard selling approach for making orders.

#### **Missionary Salesperson**

The salesperson whose primary job is to educate, give product detailing, build goodwill or create primary demand for the product. Strictly speaking, missionary salespersons are not permitted to take orders.

#### **Sales Engineer**

The salesperson, who acts as a technical consultant to the client and as per the need, helps to design products or production system for a client.

This type of salesperson is popularly called Technical Salesperson, e.g. Computer salesman.

### **Tangible Product Seller**

The salesperson's job is to sell tangible products such as furniture, appliances, automobiles, etc. The job involves abilities to persuade and convince the customer.

### **Intangible Products Seller**

Here the salesperson is associated with selling intangible products or services such as advertising services, insurance, education, etc., the common factor being difficulty in immediate demonstration of the perceived benefits of the product. This selling job requires perhaps the greatest degree of creativity in the salesperson.

### **Defining the Salesperson's Job**

The foregoing classification of the sales position into seven categories, on the basis of degree of creativity required in the performance of each job is only general in nature. Depending upon the organisational need, each company should clearly define what it expects from a salesperson in terms of the tasks to be performed by him. It should broadly specify how much of the salesperson's time should be spent on developing new accounts versus servicing existing accounts, large accounts versus small accounts, bulk order versus small orders, selling individual products versus selling products line, selling old products versus selling new products, etc. Lack of clear definition regarding the selling tasks to be performed often results in disproportionate spending of time between the tasks, as well as in imbalances in the goals achieved. To avoid this type of loss in productivity of the sales force, it is worth repeating that the job of a salesperson should be defined with sufficient specificity, so that he/she can use it as a guideline to stay in the right direction.

## **3.3 The Selling Process**

Up to this point, we have been discussing the role of personal selling and the degree of creativity required in a salesperson to perform the task satisfactorily. Now we will take a look at the selling process followed for completing a sale. Though the steps in the selling process discussed below will be applicable to most of the selling situation, what will differ will be the degree of importance given to each step of the process under different selling situations. The basic step in the selling process is given in Figure 1. A salesperson must become accomplished at performing the selling steps.

These steps are:

- (a) Preparation
- (b) Prospecting
- (c) Pre-approach
- (d) Approach
- (e) Sales representation Handling objections
- (f) Closing the sale

(h) Post-sale follow-up.

Resources customers on the correctness of their decision. Checked whether the order was filled and delivered when promised. Make certain product is properly installed, used and served.		<b>SALE POST FOLLOW-UP</b>	
Make conscious effort to close. Don't be afraid of being rejected.		<b>CLOSE THE SALE</b>	
Understand reasons for objection Have a positive attitude. Avoid arguments.		<b>HANDLING OBJECTIONS</b>	
		<b>SALES PRESENTATION</b> Arouse Desire	
		<b>APPROACH</b> Make initial contact with prospect	
<b>PRE-APPROACH</b>		Study the organisation And those involved in buying	
<b>PROSPECTING AND QUALIFYING</b>		Develop sales leads from various sources Separate the suspects from the prospects	
<b>PREPARATION</b>		Know your product. Know your customer. Know your competitor. Know your company	

**Fig. 1: Steps in the Selling Process**

**Sources:** Ralph M. Gaedeke & Dennis H. Tootelian (1983)

**Step 1**

**Preparation:** Before starting the selling job, a salesperson should make a valuable investment of time and resources to know the products to be sold, know the customers (i.e. customer types, buying motives and buying process) to whom he will be selling, know the competitors against whom he will be selling, and finally know the philosophy, policies and range of products of his company. In short, he should be well equipped with the fundamentals of selling.

**Step 2**

**Prospecting:** This step of the selling process deals with the location and preparing a list of prospective customers. Prospects can be located through (1) identifying the potential of buying more in the existing customers, (2) recommendations of existing customers, (3) winning back lost customers, (4) attracting competitors' customers, (5) customers' information request from advertisement, (6) newspaper announcements, (7) public records, (8) directories likes telephone, trade associations etc., (9) other salesmen, (10) references from friends, neighbours and business associates, and (11) cold canvassing, that is, going from door-to-door.

The located prospects should first be qualified broadly in terms of (i) whether they want the product and how intense their want is, (ii) whether they have the adequate purchasing power, and (iii) whether and who possesses the power or authorisation to

purchase and spend the required money. The qualifying of prospects is the process of separating the prospects from the suspects.

It is worth mentioning here that the ability to prospect is the most essential ability of a successful salesperson. A good salesperson keeps examining, weeding out the already tapped prospects and updating his/her lists of prospects, and remains in constant search of new prospects.

### Step 3

**Pre-approach:** The qualifying process of separating prospects from suspects further requires that the salesperson should possess detailed information relating to the prospects in terms of existing products consumed, their scale of operation, product range, their buying size, frequency, budget and the process, etc. In short, obtain customer orientation. The sources of information for the purpose include company annual reports, other salespersons, other suppliers to the prospects, census of manufacturers, professional journals, newspapers and market intelligence. The availability of the above information in as detailed a manner as possible will help the salesperson in ranking the prospect in classifying the prospects in A, B, and C categories in terms of the immediacy of the attention to be given to them.

### Step 4

**Approach:** 'First impression counts.' As such, this step needs to be carefully planned. This step has two distinct parts. One, of meeting the customer with a positive set of mind, and the second is make an impact on him. For the former, referrals of reliable persons known to prospects, calling after fixing an appointment, use of door openers, help. For the latter the salesperson should equip himself with key benefits to be emphasised, samples or new literature to be handed over, etc.

### Step 5

**Sales Presentation:** Through advance information relating to the prospect, every effort should be made to match the product offered to the needs/problems faced by the customer. The sales presentation should generally go according to the AIDA—attention, interest, desire, and action approach. How can this be done? Use of key benefit or a problem solver, or a unique act of the salesperson results in gaining attention. When used attentively this part also provides an opportunity to get the main point of the initial statements made by the prospect.

The presentation should proceed in a straightforward manner to help the prospect know that you understand his problem and that is the reason of your being there. To convince the prospect as early as possible, the salesperson should offer evidence through demonstration of the product, use of exhibits, models, sharing of acts, citing examples of successful applications/usage, showing testimonials, etc. The overall approach should be to build credibility and confidence in the supplying company,

its products, and also in its competence to render specialised type of service to the complete satisfaction of its customers.

The flexibility of the sales presentations can range from the 'canned' or previously prepared presentation, to those allowing the salesperson complete freedom in the presentation. Though both extremes, and even the hybrid of the two, have their own situational suitability, the important point to note is that salesmanship, being a showmanship function, must arouse active participation of the prospect in the presentation process. This can be done by introducing some action which would keep the prospect captivated. One possible way would be a joint review of the problem faced by the prospect. Another is helping the prospect imagine the projected benefits of owning the product.

## Step 6

**Handling Objections:** It is in the last phase of the sales presentation step that the prospects start expressing doubts, or raising objections whether relating to price, need for more time to think, satisfied the existing product/supplier or product quality claims.

These doubts or objections should be welcome and they should be answered with confidence. There is certainly no doubt that the prospect has to be thoroughly convinced that the product would satisfy his need. The ability of the salesperson in mind reading the prospect, enables him to anticipate the prospect's objections and reactions.

The golden rules for handling objections are:

- (1) Welcome the objection and show respect to the prospect, and
- (2) Do not argue with the prospect. Even when the objections raised are half-backed or trivial in nature, the salesperson should handle the situation tactfully. Only in extreme necessity, should a salesperson ask the prospect to adequately explain the problem faced. Even under these circumstances, courtesy should not be lost sight of, and while the discussion is on, the salesperson should start recounting the benefits of the product agreed upon, and lead the prospect to make a favourable decision. It should be remembered that handling objections sharpens the selling skills of the salespersons.

## Step 7

**Closing the Sale:** Closing is that aspect of the selling process in which the salesperson asks the prospect to buy the product. There is a critical point during each presentation when the salesperson should ask for the order. Pending the location of the critical point, as the objections are being met, the salesperson should help reduce the choice of options, summarise the benefits of buying, and the consequences of buying, and if need be, make use of the big idea appeal of the buying 'now' at that moment.

The salesperson should have the ability of catching the buying signals given by the prospect and should act on them fast. Some of such signals are changing the sitting/standing position and moving closer to the product; reading the instructions on the product; perusing the testimonials; showing hesitation in being able to afford; asking for another demonstration, if applicable; checking the warranty or asking questions relating to warranty terms. These signals show that the time is ripe to start taking the order.

### Step 8

**Post-sale Follow-up:** The selling process does not come to an end by writing the order. A few repetitions reassuring the benefits of the product keep the customer sold. Follow-up provides an opportunity to ensure that the product is being rightly used, and if necessary to re-explain the method of using, handling, and storing of the product when not in use. This builds favourable feelings and nurtures the strong buyer-seller relationships. Post-sale follow-up not only reinforces the customer's confidence in the salesperson and his company but also tends to keep competition out. This also helps generate repeat business and valuable word-of-mouth publicity. The follow-up is a good source of feedback too.

Let us conclude this section by stating that although the eight steps of the selling process are essential in spirit, these may not always be followed. This could be partly the (1) the selling situation involved (e.g. in the case of insider order-taker or retail salesperson the first three steps of the selling process are generally not applicable as the customer walks into the store for buying a product), (2) the expertise of the salesperson (such that he can ignore or assume some information), or (3) the seller's market of the product where customers generally queue up for the product.

Let us also look at the findings of a study by Robertson and Chase on the subject. They point out that:

1. The more closely matched the physical, social and personal characteristics of the customer and salesperson, the more likely is the sale.
2. The more believable and trustworthy the customer perceives a salesperson to be, the more likely is the sale.
3. The more persuadable a customer is, the more likely is a sale.
4. The more a salesperson can make prospective buyers view themselves favourably, the more likely a sale is.

Before you read further, attempt this exercise.

### SELF-ASSESSMENT EXERCISE

What general procedure should be followed when qualifying prospects?

### 3.4 Sales Promotion

Of all the methods of promotion that constitute the promotion mix, sales promotion is the only method that makes use of incentives to complete the push-pull promotional strategy of motivating the sales force, the dealer and consumer in transacting a sale.

There is no single universally accepted definition of sales promotion. One can, however, gather its essence by perusing a few definitions. Let us look at some of the popular definitions of sales promotion:

According to the American Marketing Association, sales promotion refers to:

‘those activities other than personal selling, advertising and publicity, that stimulate consumer purchasing and dealer effectiveness, such as display shows and exhibitions, demonstrations, and various other non-recurrent selling efforts not in ordinary routine.’

This definition suggests that sales promotion is a catch-all for all those promotion activities which do not fall clearly into advertising, personal selling or publicity.

#### **Roger A. Strang offers a simple definition**

‘Sales Promotion is short term incentives to encourage purchase or sale of product units or service.’

Yet another definition that seems fairly exhaustive, and hence, will be used in this unit is the one given by Stanley M. Ulanoff in his Handbook of Sales Promotion. Stanley defines sales promotion as: ‘all the marketing and promotion activities, other than advertising, personal selling, and publicity, that motivate and encourage the consumer to purchase by means of such inducements as premiums, advertising specialties, samples, cents-off coupons, sweepstakes, contests, games, trading stamps, refunds, rebates, exhibits, displays, and demonstrations. It is employed as well, to motivate retailers’, wholesalers the manufacturer’s sales forces to sell through the use of such incentives as awards or prizes (merchandise, cash and travel), direct payments and allowances, cooperative advertising, and trade shows’.

It offers a direct inducement to act by providing extra worth over and above what is built into the product as its normal price. These temporary inducements are offered usually at a time and place the buying decision is made.

Summing up, sales promotion deals with promotion of sales by the offer of incentives which are essentially non-recurring in nature. It is also known by the names of Extra-Purchase-Value (EPV) and Below-the-line-selling.

Like in other market economies, the use of sales promotion is catching on in Nigeria in terms of volume. The number of sales promotion schemes offered to the consumers

alone has grown by over seven times in the first three years of the eighties as against the average in the seventies. The schemes offered at the dealer level also nearly doubled during the period 1978-79 and 1982-83. In terms of the expenditure incurred, the large size companies are stated to be spending between 40 and 50 per cent of their advertising and sales promotion budget on this activity.

In terms of product groups, the major users of sales promotion are: tea, coffee, and beverages, soaps, detergents and washing soaps, toothpaste, textiles, food products and baby foods, household remedies, and consumer durables like fans, refrigerators, sound systems, television and other household appliances.

Among the various types of sales promotion schemes used, contests at the consumer, dealer and sales force levels have made a significant headway.

### **Why Rapid Growth?**

A perusal of the list of the product groups which emerged as the major users of sales promotion, and from the market feel, it seems clear that a transformation from the seller's to the buyer's market is taking place and marketing has become more competitive in these product markets. In addition to increasing competition, other reasons for rapid growth of sales promotion in Nigeria as pointed out by some large sized cooperating companies in surveys are summarised below:

- sales promotion makes an immediate effect on sales.
- measurement of the effectiveness of sales promotion is easier as against other promotional methods.
- channels of distribution are emerging as powerful entities and demand greater use of incentives to get desired results.
- products are becoming standardised and similar, and so need increased support of non-price factors of which sales promotion is an important one.
- impulse buying is on the increase, and so is the rise in the number of marginal customers. With virtually no brand loyalty, offer of attractive schemes helps manufacturers to induce such customers to choose their product.

### **3.5 Sales Promotion Objectives**

As a powerful method of sales promotion with a capability to complement and supplement the advertising function of marketing, sales promotion helps marketers realise a variety of objectives. These objectives could relate to the promotion of sales in general, or to a specific activity at a particular level, i.e. the consumer, dealer or sales force. Some of the commonly attempted objectives are to:

- increase sales (in general, and focusing on new uses, increased usage, upgrading unit of purchase, winning sales of fading brands, etc.)
- make the sale of slow-moving products faster
- stabilise a fluctuating sales pattern



- identify and attract new customers
- launch a new product quickly
- educate customers regarding product improvements
- reduce the perception of risk associated with the purchase of a product
- motivate dealers to stock and sell more (including complete product lines)
- attract dealers to participate in manufacturer's dealer display and sales contest
- obtain more and better shelf space and displays
- bring more customers to dealer stores
- make goods move faster through dealers
- improve manufacturer-dealer relationship
- motivate sales forces to take the achievement higher than targets
- attract sales force to give desired emphasis on new accounts, latent accounts, new products, and difficult territories
- reward sales forces for active market surveillance and for rendering superior customer services
- put power into the sales-presentation
- counter competitors sales-promotion and marketing efforts
- provide punch to the company's advertising efforts
- Build goodwill.

Companies may use any one or a combination of the above objectives in varying forms to suit the product-market needs of their product. What is of significance is that the sales promotion and marketing objectives are pursued by the company.

### **SELF-ASSESSMENT EXERCISE**

Can you recall any 10 sales promotional objectives just read? Please itemise them.

### **3.6 Sales Promotion Methods**

Many methods of sales promotion are used by marketers. Depending upon the creativity level of their sponsors, their variety seems very large. We refer here to some of the most commonly used methods of sales promotion.

As noted above, the accomplishments of the desired promotion and marketing objectives ultimately depend on the extent of the desired response received from consumers, dealers and members of the sales force. Hence various sales promotion methods are built around these three target groups. Further, in terms of the impact desired, the variety of sales promotion schemes offered are grouped into two categories: one, aimed at producing immediate impact, and the other delayed impact i.e. carrying on the impact over a period. Immediate impact schemes are those schemes where the consumer, dealer or salesperson gets the incentive on first contact, purchase or on performing a one-time act. On the other hand, under the delayed impact schemes, the consumer, dealer or sales force is called upon to comply with the scheme over a period of time before receiving the full benefit of the scheme. Price discounts, free samples of large quantity packs are the popular examples of immediate

impact schemes, whereas coupons, trading stamps, and contests are example of delayed impact category of sales promotion schemes. Table 2 presents the variety of sales promotion schemes directed at the consumer, dealer and sales force levels according to their grouping under immediate impact or delayed impact categories. The meaning and objectives of these schemes are given in Table 3.

**Table 2: Sales Promotion**

Impact	Users	Non-Users	Trading/Suppliers	Sales Force
	▪ Price-off	▪ Price-off	▪ Discount Allowance	▪ Pre-requisite
	▪ Quantity-off	▪ Sampling	▪ Shelf space allowance	
Immediate	▪ Over-the-counter	▪ Over-the-counter		
	▪ Package premium ▪ Banded premium ▪ Container premium	▪ Gift ▪ Push money ▪ Position of sales force		
	▪ In production	▪ Media Don	▪ Merchandise	Sales Contests
Delayed over a period of time	▪ Coupon	▪ Coupon	▪ Deals	
	▪ Personality	▪ Returns	▪ Coupons	
	▪ Premiums offers	▪ Refund	▪ Displayed contests	▪ Honours and recognition
	▪ Trading stamps	▪ Cooperative allowance		▪ Customer Service Awards
	▪ Self-liquidators	▪ Sales contest		
	Contests/Lucky Draws	▪ Training Sales Forces /Privileges		

**Source:** Donald W. Cowell's article on Sales Promotion and the Marketing of Local Government Recreation and Leisure Services, *European Journal of Marketing*, 18.2.

S/N	Sales Promotion	Meaning	Objectives
1.	Price-Off Offers	Offering product at lower than the normal price.	To encourage immediate sales, attract non-users, induce new product trial, counter competition, inventory clearance at the retail level, inventory build-up at the trade level
2.	Quantity-Off Offer	Offering more quantity of the same product at no extra cost or with a very nominal increase in the price of the larger quantity packs.	To encourage more/longer duration consumption, higher or excess quantity movement from the factory, trade up consumer for higher quantity packs size.
3.	Premium	Offer of an article of merchandise as an incentive in order to sell product or service. Its forms are:	To encourage purchase, stimulate loyalty, off-season sales promotion, induce trial of new product, ensure reach of premium to the consumer.
	(a) Packaged Premium	When the incentive article is packed (inserted) inside the package of the product.	
	(b) Branded Premium	Where the premium article is handed to the package of the product say with cellophane, etc.	Sampling new products, adding speed to slow moving products.
	(c) Over-the-Counter (OTC) Premium	When the premium article is neither inserted inside nor handed to the product package but is given away to the consumer over the counter along with the product package.	To counter competition, improve inventory clearance at the trade level.
	(d) Container Premium	When the product itself is placed in an attractive and reusable container which serves as a gift.	As a durable reminder at home.
	(c) Self-Liquidating Premiums	Where the consumer usually is asked to pay a specified amount to liquidate or offset a part of full cost of the premium article or the scheme administration cost's	To induce consumer to appropriate premium article, reinforce brand image, encourage more consumption, enables sponsor to offer better quality premium.
	(c) Personality Premium	Where the consumer is required to redeem a specified proof-of-	To build loyalty and reward the consumer for that to counter purchase for the premium article. Proof-of-purchase may be labels, pack tops, bottle tops, corks, etc.

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Competitive offers.

4.	<b>Coupons</b>	When the consumer is entitled to redeem a specific standard certificate for a product/article free or in part payment. Coupons are used by both the manufacturer and the dealers for sales promotion. Coupons may be distributed by mail, by media advertisements, door-to-door, inside product package or by dealers on purchase.	To encourage product trial, build loyalty, trade-up regular users, stimulate re-purchase rate, solicit inquiries.
5.	<b>Refund Offers</b>	Offer of a refund of money to the consumer for mailing in a proof-of-purchase of a particular product(s).	To induce trial from primary users, motivate several product purchases, obtain displays at the retailers, help retailers tie-in with other products, switch competing brand users to sponsor's brand, loading dealers with increased stock.
6.	<b>Trading Stamps</b>	Organised by Trading Stamp companies or large retailers. Trading stamps are a kind of discount coupons offered to consumers linked with the quantum of their purchase. On enough accumulation, these are redeemable for various kinds of merchandise.	To encourage consumer loyalty to certain retail stores.
7.	<b>Consumer Contests and Lucky Draws</b>	Where individuals are invited to compete on the basis of creative skills. The latter is based on the chance or luck factor.	To create brand awareness and stimulate interest in the brand, acquaint consumers with brand usage and benefits, build traffic at the store, precipitate brand purchase, obtain consumer feedback, promote advertising scheme of the company.
8.	<b>Dealer Stock Display Contest</b>	It is a type of point-of-purchase advertising which uses the show windows of the dealers for providing exposure to the sponsor's products. Dealers participating	To provide product exposure at the point of purchase, generate traffic at the store, infuse enthusiasm among dealers.

		enthusiastically and creatively are rewarded.	
9.	<b>Dealer Sales Contests</b>	Where participating dealers are invited to compete in terms of the sales performance.	To increase sales, buy into dealers' loyalty, motivate dealers' staff to sell more.
10.	<b>Discounts</b>	Other than normal trade and cash discounts.	To push more sales to trade, early cash recovery.
11.	<b>Trade Allowances</b>	These are temporary price reductions/reimbursements of expenses incurred by dealers, in full or in part, its varied types are as under:	
	<b>(a) Trade or Buying Allowance</b>	Offer of price reduction on purchase of specified quantity of a product.	To load the trade.
	<b>(b) Buy-Back Allowance</b>	A secondary incentive which offers a certain sum of money to trade for each additional unit bought over and above the deal.	To encourage trade cooperation and stimulate repurchase.
	<b>(c) Count and Re-count Allowance</b>	When a specific amount of money is offered after ascertaining the number of units sold during a specified period.	To move stocks faster, reward on sale only.
	<b>(d) Merchandise (display) Allowance</b>	An allowance to trade for providing desired sales promotion and product displays.	To create enthusiasm in trade, improve traffic and exposure at the point-of-purchase, gain larger space/effort of the trade in the promotion of sponsor's product as against the competitors'.
	<b>(e) Cooperative Advertising and Promotion Allowance</b>	Wherein a manufacturer shares at an agreed rate the advertising and promotional cost incurred by the dealer in the promotion of manufacturer's product.	To gain product and retailer identity, motivate dealers to promote manufacturer's product, obtain local advertising and promotion.
12.	<b>Dealer Gifts</b>	Offer of useful articles and attractive gifts to dealers for their personal, family or office use.	To improve dealer relations, make impact on consumer scheme/contest offered.
13.	<b>Premium or Push Money</b>	When an additional compensation is offered to trade or sales force for pushing additionally a specific product or product line.	To push a specific product or product line.

14.	<b>Merchandise Deals (13 for 12)</b>	Where additional quantity of the same, same manufacturer's product is offered to trade may be offered jointly by non-competing manufacturers.	To load dealers with inventory, expose other products of the sponsor, encouraging dealers to sell more and early to realise their incentive.
15.	<b>Point-of-Purchase (POP)</b>	Those special displays, racks, banners, exhibits, that are placed in the retail store to support the sale of a brand.	To attract traffic at retail store, remind customers, encourage impulse buying, ensure additional visibility to the advertising campaign.

**Source:** Donald W. Cowell's article on Sales Promotion and the Marketing of Local Government Recreation and Leisure Services, *European Journal of Marketing*, 18.2.

Though ideal for consumer goods, sales promotion is also used for promoting industrial goods. The difference in the use lies in the types of schemes offered, and in the frequency of their offer. Sales promotion schemes offered to industrial customers, besides the usual gifts, price-off coupons and contests, include product demonstration, training to customer staff, offer of interest-free installment payment plan, ready and regular availability of repairs and spares, and posting of trained staff to assist/supervise in the working of the equipment in the client's premises, at the manufacturer's cost. The sales promotion schemes offered at the level of industrial distributors are: provision of extended credit and provision of specialised sales/technical staff at the manufacturer's cost, besides the usual cooperative advertising and sales promotion, gifts, and organisation of distributors' contests. The sales promotion schemes popularly used to motivate the industrial sales force are: prizes and awards on special achievements, sales contests, new accounts contests and prompt service awards.

### 3.6 Towards a Promotional Strategy

After gaining an understanding of the concepts, issues and decision areas relating to four methods of promotion – advertising, publicity, personal selling and sales promotion, let us recall the need for determining the promotion mix (discussed earlier) and make few observations concerning the formulation of a promotional strategy. You would recall that promotion constitutes one of the important elements of the marketing mix of a firm. Each firm has a need to perform its promotion (marketing communication) function effectively. Further, each of the four promotion methods has its own unique place in the marketing communications mix of a firm. The question facing marketers, therefore, is not which promotion method to use to meet today's complex marketing tasks. Rather, the real question is which promotion method should be emphasised, how intensively it should be used, and how it can be integrated with the other promotional methods.

Decisions on determination of the promotion mix take us back to the promotion objectives which must emanate from marketing objectives of the firm. A promotional strategy aims at accomplishing the promotion objectives in the allocated funds and within a scheduled period of time.

Promotional objectives, generally speaking, relate to sales and the marketing communication tasks required to be performed as per the needs of the product market scenario. Expressed in specific measurable terms, these can be put as: increasing sales, improving market share, creating product awareness and comprehension, developing a positive attitude of the public towards the product, building a favourable image of the product, or gaining competitive advantage.

In this contest, Leonard M. Lodish suggests ‘vaguely right’ criteria, the relevant part of which is as follows:

<b>Promotion Decision Area</b>	<b>Vaguely Right Criteria for Evaluation</b>
Advertising Budget	Changes in buyer behaviour – long-term or short-term – and its resulting profitability.
Media Planning Promotion Management	Changes in buyer behaviour per dollar, changes in buyer behaviour and resulting long and short-term profits.
Trade Promotion Management Consumer Coupons	Changes in buyer behaviour of the ultimate consumer, sales and profit changes (both short and long-term) caused by the coupons.

The extent of emphasis to be placed on the different promotion methods is determined by several variables. First, it is dependent on the promotional objectives, and next, on the characteristics of the target public, their psychology, and the allocated funds. For example, a marketer of consumer durables in a metropolitan city like Lagos may use different means like advertising to create awareness and build comprehension. It would also require publicity which could be through press release on the contest technology backing his product. Sales promotion through demonstration, P.O.P. and offer of introductory price to encourage intentions would also be used and, definitely, personal selling to overcome objections, offer conviction and precipitate purchase action would complete the promotion picture.

Further, as revealed by Kenouth G. Nardy, for achieving the objectives of, for example, loading the consumer with larger supplies, it can be seen that it is required that all the methods of promotion be approached simultaneously in terms of objectives to be achieved. Attaining synergistic advantage arising out of the use of different promotional methods is the hallmark of an effective promotional strategy.

#### **4.0 CONCLUSION**

Promotion is an important marketing function of each firm. And rare will be a firm which makes use of only one promotional method. The commonality in the ultimate

goal of all the promotional methods apart, their limited suitability in influencing only a specific part of the consumer adoption process calls for the need to use the promotional mix in an integrative manner. Given the complexities in the management of the promotion function and its vulnerability to failure, it is desired that the function be managed professionally. In this unit, we discussed the nature, role, types and the planning process involved in the personal selling and sales promotion methods as promotional tools.

## **5.0 SUMMARY**

In this unit, we discussed the nature, role, types and the planning process involved in personal selling and sales promotion methods of promotion. Personal selling is a direct person-to-person selling and promotion method. The specific role and goals of personal selling vary from firm to firm depending upon the nature of goods marketed, distribution system used, and the sales strategy adopted by a firm. The changing market environment calls upon the sales force to transform itself in order to perform a more creative role. Sales promotion, of late, has emerged as one of the more popular methods of promotion in the case of consumer goods. Stated simply, sales promotion deals with offering something extra as an incentive to motivate an early purchase. Sales promotions can be offered at the level of the consumer, trade and sales force. Sales promotions aid in achieving both the push-pull elements of a promotion strategy. Sales promotion schemes used to attain consumer pull include free samples, price-offs premium giveaways, coupons and contests. Schemes offered for gaining the push cover promotional allowances, gifts, discounts, cooperative promotions, contests and awards and rewards. To save a sales promotion programme from getting misfired, it should be planned and managed in a systematic manner.

## **6.0 TUTOR-MARKED ASSIGNMENT**

- i. Everybody (both trained and untrained) partakes in sales jobs nowadays. List and explain 5 types of sales jobs.
- ii. Selling is a professionalised field; hence, there are processes that one should follow in order to achieve sales objectives. Briefly explain the first five 5 processes.

## **7.0 REFERENCES/FURTHER READINGS**

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## **UNIT 6     MARKETING RESEARCH AND ITS APPLICATIONS**

### **CONTENTS**

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
  - 3.1 The Context of Marketing Decisions
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  - 3.4 Scope of Marketing Research
  - 3.5 Marketing Research Procedure
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- 5.0 Summary
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### **1.0 INTRODUCTION**

As a manager, you are making decisions all the time. It is your responsibility to reduce the risk associated with the decisions which you make. The risk arises because of lack of complete information. Therefore, you are always seeking information to improve the quality of your decision-making. In many areas of management, such as production, finance and personnel, the information required for decision-making is primarily generated within the firm and is easy to collect and analyse. Moreover, in these areas formalised procedures have greatly improved decisions: statistical quality control in manufacturing, PERT in project scheduling, queuing theory in managing large machinery maintenance programmes, etc. This unit examines marketing research and its sub-elements as they affect marketing activities.

### **2.0 OBJECTIVES**

At the end of this unit, you should be able to:

- explain marketing research
- state the relevance of marketing research in the context of marketing decisions
- develop an appreciation of the various possible uses and applications of marketing research state the procedure of conducting marketing research
- develop familiarity with the necessary steps needed to complete each stage of the procedure.

### **3.0 MAIN CONTENT**

#### **3.1 The Context of Marketing Decisions**

In the area of marketing, much of the information required for decision-making exists outside the firm e.g. information on why people buy only certain products and not other products; information about the competitor's next move; information about new government rules and regulations which can affect your working, etc. The marketing manager faces a challenging task in attempting to improve his decision-making. The variables involved in the marketing decisions being external to the firm make collection of information cumbersome and expensive. Since the variables are often qualitative and dynamic in nature, their measurement is also difficult, and the results not always accurate. Moreover, many of the variables interact with each other in a very complex fashion, which makes it difficult to isolate and measure specific variables. Thus, the pressure on the marketing manager is very strong to correctly choose the most critical decision variables and seek relevant information about them. The wrong choice of (information) variables will not only result in unnecessary expenditure but can also lead the decision-making process astray. The correct identification of variables requires at least a basic understanding of why people behave in the manner in which they do. The manager also needs to monitor what is happening in the marketplace and in the general environment of the firm. The only way the manager can monitor all these is through regular market research.

#### **3.2 Definition of Marketing Research**

The American Marketing Association defines marketing research as the systematic gathering, recording and analysing of data about problems related to the marketing of goods and services. Crisp has defined marketing research as ... the systematic, objective and exhaustive search for and study of the facts relevant to any problem in the field of marketing.

It would be useful to add the word 'continuous' to these two definitions to make them even more meaningful. A study conducted today may lose much of its relevance by next year and may need updating, modification or even an entirely new effort. The rate of change in information would depend on the specific product and customer segment with which you are dealing. If your firm is marketing bathroom fittings, you are dealing with functional products. The functions these fittings will service, for example, in 1995, are the same as what they serve today. Therefore, you may not use extensive marketing research to understand the changes in customer tastes, because the variations in the designs (given the functional character of the product) which you can introduce are very limited. However, you would like to know what new colours and materials are preferred by the customers and undertake research for this purpose. If your firm is marketing ready-made clothes for teenagers, you are dealing with a market where rapid change is its distinguishing characteristic. You would need continuous and extensive market research to find out what designs, fabrics, colours and prices will appeal to this market segment, this winter, the coming summer and the

following winter and so on. You would also need to monitor the fashion scene in Europe and America and see what new trends can be successfully adapted for the Nigerian market. The fact that a product line is greatly affected by changing customer tastes, habits, values, attitudes, or dealing in a product which is not that susceptible to environmental influences, makes you need marketing research to improve and be at least one step ahead of your competitors.

In the latter case (ready-made clothes), marketing research is a critical input for the mere survival of the firm; in the former (bathroom fittings), marketing research is necessary because it can yield valuable ideas to make the firm a market innovator and leader. Marketing research can be used for consumer products, industrial products and services.

### **3.3 Purpose of Marketing Research**

The basic purpose of marketing research is to facilitate the decision-making process. A manager has before him a number of alternative solutions to choose from in response to every marketing problem and situation. In the absence of market information, he may make the choice on the basis of his hunch. By doing so, the manager is taking a big risk because he has no concrete evidence to evaluate these alternatives in comparison with others or to assess its possible outcome. But with the help of information provided by marketing research, the manager can reduce the number of alternate choices to one, two or three, and the possible outcome of each choice is also known. Thus, the decision-making process becomes a little easier.

The second purpose of marketing research is that it helps to reduce the risk associated with the process of decision-making. The risk arises because of two types of uncertainties: uncertainty about the expected outcome of the decision, and uncertainty about the future. Uncertainty about the expected outcome of the decision will always remain no matter how much information you may have collected to base your decision on hard facts. Unforeseen factors have the uncanny ability of upsetting even the most stable apple cart.

For example, in the mid-1950's, Ford Motor Company in the USA had a 25 per cent share of the automobile market. The company wanted to introduce a new car model which would appeal to young executives and professionals. The decision was based on research which revealed that this market segment accounted for 25 percent of the market, and was expected to grow to about 40 percent. Ford spent colossal amounts researching and designing the new model which was named Edsel. When introduced in the market, the car was a total flop. This happened because of occurrence of three unforeseen events. Firstly, the youthful car market segment did not grow as rapidly as the market research had indicated. Secondly, the recession also set in at about this time and people began looking for more economical means of transportation. Thirdly, there was a sudden change in customer tastes, with people turning away from flashy exteriors, and the flamboyant Edsel was totally out of tune with new the taste for austerity and functional simplicity.

This example highlights the fact that despite best research efforts, the outcome can still be unpredictable. As Reynolds, a former Ford executive, commented on the Edsel fiasco, "It is hard to see how anyone could, given the kind of car market that existed in 1955 and 1956, have anticipated such trends..."

The risk also arises because of uncertainty of what will happen in the future, the way the customers or distributors would behave, the manner in which the competition will react, and so on. To the extent that research provides information about the future, it anticipates the future, thus providing the manager with a solid basis for his decision-making. However, it cannot provide perfectly exact or accurate information. But since the techniques of marketing research are based on scientific methods of collecting, analysing and interpreting data, its findings and projects, at the least, provide a definite trend of scenarios for future decision-making.

The third purpose of marketing research is that it helps firms in discovering opportunities which can be profitably exploited. These opportunities may exist in the form of untapped customer needs or wants not catered to by the existing firms. Food Specialities Limited (manufacturers of Nescafe Coffee, Lactogen Powdered Milk) have recently introduced in the Indian market a dairy whitener (as a substitute for milk) called 'Every Day' to be used for making tea and coffee. The product has proved to be a success because it is most convenient for use in offices, where tea and coffee are consumed in large quantities but milk is not easy to procure. Every Day fulfils a slot in the market for powdered milk which was not being catered to by the existing milk powders brands.

### **3.4 Scope of Marketing Research**

Marketing research (MR) is concerned with all aspects of marketing, relating to product design and development, product-mix, pricing, packaging, branding, sales, distribution, competition, target customer segments and their buying behaviour, advertising and its impact. Specifically, the scope of MR includes customers, products, distribution, advertising, competitive information and macro-level phenomenon.

- 1) Marketing is concerned with identifying and fulfilling customer needs and wants. Thus, MR should precede marketing. The unfulfilled wants should first be identified and translated into technically and economically feasible product ideas, which then should be marketed to the customers. But mere identification of customer wants is not enough. Marketing requires continuous effort to improve the existing product, increase sales and beat the competition. For this, it is important to know who the customers are for your products (whether housewives, teenagers, children), what their socio-economic profile is (in terms of income, education, cultural, religious and professional background) and where they are concentrated in terms of location. Besides this information, it is also important for you to know the process by which a prospective customer arrives at a decision to buy your product. If you know

the sequential steps in the purchase process and the influencing variables in each, you can design appropriate strategies to exert a positive impact on them, and thus ensure an actual purchase. The study of consumers and their purchase behaviour is so important that there is a separate, special body of knowledge known as Consumer Behaviour.

- 2) The second area which is of direct concern for MR is product and product design. MR is helpful in determining the final design of the product and its physical attributes of colour, size, shape, packaging, and brand name. It is useful in arriving at the right combination of product mix, the number of variations of the basic product, accessories and attachments. It can also help decide the quantities to be produced according to the projected demand estimates. MR can also be used to gauge customer reactions to different prices.
- 3) Marketing research helps in discovering what types of distribution channels and retail outlets are most profitable for your product. On the basis of comparative information for different channels and different types of outlets, you can choose the combination most suitable for your product. Distributor, stockist, wholesaler or retailer may represent one kind of distribution channel in contrast to another in which you may use only the distributor and retailer. Consider an example:

A firm is marketing refrigerators through distributors and retailers in the Eastern zone. The understanding between the firm and distributors is that the latter will provide the after-sale service. Analysing the sales figures, the firm finds that the sales level in the Eastern zone is much lower than in the other zones. Marketing research indent reveals that one of the reasons for this low sales performance is the poor after-sale service provided by the distributor. In a high value, durable product such as the refrigerator, the quality of after sales service is an important factor influencing the customers' purchase decision regarding the specific brand to buy. The firm decides to do away with the distributor and instead opens its own branch office. The new distribution channel comprising branch office and retailers is operationally more expensive, but the company can now control the quality of after sales service as well as the other marketing inputs. The result is improved sales and the incremental cost associated with the new distribution network is justified.

- 4) Most companies provide advertising support for their products. In some cases, the amount spent on advertising may be small, while in others, it may run into millions of naira. Irrespective of the actual amount spent on advertising, each firm would like to maximise the return on every naira that it spends. Marketing research can help the firm to do this. Research can provide information on the most cost-effective media, help determine the advertising budget, measure the effectiveness of specific advertisements, advertising campaigns and the entire advertising strategy. Research also provides information on the size and type of audiences for different advertising media channels. This information can be used to refine the advertising strategy to make it more relevant and sharply focused. Advertising research is also

helpful in determining customer perceptions about the image of specific branches and companies.

- 5) Marketing research is being increasingly used at the macro-level. Government of Nigeria spends colossal amounts on various socio-economic development schemes and projects. If the objectives of these projects are not in tune with the prevailing consumer tastes, attitudes and values, the entire amount may prove to be a total waste. Just as a business organisation needs MR to monitor the efficacy of its strategy in achieving the objectives, so does the government and its departments.

### **3.5 Marketing Research Procedure**

Marketing research is undertaken in order to improve the understanding about a marketing situation or problem and consequently improve the quality of decision-making related to it. The usefulness of the marketing research output will depend upon the way the research has been designed and implemented at each stage of the process.

There are five steps in every marketing research process:

- Problem definition
- Research design
- Field work
- Data analysis
- Report presentation and implementation.

#### **1) Problem Definition**

A problem is any situation which requires further investigations. However, not all marketing problems need further investigation or research. Many problems are of a routine and trivial nature which can be solved immediately after ascertaining all the facts of the case. For example, your distributor wants 90 days credit against the usual 60 days because he is facing certain financial problems. You can immediately check the distributor's past record in honouring his outstanding and ascertain the genuineness of his problem and make a decision.

Some problems faced by marketing managers are such that they can be handled on the basis of past experience and intuition. Such decisions can be made if the manager has been in the line for at least a couple of years. Decisions made on judgment may not always turn out to be correct, but the problem may not be important enough to justify substantial time, money and effort to be spent on solving it. But when the problem is critical, spending resources to initiate formal marketing research is warranted. Also, when the problem is such that the manager has no past experience to guide him (as in case of a new product launch) or the decision will have a critical impact on the future of the company (diversification in new markets, new products), it is worthwhile to undertake research and make decisions on the basis of concrete results rather than mere hunch or judgment.

It is very important that you define the problem for research properly. It is correctly said that 'a problem well defined is half- solved'. Clear, precise, to the point statement of the problem itself provides clues for the solution. On the other hand, a vague, general, or inaccurate statement of the problem only confuses the researcher and can lead to wrong problems being researched and useless results generated.

Contrast the two following statements of the same marketing problem:

**(a) Wrong problem definition**

Product	Typewriter
Market	West Zone
Problem	Sales not picking up at the rate at which they should

**(b) Correct problem definition**

Product	Typewriter
Market	West Zone, with special emphasis on Lagos, Ibadan, Ilorin, Akure
Current Market Share	17 per cent
Market Segment	Non-office customers, i.e. professionals such as Lawyers, doctors, accountants, consultants, Journalists and writers.
Current Market Share	3.5 per cent in non-office segment
Problem	In the year 1985 – 86, our brand of typewriters achieved only a 2 per cent growth as against the projected 5 percent.
Marketing Research Problem	To find out the reasons for the shortfall in the growth rate in the non- office market segment and suggest a specific strategy to achieve a 10 per cent market share in this segment by December, 2007.

Since problem definition is the first stage, useful information generated is likely to be unstructured, qualitative, tentative and exploratory. Depending on the results generated at this stage, you would decide whether to extend the scope of research or stop it here.

**2) Research Design**

If you have stated your problem correctly and precisely, you should be able to spell out the precise objectives for research. Now you are in a position to prepare your research design. The research design spells out how you are going to achieve the stated research objectives. The data collection methods, the specific research instrument and the sampling plan that you will use for collecting data and the corresponding cost are the elements that constitute the research design.



## Data Collection Method

A great deal of data is regularly collected and disseminated by international bodies such as the International Labour Organisation, World Bank, International Monetary Fund, Government and its many agencies including Planning Commission, Central Statistical Organisation, Census Commission, private research organisations, and trade associations. This kind of data which has already been collected by another organisation and not by you is known as **secondary data**. This secondary data already exists in an accessible form; it only has to be located. You must first check whether any secondary data is available on the subject matter into which you are researching and make use of it, since it will save considerable time and money. But the data must be scrutinised properly since it was originally collected perhaps for another purpose. The data must also be checked for reliability, relevance and accuracy.

When secondary data is not available or is not reliable, you would need to collect original data to suit your objectives. Original data collected specifically for a current research are known as primary data. **Primary data** can be collected from customers, retailers, distributors, manufacturers or other information sources. Primary data may be collected through any of the three methods: observation, survey and experimentation.

In the observation method, the researcher gathers information by observing. This method is generally used to observe buyer behaviour in a shop or to assess the impact of shelf placement and point of purchase promotional material. For instance, you may like to observe the movement of shopping traffic through a department store, the number of shoppers who stopped before a particular display, etc.

The obvious limitation of the **observation method** is that it follows observation of only overt behaviour. It provides no clues why a customer behaved in a particular manner, what product attributes appealed most to him/her, whether he/she would like to buy the product again, etc. Such data can be generated by using the survey method. The survey method can also yield information about the socio-economic profile of our customers. The survey may either be conducted within a small group of customers through the focus group interview or may cover a large number of customers with the help of a questionnaire. In the focus group interview, five to fifteen customers are invited for a discussion on a specific product or a specific aspect of the product. The customers' comments provide valuable insight into their thinking which can help the manager to fine-tune his marketing strategy to suit different customer segments. Surveys conducted with the help of questionnaires often take off from the focus group interview which yields excellent clues for designing the questionnaire. The questionnaire based surveys yield not only qualitative but also quantitative data which can have statistical validity.

The third method of collecting data is through experimentation. This is basically a simulation of the real-life situation, but in a controlled environment in which you systematically introduce certain elements to study their impact. This method is used

for finding the best sales- training technique, the best price level, or the most effective advertisement campaign. However, its use requires an extremely skilled researcher to ensure results. Also, this method is expensive.

### **SELF-ASSESSMENT EXERCISE**

List the various types of secondary data which are generated by an industry level association or federation. Does your organisation ever make use of this data? Describe two specific decisions in which this data are used for.

### **Research Instrument**

In the observation method, the researcher may use a camera, tape recorder or daily sheet (a sheet in which the number of times an event occurs is recorded). Whatever the instrument used, the researcher must ensure that the instrument is appropriate to the occasion and is reliable.

In the survey method, the most commonly used instrument is the questionnaire. This is a written and organised format containing all the questions relevant to soliciting the required information. The construction of a questionnaire requires great skill. To check that the questionnaire serves the necessary purpose, it should be tested on a limited scale and this is technically known as a pilot survey. The objective of a pilot survey is to weed out unnecessary questions, questions which are difficult to answer, and improve the phrasing of certain questions which are difficult to comprehend.

In constructing a questionnaire, the important points to be considered are the types of questions to be asked, wording of questions and sequencing of questions. Each question should be checked to evaluate its necessity in terms of fulfilling the research objectives. Furthermore, the questions should be such that the respondent can answer them easily. Questions which require the respondent to answer questions about events which occurred a long time ago or about which they do not have direct knowledge should be avoided since you are not likely to get very accurate responses. The question should have direct relevance to the problem being researched. Too many irrelevant questions will only increase the length of the questionnaire (which would only put off the respondent) and also add to the burden of analysis without yielding any useful result.

The wording of the questions is a very important input in ensuring the correct response. Clearly worded, precise questions are not only easy to understand but they also facilitate the proper response. The wording of the question should be neutral and not attempt to influence or bias the response. This is especially relevant when information is being sought on non-physical issues such as motivation, attitudes and personal values of the respondent.

In deciding on the **sampling size**, you have to make a trade-off between the desired accuracy of the results and your budget. The larger the sample, the more accurate are

the results likely to be, but the cost would also be correspondingly high. Another factor affecting the sample size is the kind of research which is being conducted. In exploratory research even a small sample may be sufficient. In focus-group interviews and motivation-research studies, very small sample sizes are sufficient because here the emphasis is on qualitative aspects rather than accuracy of numbers.

The choice of sampling procedure is between two kinds: **probability sampling and non-probability sampling**. In the former, each item of the universe has an equal chance of being selected as a sample unit. In non-probability sampling, the researcher selects the units to be included in the sample. Non-probability sampling is mostly used in exploratory research where a true representation of the universe is not important. But where true representation is important, probability or random sampling is used. Random sampling enables the researcher to make an accurate estimate of the population characteristic but it is more expensive than non-random sampling. The cost that you can bear and the degree of accuracy which you require have to be weighed to arrive at a decision.

The fourth element in the sampling plan is the **sampling procedure**. How should you reach your sample units: personally, by mail or by telephone. Personal interviewing is most suited when there are many questions to be asked and it is important to ensure that the questions are understood properly. Thus, wherever the questions are a little complex, personal interviewing should be used. This is also the best method to ensure that correct answers are given which can be corroborated by the interviewer through observation. But this technique requires a skilled interviewer and a great deal of administration and supervision. Also, it is the most expensive of the three methods.

The **mail questionnaire** is extremely appropriate when your sampling units are distributed over a wide geographical area and the cost of reaching them personally is very high. However, the return rate of mail questionnaires is usually very low, ranging between three and seven percent. On an average, you would have to mail 1000 questionnaires to get back thirty filled up questionnaires. Another drawback is that you have no way of checking the authenticity and accuracy of the response. The respondent may fill totally wrong information and you may never be able to detect it.

The **telephone interview** combines advantages of both personal and mail interviews. It allows you to clarify questions which may not be clearly understood by the respondent and to reach a widely scattered sample at a relatively low cost. But the obvious disadvantage is that your sample is restricted to the people who have telephones. Also, you cannot conduct very long interviews over the telephone.

## Cost

No information can be collected without incurring cost. Before undertaking a research project, its cost should be calculated and assessed against the benefits it would yield in improving the quality of decision-making. If the benefits outweigh the cost, it is certainly worthwhile initiating the research. There are four kinds of costs involved in

marketing research. They include:

- 1) **Cost of data collection:** The actual cost incurred for collecting the data, which may comprise the research organization's fee, staff time, printing and postage of questionnaire, computer time, etc.
- 2) **Cost of time delays:** The more time it takes to provide the research results, the longer the dependent decision(s) is delayed.  
In the meanwhile, the opportunity may be lost or it may become less attractive.
- 3) **Risk of adverse environment change:** While the decision is pending, unfavourable conditions may set in (entry of competition) and consequently, the returns may be lower.
- 4) **Cost of error:** Sometimes, by chance or because of some bias or wrong choice of sampling units, there could be an error in the results leading to expensive consequences for the company concerned.

### **Field Work**

This is the stage where the research design has to be converted from the planning stage to that of implementation. To achieve the stated research objectives, data has to be collected. This data collection is known as field work. The two stages in field work are planning and supervision.

#### **1) Planning**

It has to be planned how many people will be assigned to the field, what will be their geographical areas of coverage, how many days will be required for the entire operation and what is the pattern to be used for choosing sample units (every fourth household in a lane, all flats with an even number in an apartment 'block', etc.). All this planning has to be done in accordance with the details spelt out in the sampling plan.

#### **2) Supervision**

Supervision is an extremely important input to ensure that the data collected is genuine and accurate. Most field work is carried out by a team of field surveyors, and each team is assigned to a supervisor. The team members would plan their daily area of field work in consultation with the supervisor. The supervisor may accompany different team members on different days. In the evening the team would meet the supervisor, hand over the data which they have collected and sort out any problems they may have faced.

Apart from actually accompanying team members on data collection missions, the supervisor would also make random checks to ensure that the data collected is genuine. The check can be conducted either over the telephone (wherever possible) or by again visiting the sampling unit. The supervisor may either ask the respondent

whether he or she was visited by the field interviewer and cross-check the accuracy of the data.

Random checking is carried out to ensure that the field workers do actually collect data from the genuine source of information and not just fill in the data using their own imagination ingenuity. The collected data has also to be checked for its objectivity and accuracy. The data has to be carefully checked to ensure that there is no distortion because of field workers' bias or the respondent's bias. Respondent bias arises because people generally like to project an image (about themselves and their lifestyle) which is more flattering than the reality. This bias would operate more in questions relating to income, possession of certain items (VCR, air conditioner), and habits relating to lifestyle (travelling abroad frequently, visiting clubs, restaurants). Interviewer bias arises because of the interviewer's own pre-conceived notions and ideas. A female interviewer may prefer male respondents because she may feel that it is easy for her to gather information from men rather than women.

In conducting field work, it may happen that the relevant source of information is not at home or does not wish to be interviewed. The supervisor must give guidelines for tackling such situations. The particular units may be substituted by the next one or the field worker visits the same unit again hoping to be more successful.

## **Data Analysis**

After you have collected the data, you need to process, organize and arrange it in a format that makes it easy to understand and directly helps the decision-making process. Raw data has to be processed and analysed to obtain information. There are three phases for analysing the data:

- 1) Classifying the raw data in a more orderly manner.
- 2) Summarising the data.
- 3) Applying analytical methods to manipulate the data to highlight their interrelationship and quantitative significance.

### **1) Classifying the Raw Data**

The most common classifications in marketing research are quantitative, qualitative, chronological and geographical.

**Quantitative:** In this classification, data is classified by a numerical measure such as number of respondents in each market segment, number of years employed, number of family members, number of units consumed, number of brands stocked or some such numerical characteristic.

**Qualitative:** In this classification, the data is classified by some non-numerical attributes such as type of occupation, type of family structure (nuclear or joint family), type of retail outlet (speciality, general merchant, department store, etc).

**Chronological:** Chronological classification is that in which data is classified according to the time when the event occurred.

In geographical classification, the data is classified according to the time when the event occurred.

## 2) Summarising the Data

The first step in summarising the data is the tabulation. Individual observations or data are placed in a suitable classification in which they occur and then counted. Thus, we know the number of times or the frequency with which a particular data occurs. Such tabulation leads to a frequency distribution as illustrated in Table 1 below:

**Table 1:** Frequency Distribution

No. of units sold in April 2006	No. Of shops which achieved this sale
Up to 100	18
101 – 120	25
121 – 140	33
141 – 160	29
161 – 180	19
181 – 200	11
Above 200	4

**The frequency distribution** may involve a single variable as in Table 1 or it may involve two or more variables, which is known as cross-classification or cross-tabulation.

The frequency distribution presented per se may not yield any specific result or inference. What we want is a single, condensed representative figure which will help us to make useful inferences about the data and also provide a yardstick for comparing different sets of data. Measures of average or central tendency provide one such yardstick. The three types of averages are the mode, median and mean.

### Mode

The mode is the central value or item that occurs most frequently. When the data is organised as a frequency distribution, the mode is that category which has the maximum number of observations (in the 121 – 140 category in Table 1). A shopkeeper ordering fresh stock of shoes for the season would make use of the mode to determine the size which is most frequently sold. The advantage of the mode is that it is easy to compute, is not affected by extreme values in the frequency distribution and is representative if the observations are clustered at one particular value or class.

## Median

The median is that item which lies exactly half-way between the lowest and highest values when the data is arranged in an ascending or descending order. It is not affected by the value of the observation, but by the number of observations. Suppose you have the data on monthly income of households in a particular area. The median value would give you that monthly income which divides the number of households into two equal parts. Fifty per cent of all households have a monthly income above the median value and fifty per cent of households have a monthly income below the median income.

## Mean

The mean is the common arithmetic average. It is computed by dividing the sum of the values of the observation by the number of items observed. For example, a firm wants to introduce a new packing of sliced bread aimed at the customer segment of small nuclear families of four members each. It wishes to introduce the concept of a 'single-day pack', i.e. a pack which contains only that number of slices that are usually eaten in a single day. This strategy would help to keep the price of the pack well within the family's limited budget. The firm has many opinions on the ideal number of slices that the pack should contain – ranging from three to as high as twelve. The firm decides to hire a professional marketing agency to conduct market research and recommend the number of bread slices it should pack.

The research agency goes about the task in two steps. In the first step, it randomly chooses five families (who are consumers of bread) in each of the four colonies in the city. These families are asked to maintain for one week a record of the exact number of slices they consumed each day. From this data, the agency calculates the average (or mean) number of bread slices eaten per family per day. There would be twenty such mean values (5 families in 4 colonies each, sample size 20). In the second step, from these mean values, the model value would provide the answer to the number of bread slices to be packed in each pack.

### Step 1

#### Family 1

Days	Mon	Tue	Wed	Thur	Fri	Sat	Sun
No. of bread slices eaten	4	4	2	5	6	5	5

$$\text{Mean} = \frac{4 + 4 + 2 + 5 + 6 + 5 + 5}{7 \text{ (no. of days)}} = \frac{29}{7} = 4.1 \text{ or } 4$$

(For family 1)

**Step 1****Family 2**

Mean values for 20 sample units:

4, 10, 7, 6, 8, 8, 9, 6, 7, 7, 4, 6, 8, 3, 8, 2, 7, 8, 5, 8

Rearranging these mean values in a frequency distribution we have:

Mean value (No. of bread slices eaten daily)	Frequency (No. of families)
2	1
3	1
4	2
5	1
6	3
7	4
8	6
9	1
10	1

The mode in this frequency distribution is 8. Eight slices is the most commonly occurring consumption pattern. The agency's recommendation is to pack eight bread slices in the single-day pack.

The mean, mode and median are measures of central tendency or average. They measure the most typical value around which most values in the distribution tend to converge. However, there are always extreme values in each distribution. These extreme values indicate the spread of the dispersion of the distribution. To make a valid marketing decision, you need not only the measures of central tendency but also relevant measures of dispersion. Measures of dispersion would tell you the number of values which are substantially different from the mean, median or mode. If the number of observations at the extreme values is large enough to form a substantial number, it indicates an opportunity for market segmentation. In the earlier example of bread, if in a larger sample, you find that the number of households who consume three slices per day is also substantially large, the firm may find it worthwhile to introduce a 3-slice pack for light bread consumers. Such variations from the central tendency can be found by using measures of dispersion. The two commonly used measures of dispersion are the range and standard deviation.

**Range**

The range is the difference between the largest and smallest observed value. Using the data in step 1 in the bread illustration, the largest observed value is 10 and the smallest observed value is 2, therefore, the range is 8. The smaller the figure of the range, the more compact and homogeneous is the distribution.



## Variance and Standard Deviation

These two measures of dispersion are based on the deviations from the mean. The variance is the average of the squared deviations of the observed values from the mean of the distribution. Standard deviation is the square root of the variance. The standard deviation is used to compare two samples which have the same mean. The distribution with the smaller standard deviation is more homogeneous.

## Selecting Analytical Methods

Besides having a summary of the data, the marketing manager also would like information on interrelationships between variables and the qualitative aspects of the variables. This can be achieved through:

- (a) correlation
- (b) regression analysis
- (c) multiple regression analysis
- (d) others.

## Report Presentation and Implementation

The final step is the preparation, presentation and implementation of a report giving the major findings and recommendations. A typical format of the report may comprise the following sections:

- a. **Objectives and methodology** in which the research objectives are stated and details of the sampling plan are described.
- b. **Summary of conclusions and recommendations** in which the main findings of the research are highlighted. On the basis of the findings, some recommendations may be made.
- c. **Sample and its characteristics** which contain descriptions of the sampling units in terms of their geographical location, socio- economic profile and other relevant details.
- d. **Detailed findings and observations** in which the data which was collected is presented in a form which is easily comprehensible to the user. The data may be presented in tabular form or graphically in a bar chart, pictogram or pie diagram; or in a combination of all these.

## 3.7 Applications of Marketing Research

The broad areas of application of marketing research are sales and market analysis, product research, advertising, business economics and corporate research, and corporate responsibility.

## Sales and Market Analysis

- i. **Determination of Market Potential:** The market potential is the total amount of a product or product group which could be sold to a market in a specified time period and under given conditions. Market potential is applicable in case of a new product, a modified version of an existing product, or an existing product to be introduced in a new geographical market.
- ii. **Determination of Market Share:** In case of an existing product, a company may be interested to know the percentage share of the market which their brand commands.
- iii. **Sales Forecasting:** Sales forecasting is an attempt to predict the sales level at a given point in the future on the basis of the existing information. Sales forecasting is applicable to both existing products as well as new products. The sales may be calculated either in units or in value. Basically, there are two types of forecasts – short-term and long-term. The short-term forecast has its basis more in the growth pattern of the industry to which the product belongs and the business cycle operating in the industry.
- iv. **Design of Market Segmentation Studies:** A market is a group of potential customers who have something in common. The common factor may be a geographical area, sex (after shave lotion is used only by men), age (toys for children under 5, between 5 & 7, etc.), physical characteristic (weak eyesight, overweight), income, lifestyle, etc.

Children comprise the market for toys. But in this broad category, the market can be viewed to be made up of many smaller markets or segments: one market for pre-school children, another for school-going children, one market comprised of educational toys, one for mechanical toys, one for electrical toys, one for indoor games, etc. The choice before the marketing manager is whether to cater for the broad market of toys or to only one or two of the specific market segments. MR can help answer questions such as ‘To what extent should the market segmentation be pursued?’ and ‘What should be the basis for segmentation?’

- v. **Test Market:** This is a controlled experiment to predict sales or profit consequence of the various marketing strategies. It refers to trying out something in a particular market before extending it on a larger scale. You may have noticed advertisements for soaps, or snack foods which sometimes carry the message available only in Lagos’ or ‘available only in Onitsha’.

Test marketing is used not only for new products, but also for researching into the impact on sales of retail level promotional displays and promotional schemes such as coupons and discounts.

- vi. **Distribution Channel Studies:** Market research can be used to determine the most effective and profitable distribution channels for different types of products.

- vii. Determination of Market Characteristics:** Research surveys can be conducted to collect information about the market characteristics which would help a new entrant plan his entry or help an existing company focus its strategy more sharply for increasing market share. Information can be collected on the number of brands competing in the market, state of technology prevailing in the market, geographical concentration and dispersal of customers, nature of outlets selling the products, number of such retail outlets, etc.
- viii. Determination of Competitive Information:** Research can provide information on the marketing strategies used by various competing brands and the 'unique selling proposition' of each.

## 2) Product Research

This can be used for:

- (a) Evaluation of new product ideas
- (b) Testing for new product acceptance
- (c) Evaluating the need for change in product formulation
- (d) Testing package design in terms of aesthetic appeal, protection for the product, and ability to withstand transportation and stocking ordeal
- (e) Testing for product positioning. For example, should a new brand of tea be positioned on the basis of its fragrance and taste, or colour and strength, or price?

## 3) Business Economics and Corporate Research

- (a) **Studies of Business Trends:** These are to determine industries with growth potential and those facing a stagnant future.
- (b) **Pricing Studies:** These are to estimate the demand level at different prices. Such studies reveal the extent to which customers are sensitive to price changes, and provide valuable clues to the market or in assessing the impact of price increase or decrease on sales.
- (c) **Diversifications Studies:** These provide information on the profitable new opportunities of business growth which a firm can consider for diversification. The diversification may be into totally new and unknown areas or into allied areas.
- (d) **Product-Mix Studies:** If a firm is considering diversifying into allied product areas, it may like to find out the product-mix combinations which would optimise its existing resources and provide synergy for growth. A company in the business of cooking oil would like to do research into one or more of the following products for arriving at a 'synergistic' product-mix: butter, spices, dehydrated foods, frozen foods, instant food mixes, custard powder, branded wheat flour and rice.
- (e) **Plant and Warehouse Location Studies:** Research is also needed to determine the best possible location for setting up a new plant. Before arriving at a

decision, a firm would need to researching to factors such as availability of raw material and labour, proximity to market place, telecommunication and transport infrastructure, financial, taxation and other incentives applicable to each location. In case of warehouse location, you would research into movement patterns of goods to different cities, high sale potential areas versus low sale potential areas, number of checks for quality needed en route the destination to final customer, benefit of conducting these checks against the cost of acquiring and maintaining a warehouse and convenient rail/road connections.

#### **4) Advertising Research**

##### **(a) Audience Measurement**

This is carried out on advertisements appearing in different media such as newspapers, magazines, journals, radio, TV, outdoor hoardings, kiosks, bus side panels, etc. The objective of this type of research is to estimate the audience size of each media channel (e.g. print or electronic responses).

##### **(b) Determining the Most Cost-Effective Media Plan**

Each media channel has its unique advantages and disadvantages, and each media vehicle has its own cost structure. Research can be used to find out the best media vehicle by matching your product characteristics with the audience profiles of different media vehicles and the respective cost of advertising in these.

##### **(c) Copy Testing**

One approach for researching into the effectiveness of the copy (the words or pictures of the advert) is to test the following elements:

- Basic themes, ideas, appeals
- Headlines baseline, pictures, jingle, story sequence
- Pre-testing whole advertisements in rough or finished form
- Pre-testing the effect of repetition to simulate a campaign (all the above can be tested under simulated conditions)
- After the advertisements have been released, post-testing them individually in their normal media
- The other approach for conducting research is to assess the copy or the entire advertisement/campaign for the following:
  - assessing for its attention value, interest value and arousal,
  - testing for communication clarity,
  - testing for their effect on consumer attitudes,
  - testing for their effect on purchase behaviour..
  -

#### (d) **Determining Advertising Effectiveness**

After the advertisements have been released, it is important to monitor their impact in terms of achieving the intended objective(s). To what extent has the advertising achieved its objective of creating brand awareness, creating corporate image, educating the customers about the product usage, and so on. The effectiveness is always determined in relation to the cost incurred.

#### 5) **Consumer Behaviour Research**

- (a) To determine who the customers of the product (men, women, children, working women, housewives, retired people) are and profile them in terms of their socio-economic background, age, religion and occupation.
- (b) To find out where the customers are located.
- (c) To determine their motivations to purchase your brand of product.
- (d) To determine their buying behaviour pattern in terms of identifying sources of information and influence, and sequence of purchase decision.
- (e) To find out the post-purchase satisfaction level of customers.

### 3.7 **Problems of Conducting Marketing Research in Nigeria**

The biggest problem confronting anyone who sets out to conduct research in Nigeria is the meager secondary data. The census which contains a wealth of data takes many years to be conducted, like the 2006 census conducted and result released in January, 2007. Data contained in journals and handbooks are usually two to three years old. Thus, whatever data is available is usually obsolete and this greatly reduces its utility.

In collecting primary data, the problems are those of widely scattered sampling units, location or scope of sampling units in remote and inaccessible areas, and poor communication facilities which compound the problem of inaccessibility. If the sampling units are the industrial units in the unorganised sector, there is no guide for locating these units. The other kind of problem encountered in collecting primary data is the uncooperative attitude of respondents arising out of sheer lack of knowledge about the nature of MR and its utility. Respondents often view interviewers with suspicion and may refuse to give any information.

Most of the market research organisations are located in the cities and have an urban-bias to the extent that they have neither a penetration/base in the rural areas and cannot easily communicate properly with the rural people. Most market research is conducted in the cities for products used by city dwellers.

State-of the art marketing research in Nigeria has not reached sophisticated levels as in America or Europe. The marketing research techniques used here are still relatively unsophisticated and simplistic.

## 4.0 CONCLUSION

**Marketing Research** as a tool for decision-making is gaining wide acceptance. Marketing decisions involve variables which are often external to the firm, dynamic in nature, uncontrollable by the firm and interact with each other in a complex manner. Because of their dynamic and uncontrollable nature, the uncertainty associated with them is very high, which in turn leads to the situation that in most marketing decisions the associated risk factor is also very high. The marketing manager is always on the lookout for ways and means to reduce this risk. One way that the risk can be reduced is through the use of MR which, by providing information, reduces uncertainty and converts the unknown risk factor into a known calculated risk.

## 5.0 SUMMARY

In this unit, it was highlighted that MR can be used for gathering information about market structure, competitors' activities, consumer behaviour, testing the efficacy of various elements of the marketing strategy and making forecasts. MR can be used for pre-testing a strategy before actually implementing it, monitor it during implementation, and after implementation, monitor the results to assess its impact. Apart from its usefulness in the area of marketing, MR is also used for monitoring socio-economic projects. The manager must take the decision regarding the utility of MR on the basis of the cost involved in conducting the research and the benefits expected to accrue from it.

## 6.0 TUTOR-MARKED ASSIGNMENT

1. Conducting marketing research (MR) involves some costs. What are these costs?
2. What are the areas in which marketing research is applied to?
3. Despite best research effort, the outcome of a research can still be unpredictable. Explain, if possible with a case study.

## 7.0 REFERENCES/FURTHER READINGS

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