

Marketing
for small and medium-sized enterprises
(for start-up companies)

1	SIGNIFICANCE OF MARKETING - STRATEGIC MARKETING PLANNING	4
1.1	Mission	4
1.2	Objectives	4
1.3	Introduction	4
1.4	Marketing process of exchange.....	5
1.5	Target markets and target marketing	6
1.6	Marketing strategy planning	9
1.6.1	Setting marketing goals	10
1.6.2	Formulating a marketing strategy	11
1.6.3	Formulating a marketing programme and budgeting – Getting feedback	14
1.6.4	Marketing plan	15
1.7	Conclusion	19
2	MARKETING ANALYSES	20
2.1	Mission	20
2.2	Objectives	20
2.3	Introduction	20
2.4	Business environment analysis.....	21
2.4.1	Macroenvironment analysis	21
2.4.2	Microenvironment analysis – Internal environment.....	22
2.5	Market size, analysis and structure	25
2.6	Industry analysis	26
2.6.1	Threat of new entrants	27
2.6.2	Purchasing power of buyers	27
2.6.3	Purchasing power of suppliers	28
2.6.4	Competitive rivalry within the industry.....	29
2.6.5	Threat of substitute products	30
2.7	Competitive analysis.....	30
2.7.1	Competitive advantage analysis	33
2.8	Conclusion	34
2.9	Self-assessment questions.....	35
3	MARKETING MIX – PRODUCT AND DISTRIBUTION	36
3.1	Mission	36
3.2	Objectives	36

3.3	Introduction	36
3.4	Marketing structure of a product.....	37
3.5	Product life cycle and related strategies	38
3.6	Distribution.....	40
3.7	Conclusion	43
3.8	Self-assessment questions	43
4	PRICE AND PRODUCT PROMOTION	44
4.1	Mission	44
4.2	Objectives	44
4.3	Introduction.....	44
4.4	Price decision-making factors.....	45
4.5	Pricing	48
4.6	Marketing promotion	51
4.6.1	Developing effective communication.....	52
4.6.2	Advertising.....	54
4.6.3	Sales promotion.....	56
4.7	Public relations (PR).....	56
4.8	Personal selling.....	57
4.9	Direct marketing.....	58
4.10	Conclusion	58
4.11	Self-assessment questions	58
	GLOSSARY	59
	QUESTIONS AND TESTS.....	65

1 Significance of marketing - Strategic marketing planning

1.1 Mission

The mission of this chapter is to explain to the readers some fundamental terms and core marketing concepts and their significance for business. At the same time, the role of marketing managers in the process of marketing strategy and marketing plan development is defined, and the process of marketing plan development itself is described.

1.2 Objectives

After having studied this chapter you will be able to:

- Explain the role of a marketing manager/marketer
- Describe the process of marketing strategy and marketing plan development
- Describe the process of target marketing development
- Define the differences in the application of marketing on international markets

1.3 Introduction

Marketing is a process of identifying and satisfying human and social needs. It is the art and science of selecting target markets and getting, keeping and growing customers through creating, delivering, and communicating superior customer value. A company that aims to succeed in a market must understand the application principles of a marketing conception, which presents “the commercial philosophy holding that the successful accomplishment of organisational goals depends on knowing the needs of customers and delivering the desired satisfactions to them in a more effective way than that of a competitor. Focus on marketing is the opposite of “focus on sales“, when an organisation seeks how to satisfy its own needs unlike the needs of its customers.” In this respect it can be stated that a company should focus on a customer’s needs with a profit as a whole.

1.4 Marketing process of exchange

Marketing conception comprises four main pillars: market focus, customer orientation, coordinated marketing and earning capacity/profitability. Kotler and Armstrong have adjusted the marketing conception as follows:

- **Customer needs, wants and demands**, whereas needs are defined as feelings of insufficiency and wants result from human needs and are affected by cultural and personal characteristics. As every individual wants to satisfy their need and thereby fulfil their want or wish, they need to have purchasing power to be able to create and meet a demand. The role of a company is to understand their customer's needs, satisfy them, but, at the same time, affect the change in a customer's perception of their own needs. A company must be sure that it can offer a customer new ways of value creation.
- **Product** is any asset or item that can be offered to a market in order to meet needs, wants or wishes.
- **Value** has a number of forms and sources that range from benefits a product brings, its quality, related image and physical availability to all accompanying services. Value is not determined by what an organisation does, but by the customers who buy its goods. The value of the product for the customer is the difference between the cost they need to pay to acquire it and the value they receive by taking title to the product and/or its use.

Value selection must precede product creation. Marketers must segment the market, choose an appropriate target market and develop their strategy of placing the value in the market. As Kotler has it, the terms/concepts of segmentation, target focus and placement a product in the market are the essence of strategic marketing. The aim of market segmentation is "the identification of homogenous customer groups, which have similar behaviour and consumer habits that might be influenced by selected marketing tools". In this case, the value selection as part of strategic marketing planning starts with segmentation, i.e. dividing the market into homogeneous groups of consumers according to their common characteristics, selecting the market segments and targeting, and eventually finishes in selecting a strategy to place the value in the market, so called positioning.

- **Exchange**, which is a key term in business, a process in which it is possible to obtain a required product by offering something else in exchange. It is also

the process of value creation, as it normally leaves both parties to the exchange better off. As soon as an agreement is reached, i.e. “an exchange of values between two parties under the pre-defined conditions“, it is called a transaction.

- The last element of marketing conception is market. “**Market** is a group of people whose need or several needs are currently or potentially satisfied by a particular product or service in specific situations. At the same time, it is the arena where demand and supply meet. As there is a large market typology, the following section will present only the basic types of market, namely consumer markets and business-to-business (B2B) markets. “Consumer markets refer to all individuals and households that purchase goods or services or acquire them for personal consumption by any other means.“ Decision-making of customers in these markets is influenced by cultural, social (family, reference groups) and personal (age, stage of life, occupation, economic situation) factors and psychological (motivation, perception, learning, conviction) characteristics. “Business-to-business (B2B) markets are all organisations that buy products or services for any use other than personal consumption, i.e. for use in manufacturing other products or providing services to be sold, rented or supplied to others. The buyers may be wholesalers or retailers who acquire goods for the purpose of reselling them or letting them while making a profit.”

As markets are constantly changing, a company must continuously monitor and analyse the situation and adjust its market strategies accordingly.

1.5 Target markets and target marketing

Market, in the marketing sense of the word, is “the arena of all existing or potential buyers and sellers of products, services, ideas, or places“. One of the key decisions a company must make is how homogeneously to treat the market. At one extreme is mass marketing, which has its advantages, e.g. a company offers a standard product or service to the whole market. Its drawback, however, is the actual efficiency of a differentiated offer a company may miss out, even though it is a more expensive choice. For example, the Coca-Cola Company wanted its famous drink to be “within an arm’s reach of everyone“.

Today some critics are predicting the demise of **mass marketing**. A specific form of mass marketing called mass selling is showing explosive growth in the world. Organisations are

making use of mass selling, such as Avon, and competing with retailers, having independently working distributors/salespeople approach potential customers in person, selling their products (cosmetics, jewellery, etc.) door-to-door, office-to-office or through indirect means such as home-based presentations or parties. These distributors are paid a commission directly related to the value of the goods they sell and a further commission on the sales of any distributors that they personally recruit.

At a less grandiose level are companies that practice **target marketing**. They do not design their products or services for the whole market, but only for one or more specific market segments.

In deciding to practice target marketing, a company can slice the market into finer and finer “segments”, such as:

- *Brand segments* – such segments include groups of people who are seeking a similar benefit (i.e. benefit segmentation).
- *Niches* – typically refer to smaller sets of customers who have more narrowly defined needs or unique combinations of needs.
- *Market cells* – companies may be interested in identifying even smaller groups of customers with a certain common distinctive feature creating a market opportunity. For example, some companies make customer databases with complete specifications of their needs.

Marketing at the lowest molecular level, i.e. **customer-level marketing** is practised by companies that focus and tailor their offerings and/or communications to “the measure” of each individual customer. A custom home-builder, for instance, will talk to each customer and design exactly the home they would like. Such individual marketing is also used in a lot of high-fashion houses.

Target marketing takes place in three phases:

1) **Segmentation**

“It is the act of conceptual division of a market into relatively homogeneous groups of consumers sharing one or more major common characteristics in order to better satisfy each group’s needs.”

Customer segments differ in their types, needs, interests, behaviour, etc. The purpose of segmentation is to develop products and tailor the marketing mix to the needs of specific customer groups. Segmentation is used in both consumer and business-to-business markets. Segmentations are made according to various characteristics: geographical, demographic, or geo-demographic, psychographic, behavioural, etc. Demographic/socio-economic segmentation means grouping people who share a common demographic characteristic: affluent old citizens, for example, etc. Occasion segmentation means grouping people according to product use occasions; for instance, airline passengers flying for business or pleasure, etc. Usage level segmentation means grouping people into whether they are heavy, medium, light users or non-users of a product. Lifestyle segmentation means grouping people by lifestyles, such as people who buy only leather products, for example, and so on.

2) Evaluation and selection of target segments – Targeting

After a company has identified market segments, it must decide which segment or segments to aim its marketing efforts and ultimately its merchandise. Targeting is “the process of evaluating each potential market segment by the manufacturer and seller and selecting the most attractive segment(s) or group(s) to invest their resources and make them their customers. The selected group is then the target market for a particular company”.

The fundamental decision regarding the targeting of the market lies in the precision or adequacy the goal is defined. A company may achieve its goal using the following strategies:

- *Undifferentiated segmentation strategy*: a company does not take into consideration or stress any unique features of products across various segments and seeks to appeal to all segments of the market offering them one undifferentiated product.
- *Differentiated segmentation strategy*: a company focuses on more target segments and its offer is modified to suite each potential market.
- *Concentrated segmentation strategy* or micro-segment concentration: a company concentrates on the promotion of one or more products aimed at one particular segment or micro-segment of the market.
- *Micro-segmentation strategy* or strategy concentrated on each individual customer or business, where, ideally, a company may define the market segment in such a precise way that its products and services will target a specific customer and meet their unique desires, e.g. dress-shops.

3) Positioning

After the relevant market segment has been defined, a company can define the product position, i.e. what position the product takes in the minds of consumers in comparison with the rival products of a company's competitors. According to Jakubíková (2008, p. 136), "Positioning is a strategy that will place a company's products or services in a particular position in the minds of consumers against those of its competitors and other groups. It rests in the selection of elements by which the product is to be recognisable and differentiated from other products in the market".

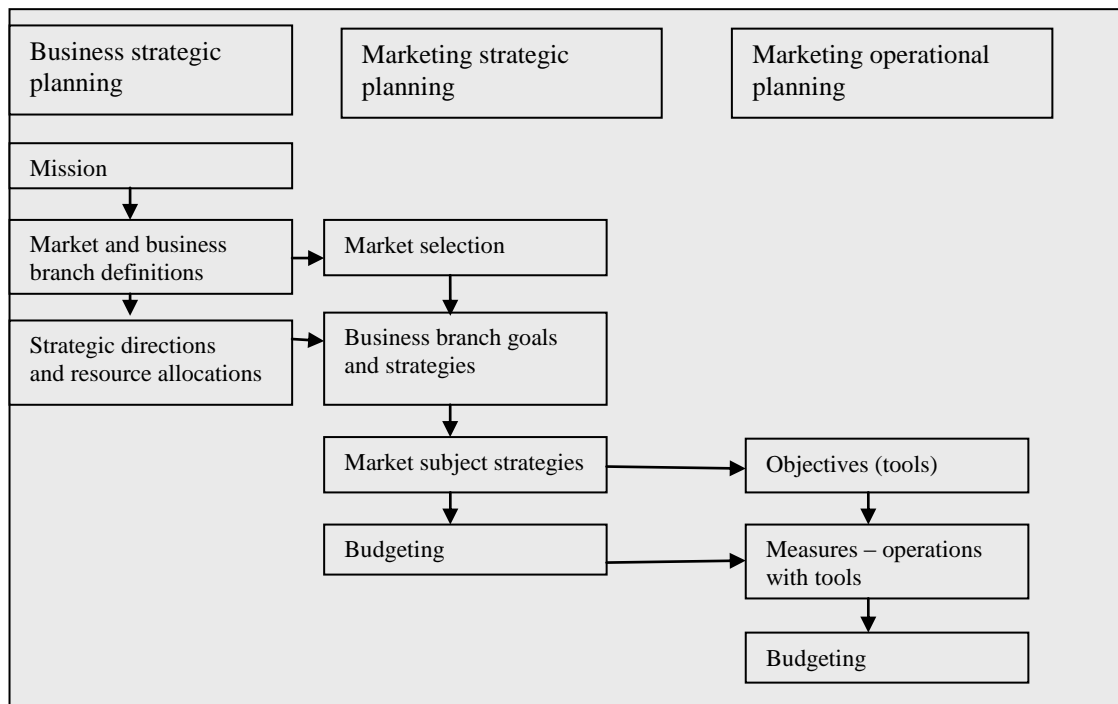
1.6 Marketing strategy planning

Marketing strategy planning is part of a company's strategic planning which works with marketing variables, such as market trends and market share. "Marketing planning is the systematic and rational performance of market and company tasks derived from a company's major goals and marketing objectives. It is an essential part of business planning, whereas it is necessary to distinguish between strategic and operational planning."

There are several approaches to the development and implementation of marketing plans. The following section presents the most frequently used classification in marketing planning that consists of several elements:

- Situational analysis supplemented with future environment development trends analysis (forecasting),
- Setting marketing objectives
- Formulating marketing strategies leading to the achievement of the company's marketing objectives
- Developing a marketing programme
- Budgeting
- Testing plans and objectives for measurable results, revising the company's objectives, strategies and programmes.

Figure 1: Business, marketing strategic and operational planning



1.6.1 Setting marketing objectives

The formulation of a comprehensive long-term system of objectives is an essential part of every marketing strategy planning. “Marketing objectives are statements corresponding to a company’s strategic goals, including specific marketing intents, sets of tasks related to products and markets which the company assumes to attain within a stated timeframe“ (Jakubíková, 2008, p. 126). Marketing objectives should be hierarchically structured into those related to business and those related to specific marketing tools, i.e. marketing mix components.

Table: Marketing objectives

Marketing objectives features	Examples
Specific = clearly expressed, unambiguous, comprehensible	“To reach a 10% market share of the automobile market in the Slovak Republic within a year’s time.“ An ambiguous objective would be: „To reach the market share at the expense of competitors.“
Measurable = easy to measure, quantifiable, verifiable	“To increase the sales of refrigerators“ is an immeasurable objective, unlike „To increase the sales of refrigerators by 5% within a year’s time“ is not.
Achievable = attainable, feasible	“50% coverage of the mobile phone market within a year’s time with three other current mobile operators“ is an unattainable objective.

Relevant = important	An objective to increase the market share will be of greater significance than that of improving distribution patterns.
Time-bound = time-specific	“To increase the sales of refrigerators by 5% within a year’s time.”

Strategic marketing objectives are usually set for a term between five and ten years, while mid-term objectives for a term of two to five years, and short-term objectives for a year. The following classification is only figurative and the real length of the period depends on the business environment development.

1.6.2 Formulating a marketing strategy

Marketing strategies determine the basic directions leading to the fulfilment of the goal. They present means and methods by which the goals and objectives set will be met. They are in harmony with a company’s general policy and its goals and objectives which they also help to create and determine; and they result from a situational analysis.

When developing a marketing strategy, it is important to adhere to the so-called 5C principle:

- *Customer satisfaction* – Analysing and identifying customer satisfaction using marketing analyses, developing a model to satisfy their needs, e.g. Customer Satisfaction Model, the so-called Kano Model.
- *Company skills* – Determining specific skills and competencies necessary to meet the target customers’ needs, i.e. key competencies/skills and making SWOT analysis.
- *Competition* – Identifying the biggest competitors, creating a competitive advantage for a product and a company – Porter’s generic strategies.
- *Collaborators* – Who to turn to for help? Strategic alliances.
- *Context* – Which cultural, technological and legal factors limit a company’s activities? PEST or STEP analyses.

Table: Typology of marketing strategies

Strategy Categorisation	Approach	Strategy Type
Market-focused strategies	Ansoff's approach Ansoff grid	<ul style="list-style-type: none"> ❖ Market-penetration strategy ❖ Market-development strategy ❖ Product-development strategy ❖ Diversification strategy
Competitor-focused strategies	Porter's approach Porter generic strategies	<ul style="list-style-type: none"> ❖ Cost leadership strategy ❖ Differentiation strategy ❖ Focus strategy
		<ul style="list-style-type: none"> ❖ Defensive ❖ Offensive
Marketing mix-based strategies		<ul style="list-style-type: none"> ❖ Product strategies ❖ Price strategies ❖ Distribution strategies ❖ Communications strategies
Market share- and innovation-based strategies	Kotler's approach	<ul style="list-style-type: none"> ❖ Market leader strategy ❖ Market challenger strategy ❖ Market follower strategy ❖ Market nicher strategy
		<ul style="list-style-type: none"> ❖ Product- or service-based alliances ❖ Promotional alliances ❖ Logistic alliances ❖ Pricing cooperation

It does not work in practice that a company chooses only one strategy, since some strategies focus on similar aspects or, basically, they often mean the same. Here, it is more important to define which aspects a company wants to focus on and choose the appropriate strategies accordingly. The most commonly applied strategies are those focused on competitors:

- ❖ **Offensive strategy**, which involves attacking competitors' weaknesses. It is necessary for a company to know its competitors, their product deficiencies, weak points and other factors. It might be product-against-product, price-against-price, or segment-against-segment strategic operations.
- ❖ With **defensive strategy**, defensive mechanisms include price and quality, patent protection, or exclusive distribution rights.
- ❖ **Cost-leadership strategy** means that a company concentrates on achieving the lowest production and distribution costs, so it is able to price its products or services lower than its competition.

- ❖ **Differentiation strategy** means that a company puts an emphasis on achieving superior performance in one specific marketing mix component – the area customers find to be important, thus creating a condition to achieve a competitive edge (competitive advantage).
- ❖ By **focus strategy**, it is understood that a company concentrates its efforts on one or more narrow market segments, getting to know these segments intimately and, at the same time, creating barriers for others as the company becomes a specialist in the target segment.

Kotler defines four basic types of strategies, while a company's endeavour for a market position is determined by its market share:

1. **Market leader strategy.** A company is making efforts to maintain its market position while facing three tasks: extending its overall market, maintaining the market share within the overall market, and besides, increasing the market share. The company may extend the overall market by attracting new customers or by using the current product in a new manner. The maintenance of the market share is particularly possible by innovation, whereas the increase of the market share by the reinforcement of the brand value.
2. In the case of **market challenger strategy**, a company is planning offensive action to increase the market share by challenging the market leader or small companies in the industry. It applies the low-cost and low-quality policies or offers top-quality products, etc.
3. In many cases, **market follower strategy** typically concentrates on profitability rather than the market share. A company makes adjustments according to its competitors operating in the same industry.
4. **Market nicher strategy** is suitable for smaller businesses operating on such portion of the market that requires special skills and it does not appeal to large businesses.

Strategies are evaluated according to two basic characteristics, i.e. effectiveness – whether or not a strategy is able to achieve the goal set – and reliability – whether or not a strategy is able, with respect to the environment impacts, to achieve the goal set. In addition, the profitability/utility, feasibility, and commercial viability of these strategies are evaluated.

1.6.3 Formulating a marketing programme and budgeting – Getting feedback

After a company has been selected and formulated its marketing strategy, it must develop some supportive programmes necessary to guarantee the successful implementation of the strategy. These supportive programmes assign each worker or department responsibilities and time frames for task completion. They provide answers to the following questions: *What will be done? Who will perform the task? Who is responsible for its performance? When must the task be completed? How much will it cost?*

Having formulated the marketing programmes, marketers must estimate the costs. Calculation of costs specified for each particular activity should be applied to every marketing programme so that it is possible to determine if they are likely to bring the results to justify the costs. When making a marketing budget, future costs and revenues are being anticipated. This method only implies kinds of factors entrepreneurs should heed. The marketing budget may be increased in cooperation with other stakeholders; for example, a retailer may obtain help from a supplier who may decide to cover part of the advertising cost if the retailer exhibits their product exclusively, etc.

Table: Budget instructions

Factor	Add 2% for each relevant factor	5% (a typical figure)	Subtract 1% for each factor
Business	Start-up	Young	Established
Product age	New	Young	Established
Level of innovation	Very innovative; a customer needs time to get accustomed	Some innovation details	Non-existent
Location of business operations	Distant; low profile	Close or excellent	Excellent; high profile
Customers	Consumer	Consumer and business	Business
Sale agent/ Distributor network	Non-existent	Limited coverage	Good coverage
Competitors	Hostile/Unfriendly	Friendly	No
Special factors	Yes – more promotion needed	No	Yes – small promotion needed

The initial 5% is based on the percentage of the estimated turnover; it is a common way of expressing the marketing budget where the costs of advertising, promotion and customer contacts are calculated excluding the direct costs of sales representatives. This item in the budget is not fixed and it varies according to the industry and the scope of business. Marketing activities should be preferred mainly when it is a new company offering an

innovative product to its consumers. Less should be invested in marketing when it is an established company with a good distribution network and small competition.

Feedback and control

A company must inevitably change its programme when the market changes. Besides, it must inevitably analyse its sales by making internal records of all data regarding its sales, i.e. weekly or monthly turnovers/volumes of sales, relative sales of the individual departments or sections in the company, comparisons with the data of previous periods; customer data – who they are, their preferences – suppliers, and others; product/service information, sales staff performances and so on. The results of the analysis should indicate how the company is doing, what performance is delivered by the individual members of the company's staff. Annual accounts might serve as an evaluation method. Some important indicators of trading success in retailing include: a ratio of various stock categories and profit; with retailing companies the profit percentage depends on the retail margin and the sales of a particular product category; the annual sales per unit of sales area calculated by dividing the annual turnovers by the overall sales area.

1.6.4 Marketing plan

Marketing plans differ from the plans of a strategic business unit in their closer concentration on a product/market and the development of more detailed marketing strategy and programmes to achieve the unit's marketing objectives for that product. A marketing plan is a central tool for managing and coordinating marketing efforts. Companies that want to improve the effectiveness and efficiency of their marketing must learn how to create and implement sound marketing plans.

Every strategic business unit that deals with a number of products designed for a number of market segments must develop marketing plans for each of them.

Marketing plans will contain several sections specified according to the amount of detail that top management needs to obtain from its managers.

Table: Essentials of a marketing plan

Section	Purpose
I. Executive summary	It is a brief outline of the plan proposed to inform briefly a company's management.
II. Current marketing situation	It contains some relevant background data on the market, product, competition, distribution, and the macroenvironment.
III. Opportunity and issue analysis, SWOT analysis	It identifies the major opportunities and serious threats, strengths and weaknesses and provides the results existing before the product.
IV. Objectives	It defines the objectives that the plan assumes to achieve in terms of the volume of sales, market share and profit.
V. Marketing strategy	It presents a broad marketing approach a company will take to achieve the objectives set in the plan.
VI. Action programmes	These are specific marketing tactics projected and implemented in order to meet business objectives. <i>Answers: What shall we do? Who will do it? When will it be done? How much will it cost?</i>
VII. Projected profit-and-loss statement	A forecast of expected financial results.
VIII. Controls	It suggest how the plan will be monitored, what corrective measures will be taken to ensure the achievement of marketing objectives.

I. Executive summary

A marketing plan should start with a short summary of major goals and recommendations the plan should contain. It allows a company's senior management to understand quickly the main focus of the plan. A table of contents should immediately follow the summary. For example, if a company is planning to increase its sales and profits within a particular period, it is necessary to specify what increase is intended and how it will be achieved.

II. Current marketing situation

This section of the marketing plan presents relevant background data on the market, product, competition and the macroenvironment. A lot of data will come from the fact book kept and updated for a particular product or brand by the manager. It provides a detailed analysis of the following areas: the market, product, price, distribution channels, competitors, and the macroenvironmental situation.

- ❖ *Market characterisation.* This subsection contains the data of the target market, its size and growth in several previous years, in total and broken down to market

and geographical segments. Besides, the data on customer needs, perception and shopping behaviour and tendencies are provided.

- ❖ *Product overviews.* It contains some information on the prices, profit margins, sales and net profits for each specific product in the period of several previous years.
- ❖ *Competitors.* All major competitors are identified in this subsection, their size, goals, market shares, product quality, marketing strategies and other characteristics necessary for a company to understand their intentions and behaviour.
- ❖ *Distribution.* This subsection presents data on the number of products sold through each distribution channel, changing prices, distributors and business conditions to stimulate greater sales.
- ❖ *Macroenvironmental situation.* This subsection describes some trends of the broad macroenvironment – demographic, economic, technological, political, legal, and socio-cultural – having an impact on the future of the product line.

III. Opportunity and issue analysis

On the basis of the data describing the current marketing situation the product manager needs to identify the major opportunities/threats, strengths/weaknesses and controversial issues a company is facing regarding the product within the planned period.

- ❖ *Opportunities/threats analysis.* In this subsection the manager identifies the major opportunities and threats a company needs to face. These opportunities and threats are related to the external factors that might influence the future of business. They are described in the manner suggesting some potential action that could be taken. The manager should order the opportunities and threats in the way that the most significant ones attract special attention.
- ❖ *Strengths/weaknesses analysis.* The manager needs to identify the strengths and weaknesses of products. Unlike the opportunities and threats, being external factors, the strengths and weaknesses are internal factors. A company's strengths imply some strategies in which a company might succeed, whereas the weaknesses mean a company's areas which it must avoid.
- ❖ *Analysis of controversial issues.* In this subsection a company will use the results of O/T and S/W analyses to define the major controversial issues to be included in

the plan. Decisions made about these issues will lead to the specification of goals, strategies and tactics.

IV. Objectives

At this point the management is acquainted with all controversial issues and is faced with some serious decisions. After the goals and objectives are defined, research of strategies is carried out and action programmes agreed on.

Financial objectives. Every company seeks to meet certain financial objectives. The owners will search a specific long-term rate of return on investment and know the profits they could achieve.

Marketing objectives. Financial objectives must be converted into marketing objectives.

V. Marketing strategies

In this subsection the manager outlines a broad marketing strategy or so-called “game plan“. When developing the marketing strategy the manager must make right decisions.

VI. Action programmes

To define the strategy means to define all broad marketing activities that the manager will do to meet the business objectives. Each element of the marketing strategy must be elaborated to answer the following questions: *What will be done? When will it be done? Who will do it? How much will it cost?* Every action plan should be included either in the overall plan or in functional plans for specific products, prices, sales promotion or distribution. Action programmes specify responsibilities and time frames for tasks completion for every department and every member of the company management. They should be in the form of bar charts. Detailed action plans should not be included in the general/fundamental marketing plan – they should be included as appendices to the plan.

VII. Projected profit-and-loss statement

Action plans enable the product manager to build a supporting budget, which is, in principle, a statement of the projected profit and loss. The revenue side of the statement shows forecasted sales volume expressed in units and average selling price. On the expenditure side of the statement, production, physical distribution and marketing costs are listed, broken down to four categories. The difference is the projected profit. The company’s senior management will consider the budget and either approve of it or make alterations. If the budget is too high, the product manager will have to make some restrictions. Once

approved, the budget becomes the basis for developing plans and work schedules, for procuring material, production scheduling, employee recruitment, and marketing operations.

VIII. Controls

This last section of the plan is controls for monitoring the plan implementation. Typically, the goals and budget are spelled out for each month and quarter. The company's senior management can review the results each period and identify these business activities that are not performed according to plan. Business managers who lag behind must explain what is happening and state the measures they are taking to improve the fulfilment of the plan.

Some controls include contingency plans. A contingency plan presents the steps the management would take to cope with some specific adverse events or circumstances that might occur in the future. The purpose of planning contingencies is to motivate managers to look ahead and see what options there are.

The control process comprises three components:

- ❖ Setting standards – these relate to the budgeted sales, costs and the implementation schedule of action plans;
- ❖ Measuring performance – allows to compare the actual performance with the standards;
- ❖ Suggesting measures to correct deviations from the standards – the detailed specification of corrective measures that need to be taken if the deviation from the standard is greater than a specific limit/acceptable tolerance. Limits/tolerances should be defined in writing in the plan.

1.7 Conclusion

This chapter pertained to some core marketing concepts and the issues of marketing planning, and the process of marketing plan development was discussed.

2 Marketing analyses

2.1 Mission

The mission of this chapter is to help the readers understand the essence of marketing analyses, i.e. situational analysis, procedures in its performance, and its suitability.

2.2 Objectives

After having studied this chapter you will be able to:

- Explain what marketing environment analysis is, i.e. analysis of micro and macroenvironments
- Explain what a market analysis is, and determine a market size
- Explain the industry analysis according to Porter
- Explain the analysis of competitors and competitive forces

2.3 Introduction

Setting a company's goals and choosing an appropriate strategy leading to the achievement of the goals set should be well-founded by the results of situational analysis. The main part of this phase is the identification, analysis and evaluation of all relevant factors that assumingly affect the final selection of the company's goal and strategy. Situational analysis is a general method used for the examination of single components and characteristics of the external environment (both macroenvironment and microenvironment) in which a company operates, which has an influence on its activities, and for the examination of a company's internal environment, i.e. the quality of management and personnel, its strategy, financial position, facilities etc., its ability to manufacture, develop and innovate and sell products, and finance its programmes.

The purpose of this analysis is to find balance between opportunities from the external environment and competencies and resources a particular company can use. Situational analysis is a complex approach that contains marketing situation analysis as well. For the purpose of this text, the concept of marketing situation analysis may be defines as “the analysis that examines a company's environment, market segments, competitors, and future

demands and sales estimates“. It can be divided into three parts. The first one, informative, when the necessary information is collected and assessed for external and internal factors, and the competition profile matrix is constructed. The second part is comparative, when possible strategies are generated using one of the following methods: SWOT, SPACE, BCG, or internal-external matrixes. The final, third part is decisive, when the strategies selected are considered and objectively evaluated.

2.4 Business environment analysis

The marketing environment is very dynamic, constantly spinning opportunities and threats for a company and affecting its activities. The role of marketers is to identify the environmental factors and analyse both macro and microenvironmental elements. Marketing macroenvironment is composed of the factors a company cannot influence.

2.4.1 Macroenvironment analysis

To evaluate the development of the external environment the PEST analysis is applied, which explores:

- ❖ **Political, legal and natural factors**, such as political and government stability, a country's membership in various political-economic associations, taxation and social policies, legislation and environment protection.
- ❖ **Economic factors** include the GDP developments, phases of the economic cycle, interest exchange rates, unemployment and inflation rates and other macroeconomic indicators. Companies gain purchasing power and capital from the economic environment.
- ❖ **Socio-cultural forces** affect a company at two levels – as the factors associated with the buying behaviour of consumers and the factors determining the behaviour of organisations. The factors associated with the purchasing power of consumers comprise *cultural* factors, for example, consumer habits, people's beliefs and cultural values, their language and body language, personal image, and gender aspects of human behaviour (differences in established men and women's behavioural patterns). *Social* factors also concern the buying *behaviour of consumers* and include the social stratification and hierarchy in society. For illustration, members of various subcultures share specific values originating in the specificities they have experienced. Another component of this environment is

demographic factors related to the population as a whole, but also to the number of people living in a particular territory, density of population, their age, sex, occupation, etc. The information of this kind is of great communicative power; it speaks volumes of society, and serves as a basis for trend-setting and making forecasts.

❖ **Technological factors** are a dominant component of the macroenvironment. Companies must devote enough attention and finance to these factors not to lose contact with technological progress.

2.4.2 **Microenvironment analysis – Internal environment**

Marketing microenvironment includes all circumstances, impacts and situations internal to a company that it can significantly affect by its activities, such as partners, i.e. suppliers and buyers, financial institutions, insurance companies, shippers, customers, competitors, public entities, and others. Its decomposition happens in two directions: vertical – a company, its suppliers, sales force and customers and horizontal – a company, its competitors and publics.

Within the microenvironment it is necessary to distinguish between the internal environment and interactive environment, which is further specified as the environment having an impact on a company's behaviour. In his model, Porter specifies the threat of new entrants into the industry, rivalry between the existing companies, the threat of substitute products, and the bargaining power of both buyers/customers and suppliers.

The purpose of microenvironment analysis is to identify the main drivers in the industry that have an essential impact on a company's activity and to understand its competencies to develop, manufacture and sell its products, provide services and evaluate its resources.

Microenvironment analysis consists of the assessment of the implementation of a company's strategic goals, its financial situation and solvency, input logistics, manufacturing operations, technology available within the company, output logistics, marketing, sale, after-sale service, scientific and R&D resources, human resources, levels of management or work organisation, infrastructure, image and goodwill, the assessment of strengths and weaknesses with respect to the marketing mix tools and main operations using them and with respect to a company's capabilities.

It is frequently **suppliers** who determine company success or failure. They might be categorised in various ways, for example, raw material suppliers, energy and fuel suppliers, suppliers of semi-finished goods, financial institutions, service providers etc. In the upshot, a company needs suppliers in four main resource categories: capital, essential raw materials, information and human resources. When selecting these, it is important to pay attention to their position on the market, innovation potential, technological flexibility, prices and contractual terms and conditions, the quality of their products, timeliness and reliability, etc.

A **company** is an internal marketing environment that consists of a wide range of factors within the formal boundaries of an organisation. They include its employees, departments, technologies, and processes that managers use to manage the staff, but also the management itself.

A **customer** is a buyer of a company's products or services. A company must explore its customer's markets, while it can operate/do business in the following five markets specific in the buying behaviour of their customers:

- *Consumer markets* are all individuals and households that buy products for their own personal use;
- *Business-to-business markets* involve organisations that buy products for their own manufacturing process or for further processing purposes;
- *Intermediate markets* are also organisations, but these that buy products to resell them with a profit margin;
- *Public markets* present governmental agencies and non-governmental organisations that buy products to provide public services or arrange the transfer of such products to those who need them;
- *International markets* include foreign buyers, such as consumers, producers, intermediaries and governments operating in international markets.

Marketing intermediaries are companies specialised in mediating/procuring purchases and sales of goods, distributors, marketing agencies and organisations helping to finance a company's operations or to insure the risk of goods exchange. Marketing intermediaries are companies that help an organisation to promote, sell and distribute its goods to end-users. Manufacturers, but also service producers or providers, analyse their intermediaries' needs and requirements, monitor the decision-making process, practices and their approach to the end-users/final customers.

Public refers to “any group of people that shows real or potential interest in a product or a company, or that may strengthen or weaken the potential of an organisation in achieving its “aim” to distribute goods to target customers. The publics that encompass a company may be classified into seven groups:

- *Financial public*, the public that affects a possibility of fundraising: banks, investment companies, and stockholders. To raise funds more efficiently, it is advisable for a company to publicise its annual reports, which helps a company to build its goodwill, document its stability etc.
- *Media public*, which can greatly influence the public opinion as they bring news, release opinions, commentaries, reviews, etc. The media include newspapers, magazines, and radio and television stations. It is important for companies to build and keep good relationships with the media.
- *Government public* – a company’s management must monitor legislative changes, as they may have an impact on the new product development in terms of its safety, material imports or technologies, etc.
- *The public including civic initiatives* that organise themselves within various associations, such as united consumers associations or environment protection societies, which may influence a company’s policies.
- *Local public* is the population living in close proximity, municipal authorities. A company is interested in building good relationships with this public, support its development for the benefit of all its citizens, etc.
- Moreover, a company should be interested in the opinion of the *general public*, as it may affect the personal preference of its members for its products.
- *Internal public* is the employees at all company levels and is also an integral part of a company’s policy and interest because its employees form and represent the company.

Competitors are a very significant factor that determines a company’s marketing possibilities; therefore, a company seeks to find as much information as possible about its present and potential competitors.

2.5 Market size, analysis and structure

In the quantitative market analysis a company's market potential, market capacity, market share and relative market share are examined.

Market potential is expressed by the number of potential customers and the volume of products buyers can theoretically purchase. "It is given by the group of customers who profess a certain level of interest in a specific market offer. It is the limit approached by market demand as industry marketing expenditures approach infinity for a given marketing environment. It may change over time depending on the market conditions."

Market capacity or **market volume** includes variables quantifying the current volume of sales of a specific product in a specific market.

The estimate of the volume of production of a company's competitors includes the determination of the number of households or companies equipped with a specific product; average aging and levels of product the households are equipped with, first-use purchase and repurchase within the same year and the estimate of market saturation and its upper limit. Sometimes it is inevitable to apply quantitative methods for such estimates.

Market share is the share of the total sales of all brands or products competing in the same market that is captured by one particular company's brand or product, usually expressed as a percentage. Frequently it is the percentage of a total market which the sales of a company's product cover.

Another significant variable that is used in the marketing situation analysis is the **relative market share** that refers to the SBU's market share relative to that of its three largest competitors in the segment.

In general, market attractiveness is given by the aggregated market factors that need to be analysed in more detail:

- a) *Market size*. It can be expressed as a capacity in measurement units or as a monetary amount of the value of possible sales volume, e.g. the number of mobile phone users. Indirectly, the market size may be defined using some of its demographic indicators, such as the number of households, students etc. A big market offers more opportunity for segmentation.
- b) *Market growth*. As a market growth factor, it presents its development over time, while the phase of market life cycle is equally important. The presumption is that

a fast-growing market brings a high rate of profit and long-term profitability. The market attractiveness in the individual phases of the market life cycle is not so clear-cut or predictable.

- c) *Sales fluctuation* or *cyclic variation*. It is a factor that frequently decreases the attractiveness of a market for organisations. Development curves of industries demanding great investments, such as the banking sector, for example, depend on the curves of national economic indicators. These curves reflect the growth of national income, inflation or investment rates in society.
- d) *Seasonality*. Demand for single sorts of services is determined by other objective factors, such as weather or a year's season. These factors may cause fluctuations in demand and sales. Sale cycles in the course of the year decrease the attractiveness of the market for service providers. Seasonality is experienced mainly in the tourist industry with travel agencies, airline companies, etc.
- e) *Profitability* is a factor that has an impact on the risk of competition penetration into the market. Profitability is not understood only at the organisational level but more as the rate of profitability in a specific industry.
- f) *Profit variability* is another aspect of profitability and it is reflected as a change in profit over time. It determines the velocity of return on the resources invested. The risk of profit variability is regarded as a level of industrial risk.

Market analysis provides a sound basis for the market segmentation, identification of market segments, and the definition of the position of a company offering products or services. These data are of importance; however, they do not provide information on the industrial structure.

2.6 Industry analysis

The pressure of competitors in industry determines the level of capital inflow into the industry and the ability of organisations operating in the industry to maintain the annual earnings above average. Industrial factors that characterise the degree of industrial attractiveness are driving forces of competitors in the industry. The relationship between these driving forces (or drivers as they are referred to) determines the intensity of competition within the industry.

2.6.1 Threat of new entrants

In this driving force it is the probability and simplicity of new competitors increasing competitive pressure on the existing companies that is particularly interesting. Furthermore, it is the simplicity new companies have when entering the market. An industry is generally unattractive in its early stages of market development when the entering entities can extend the market and create new capacities and resources, thereby increasing market competition and lowering profit margins. The problem organisations entering the market are faced with is barriers created by the leading competitor. Some main sources of barriers or obstacles that prevent new businesses from entering the market or complicate their entry into the industry are economies of scale and a cost advantage independent of scale, product differentiation, capital requirements, transition costs, a company's existing distribution network, and the government policies. These barriers differ in nature and are largely exhibited in industries with the oligopolistic market structure.

2.6.2 Purchasing power of buyers

Buyers are a group of customers who buy products from manufacturers or from intermediaries. Companies should be interested in their structure and concentration in the marketplace.

The industry where there are strong buyers is less attractive for potential competitors that want to enter this industry. The power of buyers bears a risk for organisations operating within the industry. What makes the industry attractive is the high purchasing power of a buyer, which can force suppliers to lower their prices. This will put the competitors under pressure. The industry with very strong buyers is then less attractive. If buyers are strong economically, technologically, personally and in marketing, they tend to integrate backwards. The result is that they stop buying inputs from suppliers outside the industry and start to produce themselves the inputs originally bought from their suppliers.

A buyer may become strong if:

- the purchased product/service presents a great proportion of the buyer's costs;
- the product is non-differentiable or standardised;
- it has a lot of suppliers with sufficient capacities and can choose among them;
- there are very few buyers in the market and an organisation's sales depend on them, which makes them really scarce;

- the cost of changing a supplier is low;
- a buyer gains very little profit from such a commercial relationship and thus it can choose any supplier;
- a buyer tends to integrate backwards, e.g. a garage will open its own paint shop – the service it had formerly sub-delivered.
- a buyer has a lot of information about the market, or more than their supplier, this is when dealers can make and dictate their own pricing policy.

If there are strong buyers in the industry forcing the input prices down, and increasing the profitability of the relevant industry, the industry becomes more attractive for other organisations as well.

2.6.3 Purchasing power of suppliers

In some industries suppliers can affect the profitability of the industry through prices. If an organisation is a supplier in the industry and takes a more advantageous market position in certain conditions, the industry becomes more appealing for entry to other sellers.

A supplier is strong in the following situations:

- suppliers are highly concentrated in a small number of organisations and the industrial structure is monopolistic or oligopolistic;
- there is no substitute product/service to replace another organisation's product and a supplier's output is then very important for their buyer's success as it cannot buy supplies in advance;
- a supplier has a very differentiated product in comparison to other similar products;
- a supplier cannot fully satisfy the market demand and can choose among its buyers or some buyers are not interesting enough for a supplier;
- there is a risk of forward integration, i.e. a supplier tends to finalise its market offering;
- the cost of transition to another supplier is too high.

The defence against this threat might be a well-working marketing information system, for example, especially in the buying and selling area, a good knowledge of suppliers and buyers

in the market, their prices, habits, delivery terms etc.; calculations of potential costs associated with any changes of a supplier or buyer.

2.6.4 Competitive rivalry within the industry

Rivalry between suppliers within the industry leads to price wars, staff fluctuations and the growth in marketing expenditures. Organisations may attack other organisations in the industry by providing better services, offering better warranty, payment or other conditions to a buyer. Small product and offered value differentiation makes buyers change suppliers, thereby forces them to reduce prices, which eventually leads to decreasing profitability in the industry. A threat is more serious when the market is declining or growing very slowly. Producers are forced to cut down the costs and improve their services. A possible solution, according to Blažková, may be:

- the right product at the right place for the right price;
- a low-cost strategy, differentiation or finding a gap in the market;
- a working marketing information system with all available information about the competitors, customers, suppliers and other factors.

If the rivalry within the industry grows quickly, there might be the following situations:

- there are too many competitors in the industry with relatively similar products;
- high fixed costs force organisations to use their own capacities, which in turn leads to the reduction of unit costs;
- there is no product differentiation, competitive efforts do not result in product differentiation but in a reduced price;
- the pressure due to the fierce rivalry within the industry can be alleviated by government interventions.

The pressure of rivals is remarkably influenced by the attempts of some organisations to diversify their offers. The diversification is mostly influenced by the free capacity and power of suppliers or buyers as well as the capacity of organisations within the industry or outside it.

2.6.5 Threat of substitute products

The industries with too many substitutes are less attractive than those with no substitutes. The industry with a low level of risk of substitutes can reach a higher profit rate; therefore, it is more attractive. Substitution is lower at the product brand level than at the level of product kind or even desire. The return on investment is higher in the industry with the lower substitution rate. Substitution of products can be affected by the similarity of products offered within the industry, the offer of higher value than the price-performance relationship, and a higher profit rate that a product can yield.

Substitution products present a possibility of alternative products or services that can replace the current market offer. These substitutes present a risk that customers buy a different product, a replacement, instead of a company's product, which can compete with it by its price; for example a customer will buy a leather jacket instead of a cotton coat or a DVD player instead of a bicycle.

A company may face a threat like this by:

- lowering the price of the product and make compensations using better cost control, or reducing the cost-benefit relation for the current product;
- increasing the utility value of the product offering supplementary services;
- anticipating the customer's desires and requirements in advance;
- developing new products and offering new services that are very different from competitors' products or services.

Apart from the analysis of these driving industrial forces, more attention should be paid to competitors from a different point of view.

2.7 Competitive analysis

Competitive analysis (or competitor analysis) is an important part of the planning process. Not only does a company identify its direct competitors, but also its indirect and potential competitors in the field. Such analysis helps a company to:

- understand its competitive advantages or disadvantages over its competitors;
- understand its past, present and future competitors' strategies, and, in particular, their marketing decisions for the future;
- assess and forecast its competitors' actions and reactions to its marketing decisions;
- define the strategies a company will use to attain its competitive advantages in the future;

- estimate a company's return on future investments;
- realise its opportunities and threats.

To identify the direct and/or indirect competitors, a company can use a matrix shown below (Fig. 2) consisting of the following two factors:

- ❖ **Common market**, which means the extent to which competitors share the same markets, i.e. to which extent the markets where the individual competitors operate overlap from the point of view of meeting customers' needs. Based on the common market a company's direct and indirect competitors can be identified.
- ❖ **Similar abilities**, which shows the similarities in the strengths of the companies in question; it says to what degree a relevant competitor is able to satisfy the needs of the given market, both at present and in the future.

Direct competitors are the companies that score really high on both axes, whereas those with similar capabilities but not operating in the same market are called *potential competitors*. The companies that score very low on both axes are not a company's present competitors; however, any changes in their behaviour or in their future capabilities should be monitored. Close attention should be paid to the last type, referred to as *indirect competitors*, which occur on the market, but do not score very high in similar capabilities. Again, a company should monitor any possible changes, technological or others, on the basis of which indirect competitors may become direct ones.

Figure 2: Competitor identification matrix

		Very much		
Common market	Very little	Potential competitors	Direct competitors	
		Budding competitors	Indirect competitors	
		Very little Similar capabilities		
		Very much		

When analysing competitors, a company should proceed as follows:

1. First, it should identify its competitors by their capabilities and operations on the common market and classify them into direct, current and potential competitors.

2. Then, after the major competitors have been indentified, it is necessary to assess the capabilities, goals, strategies, expectations, resources, strengths and weaknesses of each competitor. A company is trying to find the answers to the following questions: *How intensive is the competition? Who are our competitors? What are their market shares? What are our competitors' profiles? What are their strengths and weaknesses? What is their current financial situation? To what extent do our competitors use the advantages and resources similar to our company's? What is their competitive offer of products and services in the market? How do they distribute their products?* And many more questions. The more answers a company can find, the more thorough analysis it can make. A company should also compare how the capabilities of single competitors vary and how they are able to satisfy the customers' needs in the market. Besides, it must predict the actual and potential strategies of its competitors and, in contrast, it must know how the competitors will probably respond to its own strategies and activities.
3. A company must understand the influence of single factors on the company market position. This time, all factors need to be considered as a whole as their overall influence must be assessed.
4. Finally, a company considers possible activities and strategies that may help it gain a competitive edge over the other players in the market and respond to future competitor's strategies.

When gathering the information about its competitors, it is essential for a company to decide where it can obtain legal, reliable, up-to-date information (Tab. 5).

Table 1: Sources of information about competitors

Easily available information	Other sources of information	Opportunities to collect more information
Annual reports and financial statements	Price lists	Meetings with suppliers
Articles in newspapers, magazines and on the Internet	Advertising campaigns	Trade fairs, exhibitions
Analytical reports	Promotional events	Seminars, conferences
Government reports, chambers of commerce, various institutions and associations	Tenders	Recruiting former employees from competitive companies
Presentations, promotional company and product materials	Patent applications	Discussions with the common distributors
Databases of information collected by independent agencies		Social contacts with the competitors

It is important for every company to collect as much information about its competitors as possible to be able to create the full picture of its competitors. A table format may be used in the analysis where the individual competitors are allotted some point on the scale from 1 to 10 according to the chosen criteria, such as the sales volume, price, market share, costs etc., whereas the competitor that reaches the highest score will pose the most serious threat.

2.7.1 Competitive advantage analysis

Every company operating in the marketplace must find something (an attribute or combination of attributes) that will distinguish it from the competitor and that it will exploit, together with its competencies and resources, to achieve its competitive advantage (also called a competitive edge). A company must find a sustainable competitive advantage to outperform its competitors over a certain period of time. There are several strategies for improving competitive power:

- ❖ Cost leadership, i.e. production with the lowest costs
- ❖ Clear differentiation of products or services
- ❖ A thorough knowledge of customers, markets, competitors, technologies or other aspects
- ❖ A legal advantage due to a patent, copyright or other legal protection
- ❖ An advantage created thanks to effective communication channels
- ❖ Access to unique natural resources
- ❖ Development or use of a new technology or manufacturing procedure
- ❖ Continuous product or service innovation or a new distribution approach
- ❖ A significant company position within a particular environment or market

Cost advantages or differentiation advantages might be reached, for example, by:

- ❖ doing the same as the competitors, but in a better way, i.e. using better technology, better-trained and skilled personnel human resources, or imposing a more effective organisational structure;
- ❖ not doing the same as the competitors, for example, offering different products or services, using different logistics or communication with customers.

A matrix shown below (Fig. 3) comparing the relative costs and product differences might help a company to determine its competitive advantage.

Figure 3: Competitive advantage determination matrix

Differentiation level	Low	Sustaining a company's uniqueness	Outstanding success
	High	Faith in the market growth	Sustaining a price advantage
		High	Low
		Relative costs	

In the matrix, the value of a company's relative costs is related to a company's product differentiation level relative to its competitors. The company's position within the matrix depends on the determination of its ability to create barriers to entry, brand recognition, product uniqueness, distribution channels, price and a range of other factors. The individual positions within the matrix can be defined as follows:

- ❖ **Sustaining a company's uniqueness** – it takes place when both the relative costs and product differentiation level are high. This situation occurs with new and unique products being launched in the market at higher prices.
- ❖ **Outstanding success** – this position means an unrivalled opportunity for success, as a company offers the unique product and has a possibility of competing with others at any price.
- ❖ **Faith in the market growth** – this is the case when, thanks to the commodities market and high costs, fast market growth is the only chance of success. However, this strategy will not always guarantee finding a competitive advantage.
- ❖ **Sustaining a price advantage** – it is suitable mainly for a company's products which are very similar to those of its competitors.

2.8 Conclusion

It has been stated that to formulate its marketing strategies a company definitely needs to have the data from a situational analysis at its disposal, which is further comprised of other marketing analyses, such as marketing macroenvironment and microenvironment analyses, market analysis, industry analysis, competitive analysis etc. Based on the above analyses, a company can make its SWOT analysis and thereby recognise its strengths and weaknesses characteristic of the internal environment, and its opportunities and threats from the external

environment. All these analyses as well as those not mentioned in the following chapter, such as portfolio analyses, analysis of marketing mix elements, analysis of customers and their behaviour, serve companies as a source of information in the process of marketing strategies formulation and the adjustment of marketing mix elements.

2.9 Self-assessment questions

1. What do you generally understand by »marketing environment analysis«?
2. Describe the factors that are inevitable for marketing macroenvironment analysis.
3. Which factors are explored in marketing microenvironment analysis?
4. Describe the market analysis.
5. State which forces were regarded by Porter as driving forces in the industry analysis.
6. What is the philosophy of competitive analysis and competitive advantage analysis?

3 Marketing mix – Product and distribution

3.1 Mission

The mission of this chapter is to explain the fundamental elements of a marketing mix, namely: product, product policy development and product strategies. Furthermore, the following part of the chapter pertains to some concepts related to the product distribution from a manufacturer to final customer and the selection of distribution strategies.

3.2 Objectives

After having studied this chapter, you will be able to explain:

- The essence of product policy
- The product life cycle
- Product classifications
- Product marketing strategies
- The essence of distribution
- The importance of distribution policy
- The typology of distribution strategies

3.3 Introduction

According to both theorists and practitioners, “the essence of every business is a product or a company’s offering“. The aim of a company is to develop a product or offering different from others so it can affect the target market insofar as it prefers the company’s offering or even is willing to pay a higher price for it. The product can be anything that may be offered to a market for attention, purchase or consumption; anything that can satisfy wants, desires or needs; it includes any physical objects, services, persons, places, organisations and/or thoughts.

A product-oriented company defines a product as the manifestation of its resources and competencies to make use of them; whereas a marketing-oriented company defines it as “a means to satisfy a customer’s needs and wants, and through the customer satisfaction to achieve its goals“. The role of marketers is to create relevant and clear product differentiation.

3.4

Marketing structure of a product

In the development and sale of a product, companies must realise that the customer focus is not on a product itself but the manner it can satisfy their needs and wants, or solve their problem. It follows that a product is a summary of several factors: *functionality* – its ability to perform required functions in a required environment; *efficiency* – achieving a required level of performance, economy, controllability and durability; *design* – creating such an aesthetic impression that evokes positive emotions in the mind of a demand representative, and *hygienic and safety requirements* for its use.

A tangible product consists of three parts: a physical product, as it has obvious physical properties, e.g. weight, length etc., information, which is necessary to create a product value, and a service offered to a customer. From the analytical point of view, there are three product levels:

- a) *The core benefit/product core*, which is the solution to a customer's problem or satisfaction of their need or expectation, the fundamental service or benefit. As a rule, it is something to do with emotions.
- b) *A basic product* (expected product/the product itself), which is a set of attributes a customer demands from the product or normally expects when they buy the product. It is the point of a company's competitive efforts; e.g. a product finish, quality, brand name, style, image, design, packaging, its shape, name, manufacturer's name, product distribution, etc.
- c) *An augmented product*, which exceeds a customer's expectations and contains some additional services or benefits accompanying the product giving it extra utility or value for customers. It may be an extra service, warranty periods, guarantee or other repairs, professional instruction, counselling or leasing services, etc.

At all these levels a company can show the attitude it adopts towards its customers, solving their problems and satisfying their needs and wants, the inner values, ethics and morals it holds. Not only should marketers make provisions to ensure the technical qualification of a product, but also its marketing qualification, i.e. the ability of a product to stimulate customers to buy the product, which is affected mainly by its design, image, quality, brand, extra benefits, etc.

3.5

Product life cycle and related strategies

Over their lifetime in the common marketplace, a product passes through four stages that bring a company unique opportunities as well as threats to its profitability. The behaviour of competitors varies in each stage; therefore, a company must adapt its marketing strategies accordingly:

- 1) **Introduction stage:** it is marked by relatively high R&D and production preparation costs; customers are usually unsure and familiarise themselves with the product, learn about its advantages, overcome their distrust; sales are low, and profits negative or very small. The speed of market penetration depends on the applied marketing mix, chiefly on the product price, business methods and marketing communications.

Some possible strategies are:

- a) *Intensive marketing strategy*, i.e. intensive sales promotion, high prices aimed at making maximum profit, whereas the producer makes good use and takes advantage of the product's unique characteristics.
 - b) *Selective penetration strategy*: the market capacity is limited, marketing costs minimised, and focus on spheres with small competition prevails. This strategy is also referred to as "a slow accession", i.e. high product prices, little advertising.
 - c) *Wide penetration strategy* is specific in its low product prices at relatively high costs, a company acquiring maximum market share, keeping its product level with the competitors. In other words, it is called "a quick penetration", i.e. low product prices, heavy advertising.
 - d) *Passive marketing strategy* is characterised by low product prices at low marketing communication costs, elasticity of demand, price variability, and greater competition impacts. Kotler calls it "a slow penetration", i.e. low prices, weak advertising.
- 2) **Growth stage:** it is marked by the product being more widely available and rapid sales growth, a growing demand for the product, and increasing volumes of production and profits. The first buyers purchase the product repeatedly accompanied by other customers; competitors' versions of the product appear on the market. Competitive efforts and the efforts to gain additional market segments are very intensive; rivalry among competitors stronger, new distribution channels being built etc.
- During this stage it is possible to apply the following strategies: modernise the product, enhance its quality and improve styling, extend the product line by adding

new product models and flanker products, enter new market segments, increase distribution coverage and enter new distribution channels, or maintain the communication mix cost at the same level.

- 3) **Maturity stage:** This stage can be divided into three other stages: firstly, sales rise slightly as the market is attracting new buyers; secondly, sales are stabilised and repeated purchases take place in the market replacing the goods already consumed; and finally, sales start to slow since the product has achieved acceptance by most potential buyers.

At this point the following marketing strategies may be applied:

- a) *Market modification*, the purpose of which is to convince new buyers by changing the market position for the product, finding new ways of its application or entering new markets or new market segments.
 - b) *Product modification*, when managers modify the product's characteristics through quality improvement, feature improvement, or style improvement, e.g. by perfecting the external relation to the customer – improving the product's design.
 - c) *Marketing-mix modification*, when managers reduce the price of the product to attract new buyers or change the product promotion policy, etc.
- 4) **Decline stage:** it is marked by a considerable decrease in sales, sharp drop in profits, and by fierce competition. If the product has no more potential, a company must impose several necessary measures:
- ❖ divest the business or its less profitable part to another company or stop production completely;
 - ❖ make a decision concerning the withdrawal the product from production;
 - ❖ increase its investments in order to dominate the market or strengthen its competitive position;
 - ❖ decreasing its investment level selectively by dropping unprofitable customer groups;
 - ❖ maintain the existing product in the market without reducing marketing support.

Product strategies must be in line with the changing conditions in the company environment as well as with other marketing-mix elements.

3.6 Distribution

Distribution in the marketing sense of the word means that companies distribute to customers value in the form of products, concentrate on creating such a relationship with customers where the value distribution will be enhanced to value creation. The goal of distribution is to deliver the goods of a required quality to a defined customer at a defined place at a defined time. Distribution costs amount to 30 to 50% of the overall goods costs; therefore, it really merits close attention.

Selecting the most appropriate distribution channel is a very important strategic decision for a company and it has a great impact on the value chain.

Distribution policy presents “the set of interrelated and overlapped measures“ including all operations necessary to transfer the goods from the manufacturer to a place chosen by consumers or end-users, or to a place where potential customers can buy them. In fact, it is the physical relocation of products, i.e. their shipment, storage, stock control, change of ownership relations, intangible processes, such as information flows, cash flows, advertising, sales promotion etc.

The purpose of distribution policy is to secure the economy of goods movement in terms of the costs incurred, penetration the target markets, satisfaction of customers' requirements in the target market, the acquirement of the determined market share and maximum sales volumes as a result of the distribution channel selection, etc.

A **distribution channel** “is a summary of companies or individuals that ensure the transfer of products from the manufacturer to the final customer“. From the point of view of the physical movement of goods, every distribution channel must include places and conditions under which the purchase of products takes place, e.g. wholesale, retail, intermediaries, goods shipment, and storage.

A distribution channel may be a direct connection between the manufacturer and the final customer, or an indirect connection when there are intermediate or connecting links between the manufacturer and the final customer called intermediaries.

Distribution channels (also called trade channels or marketing channels) can be divided into three groups: *merchants* who buy the merchandise, take title to it for a certain time period and then resell it; *agents* who do not take title to the goods only search for supply-demand entities in the market, mediate their meetings and sales, and various other trade channels, *facilitators*, i.e. companies providing a variety of services and helping to reach

greater effectiveness of the distribution process. Among the most popular types of **intermediaries** are:

- ❖ *Wholesalers*, distributors that buy goods from manufacturers in large quantities and break them into bulk deliveries to supply other distributors, such as retailers, small producers etc. They deal with purchasing and reselling, storing, adjusting the size of goods packaging, shipping and providing other related services. The existence of wholesalers makes sense if the customers are spread out over a wide territory and the manufacturer cannot effectively ensure the sale of its products at individual level. The negative of the wholesale, in the business terms, is weaker or conflicting loyalty for a product, as it typically sells other manufacturers' products and is not sufficiently motivated to make the product sales really dynamic.
- ❖ *Retailers*, distributors that buy goods from wholesalers or directly from manufacturers and without further processing sell them to end-users. They create a goods assortment, present readily available stock for sale, provide information about the goods and ensure the appropriate form of sale. The most popular types of retail shops include specialised stores, department stores, supermarkets, hypermarkets, and discount stores. Since retail shops or outlets provide customers with the necessary information about the goods offered, it is essential in marketing to focus attention on shelving and arranging the goods in a store. There are several useful tips below:
 - a) The goods which the seller wants to gather maximum attention to are placed in the shelves at a consumer's eye height.
 - b) The goods customers usually buy out of necessity are always arranged in the lowest shelves.
 - c) To stimulate and maintain attention – so that a consumer must keep an eye on the goods – the goods are placed into shelves in groups next to each other, frequently at the end of aisles in the front racks or bins.
 - d) In self-service stores the goods customers buy regularly are located at the end of aisles so that a customer walks around longer and can see other goods on the way to buy the regular products, or additionally gets an idea of wanting another item apart from that they have come to the store for.
 - e) The shop keeper must see to it that the goods that are sold very quickly are immediately resupplied.

Intermediaries seek markets to purchase or sell and specific partners for their business customers, and negotiate the terms and conditions to suit both parties.

Distribution strategy planning concerns at least three decisions, namely about the numbers of links in the distribution channel, about the relationships between the individual elements in the chain, and about the intensity of distribution or number of intermediaries present at each distribution channel level.

Number of distribution channel levels

The basis for making a decision about the number of distribution channel levels is given by a company's general strategic interests and its segmentation strategy. It is important to take into account whether it is a new company or the one that has been operating in the market for several years. Companies usually choose more distribution channels or partners, thereby lowering the risk of being dependent on the buyer in case of any threat.

Deciding about the distribution intensity

There are three available strategies, such as:

- ❖ **Exclusive distribution**, which means that the number of intermediaries is severely limited and only specially selected resellers are allowed to sell a product. It is used when the manufacturer wants to maintain control over the quality of its service/product offered by retailers. Frequently, it is based on a contract of exclusivity. Such distribution requires good partnership relations between the seller and the intermediary and is used mainly in the distribution of new automobiles, some bigger electrical appliances or selected brands of women's wear.
- ❖ **Selective distribution**, which means the engagement of more than a few but less than all of the intermediaries who are willing to carry a particular product. This method is applied by the companies that are looking for distributors. The company does not need to take care of a number of retail shops or stores, and it can gain adequate market coverage with more control and lower cost than intensive distribution.
- ❖ **Intensive distribution**, which is characterised by goods or services being transferred by the manufacturer to as many wholesale or retail levels or outlets as possible. The method is used particularly with tobacco products, chewing gum, disposable razors, soft drinks or any other products to provide consumers a great deal of location convenience.

Manufacturers keep thinking about the individual types of strategies, whether to go from the exclusive or selective distribution to the more intensive distribution to increase the market coverage and turnovers. However, this may help in the short run but lead to really fierce competition and price war in the end, which will reduce sellers' profits and diminish their interest in promoting and boosting sales.

3.7 Conclusion

To be successful, not only do companies need to produce the outputs that satisfy their needs, set the prices customers are willing to accept, inform the customers or persuade them of the purchase benefits, but they must decide which distribution method they choose to deliver the goods to their customers – the method that will be beneficial for the company.

The selection of distribution channels and strategies should be based on a distribution audit, external environment analysis in harmony with other marketing-mix components.

3.8 Self-assessment questions

1. Describe the product strategies.
2. Describe the product life cycle and related strategies.
3. Define the concept of distribution policy and describe the intermediaries in a distribution channel.

4 Price and product promotion

4.1 Mission

The mission of this chapter is to explain to the readers what role marketing managers play in the process of developing pricing strategies and methods of pricing products and services. Besides this marketing-mix component, the second part of the chapter deals with the issues of marketing communications and product promotion where some problems of marketing communications development will be addressed and single elements of a communication mix presented.

4.2 Objectives

After having studied this chapter you will be able to:

- Explain the significance of price and factors affecting the price decision-making process
- Describe the process of pricing a product
- Develop pricing strategies and adjust prices to the market situation
- Develop effective marketing communication
- Describe the individual elements of a communication mix

4.3 Introduction

According to a number of authors, price is one of the crucial elements having an impact on a manufacturer's market position and their profitability. Price is a monetary expression of product value; it is an economic category that expresses the exchange ratio between the product value and independently existing units of currency/monetary goods. Price is understood as an amount of money agreed at the moment of purchase or created to price products for other purposes if the participants do not reach agreement.

The importance of pricing for profitability was demonstrated in 1992 by a study carried out by McKinsey&Company in 2,400 companies, on the basis of which the authors drew a conclusion that only a small 1% improvement in price results in an increase in

operational profits by 11.1%. In contrast, a 1% improvement of variable costs, sales volumes and fixed costs can increase a company's profits only by 3.3% and 2.3% respectively.

4.4 Price decision-making factors

The price decision-making process in a company is affected by numerous internal and external factors. Internal factors include a company's marketing objectives, marketing-mix strategy, costs and pricing organisation. External factors include the market and demand character, competition and other environmental factors.

Internal factors

First of all, a company decides where it can position its market offering. The clearer the objectives, the easier to set the price.

A. Through pricing a company can pursue any of the following five major **marketing objectives:**

- ✓ **Survival.** This objective is set if a company is facing problems with overcapacity, strong competition or changing consumer wants in order to maintain its business operation – it lowers its prices hoping to increase demand. As long as prices can cover variable costs and some fixed costs, the company will be able to survive and remain in business. Survival is regarded as a short-term objective, in the longer run the company must learn how to add value – otherwise, it poses a threat of dissolution.
- ✓ **Maximum current profit.** Most companies are able to estimate the demand and costs associated with alternative prices and choose the price that generates maximum current profit, cash flow or return on investment. However, in practice it is very difficult to estimate demand. By emphasising the current performance a company may sacrifice its long-term performance by ignoring the effects of other marketing mix variables, competitors' reactions, and legal restraints on price. Such an objective is typical of the maturity stage of a product's life cycle. There are three methods of profit maximisation: lowering costs, increasing prices, and boosting sales. Even a small 1% improvement of all of these parameters, i.e. lowering the costs by 1% and increasing both the prices and sales by 1% may mean a remarkable change in the overall profit.

- ✓ **Maximum market share.** Some companies assume that higher sales volume will result in low unit costs and higher long-term profit; hence, they set the lowest possible price for the product assuming the market is price-sensitive. Several conditions for such market-penetration pricing are mentioned: the market is highly price sensitive, so low prices stimulate market growth; production and distribution costs go down with the accumulated production experience; and low prices may discourage the actual and potential competitors.
- ✓ **Maximum market skimming.** Companies choose this pricing objective when they introduce new technologies into the market and thus favour high prices to skim the market. This strategy makes sense under the following circumstances: a sufficient number of customers have a high current demand; with the small production output, where the unit costs of production do not go so high that they cancel the advantage of charging the optimal price, whereas the high initial price does not lure more competitors to the market, and the high product price communicates the image of better quality.
- ✓ **Product-quality leadership.** Many brand names are seeking to become “an affordable luxury” – pricing their products or services (which are attributed a high level of perceived quality, taste, and status) the price just so high as not to make their products unaffordable to customers. The application of such pricing objective requires a unique product, the product that satisfies a customer’s idea of quality, whereas the unit costs of small production volume do not exceed the essential costs of mass production, the high price may lure new competitors, and the current demand can ensure enough customers despite the high price of the product. In this case the price is set as the premium price to cover the research and development costs for the premium product. A number of authors have pointed to the significant price/quality relationship. When quality rises over standard – with the achievement of 1 point in quality, the price can be increased only by 1 point, with a 2-point improvement in quality, the price may go up by more than 2 points, and a 3-point increase in quality may guarantee a price increase by 4 points. Conversely, deterioration in quality below standard by 1 point leads to a loss in pricing by more than 1 point, while with 2 points the price drops by the full 6 points, and with a 3-point quality deterioration the product becomes completely unsalable.

- ✓ **Other objectives.** Non-profit and government organisations may adopt other objectives; for example, a university may aim at partial cost recovery, however, it knows it must rely on private gifts and public grants to cover the remaining costs.

B. Costs

While demand sets a ceiling on the price a company can charge for its product, costs sets the lowest level – the price floor. Every company wants to charge the price that covers its cost of manufacturing, distributing and selling the product, and provides reasonable return for its effort and risk. A company's costs are divided into two groups – fixed and variable.

- ✓ *Fixed costs* (also known as *overhead*) are all elements of indirect costs of an organisation that remain unchanged and that are independent of production or sales revenue. Every month a company must pay factory rent, electricity and heating bills, interests, wages and salaries, etc., irrespective of the output produced. Fixed costs should be brought down to a minimum, because if uncontrolled, they might grow rapidly and disproportionally and soon swallow up the company's profitability.
- ✓ *Variable costs* vary directly with the levels of production; for example, every pocket calculator made by Texas Instruments Co. involves a cost of plastic, micro-processing chips, packaging and the like. These costs remain fairly constant per unit produced; nevertheless, their total varies with the number of units produced.
- ✓ *Total costs* are both the fixed and variable costs for any given level of production. *Average cost* is the cost per unit of output at that level of production and it is equal to total costs divided by production.

C. Marketing-mix strategy.

Pricing decisions must be coordinated with other decisions about other marketing-mix components to create an effective marketing programme in the end. Price is a deciding factor for the product positioning that defines the product market, competition and product qualities.

Distribution/pricing relationship. Distributors constitute a factor that has quite a big impact on pricing, particularly in small companies. Large companies are able to create their own markets by spending large sums on advertising, which fosters awareness of their products through retailers. Small companies with the limited funds will consider distribution channels with respect to their reactions to pricing policy. At the same time, they must be informed about the items affecting the price, such as:

- *Discount/Rebate*. It is a price-changing tool that allows adjusting current prices and reducing the price of goods after it becomes known. It is a tool to regulate buyers' attitudes, to save costs and rationalise, increase earnings and maintain the total sales figures.
- *Cash discount*. It is a reduction (discount) in price received by a buyer or allowed by a seller if the payment for the goods/invoice is made immediately or before it is due. The purpose of cash discount is to motivate prompt payments, better the supplier's liquidity and lower the costs of recording and collecting outstanding debts.
- *Bonus*. It is similar to a rebate; a price discount or extra payment/premium, e.g. a no-claims bonus for not claiming on car insurance (in case there are no damages).

4.5 Pricing

When deciding about its pricing policy, a company must follow the six steps: selecting the pricing objective, determining demand, estimating costs, analysing the competitors' costs, prices and offers, selecting a pricing method, and deciding the final price.

Analysing the competitors' costs, prices and offers

First of all, a company should consider the price of the closest competitor. If a company's offer contains any elements the closest competitor does not provide, their value should be estimated and added to the competitor's price. If the competitor offers some elements a company does not, accordingly, their value should be estimated and detracted from the competitor's price. Then only can the company decide whether to charge more or less than the competitor.

Selecting a pricing method

After the three Cs – the customers' demand schedule, the cost function, and competitors' prices are determined, a company can set the product price. The price itself will lie between the low price and the price too high to slow down demand, i.e. in-between;

somewhere the competitors' prices and the price of substitutes provide an orienting point, while customers' assessment of unique product features establishes the ceiling price.

A company chooses a pricing method that will take into account several elements stated in the previous subchapters. The following are the foremost methods companies are likely to use:

- **Cost-plus pricing /Mark-up pricing**

It is the approach of establishing the selling price of products, in which the total product's cost is estimated and a standard percentage mark-up is added for profit. It is necessary to realise that this pricing approach works if the marked-up price actually leads to the projected level of sales.

There are variations to this approach where, apart from the mark-up on the costs of production, companies add a percentage mark-up to cover the overheads and the profit margin. The overhead charge is expressed as a percentage added to the production costs. The profit margin presents the excess of the selling price of an article being sold over the costs of providing it, i.e. the level of profit a company can gain from a unit of output.

$$\text{Overhead mark-up (\%)} = ((\text{Selling price} - \text{Producer's price}) / \text{Producer's price}) * 100$$

$$\text{Profit margin (\%)} = ((\text{Selling price} - \text{Producer's price}) / \text{Selling price}) * 100$$

Overhead mark-ups and profit margins vary according to the type of goods and segment of the supply chain.

- **Target return pricing/Rate-of-return pricing**

It is an approach in which a company determines the price of its product to be able to achieve a good return on investment (ROI). It is used mainly in products where a company outlaid considerable non-recurring costs on research and development and production preparations at the start, etc. The method is similar to the previous one, but the costs incurred, irrespective of the period or time when they did, are broken down to the projected units of products sold. The structure of such a price contains both direct and indirect costs (related to some part of the direct costs), non-recurring direct costs broken down to each unit of output, and the profit margin.

- **Perceived-value pricing**

The value perceived by customers is comprised of a few elements, such as the customer's expectations for the product's performance, quality of distribution, product warranty, customer support, and of some "softer" attributes, including the supplier's reputation, credibility and good name. Customers measure the individual attributes, such as *price*, *value* or *loyalty* differently. It is essential for companies to establish different strategies for these three groups of customers and determine how many potential buyers there are in the individual groups.

- **Value pricing/Value-based pricing**

This approach or pricing method is used to quote a fairly low price for a high-quality offer, i.e. the method promising a high-value offer to customers. It is a quite complex reengineering process of all company's operations so that the resulting processes are more cost-effective without any losses in quality and the lower price being attractive enough to lure a markedly greater number of customers convinced they are buying good value.

- **Going-rate pricing**

It is an approach in which setting prices is based upon prices of the similar competitor products. The company might charge the same, more or less than its major competitor(s) charges.

- **Sealed-bid pricing**

This method is becoming more and more popular, mainly due to unlimited Internet access. One of the main purposes of bidding is to dispose of excess supplies or used goods.

Deciding the final price

When deciding about the final price a company must take into consideration a number of additional factors, including the influence of other marketing activities, company pricing policies, the impact of prices on other parties, and risks. The final price is influenced also by the brand's quality and advertising used relative to the company's competitors.

Brands with average relative quality, but relatively high advertising budgets were able to charge premium prices. Consumers were apparently willing to pay higher prices for well-known and prestigious products. Besides, brands with high relative quality and high advertising obtained the highest prices. On the contrary, companies with low quality and low advertising budgets charged the prices at the lowest end of the possible price range.

The positive relationship between high prices and high advertising budgets held most strongly in the later stages of a product's life cycle for market leaders.

Therefore, the price must be consistent with company pricing policies depending on the quality/price relationship.

Table: Pricing strategy

Quality/Price	High	Medium	Low
High	Premium pricing strategy	High-value strategy	Excellent-value strategy
Medium	Overpricing strategy	Average-value strategy	Good-value strategy
Low	Extortionate strategy	False-economy strategy	Economy strategy

Another approach to pricing strategies includes:

- ✓ **Cost-leadership strategy**, in which a company focuses on low costs. This strategy must be based on and supported by repeatedly sustainable low costs that the producer will be able to achieve in spite of the permanent growth in labour costs and other inputs. It may be applied by means of reducing direct cost or increasing sales, which allows sorting out indirect costs more rapidly.
- ✓ **Differentiation strategy**, which orientates itself towards high prices that can be achieved due to the march of technological progress and the uniqueness of the products offered.
- ✓ **Adjustment strategy**, which enables a company to use a wide range of prices reflecting a particular competitor's supply and market demand.

The right selection and quotation of the final price is definitely a supporting marketing tool that must be firmly grounded in the market situation, for instance, if a company offers an average product and chooses to expand, the good-value pricing strategy will facilitate the expansion, as customers will be motivated by the good value to buy more than with the average-value strategy.

4.6 Marketing communications / Promotion

Marketing communications or promotion is one of a company's communication components that is concerned with the sales promotion and must be aligned with the company's communication goals for the sake of presenting its wholesome image. The role of marketing communication is defined by the AIDA model (attention, interest, desire, action),

showing stages in the effects of advertising on consumers, i.e. attracting their attention, holding their interest, arousing a desire and finally, eliciting action to purchase. Marketing communications contain all types of communication by which a company is seeking to influence the customer's awareness, attitudes and behaviour in relation to the product it offers to the market.

4.6.1 Developing effective communication

There are eight steps a company must follow in the process of developing effective communication: identifying the target audience, determining the communication objectives, designing the message, selecting the communication channels, planning the total communications/publicity budget, deciding on the communications/promotional mix, measuring the communications' results, and managing the integrated marketing communications process.

1) Identifying the target audience

The whole process must start with identifying a clear target audience: potential customers for a company's products, current users, deciders or influencers; individuals, groups, particular publics (groups of people identified for marketing purposes), or the general public as a whole. It is often useful to define and divide the target customers in terms of their common variables, e.g. age, education, gender, country etc. The main part of the target audience analysis is carried out to identify the current societal image, their products and competitors. "Image is the set of beliefs, ideas and impressions that a person holds regarding an object." The first step, therefore, is to detect and to know how the target audience feels about the object.

2) Determining the communications objectives

The right communication objectives (advertising objectives) are a vital element of the effective publicity (advertising) campaign. These objectives determine what should be achieved by the marketing communications and when, and they unify the ideas and efforts of all participants in the campaign. Besides, they present the criteria that will be later used for the evaluation of the campaign.

3) Designing the message

To produce the appropriate response, designing the message tackles the following three tasks: *what to say* (a sharing strategy), *how to say it* (a creative strategy) and *who should say it* (a medium).

When deciding about the sharing strategy management looks for some appeals, themes or ideas that would be in harmony with the brand positioning and help to create a unique selling proposition, identity or differentiation. Some of these may be directly related to the product or service performance, such as quality, economy or brand value, while others may be more related to external considerations, e.g. the brand that is perceived as modern, popular or traditional.

Moreover, the effectiveness of communication depends on a company's creative strategy, which means how the marketers translate their message into specific communications. These may contain informative or transformative appeals.

4) Selecting the communication channels

To attain its marketing communications objectives a company may use one or more elements of the communications/promotional mix: advertising, sales promotion, direct marketing, public relations, publicity and personal selling.

5) Planning the total communications budget

One of the most important decisions management must make is how much money to spend on publicity. There are four common methods:

- a) *Affordable method*. Many companies will set the communications budget (also called the promotion or publicity budget) at what management thinks the company can afford or how much will be reasonable or acceptable for the company. This method completely ignores the role of promotion as an investment and its immediate effect on sales volume.
- b) *Percentage-of-sales method*. This method has its advantages: the promotion expenditure varies according to how much a company can "afford", it encourages management to consider the interrelationship of promotion cost, selling price and the company's profit.
- c) *Competitive-parity method*. Some companies plan their communications budget to achieve share-of-voice parity with competitors, i.e. as much media coverage as their competitors.

- d) *Objective-and-task method*. This method requires that marketers plan their communications budget by defining specific objectives, determining the tasks that must be performed to achieve these objectives, and by estimating the cost of achieving these objectives. The sum of these costs serves as a basis for the establishment of the total communications budget.

In theory, the total communications budget should be drawn up in the manner that the marginal profit made of the last monetary unit, e.g. one euro, spent on publicity or communications equalled the marginal profit made of the last euro spent on the best extra-communications/non-publicity alternative.

6) **Measuring the communications' results**

Responsible managers will try to have the results and revenues yielded by the marketing communications tool used and the investment they made in publicity. They seek to present the results in the form of various means, such as reach and frequency, recognition scores, changes in opinion or belief, and cost calculations rounded up to thousands. In the end, the actual yield (return on the investment) is shown by a behavioural change that should be indicated and explored among customers in the form of questionnaires – whether they recognise the message, remember sharing it, how many times they saw it, how they felt about it, what points they recall; however, simultaneously, behavioural measures of audience response are collected, i.e. public reactions, such as how many people really bought the product, whether or not they were satisfied with it and talked to others about it.

4.6.2 Advertising

Advertising is a paid form of non-personal communication or presentation with the object of promoting ideas, products, or services. The advantage of advertising is that it addresses the wide public of geographically scattered customers. The disadvantage is that it is a unidirectional company-to-customer means of communication, whence the high costs. The main functions of advertising are raising public awareness about a particular brand and affecting attitudes towards it, i.e. building the brand; building the market in an effective manner, which educates the public effectively and informs them about a new product in the market, demonstrates its use and persuade the target audience to purchase the product. Another **advertising objective** is to increase demand, motivate the company's staff and open up opportunities for distribution.

After the basic advertising objectives are set, it is necessary to plan the **financial plan/advertising budget** that is specific for this communications tool. The highest advertising costs are paid in the initial stages of a product's life cycle when attention is drawn towards the product, and the interest in it is being aroused. In the maturity stage the advertising budget is rather low. Maintaining a high market share necessitates heavy advertising, which is extremely costly.

This phase is followed by creating a company's **advertising message**. Every suggestion for an advertising message should be assessed with respect to the fulfilment of three basic attributes it should bear, namely, its *usefulness*, *credibility* and *distinctiveness*.

There are four basic **types of communications or media** that are used in advertising: television, radio, press and so-called exterior media. These can be further classified and specified as follows:

- ❖ *Advertisement* – one of the most popular means of advertising; it is a public announcement/notice in the press, frequently illustrated. It has large persuasive capacity.
- ❖ *Flier/Leaflet* – it is another medium used to inform consumers about the product or service being promoted. It is usually a sheet of paper in a small A5-format. Fliers can be distributed in many different ways, e.g. by being given away in the streets, put on shop counters, delivered into post boxes etc.
- ❖ *Brochure* – it contains more information than a flier/promotional leaflet. It can be one or more pages where products are displayed and described in more detail. It is not intended for mass dissemination.
- ❖ *Poster* – it is a large eye-catching notice or advertisement stuck up outdoors or placed inside a store to address the general public. It affects in two ways – catches attention and sparks interest in passers-by by the message it conveys. It is suitable for general run articles and branded articles.
- ❖ *Eye-catcher* – it is similar to a poster with a different purpose: it is used in shop windows, on store walls, at the shop entrance, etc.
- ❖ *TV commercial* – it is a television advertisement that combines still pictures with action shots; however, it means high costs paid for airtime.
- ❖ *Radio commercial* – it is similar to a TV commercial but broadcast on the radio. It can address the listeners at home or at work, while the emphasis is placed on a good text, sound effects, and background music.

4.7 Sales promotion

It is a short-term activity that consists of short-term incentive tools designed to stimulate immediate purchases or sales of products or services.

There is a variety of sales promotion tools, such as:

- a) *Consumer promotion tools* – free samples, coupons, cash-refund offers, multi-packs or banded packs, temporary price reductions, loyalty bonuses, point-of-purchase displays and demonstrations, exhibitions, tasting, free trials, competitions, lotteries and games. Coupons are “credit notes delivered to customers giving them special discounts on certain items“. They are used for all product categories.
- b) *Trade promotion tools* – the tools motivating subjects in the distribution channels, particularly wholesalers and retailers; for example, extra bonuses, premium payments, free goods or services, display allowances, shared advertising, dealers’ competitions, etc.
- c) *Sales force promotion tools* – various tools, such as bonuses, contests for sales reps, team-building events, educational and training activities, seminars, workshops, trade shows, conventions, etc.

All the tools mentioned above are mainly used with advertising and personal selling. When preparing a sales-promotion programme, a company must set the objectives, choose the right tools carefully, elaborate the most appropriate programme, pre-test it, implement the programme and evaluate the results. The most general method is comparing the sales volumes before, during and after the sales-promotion event.

4.8 Public relations (PR)

Public relations are all activities associated with influencing the public and creating good relationships with it so that it regards a company, its environment, target groups and stakeholders in a favourable light. In public relations various methods are used:

- ❖ *Press relations*, i.e. publishing the latest information in the news focused on the promotion of a person, product or service.
- ❖ *Product publicity*, i.e. campaigns or operations to publicise specific products;
- ❖ *Corporate communication*, i.e. promoting understanding of a company or institution through internal and external communications.

- ❖ *Lobbying*, i.e. dealing with legislators, government officials and politicians to promote or defeat legislation and regulation.
- ❖ *Counselling*, i.e. PR agencies advising a company's management about public issues, company positions and image.

Public relations involve a variety of programmes, such as media presentations, providing information about a company, its products or employees; representing a company's principals in public, arranging for TV or radio personalities to interview them, at press conferences or briefings, inaugurations or other presentation ceremonies; issuing internal periodicals, such as annual reports, brochures, articles, trade journals; making audiovisual material about a company, such as films, video or sound recordings, and last but not least, sponsoring various company's events.

4.9 Personal selling

Personal selling can be defined as a person-to-person interaction between a seller and a customer/buyer, in which the seller's purpose is to complete a commercial transaction successfully. It is a tool for direct communication.

Another purpose of personal selling is to search customers, communicate with them, persuade them of the merits of products and sell these to customers, develop ongoing customer relationships, provide services to customers, collect information, allocate goods etc.

Personal selling can take place directly, face-to-face, by telephone, or by personalised mailing. The strategy of personal selling is to be with the right goods at the right customer's in the right manner at the right time. The sales personnel usually receive some special training.

The advantage of personal selling is that sellers are able to observe their customers' reaction in terms of the goals set and change their approach as need may be; they can develop a long-term relationship with the customers with a view of prospective sales in the future and make the customers feel obliged to respond, whether positively or negatively to the sellers' offers.

The disadvantage of personal selling is the cost: high commissions, travel expenses, telephone bills, a lot of time spent, etc.

4.10

Direct marketing

Direct marketing is based on building a permanent relationship with customers that are asked for their opinions either through various means of communication, such as telephone, mail, via the Internet or by calling door-to-door.

Traditional direct marketing tools include mail-order catalogues, direct mail selling, door-to-door calling; telephone selling, direct radio selling, TV advertising (home shopping channels), direct mail, telemarketing, and on-line marketing.

The main advantages of direct marketing are its effectiveness and readiness for action. It is frequently supplemented with other forms of promotion.

Shared mailing is typical of direct marketing, which is used chiefly in business-to-business markets. It is mailing where two or more companies insert mailing pieces in the same envelope, which is a common effort of companies focusing on the same target audiences and not competing with each other.

4.11 Conclusion

Despite the increasing role of non-price factors in marketing, price still remains an important component of the marketing mix, as it is the only component yielding revenues. When deciding about the price for their products, companies must consider all factors affecting the price, whether internal or external ones, and, simultaneously, consider demand for products, pricing policy and follow the pricing procedure.

Following various pricing strategies, a company can use various elements of the promotional mix to inform the target customers, convince them of the changes concerning a particular product.

4.12 Self-assessment questions

1. Define the concept of price and describe the factors that affect pricing.
2. Describe the pricing strategies.
3. Describe the methods of product pricing.
4. Describe the process of developing effective marketing communication.
5. Name and characterise the individual communication-mix elements.

Glossary

Advertisement – one of the most frequently used means to announce that something is for sale; commonly an illustrated notice/announcement in the press.

Advertising – a paid form of non-personal communication, presentation of ideas, products and services.

AIDA model (attention, interest, desire, and action) – a model showing stages in the effects of advertising on consumers (as they go through all the stages of attention, interest, desire and action).

Bonus – similar to a rebate; a price discount or extra payment/premium, e.g. a no-claims bonus for not claiming on car insurance (in case there are no damages).

Brand/Brand name – any name which has a meaning or evoke associations that help to identify a product or manufacturer. It is a summary of all company's communications activities, a combination of symbols, words, or design that distinguishes a particular company's product from other products of other companies.

Brochure – a promotional material or a document produced by a company containing more information than a flier, usually with one or more pages of pictures and detailed specifications of products.

Business-to-business markets (B2B) – all organisations buying products or services for any use other than personal consumption, i.e. for use in manufacturing other products or providing other services to be sold, rented or supplied to others. The buyers may be wholesalers or retailers who acquire goods for the purpose of reselling them or letting them making a profit.

3C – the relationship of customers' demand schedule, cost function, and competitor prices.

Consumer markets – all individuals and households that purchase goods or services or acquire them for personal consumption by any other means.

Design – determines the essential properties and characteristics of a product, such as material selection and their finish, a product size, colour and pattern and the extent to which aesthetic and functional demands for a product overlap.

Direct marketing – selling by means of dealing directly with consumers based on building a permanent relationship with customers that are asked for their opinions either through

various means of communication, such as telephone, mail, via the Internet or by door-to-door calling.

Distribution – in the marketing sense of the word it means that companies distribute to their customers value in the form of a product or service and concentrate on the establishment of such a relationship with customers where the value distribution will be promoted to the value creation.

Distribution channel – the network of companies or individuals necessary to ensure the distribution of products or services from the manufacturer to the consumer.

Distribution policy – the set of interrelated and overlapped measures including all operations necessary to allocate goods from the manufacturer to a place chosen by consumers or users, or to a place where potential customers can buy them.

Exchange – a key term in business, a process in which it is possible to obtain a required product by offering something else in exchange. It is also the process of value creation, as it normally leaves both parties to the exchange better off.

Export – the simplest method for a company to enter a foreign market. It is the organisation of export of a company's own products which it may or may not modify for the export market.

Fixed costs (Overheads) – the costs that remain unchanged, in total, irrespective of production or sales revenue.

Flier/Leaflet – a sheet of paper usually in a small A5-format with information on it to inform consumers of a product or service.

Horizontal distribution systems – based on a channel arrangement in which two or more companies, at one level, join together to distribute a product with the aim of sharing the advantage of a new marketing opportunity, making the marketing efforts more effective and creating the distribution synergy.

Internal environment analysis – consists of the evaluation of the achievement of a company's strategic goals, its financial status and capabilities, input logistics, manufacturing operations, techniques and technologies applied, output logistics, marketing, sales, after-sale service, research and development resources, human resources, levels of management and work organisation, infrastructure, image and goodwill, the assessment of strengths and

weaknesses with respect to marketing mix tools and the main operations using them, and with respect to a company's capabilities.

Market – a group of people whose need or several needs are currently or potentially satisfied by a particular product or service in specific situations; it is the arena of all existing or potential buyers and sellers of products, services, ideas, or places.

Market capacity/Market volume – includes all variables quantifying the current volume of sales of a specific product in a specific market.

Market potential – expressed by the number of potential customers and the volume of products buyers can theoretically purchase; it is given by the group of customers who profess a certain level of interest in a specific market offer/a specific product or service. It is the limit approached by market demand as industry marketing expenditures approach infinity for a given marketing environment. It may change over time depending on the market conditions.

Market segmentation – the act of conceptual division of the market into relatively homogeneous groups of consumers sharing one or more major common characteristics in order to better satisfy each group's needs.

Market size – can be expressed as a capacity in measurement units or a monetary amount of the value of possible sales volume, e.g. the number of mobile phone users.

Market share – the share of the total sales of all brands or products competing in the same market that is captured by one particular company's brand or product, usually expressed as a percentage; the percentage of the volume of sales of a strategic business unit (SBU) of the total sales volume of the served market.

Marketing – a process of identifying and satisfying human and social needs; the art and science of selecting target markets and getting, keeping and growing customers through creating, delivering, and communicating superior customer value.

Marketing communications or promotion – one of a company's communication components used in marketing that is concerned with the sales promotion and must be aligned with all company's communication objectives for the sake of presenting its wholesome image.

Marketing microenvironment – includes all circumstances, impacts and situations internal to a company that it can significantly affect by its activities, such as partners – suppliers, buyers, financial institutions, insurance companies, shippers, customers, competitors, publics, and others.

Marketing mix – a fundamental marketing tool, the factors controlled by a company that comprise the four components (often called the four Ps): product, price, place (distribution) and promotion.

Marketing planning – the systematic and rational performance of market and company tasks derived from a company's major goals and marketing objectives; an essential part of business planning.

Marketing objectives – statements corresponding to a company's strategic goals, including specific marketing intents, sets of tasks related to products and markets, defined in measurable terms which a company assumes to attain within a stated timeframe.

Marketing situation analysis – an analysis made to examine a company's environment, market segments, and competitors and to estimate potential demands and sales.

Marketing strategies – specify the main direction a company is to take towards the fulfilment of its goal; they are all means and methods used by a company in order to achieve the goals and objectives set. They are connected to the basic company policy, its goals and objectives which they also help to create and determine, and result from a situational analysis.

Need – a feeling of insufficiency, a feeling you want something or want to do something; wants arising from human needs are influenced by cultural and personal characteristics.

Niche – used to describe a smaller set of customers who have more narrowly defined needs or unique combinations of needs.

Packaging – any product (wrapper or container) irrespective of the type or material used designed to protect, secure or handle a product or put it into circulation, to deliver it to consumers or to demonstrate, exhibit or offer a product to consumers.

Personal selling – can be defined as a person-to-person interaction between a seller and a customer in which the seller's purpose is to successfully complete the selling transaction; a tool for direct marketing.

Positioning – a strategy that will place a company's products or services in a particular position in the minds of consumers against those of its competitors and other groups. It rests in the selection of elements by which a product is to be recognisable and differentiated from other products in the market.

Price – the monetary expression of a product value, an economic category which expresses the exchange ratio between the amount of value of a particular good and independently existing monetary amount.

Price differentiation – occurs when a company sells its product at two or more prices, while the differences in price are not caused by the differences in cost.

Product – any asset or item that can be offered to a market in order to meet a need or want.

Product – anything that can be offered to a market for attention, sale or consumption; anything that can meet people's wants or needs, such as physical goods, services, experiences, events, persons, places, organisations and/or ideas.

Product objective – an objective established after the competitive position of a product in the market has been identified and the need to change it determined.

Product quality – presents the comparison of a product's quality attributes (such as its durability, reliability, precision, ease of operation, etc.) with the relevant regulations or standards.

Product strategy – a method for achieving a product objective.

Product value – for customers, the difference between the costs they need to pay to acquire a product and the value they receive by taking title to the product and/or using it.

Public – any group of people that shows real or potential interest in a product or a company, or may strengthen or weaken the potential of an organisation in achieving its aim to distribute goods to target customers.

Public relations – all activities associated with influencing the public and creating good relationships with it so that it regards a company, its environment, target groups and stakeholders in a favourable light.

Relative market share – the SBU's market share relative to that of its three largest competitors in the segment.

Retail/Retailers – these who buy goods or services from wholesalers or manufacturers and sell them without any further processing to end consumers.

Sales promotion – an activity that consists of short-term incentives designed to stimulate immediate purchases or sales of products or services.

Substitute products – all alternative products or services to substitute the current range of products on offer in the market.

Targeting – the process of evaluating each potential market segment by the manufacturer and seller and selecting the most attractive segments or groups to invest their resources and make them their customers.

Target market – is composed of all consumers of a selected segment or segments at which a company aims all its marketing efforts.

Variable costs – the costs that depend directly on the level of activity achieved.

Wholesale/Wholesalers – these who buy goods or services in large quantities from manufacturers and break them into the bulk deliveries to supply retailers with smaller amounts, or other small manufacturers.

Questions and tests

1. What is the role of marketing conception?
2. How can mass marketing be defined?
3. What does the concept of target marketing mean? Characterise the process of target marketing development.
4. What is the market segmentation?
5. What does the PEST analysis focus on?
6. What is the main purpose of microenvironment analysis?
7. How can market potential be expressed?
8. What are the barriers to entry into the industry?
9. Which forces are included in Porter's model?
10. At which stage of a company's life cycle may the intensive marketing strategy be applied?
11. How can the introduction stage be identified?
12. How can the maturity stage be characterised?
13. How can the growth stage be characterised?
14. What is a distribution channel?
15. When does a company decide on the exclusive distribution strategy?
16. What external factors affect the price decision-making process?
17. How can the target return pricing/rate-of-return pricing method be defined?
18. What is the target market?
19. What pricing methods or strategies do you recognise? In which circumstances are they applied?
20. What are marketing channels?
21. Which elements of marketing/promotional mix do you know?
22. How can you define advertising?
23. How can you define sales promotion?
24. What is direct marketing?

1. Marketing conception:
 - a. Holds that a company's role is to set the needs, requirements and interests of target markets and satisfy them more efficiently and effectively than a company's competitors in the way that maintains or enhances the consumer's well being and society.
 - b. holds that consumers develop a liking for such products that offer better quality or performance. Managers in these product-oriented organisations concentrate their energy on the production of good products and their gradual enhancement.
 - c. Holds that consumers, if left alone, would not buy enough company's products. Hence, a company must make aggressive selling and promotional efforts.
 - d. **Looks at marketing from an outward-to-inward perspective. It starts at a well-defined market, focuses on the customer's needs, coordinates all activities that will greatly affect customers and value that may have a number of forms, and generates profit by creating the customer's satisfaction with the product purchased (acquired in exchange).**
2. Which of the following features DOES NOT CHARACTERISE *mass marketing*?
 - a. Mass production
 - b. Customer's anonymity
 - c. **Individual customer**
 - d. Mass promotion
3. What type of marketing takes place in three stages, namely the market segmentation, the evaluation and selection of target segments – targeting, and the definition of a competitive position in the customers' minds – positioning:
 - a. Mass marketing
 - b. **Target marketing**
 - c. Viral marketing
 - d. Segmentation marketing
4. The market segmentation is:
 - a. A process in which the manufacturer and seller is evaluating the attractiveness of single potential market segments and deciding in which out of potential groups they will invest their resources and seek to make these groups their customers.

- b. A method a company uses to position a company's products or services in the minds of consumers against those of its competitors and other groups. It rests in the selection of elements by which a product is to be recognisable and differentiated from other products in the market.
 - c. **The act of conceptual division of the market into relatively homogeneous groups of consumers sharing one or more major common characteristics in order to better satisfy each group's needs.**
5. The PEST analysis does not focus on:
- a. The analysis of the external environment, i.e. the environment a company cannot influence.
 - b. **The analysis of internal environment.**
 - c. The analysis of political, legal and natural factors, economic factors, societal-cultural factors, and technological factors.
6. The main purpose of microenvironment analysis is to:
- a. **Identify the main drivers in the industry that have an essential impact on a company's activity and to understand its competencies to develop, manufacture and sell its products or deliver its services and evaluate its resources.**
 - b. Identify the group of customers that will profess some level of interest in a specific market offer.
 - c. Identify the driving forces of the environment a company cannot influence.
7. Market potential can be expressed as:
- a. The share of the total sales of all brands or products competing in the same market that is captured by one particular company's brand or product, usually expressed as a percentage; the percentage of the sales volume of a strategic business unit (SBU) of the total sales volume of the served market.
 - b. The determination of the number of households or companies equipped with a particular product; average aging and levels of products households are equipped with, the first equipment purchase and repurchase within the same year and the estimate of market saturation and its upper limit.

- c. Variables that quantify the current sales volume of a particular product in a given market.
 - d. **The number of potential customers and the volume of products buyers can theoretically purchase. It is given by the group of customers who profess a certain level of interest in a specific market offer/ a specific product or service. It is the limit approached by market demand as industry marketing expenditures approach infinity for a given marketing environment. It may change over time depending on the market conditions.**
8. Among the barriers to entry into the industry ARE NOT:
- a. Economies of scale
 - b. **Legal or moral obligations towards customers**
 - c. Patent rights
 - d. Lack of scarce raw materials
9. Porter's driving forces model to be followed in marketing does not include the analysis of:
- a. Substitute products
 - b. Rivalry within the industry
 - c. Buyer's purchasing power
 - d. Supplier's purchasing power
 - e. Threats of new entrants
 - f. **A company's strengths and weaknesses**
10. Marketing research can be defined as:
- a. **Systematic planning, collecting, analysing and reporting information, and estimating its importance for a specific marketing situation which a company is faced with.**
 - b. Planning, collecting, analysing and reporting information, and estimating its importance for a specific marketing situation which a company is faced with, once a year.
 - c. Planning, collecting, analysing and reporting information, and estimating its importance for every marketing situation a company is faced with.
 - d. Systematic planning, analysing and subsequent evaluating information for a company's marketing situations.

11. A company may apply the intensive marketing strategy mainly at the following stage of a company's life cycle:
- Growth
 - Maturity
 - Introduction**
 - Decline
12. The maturity stage is identified by:
- Rapid decline in sales and profits, fierce competition.
 - In the first phase, sales tend to rise slightly, in the second phase sales are stabilised and repeated purchases of products take place in the market replacing the goods already consumed, and finally, in the last phase, sales start to slow.**
 - Rapid sales growth; a growing demand for the product, and increasing volumes of production and profits. The first buyers purchase the product repeatedly accompanied by other customers; competitors' versions of the product appear on the market. Competitive efforts and the efforts to gain additional market segments are very intensive, rivalry among competitors stronger, new distribution channels being built etc.
13. The growth stage is characterised by:
- Rapid decline in sales and in profit, fierce competition.
 - In the first phase, sales tend to rise slightly, in the second phase sales are stabilised and repeated purchases of products take place in the market replacing the goods already consumed, and finally, in the last phase, sales start to slow.
 - Rapid sales growth, a growing demand for the product, and increasing volumes of production and profits. The first buyers purchase the product repeatedly accompanied by other customers; competitors' versions of the product appear on the market. Competitive efforts and the efforts to gain additional market segments are very intensive; rivalry among competitors stronger, distribution channels being built etc.**

14. A distribution channel is:
- The set of interrelated and overlapped measures.
 - The physical relocation of products, i.e. their shipment, storage, stock control, change of ownership relations, intangible processes, such as information flows, cash flows, advertising, sales promotion etc.
 - A summary of companies or individuals that ensure the transfer of products from the manufacturer to the final customer.**
15. External price decision-making factors do not include:
- Costs**
 - Market and demand character
 - Consumer's price and value perception
 - Competition
16. If a company sets the price that allows it to achieve the target return on investment, it is:
- Cost-plus pricing/Mark-up pricing method
 - Rate-of-return/Target return pricing method**
 - Perceived value pricing method
 - Going-rate pricing method
17. The differentiation strategy orientates itself to:
- Low costs. It must be based on and supported by repeatedly sustainable low costs that the producer will be able to achieve in spite of the permanent growth in labour costs and other inputs.
 - High prices that can be achieved due to the march of technological progress and the uniqueness of the product offered.**
 - The existence of a wide range of prices reflecting a particular competitor's supply and market demand.
18. The target market is:
- A group of consumers that profess some level of interest in the market offer.
 - A group of consumers that are interested in a specific market offer and have enough income and access to it.
 - A group of consumers that buy a company's product.

- d. A group of consumers at which a company aims all its marketing and distribution efforts.**
19. Setting prices of products for different customers in different locations and countries is:
- a. Geographical pricing.**
 - b. Differentiated pricing.
 - c. Promotional pricing.
 - d. None of these is the correct answer.
20. Which of the following options IS NOT right?
- a. Marketing channels are all companies depending on each other that are involved in the process of making a product or service ready for use or consumption.
 - b. Marketing channels are all routes or channels used after a product or service is manufactured that culminate in the purchase of the product or service and the use by the end user.
 - c. Marketing channels present all activities associated with the direct sale of a product or service to the end consumer for its personal, non-commercial use.**
 - d. Marketing channels present all intermediaries between the manufacturers and end users.
21. The promotional mix does not contain the following element:
- a. Product**
 - b. Personal selling
 - c. Sales promotion
 - d. Public relations
22. Public relations can be defined as:
- a. A paid form of non-personal communication with the object of promoting ideas, products and services.
 - b. Short-term incentives designed to stimulate immediate purchases or sales of products or services.
 - c. All activities associated with influencing the public and creating good relationships with it so that it regards a company, its environment, target groups and stakeholders in a favourable light.**

23. Advertising can be defined as:
- a. **A paid form of non-personal communication with the object of promoting ideas, products and services.**
 - b. Short-term incentives designed to stimulate immediate purchases or sales of products or services.
 - c. All activities associated with influencing the public and creating good relationships with it so that it regards a company, its environment, target groups and stakeholders in a favourable light.
24. Sales promotion can be defined as:
- a. A paid form of non-personal communication with the object of promoting ideas, products and services.
 - b. **Short-term incentives designed to stimulate immediate purchases or sales of products or services.**
 - c. All activities associated with influencing the public and creating good relationships with it so that it regards a company, its environment, target groups and stakeholders in a favourable light.
25. Direct marketing is based on:
- a. **Building a permanent relationship with customers that are asked for their opinions either through various means of communication, such as telephone, mail, via the Internet or by door-to-door calling.**
 - b. A person-to-person interaction between a seller and a customer/buyer, in which the seller's purpose is to complete a commercial transaction successfully.
 - c. A company's activity related to building mutual understanding between the company and its environment, target groups and stakeholders.