CHAPTER 5
Marketing a business

5.1 Overview

5.1.1 Why it is important

Marketing is an essential way in which businesses can engage with customers, and with the wider community — but not all marketing attempts are successful. In November 2015, the Victorian Taxi Association decided to use Twitter to encourage cab users to share their experiences through the hashtag #yourtaxis. This was a marketing exercise with the aim of countering the growing influence of the ride-sharing company Uber. It was hoped that customers would provide positive feedback on the quality of service they had received from Melbourne taxi companies. Instead of positive stories, Twitter users posted many horror stories of rude drivers, dirty and poorly maintained cabs, refusals to take passengers for short trips, and a general lack of good service. While not the positive result hoped for, the exercise did provide the industry with food for thought.

A BLOOMING SUCCESSFUL MARKETER

Edible Blooms, an Australian-based gourmet gift company, was started in 2005 by Kelly Jamieson. Offering a twist on the usual flowers and gifts, the unique business specialises in edible bouquets made of chocolate, fresh fruit, confectionery and gourmet foods. Originally operating from one owner-operated outlet in Brisbane, the business has expanded rapidly and now has a national production and delivery network. It has one of the busiest gift websites in Australia, delivering over 1000 gift baskets per day throughout Australia and New Zealand.

With a background in marketing and business development, Kelly appreciates the importance of developing the right marketing mix for the business. Edible Blooms has developed a number of profiles of their typical customer base, and these are displayed prominently on the wall of its head office. Edible Blooms actively uses social media platforms, such as Facebook, Instagram and Snapchat, with at least two postings a day. This can increase to three or four postings during peak periods, such as the lead up to Valentine’s Day, Mother’s Day and Christmas. Facebook followers receive alerts on special offers and can engage in discussion on the site. Because most of the business’s customers are women, and most users of Instagram are female, Edible Blooms uses Instagram to share photos and videos of the many different gift baskets and other products on offer. Kelly is also interested in pursuing younger consumers and uses Snapchat to reach this audience. The business concentrates on using these three channels well, rather than spreading across all social media, which could risk spreading its marketing resources too thinly.
5.1.2 What you will learn

Key knowledge
Use each of the points from the VCE Business Management Study Design below as a heading in your summary notes.

- Corporate social responsibility management issues regarding establishing a customer base, such as green marketing
- The relationship between marketing, establishing a customer base and business objectives
- External (macro and operating) and internal environment factors affecting the establishment of a customer base and brand identity
- Public relations strategies such as planned and crisis public relations, the importance of maintaining a positive relationship with the customer base and the implications if this relationship is not maintained
- Market research practices such as data collection techniques, analysis and interpretation
- Target market attributes such as market dimensions, segments, consumer trends and behaviour
- An overview of public relations and its relationship to business objectives
- The features and value of customer relations strategies such as providing quality customer service and establishing customer loyalty programs
- The product life cycle: introduction, growth, maturity, decline, extension, and the relationship between each of these stages and the choice of marketing strategy
- The 7Ps model of marketing: product, price, place, promotion, people, physical evidence and process

Key skills
These are the skills you need to demonstrate. Can you demonstrate these skills?
- Define, describe and apply relevant business management concepts and terms
- Acquire, record, interpret and share business information and ideas
- Research and analyse case studies and contemporary examples of business management applicable to establishing marketing in a business
- Apply business management knowledge to practical and/or simulated business situations
- Evaluate the costs and benefits of establishing a customer base, marketing a business and establishing positive public relations
- Propose, analyse and justify the marketing and public relations strategies chosen for practical and/or simulated business situations

5.2 Marketing, establishing a customer base and achieving business objectives

**KEY CONCEPT** A market-focused business needs to create and market products that consumers will purchase, so that it can achieve its objectives.

Marketing is vital to the existence of a business. Just because someone invents a new product or improves an existing one does not guarantee customers will buy it. Without some form of marketing, customers may not even be aware of a product’s existence, regardless of how ‘record breaking’, ‘new and improved’ or ‘revolutionary’ it may be.

Statistics reveal that more than 70 per cent of new products launched on the market fail in the first year of operation, mainly because of poor marketing. Businesses make few sales if they do not market their products successfully, eventually ending in failure.

At the same time, many products that would seem insignificant and unimportant have become best-selling ‘essential’ items as a result of a well-managed and professional marketing plan. Who would have ever thought that brown, sugary, fizzy water with addictive qualities would become the universal product it is today?

For a business to achieve its main objective of maximising sales and profit, it must develop and implement an effective marketing plan, as shown by Coca-Cola’s success.

**COKE — A SUCCESSFULLY MARKETED PRODUCT**

Coca-Cola was invented by Atlanta pharmacist John Pemberton in 1886. Originally, the product was developed as a patent medicine. It was believed at the time that carbonated water was good for the health and Pemberton claimed that Coca-Cola cured many diseases. These diseases included morphine addiction, indigestion, nerve disorders, headaches, and impotence. Coca-Cola was named after two of its main ingredients: kola nuts (a source of caffeine) and coca leaves.

In 1889, an Atlanta businessman named Asa G. Candler bought the Coca-Cola formula and the brand. He founded the Coca-Cola Company in 1892. The company heavily promoted Coca-Cola across the United States by displaying logos on posters, calendars, notebooks and bookmarks to reach large numbers of customers. Traveling salesmen passed out coupons for free drinks. Eventually, the Coca-Cola Company’s marketing strategies led to the dominance of the world soft-drink market throughout the 20th century.

Coca-Cola’s Coke soft drink was introduced to the Australian market in 1938, 50 years after its release in the United States. The first distinctively shaped bottles — themselves part of Coca-Cola’s overall marketing strategy — were produced in that year by one of Sydney’s oldest soft-drink factories. Australian consumption of soft drink was growing, but that did not guarantee the Coke product immediate success. Early sales representatives for Coca-Cola were lucky if a store owner bought a single bottle, let alone a case.

Coca-Cola largely owes its popularity to its successful advertising. Advertisements for Coke were initially aimed at an older age group — a reflection of the main target market selected in the United States. Over the years, the target market was modified to concentrate on teenage and young adult consumers. The company’s marketing plan was so successful that the product has become Australia’s market leader in the soft-drink market.
5.2.1 What is marketing?

Marketing is a total system of interacting activities designed to plan, price, promote and distribute products to present and potential customers. At the heart of these activities is the most fundamental question that all businesses should continually ask: ‘What do customers want to buy — now and in the future?’ This is the essence of marketing — finding out what customers want, then attempting to satisfy their needs.

Many people mistakenly believe that marketing is the same as advertising. This is because advertising is highly visible and everywhere, which makes it easy to associate the two. However, the definition reveals marketing to be a far more multifaceted activity.

For example, through its sophisticated marketing plan, Coca-Cola has built on its highly recognisable brand name. In its first year, about 10 servings of Coke were sold each day. Today, Coca-Cola is sold in every country in the world except Cuba and North Korea.

Marketing is a way of thinking. Everything a business does should be directed towards putting the customer at the centre of its thinking. To do this successfully requires adopting a customer-oriented approach to marketing.

DID YOU KNOW?

In Australia, Coca-Cola Amatil presently has about 60 per cent of the $4.4 billion carbonated soft-drink market, compared to PepsiCo’s 10 per cent share.

EXAM TIP

The Unit 2, Area of Study 2 outcome states that you need to ‘explain the importance of establishing a customer base and a marketing presence to achieve the objectives of the business’. This suggests that you should understand why establishing a customer base is important, why a marketing presence is important and how both can be used by a business to achieve its objectives.

5.2.2 Establishing a customer base

In setting up a new business, or improving the marketing performance of an existing business, it is essential to identify the customer base. This will involve some market research but it also requires the development of a clear idea of who it is that would be interested in buying the products or services offered. One way of doing this is to create a customer profile, which is a basic description of who the ideal customer might be. The following diagram provides an approach to developing such a profile.
Creating a customer profile

Having identified the customer profile, it is important to ensure that:

- the product or service offered is one that is likely to be of particular value to that customer
- the marketing plan can maximise the likely connection between the product or service, and the target customer
- the product or service, and marketing approach, will be such that targeted customers will return for repeat purchases.

Many businesses recognise what is known as the 80–20 principle. This principle proposes that 80 per cent of sales are likely to come from 20 per cent of customers. This means that the 20 per cent of the customer base that are the loyal, repeat customers are the most valuable market the business can have. Ensuring that the marketing plan retains a connection with these customers is essential.

**DID YOU KNOW?**

Some businesses go as far as to develop a customer persona. This is a fictional person that the business believes represents its typical customer. For example, the retail business Myer has a woman in her thirties named ‘Eva’ as its customer persona. Eva is successful, fashion conscious, exercises regularly, values her family and enjoys a glass of bubbly to celebrate her purchases from the department store.

5.2.3 Marketing and business objectives

The major aim of a business is to make a profit, and the business owner seeks to achieve this through:

- increasing sales
- increasing market share
- expanding the size of the business.

A business is more likely to achieve these objectives if a significant number of customers become repeat customers. Customers will return if they are satisfied with the quality and price of the goods or services offered; therefore, an additional objective for a business is maximising customer service to contribute towards higher levels of customer satisfaction.

**Increasing sales**

A key factor in achieving a profit is the revenue earned from sales. To increase sales, a business will want to use marketing to reach the largest number of consumers who display the characteristics of its customer profile,
and who therefore represent potential additional members of its customer base. Understanding the customer profile, and recognising those who could form part of the customer base, allows for marketing to be targeted efficiently.

For example, radio stations that play ‘golden oldies’ music from the 1960s often carry advertising for retirement villages and aged care facilities. This is because these businesses know that large numbers of people who listen to such radio stations are approaching retirement themselves, or have elderly parents who may require access to care. Effective marketing is not just advertising, but carefully selecting the means by which a business can reach potential members of its customer base.

**Increasing market share**

All marketing plans aim to achieve a specified market share by better understanding and responding to the desires of the different target customers. Bauer Media Group dominates the young women’s magazine market, for example, with a significant percentage of Australian women aged 14–24 years reading either Cleo, Dolly (online magazine) or Cosmopolitan.

In any market dominated by only a few large businesses, such as the snack-foods market, increasing market share is of prime importance for each of the companies involved.

**Expanding the size of the business**

Expanding the size of a business is likely to be a result of the customer base continuing to grow. This may result in a move to larger premises, or the opening of additional branch offices. One way of expanding the size of the business is to expand the range of products offered for sale.

Businesses are usually keen to increase their product mix, because this will increase profits in the long term. The same product mix will not remain effective for long because customers’ tastes and preferences change over time and demand for a particular product may decrease. The product mix for a florist business might include vases, cards, ribbons, candles and gifts.

To develop the ideal product range, businesses must understand customers’ needs. Each item in a product line should attempt to satisfy the needs of different target markets.

**Maximising customer service**

It could be argued that the most important business objective is maximising customer service. High levels of customer service will result in improved customer satisfaction and a positive customer reaction to the products purchased. This establishes a sound customer base with the possibility of repeat purchases. Strategies for maximising customer service include: asking customers what they want; training staff and rewarding them for excellent customer service; anticipating market trends by conducting research; and finding out what competitors are offering and then reviewing the product mix. The old saying ‘the customer is always right’ is still valid today. Research has shown that one dissatisfied customer usually tells 11 potential others, who in turn will each tell another five. Such ‘word-of-mouth’ marketing has the potential to make or break a business.
5.2.4 Evaluating the effectiveness of marketing in achieving objectives
Marketing objectives need to be able to contribute to the overall business objectives, and it is important to be able to evaluate marketing strategies to ensure they are actually achieving this.

The following diagram shows the steps the person responsible for marketing might take to evaluate whether marketing objectives are being met.

Once marketing objectives have been established they must be monitored to ensure they are being met; otherwise corrective action must be taken.

5.2.5 Performance indicators
Performance indicators are the means by which a business can measure its performance and evaluate the degree to which it is achieving its objectives. Let’s now take a look at the three common performance indicators used to measure the success of marketing objectives and the strategies used:

1. sales analysis
2. market share analysis
3. marketing profitability analysis.

Sales analysis
Sales analysis is usually the most common method of evaluation because sales reports are readily available in most businesses. By comparing forecast sales (what was expected) with actual sales (what happened), the business can determine the success of its marketing strategy.

DID YOU KNOW?
The use of computerised sales records has made the collection, storage, retrieval and analysis of sales data much easier. Computerised sales reports can be prepared showing:

- daily, weekly, monthly, quarterly and yearly sales
- product line sales
- sales for individual sales representatives
- company division sales
- any combination of the above.

Market share analysis
Just as sales can be analysed, so too can a business’s market share. By undertaking a market share analysis, a business can evaluate its marketing strategies compared with those of its competitors. This evaluation can reveal whether changes in total sales — either increases or decreases — have resulted from the business’s marketing strategies or some uncontrollable external factor. If, for example, a business’s total sales revenue
declined but its market share remained stable, then the marketer can assume that overall industry sales have fallen, perhaps in response to a downturn in the economy. However, if a business’s total sales revenue and market share have declined, then the marketing strategies need to be reviewed.

**Marketing profitability analysis**

Sales and market share analyses, while useful, do not present the full picture. A full understanding can be achieved only by analysing the marketing costs involved with each marketing strategy. Using a **marketing profitability analysis**, the business breaks down its total marketing costs into specific marketing activities, such as advertising, transport, administration, order processing and so on.

By comparing the costs of specific marketing activities with the results achieved, a business can assess the effectiveness of each activity. This evaluation also helps a business decide how best to allocate marketing resources in the future. For example, a marketing strategy that involves advertising on commercial television might cost well over $100 000, so the net gain in sales from this type of marketing strategy will need to cover this cost. Many marketing strategies may be prohibitive to businesses because of their cost and so cheaper alternatives that also help increase sales may be used.

**CUSTOMER SATISFACTION AND THE MARKETING CONCEPT APPROACH**

During the 1950s, businesses began to realise they were not solely producers or sellers, but also in the business of satisfying customers’ wants. This shift to a customer-oriented approach brought significant changes to marketing, especially the need to undertake market research and develop a marketing concept.

The marketing concept is a philosophy that means all sections of the business are involved in satisfying a customer’s needs and wants while also achieving the business's objectives. The business should direct all its policies, plans and operations towards achieving customer satisfaction. The marketing plan, therefore, needs to be integrated into all aspects of the business.

Let’s take a more in-depth look at this. The marketing manager cannot work in isolation, and often has to work with other managers in the business to ensure the marketing plan is a success. For example, if the success of the marketing plan means having a product ready by a certain date, the production plan will need to be aligned to make sure that happens. If, for example, a business makes Christmas puddings, it is no good delivering the
puddings after 25 December! Financial planning must also connect with the marketing plan. Marketing costs money, and finances must be available if, for example, the business wishes to embark on an expensive advertising campaign. The marketing manager will also have to work with the human resources manager to ensure that the right staff are employed to create the business's product or service. The marketing concept is based on four principles. It must be:

- customer-oriented
- supported by integrated marketing strategies
- aimed at satisfying customers
- integrated into the business plan in order to achieve the business's objectives.

### 5.2 Activities

**TEST your understanding**

1. Why do you think most new products fail shortly after they are launched?
2. How does this chapter’s definition of marketing differ from the more popularly held view of marketing?
3. Complete the following sentences:
   a. The main emphasis in marketing today is the ___________ -oriented approach.
   b. To assist establishing a customer base it can be useful to create a customer ___________.
   c. A marketing plan lists ___________ aimed at achieving particular market ___________ in relation to a good or ____________.
   d. The ‘80–20’ principle suggests that __________ per cent of sales come from __________ per cent of customers.
4. How can a business use its customer profile to meet the objective of increasing sales?
5. Explain why a business may decide to increase its product mix.
6. Identify and explain two guidelines for maximising customer service.
7. How can a business use sales to determine the success of its marketing strategy?
8. Why should a business monitor its market share?
9. What does a marketing profitability analysis monitor?
10. The ‘marketing concept’ is a business philosophy adopted by many modern businesses. After reading the following three pairs of statements, choose the statement that best represents the business that has adopted the ‘marketing concept’ approach. Give reasons for your choice.
   a. Business A: ‘We offer a means of transport, reliability and customer service.’
      Business B: ‘We make cars.’
   b. Business A: ‘If you order today we will attempt to deliver by next Monday.’
      Business B: ‘If you order today we can deliver in time for you to meet your sales quota.’
   c. Business A: ‘Our sales are falling. We will have to think about laying someone off.’
      Business B: ‘Our sales are falling. We will have to undertake some market research to find out why.’

**APPLY your understanding**

11. ‘Businesses that neglect the importance of marketing will experience diminished sales and reduced profits.’ Discuss this statement in approximately 200 words.
12. ‘Coke’s successful formula is its superior marketing strategies rather than the ingredients of its drink.’ Outline whether you agree or disagree with this statement. Share your answers with the class.
13. ‘There are only two ways in which to create and maintain outstanding business performance. First, take exceptional care of the customer and, second, develop new products. It is that simple.’ How accurate is this statement? Give reasons for your answer.
14. ‘Any business that fails to conduct a sales analysis will be unable to assess the success of its marketing strategies.’ Discuss.
15. A business has a sales forecast of $90 000 but achieves actual sales of only $25 000. What does this signify? What should the business do next?
16. Examine the following market share results for Electronic Appliances Limited.

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales revenue ($'000)</th>
<th>Market share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>280</td>
<td>18</td>
</tr>
<tr>
<td>2017</td>
<td>250</td>
<td>18</td>
</tr>
<tr>
<td>2018</td>
<td>330</td>
<td>14</td>
</tr>
</tbody>
</table>

(a) Explain how it is possible for sales revenue to decrease but market share to remain the same.
(b) If you were the marketing manager, with which year’s result would you be most pleased? Give a reason for your answer.

EXAM practice
17. Define ‘customer profile’ and explain two elements that might be useful in creating a customer profile. (5 marks)

18. Darren runs a garden maintenance business and has carried out a marketing campaign in his own and neighbouring suburbs. Explain how each of the following may help him evaluate the success of that campaign:
   (a) sales analysis (2 marks)
   (b) market share analysis (2 marks)
   (c) marketing profitability analysis. (2 marks)

5.3 Internal and external environment factors affecting customer base and brand identity

**KEY CONCEPT** Factors in both the internal and external environments of a business can have an impact on its establishment of a customer base, and on its brand identity.

5.3.1 What is brand identity?
All businesses seek to appeal to their customer base, and to promote a positive brand identity. Brand identity, often referred to as the term ‘brand’, is the message that customers receive about the business and its product. These messages may include a name, term, symbol, design or any combination of these that identifies a specific product and distinguishes it from the products of competitors. In promoting its brand, a business will need to consider factors in both the internal and external environments that could affect that strategy. In some cases, the business can control some of these factors, and turn them to its advantage. In other cases, these are factors that are outside the business’s control but which could affect the success of a marketing campaign.

5.3.2 The internal environment
As we have discussed, the internal environment of a business consists of the people working within that business, and the ways in which they interact with each other. The different internal environment elements that can affect the establishment of a customer base and brand identity, through a marketing strategy, include the following:

- *Owners and managers.* The leaders in a business need to have the skills to be able to develop a customer profile, or be able to hire a marketing manager with the necessary skills. The owners and managers would
be expected have a sound idea of the objectives of the business, and to be able to ensure that the marketing strategy is consistent with those objectives. If changes need to be made to the marketing plan, it will be the leaders of a business that will need to recognise the need for changes, and to implement them.

- **Employees.** Details of the marketing strategy have to be instilled in the employees of a business so that the ways in which they act towards customers are consistent with that strategy. Friendly, polite and efficient from employees is an essential feature in establishing and expanding the customer base, and enhancing brand identity.

- **Culture and policies.** The beliefs, values and expectations within a business will form the basis of how business actually operates. A successful marketing strategy will become an integral part of the way business is done, and will be a vital part of its operations and processes. The business’s reputation and values quickly become part of the brand identity. This needs to be positive to establish a sound customer base.

**study on**

5.3.3 The external operating environment

Stakeholders in the operating environment can both influence the marketing strategy, and be influenced by it.

1. **Customers.** As the most important stakeholders in the operating environment, the needs and preferences of the customers are paramount. A marketing strategy that is not customer focused is doomed to failure.

2. **Suppliers.** The suppliers to a business have a vested interest in the success of a marketing strategy. As the providers of raw materials, products for resale and equipment, suppliers depend on the success of those businesses to which they sell their products. If the supplier provides goods for resale, the marketing strategy of the supplier will also influence the way in that the retailer markets those products. For example, a café that sells soft drinks will use the marketing material provided by the manufacturer of those drinks. An electrical store will use the marketing strategies of the various brands of electrical appliances it sells.
3. Competitors. Part of the importance of a marketing strategy is to distinguish the business from its competitors. The business owner must be aware of the marketing strategies used by competitors in order to develop a unique marketing plan, and create that point of difference. Depending on the size of the market, meeting the business objective of increasing market share is likely to take customers away from competitors. This means that the marketing strategy must be more effective than that of competitors if it is to expand the customer base and present a brand identity that has greater appeal.

5.3.4 The external macro environment

Any business owner developing a business plan must take into account the macro environment in which the potential customers are likely to be found. The business owner has little or no control over factors in the macro environment, but must be aware of the ways in which these factors can impact on it.

1. Economic forces. Periods of strong economic growth can be favourable times to establish a business or to expand the customer base. During such periods it is likely employment levels are relatively high and that the disposable income of potential customers is increased. A successful marketing strategy will tap into the greater levels of consumer confidence that can be present during times of economic buoyancy. For example, customers may be prepared to take on additional debt, so a marketing strategy that allows customers to make use of various financing options can expand the customer base by improving customer convenience. In more difficult economic conditions, a marketing strategy that emphasises value for money and lower prices than competitors is likely to have greater success.

2. Legal forces. As discussed in chapter 4, businesses are subject to a number of legal requirements. The Competition and Consumer Act 2010 has made certain types of marketing practices illegal. It is not only important to ensure that marketing practices are ethical and socially responsible, but also a knowledge of the key provisions of the Act will ensure that the marketing plan does not include any illegal practices.

3. Technological forces. Technological advances can impact on the marketing plan in several ways. Making use of available technology to promote the business, through the use of a website presence, a dedicated phone app and the use of social media can be effective. The business should also ensure that it is using the latest technology in its operations to improve the customer experience. For example, having barcode readers to speed up the processing of purchases, and EFTPOS and credit card machines that allow the use of ‘paywave’ cards can improve customer convenience and be a useful marketing tool.

4. Social forces. Tapping into social trends and fashions can be powerful in a marketing plan. Being aware of the demographics of the area in which the business is located is also important. The business owner needs to be aware of the social issues that affect potential customers, and ensure that the marketing plan takes account of these.

DID YOU KNOW?
The Australian Competition and Consumer Commission (ACCC) can take legal action in the Federal Court against any business that uses marketing practices that are banned under consumer law. Penalties can be up to $1.1 million for companies and $220 000 for individuals. It pays to know what is legal and what is not!
5.3 Activities

TEST your understanding
1. Explain the role of business owners or managers in the establishment of a customer base for the business.
2. Why is the role of employees vital in the marketing of a business?
3. How can the culture of a business affect the development of its customer base?
4. Identify two factors in the operating environment of a business that can have an impact on the marketing activities of that business.
5. Give three examples to explain why a business owner must be aware of conditions in the macro environment when developing a marketing strategy.

APPLY your understanding
6. Vanessa owns a café, and has been working on a new menu to be introduced next month.
   (a) What role does she have in marketing this new menu to her existing customer base?
   (b) How can she use the new menu to attract new customers?
   (c) Identify and explain the training she would need to give her staff to ensure maximum positive impact on her customer base, and the enhancement of her brand identity.
7. Sam runs a bakery in a busy shopping centre. In each of the following situations, explain whether Sam’s marketing strategy is being affected by the external operating environment, or the external macro environment.
   (a) Sam sets up a Facebook page for his bakery, inviting his customers to become friends and comment on his bread products.
   (b) One of the other bakeries in the shopping centre introduces cheese flavoured bread rolls into their product range, so Sam responds by introducing cheese and bacon rolls.
   (c) Sam is able to find a milling company that can provide him with a low-gluten flour, so he decides to produce and market low-gluten bread.
   (d) The local council introduces a rating system for food businesses and, after an inspection by the council inspector, Sam’s business receives a rating of A+.

EXAM practice
8. Explain how a business’s competitors might influence its marketing strategies. (2 marks)
9. Sandra has opened a business selling high-quality chocolates, and she would like to charge relatively high prices to match the quality. Explain how each of the following factors in the external macro environment can influence her marketing approach:
   (a) economic forces (2 marks)
   (b) social forces. (2 marks)

5.4 Market research practices

KEY CONCEPT Market research is the process of gathering information to assist business owners in making informed decisions about the marketing of the business.

The collection and study of statistics and other relevant data help managers understand the needs of potential customers or clients as well as providing information on what business competitors may be doing.

Releasing a new product on to the market is risky. Working to help minimise the risk is the main purpose of market research. By collecting and assessing information about the needs and wants of consumers, a more accurate and responsive marketing plan can be designed and, therefore, the risk of market failure can be reduced. Market research attempts to identify and outline both marketing opportunities and problems, as well as evaluating the implementation of the marketing plan.
Without adequate, reliable and correct information, businesses expose themselves to market embarrassments which could result in their product failing to sell. To obtain accurate information, marketers usually follow a three-step approach. You will probably be familiar with this process because it uses similar steps to those needed to complete a research assignment.

### The three steps of the market research process

<table>
<thead>
<tr>
<th>Step</th>
<th>Explanation</th>
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<tbody>
<tr>
<td>1. Determining information needs</td>
<td>The problem is clearly and accurately stated to determine what needs to be measured and the issues involved. This is a crucial step.</td>
</tr>
<tr>
<td>2. Collecting data from primary and secondary sources</td>
<td>At this stage the researchers know the facts that are needed and those that are already available. Plans must be made to gather missing data. Information may be collected by mail, telephone and personal surveys, as well as by personal observation or from private data sources.</td>
</tr>
<tr>
<td>3. Analysing and interpreting data</td>
<td>Facts by themselves do not always provide a solution to the marketing problem. They need to be analysed and interpreted to determine what they mean.</td>
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**DID YOU KNOW?**

A number of software packages are available for statistical analysis of market research data. As well, many businesses choose to outsource their marketing research to companies such as AC Nielsen and AGB McNair.

#### 5.4.1 Determining information needs

It is often said that the recipe for effective decisions is 90 per cent information and 10 per cent inspiration. However, the information must be relevant to the situation or problem.

The best method to determine the relevance of data is to constantly ask questions concerning its ultimate use. Information is useful if it:

- results in marketing strategies that meet the needs of the business’s target market
- assists the business to achieve its marketing objectives
- may be used to increase sales and profits.

Ideally, marketers should treat information in the same way as other resources within the business, and weigh up the costs of collecting information against the benefits it provides.

More businesses are undertaking marketing research activities. However, sometimes even the most sophisticated statistical and logical methods do not produce the correct answer.

**DID YOU KNOW?**

In the late 1950s, Xerox Corporation’s market research indicated only a small market existed for an automatic photocopier. Luckily for Xerox, management had a ‘gut feeling’ that the researchers’ conclusions were wrong and they decided to launch the product anyway. The photocopier was an instant success and the rest is history.
5.4.2 Collecting data tools and techniques

Marketing data comprise the information — usually facts and figures — relevant to the defined marketing problem. Normally, market researchers use a combination of two types of data: primary and secondary data.

Primary data

Primary data refers to the information collected from original sources for the purpose of the specific research problem. This information can be collected by the business itself — a process that may be time consuming and expensive. Many businesses outsource this activity.

The main advantage of primary data is that their collection is directed at solving a specific marketing problem. Their main function is to find out exactly what the customer is thinking. There are three main methods used to gather primary data:

1. survey
2. observation
3. experimentation.

The survey method

Conducting a survey means gathering data by interviewing people. Surveys may be carried out by:

- personal interviews — face-to-face interviews conducted in public places
- focus groups — small groups of people who meet with the researchers
- electronic methods of collection — telephone, mail and the internet
- questionnaires — a set of specific questions structured to obtain a response from the customer.

The main benefit of a survey is that it gathers firsthand information that provides details of customers’ opinions. However, gathering information through surveys is becoming more difficult because respondent rates are declining.

The observation method

Observation involves recording the behaviour of customers. No interviews are involved and direct contact with respondents is avoided. Instead, the actions of the customers are systematically observed. Such methods can raise serious ethical issues, especially regarding privacy.

Information may be gathered through:

- personal observation, such as when a researcher poses as a customer in a store
- mechanical observation, using camera, tape recorder or counting machines. The scanner and cash register at a store checkout counter, for example, can record data on sales and customers’ purchase patterns.

This method of data collection has become very popular over recent years, especially with the development of computerised technology. Such observation methods can be highly accurate, but their main limitation is that they explain only what happened, not why.

The experimentation method

Experiments involve gathering data by altering factors under tightly controlled conditions to evaluate cause and effect. Market researchers do this to determine whether changing one of the factors (a cause) will alter the behaviour of what is being studied (the effect). Experiments may be carried out in either the laboratory or in the field. This is called test marketing.

Most businesses will attempt to use a combination of the methods mentioned earlier to gather feedback on the preferences of both existing and potential customers. The following is an example of how one small business conducts market research.
MIRACLE MASSAGE — MARKET RESEARCH TECHNIQUES

In my business I use a few simple, low-cost market research techniques to gather and filter out valuable information about the business's market and customers. The research provides me with feedback on how customers feel about my business and its products. The market research techniques include:

- asking suppliers about the social and economic changes they see in the marketplace
- tracking the location of customers by asking for postcode details when booking an appointment
- monitoring which products are gaining or losing popularity
- asking customers to participate in informal surveys measuring customer satisfaction
- reading industry journals and websites to identify changes in the external environment that might affect the business
- receiving a copy of readership details (demographics) from the local community paper in which the business advertises
- contacting customers who have not made a booking for about a three-month period to determine if there is a problem
- requiring employees to be good listeners and record negative and positive customer feedback.

With this information I am able to gain a better understanding of my customers' needs, understand their buying behaviour and consequently predict trends.

DID YOU KNOW?
The use of ‘sugging’ — selling under the guise of market research — has contributed to increased consumer reluctance to respond to surveys.

Secondary data

Secondary data comprise information that someone else has already collected. It is referred to as secondary because it is information that has been collected for some other purpose — for example, census data and household expenditure surveys gathered by government and private businesses. With the advent of computer databases, an abundance of secondary data is available to market researchers.

The two types of secondary data are:

- **internal data**, which is information that internal sources (that is, from inside the business) have already collected. Such data include financial statistics, annual management reports, research reports, customer feedback and sales reports.
- **external data**, which is published data from sources outside the business. Probably the best known are the numerous reports produced by the Australian Bureau of Statistics (ABS).

Usually, market researchers will make use of both internal and external sources of data.

5.4.3 Analysis and interpretation

Once the data have been gathered, conclusions need to be drawn. Raw data are of little value until analysed and interpreted. **Statistical interpretation analysis** focuses on the data that represent average, typical or deviations from typical patterns.

The first step in drawing conclusions (analysis and interpretation) is to tabulate the data — that is, display the information in table format. The use of a spreadsheet computer program greatly simplifies this task. Cross-tabulation allows comparisons to be made between individual categories. It could show, for example, how men...
and women display different shopping habits, or differences between the purchasing behaviour of high and low income earners.

This interpretation will largely be based on the marketers’ judgement, experience and intuition. For this reason, it is preferable to involve a number of people in the interpretation of data in order to gain a wider perspective and, therefore, avoid the error of personal bias.

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### 5.4 Activities

**TEST your understanding**

1. Why would it be important to undertake market research if you are thinking of starting a new business?
2. List and explain the steps normally carried out in the market research process.
3. Complete the following sentences by selecting the correct term from the options below.
   - relevant resources investigated
   - achieving information objectives
   (a) Marketers should treat ____________ in the same way as other ____________ within the business.
   (b) Information collected must be ____________ to the problem being ____________.
   (c) Ultimately, relevant information will assist the business in ____________ its marketing ____________.
4. Distinguish between primary and secondary data.
5. Account for the increase in electronic scanners to collect data.
6. Outline the difference between internal and external secondary data.
7. Read the case study ‘Miracle Massage’ and answer these questions.
   (a) Classify the research techniques Andrew uses as either primary or secondary data sources.
   (b) Select which research technique you consider offers Andrew the most valuable information.
     Justify your selection.

**APPLY your understanding**

8. Choose a business partner in your class. Assume both of you are managers in an ice-cream manufacturing business. How would you use different types of market research (surveys, focus groups, observations, ABS statistics or experiments) to determine customer reaction to a new type of ice-cream?
9. As the owner of a supermarket, you believe you could sell more strawberries by displaying them loose on a tray, rather than packaging them in punnets.
   (a) Describe an experiment to test this idea.
   (b) Outline difficulties in conducting this experiment.

**EXAM practice**

10. Identify and explain two procedures that may be used to collect primary data through the survey method of market research. (6 marks)
11. Justin plans to set up a shop selling school uniforms and has a choice of renting premises in three different shopping centres. Explain how he might use external secondary data to help him decide which is the most appropriate location for his shop. (4 marks)
5.5 Target market attributes — market dimensions and segments

**KEY CONCEPT**  A business segments its target market so it can better direct its marketing strategies to specific groups of customers.

### 5.5.1 Market segmentation

Few businesses can sell their products to the entire market — the market is just too big. For this reason, a business will divide the total market for its products into distinct market segments. A business that is marketing motor vehicles, for example, would not direct its marketing efforts towards every person in the total motor vehicle market. Some people might want only a sports car. Others might want a four-wheel drive. The business would direct its efforts towards a particular ‘segment’ of the total market for motor vehicles. Dividing a total market into particular groups who share one or more common characteristics is known as **market segmentation**. The elements used to identify market segments are known as **market dimensions**, and most marketing professionals identify four such dimensions:

- **demographic** — age, gender, occupation, education, religion, family size, ethnicity
- **geographic** — urban, suburban, rural, regional, climate, landform
- **psychographic** — lifestyle, socioeconomic group, motives, personality, consumer opinions and interests
- **behavioural** — regular user, first-time user, brand loyalty, benefits sought, usage rate.

Age and gender are two of the most widely used demographic variables for segmentation purposes. The marketing of sparkling and still beverages is typical of this. Coca-Cola, for example, targets 15- to 35-year-old males with the energy drink Mother. The more health-conscious adult market is served with Diet Coke, Deep Springs Natural Mineral Water or Nestea Iced Tea. The primary **target market** for Fanta is 13- to 16-year-olds. Mount Franklin is aimed at younger females and families, whereas for Powerade and Pump, the core market is 18- to 24-year-old males who are engaged in athletics—the ‘active consumer’.

### Target market selection

Once the market has been segmented, the business selects one of these segments to become the target market. For example, a rural supplies business would normally aim its promotion strategies at male, 25- to 60-year-old, rural-based farmers with middle to high incomes. An exclusive women’s fashion boutique in central Melbourne would have a target market of customers who are female, 25 to 50 years old and city-based professionals with a high income.

A business selects a target market so it can direct its marketing strategies to that group of customers, rather than the total market. This approach allows the business to better satisfy the wants and needs of the targeted group, and makes it easier for the business to increase sales and profits because it can:

- use its marketing resources more efficiently, which results in the marketing campaigns being more cost-effective and time-efficient
• use promotional material that is more relevant to the customers’ needs, and is more likely to be noticed
• better understand the buying behaviour of the target market
• collect data more effectively and make comparisons within the target market over time
• refine the marketing strategies used to influence customer choice.

Sometimes, a business may be able to identify both a primary target market and a secondary target market. A business’s primary target market will generate most of its revenue. These are the customers who are loyal to a particular business and make repeat purchases. As previously discussed, research has found that usually a small percentage of customers are responsible for the majority of sales. This is referred to as the 80–20 principle, according to which 80 per cent of sales come from 20 per cent of a business’s customer base. The secondary target market should not, however, be ignored, for while the number of customers may be small, it does provide an alternative in case there is a loss of customers from the primary target market.

Stationery retailer Smiggle (‘between a smile and a giggle’) has children and young teens aged from 4 to 14 as its primary target market. Its brightly coloured products are regarded as an essential fashion accessory by this age group. It is said that its secondary target market is the grandparents of young Smiggle fans!

Selecting a market segment to be the target market is important. In this example, the fashion retailer makes clothes for women over 40 years of age. The clothes are of a reasonable quality but would not be classed as ‘designer’ clothes. In this business, female middle-income earners are the main target market.

TARGET MARKET
Segment 1
Female, 40+, high income
Segment 2
Female, 40+, middle income
Segment 3
Female, 40+, low income

Promotion strategies and selling techniques

Resources

- eLesson: Targeting a market — Roses Only (eles-1066)
- eLesson: Innovation creates change — Smiggle (eles-1053)

Niche market
An extension of the market segmentation approach is that of the niche market, which is a narrowly selected target market segment. In a sense, it is a segment within a segment, or a ‘micro-market’. For example, an exclusive fashion boutique can carve out a niche market and, therefore, avoid direct competition with large
department stores. In the past few years, some hotels have developed a niche market for their own ‘boutique’ beers, brewed on the premises. Such businesses market to a narrow, specific customer base.

The needs of customers in these markets are often neglected by large businesses because it is rarely profitable for them to alter their marketing mix for very small groups.

THE PETS HOTEL — CATERING TO A TARGET MARKET

The Pets Hotel offers upmarket pet accommodation in Port Melbourne for both daycare and longer stays.

Size of target market

Potential

Statistics from the Australian Veterinary Association indicate that there are 20 dogs and 16 cats for every hundred people in Australia. Port Melbourne is located within the city of Port Phillip, but is easily accessible from the neighbouring municipalities of Bayside, Glen Eira and Stonnington. With a total population of over 460,000, this could mean that there are around 90,000 dogs and 70,000 cats in these four municipalities, assuming pet ownership is consistent with the national average.

Actual

The primary target market consists of people who are going away and need to board their pets for a period of time. The secondary market consists of people who need short-term daycare for their pet. The Pets Hotel has a daily rate for one-off stays, but also offers discounts to pet owners who need daycare on a regular basis. As the Pets Hotel also offers dog obedience training and grooming facilities, there is also a secondary market for pet owners wishing to take advantage of these services. For an additional fee, a dog can be taken for a walk around the local area — a useful service for busy dog owners who do not have time to walk their dog.

Target market dimensions

Geographic

The area around Port Melbourne includes many apartments, and it is often difficult for an owner to leave a pet in an apartment while at work during the day. This makes the Port Melbourne location ideal for the daycare market. Port Melbourne is also close to the Melbourne CBD, so is in a handy location for pet owners working in the city.

Demographic

The municipalities within easy reach of the Pets Hotel include large numbers of families with children, a group that often has pets. There are also many apartment dwellers who may need daycare for a pet while they are at work.

Psychographic

Housing in the areas around Port Melbourne is expensive, so the area is considered quite affluent. The Pets Hotel offers a luxurious option that is likely to appeal an affluent market. This market segment is likely to consider cost less of an issue than lifestyle choices, and so will be prepared to pay for the additional quality of service this business offers. The additional services offered by the Pets Hotel are also designed to appeal to the busy pet owner who wants the best for their dog or cat.

Behavioural

By offering discounts for frequent users, the Pets Hotel targets regular and repeat users. For example, daycare for a dog will cost $55 per day, but a monthly booking for this service costs only $750, the equivalent of around 14 days’ worth of care at the daily rate.
5.5 Activities

TEST your understanding
1. What is a market segment?
2. Outline the benefits of marketing to a specific target market.
3. Identify the primary and secondary target markets for the Pets Hotel.
4. What is the importance of these target markets to the Pets Hotel?
5. Explain how each of the market dimensions helps to identify the target market for the Pets Hotel.

APPLY your understanding
6. Choose a business that is in your local shopping centre or operated by someone you know. Research the business and describe the following:
   (a) What are the primary and secondary target markets of the business?
   (b) What is the importance of these markets to the business?
   (c) What variables does the business owner use to segment the target market?
   (d) How does market segmentation help the owner to achieve long-term goals?

EXAM practice
7. Differentiate between a primary target market and a secondary target market and give an example of each. (6 marks)
8. Meredith has set up a health-food store in a suburban shopping centre.
   (a) Identify a possible target market for her products. (2 marks)
   (b) Explain two possible advantages for her in identifying this target market before establishing a marketing strategy. (4 marks)

5.6 Target market attributes — consumer trends and behaviour

KEY CONCEPT If businesses are aware of the factors that influence the buying behaviour of consumers, they will be better placed to predict consumer trends, and how consumers might react to particular marketing strategies.

5.6.1 Consumer trends

Over time, consumer tastes and preferences change, particularly as consumers’ lifestyles adjust to social, economic or environmental issues. Successful marketers will watch these social changes and trends closely to ensure they are in tune with changing consumer preferences.

For example, we regularly see stories in the media suggesting that much of our modern lifestyle is harming our health. Obesity is a growing problem, and eating unhealthy foods and not exercising are seen as a danger to wellbeing. As consumers become more aware of possible health issues, they are likely to look for healthy options when buying goods and services. Successful marketing of food products will attempt to highlight the healthy aspects of those products.

We see this most commonly in food packaging. Phrases such as ‘low in cholesterol’, ‘98 per cent fat-free’ and ‘no added sugar’ are all designed to appeal to the health-conscious consumer. Packaging laws in
Australia require that all ingredients are listed on food packets, so we have a way of checking some of these claims and comparing different products. While not all health claims on food packaging are necessarily honest or accurate, marketers will try to appeal to the health-conscious consumer whenever possible.

Concerns about health also lead to new goods and services being introduced into the marketplace. Huge numbers of vitamins and other dietary supplements are on sale in pharmacies and supermarkets, and these are marketed with the health-conscious consumer in mind. In addition, gyms and personal trainers have increased in number as consumers try to adopt healthier lifestyles. An awareness of trends such as this will influence the type of products offered and the methods used to market them.

Most people are aware that environmental changes, such as global warming, and economic changes, such as the world oil price hikes in 2011, have profoundly altered consumer buying behaviour. This is especially evident in the global new car market. Many consumers have begun to demand more economical and environmentally responsible vehicles. If businesses are aware of the factors that influence consumer choice, they can predict consumer trends and how consumers may react to particular marketing strategies.

In addition to changes in consumer demand for products, there have been changes in the way we purchase those products. Online shopping has exploded in recent years, so having an online marketing presence has become essential for most businesses. Advertising on search engines such as Google allows a business to place its products before consumers using these search engines.

5.6.2 Consumer behaviour

Marketers closely examine the behaviour of consumers to understand what motivates an individual to purchase a particular product. As well, businesses try to influence consumer buying behaviour by developing a mix of marketing strategies.

While market research asks questions such as ‘Who are our customers?’, ‘What do they buy?’ ‘When do they buy?’ and ‘How often do they buy?’, customer behaviour asks ‘Why do they buy?’.
CONSUMER BUYING BEHAVIOUR — ‘I WILL TAKE THIS ONE, THANK YOU’

Over the years marketers have suggested numerous theories to explain what it is that persuades individuals to buy certain products. One of the most common ways of examining consumer buying behaviour is in terms of how consumers make decisions.

A consumer’s buying behaviour will differ when they purchase different types of products. For low-priced, regularly purchased products, such as magazines or ice-creams, a consumer generally buys out of habit, involving very little research or decision-making effort. A consumer will use some decision-making effort for purchases made occasionally, or when more information is needed about the product, such as when purchasing clothing or footwear. When buying an expensive, unfamiliar product or a product that is seldom purchased, such as a motor vehicle or home, the consumer will use comprehensive decision making.

One of the main reasons for the difference in the level of involvement in the buying process is due to the level of perceived risk. As the level of perceived risk increases, consumer involvement levels are likely to rise. Ultimately, however, the decision-making process that almost everyone uses when making a purchase can be summed up in the following simple formula:

\[
\text{Consumer choice} = \text{capacity to pay} + \text{attitude towards the brand}
\]

5.6.3 Factors influencing consumer behaviour

Four main factors influence consumer purchasing decisions: psychological influences, sociocultural influences, economic influences and government influences.

Psychological influences

Four main psychological factors influence customer choice:

1. **Perception.** As individuals, we often act on our perceptions of reality rather than reality itself. Consequently, marketers are extremely aware that they must create a positive or favourable perception of their product in the mind of the customer. Customers will not normally purchase a product that they perceive as poor.

2. **Motives.** The main motives that influence customer choice include comfort, health, safety, ambition, taste, pleasure, fear, amusement, cleanliness and the approval of others. As it does with a customer’s perception of the product, so advertising also attempts to influence an individual’s motives to choose a product.

3. **Attitude.** Customer attitude towards a business and its products generally influences the success or failure of the business’s marketing strategy.

4. **Personality.** To some extent, personality influences the types and brands of product that a person buys.
DID YOU KNOW?
Perceptions are created from a number of information inputs. These are the sensations received through taste, sight, sound, smell and touch. Perception is the process through which people select, organise and interpret information to create meaning.

Sociocultural influences
There are four main sociocultural influences that affect customer choice:

1. **Family and roles.** All of us occupy different roles within the family and groups in the wider community. These roles influence buying behaviour. Although women’s roles are changing, market research shows that most women still make buying decisions related to, for example, healthcare products, food and laundry supplies.

2. **Peer groups.** A customer’s buying behaviour may change to be more in line with that person’s peer group beliefs and attitudes.

3. **Social class.** In our society, the factors generally used to classify people are education, occupation and income. Social class, therefore, influences the type, quality and quantity of products that a customer buys.

4. **Culture and subculture.** Culture influences buying behaviour because it infiltrates all that we do in our everyday life. It determines what people wear, what and how they eat, and where and how they live. Subcultures differentiate themselves from a larger culture to which they belong (for example, hipsters are a subculture).

Economic influences
Economic forces have an enormous impact on consumers’ willingness and ability to spend. During a boom, for example, consumers are willing to spend because they feel secure about their jobs and source of income. During a recession, consumer spending falls to a very low level.

DID YOU KNOW?
In the period after the global financial crisis of 2008–09, average levels of savings in Australia rose to 10 per cent per household. People became more cautious about spending money. Marketing becomes a lot harder in these circumstances.

Government influences
Governments use a number of economic policy measures to influence the level of economic activity. These policies directly or indirectly influence consumers’ spending habits.

Of more direct and immediate impact is the influence of government regulations. Laws dealing with misleading and deceptive advertising, for example, protect consumers and influence business practices.
### 5.6 Activities

**TEST your understanding**

1. Identify and explain two examples of consumer trends that have changed how products have been marketed.
2. List four factors influencing consumer behaviour and give an example of each.
3. (a) Explain how perception and motive influence consumer buying behaviour.
   (b) Why would market researchers study customer perceptions and motives?
4. How and why do marketers attempt to alter consumers’ perception?
5. Distinguish between the sociocultural and psychological factors that influence customer choice.
6. Explain how family roles, such as ‘carer’ or ‘provider’, affect buying behaviour.

**APPLY your understanding**

7. How do peer groups influence buying behaviour? Name some of your own peer groups and suggest how they influence your buying decisions.
8. In what ways might social class affect a person’s buying behaviour?
9. Collect a number of print advertisements from a magazine. Suggest the psychological and/or sociocultural influence to which each advertisement is appealing.
10. Describe a subculture to which you may belong. Identify purchases that are unique to your subculture.
11. How might marketers manipulate consumers’ buying behaviour? Give an example of such manipulation.

**EXAM practice**

12. Max and his family sell fruit and vegetables at a suburban market. They market their products with labels such as ‘organic’ and ‘produced with no greenhouse gas emissions’. Describe two ways in which this marketing strategy has been influenced by consumer trends. (4 marks)

13. A football club markets a range of clothing in team colours. Explain how it is using sociocultural influences in its marketing campaign. (3 marks)

### 5.7 The 7Ps of marketing: product and price

**KEY CONCEPT** A business has to consider seven marketing elements to reach its target market: product, price, place, promotion, people, physical evidence and process (the 7Ps).

The 7Ps — product, price, place, promotion, people, physical evidence and process — are referred to as the **marketing mix**, and are central to a marketing plan. We will deal with the first two elements here.

**Resources**

- eLesson: The 7Ps of marketing (eles-2982)

#### 5.7.1 The ‘product’ element of the marketing mix

When you buy a book or a digital camera you are purchasing a good. Goods are real, physical objects that can be touched and owned; they are **tangible**. Purchasing financial advice and tickets to sporting events is purchasing an **intangible** service for our use or enjoyment, not for our ownership. However, goods and services are both products. A **product** is a good, service, experience, idea or information that can be offered in an exchange for the purpose of satisfying a need or want. The relationship between a business and its customers is based mainly on the product.
Tangible and intangible products

It is convenient to group products as tangible goods or intangible services. In reality, it is not quite so simple. Most products are combinations of tangible and intangible components. Dinner at an expensive restaurant, for example, provides tangible elements (food and drinks) and intangible elements (efficient service, live music and pleasant atmosphere). Consequently, when customers purchase products, they buy both the tangible and intangible benefits (attributes) — a total product concept. In other words, a product is a ‘collection of satisfactions’ that might include a variety of things such as the package, brand name, warranty and after-sales service.

The term ‘product’, therefore, is a much broader concept than most people understand. Usually when people talk about products, they refer to what a company produces, such as motor vehicles or entertainment. And yet the intangibles that come with these products are also important. They can be used to differentiate a business’s product from that of its competitor.

Often, with mass-produced products, it is on the differences in the intangible benefits that product competition is based. For example, cars are basically a means of transportation used to get from one place to another. However, if this was all they were, then there would be only one model. But a car contains a vast array of intangibles that are used to differentiate each model, such as image, reputation, style and safety record. Viewing the car in terms of a total product concept clearly shows that no two car models are exactly the same. All products, then, are a combination of tangible and intangible attributes.

Product positioning

Some brand names, such as Rolex, Ferrari and No Frills, can immediately evoke an image of the product’s quality. This image gives the product its position within the market. Product positioning refers to the way a product image is developed.

Whenever a new product is launched, the marketers need to have clearly determined the desired positioning of the product. This will be achieved through the product’s name, price, packaging, style, promotion and channels of distribution. Combined, these individual characteristics create the image of the product.

Product branding — symbols and logos

Read the list of popular brand names below and test yourself — what products do you associate with each brand name? Your score was probably 27 out of 27. You have just experienced the power of brand name recognition. The 27 businesses that market these brands have spent a lot of money making sure customers instantly recognise their brand name and the products associated with them. A brand name can be a powerful marketing tool.

<table>
<thead>
<tr>
<th>Examples of popular brand names</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hurley</td>
</tr>
<tr>
<td>Kellogg’s</td>
</tr>
<tr>
<td>McDonald’s</td>
</tr>
</tbody>
</table>
As discussed in subtopic 5.3, a brand is a name, term, symbol, design or any combination of these that identifies a product. A brand name is that part of the brand that can be spoken. It may include letters (BMW motor vehicles), numbers (308 Peugeot cars) or numbers and letters (PS2).

A brand symbol or logo does not have to duplicate the words in the brand name. The three-pointed star of the Mercedes-Benz symbol and Coke’s distinctive narrow-waisted bottle are famous brand symbols. Some businesses encourage the instant recognition of their brand symbol rather than their brand name. Perhaps the most famous example of this technique is the ‘golden arches’ symbol used by McDonald’s.

Brand packaging

The packaging of a product is sometimes as important as the product itself to assist sales. Well-designed packaging will give a positive impression of the product and encourage first-time customers to purchase. Tasteful packaging can create an image of luxury, sensuality and exclusiveness, helping to promote the product. In addition, packaging helps preserve, inform, protect and promote the product.

With increasing community awareness of environmental pollution, marketers must also be sensitive to the problems caused by throw-away packaging. Approximately half of all household garbage consists of discarded packaging.

It takes 2.6 seconds for a consumer to choose one product instead of another, so the packaging has to be right. A design student from NSW won the Southern Cross Packaging Design Awards in 2015, conducted by the Packaging Council of Australia. Each part of her packaging can be used to construct a ramp, a racetrack and a garage for the small wooden cars inside.
5.7.2 The ‘price’ element of the marketing mix

Many factors affect the price of a product. For example, the quantity of the product that is being supplied to the marketplace and the size of the consumer demand for the product will both affect the price. Many businesses have difficulty in selecting the ‘correct’ price for their products. A price set too high could mean lost sales unless superior benefits are offered. A price set too low may give customers the impression that the product is ‘cheap and nasty’.

In any market, businesses will attempt to gain some control over the price by differentiating their products. Once this happens, the business has more leverage over the price. Clothes with designer labels are the result of product differentiation strategies. Garments with these labels carry higher prices than clothing sold under, for example, Target or Kmart brand labels.

5.7.3 Pricing strategies

Several different factors can influence the prices a business sets for the goods and/or services it supplies. A business can use any one or a combination of the following strategies.

Recommended retail price

Recommended retail price (RRP) is the price recommended by either a wholesaler or the manufacturer of the goods being sold by a retail business. These prices are recommendations only, as it is illegal for any manufacturer or wholesaler to dictate the price at which any product can be sold to the public. However, the RRP can provide useful guidance to the retail business owner, particularly if they are starting a new business.

DID YOU KNOW?

A business may vary its marketing mix when it wants to reach different target markets.
Percentage mark-ups

Percentage mark-ups are commonly used by large retail stores. The cost price is increased by a fixed percentage to arrive at the selling price. Assume a sporting goods store has a mark-up of 100 per cent. A tennis racquet is bought for $200 and, with a 100 per cent mark-up, will have a selling price of $400. The percentage price mark-up is usually calculated so that it will allow the business to cover costs as well as make a profit. For example, out of a 100 per cent mark-up, 80 per cent may be necessary to cover costs, leaving only 20 per cent as the net profit on the sale of the item.

Price leadership and competition

To follow the prices set by another seller is to acknowledge that business as a price leader. For instance, in a shopping centre that has a number of shops selling the same items, the prices set by the most competitive of these shops may be used as a guide by the other shops. All businesses need to adjust their prices from time to time to ensure they are competitive when compared with the prices charged by other suppliers in the same market. Special promotions or weekly specials are often used to improve the competitive position of a business.

What the market will bear

The most common example of this approach may be seen at an auction. Often it is difficult to place an exact value on a house, painting or racehorse, so an auction will be held and the people bidding for the item being auctioned determine its value. Not all businesses can sell their goods or services through an auction process, so determining prices based on what the market will bear often comes down to the experience and flexibility of the business owner. An ability to read and interpret consumer sentiment is an important entrepreneurial skill. Listening to customers, observing industry trends and the direction taken by competitors will inform the business owner and assist in determining market reactions. The flexibility to respond quickly to market expectations can be the difference between success and failure in business.

Quotes

Some businesses find that setting a standard price for each product or job is not appropriate because of the nature of their business. A service business, such as a car mechanic, might find that the amount of labour and the cost of materials used vary between each job. Preparing a quote for each unique product or job may be a better way to determine the price. A quote is an estimate of the costs involved with an individual job, plus a certain amount so the business makes a profit. A quote can sometimes serve as a starting point for negotiating the price between the business and the customer.

Price skimming

This strategy involves placing a high price on a new item, knowing that early purchasers will be willing to pay a high price for the new product. The price is then lowered after the initial sales to attract more customers. This approach is often used to sell new technology. When web 2.0-enabled smart TVs were introduced into the market they attracted a premium price. The price has gradually come down as volumes have increased.
Penetration pricing
When a new type of product is introduced into the market, particularly one that is unfamiliar to a large number of consumers, a low price might be offered to attract new customers to try the product. This is known as penetration pricing. This strategy can also be used by a new business entering an existing market, as a means of luring customers away from established providers of the product.

Premium pricing
Premium pricing is the practice of setting an artificially high price to increase the prestige of the product. It is designed to suggest to potential customers that the product is of a higher quality than its competitors.

Bundle pricing (or price bundling)
Bundle pricing occurs when a business sells a package of goods or services for a lower total price than the individual price of each component of the bundle. For example, some fast food outlets will sell a meal that includes several dishes and a drink for a price lower than the price that would be charged if each item were purchased separately. Telecommunications companies also offer special deals to customers who have their landline phone, mobile phone and internet service with the one company.

Psychological pricing
This is making the price look less than it is. Pricing a product at $19.98 rather than $20 is designed to appeal to the emotional rather than rational instincts of the consumer.

DID YOU KNOW?
Levels of supply and demand for accommodation in the snow fields, for example, fluctuate dramatically between summer and winter seasons, and prices rise and fall accordingly.

5.7 Activities
TEST your understanding
1. Explain why marketers prefer to use the term ‘total product concept’ rather than simply ‘product’.
2. Think of a product you recently purchased. Identify the intangible benefits you gained from the product.
3. Using examples, explain the importance of product positioning.
4. What image do the following products convey?
   (a) No Frills tomato sauce
   (b) Rolex watch
   (c) Dolly online magazine
   (d) Country Road clothing and accessories
5. Outline the relationship between ‘brand’, ‘brand name’ and ‘brand symbol’.
6. Suggest reasons for businesses spending so much money attempting to establish a brand name and a brand symbol.
7. Outline the three major pricing methods.
APPLY your understanding

8. When deciding on a brand name and brand symbol, what are some of the considerations that a marketer must take into account?

9. Select three differently packaged goods and explain why you think the manufacturers chose to package the goods in such a way.

10. As the manager of a shoe store, you have just received a delivery of new boots that cost you $50 a pair. Your usual mark-up is 60 per cent. However, you find out that yours is the only store in town that will be stocking this fashionable product. What price will you set for the boots? Explain your decision.

11. All businesses attempt to maximise profits. Examine each of the pricing strategies covered in section 5.7.3 and identify two strategies which would best enable the business owner to achieve this goal. Provide reasons for your response.

12. Evaluate each of the following brand names. Indicate the strong points of each name:
   (a) Nokia mobile phones
   (b) LG electronic products
   (c) Revlon cosmetics.

13. Use the Packaging Council of Australia weblink in the Resources tab to look at past winners of the packaging awards, both student and commercial sections. Analyse two of the designs and, for each one, write a brief (150-word) paragraph on how these address a marketing plan.

EXAM practice

14. Distinguish between tangible products and intangible products. (4 marks)

15. Don has set up a carwash business in a wealthy suburb and hopes to attract the owners of prestige vehicles to his business. Identify one advantage and one disadvantage of using each of the following pricing strategies to attract new customers:
   (a) penetration pricing (4 marks)
   (b) premium pricing (4 marks)
   (c) price bundling. (4 marks)

Weblink: Packaging Council of Australia

5.8 The 7Ps of marketing: place and promotion

KEY CONCEPT

The seven marketing elements are product, price, place, promotion, people, physical evidence and process (the 7Ps).

The third ‘P’ of the marketing mix (product, price, place, promotion, people, physical evidence and process) is ‘place’. This is about making the product available to the customer, wherever the customer chooses to purchase it. It can refer to a physical location, such as a shop, or an online location, such as a website that enables the customer to purchase the product online. It can also refer to the business’s ability to perform a service at the customer’s home. Customer access to the product is achieved using distribution channels.
5.8.1 Distribution channels

A distribution channel is a way of getting the product to its customer. This process usually involves a number of intermediaries or ‘go betweens’, such as the wholesaler, broker, agent or retailer. Apart from the retailer, the other intermediaries are often invisible; that is, the customer knows little about their role and operation. There are four traditional types of distribution channel:

1. **Producer to customer.** This is the simplest channel and involves no intermediaries. Virtually all services, from tax advice to car repairs, use this method.

2. **Producer to retailer to customer.** A retailer is an intermediary who buys from producers and resells to customers. This channel is often used for bulky or perishable products such as furniture or fruit.

3. **Producer to wholesaler to retailer to customer.** This is the most common method used for the distribution of consumer goods. A wholesaler is an intermediary who buys in bulk from the producer, then resells in smaller quantities to retailers.

4. **Producer to agent to wholesaler to retailer to customer.** An agent distributes products to wholesalers but never owns the product. Agents are paid a commission by the producer. Usually agents are used for inexpensive, frequently used products. Businesses are always looking for different ways to distribute their products. **Non-store retailing** is gaining in popularity. Methods such as door-to-door selling, mail-order catalogues, party-plan merchandising and vending machines have been used for a number of years. However, with rapid changes in electronic communication, businesses are beginning to exploit types of **e-marketing** (electronic marketing) as alternative methods. As more people shop online, the traditional distribution channels will be modified. Some retailers and wholesalers may be bypassed as customers deal directly with manufacturers. The practice of customers ordering online direct from the manufacturer has resulted in the rapid growth of parcel delivery services, both government-owned (Australia Post), as well as private providers.

**Channel choice — market coverage**

How a business chooses the distribution channel best suited to its product depends largely on the location of the business’s market or **market coverage.**

A business can decide to cover the market in one of the three following ways, the difference being the intensity of coverage:

1. **Intensive distribution** occurs when the business wishes to saturate the market with its product. Customers can shop at local outlets to purchase the product. Many convenience goods, such as milk and newspapers, are distributed in this way.

2. **Selective distribution** involves using only a moderate proportion of all possible outlets. Clothing, furniture and electrical appliances are often distributed using this method. The customer is prepared to travel and seek out a specific retail outlet that stocks a certain brand.

3. **Exclusive distribution** is the use of only one retail outlet for a product in a large geographic area. This method of distribution is commonly used for exclusive, expensive products.
DID YOU KNOW?
A survey about what influences a customer’s purchases found 41 per cent of respondents mentioned a friend’s recommendation and 28 per cent said advertising.

5.8.2 The ‘promotion’ element of the marketing mix

People usually associate promotion with marketing because it involves the business communicating directly with the customer.

To achieve the objectives of informing, persuading and reminding, a promotion campaign attempts to:

- attract new customers by raising awareness of a particular product
- increase brand loyalty by reinforcing the image of the product
- encourage existing customers to purchase more of the product
- provide information so customers can make informed decisions
- encourage new and existing customers to purchase new products
- change individuals’ behaviour through information or persuasion.

Many people confuse promotion with advertising because of its visibility and frequency. However, advertising is just one of the four elements of the promotion mix. A promotion mix is the various methods used in a business’s promotional campaign. When developing a promotional campaign, businesses can choose from three methods: personal selling, publicity and public relations, and advertising.

Personal selling
The major advantage of personal selling is that the message can be modified to suit the individual customer’s circumstances. Complex and technical products in particular require the personal contact of a sales representative to familiarise the customer with the product.

The success of the marketing plan often depends on the competency of the business’s sales force, without which sales and revenue would soon decrease.

Publicity and public relations
Publicity differs from advertising in that it is free and its timing is not controlled by the business. As with the other promotion methods, the main aim of publicity is to enhance the image of the product. A business will use publicity to raise awareness of a product, highlight the business’s favourable features and help reduce any negative image that might have been created.

Public relations are those activities aimed at maintaining a favourable relationship between a business and its publics. It is the role of public relations personnel to design, implement and manage the publicity events of the business.
Advertising

Given the myriad of products available, advertising is an essential tool for successful marketing. In Australia, businesses spend approximately $12 billion a year on various forms of advertising.

The main advantage of advertising is that it provides businesses with the flexibility to reach an extremely large audience or focus on a small, distinct target market.

Advertising may take many forms, from buying time on national television or radio to internet banner advertisements and inexpensive leaflets. Sometimes a business will undertake an extensive advertising campaign involving a number of advertising media in order to create a saturated coverage of a wide target market. Advertising through social media has grown enormously in recent years. The Interactive Advertising Bureau (IAB) is an association of Australian online advertisers. In September 2017, IAB reported that the value of online advertising had grown by $799 million to be worth $7.6 billion for the 2016–17 financial year. Online advertising now accounts for 50 per cent of all advertising expenditure in Australia. This has had a devastating effect on the profits of traditional advertising media, such as newspapers and free-to-air television.

5.8 Activities

TEST your understanding

1. Devise a marketing channel for the sale of:
   (a) a daily newspaper
   (b) a washing machine
   (c) an imported motor vehicle.

2. From the following products, determine those that are intensively, selectively or exclusively distributed:
   (a) Coke
   (b) Ferrari motor vehicles
   (c) Billabong clothing
   (d) Streets ice-cream
   (e) LG televisions
   (f) CDs
   (g) rare coins.

3. Suggest reasons why a business would select an exclusive rather than an intensive distribution strategy.

4. What is the main role of promotion?

5. Distinguish between personal selling and advertising.
6. Why do some marketers prefer to use personal selling as a promotional strategy?
7. ‘Advertising is what you pay for and publicity is what you pray for.’ What does this mean?

**APPLY your understanding**

8. Recently, you were elected to serve as a promotional organiser for a soccer tournament. The tournament will match several well-known celebrity teams from New South Wales against the best local players. Tickets will sell for $30 per person and your goal is to attract a large number of supporters. All proceeds will be given to a local charity. As you develop a promotional plan, what segmentation variables will be most important? Outline the buying motives you will use to appeal to your target market.

**EXAM practice**

9. Define the term ‘distribution channel’ and provide an example. **(4 marks)**
10. Chris has started a business selling books online. He has set up a Facebook page where his customers can provide reviews of the books they have read. Explain how each of the following contributes to his marketing mix:
   (a) place **(3 marks)**
   (b) promotion. **(3 marks)**

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**5.9 The 7Ps of marketing: people, physical evidence and process**

**KEY CONCEPT** The seven marketing elements are product, price, place, promotion, people, physical evidence and process (the 7Ps).

The final three elements of the marketing mix are people, physical evidence and process.

**5.9.1 People**

All the people involved in the business can have an impact on the marketing mix. The owners and managers establish a culture that can either have a positive or negative effect on perceptions of the business, and the products or services it offers. All businesses have a culture, whether it has been deliberately planned and implemented, or whether it has simply evolved over time.

A culture that has evolved to include poor practices or indifferent service can be a disaster for marketing, so it is important that leaders in the business set the standard, and ensure it is followed. All business owners want their business name, products, services and brand to have the highest possible reputation. Maintaining this reputation is in the hands of the staff. It is essential they be trained with the appropriate skills, be motivated to provide good service, and have a positive attitude towards the products or services they are selling. Customers will often judge the business by the staff that serve them as much as by the quality of the product, so employees need to be well-suited to the role they play in the marketing mix.
Customers are themselves an important part of the ‘people’ element of the 7Ps. Satisfied customers are the best possible advocates for a business. They will talk to their friends and recommend businesses that have given them good quality products and services. Providing good after-sales service can assist. Every customer is a potential return customer, and as such is an important part of the marketing mix.

5.9.2 Physical evidence

A customer will often not be completely familiar with the detailed features of a product or service they are buying. For example, the customer who walks into an electrical store to buy a new refrigerator may be replacing one that is more than 10 years old, and so may be unaware of the features available in newer models. Demonstrating these features, providing a detailed explanation and information, and helping the customer to compare different brands and models can provide the evidence the potential customer needs to make the best choice.

Physical evidence also refers to the physical state of the business premises, and the physical state of a website or online presence. A clean and well-presented location can be reassuring to the customer that high standards are observed, while an untidy or dirty premises does not inspire such confidence. The state of the online presence is also important. A website that is simple to navigate, with clear links to different products and services, as well as clear contact details and a secure ordering system, will always win over a website that is messy and hard to navigate.

Providing access to feedback from customers can also be a way of providing physical evidence to potential customers. The hospitality industry now has a number of review websites such as Zomato and Gourmet Traveller, and holiday destinations and accommodation are regularly reviewed on sites such as TripAdvisor. Encouraging satisfied customers to use independent review websites can provide valuable evidence that can influence the decisions made by potential customers. Some companies, such as those in the building industry will often provide the contact details of previous customers who can act as referees for the quality of products and services the business has provided.
DID YOU KNOW?
Worldwide accommodation reviewing website TripAdvisor receives 250 million reviews and 160 million submissions every minute. It is claimed that the combination of positive and negative reviews on TripAdvisor has led to 6.4 billion dollars being spent on upgrades to American hotels in response to these reviews.

5.9.3 Process
All businesses set up operating systems and processes as part of the way they do business. Customers want to know that the systems a business uses to provide its products and services actually work. The total purchasing experience is important in achieving customer satisfaction. Do customers have to wait a long time to be served? Are there long queues at checkouts? Can goods ordered online be guaranteed delivery within a reasonable time? All these questions relate to the processes and systems used by the business in carrying out its operations.

Customers will often want access to a variety of methods of payment, such as cash, EFTPOS, PayPass or PayWave, credit cards, as well as deferred payments such as lay-by and Afterpay. Ensuring all these processes are available and working efficiently will enhance the marketing of the business. Even simple things such as answering a telephone promptly, having a reliable message system, and responding to messages within a reasonable time can be process issues that can make a difference between gaining or losing a customer. All systems and processes need to be designed to maximise the benefit for the customer, not just for the convenience of the business or its staff.

5.9 Activities
TEST your understanding
1. Why is a positive culture in a business an important element in marketing?
2. How can staff in a business contribute to the positive marketing of the business?
3. Outline two reasons why physical evidence is an important part of the marketing mix.
4. Give two examples of systems and processes that could be used to market a business.
APPLY your understanding

5. Identify the issue or issues that exist in each of the following business situations, and suggest a solution for each.

(a) A waiter in a restaurant gets into an argument with a customer when the customer claims the waiter brought him the wrong meal.
(b) A staff member in an auto parts retailer is unable to explain the features of a GPS system when a customer asks him difficult questions.
(c) A potential customer walks out of a clothing shop when she can find no-one to help her determine the correct size for a pair of jeans she wishes to buy.
(d) Long queues form at the counter of a shop at lunchtime as only one person is on duty at the cash register.
(e) On checking the Zomato website, a café owner discovers that one of his competitors has more than 50 favourable reviews, while his own business is only mentioned twice.
(f) A business owner is told by a friend that many locals are avoiding her hairdressing business because it always looks messy and untidy.

EXAM practice

6. Explain how ‘people’ and ‘process’ can be closely related as elements in a business’s marketing mix. (4 marks)

7. An online business sends an email to all customers after goods have been delivered to their homes. This email directs the customers to a survey website where they are invited to rate the quality of the service they received from the business. Explain how this business is making use of ‘physical evidence’ as part of its marketing mix. (4 marks)

5.10 APPLY YOUR SKILLS You’ve got the product but no-one knows about it yet!

PRACTISE YOUR SKILLS

- Define, describe and apply relevant business management terms
- Research and analyse case studies and contemporary examples of business management applicable to establishing marketing in a business
- Propose and justify the marketing strategies chosen for practical and/or simulated business situations

MICHELLE GILES AND QUICK-FIRE CLAY

Michelle Giles had never lost faith in the idea. Three years of hard work was about to be rewarded. By the end of the day, the patent application would be finalised, giving her sole rights to her invention, Quick-fire Clay.

As a potter, Michelle had always been conscious of the high cost of operating the kiln. She had tried alternative energy sources, but the best she could manage was to reduce the energy bill to 38 per cent of total costs. She decided to think a little more creatively — if she could not further reduce the energy costs, then perhaps she could reduce the time the clay needed to be in the kiln. Inventing a clay that required only half as much firing time would reduce her operating costs.
“Without customers, a product … is useless.”

After spending three years in experimentation and mortgaging her house to help pay for research and development, Michelle was about to make Quick-fire Clay her exclusive product. She had managed to develop a clay-based material that required only half the normal firing time. Another unexpected benefit was that the material became less fragile and did not shatter when dropped. Michelle knew she had a product that would be in great demand and make her a lot of money. Not wanting to lose the right to her invention, she decided to apply for a patent. She left the Patents Office feeling optimistic about the future and enjoyed a celebratory meal at a nice restaurant. She believed her product to be a great success.

Michelle failed to realise, however, that while the first stage — developing a new product — was complete, the second stage was just about to begin — the successful marketing of her product. Although she had a world-first, proven product, very few people knew about it. Michelle was about to discover that products do not ‘sell themselves’. Without customers, a product — even one that is revolutionary, efficient, record-breaking and exciting — is useless. Many inventors like Michelle have failed, even though they had an excellent product. They lacked customers, and no customers means no profit. Michelle had a lot to learn about successfully marketing her product.

5.10 Activities

TEST your skills

1. A patent is a government approved document that gives a person sole rights to their invention and stops others from using it, copying it or selling it without permission. Why do you think Michelle was wise to patent Quick-fire Clay?

2. Part of marketing is having a good product, which has features that consumers want. What is so special about Quick-fire Clay?

APPLY your skills

3. Michelle’s business objective is to make $100 000 worth of sales in her first year of business.
   (a) Identify all the marketing strategies that you believe may help Michelle to achieve this objective.
   (b) The task word (sometimes referred to as command word or instructional word) ‘propose’ generally requires you to put forward an idea, argument, or suggestion for consideration or action. This involves writing a little more than simply just identifying or suggesting something. The task word ‘justify’ requires you to show how the statement or statements that you have made are correct or to provide evidence to support your argument.
   Propose one marketing strategy that could be used to support Michelle in achieving her business objective and justify the use of this strategy.

4. Michelle has undertaken research and development to make a product she knows customers will want. She will most likely need to do some market research to find out where her customers are so she can let them know about her product. If you were Michelle, where would you start with your market research?

5. The Business Victoria — Develop a new product or service website is one Michelle might consider visiting for ideas on how to promote her product. Use the weblink to this site in the Resources tab to find out more about the commercialisation phase of an invention (that is, getting a product on the shelves). What advice can you give Michelle regarding the best strategy to raise awareness of her exciting new product?

Resources

Weblink: Business Victoria — Develop a new product or service
5.11 EXTEND YOUR KNOWLEDGE The target market and the marketing mix

KEY CONCEPT It is important to identify the target market and then decide the right marketing mix.

THE PETS HOTEL – THE MARKETING MIX

As we saw in section 5.5.1, the Pets Hotel provides both short-term and long-term accommodation for pets in Port Melbourne. Let’s now look at the marketing mix for this successful business.

Product mix

The Pets Hotel offers daycare and longer-term accommodation for dogs and cats. It also provides a number of additional services for pet owners. These include:

- taking the dog for an ‘adventure walk’ around Port Melbourne
- providing the pet with supervised play time with other pets
- extra ‘cuddle time’ for both dogs and cats
- special treats
- photo shoots of the pet while in care
- dog obedience training
- spa and grooming treatments.

Pricing

The Pets Hotel has a set weekly rate for long-term overnight stays for both cats and dogs, as well as a daily rate for daycare. Discounts apply to the daily rate for pet owners who wish to access regular daycare. Extra services each carry a separate additional fee, so pet owners can decide how many of these services they wish to access during their pet’s stay.

Place

The Pets Hotel is centrally located in Port Melbourne, only a short distance from the CBD, and is easily accessible from the inner south-eastern suburbs of metropolitan Melbourne. It includes individual suites for each pet, as well as central play areas where pets can socialise.

Promotion

As well as a website that is easy to navigate, the Pets Hotel uses Facebook, Twitter, YouTube, Pinterest, Google Plus and Instagram to post photos and videos of activities within its facility. It also uses websites such as Time Out Melbourne, which promotes a variety of Melbourne-based activities, and business promotion websites such as True Local.

People

The Pets Hotel is owned by two families who have a combined 35 years’ experience in pet care. All employees have knowledge and expertise in dealing with animals, as well as a passion for working with animals. They are also expected to be welcoming and friendly towards pet owners.

Physical evidence

The Pets Hotel offers tours of its premises to all prospective customers to give them an opportunity of seeing the facility in operation. It also publishes testimonials on its website.
Process

The Pets Hotel outlines its rules and procedures clearly on its website, so potential customers know exactly how the business operates. It has an online booking process, and even a mobile phone app that allows customers to make bookings and check on their pets at any time of the day. Pets Hotel claims that pets will never be returned to customers in a dirty or untidy state, so it clearly has processes in place to keep pets clean and well groomed.

5.11 Activities

TEST your understanding
1. Does the Pets Hotel offer tangible or intangible products? Explain your answer
2. Identify two pricing strategies the Pets Hotel might use and explain why each of these might be appropriate.
3. Explain how this business has used social media as a key part of its marketing mix.
4. Why is the ‘people’ element of the marketing mix so important for the Pets Hotel?
5. Explain how the Pets Hotel uses physical evidence as part of its marketing mix.

EXTEND your understanding
6. The product mix of the Pets Hotel includes its basic product and a number of optional extras. What might be the purpose of including these extras in the product mix?
7. What type of brand identity are the owners of this business trying to establish by the use of the brand name ‘The Pets Hotel’?
8. Many pet boarding businesses operate in outer suburban and semi-rural areas. What might be the benefits of its inner suburban location for the Pets Hotel?
9. Process is particularly important in encouraging customers to return to a business. Explain how the processes operating at the Pets Hotel might encourage customer loyalty.

5.12 The product life cycle

**KEY CONCEPT** A product passes through a number of stages in its life cycle. These include the introduction, growth, maturity, decline and extension.

Every product has a life cycle, from the time it is introduced to the market, until it is eventually overtaken by an updated version or a complete replacement.

5.12.1 Product life cycle

A business must be able to launch, modify and delete products from its range in response to changes in the product life cycle. Failure to do so will result in declining sales and reduced profits.

All successful products go through a life cycle, from the introduction into the market, gradual growth in sales, a period of maturity when sales are at a maximum, through gradual decline as the consumer tastes change or new products come on to the market to replace it. In some cases, a product can be diverted from its decline if new markets are found, or the product is modified or diversified in some way to attract a new customer base. The following graph shows the progress of this life cycle over time.
The product life cycle will have an influence on the manner in which a product is marketed. Changes in marketing strategy for each of the different stages are described below.

Introduction stage
The introduction stage is the period during which a new product is launched into the market. In this stage, the business tries to increase consumer awareness and build a market share for the new product.

- **Product**: The brand and reliability are established.
- **Price**: The price is often noticeably lower than competitors’ prices in order to gain a market foothold.
- **Distribution**: Distribution is selective, which enables consumers to gradually form an acceptance of the product.
- **Promotion**: Promotion is directed at early buyers and users, and communications seek to educate potential customers about the merits of the new product.
- **People**: Staff are trained to explain the new product to customers, highlighting any innovative features not previously available.
- **Physical evidence**: Detailed information about testing of the new product and verifiable evidence of its unique features are provided.
- **Process**: Warranties and after-sales service are highlighted as a reassurance to customers trying the new product for the first time.

New technologies such as cloud computing are currently at the introduction stage, with the full potential market yet to be developed.
DID YOU KNOW?
3M Corporation is a multi-billion dollar US business that has a history of introducing new products. It was the first to invent sticky tape and has continued to innovate with products such as the Post-it® Super Sticky Notes, optical films for LCD televisions and new family Scotch-Brite® cleaning products.

Growth stage
The growth stage is a time when the product begins to increase sales to customers. In this stage, brand acceptance and market share are actively pursued by the producers of the product.

- **Product**: The product’s quality is maintained and improved and support services may be added.
- **Price**: The price per unit of production is maintained as the business enjoys increased consumer demand and a growing market share.
- **Distribution**: Distribution channels are increased as the product becomes more popular.
- **Promotion**: Promotion now seeks a wider audience.
- **People**: Satisfied customers can be more easily relied on to provide testimony about the quality and value of the product.
- **Physical evidence**: As the product becomes more mainstream, more evidence of its successful use in a variety of situations can be provided.
- **Process**: After-sales service and customer follow-up processes become entrenched in the business.

Maturity stage
The maturity stage occurs when the product is fully accepted into the market and when sales reach their peak. In this stage, sales plateau as the market becomes saturated.

- **Product**: The product’s features and packaging try to differentiate it from those of competitors.
- **Price**: The price may need to be adjusted downwards to hold off competitors and maintain market share.
- **Distribution**: Incentives may need to be offered to encourage preference over rival products.
- **Promotion**: Promotion continues to suggest the product is tried and true — it’s still the best.
- **People**: Staff need to be able to direct customers to the unique features of the product that differentiate it from competitors.
- **Physical evidence**: Customers are likely to be more aware of the product and its competitors, so additional evidence of the product’s unique features may be necessary.
- **Process**: All systems and processes dealing with the sale and service of the product are firmly established.

Decline stage
A product will reach the decline stage when it no longer appeals to the customer. This may be because it has been superseded by newer, or more technologically advanced, competitors or because customer tastes have changed. During this stage, sales begin to decline as the business faces several options:
The old analogue television set has passed the decline stage, and is no longer for sale since Australia switched to digital television.

- **Product**: The product is discontinued. The business sells the inventory and cuts losses by selling the product to another business. (Some businesses try to rejuvenate their product by making improvements.)
- **Price**: The product’s price is reduced to sell the remaining stock.
- **Distribution**: Distribution channels are reduced and the product is offered to a loyal segment of the market only.
- **Promotion**: Promotion is discontinued over time.
- **People**: Staff may be empowered to offer special deals to clear surplus discontinued stock.
- **Physical evidence**: Information may still need to be provided to assure customers the product is still functional, even though it may have been superseded by newer products.
- **Process**: Business systems and processes still need to be efficient and customer focused.

**Extension stage**

Instead of going into decline, some products can be revived, and begin a new cycle of growth and eventual maturity. This is the extension stage. It can occur when a product is marketed into new locations, such as through export to other countries. It can also occur through product diversification and enhancement.

**Expansion through export**

There are three major reasons why Australian businesses have increased their number of exports over the past decade. First, from the 1980s the federal government initiated policies and trade agreements to integrate Australia’s economy more fully with the rest of the world. Second, the Australian domestic market is relatively small. With a population of approximately 25 million, businesses that wish to expand are forced to export. Third, the rapid expansion in e-business, which has mainly been brought about by the development of the internet, has made exporting easier and has opened the doors for many small-to-medium businesses to sell direct to consumers across national borders.

**Expansion through diversification**

**Diversification** involves both new products and new markets and is done to spread the risks encountered by a business. This strategy is based on the principle of ‘not putting all your eggs in one basket’. Diversification can occur at two different levels:

- **Product diversification**: A business may decide to increase the range of products sold. For example, the John West company, having reached a position of maturity in the sales of plain canned tuna, expanded its product range to include snack meals that combine cooked rice with the tuna, and a variety of different flavours.
- **Geographic diversification**: This refers to operating in different locations both domestically and globally. Having a number of locations helps minimise the risk of business failure should one market suffer a decrease in sales.
Why do products decline?
Products end for various reasons. These include the changing public perception of what is fashionable at certain times. New technologies are constantly being introduced and with them come new products, replacing old ones. New products also sometimes reduce demand for older ones.

Consumer behaviour is dramatically changing as a result of events such as the global financial crisis and the problems associated with the need to reduce carbon emissions and greenhouse gases in order to prevent even more devastating climate change. Consumers expect products to be more environmentally friendly. Some businesses will grasp this opportunity to create new, greener and more ecologically sustainable products, while other products will disappear.

Today, Detroit car manufacturers are a good example of large-scale manufacturers throughout the world that are confronted with the unpleasant reality that consumers are more globally aware. They will no longer continue buying unsustainable products the way they once did.

THE VOLKSWAGEN BEETLE — PRODUCT LIFESPAN 1933—2003

Today, the VW Beetle is considered fondly as a highly successful product from a bygone era. The first Beetles were far too noisy, inefficient and uncomfortable for the current vehicle consumer. However, it was possibly one of the most successfully marketed and famous cars ever built.

In 1933, Adolf Hitler ordered Ferdinand Porsche to develop a German volks-wagen, which means ‘people’s car’. The car was first built by Porsche’s chief designer and went on to become the longest running, most produced, single-design production motor vehicle in history.

During the introduction phase, the car was a basic vehicle capable of transporting two adults and three children at 100 km/h. The car was to cost about the same as a small motorcycle. After World War II, in 1945, the VW factory was handed over to the British to control.

The car was called a kafer (meaning ‘beetle’) by the Germans, which explains its popular English nickname. The British army ordered 20 000 Beetles and production rose to 1000 per month. In 1957, a new larger rear window proved to be very popular with consumers. Sales continued to climb.

During the growth phase, there were small improvements made to road handling and engine power and, in 1955, the one-millionth Beetle was made at the German plant. The Beetle was far superior in performance and reliability to its competitors in the compact car market.

The maturity phase began in the early 1960s when side and front windows were enlarged. A newer, more powerful 1300 cc engine was added to distinguish the Beetle from competitors like the Morris Mini Minor.

In 1973, the Super Beetle was given a curved windscreen. Innovative advertising campaigns and a reputation for toughness and reliability helped the Beetle surpass the production levels of the famous Model T Ford. The Beetle was now being produced in factories all over the world, including Australia. By 1973, production had passed 16 million cars with huge sales on every continent. Incredibly, by 1992, 21 million Beetles had been built. The popularity of the VW Beetle began to decline as rival small car manufacturers from Japan and the US eventually overtook the Beetle in terms of technology. Attempts by VW engineers to improve the model’s popularity had failed and the Beetle’s worldwide sales began to fall.

Production stopped in Germany in 1978 but continued in Brazil and Mexico until 2003. A new luxury version has since been produced, but it is much more expensive and has only the body shape as a reminder of the original.
5.12 Activities

TEST your understanding

1. Use the stages of a product's life cycle (introduction, growth, maturity, decline and extension) as your headings and under each heading write a brief sentence to demonstrate how the VW Beetle passed through each stage.
2. What key strategies did VW use to enable the Beetle to sell so successfully over such a long life cycle?
3. Describe the target market the Beetle's makers and promoters were aiming at.
4. How did the Beetle's competitors eventually end its reign?
5. Outline why Australian businesses have become more export-oriented over the past decade.
6. What is the purpose of diversification?
7. Explain the difference between product diversification and geographic diversification.

APPLY your understanding

9. Interview a person born in the two decades after 1945. Ask them these questions:
   (a) What is a product you fondly recall that no longer exists?
   (b) What was the logo used to promote the product?
   (c) Can you describe the advertisements?
   (d) Was the product useful to you?
   (e) Was the product expensive?
   (f) What became of it? Why did it decline?
   Write a brief report (less than 250 words) on the interview. Alternatively, use the interview as the basis for a 5-minute PowerPoint or visual presentation to the rest of your class.
10. Businesses do expand through tapping into lucrative export markets. However, special consideration has to be given to local customers' tastes. For example, in some restaurants in the New England region of the United States, McDonald's offers the McLobster. Explain why export businesses need to ensure that they deliver a product that suits their overseas customers.
11. Harvey Norman Holdings Limited is an example of a company that sells a diverse range of products. Make a list of the different types of products it sells.

EXAM practice

12. Explain why all successful products go through a life cycle of introduction, growth, maturity and decline.
   (4 marks)
13. Eugene has run a business installing TV antennas on the roofs of people's houses for 20 years, but is now finding fewer customers need his product, as more people are streaming programs online.
   (a) At what stage in the life cycle is Eugene's product? Explain why. (3 marks)
   (b) Explain one way in which Eugene can revive his business into an extension stage. (3 marks)
5.13 Customer relations strategies

**KEY CONCEPT** The returning customer is essential to any business. Adopting customer relations strategies that encourage occasional customers to become regular customers can be the difference between success and failure in business.

Good customer relations involves more than just ensuring staff are friendly and helpful in their dealings with customers. Most competitors will be doing this much, and so it does not differentiate the business sufficiently. Superior customer relations involves an enhancement of the customer experience, so that your business becomes the automatic destination of choice for anyone seeking the products or services you sell.

5.13.1 Providing quality customer service

Establishing superior customer relations will require a proactive approach. A successful business owner will invest in training staff, so that they are not only friendly and approachable, but also highly knowledgeable about all products sold. Such a business owner will also ensure that every aspect of the business is customer friendly, with clear signage pointing customers to different product ranges, uncluttered product display, and staff members who are alert and ready to offer assistance before they have to be asked. Being proactive means anticipating possible problems before they arise, and having all the systems and processes in place to prevent those problems occurring. Quality service does not just happen by accident, but has to be planned in detail, with clear guidelines for staff to follow, and a culture that puts the customer first.

5.13.2 Seeking customer feedback

Businesses will attempt to assess levels of customer satisfaction in a number of ways. The return of customers on a regular basis is usually a sign that the customer believes they are receiving value for money. A business can also seek feedback from its customers. Businesses today often collect the email addresses of customers, and then send them surveys to allow them to provide feedback. Online businesses regularly send emails asking, “How did we do?” soon after goods ordered online have been delivered. Such emails will include a link to a short survey on which the customer can rate the product received. Businesses today are also increasingly using social media to gather feedback from customers. A business’s website often contains a link to a Facebook page, where customers are invited to comment on the quality of goods or services received.

5.13.3 Complaints, returns and refunds

Good customer relations means welcoming complaints and using them as a basis for improvement. Handling complaints effectively can lead to a better understanding of customers’ expectations, improved customer satisfaction and loyalty, and a reputation that will attract more customers. It is better to have customers telling the business owner how to improve than having
them make negative comments only to their friends. A successful complaints-handling system will include the following features:

- the ability to deal with complaints immediately, and keep the customer informed if the resolution of the problem is likely to take more than 48 hours
- a simple process for customers to complain and clear communication that complaints will be welcomed
- a procedure by which detailed information on types of complaints is kept and fed back into business processes to make changes where necessary.

While there is a legal requirement to offer refunds or replacement products in some cases when goods are returned, it is not necessary in every case — such as when a customer simply changes their mind. Going beyond simple legal requirements by having a flexible returns and refunds policy can enhance customer relations.

If the return of goods is dealt with in a reluctant or argumentative way, it is highly likely that a customer has been lost forever. Being willing to listen to the reasons a customer wishes to return a product, being sympathetic to those reasons and offering replacement products, possibly at a discounted price, will encourage the customer to return in the future. Staff should be empowered by the owner or manager to use their judgment in achieving the best outcomes in these situations.

### 5.13.4 Customer loyalty programs

How often have you been asked at the supermarket checkout whether or not you have a ‘Flybuys’ card? Flybuys is a customer loyalty program offered by Coles supermarkets, Kmart, Target and related retail outlets. Customers earn points based on the amount of money they spend in one of these shops. The program was originally designed to reward customers with frequent flyer points to be used for airline travel, but has now been expanded to allow these points to be spent on a wide variety of different goods.

Woolworths supermarkets have a rewards program that allows customers to use points to receive discounts on their grocery shopping. Both major supermarket chains have agreements with service stations for discounts on petrol purchases. All of these are customer loyalty programs designed to keep customers coming back to the same store. While these are all programs offered by large businesses, even small businesses can offer customer loyalty programs. For example, a simple card that is stamped at every visit, so that discounts are offered after a particular number of visits, can be used by almost any type of business, such as cafés, bakers, butchers or newsagents.

### 5.13.5 The online presence

Today when anyone mentions the name of a business, the immediate response of most people is to ‘check out the website’. The fact that we can do this instantly on our mobile phones makes a customer-friendly website a necessity for just about every business. If you can’t examine a website before you visit a business, you will probably instead visit an alternative that has a user-friendly online presence. An informative, easy-to-navigate website is an essential part of the customer relations strategy.

A business can also set up a mailing list database to send emails or text messages to update regular customers with details of special deals or discounts. Customers value regular updates to websites. They will quickly be turned off by information that is out of date.

### 5.13.6 Catering to a multicultural market

Australia is a multicultural nation, with 26 per cent of the population born overseas and 49 per cent having at least one parent born in a country other than Australia. A business operating in an area where large numbers of potential customers have a first language other than English can reap the benefits by hiring staff with an ability to communicate in languages spoken by the community. Prominent signage can alert potential customers that the language they are most comfortable with is spoken within the business. Demonstrating sensitivity to a variety of different cultures will ensure that customers return frequently, and will value the recognition the business shows them. They will also speak positively to their friends, attracting new customers.
### 5.13 Activities

**TEST your understanding**

1. Explain what it means to take a proactive approach to quality customer relations.
2. Why can receiving customer complaints be seen as a positive for a business?
3. How should a business approach the issue of customers returning goods for a refund or a replacement?
4. What is the purpose of a customer loyalty program?
5. Why is it important for a business to have a user-friendly website?
6. What steps can a business owner take to connect with a local multicultural community?

**APPLY your understanding**

1. Using the internet or library, research the circumstances in which a business is legally required to provide a refund for any goods returned by customers.
2. Develop a customer-friendly returns and refunds policy that a business could provide as information for its employees and customers.
3. Design a simple complaints form that a business could use. It should provide space for customer information and details of the products or services involved as well as space for feedback to the owner or manager suggesting possible changes or improvements.
4. Create a suitable customer loyalty program for a hairdressing business.

**EXAM practice**

11. Explain how customer loyalty programs can work as a marketing strategy. *(3 marks)*

12. A customer has returned a toaster to Helen’s electrical store, complaining that it has stopped working after only two weeks. Explain how Helen can deal with this issue in a manner that will provide the most positive outcome for her business. *(5 marks)*

### 5.14 An overview of public relations and its relationship to business objectives

**KEY CONCEPTS** Good public relations, or PR, not only creates a favourable image but can also help the business achieve other business objectives, such as increased sales.

#### 5.14.1 What is public relations?

Public relations is the planned and sustained effort to establish and maintain goodwill and mutual understanding between a business and its publics. The purpose of public relations (PR) is to project a positive image of the business to the outside world through planned communications strategies and tactics. Specifically, public relations involves the following activities:

- developing good relations with various groups — publics
- handling, or heading off, unfavourable stories or rumours that could damage the business’s image
- generating favourable publicity
• maintaining a certain level of positive public perception
• enhancing a particular image, such as innovation, reliability or honesty.

When effectively managed and integrated with all aspects of a business’s operations, public relations is capable of achieving favourable attitudes towards a business and this influences consumers’ purchasing behaviour. In turn, this should lead to increased sales and the achievement of other business objectives such as improving profit and increasing market share.

Public relations and its relationship to business objectives

5.14.2 The function of public relations
Public relations combines a number of marketing and sales techniques and presents one consistent public image, having long-term benefits. Clear messages, for example, about a business’s policy on customer care, environmental issues, ethical business practices, or nutritional value of ingredients, can directly affect sales in a substantial way.

There are four major ways in which public relations activities can assist a business in achieving its objectives:

1. Promoting a positive image: reinforcing the favourable attitudes and perceptions consumers have regarding the business’s reputation
2. Effective communication of messages: using advertising, sales promotions, publicity and personal selling to convey information about the business and its products
3. Issues monitoring: protecting sales by providing an early warning of public trends that could affect the business’s sales. Remedial action can be taken before much harm is done to sales.
4. Crisis management: protecting a business’s reputation as a result of negative or unfavourable rumours and adverse publicity, which if left unchecked might result in a loss of sales.

5.14.3 The importance of image

Imagine that you entered a café and found a dirty floor, flies, an unshaven server wearing dirty clothes and mess everywhere. You would probably leave because of the business’s poor image. Now look at the photo of the café at right — it illustrates cleanliness and friendly service.

The key to a successful image is that the publics view the business the way the business intends. A business’s success in projecting its image will have enormous consequences for its long-term success in the marketplace.

The proper image for a business is not produced by accident. It needs to be developed and managed carefully. A proper image results in the benefits shown in the diagram on the following page.
How a proper image benefits a business

Results of a proper image

- Improved marketability of the business’s products
- Higher levels of sales, market share and profitability
- Better brand recognition
- Greater credibility
- Improved public recognition in the marketplace

DID YOU KNOW?
When Toyota decided to enter the luxury car market, dealers upgraded their ‘image’ by developing new, more glamorous showrooms to highlight their new luxury product range.
‘When a consumer is confronted with so many different brands to select from, whether it be toothpaste, clothes or cars, the business’s image is often the deciding factor in determining which specific brand to purchase.’
— Raell McKenzie, public relations consultant

5.14.4 Elements of the image

There are many elements that combine to create a business’s image — and it is crucial that all elements are working together to create a unified image. Unfortunately, one dysfunctional element can result in a negative image being presented. As a member of a school, for example, you have probably been told that ‘the actions of a few’ can create a poor image of the school in the eyes of the community.

The main elements that combine to create a business’s image

- Business name
- Business logo
- Customer service
- Behaviour and appearance of employees
- Signage
- Business layout
- Range of products
- Quality of products
- Business appearance
- Stationery
- Publications
- Advertising
- Telephone technique
- Use of technology
- Delivery or appearance
- Publicity
- Colour scheme
- Location
5.14.5 Characteristics of the publics

A business will communicate with and project its image to its publics. ‘Publics’ are stakeholders. They are groups that the business interacts with and that have a vested interest in what the business does.

The various publics can be grouped into six main types:

1. **Internal publics.** A business’s internal publics include its employees and managers. They expect fair pay and conditions, a safe working environment and access to training and development. Good employee morale helps develop and maintain a positive image with the external publics.

2. **General publics.** The general publics’ feelings towards a business can affect its customers’ attitudes. Society expects fair and honest business practices and ethical, responsible decisions.

3. **Local community publics.** This public is of crucial importance for a small business because it represents local residents and neighbourhood organisations. They expect the business to be a good ‘corporate’ citizen.

4. **Citizens-action publics.** A business’s practices may be scrutinised by action groups, such as environmental organisations. They expect a business to operate in an environmentally sustainable manner.

5. **Media publics.** Media publics include print and electronic news reporting organisations. They expect accurate information and access to informative sources.

6. **Government publics.** There are three levels of government, each with its own regulations. Governments expect a business to abide by their laws.

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**DID YOU KNOW?**

- The publics of a gymnasium would include customers, trainers, administrative staff, suppliers, the media, the local government and the local community. Your school’s publics would be students, parents, school council, teaching and administrative staff, the government and local community.
- One of the main differences between marketing and public relations is that public relations is about communicating and building relationships with all of the business’s publics, whereas marketing focuses on the activities associated with selling products to customers.
5.14 Activities

TEST your understanding

1. Outline the purpose of public relations.
2. What activities does public relations involve?
3. Explain in your own words the relationship between public relations and business objectives.
4. List four ways that public relations can assist a business to achieve its objectives.
5. Why should all businesses be concerned with their image?
6. Complete the following table by using a few words to describe the image of the businesses listed. The first entry has been completed for you. Share your answers with other members of the class and discuss any differences.

<table>
<thead>
<tr>
<th>Business</th>
<th>Image</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Arnott’s</td>
<td>Quality, dependable, flavoursome</td>
</tr>
<tr>
<td>2 Billabong</td>
<td></td>
</tr>
<tr>
<td>3 Telstra</td>
<td></td>
</tr>
<tr>
<td>4 Ford</td>
<td></td>
</tr>
<tr>
<td>5 Pizza Hut</td>
<td></td>
</tr>
</tbody>
</table>

7. Identify the benefits of a business projecting a positive image.
8. In pairs, list the elements that combine to create:
   (a) a positive image of your school
   (b) a negative image of your school.
9. Identify the publics for the following businesses:
   (a) an ice-cream store
   (b) Lansvale Landscaping
   (c) Sendall and Walsh, solicitors
   (d) the local community daycare centre.
10. Match each definition with the type of public it describes.

<table>
<thead>
<tr>
<th>Definition</th>
<th>Type of public</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Print and electronic news reporting organisations</td>
<td>Internal publics</td>
</tr>
<tr>
<td>(b) Local resident and neighbourhood organisations</td>
<td>Media publics</td>
</tr>
<tr>
<td>(c) The broader society</td>
<td>Citizens-action publics</td>
</tr>
<tr>
<td>(d) Employees and managers</td>
<td>Local community publics</td>
</tr>
<tr>
<td>(e) The three levels of regulators</td>
<td>General publics</td>
</tr>
<tr>
<td>(f) Groups that may scrutinise a business’s behaviour</td>
<td>Government publics</td>
</tr>
</tbody>
</table>

APPLY your understanding

11. In groups of three or four, list the various public relations activities your school uses to communicate with parents. Choose a spokesperson to share your group’s comments with the rest of the class. You can begin your list with the following items:
   • newsletters
   • formal assemblies.
12. Report on a business whose performance you believe does not align with its image.
   (a) Identify the reasons for the business’s ‘image credibility gap’.
   (b) Suggest solutions to overcome this failing.
13. Businesses can spend lots of money researching and developing a logo to reinforce their image. Nike’s ‘swoosh’ logo, for example, projects an image of quality, spark, energy and youthfulness. Collect and paste into your notebook 10 business logos. Next to each write the name of the business and then list the image the symbol projects.
14. (a) In pairs or small groups, select three publics associated with a small business that you know and brainstorm how the business’s failure to fulfil its responsibilities might impact on these publics and ultimately the business.

(b) Present your information to the class, either as a written report or an oral presentation. You may wish to use a multimedia package to assist you in preparing your report or presentation.

EXAM practice

15. Identify three different types of public and explain how each can affect the image of a particular business. (9 marks)

16. Danny runs a plumbing business. He requires his employees to wear uniforms with his business logo, and expects them to arrive at each job clean and well groomed. Outline two benefits that his business may gain from this emphasis on maintaining a positive image. (6 marks)

5.15 Public relations strategies

**KEY CONCEPT** A business may plan a public relations campaign to enhance its image, but may also have to respond to a crisis situation that threatens to undermine that image.

Businesses embarking on a public relations campaign should begin by initially establishing their public relations objectives and strategies. The following diagram shows that a public relations campaign is developed in several stages. These stages may vary in number and the order in which they are implemented, depending on the business’s resources, products and publics.
5.15.1 Planned public relations

The five main development stages in a planned public relations campaign are outlined below.

Stage 1 — Establish public relations objectives

Objectives outline what the campaign is trying to achieve. They should be developed using the S.M.A.R.T. principle. That is, objectives should be:

- Specific
- Measurable
- Attainable
- Relevant
- Time-bound.

For example, Meat and Livestock Australia, an umbrella body for Australian meat producers, wanted to promote the sale of meat products. It hit upon a strategy in 2006 when it hired ex-footballer and media personality Sam Kekovich to promote eating lamb on Australia Day, January 26. Each year since then, a new campaign has been devised to encourage people to eat lamb on this day, making Kekovich a recognisable symbol of the campaign and aligning the eating of lamb with Australia Day celebrations.

Stage 2 — Identify the intended publics

The public relations campaign ‘target’ group is the publics towards whom the public relations strategies and tactics are directed. The intended publics for the Meat and Livestock Australia campaign are people who celebrate the Australia Day public holiday by getting together with friends and family for a barbecue. While there has been much discussion in recent years about the appropriateness of January 26 as a day of celebration, the campaign does not engage with this debate. Its intended publics are those who plan to have a barbecue on the day, and it aims to convince them to use lamb products.

Stage 3 — Develop specific public relations strategies and tactics

There is a wide range of media from which a business can select. It is important to select the most appropriate and effective media for the chosen publics. For example, a business can choose from the following media:

- electronic and/or print media advertising
- competitions
- guest speakers
- letterbox drops
- brochures, pamphlets
- information videos
- direct mail
- email messages
- media releases
- news conferences
- community involvement programs
- noticeboards and posters
- notices on its website
- social media such as Facebook and Twitter
- staged events and stunts.

Creativity is essential. A business must examine the costs and benefits of each of these media to select the most suitable media mix.
‘LAMB SIDE STORY’ — THE 2018 MEAT AND LIVESTOCK AUSTRALIA CAMPAIGN

In 2018, the Meat and Livestock campaign for Australia Day featured a West Side Story-inspired theme. Two groups of dancers, representing the political ‘left’ (dressed in red), and political ‘right’ (dressed in blue) come into conflict in the street outside a house where a lamb barbecue is being prepared. They eventually put their differences aside and agree that eating lamb brings them together, with the slogan ‘You never lamb alone’. The campaign was launched on January 11, 2018 and appeared on TV, in cinemas, online and on social media for two weeks.

DID YOU KNOW?
Communication objectives will emphasise increasing product awareness, improving public attitudes or conveying a positive image.

Stage 4 — Implement the public relations campaign

An action plan is devised to make sure the implementation runs smoothly. For Meat and Livestock Australia, the public relations manager would devise an action plan detailing the schedule of public relations activities, areas of individual responsibility, media contact details and a calendar of event dates. This would be distributed to all public relations committee members, the marketing manager, business group managers, executive managers and staff.

Stage 5 — Evaluate the results

A public relations campaign’s success should be measured in terms of its original objectives, before, during and/or after the campaign ends. A public relations manager should at least be able to estimate whether any change occurred in the attitudes or behaviour of the publics. Meat and Livestock Australia can measure the effectiveness of its campaign by examining changes in the quantity of lamb sold during the period of its campaign. In 2016, sales of lamb products rose by 36.9 per cent in the two weeks leading up to January 26, when compared with average sales across the rest of the year. Its campaign video was watched more than 5.5 million times online and generated 1274 pieces of media coverage, which delivered a cumulative audience of over 404 million. While many of the advertisements featured in the campaign have been controversial over the years, this has possibly added to its ongoing success.
5.15.2 Maintaining a positive relationship with the customer base

Ultimately, successful public relations contributes towards a positive relationship with the business’s identified customer base. A planned public relations campaign will always have this as its key objective. It is this positive relationship that supports the 80–20 principle, and ensures that the business will always have a base of loyal customers. Failure to maintain this relationship will undermine customer loyalty, and leave the business relying on a far less reliable flow of customers. The positive customer relationship can be tested when unplanned events occur that might damage the business’s reputation. As well as a planned public relations strategy, a business needs to be prepared to deal with crises that may occur and threaten the positive relationship with the customer base.

5.15.3 Crisis situations

Sometimes, despite their best intentions, businesses may be faced with crisis situations that need to be managed as smoothly as possible. Crises may be brought on by such events as a workplace accident, a dishonest employee, an unsafe product or some other negative event. Such events will generate considerable unfavourable publicity, the effect of which can be sudden and dramatic.

Businesses can implement quality control procedures, safety programs, regular inspections and so on to reduce the risk of a crisis occurring. This is part of the risk management process. However, it is impossible to avoid all negative experiences. While crises cannot always be anticipated, and some undesirable consequences may occur regardless of the business’s best efforts, some general principles should be followed. The role of the public relations manager will be to develop these principles into a plan.

5.15.4 A crisis communication plan

In the face of a crisis, it is much better to initiate than to react. Consequently, it is essential that the business pre-establishes a crisis communication plan that outlines how the appropriate staff members will handle unfavourable publicity and deal with news personnel when a crisis occurs. In these days of intense public scrutiny and investigative journalism, it is more important than ever to be prepared with messages that can be presented to internal and external publics in a timely, ordered and open manner.

When a crisis occurs, a business has two priorities that must both be managed effectively:
1. bringing the crisis under control — limiting the damage
2. dealing with the intense media (and public) scrutiny.

This is the purpose of the crisis communication plan.

DID YOU KNOW?

• Many consumers expect businesses to be socially responsible and this is now a big part of public relations and image building.

‘People don’t really care how much you know until they know how much you care.’ — Mark McNight

• The key to preventative public relations is prior planning.

Elements of the crisis communication plan

Although each crisis is different, there are a number of common elements in dealing with such events:
1. Determine the appropriate target publics. Publics, such as the news media, that the business wants to reach should be established as soon as a crisis occurs.
2. **Essential information should be communicated to all affected publics.** In order to avoid accusations of a cover-up, an open and honest approach is often recommended by those who have been through a crisis. The messages should be simple enough for all the publics to understand. A ‘no comment’ or a mysterious silence only fuels the imagination. The media should be kept informed as more information is gathered. All employees should also be kept informed on a regular basis. It can be very damaging if internal audiences first hear about the facts, or alleged facts, in the media.

3. **Get the facts.** All the necessary information should be gathered and tested to make sure of its authenticity and reliability. All allegations should be thoroughly investigated. It is counterproductive to hope that no-one will learn about them.

4. **Responses should be given as quickly as possible.** Indecisiveness may worsen the situation and suggest a cover-up. Alternatively, hasty or impractical decisions may make the situation worse in the long run.

5. **Be prepared to answer questions.** While it is not possible to predict all the questions that might be asked, there are some common questions which will probably arise:
   - What happened?
   - Where did it happen?
   - When did it happen?
   - Why did it happen?
   - Who is affected?

   Anticipating such questions results in more thoughtful responses.

6. **Provide regular updates.** Use press releases and conferences to keep the media informed of any developments. Avoid the temptation of talking ‘off the record’ to a journalist as it may eventually be reported.

7. **Establish a chain of command.** Decisions should be clear and the decision maker given adequate authority to act.

8. **Establish a crisis communication team.** A team of company personnel representing all aspects of the business should be assembled and briefed on the situation. The team should appoint an official spokesperson to deliver necessary information to the publics. This will avoid conflicting messages being communicated and assure the publics that they are receiving accurate information. The designated spokesperson should possess good communication skills and have a comprehensive understanding of all the issues involved. Technical experts may be needed to explain difficult terms. Their presence also creates an air of authority in times of crisis. It is crucial that there is cooperation and not conflict between the communication team members.

9. **Monitor the progress of the crisis communication plan.** Once the crisis communication plan has been put into action, it must be carefully monitored and then corrective action taken if needed.

10. **Evaluate the effectiveness of the crisis communication plan.** After the crisis has subsided, representatives from all aspects of the business should revisit the crisis management plan, and identify any weaknesses or shortcomings that need to be altered to more effectively respond to any future crisis situations.
DID YOU KNOW?
A well-known US food business had to respond to a crisis when a video of one of its employees picking his nose and then placing his fingers in the food he was making spread like wildfire online. According to PR experts, if a business faces and deals with a crisis as soon as it occurs this will reduce the bad publicity generated.

5.15 Activities

TEST your understanding

1. What is the first stage in developing a public relations campaign and why is it important?
2. What do the letters S.M.A.R.T. represent?
3. Using the S.M.A.R.T. method devise the public relations objectives to achieve the outcomes described for the following businesses:
   (a) A veterinarian wants to encourage local residents to have their pets microchipped.
   (b) A health and fitness centre wants to raise community awareness of the importance of regular exercise.
4. Identify the publics for one of the businesses listed in question 3.
5. If you were the public relations manager for Tourism Australia, which media would you select as your:
   (a) first preference
   (b) second preference?
6. Why is it necessary to develop an action plan during the implementation stage?
7. What method would you use to evaluate the success of the public relations campaign for the business you selected in question 3?
8. Outline the effects of negative publicity.
9. Why is it essential that a business has a crisis communication plan?
10. What is the purpose of a crisis communication plan?
11. List and explain the 10 elements of a crisis communication plan. Justify why each element is important.

APPLY your understanding

12. Use the Hughes PR weblink in the Resources tab to select a case study of a planned public relations campaign. Read the case study and answer the following questions.
   (a) What was the name of the business the public relations campaign was designed for?
   (b) What were the objectives?
   (c) List the tactics and strategies used.
   (d) Identify the targeted publics.
   (e) How was the campaign evaluated?

13. Assume you are the public relations manager for Tourism Australia. In groups of three or four, create each of the following for a campaign promoting Australia. You may wish to use desktop publishing software to produce text and graphics.
   (a) A media release
   (b) A poster
   (c) A speech
   (d) An email
   (e) A direct mail letter
   (f) An online advertisement on Tourism Australia’s website

14. Use the Hughes PR weblink in the Resources tab to select and read a case study of a public relations campaign designed to deal with an unplanned business situation (a crisis).
   (a) What was the name of the business for which the public relations campaign was designed?
   (b) What were the objectives?
   (c) List the tactics and strategies used.
   (d) Identify the targeted publics.
   (e) How was the campaign evaluated?

15. Using newspapers, magazines and/or the internet, locate an article reporting on a business facing negative publicity.
   (a) Identify the cause of the negative publicity.
   (b) Outline the response(s) of the business to the situation.
(c) List the publics who would be affected by the business’s present difficulties.
(d) How would you advise the business to minimise possible damage?

16. Your local newspaper has reported that a group of students from your school has been caught shoplifting. In groups of three or four, prepare a crisis communication plan for your school, which, if implemented, would minimise the damage caused by this article. Use the 10 steps outlined in section 5.15.4 to help you complete your plan.

**EXAM practice**

17. Define the term ‘public relations campaign’ and explain why a business may engage in such a campaign. (4 marks)

18. A number of customers at Tim’s restaurant have been admitted to hospital with food poisoning and this has been reported in the media. Tim needs to implement a crisis communication plan.
   (a) Explain the two main priorities of a crisis communication plan. (4 marks)
   (b) Outline two elements than should be included in such a plan. (4 marks)

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**5.16 APPLY YOUR SKILLS Achieving success in public relations**

**PRACTISE YOUR SKILLS**
- Propose, analyse and justify public relations strategies chosen for practical and/or simulated business situations

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**5.16.1 Crisis management**

**ENGAGING THE MEDIA IN A CRISIS**

When a crisis happens, the media will be there reporting it. In a crisis, your overriding communication challenge is to demonstrate you are the best source of information. Treating the media as the enemy or trying to block them won’t stop them reporting. It will just make them hostile. Share market analysis shows organisations that communicate effectively are best placed to weather the storm, and some simple rules will help.

1. **Tell the truth, tell it early, tell it often.** Right from the start show that you are willing to communicate. Get a statement out there within 15 minutes of the crisis. Brief the media on what you do know and keep reminding them of the core facts. Without trying to ‘spin’, keep pumping out relevant information and updates.

2. **Pick the panic.** Work out what people are worried about, even if it’s irrational, and address those concerns. Forget the technical aspects of the crisis and focus on the emotions.

3. **Apologise and keep apologising.** A well-crafted and sincere apology shows you ‘get it’ and gives you the right to speak. Lawyers will try to stop you but you can acknowledge the public’s concern without creating a legal liability.

4. **Respect the media’s role as part of the solution. They are not your enemies.** Work with journalists to get critical information to your stakeholders; they are after a story, not a scalp.

5. **Plan for the inevitable.** Eighty-three per cent of organisations will face a crisis and it will wipe up to 30 per cent off the bottom line. A crisis plan is an essential investment.
6. **Develop credible, agile spokespeople.** Communicating to the media in a crisis is one of the toughest challenges a leader will face, but it is part of the job description. Get the tools you need before you need them.

7. **Don’t play the blame game and never blame the victim.** It always backfires and makes you look bad. Focus on your reputation and being part of the solution.


Use the tips on crisis management in this article and in this chapter to test how well you react in a crisis. If you have ever watched the television program *Thank God You’re Here*, you will know what to do, but here are the steps.

1. In groups of four devise a crisis situation. It might be a rat’s leg found in a meat pie or a door that falls off a moving train. Write a clear description of the crisis and give it to your teacher.

2. When each group has handed in a crisis description, your teacher will allocate to every group a different group’s crisis to deal with.

3. Elect someone from your group to be the PR ‘front person’ (or PR manager). The members of the group will then be told by your teacher what the crisis is. You now have five minutes to plan your parts in the roleplay. This should include finding any props needed, deciding on roles (e.g. who is going to pull the rat’s leg out of the pie, who is going to be seen on television talking about what happened). Don’t forget to work out who your publics will be, and how you will communicate information to them.

4. Role-play the crisis.

**5.16.1 Activities**

**TEST your skills**

1. What is the best way to deal with the media when facing a crisis?

2. List the steps that your group followed to prepare for your roleplay. To what extent did they resemble the recommended elements of a crisis communication plan?

**APPLY your skills**

3. It is most likely there were some very funny moments in each roleplay. Your job now is to write a short report about how the PR manager handled the crisis, how your group performed and how the crisis might have been handled better.

**5.16.2 Critical safety messaging**

**SUCCESSFUL ‘DUMB WAYS TO DIE’ CAMPAIGN**

Metro Trains operates Melbourne’s suburban railway network. Research suggested that people were risking their lives at train stations and level crossings. The problem for Metro was how do you tell people, particularly young people, that they are doing silly things, without blaming them? They created the ‘Dumb Ways to Die’ campaign.

The ‘Dumb Ways to Die’ music video asks people to be safe around trains and features cartoon characters dying in increasingly stupid ways, such as swimming with piranhas. Trains kill the last three characters, because of unsafe behaviour. A story about the campaign video was leaked to the media several days early and within two days it was on the front page of Reddit. The video went viral, with millions of YouTube views, and the song was released on iTunes. The campaign appeared in newspapers and on
outdoor advertising, radio, Facebook and Tumblr. Merchandise, including posters, stickers, badges and soft toys, followed.

The campaign won several international awards. According to Metro Trains, it also delivered as a public safety message, reducing ‘risky or dumb behaviour’ such as walking or driving around lowered boomgates.

5.16.2 Activities

TEST your skills
1. Describe the problem that Metro Trains tried to solve.
2. How did the ‘Dumb Ways to Die’ campaign seek to educate people about train safety?

APPLY your skills
3. Is this an example of planned or unplanned public relations?
4. The task word (sometimes referred to as command word or instructional word) ‘analyse’ generally requires you to identify the main features of concepts and terms and then examine them closely or show how the parts relate. In many cases, it will involve explaining the relationship between concepts or terms. Analyse the success of the ‘Dumb Ways to Die’ public relations campaign.

5.16.3 Socially and environmentally responsible messaging

DO YOU DRINK DILMAH TEA?

Many of us have seen the advertisements on television for Dilmah Tea. We probably know this brand of tea because the advertisements personally introduced the family members of the business and invited us very politely to try their tea. The image the company portrays is that of a family business where the tea is ‘picked, perfected and packed’ where it is grown, in Sri Lanka. One successful public relations strategy employed by the company is to promote the ethical aspect of its operations: it is a supporter of underprivileged communities in Sri Lanka, victims of domestic violence, and other causes such as helping families displaced by the 2004 Boxing Day tsunami.

Many businesses also see the importance of promoting their products as environmentally sound or ‘eco-friendly’. For example, Gloria Jean’s serves its Rainforest Alliance coffee blends and Nando’s uses recyclable materials in its packaging.

5.16.3 Activities

TEST your skills
1. What factors distinguish Dilmah Tea from other brands of tea on the market?
2. Meeting the people who own and run a business, whether it be through television commercials or magazine advertisements, can be a successful PR strategy. Why do you think this is the case?
3. Besides Dilmah Tea, name one product that claims to be ‘eco-friendly’. Why must that business be careful to ensure that the claims it makes about its products are true?
APPLY your skills

4. The task word (sometimes referred to as command word or instructional word) ‘propose’ generally requires you to put forward an idea, argument, or suggestion for consideration or action. This involves writing a little more than simply just identifying or suggesting something. The task word ‘justify’ requires you to show how the statement or statements that you have made are correct or to provide evidence to support your argument. Other than promoting the ethical aspect of its operations, propose and justify one public relations strategy Dilmah Tea could use to maintain its positive image.

5. Use the Dilmah Tea weblink in the Resources tab to find out more about Dilmah Tea, a company that endeavours to be ethical and socially responsible. Explain how the company is socially and ethically responsible and how this translates to good PR.

Resources

Weblink: Dilmah Tea

5.17 EXTEND YOUR KNOWLEDGE When things don’t go according to plan

**KEY CONCEPT** It’s a public relations nightmare, but with some good sense and management, a business can still recover from unplanned, negative events.

5.17.1 Recovering from negative public relations

AUSTRALIAN MINING COMPANY IMPLICATED IN MUDSLIDE DEATHS

On 5 November 2015, a mine tailings dam in south-eastern Brazil burst, sending millions of litres of toxic mud and mine waste into local rivers, destroying villages, killing 19 people and injuring many others. The mine and dam were operated by Samarco, a company jointly owned by Australia’s BHP and Brazilian company Vale. Questions were immediately raised about the safety of the dam and what precautions had been taken to avoid such a disaster. Naturally, much of the blame would be apportioned to the two joint-venture partners, BHP and Vale, with the risk of severe reputational damage to both companies. In an attempt to limit the public relations damage, the BHP Board of Directors met immediately to determine their approach. CEO Andrew Mackenzie attended a press conference, during which he promised that the incident would be fully investigated and that financial compensation would be offered as soon as possible. Mackenzie then flew to Brazil to inspect the damage firsthand.

The mudslide destroyed the town of Bento Rodrigues in Brazil, killing 19 people.
Within two weeks, Samarco offered $366 million in compensation to villagers and others affected by the mudslide. Half of this was to be paid immediately, with the rest to follow in a month. Despite this offer of compensation, the Brazilian government commenced legal proceedings against Samarco, Vale and BHP. It pointed out that the entire Rio Doce river system had been severely polluted by the disaster, and that it could cost as much as $US1.5 billion to clean up and restore the river system. In addition, criminal charges were laid against a number of former Samarco executives in October 2016, including five current and three former BHP employees. As a result of the tragedy, BHP shares tumbled to their lowest price in 20 years. Although BHP was very proactive in attempting to limit the PR damage to its reputation, the severity of the disaster made that almost impossible.

In March 2016, an agreement between BHP, Vale, Samarco, the Brazilian federal government and the relevant Brazilian state governments saw the establishment of the Renova Foundation, a body charged with managing the repair and compensation of the area affected by the dam collapse. Funding for the organisation was to come largely from the mining companies, and to this end, BHP and Vale have contributed many more millions of dollars to assist with environmental, social and economic rehabilitation. In December 2017, BHP announced that it had agreed to allocate a further $US181 million (with over 60 per cent going to the Renova Foundation) for ongoing repair works. Final settlement of the Brazilian government’s legal claims against the mining companies was still under negotiation in early 2018.

5.17.1 Activities

TEST your understanding
1. Why was Australian mining company BHP implicated in a deadly mudslide in Brazil?
2. Outline the steps taken by the BHP board of directors immediately following the disaster to attempt to deal with the issue.
3. Why did the Brazilian government commence legal proceedings against the mining companies involved in the disaster?
4. What is the Renova Foundation? In what ways is BHP supporting the activities of this organisation?

EXTEND your understanding
5. Outline the actions BHP took that were designed to have a positive PR impact.
6. The results of the dam failure were massive environmental damage and significant loss of life. Are there some occasions where the damage is so great that no amount of crisis management can help save the reputation of a business? Outline your view, giving reasons for your opinion.
7. The mining companies have contributed large sums of money and are likely to have to continue to do so. How important is financial compensation as part of a crisis management plan? Give reasons for your answer.

5.17.2 Managing public relations

FOUR DEATHS AT GOLD COAST THEME PARK

An accident on a ride at Gold Coast theme park Dreamworld on Tuesday October 25, 2016 resulted in the deaths of four adults and injuries to two children. A vacant raft on the Thunder River Rapids Ride became stuck, and a second raft carrying the four adults and two children collided with it, flipped over, and caused the occupants to become trapped in the ride machinery. The deaths immediately raised the issue of ride safety, both at Dreamworld and at other similar theme parks.

Dreamworld had hired Newgate Communications to manage its public relations issues, but there was immediate disagreement between Newgate and Dreamworld management in relation to the appropriate crisis management approach. As a result, Newgate’s advice was not followed,
and Dreamworld found itself in a public relations nightmare. Dreamworld is owned by Ardent Leisure, but initially the parent company left the crisis management to the Dreamworld CEO. This suggested that the management of the parent company failed to appreciate the seriousness of the incident. Eventually the CEO of Ardent Leisure, Deborah Thomas, took over as spokesperson, but much of the damage had already been done. Ardent Leisure’s share price dropped over 20 per cent in the two days following the accident.

Another of Ardent Leisure’s mistakes was to proceed with its annual general meeting (AGM) on the Thursday after the tragedy. Annual bonuses for Ms Thomas and other executives were to be put to shareholders for a vote, and the Board had recommended a bonus of $860 000 for Ms Thomas. Approving a bonus of this size for the CEO two days after such a tragedy further heightened the impression that the company was insensitive to the loss of life that had occurred at Dreamworld. The AGM could have been postponed to a later date or, even if it had been held, it would have been appropriate to postpone the vote on the CEO’s bonus. After a media outcry, Ms Thomas agreed to give up the bonus, but the impression was that this was only a response to poor publicity and therefore not genuine. At a press conference Ms Thomas was left embarrassed when she was unable to answer questions about why the company had not contacted the families of the victims after the accident.

The company announced that it would open Dreamworld to hold a memorial service for the victims on the Friday after the accident, but were left looking foolish when police announced that this could not occur because the park was still a crime scene. In the midst of all the turmoil, the Chairman of Ardent Leisure, Neil Balnaves, resigned from his position, with no explanation to shareholders or the public. Several days after the incident it was also revealed that Dreamworld had attempted to suppress a report on ride safety in July 2016, barely three months earlier. Dreamworld was closed until December 2016 while safety checks were conducted on all rides. The Thunder River Rapids Ride was permanently closed and fenced off.

### 5.17.2 Activities

**TEST your understanding**

1. Outline the sequence of events that created such a huge crisis for Ardent Leisure.
2. Ardent Leisure did not follow the advice of its crisis management advisors.
   - (a) Identify and explain three serious mistakes the board of Ardent Leisure made during the crisis.
   - (b) Outline a series of steps that the board and CEO of Ardent Leisure could have taken to manage the crisis more sensitively.

**EXTEND your understanding**

3. Why was the release of the news that Ardent Leisure had attempted to suppress a safety report three months before the accident so significant in the crisis management efforts of the company?
4. In the case of the Samarco tragedy, the CEO of BHP (the parent company) became the spokesperson in all matters relating to the incident, and even flew to Brazil to inspect the damage. In the Dreamworld example the CEO of the parent company, Ardent Leisure, did not appear until several days after the incident. Explain why it is important for the CEO to take charge in these situations.

### 5.18 Corporate social responsibility issues in establishing a customer base

**KEY CONCEPT** As is the case with all business practices, the use of marketing to establish a customer base involves making decisions that should be based on socially responsible principles.

Most marketing decisions can be judged to be ethical or unethical, legal or illegal. Sometimes, however, it is not so clear. What one person may consider reasonable could be totally unreasonable to another person. For example, some people think it is unethical to directly advertise unhealthy food products to children while others think it is fine. The concept of ‘reasonable’ limits is open to interpretation.
Marketing managers should never forget that the business exists as a result of its customers. By satisfying customers, a business may operate profitably. Dishonest or unethical marketing managers ultimately drive customers away. Failing to satisfy community expectations that businesses should set high ethical standards is very poor marketing practice.

5.18.1 Criticisms of marketing

Critics of marketing believe it lacks a strong code of professional conduct and sometimes blurs the lines between what is ethically right and wrong. The main ethical criticisms of marketing include:

1. Creation of needs — materialism. Businesses use sophisticated and powerful promotional strategies (particularly advertisements) to persuade and manipulate customers to buy whatever the business wants to sell. These promotional strategies create needs, many of which are artificial, by playing upon an individual’s emotions, which results in materialism.

2. Product placement. The use of product placement in entertainment (e.g. television shows) is generally subtle, such as a can of Coca-Cola seen when a refrigerator door is opened, while at other times products are prominently displayed. Critics argue that, because of its ‘concealed’ nature, this type of advertising blurs the line between what is advertising and what is entertainment.

3. Stereotypical images of males and females. In most advertisements it tends to be the male who uses the power tools, or who watches sport with his mates. Females, on the other hand, are portrayed preparing meals, cleaning the house or caring for the children.

4. Use of sex to sell products. There is often an overuse of sexual themes and connotations to sell products. Unrealistic images are portrayed as attainable. Although many people are sceptical of such claims, advertisements that use sex appeal can have a subtle and persuasive impact.

5. Truth and accuracy in advertising. Advertising can represent real ethical dilemmas for marketers. False or misleading advertising is not only unethical, it is also illegal. However, the use of terms such as ‘special’, ‘great value’, ‘low fat’, ‘light’ and ‘once in a lifetime offer’ can be interpreted in many different ways.

6. Invasion of privacy. The tracking of web users and using this information to target them with advertisements may breach consumer privacy laws. In 2010, the California-based data exchange company BlueKai had the computer addresses and ‘purchasing intent’ for about 8 million Australians who used the internet to search for information about holidays, motor vehicles and online shopping.

7. Sponsorship deals. Much attention is being given to the ethical issues related to company sponsorship arrangements, especially those involving schools. Two ethical issues raised include direct marketing to children and the overcommercialisation of schools.
8. The marketing of junk food to children. The marketing of junk food — which is often portrayed as an essential part of a balanced diet — is strongly criticised by nutritionists and health advocates, especially as childhood obesity rates approach epidemic proportions. Kellogg's Coco-Pops O's, for example, promoted as a source of fibre, has 33.4 grams of sugar for every 100 grams.

DID YOU KNOW?
Businesses are keen to use product placement because it allows them to reach savvy but advertisement-weary consumers. The James Bond films pioneered the promotion of automobiles using product placement. In the movie Spectre, Bond is seen using Globe Trotter luggage, a Sony Xperia Z5 mobile phone, Macallan whisky, an Aston Martin car, Heineken beer, an Omega Seamaster 300 watch, Tom Ford clothing, and Vuarnet sunglasses. Companies pay millions for product placement in Bond films.

‘SPECIAL’ — WHAT DOES IT MEAN?
What precisely does the word ‘special’ mean when it is displayed above a product for sale? Most customers would take this to mean the item is for sale at a cheaper than normal price. However, this may not necessarily be the case. The marketer may interpret the word ‘special’ to mean that the product has a distinct or particular character, that it can perform a particular function, or that it is different from what is ordinary or usual. The two interpretations can easily be confused. If the marketer uses this word attempting to knowingly mislead customers, then this would be classified as unethical behaviour. If the marketer wants to advertise the fact that the product is available at a bargain price, then the words ‘on special’ would have a clearer meaning.

When consumers discover that advertisements are untrue or inaccurate, they may feel cheated and stop buying the product. They may also decide to complain to the relevant government agencies, in which case the bad publicity this generates can do untold long-term damage to a business's reputation.

DID YOU KNOW?
Other criticisms of marketing practices are:
- High advertising costs are passed on to the customers in higher prices.
- Advertising wastes resources.
- The desire to make money overrides ethical considerations.

5.18.2 Socially responsible marketing
In addition to ensuring a customer focus, a business can take some specific steps to market its products or services in a manner that is of genuine benefit to the community. Examples include community sponsorships and green marketing.

Community sponsorships
Engaging with the local community and supporting local organisations can be a positive and socially responsible means of marketing a business. Many businesses provide sponsorship for local sports teams, both through cash donations, as well as through the donation of equipment or facilities. In return, the business can display signage at the relevant sports ground or clubrooms, and may also display a sponsorship certificate at its own business premises. Local businesses also help sponsor activities at schools and other community organisations. Not only does the business gain exposure for its brand name, but the local community also benefits.
Green marketing

As society becomes more aware of environmental issues, marketing products and services that minimise environmental damage is likely to increase the chances of business success. Simply claiming to be ‘environmentally friendly’ or ‘recyclable’ does not necessarily qualify as green marketing. It would be expected that the business might incorporate the following:

- product modification, to ensure the raw materials used are sustainable
- changes to the production process to minimise environmental damage through waste products
- changes to packaging to encourage recycling
- modified advertising practices, such as no longer using junk mail pamphlets or flyers.

Governments are increasingly legislating to tighten environmental controls on business, so it is not in the interests of business success to ignore environmental issues. It makes greater sense to get ahead of likely government regulation and explore green alternatives before being forced to do so. Businesses found to be operating in a way that is environmentally harmful invariably attract bad publicity. Competitors are likely to be improving their environmental impact and customers will look favourably upon environmentally friendly initiatives, so exploring green marketing should be a priority for all businesses.

5.18 Activities

TEST your understanding

1. Why is it sometimes difficult to decide whether a marketing strategy is ethical or unethical?
2. In a recent survey of 350 Australian and overseas marketing managers, 64% responded ‘yes’ to the question: ‘Is it reasonable behaviour to bend the law if you do not actually break it?’ How would you answer this question? Explain your response.
3. You have been asked by your manager to place a ‘special’ sign on a number of items, but the price is not to be lowered. Is this an ethical or unethical practice? As an employee, what could you do? Compare your answer with that of other class members.
4. ‘Marketing creates needs, it does not satisfy existing ones.’ Discuss.
5. Select which two criticisms of marketing you think are the most important. Give reasons for your answer.
6. In groups of three or four, critically analyse the ethical issues involved in:
   a) advertising to young children during morning television programs
   b) using sexual overtones and imagery in advertisements
   c) the use of celebrity figures to recommend products.
7. Explain the benefits to a business of engaging in community sponsorship.
8. Outline the types of activities that a business should engage in as part of a green marketing strategy.
9. Many businesses claim to be environmentally friendly, but it is little more than ‘spin’ designed to make them look good. Develop a list of questions you could ask a business owner to determine whether or not the business is genuine in its environmental credentials.

APPLY your understanding

10. ‘Advertising can get people into a store, but it can’t make them buy.’ Discuss.
11. Use the Australian Marketing Institute weblink in the Resources tab to examine the association’s marketing code of ethics, and then answer the following questions:
   a) What is the purpose of a code of ethics?
   b) Identify the four guiding principles of the code of ethics.
   c) State the penalty for any AMI member found to be in violation of the code of ethics.
EXAM practice

12. Explain why product placement may be regarded as an unethical marketing method. (2 marks)

13. An online betting company offers to donate money to a number of local basketball clubs in return for the clubs displaying its logo on the team shirts. Explain the corporate responsibility issues that arise from such an arrangement. (4 marks)

Resources

Weblink: Australian Marketing Institute

5.19 APPLY YOUR SKILLS: Establishing a customer base, marketing and establishing positive public relations

PRACTISE YOUR SKILLS

- Define, describe and apply relevant business management concepts and terms
- Apply business management knowledge to practical and/or simulated business situations
- Evaluate the costs and benefits of establishing a customer base, marketing a business and establishing positive public relations

MARKETING SUPERANNUATION

In 1992, the Australian government set up a compulsory superannuation system, known as the 'superannuation guarantee' system. Under this system, employers are required to contribute an amount equivalent to 9.5 per cent of employees' wages and salaries. The guarantee applies to all employees over 18 years of age earning more than $450 per month. The aim of the scheme is to provide retirement income for Australian employees, and thus reduce reliance on the government-provided Age Pension. Employers are required to make superannuation guarantee payments into a designated superannuation fund. Most employers will select a particular fund and make all their contributions to that fund on behalf of their employees. These are known as default funds. Employees also have the right to select their own fund and request that their employer make contributions to that fund.

Australians have over $2.2 trillion dollars invested in superannuation, so there is a great deal of competition between more than 500 superannuation funds operating in Australia. There are several types of funds, but the main two are:

ISA is the umbrella organisation that represents and markets the products offered by industry superannuation funds.
retail funds, run by banks and other financial institutions. The owners of these funds seek to make a profit from managing the funds by charging various fees and commissions. The majority of retail funds are owned by the four big banks, which seek to return a profit to their shareholders.

industry funds, run by unions and employers in particular industries. These are run on a not-for-profit basis, so charge much lower fees for the management of their funds. There are 16 major industry funds in Australia, including funds such as Hostplus (for hospitality industry employees), Hesta (for employees in the health industry) and Cbus (for building industry employees). Most were originally set up as default funds for the relevant industries.

Attracting employers to nominate a particular fund as their default fund is a major marketing exercise for many superannuation funds. Likewise, attracting employees to choose a particular fund involves a great deal of marketing activity.

Super funds accused of aggressive marketing
In January 2017, the Australian Securities and Investment Commission (ASIC) announced that it would review the activities of up to 50 retail superannuation funds. It believed that many of these had been targeting employers with aggressive marketing and inducements to encourage them to sign up to their funds as default funds. In 2015, the umbrella organisation that represents industry funds, Industry Super Australia (ISA), had carried out research into the activities of retail funds owned by the four big banks. They accused the four banks, CBA, NAB, ANZ and Westpac, of offering businesses inducements, such as cheaper interest rates on business loans, reduced insurance premiums, and even tickets to major sporting events, in return for those businesses switching to the bank's retail fund as their default fund. Such inducements would be illegal, and the banks denied the accusations.

Industry funds record promotion spend
In the financial year 2016–17, industry superannuation funds spent more than $37 million on media promotion. This included $9.4 million spent by ISA, the umbrella organisation for the 16 industry funds. Many of the advertisements were of the 'Compare the pair' type, which compared the likely superannuation payouts of two workers on the same income who were making the same contributions — one to an industry fund and the other to a retail fund. The campaign pointed out that because of lower fees, industry funds would provide a considerably higher payout at retirement. The advertisements were designed to encourage those in an industry fund to remain with that fund, and to convince those in a retail fund to switch. Spending on promotion by industry funds was 54 per cent higher than that of retail funds for that period of time. Representatives of the industry funds justified this expenditure by pointing out that many employees are largely uninterested in superannuation and need to be educated about making more informed choices.
5.19 Activities

TEST your skills
1. What alleged marketing activities by retail super funds did ASIC investigate?
2. What was the likely objective of these alleged activities?
3. Explain the key message behind the ISA marketing and public relations campaign.
4. How did ISA representatives justify this expenditure on marketing and PR?

APPLY your skills
5. Identify the customer base that the retail funds were attempting to appeal to with their alleged marketing activities.
6. (a) Identify the costs and benefits of establishing a customer base.
   (b) The task word (sometimes referred to as command word or instructional word) ‘evaluate’ generally requires you to consider both sides of an issue, and then provide an overall conclusion or judgement related to which argument is the more persuasive and why. Using the information you have listed in part (a), evaluate the costs and benefits of establishing a customer base.
7. In addition to the customer base, which additional publics’ attitudes towards retail funds might be affected by the alleged activities of these funds?
8. If the allegations were true, and information about these activities became public, what impact might they have on the retail funds’ image?
9. Outline a process that retail funds could use to deal with this impact on their image.
10. (a) Identify the costs and benefits of establishing positive public relations.
    (b) Using the information you have listed in part (a), evaluate the costs and benefits of establishing positive public relations.
11. What is the target market of the ISA ‘Compare the pair’ campaign?
12. Outline two costs and two benefits of the $37 million spent by industry funds on media promotion.
13. (a) Identify the costs and benefits of marketing a business.
    (b) Using the information you have listed in part (a), evaluate the costs and benefits of marketing a business.

5.20 Review

5.20.1 Summary

The relationship between marketing, establishing a customer base and business objectives

- Marketing involves:
  - creating a product or service that a consumer wants, at a price that he or she can afford
  - raising awareness of the product or service (promotion)
  - distributing the product or service so that it reaches the customer at the right time and location.
- It is important for a business to identify its customer base (i.e. the type of person who is likely to purchase its product).
- Business objectives are goals the business wishes to achieve. In order to achieve business objectives, marketing objectives and strategies must be established. Market strategies should take into account objectives such as increasing sales, increasing market share, expanding the size of the business and maximising customer service.
- Relevant performance indicators, such as sales performance, movements in market share and changes in market profitability, should be monitored and evaluated by effective managers.
External and internal environment factors affecting the establishment of a customer base and brand identity

- In promoting a positive brand identity, a business will have to consider both external and internal factors.
- Internal factors, such as the business owner, employees and business culture, can affect the successful establishment of a customer base.
- The development of a customer base can be affected by factors in the external operating environment, such as customers, suppliers and competitors.
- Factors in the external macro environment, such as economic, government, technological and social forces can also impact on the establishment of a customer base.

Market research practices

- Market research involves determining what information needs to be discovered, the collection of primary and secondary data, and the analysis and interpretation of the collected data.
- Market research is the process of gathering information to assist business owners in making informed decisions about the marketing of the business.

Target market attributes — market dimensions and segments

- Market segmentation divides the consumer market according to demographic, geographic, psychographic and behavioural dimensions.
- A business will usually select a particular segment to become its target market.
- The target market provides the major source of revenue, while smaller, less significant segments may make up the secondary target market.
- A business may also target a niche market.

Target market attributes — consumer trends and behaviour

- Successful marketers need to be aware of changes in social trends and consumer lifestyles to ensure they are maintaining or extending their customer base.
- Businesses will also need to be aware of factors affecting customer behaviour, including psychological influences, sociocultural influences, economic influences and government influences.

The 7Ps of marketing

- A business will have a product to sell to its customers. This product can be a good, service, experience, information or idea.
- A business will seek to create a brand identity for its products to differentiate itself from competing businesses.
- Pricing the product is important to both maximise sales and to ensure the business makes a profit.
- Place is an important part of the marketing mix, as it refers to the ability of the business to deliver the product to the customer wherever they choose to purchase it.
- Promotion is the means by which the business communicates with both existing and potential customers and can include both advertising and public relations.
- People, particularly employees, are an important part of the marketing mix because their interactions with customers can influence customer loyalty.
- Physical evidence is an important part of the marketing mix as it refers to the information provided by a salesperson, the physical state of a business premises and access to feedback from existing customers.
- Businesses need to have processes and operating systems in place that make it easy for the customer to make purchases.

The product life cycle: introduction, growth, maturity, decline and extension

- Products have a life cycle that passes through the stages of introduction, growth, maturity, decline and extension.
- Extension strategies are strategies that extend the life of a product by increasing demand for it; they can include exporting the product or diversifying and finding new markets.
Customer relations strategies
- Business owners and managers should be proactive in providing quality customer service.
- Customer relations strategies can include treating complaints and requests for refunds and replacements in a positive manner.
- Businesses can also use customer loyalty programs, an online presence and connecting with the multicultural community as customer relations strategies.

Public relations and its relationship to business objectives
- Public relations that is effective promotes favourable attitudes and goodwill towards the business from the ‘publics’ that have a vested interest in the business.
- Public relations is a two-way communication process between a business and its clients or customers.
- Successful public relations will have a positive impact on areas such as customer relations, sales and profits as well as inform the public about new products.
- Unlike advertising, which uses paid messages to a business’s publics via the mass media, public relations generates positive ideas through unpaid third parties such as press releases, talkback radio or celebrity comments, editorials or journalists’ views, which are presented as facts.
- Image is hard won and easily lost. It can be achieved through various means, including logo and business ‘look’, customer service, employee behaviour and appearance, quality of products, public interface and advertising.
- Public relations plays a major role in creating and maintaining the image of a business.
- ‘Publics’ that scrutinise businesses can be internal, general, local, media, citizens-action or government groups.

Public relations strategies
- Good public relations will guard against the negative impact of future contingencies that may arise in the quality or supply of some products sold by the business.
- The S.M.A.R.T. principles can be applied to ensure that the objectives developed for a public relations campaign are specific, measurable, attainable, relevant and time-bound.
- There are five main development stages in a public relations campaign: establish objectives; identify intended publics; develop specific strategies and tactics; implement the campaign; and evaluate the results.
- Planned public relations campaigns involve such things as advertising, posters, news conferences, and the use of social media.
- Unplanned public relations campaigns are the result of such things as oil spills, food poisonings, pollution fraud or other unforeseen negative events. Businesses can prepare for such events by establishing a command chain, selecting a ‘crisis team’, fully briefing a spokesperson, and by anticipating questions and thoroughly preparing honest and full responses with a view to minimising potential damage to the image of the business.

Corporate social responsibility management issues
- Those involved in marketing need to be aware that it is an activity that is often criticised, as many believe its lacks a strong code of conduct. Therefore, it is important not to act in a way that confirms these criticisms.
- Socially responsibility marketing can include the sponsorship of community organisations and highlighting the positive environmental elements of the product being marketed.
### 5.20.2 Key terms

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
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<tbody>
<tr>
<td>advertising</td>
<td>a paid, non-personal message communicated through a mass medium</td>
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<tr>
<td>advertising media</td>
<td>the many forms of electronic and print communication used to reach an audience</td>
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<tr>
<td>brand or brand identity</td>
<td>a name, term, symbol, design or any combination of these that identifies a specific product and distinguishes it from its competition</td>
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<tr>
<td>brand name</td>
<td>that part of the brand that can be spoken</td>
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<tr>
<td>brand symbol or logo</td>
<td>a graphic representation that identifies a business or product</td>
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<tr>
<td>consumer buying behaviour</td>
<td>the decisions and actions of consumers when they purchase goods and services for personal or household use</td>
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<tr>
<td>crisis communication plan</td>
<td>outlines the policies and procedures to follow when handling unfavourable publicity and news personnel when a crisis occurs</td>
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<tr>
<td>culture</td>
<td>all the learned values, beliefs, behaviours and traditions shared by a society</td>
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<tr>
<td>customer attitude</td>
<td>a person's overall feeling about an object or activity</td>
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<tr>
<td>customer base</td>
<td>the group of customers who might be expected to purchase a business's goods and services</td>
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<tr>
<td>customer service</td>
<td>responding to the needs and problems of the customer. Central to this response is making sure the desired product is delivered at the appropriate place at the right time.</td>
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<tr>
<td>distribution channels</td>
<td>the routes taken to get the product from the factory to the customer</td>
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<tr>
<td>diversification</td>
<td>when businesses vary their range of products or their field of operations</td>
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<tr>
<td>e-marketing</td>
<td>the practice of using the internet to perform marketing activities</td>
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<tr>
<td>exports</td>
<td>goods or services sold by one country to individuals, businesses or governments in another country with the aim of extending sales and market penetration</td>
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<tr>
<td>external data</td>
<td>published data from outside the business</td>
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<tr>
<td>image</td>
<td>how a business is perceived by the world at large, especially consumers</td>
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<tr>
<td>internal data</td>
<td>information that has already been collected from inside the business</td>
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<tr>
<td>market</td>
<td>the number of all actual and potential buyers of a product</td>
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<tr>
<td>market coverage</td>
<td>the number of outlets a business chooses for its product</td>
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<tr>
<td>market dimensions</td>
<td>those broad elements that allow a potential market segment to be identified</td>
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<tr>
<td>market segmentation</td>
<td>when the total market is subdivided into groups who share one or more common characteristic</td>
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<tr>
<td>market share</td>
<td>the business’s share of the total industry sales for a particular market or product</td>
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<tr>
<td>marketing</td>
<td>‘the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organisational objectives’ (American Marketing Association)</td>
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<tr>
<td>marketing data</td>
<td>the information — usually expressed as facts and figures — relevant to the defined marketing problem</td>
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<tr>
<td>marketing mix</td>
<td>the combination of seven elements — product, price, place promotion, people, physical evidence and process (the 7Ps) — that make up the marketing strategy</td>
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<tr>
<td>marketing plan</td>
<td>a document that lists activities aimed at achieving particular marketing outcomes in relation to a good or service. The plan provides a template for future action aimed at reaching marketing objectives, such as establishing a customer base</td>
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<tr>
<td>marketing profitability analysis</td>
<td>a method used by the business to break down its total marketing costs into specific marketing activities</td>
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<tr>
<td>materialism</td>
<td>an individual's desire to acquire more possessions</td>
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<tr>
<td>media</td>
<td>the assorted public relations communication strategies available to convey the image to the selected publics</td>
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<tr>
<td>motives</td>
<td>the reasons that individuals do something</td>
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<tr>
<td>niche market</td>
<td>a narrowly selected target market segment</td>
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<tr>
<td>non-store retailing</td>
<td>retailing activity conducted away from the traditional store</td>
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<tr>
<td>packaging</td>
<td>the development of a container and the graphic design for a product</td>
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<tr>
<td>peer group</td>
<td>a group of people with whom a person closely identifies, adopting their attitudes, values and beliefs</td>
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<tr>
<td>percentage mark-up</td>
<td>increase to the cost price by a fixed percentage to give the selling price</td>
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<tr>
<td>personal selling</td>
<td>the activities of a sales representative directed to a customer in an attempt to make a sale</td>
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<tr>
<td>personality</td>
<td>the collection of all the behaviours and characteristics that make up that person</td>
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<tr>
<td>price</td>
<td>the amount of money the customer pays to be able to enjoy a product</td>
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<tr>
<td>primary data</td>
<td>the facts and figures collected from original sources</td>
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</table>
primary target market  the market segment at which most of the marketing resources are directed
product  is a good, service, experience, idea or information that can be offered in an exchange for the purpose of satisfying a need or want
product life cycle  the stages a product passes through: introduction, growth, maturity, decline and extension
product mix  the total range of products offered by a business
product placement  the inclusion of product advertising in entertainment
product positioning  the development of a product image compared with the image of competing products
promotion  the methods used by a business to inform, persuade and remind a target market about its products
promotion mix  the promotion methods a business uses in its promotional campaign. Methods include personal selling, advertising, and publicity and public relations.
psychological factors  influences within an individual that affect his/her buying behaviour
public relations campaign  a series of public relations activities undertaken to achieve a specific objective
public relations  the planned and sustained effort to establish and maintain goodwill and mutual understanding between a business and its publics. It involves the activities aimed at creating and maintaining favourable relations between a business and its publics.
promotion any free news story about a business’s products or services
publics  groups that the business interacts with and that have a vested interest in, or impact on, the business’s ability to achieve its objectives
quote  an estimate of the costs involved with an individual job, plus a certain amount so the business makes a profit
risk management  the process of identifying the risks to which a business is likely to be exposed and determining the best way to deal with them
sales analysis  uses sales data to evaluate the business’s current performance and the effectiveness of the marketing mix
secondary data  information that some other person or business has already collected
secondary target market  usually a smaller and less important market segment
sociocultural influences  forces exerted by other people that affect customer behaviour
statistical interpretation analysis  the process of focusing on the data that represent average, typical or deviations from typical patterns
survey  gathering data by asking questions or interviewing people
target market  a group of customers with similar characteristics who currently purchase the product or may do so in the future

5.20.3 Review questions

TEST your understanding
1. Outline the importance of marketing to a business.
2. What is meant by the term ‘customer base’?
3. ‘Marketing is a waste of money!’ Discuss the merits of this statement.
4. If you wanted to sell snow gear and skis, describe your likely target market, using as your guide the information in section 5.5.1 that illustrates common elements or dimensions for segmenting target markets.
5. Distinguish between primary and secondary target markets and give an example of each.
6. Name a factor you believe is currently influencing consumer behaviour and explain, in business terminology, in what market you think this influence is occurring and why.
7. What is an item of significance to you that you purchased recently? Were you satisfying a need or a want? What ‘psychological influences’ may have affected your choice?
8. Why should the marketing strategies change as a product advances through the stages of its life cycle?
9. Why is it important for businesses to undertake market research?
10. Identify the intangible benefits that products may contain.
11. Briefly outline the four marketing elements that make up the marketing mix.
12. How does having a clear understanding of the target market improve the efficiency of the marketing plan?
13. Predict what may happen to the level of sales if a product’s packaging does not match its position.
14. Which advertising media do you consider to be the most effective if a business wants to communicate with a niche market? Give reasons for your answer.
15. How do government policies and regulations influence the marketing environment?
16. Explain whether you consider product placement to be an ethical or unethical marketing strategy.
17. Which is your favourite breakfast cereal? As a marketing manager, how could you increase its market share? Present two sound business marketing ideas and justify how each idea could improve the market share of the product you have chosen.
18. Why do many businesses engage the services of professional media monitors?
19. In pairs, list the elements that combine to create:
   (a) a positive image of a business
   (b) a negative image of a business.
20. Identify the publics for the following businesses:
   (a) your local convenience store
   (b) an employment agency
   (c) your local dentist.
21. Devise the public relations objectives for an engineering factory that wants to improve its image within the local community because of residents’ concerns that it may be a major source of air pollution.
22. A crisis has occurred. List the elements of the crisis communication plan that should be activated within:
   (a) one day
   (b) three days
   (c) one week.

APPLY your understanding
23. Develop a strategic marketing plan for your school’s tuckshop. Explain how it could maximise its customer service. Predict what major problems it would face in trying to expand off campus.
24. In the 1960s, after Volkswagen management introduced a marketing plan to build and sell their Beetles in Australia, what performance indicators could the VW managers have implemented to monitor the degree of success of their plan?
25. Research the spending patterns of your household by listing, with a responsible adult member, the most expensive 10 items paid for in the past 2 months. State whether these items were goods or services. Does your research support the fact that the bulk of household expenditure is on the services provided to families rather than on goods?
26. What product has your household purchased online in recent times? Online shopping has its benefits and dangers. Make a list of the pros and cons of shopping on the internet.
27. Do you believe internet shopping will expand in the future? What implications would your predictions have for current shopping practices?
28. Imagine you have been appointed public relations officer for your school.
   (a) Outline your role by referring to the tasks you would perform.
   (b) Research the personal qualities and skills you would need in order to perform this task effectively.
   (c) How would you change the current public relations activities undertaken by your school?
29. The local paper has accused a local sporting club of allowing rough play that has resulted in an opposition player being hospitalised. Prepare a crisis communication plan to minimise the damage to the sporting club.

EXAM practice

30. Ace Legal Solutions is a firm of solicitors operating in the Melbourne CBD. Realising that many people who need legal advice don’t want to travel into the city centre, the owners decide to set up two branch offices in suburban shopping centres — one in the northern suburbs, and one in the south-eastern suburbs.

(a) What would be the potential customer base of each of the new branches? (2 marks)
(b) Identify one factor in the external environment that could have an impact on the marketing strategy needed to establish the new branches. Explain what that impact might be. (4 marks)
(c) Explain how the business owners could use the three-step process to market research to help them develop a market plan. (6 marks)
(d) How might each of the following influence the marketing mix to be used by the legal firm in marketing the services offered by its new branches?
   • Price (2 marks)
   • Place (2 marks)
   • People (2 marks)
   • Physical evidence. (2 marks)

31. Explain how a business might use market segmentation to help it identify its target market. (5 marks)

32. All products go through different stages of a life cycle.

(a) Explain each of the four main stages of the product life cycle. (4 marks)
(b) Analyse two ways in which a product can be revived and enter an extension stage. (4 marks)

33. Chloe has established a bakery in a suburban shopping strip. She is keen to establish a favourable image for her business.

(a) Identify two elements that can make up a business’s image and explain how each would contribute to that image. (6 marks)
(b) Evaluate the costs and benefits of Chloe establishing positive public relations. (5 marks)

34. One of Chloe’s customers has discovered a dead cockroach in a birthday cake that she has sold. She needs to implement a crisis communication plan.

(a) Explain the term ‘crisis communication plan’. (2 marks)
(b) Propose and justify two public relations strategies for responding to the crisis at Chloe’s business. (6 marks)
5.20.4 School-assessed coursework

OUTCOME 2

Explain the importance of establishing a customer base and a marketing presence to achieve the objectives of the business, analyse effective marketing and public relations strategies and apply these strategies to business-related case studies.

ASSESSMENT task — case study analysis

Read the following case study and then complete the questions.

Enviro-Safe Demolitions

Enviro-Safe Demolitions is a house demolition company operating across the Melbourne metropolitan area, as well as in some regional centres. The business specialises in demolishing older houses in popular suburbs, making way for new units and townhouses on the larger blocks of land often found in these suburbs. The growth in the development of this type of housing has led to a high demand for demolition services by builders and developers and increasing numbers of demolition businesses entering the market. Enviro-Safe has been in the business for 20 years but is feeling under pressure from new entrants into the demolition industry.

1. What is the customer base of Enviro-Safe Demolitions?
2. Identify two business objectives of Enviro-Safe Demolitions and explain how each of these might affect the business’s marketing plan.
3. The owners of the business wish to carry out some market research. Outline one method of market research that could be used and explain the benefits of using that method.
4. Does this business offer a tangible or an intangible product? Explain your answer.
5. Explain how this business has used branding as a means of creating an image of the product it offers.
7. Analyse the significance of the element of ‘place’ in the marketing mix of Enviro-Safe Demolitions.
8. Identify two methods that this business could use to promote itself to potential customers.
9. Explain how Enviro-Safe Demolitions can use each of the following in its marketing mix:
   (a) people
   (b) physical evidence
   (c) process.
10. Explain two strategies that Enviro-Safe Demolitions could use to ensure excellent customer relations.
11. Evaluate the costs and benefits of Enviro-Safe Demolitions marketing its business.
12. Many people in well-established suburbs are unhappy about older houses being demolished to make way for multi-storey flats and units. The owners of Enviro-Safe Demolitions want to use a public relations strategy to maintain a positive image. Explain how they can use the following stages to develop such a PR campaign:
   (a) establish the objectives
   (b) identify the intended publics
   (c) develop the PR strategies and tactics
   (d) implement the PR campaign
   (e) evaluate the results.
13. Part-way through the demolition of a nineteenth-century house, the local newspaper reveals that the house is the birthplace of a former prominent state premier. The local community campaigns to have the house added to the heritage list and preserved. The reputation of Enviro-Safe Demolitions is put at risk because the local campaigners describe the company as ‘vandals’. Devise a crisis communication plan that will help maintain the good reputation of the company.

Resources

Digital doc: School-assessed coursework (doc-29427)