Managing the marketing function

WHY IT IS IMPORTANT
Imagine walking into a gymnasium and, instead of the smell of sweaty gym clothes, being greeted by the invigorating aroma of green apple or peppermint. Using different scents to appeal to customers is one of the latest marketing strategies being used by a variety of businesses. Scent Australia is a business that specialises in providing different scents for a variety of commercial locations. Scent diffusers can be placed into air conditioning systems, from where they spread an appealing aroma throughout the premises. Business owners regularly report that customers comment favourably on the atmosphere created by having a pleasing scent throughout the business. Hotels, shopping malls, clothing stores, hair and beauty salons, and even corporate offices are finding that a pleasant aroma in a business environment is a valuable marketing tool.

WHAT YOU WILL LEARN
KEY KNOWLEDGE
Use each of the points below from the Business Management study design as a heading in your summary notes.

- The marketing function and its relationship to business objectives and business strategy
- Market research processes, including information needs, data collection tools and techniques, analysis and interpretation
- Market attributes, including market dimensions, segments, consumer trends and behaviour
- Key elements of a marketing plan:
  - establishing objectives
  - market description
  - the marketing mix (product, price, place and promotion) and related strategies
  - product life cycle: innovation, introduction, growth, maturity, decline, and extension strategies such as exporting and diversifying
- Issues in marketing, including the role of technology, in the global business context and in the context of ethical and socially responsible management and legal requirements
- Relevant performance indicators to evaluate effective marketing strategies

KEY SKILLS
These are the skills you need to demonstrate. Can you demonstrate these skills?
- accurately use relevant management terms
- acquire and exchange business information and ideas
- analyse business information and data
- research aspects of marketing using print and online sources
- apply knowledge of marketing strategies to practical and/or simulated business situations
- analyse issues related to marketing.
Edible Blooms, an Australian-based gourmet gift company, was started in 2005 by Kelly Baker. Offering a twist on the usual flowers and gifts, the unique business specialises in edible bouquets made of chocolate, fresh fruit, cookies, and even beer and champagne. Originally operating from one owner-operated outlet in Brisbane, the business has expanded rapidly and now has a national production and delivery network, and one of the busiest flower and gift websites in Australia.

With a background in marketing and business development, Kelly appreciates the importance of developing the right marketing mix for the business. Edible Blooms modifies its product range to suit specific target markets. For example, corporate clients can have their gifts wrapped in their company’s colours and even have their logo on Christmas cookies. Approximately half of the gift bouquets ordered through Edible Blooms are delivered to male recipients, something a traditional florist business would not be able to easily achieve.

Kelly complements her core business values — outstanding customer service, high-quality products and value for money — with innovative e-marketing and traditional branding strategies to achieve continued growth. The online side of the business has grown rapidly, and presently accounts for about 70 per cent of sales. Kelly uses an e-newsletter to inform customers of new products, and this is an important marketing tool. Word-of-mouth promotion and online e-marketing campaigns, such as Google AdWords, have proved highly successful marketing strategies. She also uses social media as part of her marketing strategies. Facebook fans receive alerts on special offers and engage in discussion on the site, and the fun link allows people to send their friends virtual blooms.

People can also follow Miss Bloom on Twitter.
The marketing function and its relationship to business objectives and strategy

**KEY CONCEPT** A market-focused business needs to create and market products that consumers will purchase in order to make a profit.

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.

**Coke — a successfully marketed product**

Coca-Cola's Coke soft drink was released on 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.

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.

**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 multi-faceted activity.

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. Business owners need to view their business in terms of the needs and wants of their customers. As competition intensifies, it will be their marketing philosophy that will help their business face the competition and succeed.

For businesses that adopt a customer-oriented approach, the customer relationship does not end with the sale; it begins there. These businesses will continuously strive not simply to meet but exceed customer expectations. This means that, at every level of the business, employees should work towards customer satisfaction by establishing positive relationships with customers.

**Meeting business objectives through marketing**

A common business objective is to make and increase profit. To translate this business objective into reality, a marketing plan must be prepared that sets out a series of actions or strategies that can be used in order to achieve greater sales.

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, therefore, a powerful strategy available to help achieve a business’s objectives.

To achieve the objective of profit maximisation, the marketing plan should be the focus of both short-term and long-term planning for three reasons.

1. The marketing plan outlines the strategies to be used to bring the buyer and seller together. The business needs to be able to identify:
   - where the market is
   - who will buy the product
   - why and how often they will buy the product.
2. The core of marketing is satisfying existing customer wants, which should lead to repeat sales.
3. Marketing is the revenue-generating activity of any business. Nothing is achieved until a sale is made.

A successful business develops a marketing plan based on careful research and design. The customer should always be the central focus of the marketing plan. To do this successfully, a business should adopt the marketing concept approach.

**The marketing concept approach**

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

The marketing concept is a philosophy that all sections of the business are involved in satisfying a customer’s needs and wants while 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 become 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 success of the marketing plan. 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 in place 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. It is important to remember that 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 product or service that is desirable to customers.

**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 [customer-oriented approach].
   (b) This means the business wants to [meet customers’ needs and wants rather than merely produce products].
   (c) To achieve the [objectives and make a profit], a business needs to [stimulate sales].
   (d) A [marketing plan helps in achieving objectives].

4. The ‘marketing concept’ is a business philosophy adopted by many modern businesses. Read the following three pairs of statements, choose the statement that best represents the business that has adopted the ‘marketing concept’ approach and 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 shall have to undertake some market research to find out why’.

**APPLY your understanding**

5. Write a report containing 10 dot points that reflect key features of your new understanding of marketing.
6. Use the library and the Internet to undertake your research, then produce a one-page report on the marketing of Pepsi Cola. Mention similarities and differences between the marketing of Pepsi and that of its main rival, Coca-Cola.
7. ‘Businesses that neglect the importance of marketing will experience diminished sales and reduced profits.’ Discuss this statement in approximately 200 words.
8. ‘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.
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.

<table>
<thead>
<tr>
<th>STEP</th>
<th>EXPLANATION</th>
</tr>
</thead>
<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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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.
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.
As we saw on pages 52–3, Andrew Curry is the owner-operator of Miracle Massage. We know how Andrew established his business, so now let’s look at how he conducts his 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.

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**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 organisations. 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.

**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.

**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 list below:
   - relevant
   - achieving
   - resources
   - information
   - investigated
   - 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.
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. **Market segmentation** divides the consumer market according to four elements or 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. Fanta has as its primary target market 13- to 16-year-old teenagers. Mount Franklin is aimed at younger females and families, whereas Powerade and Pump have as their core market 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.

**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.**
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. 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 comes 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!

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 last 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.
Beau Wilkes is owner-operator of a retail florist store called Beau’s Floral Studio. The business provides fresh and dried flowers and associated product lines for all occasions. The business markets to a wide cross-section of the population within the surrounding suburbs, but particularly to females aged 15–65 years and males aged 15–25 years.

Size of target market

**Potential**

Beau’s potential target market consists of approximately 74,000 people who live in the surrounding suburbs.

**Actual**

Beau’s primary target market consists of females aged 35–65 years who decorate their homes with floral displays. The two secondary markets consist of:

- females aged 15–65 years who purchase flowers for special occasions
- males aged 15–25 years who purchase flowers for their partners.

These target markets are important because they represent repeat customers who are essential for the business’s long-term survival. The primary target market consists of approximately 21,000 people. It can be further subdivided according to the benefits sought by the customer, as shown by the following table.

### Subdivision of target market

<table>
<thead>
<tr>
<th>Benefits sought by customer</th>
<th>Customer characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comfort (sickness and sympathy)</td>
<td>Male and female, aged 15 years and above</td>
</tr>
<tr>
<td>Beauty (floral displays)</td>
<td>Predominantly female, aged 35–65 years</td>
</tr>
<tr>
<td>Happiness (weddings and parties)</td>
<td>Predominantly female, aged 15–50 years</td>
</tr>
<tr>
<td>Affection</td>
<td>Predominantly male, aged 15–45 years</td>
</tr>
</tbody>
</table>

Target market dimensions

**Geographic**

Beau’s Floral Studio targets the residents of the local area. Sales to customers from outside the surrounding suburbs are only occasional, not regular, and do not constitute an important segment for the purposes of her marketing plan.

**Demographic**

Customer research data collected over the past 12 months reveal that 67 per cent of customers were female and 33 per cent were male. Females aged 35–65 years were the most common type of customer, making up 83 per cent of the total female customer base. Males aged 15–25 years made up 78 per cent of the total male customer base.

**Purchase decision maker**

Predominantly, the purchase of fresh and dried flower arrangements is considered to be a gift purchase, for either the individual or another person. The experience of a floral purchase should be considered within this context. A positive experience produces return business.

**Income level**

Beau’s Floral Studio caters for the middle to high income groups. These groups consist of individuals and households with high levels of disposable income. They do not perceive the buying of flowers as an infrequent luxury expenditure, but as a regular (weekly or fortnightly) purchase.

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**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 Beau’s Floral Studio.
4. What is the importance of these target markets to Beau’s Floral Studio?
5. What four variables does Beau Wilkes use to segment the target markets?
6. How does segmenting the total market help Beau Wilkes achieve her long-term business objective?

**APPLY your understanding**

7. Use your own knowledge of a small business belonging to or operated by one of your relatives or family friends. Research the small business of your choice and describe the following:
   (a) What are the primary and secondary target markets of the business you have chosen?
   (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?
**10.4 Market attributes — consumer trends and behaviour**

**KEY CONCEPT** Businesses can predict consumer trends and how they may react to particular marketing strategies, if they are aware of the factors that influence the buying behaviour of consumers.

Consumer buying behaviour refers to the decisions and actions of consumers when they purchase goods and services for personal or household use.

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 refers to the decisions and actions of consumers when they purchase goods and services for personal or household use.

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:

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

Successful marketing begins with understanding why and how consumers behave as they do.

\- As the level of perceived risk increases, consumer involvement levels are likely to rise.

Most people are aware that environmental changes like global warming, and economic changes such as the world oil price hikes in 2011, have profoundly altered consumer buying behaviour. This was especially evident in the global new car market. Many consumers began 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 they may react to particular marketing strategies.
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.

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, health-care 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, goths are a subculture).
Skateboarders have developed their own subculture, with their own music (‘skate punk’), a favoured style of clothing, and the all-important skate shoe.

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.

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.

DID YOU KNOW?
The Australian Competition and Consumer Commission (ACCC) and the Australian Securities and Investments Commission (ASIC) are two important government regulatory authorities. Both bodies are concerned with protecting consumers from dishonest marketing practices.

TEST your understanding

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

APPLY your understanding

6 How do peer groups influence buying behaviour? Name some of your own peer groups and suggest how they influence your buying decisions.
7 In what ways might social class affect a person’s buying behaviour?
8 Collect a number of print advertisements from a magazine. Suggest the psychological and/or sociocultural influence to which each advertisement is appealing.
9 Describe a subculture to which you may belong. Identify purchases that are unique to your subculture.
10 How might marketers manipulate consumers’ buying behaviour? Give an example of such manipulation.
Everyone in the business needs to know the plan, so all departments are working towards achieving the business’s objectives. Such a plan is referred to as an integrated marketing plan.

There is no one set format for developing a marketing plan. Each plan will reflect the individual characteristics of the business. However, all marketing plans should have two features in common:

1. They should be realistic, given the business’s present situation.
2. They should be achievable within the business’s resources and budgets.

**Establishing objectives**

It is of little value for a business to plan and implement a marketing strategy without first deciding what its marketing objectives are. This decision is the single most important step in the marketing planning process. The marketing objectives should be closely aligned to the overall business objectives, but more customer-oriented than the objectives for the entire business. They are also concerned with products and markets. Three common marketing objectives include:

- increasing market share
- expanding the product range
- maximising customer service.

Such objectives can be measured and should include specific targets to be met — for example, ‘increase market share by 10 per cent within the next 12 months’.

**Increasing market share**

All marketing plans aim to achieve a specified market share. 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* 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 product range**

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

Of the objectives examined so far, maximising customer service is perhaps the most important. High levels of customer service will result in improved customer satisfaction and a positive customer reaction to the products purchased. This result establishes a sound customer base with the possibility of repeat purchases. Guidelines 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 correct today. Research has shown that one dissatisfied customer usually tells 11 others, who in turn will each tell another five.

Market description

The market description section of the marketing plan provides a description of the current state of the market in which the business operates. The main purpose of preparing a market description is that it determines a clear direction for the marketing efforts. A market description will include the following.

1 Details of the target customers. Who are the target market customers? Where are they located? How much will they buy and from where? At what price will they buy the product? What is their household income?
2 Details of the competitors. Who are the competitors? What is the level of competition? Where are they located? What are their product range, price points and marketing strategies? What are their strengths and weaknesses?

Most of the answers to these questions will come from the business’s market research. Then, from this information, conclusions can be drawn regarding the demand for the business’s products. Preparing a market description provides an insight into any significant market opportunities that neither the business nor any competitors are currently exploiting.

TEST your understanding

1 What is the purpose of a marketing plan?
2 What two features should all marketing plans have?
3 List the three most common marketing objectives.
4 In the following scenarios, which marketing objective is the business trying to achieve?
   A The business introduces a customer feedback form to measure the level of customer satisfaction.
   B The business decides to undertake an extensive promotional campaign in an attempt to attract new customers.
   C The business decides to offer a wider variety of products.
5 What information will be contained in the market description section of a marketing plan?

APPLY your understanding

6 ‘The most important step in the marketing planning process is the formulation of marketing objectives.’ How true is this statement? Give reasons for your answer.
7 ‘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.
8 Would a furniture manufacturer need a different marketing strategy for a large retail chain, like Myer, than for a single furniture store owned and operated by one person? Why?
The four Ps, product, price, place (distribution) and promotion, are referred to as the marketing mix. The marketing mix is the centrepiece of the marketing plan.

**The ‘product’ element of the marketing mix**
When you buy a book or 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 or service 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 this list of brand names and test yourself — what products do you associate with each brand name? Your score was probably 20 out of 20. You have just experienced the power of brand name recognition. The 20 businesses that market these brands have spent a lot of money making sure customers instantly recognize their brand name and the products associated with them. A brand name can be a powerful marketing tool.

A **brand** is a name, term, symbol, design or any combination of these that identifies a specific product and distinguishes it from its competition. 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.

**Examples of brand names — how many do you recognise?**

<table>
<thead>
<tr>
<th>Popular brand names</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Hurley</td>
<td>Holden</td>
</tr>
<tr>
<td>Kellogg’s</td>
<td>Sorbent</td>
</tr>
<tr>
<td>McDonald’s</td>
<td>Telstra</td>
</tr>
<tr>
<td>Coca-Cola</td>
<td>KFC</td>
</tr>
<tr>
<td>Vegemite</td>
<td>Samsung</td>
</tr>
<tr>
<td>Uncle Tobys</td>
<td>Colgate</td>
</tr>
<tr>
<td>Doritos</td>
<td>Mars</td>
</tr>
<tr>
<td>Mars</td>
<td>Cadbury</td>
</tr>
<tr>
<td>Converse</td>
<td>Qantas</td>
</tr>
<tr>
<td>Weet-Bix</td>
<td>Roxy</td>
</tr>
<tr>
<td>Westpac</td>
<td>Sony</td>
</tr>
</tbody>
</table>

**Packaging** involves the development of a container and the graphic design for a product.

It takes 2.6 seconds for a customer to choose one product instead of another, so the packaging has to be right. A Year 11 student from Melbourne High won a prize in the *National Schools Packaging Design Challenge* conducted by the Packaging Council of Australia. His cylinder biscuit container preserves, protects, informs and promotes with its classy labelling, including the mandatory labelling requirements. More details on this national challenge can be found at [www.pca.org.au/education](http://www.pca.org.au/education).
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.

Pricing methods

Once a business has decided on its objectives, it must select a pricing method. Different factors influence the price a business sets. These were discussed on pages 150–1, but let’s revise some of the different methods again:

- **Cost plus margin.** This is the simplest method. The business determines the total cost of production and adds an amount for profit. This extra margin is referred to as the mark-up.
- **Market.** Instead of using costs to determine price, businesses sometimes set prices according to the level of supply and demand — whatever the market is prepared to pay. When demand is high, prices are high. When demand is low, prices fall.
- **Competition based.** This method is often used when there is a high degree of competition from businesses producing similar products. A business can choose a price that is either below, equal to or above that of the competitors.

**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 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. How does a business set its price when it wants to achieve the objective of profit maximisation? Outline the problems that may arise using this strategy.
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 your eBookPLUS 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.
KEY CONCEPT The four basic marketing elements are: product, price, place (distribution) and promotion (the four Ps).

Distribution channels are the routes taken to get the product from the factory to the customer.

The third ‘P’ of the marketing mix (product, price, place and promotion) is ‘place’, or distribution channels.

The place (distribution channels) element of the marketing mix

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.

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.
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 organisation's favourable features and help reduce any negative image that might have been created.
Public relations are those activities aimed at creating and maintaining favourable relations between a business and its customers.

Advertising is a paid, non-personal message communicated through a mass medium.

Advertising media refers to the many forms of electronic and print communication used to reach an audience.

This is quite an eye-catching advertisement. Which current advertisement has most impressed you? What product is it advertising? You can probably answer these questions easily. This is because you have been influenced by advertising. Everywhere you look businesses are using advertising to influence consumer buying behaviour.

**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.
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.

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.

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

EXTEND YOUR KNOWLEDGE: The target market and the marketing mix

Beau’s Floral Studio — the marketing mix

As we saw on page 301, Beau Wilkes is the owner–operator of Beau’s Floral Studio. We know the business’s target market, so let’s now look at the total marketing mix.

Product range — product mix
Beau’s Floral Studio presently has a wide product mix, offering a diverse range of fresh and dried exotic and native flowers. Complementary product lines include teddy bears, balloons, porcelain ornaments, friendship gifts, plant holders, floral arrangement materials and instructional books.

Beau intends to expand the product mix by introducing a range of aromatic candles, fragrant oils and oil burners. This expansion will allow the business to diversify its existing products and appeal to new segments in the market. At the core of the product range, however, is the belief that Beau’s Floral Studio will stock only products of the highest quality. This approach protects the customer base and strengthens the business’s image.

Branding
Given that flowers cannot be identified as being sourced from a specific wholesale supplier, Beau will implement strategies to identify purchases from the Floral Studio. These strategies include:

• introducing distinctively coloured and environmentally friendly gift wrapping paper and packaging. The name of the business, with its logo, telephone and facsimile numbers, and the address of its website will be prominently displayed.

• providing a complementary satchel of Euro Fleur (a special food for cut flowers) with every purchase of fresh flowers. The satchel will also carry the name and all contact details of the business.

• placing a distinctively coloured and designed sticker on all items sold

• designing a new and distinctive business logo.

Positioning and image
Beau’s Floral Studio will continue to develop a high-quality image for the business. All other elements of the marketing mix will be used to shape and maintain this image. The maintenance of this product positioning is important if the business wishes to exploit its differentiation. Successful positioning of the product will allow for increased profit margins without loss of customers.
Beau's Floral Studio will not attempt to compete directly with the other three florist businesses within the shopping precinct. It will differentiate itself in terms of its quality and 'exclusive' image.

**Pricing**

Beau's Floral Studio is presently a price follower, being the most recent entrant into the flower market within the area. Setting prices too high will result in customers being lost to the competitors. Prices that are too low will damage the image of the business and give the impression that the quality of the products is inferior.

As a result of the strategies that make up this marketing plan, Beau's Floral Studio will be able to raise its prices and thereby increase its profit margin by an average of 35 per cent over the next 18 months. These price rises are not expected to lead to a significant loss of customers, given the increased product range, product differentiation, accurate positioning and the high quality of the products and service.

**Promotion**

Presently, Beau's Floral Studio relies on the following five methods of promotion:
1. local newspaper advertisements
2. word-of-mouth recommendation
3. packaging that displays the business name and logo
4. a Yellow Pages advertisement
5. eye-catching window displays.

Two new promotional strategies are planned within the next six months:
1. the use of the website to promote contemporary floral arrangements and the new product lines
2. a personalised direct mail campaign to existing account holders, with exclusive offers for special occasions such as Mother's Day, Easter, Christmas and Valentine's Day.

Expenditure on all forms of promotion will be increased by 15 per cent over the next 12 months and by a further 10 per cent over the following two years. This increased promotional expenditure is required during the establishment phase of the business.

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**TEST your understanding**

1. Explain why Beau doesn't just sell flowers.
2. Beau rejects flowers supplied that are not perfect. How does this ensure customers return?
3. Outline the branding strategies Beau's Floral Studio implemented.
4. Describe the positioning of Beau's Floral Studio.

**EXTEND your understanding**

5. Why did Beau's Floral Studio decide to expand their product range?
6. Use your computer and, with a partner, design a professional looking business card for Beau Wilkes.
7. Suggest and justify your choice of one more strategy Beau might use to promote her business.
The product life cycle: Innovation, introduction, growth, maturity and decline

You will recall that an earlier section examined the life cycle of businesses. The life cycle of a product passes through similar stages to that of a business.

**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. The diagram below shows that new technologies such as iCloud are currently at the introduction stage, with the full potential market yet to be developed. The market for iPads and iPhones is in the growth stage, with frequent updates to the size, weight and features of the products. Sales in plasma screen televisions have reached maturity and may start to fall as 3D televisions improve on the existing product. Finally, the old analogue television set has passed the decline stage, and is no longer for sale since Australia switched to digital television.

**Innovation stage**

Innovation simply means creating something new and it is often what excites and motivates a businessperson to establish a business. In business, innovation may refer to the creation of a new product or service that has never been offered before and that provides real benefits to the consumer. Innovation in business might also refer to finding new ways or processes to produce a good or provide a service more efficiently. Innovation is certainly important at the beginning stages of a business, but many successful businesses have the ability to innovate and continually bring new benefits to the customer.

**Introduction stage**

In the introduction stage, the business tries to increase consumer awareness and build a market share for the new product.
- **Product**: The brand and reliability are established.

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**DID YOU KNOW?**

3M Corporation is a multi-billion dollar US business that has a history of innovation. 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.
• **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.

### Growth stage

In the growth 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.

### Maturity stage

In the maturity 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.

### Decline stage

In the decline stage, sales begin to decline as the business faces several options:

• **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.

### 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.
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 most 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.

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**TEST your understanding**

1. Use the stages of a product’s life cycle (innovation, introduction, growth, maturity and decline) 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?

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**APPLY your understanding**

5. After researching on the Internet, write a 250-word report on the stages in a product’s life cycle. You may choose any product.

6. 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.
Sales can be sustained by carefully planned strategies that result in exporting to new markets or diversifying and satisfying previously unmet demand.

**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 22 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. E-business has opened the doors for many small-to-medium businesses to sell direct to consumers across national borders.

**Slim Secrets going global**

Slim Secrets, a private Melbourne-based company owned and operated by Sharon Thurin, markets and distributes a healthy snack alternative. While involved with a health and wellness clinic, Sharon spotted a gap in the market for tasty, healthy snack products that are wheat free, high in protein and fibre, and have a low glycaemic index (GI). With support and advice from Austrade (the Australian Trade Commission, the Australian Government’s trade and investment development agency), Sharon has turned this niche market product into a global success story. Originally, Sharon intended to sell the product locally, but now the business’s global markets include Singapore, New Zealand, the United States, Canada, the United Kingdom, Malaysia, Japan and China.

Sharon modified her marketing plan to suit overseas markets. For example, she obtained Halal accreditation — for food that fulfils Muslim dietary rules — for the Malaysian market, and uses bi-lingual packaging for Canada. Sharon used a variety of distribution strategies. For Singapore and Malaysia the products are sold through Boost Juice outlets. In China she sells directly to the City Shop supermarket. In Canada she has an agent who organises all the Canadian distribution to the 7-Eleven stores. In the United Kingdom she sells directly to a retailer.

**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. This expansion strategy operates on the principle that a business selling a range of products has a degree of protection. For example, should sales decrease for one product, the business can fall back on its other products.
- **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.
Choc-full of new locations

A one-metre chocolate fountain is hard to resist. This is the centrepiece of each of Planet Chocolate’s stores. Brothers Darren and Greg Factor opened their first kiosk-style store in Melbourne’s Westfield Southlands in 2005. They realised that competition in the chocolate and desert café market would be fierce with businesses such as Max Brenner, Koko Black and Chocolateria San Churro opening in numerous locations. Chocolate Planet’s success comes from differentiating its product from those of its competitors. It offers a wide range of chocolate-related products including crepes, pancakes, slices, tarts, biscuits, fondues and, of course, Belgian chocolates, in an atmosphere of fun that is family orientated.

Darren and Greg spent the first few years establishing their brand and improving the business model before they added a second outlet at the Highpoint Shopping Centre. In 2010, three additional franchise stores were opened at Westfield Doncaster, Geelong and Werribee Plaza. In 2011, the business received additional funding from business incubator, Inkuberra, to assist with further expansion of the concept into the future. Darren and Greg have since sold the business to move into other ventures.

Planet Chocolate has based its success on both product and geographic diversification.

We’ve all seen chocolate fountains before, but perhaps not one that is a metre high! Planet Chocolate stores and products reflect a ‘fun image’ that appeals to a wide market. They also have a wandering mascot called Mr Choco.

TEST your understanding

1 Outline why Australian businesses have become more export-oriented over the past decade.
2 In what ways did Sharon Turin modify her marketing plan to suit the overseas markets?
3 List the different channels of distribution used by Slim Secrets.
4 What is the purpose of diversification?
5 Explain the difference between product diversification and geographic diversification.
6 Why was it important for Darren and Greg Factor to differentiate their products?

APPLY your understanding

7 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.
8 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.
Relevant performance indicators to evaluate the performance of marketing strategies

**KEY CONCEPT** To evaluate whether marketing strategies have been successful, a number of indicators can be used. These indicators include sales analysis, the percentage share of total market sales the business has compared to competitors (market share), and market profitability.

Once a marketing plan is in place, the marketing manager needs to monitor its success. A performance indicator is a sign or pointer that allows the marketing manager to check whether the marketing plan objectives and strategies are being met. It is worth remembering that an *objective* is the overall goal that should be achieved and the *strategy* is simply a plan of action to ensure that goal is met. Let’s look at a simple example. An organisation might have the objective of increasing sales and the marketing strategy used might be to conduct an aggressive advertising campaign. To determine the success of this marketing strategy the marketing manager might analyse sales figures to see whether there has been an increase in the number of sales as a result of the advertising campaign.

The following diagram shows the steps a marketing manager might take to evaluate whether marketing objectives are being met.

- **Establish marketing objectives**: What do we want to achieve?
- **Monitor performance**: What is actually happening?
- **Take corrective action**: What should be done about it?
- **Evaluate performance**: Is what is happening good or bad? Why is it happening?

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

**Performance indicators**

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.

**Market share analysis**

Just as sales can be analysed, so can a business’s market share. By undertaking a market share analysis, a business can evaluate its marketing strategies as 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, an advertising 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.

Revising the marketing strategy
Once the results of the sales, market share and profitability analyses have been calculated, the business is in a position to assess which objectives are being met and which are not. Based on this information, it can modify its marketing plan. Modification of the marketing plan is as important as all the other steps involved in creating successful marketing strategies.

**TEST** your understanding

1. Explain the purpose of a performance indicator.
2. Outline the difference between a marketing objective and a strategy.
3. Explain the difference between monitoring performance and evaluating performance.
4. How can a business use sales to determine the success of its marketing strategy?
5. Why should a business monitor its market share?
6. What does a marketing profitability analysis monitor?

**APPLY** your understanding

7. ‘Any business that fails to conduct a sales analysis will be unable to assess the success of its marketing strategies.’ Discuss.
8. 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?

9. 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>2006</td>
<td>280</td>
<td>18</td>
</tr>
<tr>
<td>2007</td>
<td>250</td>
<td>18</td>
</tr>
<tr>
<td>2008</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.

10. Use the Media Monitors weblink in your eBookPLUS to learn more about the role of Media Monitors. Briefly describe the services this type of company offers other businesses in relation to monitoring public perceptions about products, businesses and ideas.
The role of technology in marketing

Technology, especially information and communications technology (ICT), has had a profound impact on marketing. (Refer to pages 207–9 for an explanation of recent ICT developments.) Two areas of marketing that have undergone remarkable change due to ICT include social media advertising and global marketing.

Social media advertising

Facebook, Twitter, LinkedIn, YouTube, blogs, podcasts and online communities are all examples of social media channels, and have been behind the recent revolution in social media advertising (SMA). Businesses are becoming increasingly aware that SMA can have positive results, especially when used in combination with traditional advertising methods. Dell Computers, for example, was one of the first businesses to have a dedicated Twitter account. It also operates a social networking site for users to share their experiences.

Social media advertising (SMA) allows a business to communicate instantly with customers. It is expected that SMA will expand rapidly over the next few years as new, highly interactive mobile platforms and networks increasingly gain consumer acceptance.

The main advantages of SMA are that it is:

• inexpensive in comparison to traditional marketing methods
• easy to use and monitor
• an effective method to gain exposure.

However, SMA does have two main disadvantages:

• A marketer does not have control over what online consumers write about the business’s product. Bloggers have the freedom to discuss, review, criticise and even ridicule a product or a specific business.
• Unlike more traditional online advertising, it is difficult for a marketer to accurately measure the reach and frequency of SMA.

The reason for this not-so-quiet revolution in advertising is that marketers realise they must go to where the customers are to be found. Facebook, for example, reaches over 500 million people.

Social media advertising is a form of online advertising that uses social media channels to deliver targeted commercial messages to potential customers.

The reach of an advertisement measures the number of people exposed to the message.

The frequency of an advertisement measures the average number of times someone is exposed to the message.

KEY CONCEPT New technology has opened up many marketing opportunities, as has access to worldwide markets.
Social media has rapidly become a significant part of the Australian media landscape. Almost 70 per cent of all Australians with online access have a social media profile, with 85 per cent of those people using Facebook as their main profile. A significant number also have a second profile on another social media site. Over 70 per cent of Australians browse other people’s content on social networking sites. A similar percentage read other people’s online reviews and recommendations about particular brands and products.

In the early days, online marketing was very much like an outdoor billboard. Now, due to the rapid advances in technology, SMA is more engaging and inclusive. Businesses are getting customers they have reached via a social network channel to in turn reach out to other potential customers. Online customers are not simply being targeted for advertising; in many cases they are contributors in the creation and distribution of advertising. In this way SMA enables businesses to constantly build relationships with their customers.

Of course, as with traditional advertising, SMA raises concerns including issues of privacy, accuracy, honesty and consumer trust. A number of legal issues are presently evolving, such as establishing age limits for users — Facebook and YouTube specifically prohibit use by children under the age of 13 — and the proliferation of fake and unofficial ‘fan pages’.

However, SMA is more than establishing a Twitter account or Facebook page. The business still needs to have carefully devised marketing strategies to attract, engage and maintain a customer base. The ‘go online and they will respond’ approach will simply not work.

Global marketing

We live in a global world rather than a world limited by national borders. Consider the entertainment we receive from around the world, the clothing and footwear brands being sold worldwide, and the rapid telecommunications access to all parts of the world. Australia is part of the global economy and, since the mid 1980s, global influences have been instrumental in bringing about revolutionary change in the Australian business environment. Figuratively speaking, the globe is shrinking in many ways, as nations become more linked than ever before. This has provided many opportunities for Australian businesses to sell their products on a global market.

Globalisation and SMEs

Traditionally, the majority of small and medium-sized enterprises (SMEs) marketed their products only domestically, whereas numerous large-scale businesses have operated successfully in global markets for many years. However, as outlined on page 17, the number of SMEs exporting has rapidly increased over the past decade. The process of globalisation means many more Australian SMEs are now successfully marketing their products to overseas markets. Today, many SME owners regard the marketplace as no longer local and real, but instead global and virtual.

Of course, a business’s marketing plan must be modified to suit overseas markets. With each market, the business will be faced with a marketing environment and target markets that differ from the domestic scene. Product, pricing, promotion and distribution must be adapted accordingly. Given the increased risks involved when marketing globally, a business must analyse these markets in even greater depth than domestic markets. Many businesses have failed because they entered global markets without first gathering adequate market intelligence.
A business that wants to be globally competitive must adopt the appropriate technology. If it is quick to use and exploit technology, a business is likely to succeed: it will be able to capture a greater market share and develop a sustainable competitive advantage. This is exactly the business model used by Ferguson Australia.

Ferguson Australia — an export success

Ferguson Australia is a leader in the multi-million-dollar rock lobster industry, and its success has come from innovative thinking. In 2002, the business did some market research with focus groups and found that there were many customers who loved lobster but did not want to go to the trouble of shelling one. This marketing information was taken seriously, and the company has experienced much success in selling value-added products to the domestic and overseas markets. One of its successful inventions is selling lobster without its hard red shell. The product is ready to eat without all that shelling.

The company’s live and value-added lobsters, oils and other seafood products are exported to France, Germany, China, Hong Kong, Malaysia, the United Kingdom, Russia and many other countries. Ferguson Australia supplies 11 out of the 20 top restaurants in the world.

General Manager Debra Ferguson said, ‘We looked at global food trends and saw that there was a strong movement towards portion control, better packaging, set prices — and telling the stories behind products.’

Ferguson Australia sell their seafood on the global market. Marketing manager, Kate Ferguson, holds an Australian southern rock lobster that will be sold in Malaysia.

TEST your understanding
1 What is social media advertising (SMA)?
2 (a) State the main
   (i) advantages and
   (ii) disadvantages of SMA.
   (b) Justify which you consider to be more important:
   the advantages or disadvantages.
3 Summarise how SMA enables businesses to
continuously build relationships with their customers.
4 ‘Today, many SME owners regard the marketplace
   as no longer local and real, but instead global and virtual.’ Explain the meaning of this statement.
5 Read the Ferguson Australia case study. What
   marketing did Ferguson Australia undertake that
   increased their business success?
6 Explain why globalisation is seen by marketers as a
great opportunity.

APPLY your understanding
7 ‘Globalisation has meant that my business now
   has increased competition from overseas and we
   don’t know whether we can compete.’ Discuss this
   statement, taking into consideration the pros and
   cons of having access to global markets.
8 Given that we do operate in a business world that
   is now global, explain why proper market research
   is even more important when exporting products to
   overseas customers.
**KEY CONCEPT** In marketing, as with all business practices, ethical and legal dilemmas are involved.

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.

**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.

**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.

Marketers sometimes use words so ambiguous that the consumer will assume the advertiser’s intended message. These ‘weasel’ words — deliberately misleading or ambiguous language — are by their nature vague and allow the marketer to deny any intention to mislead or deceive.

**Legal contexts**

Marketers do not have to be skilled lawyers, but they should be familiar with the laws that regulate their activities. Ignorance of the law is no defence. Marketers must also ensure they are aware of any changes to the laws as those changes apply to their particular business. Their responsibility is to understand and apply laws within their businesses where needed. They may need to introduce changes, such as an alternative advertising promotion, a repackaging of a product or a change in the credit policy for customers. Whatever the change, a business must ensure it is up to date with the current laws and that it applies them to all marketing practices.

**Competition and Consumer Act 2010**

The *Competition and Consumer Act 2010* (formerly the *Trade Practices Act 1974 (Cwlth)*) is one of the most important pieces of legislation affecting marketing and business practices in Australia. The Act has two major purposes:

1. to protect consumers against undesirable practices, such as misleading and deceptive advertising
2. to regulate certain trade practices that restrict competition. The government also wants to ensure a number of businesses are operating at any one time in the same market, to encourage competition.
A breach of any of the consumer protection provisions of the Act can result in the Australian Competition and Consumer Commission (ACCC) taking civil or criminal proceedings against the business or individual concerned. The Act allows the courts to impose penalties of up to $1.1 million for companies, and $220,000 for individuals, for unconscionable conduct and other breaches the Act. An on-the-spot infringement notice (fine) can also be issued by the ACCC to businesses making false claims about their products.

For a more detailed examination of the Act, see chapter 8. The Competition and Consumer Act covers a number of important marketing practices:

- **Misleading advertising.** Of all the unfair trading practices, false or misleading advertising can be the most serious, given the influential nature of advertising.
- **Price discrimination.** This is the setting of different prices for the same product in different markets. Section 49 of the Act prohibits price discrimination if the discrimination could substantially reduce competition.
- **Implied conditions or terms.** These are the unspoken and unwritten terms of a contract. The two most important implied terms relating to consumer purchases refer to acceptable quality (an acceptable quality in keeping with a product’s price) and fitness of purpose (the product’s suitability for the purpose for which it is being sold).
- **Warranties.** False or misleading statements concerning the existence, exclusion or certain conditions of the warranty are prohibited under the Act.
- **Resale price maintenance.** This occurs when the manufacturer or supplier insists that a retailer sell the product at a certain price. Under the Act, such an insistence is illegal. This is a very rigidly enforced provision of the Act.

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**Unconscionable conduct** is any practice by a business that is not reasonable and often illegal.

**DID YOU KNOW?**
In 2004, the Spam (Consequential Amendments) Act 2003 (Cwlth) was passed. This law regulates marketing that uses the Internet by banning unsolicited commercial messages (spam), including emails, SMS and MMS with an Australian link.

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**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 per cent 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?
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. What are the two main aims of the Competition and Consumer Act?
8. Outline why a marketer should have a basic understanding of the Competition and Consumer Act.
9. What are the two most important implied conditions in any sales contract?

**APPLY** your understanding
10. ‘Advertising can get people into a store, but it can’t make them buy.’ Discuss.
11. Use the ACCC (Australian Competition and Consumer Commission) weblink in your eBookPLUS to answer the following questions:
   (a) What is the role of the ACCC?
   (b) What information does the ACCC provide about advertising?
   (c) Suggest how a knowledge of this information would influence marketing promotion practices.
12. Use the MAANZ (Marketing Association of Australia and New Zealand) weblink in your eBookPLUS 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 MAANZ member found to be in violation of the code of ethics.
Summary

The marketing function and its relationship to business objectives and strategy

- 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.
- Business objectives are goals the business wishes to achieve. In order to achieve business objectives, marketing objectives and strategies must be established. For example, a business objective to increase profits may result in a marketing objective that aims to increase sales through various strategies such as advertising campaigns, sales and give-aways.
- An essential characteristic of effective marketing is for the business to have a carefully researched marketing plan.

Market research processes

- Market research involves determining what data need 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.

Market attributes

- Market attributes include: market dimensions, segments, consumer trends and behaviours, and how these trends and behaviours can change over time.
- A business segments its market so it can better direct its marketing strategies to specific groups of customers.
- Businesses can predict consumer trends and how they may react to particular marketing strategies, if they are aware of the factors that influence the buying behaviour of consumers.

Key elements of a marketing plan

- A marketing plan gives a purpose and direction to all of a business’s activities.
- The marketing plan has the consumer’s needs at its heart and is integrated into all other aspects of the business, including the business objectives and strategy.
- A business controls four basic marketing strategies to reach its target market: product, price, place (distribution) and promotion (the four Ps).

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

- Products have a life cycle that passes through the stages of innovation, introduction, growth, maturity and decline.

The product life cycle: Extension strategies

- 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.

Relevant performance indicators to evaluate the performance of marketing strategies

- Relevant performance indicators such as sales performance, movements in market share and changes in market profitability should be monitored and evaluated by effective managers.

Issues in marketing — technology and globalisation

- New technology has opened up many marketing opportunities, as has access to worldwide markets, but there are some ethical and legal issues that need to be taken into consideration.

Ethical and socially responsible management and legal requirements

- Managers are required to act ethically in their dealings with stakeholders both in Australia and overseas.
Review questions

**TEST your understanding**

1. Outline the importance of marketing to a business.
2. What is meant by the term ‘customer-oriented marketing’?
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 on page 299 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 is 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 organisations engage the services of professional media monitors?

**APPLY your understanding**

19. 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.
20. 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?
21. Research the spending patterns of your household by listing, with a responsible adult member, the most expensive 10 items paid for in the past two 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?
22. 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.
23. Do you believe Internet shopping will expand in the future? What implications would your predictions have for current shopping practices?
School-assessed coursework

OUTCOME 2
Analyze effective marketing strategies and processes and apply these strategies and processes to business-related situations.

ASSESSMENT task — media analysis

Coca-Cola advertisement withdrawn

The television program *The Gruen transfer* discussed an advertisement by Coca-Cola. Actress Kerry Armstrong was hired to ‘bust myths’ about Coke. Some of the myths, according to the advertisement, were that Coke doesn’t rot your teeth (if you brush after drinking it), it isn’t highly caffeinated and it doesn’t make you fat. Coca-Cola eventually withdrew the advertisement and made a public statement saying: “We recently published some ‘myth busting’ advertisements featuring Kerry Armstrong for Coca-Cola. The feedback we received from the Australian Competition and Consumer Commission and others is that the overall impression we created by those ads may have been misleading. What we meant to convey is that there can be a place for Coca-Cola in a balanced, sensible diet and active lifestyle.”

1 Use the Advertising campaigns weblinks in your eBookPLUS to find out more about Coca-Cola’s controversial advertising campaign. Do you think the advertisement was misleading and what did you think of the company’s response to the allegations that the advertisement might have been misleading?

2 Your next task is to do your own research on television advertisements. Record the television advertisements you see over the course of one week, using the format shown in the following table. Over the course of the seven days, record details of advertisements before 9.00 am, at midday (if possible), 4.30 pm, 6.00 pm, 8.00 pm, and after 10.00 pm.

<table>
<thead>
<tr>
<th>Date</th>
<th>Time</th>
<th>Advertisements</th>
<th>Preceding program</th>
<th>Following program</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

3 Analyse five advertisements you see using the format shown in the following table to record your observations. Choose two advertisements that you think were the most effective, giving reasons for your answer.

<table>
<thead>
<tr>
<th>Name of company</th>
<th>Product</th>
<th>Marketing strategies used</th>
<th>Target audience</th>
<th>Effectiveness rating</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

4 Were any of the advertisements you viewed unethical? Give reasons for your answer.

5 Find out what advertising standards must be met before an advertisement can be aired on television. Comment on why we have advertising standards and whether there are any areas where advertising certain types of products should be subject to stricter regulation.