

INTRODUCTION TO MARKETING

A southern African perspective



Nicole Cunningham
EDITOR

 Van Schaik
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in loving memory of
Kieron Joseph Cunningham

thank you for all your wisdom and years of encouragement



PREFACE

One of the biggest challenges involved in teaching marketing to South African students is finding an appropriate and comprehensive marketing textbook, specifically for students learning about marketing for the first time. Most South African marketing textbooks tend to focus on the same content and there is a lack of innovation in terms of new trends. In addition, students cannot easily relate to international textbooks on marketing as the focus is mostly on US or European consumers. This textbook therefore aims to bridge that gap.

The book comprises 21 chapters, covering traditional marketing topics as well as more contemporary topics such as digital marketing, international marketing, ethical marketing and marketing metrics. The detail and content of the textbook do not necessarily restrict it to first-year marketing students – it will be helpful to any student or professional who requires an understanding of marketing.

The authors of the textbook are experienced lecturers from different institutions across South Africa, namely the University of Johannesburg, the University of South Africa (UNISA), the IMM Graduate School of Marketing, the University of Stellenbosch, The

Independent Institution of Education and Monash South Africa. The collaboration of authors from different institutions offers the reader different interpretations and opinions.

The additional benefits to prescribing this textbook include review questions based on each chapter, a question bank, an e-book version and PowerPoint slides.

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ABOUT THE EDITOR

Ms Nicole Cunningham works as a lecturer in the Department of Marketing Management at the University of Johannesburg. Over the past four years, she has lectured to undergraduate, postgraduate and corporate students. Her passion, however, lies with first-year students, and her own struggle to find a textbook that adequately addresses students' needs has been instrumental in the creation of this volume. She is actively involved in academic research and is currently in the process of completing her PhD in the field of marketing.

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GLOSSARY

Advertising: Paid, controlled and non-personal messages which provide information about a product, service or company directed at the target audience through mass media with the intention of influencing the target audience's attitude towards the advertisement and its reacting favourably

Affiliate marketing: The use of a third party to advertise your business or products on their website for a fee for every sale or lead

Average spend per customer: Determining how much money a company's customer base spends on the company's products, on average

Baby Boomers: Born 1946–1964, nearing retirement and characterised by the ownership of property, and by being hardworking and loyal

Brand: A unique design, sign, symbol, words, or a combination of these, employed in creating an image that identifies a product and differentiates it from its competitors

Brand equity: Obtaining additional value for a specific brand name, because it is well known and favourably perceived in the market

Brand extension: Where a brand extends its offering by entering a new product category, therefore introducing a new product line under the same brand name

Branding: The art of developing and maintaining a brand in the eyes and minds of consumers

Brand personality: When a brand personifies itself with human characteristics

Break-even: The amount of sales required by a company to cover its fixed costs

Business: If you are engaged in an activity that earns you money on a continuous basis (a retail shop or a wholesaler, a professional person or a sportsperson), you are said to be doing a business. In a business, you as the owner have to pay taxes

Business promotions: These are used to generate business leads, reward customers, stimulate purchases and motivate salespersons, and include many of the sales promotions tools

Causal research design: Causal research is used to determine the cause-and-effect relationship between two variables in an experiment

Churn rate (attrition rate): Concerned with establishing the percentage of current customers that a company lost over a specific period of time

Co-brand: Some brands have two or more co-owners who have formed a strategic partnership to develop the co-brand

Company: When you establish your business as a firm according to the laws of the country, it becomes a company; a company is more large scale than a business and setting up a company is a costly affair. In a company, it is the company that pays the taxes, not the owner

Competition/competitor: Competition is an important part of a company's micro-environment as the company seeks to provide better goods and services to its consumers than its competitors

Concept development: Once new product ideas have moved through the screening test and passed the concept testing phase, the actual concept is developed

Concept testing: Estimating the market's reaction to a new product before actual development takes place

Consumer behaviour: The decision making process that consumers go through in selecting, evaluating, buying, using and disposing of products and services

Consumer promotions: The tools used for these promotions include samples, coupons, refunds, premiums, contests, competitions and games, point-of-purchase displays and loyalty programmes

Consumer/customer: The person who consumes or uses the product or service purchased at the retailer

Content marketing: This type of marketing makes use of online tools to create and share content in the form of text, video, images, etc. that will stimulate interest in the brand

Conversion rate: The number of leads generated which end up becoming new customers

Corporate social responsibility: This refers to business practices involving initiatives that benefit society

Cost per lead: The cost incurred to obtain prospective customers

Coupons: Certificates that provide buyers with a discount when they purchase specific products

Culture: The set of shared beliefs, attitudes, social norms, traits, rituals, religion and knowledge of a group of individuals that have been learnt over time and passed down from one generation to the next

Customer acquisition cost (CAC): The cost incurred to obtain more customers

Customer lifetime value (CLV): The expected future value and income that may be obtained from the company's current customers (in rand)

Customer satisfaction: Satisfied customers arguably become loyal to a company, and loyal customers will secure continued business and therefore continued income and profit for a business; best determined by conducting customer surveys

Data collection errors: Errors that occur in the data collection process. These can be intentional or unintentional

Data collection methods: Data are collected through focus groups, in-depth interviews, observation and projective techniques

Deceptive pricing: Price deals that are misleading to the consumer

Descriptive research design: Descriptive research follows a structured process that is focused on describing something (usually the target market or other market characteristics) by answering who, what, when, where and how questions

Design: The visual appeal of the store, brand and retailer

Digital marketing: The promotion of a company and its products and services through various forms of electronic media such as a website or social media

Digital media: Video, audio, photo or any content that has been coded in order to be transmitted through any wireless signal or electronically through the internet on any screen, computer, mobile or any digital device

Direct marketing: The combination of advertising, sales promotion and personal selling where the company wishes to reach the target audience directly

Discounts: These are regarded as a valuation approach whereby the company offers products that were initially marked up at a reduced cost to the consumer

Distribution channel: The path that is taken to deliver the products from the manufacturer right through to the final consumer

Environmental analysis: The process of identifying all external and internal elements that can affect the company's performance

Environmental scanning: The careful monitoring of a company's internal and external environments for detecting early signs of opportunities and threats that may influence its current and future plans

Ethical behaviour: Acting in ways consistent with what society and individuals typically think are good values

Exclusive distribution: The exclusive distribution system only allows goods to be accessible to consumers at a limited number of locations. The company generally only gives one outlet the sole right to sell the goods within a specific geographical location

Exploratory research design: This is typically unstructured, informal research undertaken to gain background information about the general nature of the research problem

External factors: These include family, culture and subculture, social class, and reference groups and opinion leaders

Facilitating functions: Doing research on buyers and consumers, and providing financing to channel intermediaries

Finances: Management function which is crucial to the existence, profitability and sustainability of an organisation

Firm: In modern times, the use of the word firm has become outdated and is restricted to legal, consultancy and accountancy businesses. For all other businesses, the word company is preferred. Even in the professions mentioned, there are more and more people who today prefer the use of the word company against their names instead of firm

Franchisee: An individual owning a business and receiving the rights to operate a store in a certain location according to certain franchisor requirements and standards

Generation X: Born 1965–1976 and characterised by scepticism, being individualistic and being caught in the middle of generations

Generation Y: Born 1977–2000 and an attractive target group for marketers, most being in their early forties and still having a lot to give before retirement

Geographic pricing: This is necessary because many sellers have consumers in various parts of the world; it includes freight-on-board origin pricing, freight absorption pricing, uniform delivered pricing and zone pricing

Government market: Consists of national, provincial and municipal government bodies that purchase goods and services to assist the citizens of the country

Gross margin: The difference between the company's total sales revenue and the costs of the goods sold

Gross rating point (GRP): Method used to determine the advertising exposure of different media

Heterogeneous market: A market made up of individuals or organisations with diverse needs for products in a specific product class

Homogeneous market: A market in which a large proportion of customers have similar needs for a product

Horizontal marketing system: When two or more organisations at the same level work together and combine resources in order to exploit opportunities, or when one company buys the competitor on the sale level

Human resources: Management function in which the human capacity, expectations and motivations within the company are managed

Idea screening: Done to eliminate ideas which are not consistent with the strategy of the company or are not appropriate for the market

Inseparability: A service is produced and consumed at the same time and one cannot separate the processes

Institutions market: This market consists of various organisations such as churches, charities and clubs that purchase goods to facilitate their operations

Intangibility: The idea that a customer cannot touch a service purchased

Integrated brand promotion: Raising customer awareness of a product or brand, generating sales, and creating brand loyalty. It is one of the four basic elements of the market mix, which includes the four P's: price, product, promotion, and place

Integrated marketing communication: A strategic business process used to plan, develop, execute and evaluate co-ordinated, measurable, persuasive brand communication programmes over time with consumers, customers, prospects and other targeted, relevant external and internal audiences

Integrated marketing communications objectives: Outline what the campaign sets out to accomplish, in other words, its goals. It is possible for an IMC campaign to have more than one objective

Integrated marketing communications strategy: The tools which organise and support the integrated marketing communication activities, supported by the integrated communication plan

Intensive distribution: A system that enables goods to be accessible to consumers in as many locations as possible

Internal factors: These include motivation, perception, learning, attitudes and personality

International marketing: Done for an organisation that operates in another country; also known as global marketing

Labelling: The printed material that appears on the outside of product packaging

Layout: The way in which the products or services are being showcased or displayed to the consumer

Libel: False statement or statements that are damaging to a person's reputation

Line extension: A strategy where the brand introduces another product in its portfolio, using the existing brand name in an existing product category

Living Standards Measure (LSM): A multi-attribute segmentation tool based on access to services and durables, and geographic indicators as determinants of living standards

Location: The place where a retailer positions itself to attract a large market share

Logistical functions: These include distributing the goods, maintaining inventories, storing the goods, sorting the goods in bulk breaking and grouping similar goods together

Macro-environment: The factors making up the macro-environment include demographic, social, economic, technological, political and legal factors, and the natural environment

Manager: The person who is responsible for a retailer, or a department within the retailer

Manufacturer market: This market consists of manufacturers who purchase goods such as parts and finished or semi-finished goods that are used to manufacture their products or provide services

Margin: The amount of profit (in rand) made from selling a good or service; a margin percentage is the percentage profit that is made from selling the good or service

Marketing: One of the management functions which looks at the promotion and selling of retail goods and services

Marketing channel: A set of interdependent organisations involved in the process of making a product or service available for use or consumption

Marketing distributors (middlemen/agents): External groups, individuals and businesses that deal with assisting a company in the promotion, selling and distribution of final goods and service to consumers

Marketing espionage: In the marketing industry, espionage is the collection of competitor intelligence in order to gain an advantage

Marketing ethics: Principles and standards that define acceptable marketing conduct as determined by various stakeholders

Marketing mix: This consists of the 7 Ps: product, price, promotion, place, people, process and physical evidence

Marketing philosophies (orientations): There are five marketing philosophies which can influence an organisation's marketing activities: production orientation, sales orientation, market orientation, societal marketing orientation and relationship marketing orientation

Marketing research: Marketing research is much broader than market research and concentrates on gathering and analysing information related to a specific marketing situation

Market research: Market research is the gathering and analysing of information related to a specific market

Market segmentation: The process of dividing the whole market into groups of potential customers with similar needs

Mark-up: The amount (in rand) that gets added to the cost price in order to sell a product or service for a profit; the mark-up percentage allows a marketer to express the amount added to the cost price as a percentage

Micro-environment: Consists of factors that are close to the company – its suppliers, intermediaries, competitors, the public and the customers – and that have an

impact on the company's ability to satisfy the customers' needs and wants

Mobile device: Any small digital computing device that can be operated in the hand and that has an operating system that is able of running mobile applications; included are cellphones, tablets, laptops, GPS navigation devices, gaming consoles, digital cameras, iPod's, personal digital assistants, etc.

Modified rebuy: When buyers want to change one of the following aspects relating to their purchase: the specifications of the goods, the price of the goods or the delivery options

Monopolistic competition: A situation in which a large number of suppliers offer similar, but not identical products

Monopoly: When one firm controls the output and price of a product

Multi-brand: A brand development strategy that enables manufacturers to develop multiple brands within the same product category

New product: A new product can either be a completely new product that meets a new need of consumers, a new attribute of an existing product or a substitute for a current product

New task: When buyers buy certain goods for the first time

Non-ownership: The idea that the purchase of a service does not result in ownership of anything; related to intangibility

Oligopoly: This occurs when a small number of firms dominate the market for goods and services

Online retailing: An internet platform that allows consumers to purchase products from the comfort of their homes through the use of a PC or mobile application

Opinion leader: An individual within a reference group who is knowledgeable about a particular product or service category and who is sought out by other consumers who are seeking trustworthy and credible advice and information on the product or service

Organisation: A company is always an organisation, but an organisation is not always a company, for example, in the case of government bodies, NGOs, charities, etc.

Packaging: The actions taken by a company with regard to the design and creation of a container or holder for distributing and selling its products

Partnership: A business format in which two or more people verbally or in writing share resources to establish a business

Perceptual mapping: The visual representation of the different competitive brand offerings or objects of interest in perceptual space

Perishability: The idea that services cannot be stored for later

Personal selling: The process of persuading a prospective customer to purchase a product or service in a face-to-face setting

Physical evidence: All the tangible clues that service providers use to communicate the type of establishment they are, the type of customer they are attracting and the level of quality they are aiming for

Positioning statement: An expression of how a given product, service or brand fills a consumer need in a way that its competitors do not; the process of identifying an appropriate market niche for a product (or service or brand) and getting it established in that area

Positioning: The placing of the product or service in a particular perceptual position within the mind of the consumer

Post-purchase behaviour: This behaviour of consumers depends on how satisfied or dissatisfied they are with the perceived performance of the product or service they have purchased

Post-purchase dissonance: The doubt that consumers may experience after they have purchased a product or service

Price sensitivity: The importance to customers of lower prices, and hence the intensity of their demands for price concessions

Pricing: The process of evaluating the consumers' behaviour and from that establishing the right price that the consumer will accept and that will meet the company's goals, i.e. making a profit

Pricing objectives: They should be derived from the company's marketing and business goals, and can be either profit orientated, sales orientated or follow a status quo approach

Pricing strategies: These include premium pricing, penetration pricing, price skimming, price lining, odd pricing, price bundling, cost-plus pricing, value-based pricing, leader pricing and competition pricing

Process: How the service is delivered; it includes the role of customers, employees and any service equipment and machinery

Product development process: The process is structured in a funnel pattern, starting with a variety of new ideas, funnelling down all the way to a product fit for market

Product innovation: There are various reasons why companies need to come up with new ideas for products. This can be anything from the changing landscape of the market all the way to increased competition in the market

Product-market fit: To be in a good *market* with a *product* that can satisfy that *market*

Profit margin: The final amount of profit that a company gets to keep, after having covered all of its expenses

Promotions: The use of communication to inform consumers of the company's product and service offerings – its features, benefits, attributes, brand positioning and more

Public relations: The deliberate, planned and sustained effort to establish and maintain mutual understanding between the company and its various publics – both internal and external

Pull strategy: This is where the manufacturer directs promotions to end consumers to convince them to have their intermediaries stock and thereby supply the product

Purchase intention: Consumers' intention or plans to purchase the most favourable brand

Pure competition: A purely competitive market is characterised by a large number of sellers marketing a standardised product

Push strategy: This is where the manufacturers promote, recommend and sell the brand through to the members of the distribution channel, such as intermediaries and retailers, through personal selling and sales promotion

Qualitative research: Unstructured research methodology based on small samples that provide insight into and understanding of the research problem

Quantitative research: The use of surveys in which structured questions with predetermined response options are administered to a large number of respondents

Real-time marketing: The use of various marketing communication media to communicate and interact with customers in real time

Recency: The time that has passed since a customer last purchased from a company

Reference group: A group of people that other individuals refer to and use as a point of reference when making buying decisions

Reputation: Companies need to monitor and maintain their reputations to ensure that their economic and social interactions assist in the company's progress; includes social responsibility pertaining to people, environmental considerations and the technological considerations to remain competitive

Research design: A blueprint or master plan that details the methods and procedures to obtain the needed information as set out in the research objectives

Research instrument: The primary tool used to collect data in the research study

Resellers market: Consists of channel intermediaries such as wholesalers, distributors and retailers who buy goods to resell them

Retailing: Relates to the business activities used to provide consumable products and services to the consumer at the end of the supply chain

Retail mix: The components needed to be a successful retailer

Retention rate: The percentage of customers who remain active customers of the company within a specific period of time

Return on investment (ROI): The return obtained from money invested, typically expressed as a percentage

Return on marketing investment (ROMI): The return obtained from expenses on marketing activities

Sales generated: A review of the average sales figures before the start of a marketing campaign and after a marketing campaign, and establishing whether sales have increased or decreased

Sales promotion: The use of short-term incentives or rewards to encourage the purchase of a product or service

Sampling process: Defining the population, identifying the sample frame, specifying the sample unit, selecting the sampling method, determining the sample size, specifying the sampling plan, selecting the sample, collecting the data, analysing the data and presenting the research report

Search engine marketing: The activities that are used to gain awareness of the company and its online platforms by increasing their visibility on the results page of a search engine

Search engine optimisation: A means of optimising the visibility and content of a company's website or profile in order to get prospective customers to find the business easily

Selective distribution: A distribution system which ensures that goods are available at selected locations

Services: These are intangible and consumers cannot see or touch the product, but can experience it

Social media: The various websites and applications that allow users to go online and share information, images, photos, knowledge and opinions

Sole proprietorship: An individual who owns a business and takes responsibility for all income accrued and expenses incurred

Spam: E-mail messages that are sent to a large number of e-mail addresses without the receiver wanting or requesting them

Sponsorship: An attempt to build a bond with customers which provides a feel-good connection with the company

Stochastic competitor: A competitor who does not exhibit predictable reaction patterns – there is no way of predicting this competitor's actions on the basis of his economic situation, history or anything else

Straight rebuy: This is when buyers reorder goods that are purchased on a regular basis

Strategy: A management function that focuses on the direction of the retailer in terms of business and growth

Suppliers: Suppliers ensure that the products or services are being produced and delivered on time to the retailer to make them available to the consumer

Supply chain: The process that is followed to produce products and deliver them to the consumer

Target market: A set of buyers who share common needs and/or have similar characteristics to those that the specific company decides to serve

Township retail: The way in which informal settlements conduct retailing compared with traditional retailing and online retailing

Trade promotions: Incentives targeted at retailers and wholesalers

Transactional functions: These functions deal with the exchange of goods between the seller and the buyer or consumer, and are generally carried out by merchants and agents

Variability: The idea that services may vary from one encounter to the next

Vertical marketing system: When wholesalers and retailers act as one unified system where one member has power over the others

Website: A set of web pages giving information on what the business is, what it offers, its prices and contact details; it is available 24/7

1

INTRODUCTION TO MARKETING

LEARNING OUTCOMES

AFTER STUDYING THIS CHAPTER, YOU SHOULD BE ABLE TO

- define the term “marketing”
- describe the importance of marketing in the organisation
- explain the different marketing philosophies
- express the relationship between satisfaction and loyalty
- explain the elements involved in the marketing mix for both a product and a service.

KEY CONCEPTS

- DEFINITION OF MARKETING
- MARKETING MIX
- MARKETING PHILOSOPHIES
- SATISFACTION AND LOYALTY



1.1 Introduction

What do you understand by the term “marketing”? The first thought that comes to a lot of people’s minds is selling, advertising and

salespeople. In fact, marketing is a lot more dynamic than that as it involves many different components which this textbook covers in detail. More contemporary topics like digital media, marketing metrics and ethical marketing are also included as these are vital to the successful implementation of a marketing strategy. Companies need to be successful with their marketing activities in order to improve their offerings and to make a profit.

In this chapter we will look at the definition of marketing, the different marketing philosophies, the relationship between satisfaction and loyalty as well as its importance, and the role of the marketing mix in the organisation.

1.2 What is marketing?

So, many people have different understandings and definitions of marketing because marketing involves lots of different activities and strategies. According to Lamb, Hair and McDaniel et al. (2015: 2), the American Marketing Association defines marketing as “the activity, set of institutions, processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners and society at large”. Essentially, from this definition, we can understand that marketing is all about foreseeing customers’ needs and satisfying those needs more successfully than competitors do.

Marketing involves several different activities. These can be placed into three groupings: basic, secondary/supporting and exchange activities. When we speak about *basic* activities, aspects such as understanding the consumers ([Chapter 4](#)) and their needs, developing products to meet those needs ([chapters 7 and 8](#)) and distributing the product ([Chapter 10](#)) are important to consider. *Secondary/supporting* activities involve storing the product (i.e. warehouses), financing the manufacturing and taking appropriate risks (i.e. loss or damage to

inventory). In terms of *exchange* activities, this is where one needs to consider the purchasing and selling of raw materials and products.

1.3 Marketing philosophies

There are five marketing philosophies (orientations) which can influence an organisation's marketing activities. Although the philosophies are sequential, some companies are still operating using only the first few stages.

1.3.1 Production orientation

The production orientation focuses on the internal manufacturing capabilities of the organisation rather than on the needs or wants of consumers. A firm following this orientation would ask itself questions like: what can we do best? What is the easiest to produce? What can we design? Although there is nothing really wrong with looking at internal capabilities, this cannot be the only factor considered as consumers are external and have needs and wants that must be satisfied. Generally, production orientation is used only when the demand for products or services is greater than the supply. This orientation could still be effective for a company selling coal, for example.

1.3.2 Sales orientation

Although production orientation was successful for some time, many companies realised that aggressive sales techniques could be used to result in higher sales and thus higher profits. Marketers pushed products onto the consumers whether they needed them or not (see [Chapter 13](#) for a discussion of these strategies). Again, the issue with this orientation is that it's concerned with the amount of products sold and is not really focused on what the customer wants or needs. For example, many companies still use this orientation when they offer

two-for-one products where the second product is free. The aim of this is to increase sales and therefore profits.

1.3.3 Market orientation

This orientation involves organisations identifying the consumer's needs and wants and then altering their products or services in order to meet those needs and wants. The focus therefore moves to the quality of the offering, creating customer loyalty and essentially understanding the buying behaviour (see [Chapter 4](#)) of the consumer, whereas the first two orientations – production and sales – were more focused on internal capabilities and turnover. Many organisations have changed their focus to be more market orientated as this enables them to understand what customers want or need from a product or service and to tailor their offerings to satisfy the customer, making this a sustainable strategy. An example of a company using this orientation could be a brand like Apple, where Apple continuously changes its products in order to meet the needs and wants of consumers (i.e. lighter iPad, smaller iPad, longer battery life, etc.)

1.3.4 Societal marketing orientation

This is a fairly new orientation which involves the company acting in the best interests of the customers or even society as a whole. This philosophy positions itself based on the idea that the company is there not only to sell products and services to make a profit, but also to preserve society's long-term interests. Examples of initiatives from companies include Woolworths' eco-friendly packaging and KFC's Add Hope campaign.

1.3.5 Relationship marketing orientation

This is the most recent philosophy and it takes customer loyalty into consideration. Companies have always understood that customer loyalty is an important component of their business. However, ensuring customer loyalty is quite tricky for some products. Therefore, some companies have started building relationships with their consumers with the goal of keeping the consumer satisfied and

essentially loyal to the company. For example, FNB has made a point in the last few years of getting to know its consumers and keeping an open channel of communication.

It is quite difficult to place companies in a specific orientation. Sometimes they do things that place them in a certain orientation, then do something else which would place them under a different orientation. For example, banks want to increase the number of accounts they have so they might run a campaign offering consumers lower banking fees as a way of encouraging them to join the bank (sales orientated), but at the same time the bank could be involved in corporate social responsibility (CSR) campaigns like donating to children's homes – this would then fall under the societal marketing orientation. Therefore, companies can fall under more than one orientation.

1.4 Satisfaction and loyalty

The terms satisfaction and loyalty have both been used earlier in this chapter. Companies want customers to be satisfied and loyal as this leads to increased profits. Think about it – if you are satisfied with the service your hairdresser offers you, you are more than likely to go back to that hairdresser again; this is being loyal to your hairdresser. Both the company and the customer experience satisfaction: the company offers products or services while making a profit and the customer purchases products and services that satisfy his or her needs.

Organisations should aim to offer a constant level of satisfaction (and possibly exceed satisfaction levels) so that consumers become loyal and continually purchase the products and services that the company offers.

It is easy to say that the company needs to satisfy the customers' needs, but what exactly is a need? How does it differ from wants or

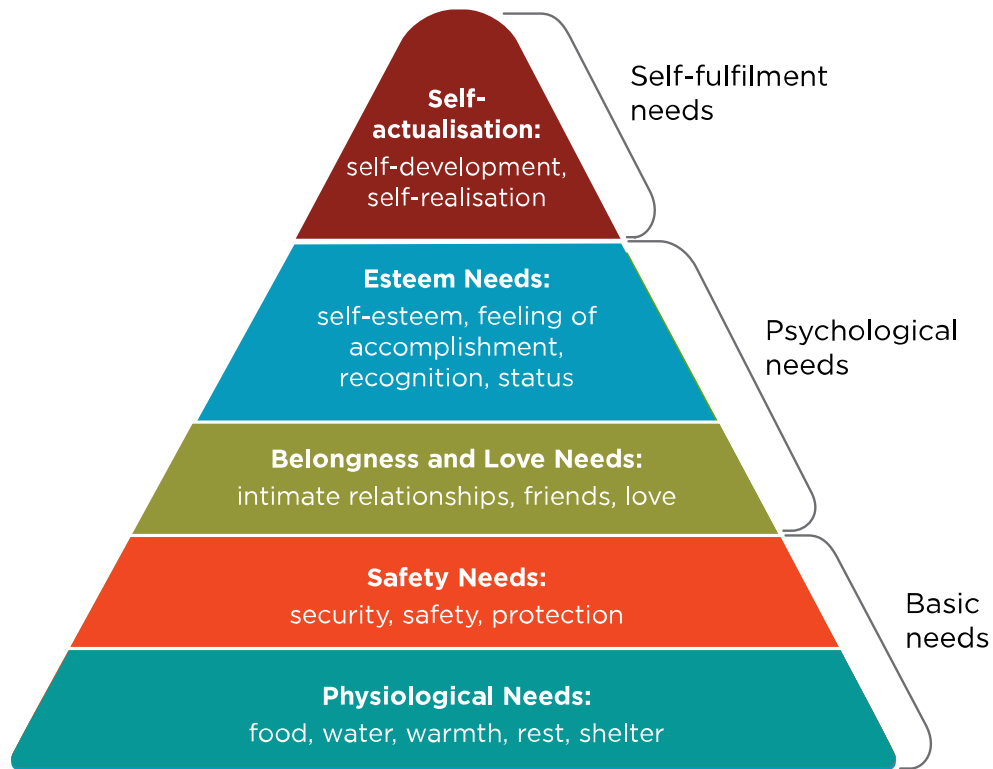
even benefits? This is explained below:

- **Needs.** These are essentially the difference between a consumer's present and desired state. Needs are also something the consumer requires in order to survive (i.e. food, water, shelter, etc.). Needs exist before marketing even comes into the picture. For example, you are hungry (existing need) and then you start looking for places to eat and maybe you like the look of a KFC burger on a billboard so you decide to go to KFC. Maslow's hierarchy of needs also comes into play here (see [Figure 1.1](#) and discussion below).
- **Wants.** These are slightly different from needs because they include a desire for the product or service. So a want is not a basic need, but something the consumer really craves or desires. For example, you have the basic need for transport, but you may *want* a luxury vehicle.
- **Benefits.** Benefits are what the consumer really buys the product for. So this is what the product or service *does* for the consumer. Marketers need to understand the benefits that consumers require from a product or service so that they can ensure that they offer these to the consumer. For example, a consumer who needs to purchase a new vehicle because he or she has recently had a child may want to purchase one that offers good safety features (the benefit). Marketers may know that consumers in the market for that specific vehicle are in search of safety features, so they may communicate heavily that the car has six airbags, a top-of-the-range windscreen, excellent brakes, etc. This communication could then encourage the consumer to select that particular vehicle.
- **Demands.** Demand should not be confused with desire. Demand is usually supported by buying power (i.e. income) while desire can exist where the consumer wants a certain product but simply cannot afford it. For example, a consumer who has the buying power to buy a luxury vehicle has the demand for that luxury vehicle. Refer to [Chapter 12](#) for an in-depth discussion regarding demand. What motivates human behaviour? Maslow's hierarchy of needs is one of the most well-known theories of motivation. According to humanist psychologist Abraham Maslow, our actions are motivated by a

desire to achieve certain needs. By studying motivation, marketers can analyse the major forces that influence whether consumers buy or do not buy products. When you buy a product, you usually do so to satisfy some kind of need. These needs become motives when aroused sufficiently. Motives are the driving forces that cause a person to take action to satisfy specific needs.

As a humanist, Maslow believed that people have an inborn desire to be self-actualised, that is, grow and develop as a person in order to achieve individual potential. In order to achieve these ultimate goals, however, a number of more basic needs must be met such as the need for food, safety, love, and self-esteem. There are five different levels of Maslow's hierarchy of needs, which is often depicted as a pyramid arranging the needs in order of importance (see [Figure 1.1](#)). These needs are ranked in categories: physiological (the most basic needs), safety, social, esteem and self-actualisation (the highest level of needs). According to Maslow, as a person satisfies one need, a higher-level need becomes more important.

Figure 1.1 Maslow's hierarchy of needs



1.5 Marketing mix

The marketing mix is a well-known term in the marketing community. Initially, the marketing mix consisted of 4 Ps – product, price, promotion and place – then the mix was adjusted to include aspects such as people, process and **physical evidence**, which are services related. It was important to add these 3Ps to the initial 4 Ps as services became a larger part of the market offering. This is now known as the 7 Ps in marketing. [Table 1.1](#) explains each element with examples.

Table 1.1 Marketing mix elements

Marketing mix element	Definition	Application to a product (purchasing a hamburger – fastfood outlet)	Application to a service (staying at a hotel)
Product	Actual offering made by the organisation, whether it's a product or a service (refer to chapters 7 and 8).	The actual product/offering would be the food item, in this case the hamburger.	In this instance it would be the different rooms offered to consumers at the hotel (basic room, deluxe room, etc.)
Price	The price is the amount that the customer pays in order to receive the offering (refer to Chapter 12).	This would be the price of the hamburger – for example, R24.99.	Different hotel rooms would have different prices (i.e. the basic room would be more affordable than the luxury room). These different pricing structures would accommodate different types of consumer.
Promotion (marketing communication)	This involves all of the elements included in the communications/promotions mix. These elements are used to inform and educate the consumer about the product or service and position the product in the consumer's mind (refer to chapters 13, 14 and 17).	The different adverts that the fastfood outlet uses to communicate (radio, billboards, etc.).	The hotel could use different forms of communication (radio, websites, social media, etc.) to communicate the hotel's offering to the consumer.

Marketing mix element	Definition	Application to a product (purchasing a hamburger – fastfood outlet)	Application to a service (staying at a hotel)
Place (distribution)	This refers to where the product or service is available for the consumer to purchase. It needs to be offered at the right place and time (refer to Chapter 10).	This would be the place where the consumer could purchase the hamburger (e.g. the drive thru in a convenient location).	The hotel could be placed in a busy city or near an airport, for example.
People	This involves the intangible elements that are the people involved in the delivery of a service (refer to Chapter 9).	The teller involved when ordering the hamburger could enhance or detract from the service received (e.g. be friendly or rude).	A hotel would need to ensure that the consumer receives consistent service – from the receptionist to the waitress.
Process	A service follows a particular process from start to finish (refer to Chapter 9).	The process would be the consumer going to the fastfood outlet, placing his order, paying for his order, waiting for his order, receiving the order and leaving the restaurant.	There is a process involved when booking a hotel room, whether it's online or in person (e.g. select the room, proceed to the booking, pay for the room, arrive at the hotel, check in, go to the room, check out, etc.)

Marketing mix element	Definition	Application to a product (purchasing a hamburger – fastfood outlet)	Application to a service (staying at a hotel)
Physical evidence	This is also referred to as the <i>servicescape</i> and it is essentially the physical environment where the service is offered (refer to Chapter 9).	This would be the physical environment in the fast-food outlet (e.g. the cleanliness of the outlet, whether the tills are working, the uniform that the staff are wearing, etc.)	Hotel chains generally ensure that all of their hotels have a similar look, so the furniture, the design of the particular hotel, etc. needs to be consistent (e.g. you can't have a consumer walking into an extravagant lobby then going to a downmarket hotel room).

The marketing mix allows the marketer to communicate and deliver value to the consumer as well as to pursue the marketing objectives that the company has in place. It's very important that there is coherence in the marketing mix, in other words, there needs to be consistency. For instance, if you were selling an expensive luxury watch, you would ensure that because you were communicating luxury and because the watch was expensive, the watch would be available in a premium [location](#), for example, and sold by staff who were trained about the watch brand. Each element of the marketing mix is discussed in more detail in later chapters (as indicated in [Table 1.1](#)).

1.6 Management tasks in marketing

In [section 1.2](#), we discussed the definition of marketing. The word processes is used in the definition and that's because marketing is a continual process – in other words, never-ending. There are specific roles that marketing [managers](#) need to fulfil and these are as follows:

- Identify strengths, weaknesses, opportunities and threats (also known as the SWOT analysis), which is covered in [Chapter 2](#).
- Analyse the [competition](#) in terms of their product offerings and strategies, which is covered in [Chapter 3](#).
- Understand your target consumer's behaviour and make decisions on how you will segment, target and position your product or service, covered in [chapters 4 and 6](#).
- Compile marketing data, discussed in [Chapter 5](#).
- Make decisions on the products that need to be developed in order to meet the consumer's needs, which is covered in [chapters 7 and 8](#).
- Make decisions about the service component of the product offering or pure service offering, as discussed in [Chapter 9](#).
- Decide on where the product will be available to consumers, as discussed in [chapters 10 and 11](#).
- Make decisions on the [pricing](#) strategy, which is covered in [Chapter 12](#).
- Decide on how the organisation is going to communicate the offering to the consumer, as discussed in [chapters 13, 14, 15, 16 and 17](#).
- Make informed decisions on the business-to-business (B2B) and business-to-consumer (B2C) component of the organisation, as discussed in [Chapter 18](#).
- Decide on how to measure the effectiveness of marketing activities, as discussed in [Chapter 19](#).

- Evaluate the international component influencing the organisation, as discussed in [Chapter 20](#).
- Determine the role ethics will play in the organisation's operations, covered in [Chapter 21](#).

1.7 Conclusion

In conclusion, marketing is a lot more complex than just selling or advertising. This chapter has covered the definition of marketing, the five marketing philosophies that can be followed by companies, the relationship between satisfaction and loyalty and the marketing mix. In addition, the chapter explained the core marketing management functions which relate to different chapters in this textbook.

DISCUSSION QUESTIONS

1. Explain the word “marketing” in your own words.
2. Describe each marketing philosophy and provide a practical example for each philosophy.
3. Examine the relationship between satisfaction and loyalty and its importance in the organisation.
4. Differentiate between needs, wants and benefits. Provide an example for each.
5. Describe each element of the marketing mix in a product and service context. Provide an example for each element.

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2

THE MARKETING ENVIRONMENT

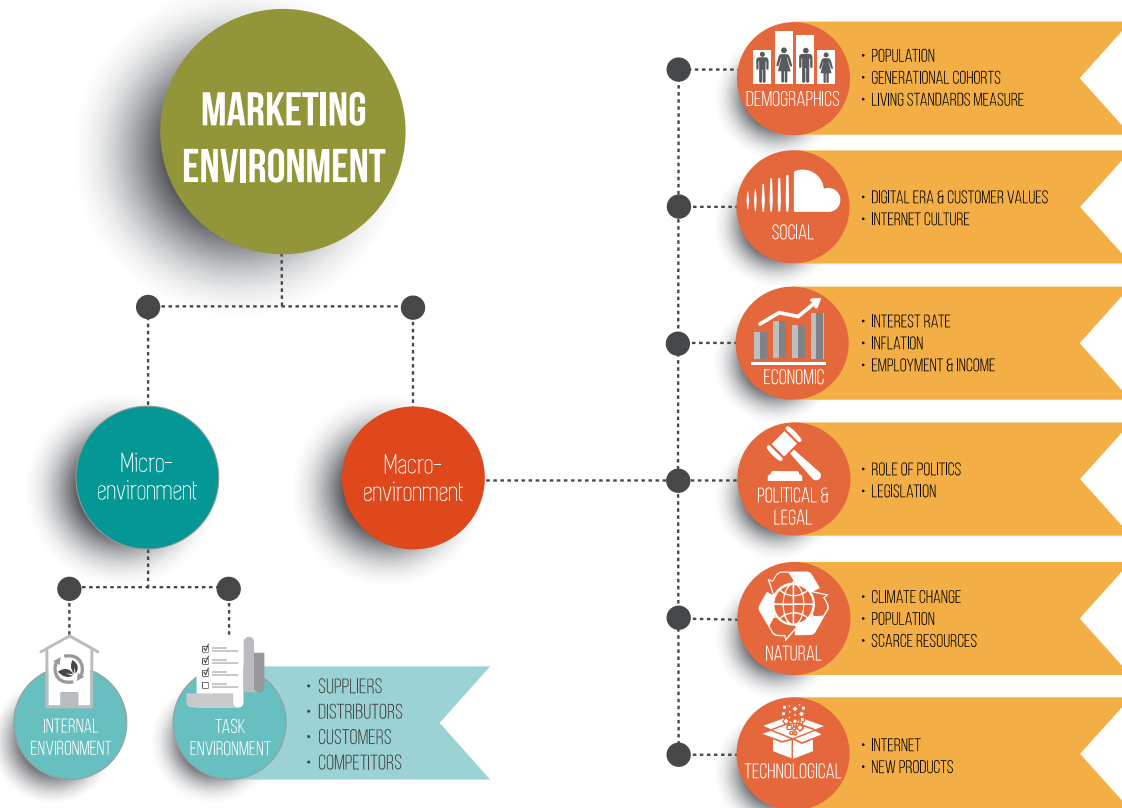
LEARNING OUTCOMES

AFTER STUDYING THIS CHAPTER, YOU SHOULD BE ABLE TO

- understand the concept and importance of the marketing environment
- evaluate the differences between the micro- and macro-environments
- explain the external factors that affect the ability of businesses to satisfy customer needs
- discuss ways in which companies can be effective in dealing with the marketing environment
- understand how changes in the natural and technological environment affect marketing decisions
- understand the concept of the Living Standards Measure (LSM)
- recognise the variety of impacts that technology has on the field of marketing, for both organisations and consumers.

KEY CONCEPTS

- BABY BOOMERS
- BROAD-BASED BLACK ECONOMIC EMPOWERMENT
- COMPETITORS
- ENVIRONMENTAL ANALYSIS
- ENVIRONMENTAL SCANNING
- FORMS OF COMPETITION
- GENERATION X
- GENERATION Y
- LIVING STANDARDS MEASURE
- MACRO-ENVIRONMENT
- MARKETING DISTRIBUTORS
- MICRO-ENVIRONMENT
- SUPPLIERS



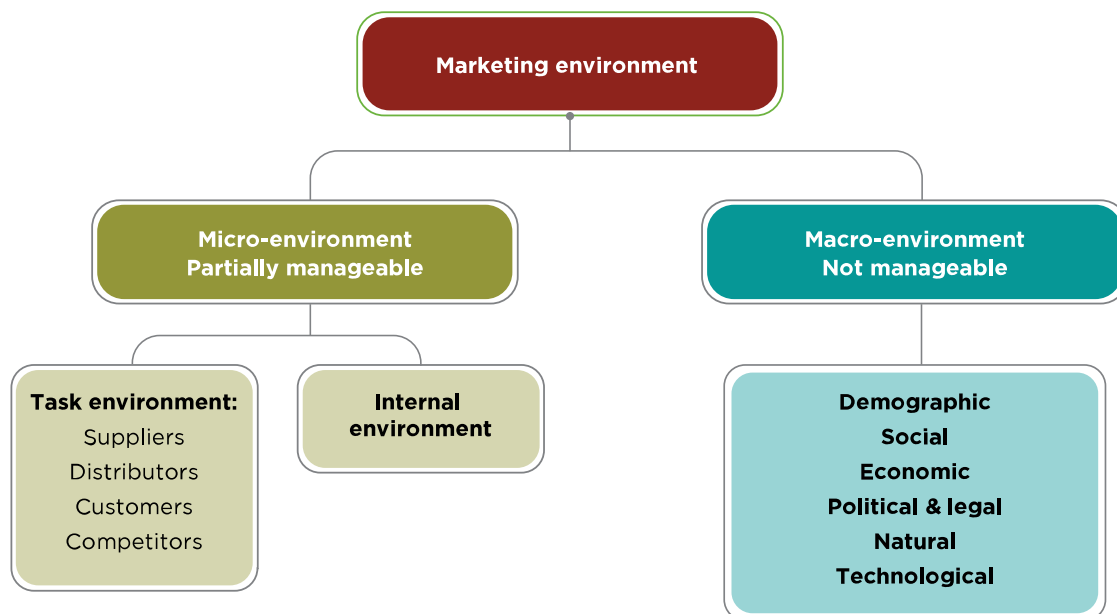
2.1 Introduction

Marketers are faced with many challenges while in the quest to sell goods and services to their customers. They have to be proactive in building good relationships with all the stakeholders that influence, directly or indirectly, the purchase of their goods and services. These stakeholders include customers, internal stakeholders such as other departments (e.g. the production department to ensure that they are producing quality products) and external stakeholders such as **suppliers**, government departments and society as a whole. To build these relationships effectively, marketers need to understand the major environment forces that have an impact on all these relationships (Armstrong, Kotler, Harker and Brennan, 2012: 77). All businesses are part of a marketing environment which is made up of different

components. These influence the marketing practices of the company and its ability to build meaningful relationships with consumers. In this unpredictable environment, companies that are successful know how to read any changes that are occurring and make the necessary adjustments to their strategies.

In this chapter, we look at the concept of the marketing environment in depth. First, we illustrate the importance of the marketing environment in an ever-changing business environment. For example, in 2016 the Ministry of Finance proposed a sugar tax which will have major implications for companies that add sugar to their products. The implications of this proposed sugar tax could be interpreted under the political environment factor in the [macro-environment](#) which is discussed in [section 2.4](#). Secondly, we will differentiate between the micro- and macro-environments. Thereafter we will discuss the different components that make up these two environments.

Figure 2.1 A diagram of the marketing environment



2.2 The importance of the marketing environment

A variety of factors affects the company's marketing efforts. Some of these factors are controllable, others are challenging to control and others are not controllable. These factors require markets to be in step with the changing environment and to adapt their marketing strategies accordingly. The marketing environment consists of the *micro-environment* and the *macro-environment*. The marketing environment is made up of all the components/actors or factors that impact marketing activities directly or indirectly. Marketers, more than other departments in the company, need to be able to understand the impact of changes in the marketing environment. Marketers ought to follow trends and be able to predict them.

Marketing as a concept has seen many changes over the years; these were discussed in [Chapter 1](#). The progression from product orientation to the present customer (societal marketing) orientation was caused by changes in the marketing environment. These changes were brought about by factors in the macro-environment as companies sought to take the interests of the physical environment into account while fulfilling the needs and wants of consumers. It is important to make a thorough analysis of the marketing environment before formulating any strategy. After analysing the marketing environment it is essential to incorporate all the planning, organising and controlling marketing activities. The success or failure of companies is partly related to their ability to scan and analyse the environment correctly. A good example of the effect of the marketing environment is the introduction of banting foods at Checkers stores as a response to the growing popularity of the banting diet. Checkers saw the enthusiasm for healthy eating as an opportunity in the marketing environment.

Analysis of the marketing environment is conducted through [environmental scanning](#) and [environmental analysis](#). Environmental scanning "is the careful monitoring of an organisation's internal and external environments for detecting early signs of opportunities and threats that may influence its current and future plans" (Lamb, Hair,

McDaniel, Boshoff & Terblanche, 2013: 42). The importance of [marketing research](#) cannot be understated during this process. The internet has played a major role in the collection of data and the speeding-up of environmental scanning. The following are some of the activities that can be used to scan the environment:

- Gathering information about current events by attending seminars and conferences
- Analysing speeches made by political leaders such as the president, the Minister of Finance and the governor of the Reserve Bank
- Following the analysis of consulting firms, futurists and financial institutions
- Using economic indicators as a way to collect information
- Analysing statistics provided by Statistics South Africa
- Following trends in [social media](#) and blogs

Environmental analysis “is the process to identify all external and internal elements, which can affect the company’s performance” (Lamb et al., 2013: 43). Such an analysis will affect the marketing decisions made for the future. In [section 2.3](#) we discuss the micro-environment in more detail.

2.3 The micro-environment

The micro-environment is made up of factors that are close to the company and that have an impact on the company’s ability to satisfy the customers’ known and unknown needs and wants. [Figure 2.2](#) illustrates the components of the micro-environment: the company, its suppliers, intermediaries, competitors, the public and the customers.

The essential role that marketing plays in the growth of a company is that of building relationships with current and potential customers

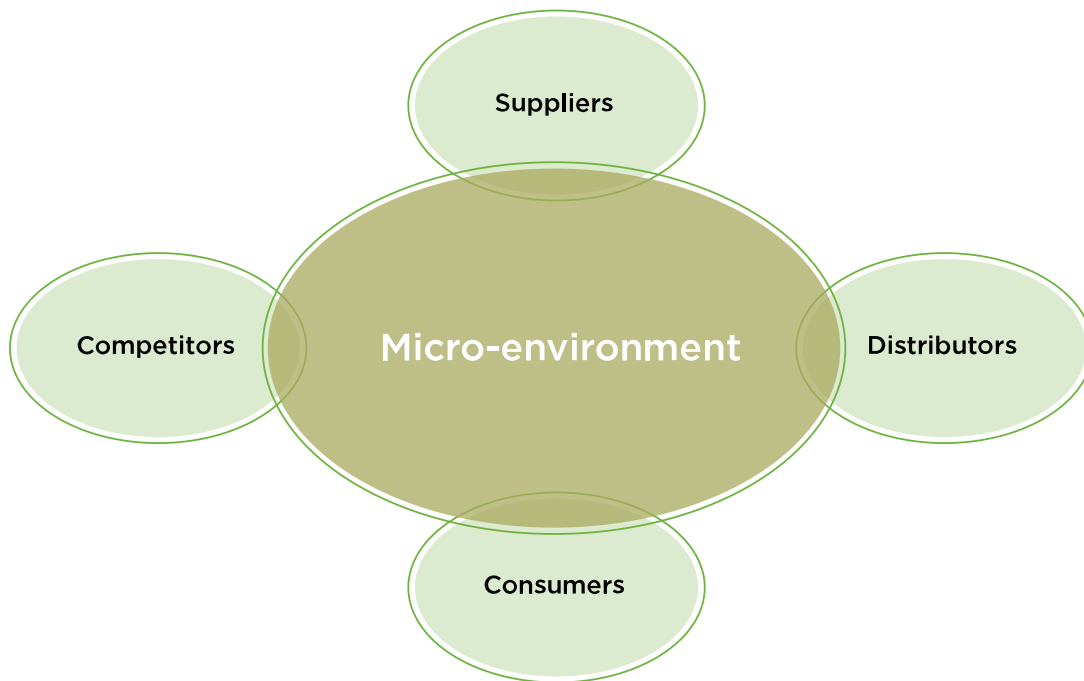
through providing goods and services that will bring value and lead to **customer satisfaction**. For this purpose there are many other role players that need to contribute, both from within the company and outside the company.

2.3.1 The internal environment

A company consists of many important groups or departments which are integral to the success of marketing management in their quest to satisfy customers through analysing and evaluating the marketing environment. Marketing cannot work in a silo but needs the backing of top management, the financial acumen of the **finance** department, good-quality produce from the operations/production department, research and enquiries by the research and development (R&D) team, and the negotiation skills of the purchasing department. If the marketing department were to work in a silo, it would spell disaster as it is heavily dependent on the R&D team to conduct research on the company's products that are being offered to consumers. No research would mean that decisions were not founded on predictions about consumer trends. The R&D department forms part of the internal environment which is discussed in detail in this chapter.

The marketing team must work closely with the abovementioned departments and must not act as if they possess all the necessary skills. The importance of these departments is highlighted in the roles that these departments play in bringing value to customers.

Figure 2.2 The micro external environment



2.3.2 Suppliers

Suppliers are important as they supply companies with the resources needed to produce goods and services. For example, Rainbow Chicken supplies most fastfood outlets with chicken, so if Rainbow Chicken does not supply chicken to these outlets, that means customers who get value from buying from these outlets won't be satisfied. Furthermore, these outlets won't be able to meet their marketing objectives and ultimately their companies' mission and vision. Without suppliers, companies and markets will find it difficult to meet their promises to consumers, i.e. to provide the goods that consumers want.

The importance of forming relationships with suppliers has grown over the years. The value to companies is that they receive **discounts** from regular suppliers, are able to supply goods continuously to consumers and receive timely delivery of quality materials. Companies have started treating their suppliers as their partners in order to bring value to their customers. They are even regulating their suppliers in relation to the quality of the produce and where they source products. A good

example is Woolworths, which regulates its suppliers with regard to quality.

Most businesses subscribe to laws and regulations which govern their business practice with suppliers. A basic regulation in most fastfood outlets is that these outlets follow Halaal practices as some customers have to eat food that is Halaal for religious reasons. Therefore, marketing managers need to ensure that the slaughterhouses that their suppliers use follow Halaal practice. Another more complex regulation is the broad-based black economic empowerment (B-BBEE) code. It has a scorecard where there is a section that deals with the company's contribution to supplier development. B-BBEE is a government regulation which seeks to empower previously disadvantaged people through various initiatives. [Figure 2.3](#) shows the different categories featured in the B-BBEE scorecard. One of the categories is enterprise and supplier development. This is a good way to develop a [partnership](#) as you can invest in your supplier/s and thus forge a strong relationship which may ultimately bring good value to your consumers.

A challenge that arises with these types of partnership is that small suppliers can be intimidated by big companies when they contribute to their development. Moreover, most small businesses supply big companies which have more buying power than they do and thus the big companies could trim small businesses' profit [margins](#) to transfer them to their consumers and shareholders.

Figure 2.3 B-BBEE scorecard

ELEMENT	WEIGHTING	CODE SERIES REFERENCE
Ownership	25 points	100
Management Control	15 points	200
Skills Development	20 points	300
Enterprise and Supplier Development	40 points	400
Socio-economic Development	5 points	500

Source: Schoeman-Louw, 2014

2.3.3 Distributors

Marketing distributors deal with assisting a firm in the promotion, selling and distribution of final goods and service to consumers. Intermediaries make connections between the manufacturers and the final consumers. They are also known as middle men or agents. These marketing distributors are external groups, individuals and businesses. They are essential to the consumer and the company as they bring products to the final consumers within close proximity to them.

Marketing distributors include:

- *Retailers* (such as Spar, Pick n Pay, Shoprite, Checkers, Hypermarkets, Game, tuck-shops, etc.)
- Firms which offer a *physical distribution service* (such as courier companies, e.g. DHL)

- Firms which offer *marketing services* (such as [promotions](#) companies, [branding](#) companies and advertising agencies)
- Firms which offer *financial services* (such as accounting/auditing firms like Deloitte and PwC)

Retailers are used primarily to resell products that have been produced by companies such as Unilever, Procter & Gamble, Tiger Brands and many other big and small producers. The process of selecting companies to partner with in the reselling of final goods and services has become very complex as retailers have grown bigger and gained more bargaining power. At times, smaller producers could find themselves intimidated by larger retail chains as the retail chains want to maximise their profits often to the detriment of smaller producers.

2.3.4 Customers

Customers are essential to the success of any company or organisation. The company needs to be proactive in investigating what the customer needs are in the market. There are different types of customer markets which need to be watched closely for both growth and growth potential. The following constitute the different types of customer market:

- **Consumer market.** This is the biggest market in terms of the number of consumers as it constitutes the selling of goods and services to individuals and households for private use. This market is usually the final user and does not buy products or services for reselling. Products and services are sold from business to consumers (B2C). A good example of the consumer market is the products that are purchased at supermarkets by consumers daily, such as the purchase of food and other groceries from Pick n Pay or Checkers or Spar.
- **Business market.** This is not as large as the consumer market but tends to have bigger individual contracts in terms of revenue than individuals or households. Companies buy goods and services which can be used in the production of final goods and services. This market is crucial for businesses that have only other businesses as

their clients. Business-to-business (B2B) marketing is a lucrative area of marketing in which large contracts are signed. An example of where this happens in the [supply chain](#) is between Unilever and retail chain stores where Unilever brand managers sell their products to Spar or Pick n Pay. Another example is a university purchasing iPads from Apple for their first years to use in class for learning.

- **Reseller market.** This market buys products or services to resell at a profit. These are small businesses that buy finished goods, usually from retailers or wholesalers, to sell to consumers at higher costs. An example of this reseller market is seen in townships such as Soweto where small tuck shops resell products that have been purchased from wholesalers such as Makro.
- **Government market.** These are major players in the marketplace as they look after society's needs and attempt to deliver services to the public. Government agencies buy goods and services (usually through a tender process) for producing a service or for transferring these goods to members of society who need them. An example of a government market is official vehicles purchased by a municipality for the different departments, such as electricity department, from a Nissan or a McCarthy dealer or even Toyota SA.
- **The global market.** The global market is becoming more accessible as consumers, businesses and governments become more technologically savvy. The internet has hastened the globalisation of the markets. Buyers, producers and consumers are now only a click away. An example of the global market is the selling of products through online shopping channels, such as customers in South Africa purchasing products on Amazon, AliExpress or E-bay where the products are delivered to the customer.

2.3.5 Competitors

Most goods and services that are sold in the marketplace face a certain degree of competition. Competition is an important part of a company's micro-environment as the company seeks to provide better goods and services to its consumers than its competitors. A more in-depth discussion of competition is provided in [Chapter 3](#). It's

important for a company to analyse its competitors as this will assist it in creating a sustainable competitive advantage. A lack of analysis could lead to other competitors taking the company's share in the market or producing better products which consumers need or want, such as in the case Nokia or BlackBerry.

2.4 The macro-environment

The external macro-environment plays an important and critical role in the business environment. Marketing managers must understand the dynamics that the macro-environment poses to the company. There are several factors which constitute the macro-environment; these include demographic, social, economic, technological, political and legal, and the natural environment. In the following sections, we discuss the macro-environmental factors in depth.

2.4.1 Demographic environment

As stated above, consumers are the largest component of the market, making them the biggest interest area for marketers. The demographic environment consists of consumers and those consumers make the market to which goods and services are sold. The demographic environment is crucial but not controllable. Marketing managers are therefore required to study the demographic environment as it is important for segmentation and targeting purposes, which leads to [positioning](#) of the products and services correctly.

But what are demographics? *Demography* “is the study of people's vital statistics, such as their age, race or ethnicity and location” (Lamb et al., 2013: 51). The basic variables that constitute the demographics, such location and age, are very important as they help to identify opportunities and develop strategies to sell a company's goods and services. When changes occur in the demographic environment these will impact on the business, either positively or negatively.

2.4.1.1 Population as a demographic

For marketing managers based in South Africa it is important to know the statistics that relate to the demographics of the country. Analysing the trends in the South African population is essential for forecasting and formulating strategies. Most statistics for the population of the South Africa are found in the reports by Statistics South Africa which are compiled after a census. The summary of statistics last published in mid-2015 estimated the population of South Africa to be 54.96 million.

The statistics provided by Statistics South Africa and many others need further interpretation by marketing managers in order for them to be relevant to the segmentation, targeting and positioning process.

2.4.1.2 Generational cohorts

Some textbooks show the demographics in terms of the different generational groups that have occurred since World War II. These illustrate the changes in age structures in the last few decades. The classification of the different generations is shown below:

- **The Baby Boomers (1946–1964).** This is the period where birth rates rose quite sharply, primarily due to the end of World War II. **Baby Boomers** are nearing retirement and are characterised by the ownership of property, and by being hardworking and loyal.
- **Generation X (1965–1976).** This generation is characterised by their lack of noticeable distinguishing characteristics and they are said to lie in the shadow of Baby Boomers. They are also characterised by scepticism, being individualistic and being caught in the middle of generations.
- **Millennials or Generation Y (1977–2000).** This is an attractive target group for marketers. They are the present and the future customers as most Millennials are in their early forties. There are the current working class which still has a lot to give before retirement. They are comfortable with technologies being made

easily accessible through new forms of media such as social networks.

- **Generation Z (1995–mid 2000s).** This generation is called “net generation”. They preceded the millennials and are vocal in terms of what they like and what they do not. They are not afraid to voice their opinions on social media especially about companies and their products or services.

2.4.1.3 Living Standards Measure as a demographics tool

Lamb et al. (2013: 52) used a famous instrument in the South African context in terms of segmentation and [consumer behaviour](#). It is called the [Living Standards Measure \(LSM\)](#) and it was introduced by the South African Advertising Research Foundation (SAARF, 2012). LSM is defined as a multi-attribute segmentation tool which is based on access to services and durables, and geographic indicators as determinants of living standards.

The LSM groups range from LSM 1 to LSM 10, with LSM 7–10 having low and high measures in each group. Below we briefly discuss the LSM groups with special focus on demographics such as the percentage of adults in each group, the average income per month per household and literacy levels. Further, we discuss what the general services are that each group receives and how marketers could reach the groups.

LSM 1–3

These groups comprise 14.1 per cent of the total adult South Africa population. There are mixed gender as there are both males and females in this group with an average age of 15–24 or 50+ years. They are predominantly from rural areas or small urban areas and live in traditional huts. In terms of literacy levels, they have completed anything from primary school to high school. The average income is R1 363–R2 258 per month. In order for marketers to reach this group they have to use radio as the major communication channel, through African language services such as *Ukhozi FM*, *Umhlobo Wenene* and other community-based radio stations. They possess few or no

durables but possibly a radio or, for group 3, a TV set. They receive minimal services.

LSM 4

This group comprises 13.1 per cent of the total adult population, both males and females. They are mainly the youth since they are between the ages of 15 and 34 years, although they may be above 50 years. The average monthly income is R3138 and their literacy levels are some high school education. They possess more durable items than the previous LSM 1–3 group as they have electrical hot plates and TV sets. They also participate in activities such as night clubs and different types of gathering.

LSM 5

This group comprises 16.9 per cent of the total adult population who are male, between the ages of 15 and 49. They live in small urban or rural areas and have some high school education. They own a TV set, a hi-fi or radio, and have running water and flushing toilets, either communal or in their own dwellings. For activities this group tends play the lottery, go to night clubs and attend gatherings. Marketers can utilise several media to reach this group, including all SABC TV stations, African language service radio stations and daily newspapers.

LSM 6

This group consists of 21 per cent of the total adult population who are mainly males, highly literate, with a matric and possibly a higher qualification, living largely in urban areas and with an average monthly income R6322 per household. Generally this group owns a number of durables, plus a cellphone, and has electricity, water and a flushing toilet inside the dwelling. Activities include hiring DVDs as well as all the activities which are identified for LSM 5. There are several media allowing market exposure to this LSM, including a subscription to StarSat, with SABC channels, as well as cover through all print media and outdoor advertising.

LSM 7–10 (Low and High)

The LSM 7–10 groups have several similar characteristics. There is a low group and a high group which are differentiated by two elements – mainly the percentage of the total population and the average monthly income per household. They have a monthly average income average of between R9 320 and R32 521. Another differentiator is the gender for LSM 7–9. The lower segment of the LSM is predominately female and the higher is predominately male. But LSM 10 is predominately male for both low and high. They live in urban areas and are highly literate (matric and higher qualifications). They have the most media available, from commercial radios to subscription DStv. They possess a greater number of durables, which increase in number as we go higher among the groups.

The LSM tool is very important for the South African market to understand its demographic profile. It assists in the segmentation process, although this tool cannot be used in isolation from other segmentation and demographic identification tools. These are discussed further in [Chapter 6](#).

2.4.2 Social environment

The social environment involves attitudes and beliefs shared by the community that the business serves, even the broad community comprising the whole country. It is a complex task to predict the changes in the social environment and what their impact will be on society and any business. The digital era has changed customer values, lifestyles and beliefs, and these changes occur rapidly.

The social environment relates to the society, and the products made available are the products of a particular society. Society influences not only the products that are produced, but also the prices consumers are willing to pay, the impact of the advertising message and the channels to be used. Therefore, marketing managers sell products that are permitted by a particular society. Globalisation and the internet are shaping the views of people across the world as consumers are sharing similar values with their international counterparts.

2.4.2.1 The ever-changing societal values

There are many changes that are occurring in society and South Africa as a developing country is not immune from experiencing these changes. The following factors are contributors to changes in what consumers value.

The impact of the digital era on consumer values

The internet has been the biggest contributor to changes in the social environment as consumers are able to look at other communities around the world and not just their own immediate community. Through the internet, consumers have become more socially than physically present. They value socialising – not in the traditional way of meeting face to face, but rather through the internet. This has implications for how businesses conduct themselves and they will need to adapt. Some consumers even check for comments online before purchasing goods and services. A good example of such a [website](#) is the Hello Peter website which has ratings of many South African companies. Here it is the consumers themselves who do the rating.

Consumers are able to mobilise better through the use of the internet, making them more connected, especially through the use of social media. Social media has made consumers hold stronger opinions and made them more difficult to persuade as they are constantly connected to the [opinion leaders](#). (See [Chapter 4, section 4.3.2.4](#) for a discussion on opinion leaders.) Companies are availing themselves of channels to meet the new values that consumers are acquiring.

The internet and culture

Almost half of the population of South Africa (27 million) has access to the internet and half of those are on social media. Social media has caused many changes in the structure of communities, including the manner of socialisation. The influences have shifted partly from the physical home and community to online communities.

The amount of time that people spend on social media has grown enormously over the last decade, changing the [culture](#) of “going out” to meeting online. There are apps such as WhatsApp, Facebook,

Twitter and Instagram which are taking more time from physical connections such that some families have put household rules in place to connect with the family through offline means. You can see an example of the change in culture among friends when you are relaxing at a restaurant – most of your friends will be carrying their smartphones and chatting to their other friends through social media or WhatsApp while dining.

2.4.3 Economic environment

The consumption of goods and services requires purchasing power and people. The economic environment affects the businesses in which they exist.

According to the *Business Dictionary*, the economic environment consists of “the totality of economic factors, such as employment, income, inflation, interest rates, productivity, and wealth, that influence the buying behaviour of consumers and institutions”.

Every business will be affected by the components of the economic environment. These economic factors can make or break a business, making understanding and analysing their influence important for marketing managers. These factors are challenging to control but strategies must be put in place to mitigate their impact on the business or organisation. Marketers need to pay close attention to these trends and patterns of consumption across the globe as these patterns impact on the purchase of goods and services in the business.

The important factors listed in the above definition from the *Business Dictionary* have an influence on the buying power of people and some of them will be discussed briefly below.

2.4.3.1 Buying power

Employment and income

Employment and income are concepts that have a significant influence in the purchase of goods and services.

The *unemployment* rate in South Africa is high, being around 27.1 per cent of the population. The percentage of unemployed people is equivalent to the number of people who don't have resources to purchase goods and services. The unemployment rate also shows the strength or weakness of the economy of a country.

More than half of South Africans earn less R3 500 a month, which means that they do not have enough money to spend on certain goods and services. These consumers have only enough buying power to invest in basic goods. However, South Africa is not a land of the poor only, but also of the middle class and the wealthy. Although middle class and wealthy consumers can afford more goods and services, marketers need to ensure that they are willing to spend on the goods and services of the marketers' own companies. Having buying power doesn't mean consumers are willing to spend.

Interest rates

In South Africa, the prime interest rate is currently 7 per cent (May 2017), but this is expected to increase during the year and that has many implications for the economy. If the prime interest rate is raised, the future buying power of consumers will decrease as the cost of borrowing this buying power is increased. The following are the effects of an increase in interest rates:

- There is an increase in the cost of borrowing.
- There is an increase in mortgage interest payments.
- There is increased incentive to save rather than spend.
- Higher interest rates increase the value of the currency.
- Rising interest rates affect both consumers and companies.
- Government debt interest payments increase.
- There is reduced confidence in the economy.

Interest rates have an effect on the consumption of goods and services in that they can either enhance or reduce consumer confidence.

Consumer confidence has an influence on the amount of money consumers are willing to spend.

2.4.3.2 Inflation

Inflation is the change in the price of goods per basket over time. Inflation decreases the buying power of the consumers in the market as the prices of goods in the basket will increase over time because of inflation. Inflation is a major factor in the cost of goods and services which ultimately impacts on purchases as consumers battle with the perceived fair price of those goods. Companies need to deal with the influence of inflation by developing strategies that will make consumers not feel the changes in the price of goods and services so much. Strategies on price, brands and advertising are important when the inflation rate rises. An example of inflation is the difference in the cost to a commuter from a township when the taxi fare increases from year to year. For example, it could have cost him or her R4 in 1999 to travel to the Johannesburg CBD, but now it costs R14 for the same distance.

2.4.4 Political and legal environment

The political environment plays a crucial role in the delivery of services that assist businesses to produce goods and services for their consumers within a particular country. It legislates the rules of trading within that country and dictates which countries it seeks to have trade agreements with. Therefore, there is an interlink between the political and the legal environment and the marketing environment.

Marketing managers prefer relatively stable political environments as they make it easier to plan and execute marketing strategies. Until recently, South Africa has been experiencing a relatively stable political environment. Its 1996 Constitution as a document has been a good guide to laws and regulations.

The laws adopted by a country can have major implications for a business's operations and for the marketing team. The marketing team must be aware of the legislation that governs the operation of

businesses in South Africa. For example, the proposed introduction of a sugar tax on sugar-sweetened beverages will impact many companies, such as Nestlé, Tongaat-Hulett, Coca-Cola and others. The impact will also be felt by consumers as the cost of the sugar tax will be transferred to them. The purpose of the sugar tax is to use legislation to fight obesity in South Africa.

Businesses must also be aware of several laws that govern how they compete, how they interact with the consumers, what rights consumers have and, lastly, that promote competition. Government and its legal arm is for the protection of the country's people, but it's also for the protection of innovative ideas which businesses develop.

2.4.5 Technological environment

Changes in the technological environment have a major influence on the operation of businesses. Companies must be able to adapt to technological changes in their industry. There are two main technological factors that affect businesses: the introduction of new inventions to produce the products, and new inventions related to the marketing of products. If companies fail to analyse the technological environment, this can lead to their losing their position in the market, such as in the case of Nokia. Nokia used to be market leaders in the hand-set market. However, they failed to analyse the link between new inventions related to marketing, such as social media and using cellphones for services other than just calling.

The constant development of a whole range of computer programs (software) poses a threat to companies and employees whose jobs are being taken over by these programs. There are several examples of companies and people facing the threat of losing jobs or contracts, such as the development and adoption of online banking and cellphone (mobile) banking, which has caused many banks to limit the number of banking service consultants they employ and consequently led to job losses. This means that recruitment agents who were placing tellers with banks were also affected.

2.4.5.1 Impact of technology on marketing

Technological changes also give rise to opportunities, especially since they make so much data available for analysing prospective customers and the digital environment has opened up so many new communication channels. The availability of data means that companies need to compile or organise the data in order to make the right decisions. Companies can now have more targeted advertisements that are personalised to specific consumers. A good example is Facebook adverts which appear on an individual's Facebook page according to what the individual likes, comments on and posts on Facebook. But there are security concerns that arise with digital data collection. Consumers these days are influenced by technological changes as many spend more time on the internet via their mobile appliances.

2.4.6 Natural environment

The natural environment has been growing in influence in the marketing environment. Since the degradation of the environment has been increasing, there is a need for solutions to protect the environment.

The natural environment has been a major source of debate in the last few decades. Marketers, academics and governments have been involved in developing better ways to produce products that do not cause harm to the environment. There is now a growing number of consumers who desire to know whether the companies that they buy products from are environmentally friendly and also whether the products they are purchasing are environmentally friendly.

Concerns with regard to the natural environment relate to several factors, such as climate change, pollution and a scarcity of natural resources. These factors are playing an important part in the production of goods and services. The attitudes of consumers have hardened towards companies and products that are causing harm to the environment. South Africa as a country is aware of these factors. For example, the recent drought that much of South Africa experienced

from 2015 to 2017 led to water restrictions being imposed in order to conserve the water supply. The drought didn't impact only on water usage but also on food security as farmers rely heavily on an adequate water supply to grow crops and to feed their livestock, such as cattle. The drought caused a rise in the price of goods in the market.

So what should companies do? Although the marketing environment is seen as an element that companies cannot control, they must react or adapt to the changes that occur without their consent. To wait and do nothing would be to be passive and the marketing environment will affect the company in any case. Companies need to be active and as accurate as possible in their forecasting and respond to this complex marketing environment. This entails designing strategies through outlining the opportunities and threats that are found in the marketing environment. A strategic company will take the opportunities derived from conducting a SWOT analysis and create appropriate contingency plans to deal with possible threats.

2.5 SWOT analysis

The **SWOT (strength, weaknesses, opportunities and threats)** analysis is a tool that is used by organisations to identify their weakness and strengths as well as the opportunities and threats to the business that might arise and that could affect the business. The SWOT analysis uses micro- and macro-environmental factors to identify the strengths, threats, opportunities and weakness.

The SWOT analysis is used to list factors which are favourable and unfavourable for a particular business or situation. The SWOT analysis assists managers in making decisions. An example of a SWOT analysis for Nando's market position is outlined in [Figure 2.4](#).

Figure 2.4 A SWOT analysis for Nando's

Strengths	Weaknesses
• Selling flame-grilled chicken which is affordable • Popular brand and has established food franchises international • Specialises in chicken with a various flavours • Advertisements that uses humour	• Low level of presence in small cities • Limited choice for vegetarians • Limited options of chicken dishes
Opportunities	Threats
• Grow the selling of Nando's products online. • Diversify Nando's offering to offer more innovate products • Enter the hotel industry	• Increase number of competition producing flame grilled chicken • Risk of bird flu • Chicken being dumped from other countries such as Brazil.

2.6 Conclusion

The marketing environment presents companies with both opportunities and threats. It should be monitored continuously for changes that occur as they will have an impact on the business. This chapter identified the following marketing environment factors:

- Demographics
- Social environment
- Economic environment
- Political and legal environment
- Technological environment
- Natural environment

The chapter differentiated between the micro- and macro-environments. It is crucial for marketers to have an understanding of both these environments as they have an influence on the achievement of the marketing objectives.

The micro-environment consists of factors that may affect the business. The micro-environmental factors include the following:

- Competitors
- Consumers
- Suppliers
- Distributors

DISCUSSION QUESTIONS

1. Discuss the effect of the external environment on marketing.
2. Explain the concept of the Living Standards Measure and its effect on marketers.
3. What is the purpose of environmental scanning?
4. Identify activities that can be used to scan the environment.
5. Discuss the role that the political and legal environment plays in marketing.
6. In this digital age, identify the impact of technology on a company.
7. Explain the impact of technology on consumer values.
8. Discuss the impact of social media on culture.
9. Explain the importance of buying power in achieving marketing objectives.
10. Discuss the concept of willingness to spend.
11. Discuss the role of intermediaries in marketing.
12. What are the effects of an increase in interest rates?
13. Discuss the impact of technology on marketing.

14. Explain what should be done to with regard to the marketing environment.

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3

ANALYSING THE COMPETITIVE SITUATION

LEARNING OUTCOMES

AFTER STUDYING THIS CHAPTER, YOU SHOULD BE ABLE TO

- define the term competitive environment
- distinguish the four methods that determine the level of intensity of competition in industry
- describe the four key industry structures
- explain the competitive forces used to analyse the competitive structure of an industry
- describe the analyses of industry competitors
- describe the barriers to entry and exit of different industries
- describe the analyses of the key success factors of industries
- discuss the competitive response analysis

KEY CONCEPTS

- ATTRACTIVE MARKET
- BARGAINING POWER
- ENTRY BARRIERS
- EXIT BARRIERS
- MONOPOLY
- OLIGOPOLY
- PRICE SENSITIVITY
- PRICING FLEXIBILITY
- PURE COMPETITION
- STOCHASTIC COMPETITOR
- STRATEGIC GROUP



3.1 Introduction

Today's marketing environment requires marketers to understand the competitive situation in which a company operates, such as the internal and **external factors**. Many factors, including pressure of competition, rapid technological innovation and frequently changing business practices, have changed the marketing environment and greatly affected the way business is conducted throughout the world. Many companies need to understand the impact of competitors in the market that could influence their business practices and the implementation of marketing strategies, as this may affect their profitability and success.

Today's competitive markets are characterised by many customers with different needs, wants and preferences. Competitors in these markets use different marketing activities with the aim of attracting more customers and building long-term relationships with them. An understanding of the competitive forces that drive industry is critical for building and sustaining the company's long-term competitive advantage by making use of opportunities that are available in the market and that promise the largest potential profit for the company. By consistently analysing their environments, companies will be able to devise clearer strategies for competing successfully in industry. In this chapter we will look at the definition of competitive environment, the levels from which competition emerges, the competitive forces used to analyse the competitive structure of an industry, and the differences between current and potential competitors in industry.

3.2 Competitive environment

Many companies compete in an environment that requires them to attract customers and satisfy their needs. To understand its competitive environment, a company needs to analyse the forces that shape the industry's competitiveness. These forces include the types of resources and competencies, such as the availability of raw materials and the

effectiveness of value chain activities (i.e. supply chain management, sales and marketing) in conducting business operations. The analysis should include identification of the type of business the company is in, the products and services it offers and the **target markets** and segmentation of customers in those markets.

According to Lamb, Hair and McDaniel (2015: 446), the competitive environment consists of the number of competitors a company must confront, the relative size and market power of the competitors and the degree of interdependence within the industry. From this definition, a company in an industry could face many different actual and potential competitors. A company may have direct and indirect competitors in an industry, and there could be many substitute products competing with the company's products. Direct competitors are those companies in the same industry in which the company operates; indirect competitors emerge from the circle of business itself. For example, companies in the South African insurance industry (e.g. Sanlam, Old Mutual, Clientele Life and Metropolitan Life) are direct competitors and their indirect rivals are companies in the financial banking sector (e.g. Absa, Nedbank, Standard Bank and Capitec) competing for customers' life insurance. The hotel industry (e.g. Holiday Inn, Riviera Hotel, Emerald) also faces strong competition from the bed and breakfast industry. Even the grocery retail industry (e.g. Pick n Pay, Shoprite, Spar) may compete indirectly with organisations in the restaurant market. The intensity of the rivalry may come in different ways, inside and outside the boundaries of the company's operation.

Companies must understand the methods that determine the level of intensity of competition in the industry and must analyse the competitive situation from different perspectives as competition may come in different ways and depend on different factors:

- **Similarity of product or service.** The basic method of easily pinpointing the company's competitors involves identifying a set of companies in an industry that compete by producing the same products or services. These companies compete directly by offering similar products or services to the target market. For example, Pepsi

and Coca-Cola soft drink producers are common competitors in the beverage industry, and Mercedes-Benz, Audi and BMW are direct competitors in the motor vehicle market. The analysis of potential and current competitors consists of more than considering only competitors who produce and sell exactly the same products (e.g. the beverage or motor vehicle industries).

- **Similar product or service category.** The second method of identifying the company's competitors involves determining the competitors who offer the same product or service category. These companies compete indirectly by offering similar products or services to the target market. For example, All Gold tomato sauce competes directly with Wellington's tomato sauce, but it also competes with other manufacturers of sauces, such as Tabasco and Nando's sauce in the retail shelf space.
- **Products and services that satisfy the same consumer need.** This method involves identifying manufacturers or suppliers who offer products and services that satisfy the same consumer need. For example, cellphone network providers such as Cell C compete directly against Vodacom and MTN in the cellphone network industry to satisfy the consumer's need for data bundles and other network services.
- **Products and services that satisfy the same consumer spending power.** Competition can come from companies that offer products and services with similar consumer spending power. For these products and services, consumers do not perceive a difference in price, for example soft drinks, tea or coffee. The same spending power influences consumers to substitute one product for another.

Competition may be broadly defined, and it has different meanings for different companies. As an industry grows and more companies enter that industry, competition intensifies and the new entrants bring with them technology innovations or resources and competences that were not available before. This is known as the threat of new entrants in an industry. Companies should not only rely on analyses of the current competitors but also understand the marketing activities of new competitors. A strong focus on only current rivals may overlook

serious external threats from other sources of competition. This is known as competitor myopia, which requires companies to analyse both the current and new competitors' strengths and abilities in the market. Companies that suffer from competitor myopia look only within their industry and overlook other sources that might significantly affect their business operation; others fail to identify the different components that form the basis of competing successfully.

The market situations in which the company operates also influence the intensity of competition, and companies must adapt their marketing strategies to fit into the industry and business markets. It is important for the company to analyse competitors' resources and capabilities, including the reactions of their competitors. Understanding of the competitors' responses helps the company to fine-tune their next moves and their strategies.

3.3 Analysing the competitive environment

Once a company has identified an industry in which to compete, this is followed by an examination of the industry's requirements and its participants. It is most important for a company to assess the competitive situation and market conditions in which it conducts its business. Apart from the industry's domestic market, companies must also examine foreign industry development, which includes other companies operating in the regional, national and international markets.

It is important to examine the structure of the industry in which the company competes. The four types of industry structure are based on the number of competitors and the nature of the products. These include the monopolistic situation, [pure competition](#), [oligopoly](#) and [monopolistic competition](#). Understanding of these four key industry structures can provide useful information when analysing the competitive structure of an industry:

- **The monopoly situation.** In this situation, one particular company controls an industry's production output and sets prices for products and services. This structure defines a company that does not have direct competitors, as it is the only one operating in the industry. Consumers are defenceless against this company's products as they cannot switch to an alternative brand.
- **The monopolistic situation.** In this situation, a large number of suppliers in an industry offer similar, but not identical products. Examples include computers, televisions and newspapers. These products are identical and each has a comparatively small percentage of the total market. Companies that operate in monopolistic industries or markets rely more on their brand names, trademarks, advertising and packaging to differentiate their products and services.
- **The oligopoly situation.** In this situation, a small number of companies dominate the market for products and services. Two or more companies control the entire industry and a partnership of these dominant companies may often lead to industry collusion and leave little room for other companies to compete. Instead, many companies will simply follow the market leaders in many marketing activities, such as price strategy. These companies need to build their competitive advantage based on product differentiation in terms of quality.
- **The pure competition situation.** In this situation, a large number of companies offer a standardised product that lacks differentiation. Consumers easily switch between different sellers because there are many companies that offer the same standardised products that lack unique benefits to the customer. This makes it difficult for companies to compete on price.

The investigation of the competitive structure of the entire industry must include an understanding of the requirements needed to compete and the rules outlined for industry members. The assessment of a company's industry and competitive environment is made by determining the different key attributes responsible for the success of

the companies in the industry. The following factors determine which tools are used to analyse the industry's potential for success:

- Competitive forces in the industry
- Driving forces in the industry and the impact on competitive intensity, including the industry's profitability
- The market positions occupied by other competitors in the industry, such as which are pioneers or hold strong positions and which are followers
- The strategic moves or initiatives of other competitors, and marketing campaigns that competitors may be likely to undertake in the future
- Key success factors, which help in the development of strategies to benefit from them
- Whether the industry has good prospects for profitability and future longterm investments

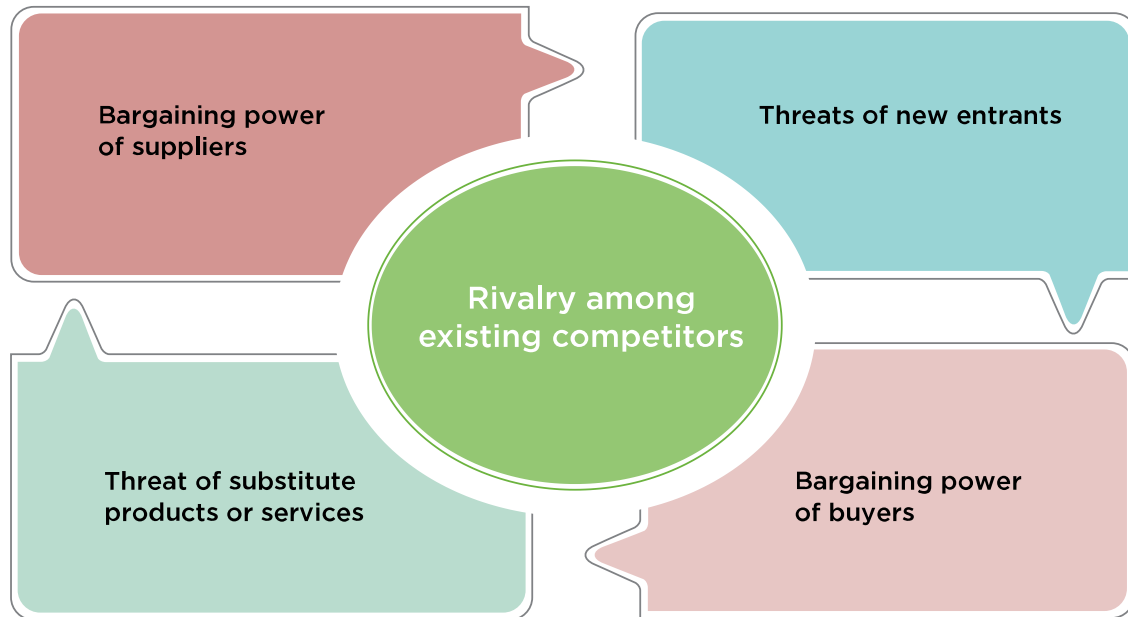
3.4 Competitive structure of an industry

Michael Porter's model of competitive forces in an industry is a tool used to measure the industry's competitive structure, including the rules set for members on how to compete. The five Porter's competitive forces are as follows:

- 1 ➡ The threat of entry from new competitors
- 2 ➡ The threat of substitute products
- 3 ➡ The bargaining power of buyers
- 4 ➡ The bargaining power of suppliers

5 ➔ The rivalry between existing direct competitors

Figure 3.1 The competitive forces determining industry competition



Source: Dibb and Simkin (2009: 52)

Different industries use different structures, and a particular structure defines the behaviour of competitors and the rules on how to compete in the industry. This suggests that the competitive structure and the strength of the competitive forces differ from industry to industry.

3.4.1 Threat of new entrants

Many companies with adequate resources (i.e. capital) and competencies in their value chain (i.e. supply chain, operation, sales and marketing) intend to enter industries where there are possibilities of producing high profits. The biggest threat in the market comes from new entrants who have substantial resources and competencies. They have new production processes and innovations and have the potential to secure a good market position.

The two important factors that drive the competitive threat from companies that enter a particular market are (1) the ability of the new entrants to overcome the industry's entry barriers and (2) the possible

reactions of the industry's existing members to a new entrant. The most profitable industries are those in which the entry barriers and also the exit barriers are high. When an industry is attractive, the members raise the entry barriers to make it difficult for other companies to enter. The members use raw materials that are rare and difficult to copy, or those that are only obtainable from a few suppliers. This results in few companies being able to enter the industry or develop substitute products. When a company with competitive strength enters the industry, the level of competition intensifies, which makes it difficult for weak companies to compete, and ultimately forces them to exit the industry. The success of the industry also makes it difficult for companies to exist, especially because of the high capital investment of entering the industry due to the cost of equipment and human capital. Companies may require a high [return on investment](#) to sell the equipment, and there is a risk of losing capital invested in the skills development of workers. Companies such as [Kulula.com](#) and Comair in the South African airline industry had high entry barriers in an industry dominated by SA Airways (i.e. capital expenditure, equipment, service distribution) and high exit barriers (i.e. the risk of losing capital due to the investment in the entry barriers).

The members may implement different strategies, either singly or in combination, to raise the costs and risks of entry, and ultimately discourage potential entrants from stealing some of the market share. Strategies include offering price discounts to consumers that the new entrant seeks to attract, increasing advertising expenditure, offering special [sales promotions](#), enhancing the quality of their product by adding more attributes, meeting or beating the entrant's product offering, and increasing service quality.

Companies that operate in an industry where both entry and exit barriers are low make a low profit as it is easy for many companies to enter or leave when the industry's profits increase or decrease. These companies may use low-cost marketing strategies, such as low production and distribution costs, and they may focus on increasing the market share and not on profitability. When an industry is overcrowded with companies that offer substitute products that lack

unique benefits, customers tend to switch between different competitors. The industry's members are likely to put in place strong entry barriers that are difficult for a new entrant to overcome. The level of entry influences the industry's competitiveness and members discourage new entrants' expectations of profit by proposing tough legislation. The following factors, either singly or in combination, are considered as entry barriers to an industry:

- **Cost of entry.** The cost of raw material, well-established contacts with suppliers, effective distribution systems, favourable locations, improved technology, resources (i.e. expensive machinery and equipment) and competency such as human capital (i.e. knowledge and skills of employees) create cost advantages to the industry's members. The bigger the cost advantage of industry members, the more risky it is for outsiders to attempt entry.
- **Economies of scale.** Successful industries consist of competitors with effective and efficient resources and capabilities, and a new company that enters an industry spends large sums of money on new production equipment. A new entrant must be capable of producing enough products to meet the demand of the customers, which in turn creates economies of scale in production and distribution. Members have large economies of scale in production and distribution – they have moved along the experience curve in manufacturing and use innovative technology or new production processes and have a flexible inventory management system. In addition, such companies invest more in sales and marketing to create awareness and build customer loyalty. For example, Capitec bank is a company that invested in building strong economies of scale to compete successfully in the South African banking industry. It has also managed to acquire a profitable market share and attract many customers with its services.
- **Differentiation and benefit costs.** Many companies seek to differentiate their products and services from those offered by competitors to gain the benefit of differentiation costs. Companies compete by offering customers unique product benefits that satisfy their needs. If the products and services of an industry are

undifferentiated, customers can switch between different competitors, as it is easier for competitors to imitate the resources. Customers want products and services that offer unique value and significant benefit inherent in the product.

- **Channel crowding.** If companies in the industry are using the same channel of distribution, it becomes difficult to compete. Competitors rely on the same channel members to determine the number of products they carry in their product line. Some channel members may be selective in the products they want to distribute, which forces many companies to rely on other marketing strategies to create awareness and exposure of their products and brands.
- **Brand preferences and customer loyalty.** A difficult task faced by new entrants is the ability to compete with companies that have already established strong customer preference and loyalty. Such new entrants have to use financial resources on advertising and sales promotion to break the customer brand loyalties that members already have and secure their own market positions, which is difficult as it is not easy to get customers to switch to a new brand. Such companies must offer price discounts to attract customers, persuade buyers that its brand is valuable, and offer customers the benefits of switching (i.e. costs).
- **Network effects.** New entrants to an industry are faced with the challenge of overcoming the members' positive network effect. A positive network effect occurs when an increasing number of consumers buy a product. The demand for the product increases because of the growing network of users. Some consumers who have tried a product may spread positive information by word of mouth about its benefits and others may refer their peers, friends and family members to the product. It is difficult for new entrants to overcome this positive network effect as consumers are hesitant to try [new products](#) and many prefer to buy a well-known brand.
- **High capital requirements.** It is imperative that a new company should meet the need for capital requirements to enter a successful industry. To compete successfully, a company must invest in effective manufacturing facilities and also in advertising and sales

promotions to make itself known and attract customers. It must also have strong financial back-up such as enough cash for start-up costs, and sufficient working capital to finance day-to-day operation and to offer credit to customers.

- **Distributor and dealer networks.** Many industry members have already developed successful business relationships with the best distributors and dealers. Companies use the most effective channel members to distribute their products. One chocolate company decided to distribute its product on the international market in the form of liquid chocolate which could then be made into bars and packaged. This company saved the cost of distributing chocolate in bar form and avoided the risk of damage during transportation. Wholesalers and distributors are reluctant to carry a product that has low buyer recognition or awareness. Apart from the new entrants having to pay high costs so that wholesale and retail channels can be persuaded to carry their products, they also cut prices or spend more money on advertising and promotions.
- **Occupying a large space on the retailer's shelves.** Members have established a strong market position supported by strong marketing and sales promotions to ensure that they occupy a large space in the retail market, which makes it difficult for new entrants to capture customers' attention for their brand. New entrants should use attractive colours on their packaging to capture customers' attention as customers select the most attractively packaged product when they are not sure which brand to purchase or when they are under time pressure.
- **Government policies.** Many industries are faced with tough government legislation which controls the environment in which business is conducted. The government in host countries may use tariffs and trade restrictions to discourage foreign entry. Many countries around the world have to deal with regulations regarding environmental pollution and degradation, and companies have to pay carbon emission tax. The South African government imposes tough regulations on industries such as the liquor industry – businesses must have licences and permits to operate. Retailers in

South Africa have to sell plastic bags in an effort to keep the environment clean.

3.4.2 Threat of substitute products

Companies engage in marketing activities to attract and retain their customers. Companies implement strategies to satisfy customers and build customer loyalty. It is more costly to gain new customers than to retain existing ones because of the high cost of marketing. Companies find it difficult to compete when there are many substitutes for products and services. Some products are imitated, which affects profits in the long term. Competitors in an industry with substitutable resources and competencies may be more likely to imitate each others' products, especially if their resources are sourced from a single or few suppliers.

Competitive pressure develops from the actions of companies operating in an industry offering similar products. Many substitute products are able to overcome strong competition in the market if customers perceive their benefits. When customers view the products of two or more industries as good substitutes (e.g. beverages vs soft-drinks, newspapers vs TV news vs the internet), they will want to gain the benefits derived from substitute products that offer them value for their money. Customers look for various benefits, such as the following:

- **Performance benefits.** Companies introduce superior products that offer customers added value performance relative to their rivals' products. Others produce innovative designs and functions that can satisfy the consumer's unique needs. For example, Mercedes-Benz is a company in the motor industry that promises its customers "performance or nothing".
- **Safety and security benefits.** According to Maslow's (1943: 379) hierarchy of needs, customers have both safety and security needs. For example, Volvo motors promises customers the benefit of "safety" and customers purchase insurance benefits to secure their vehicles and mortgage bonds.

- **Accessibility benefits.** Customers purchase products that are easily accessible and available from convenience stores. Many customers make their purchases from retailers that are located in their neighbourhoods, which has increased the growth of retail in the townships and suburbs. Customers also benefit from not having to pay for the cost of travelling to distant retail locations.
- **Flexibility benefits.** Customers prefer to purchase products that offer different features or attributes and products that can be used for different occasions. Companies are developing product [line extensions](#) that offer different features that satisfy the customers' needs. For example, cellphone manufacturers such as Samsung and Nokia mainly compete by developing innovative technological products with a range of different features. Customers purchase the benefits provided by these features.

An industry is unattractive if it has many substitute products and services. There are different factors that affect the competitive pressure on companies offering substitute products or those that operate in a similar industry:

- **Accessibility.** Competitive pressures increase if consumers have easy access to substitute products at a lower price. When a substitute product is available at a lower price, rivals in an industry may be forced to charge a similar price despite the costs of production and marketing, which negatively affect the profitability of the members. It is difficult to compete in an industry where resources are substitutable or can be copied as this may force suppliers to charge a low price.
- **Switching cost.** Competitive pressures increase if the cost of switching to the substitute product is low or high. Many companies use low-cost [pricing strategies](#) to attract customers to switch to their products. If consumers perceive the cost of switching to a competitor's product as high, they may be reluctant to purchase substitute products, which makes it difficult for companies to increase their prices.

- **Quality and performance attributes.** Competitive pressures increase if customers can compare substitute products in terms of quality, performance and other relevant attributes. Because of easy accessibility to raw materials that can be obtained from many different suppliers, some companies may produce low-quality products. Apart from price, customers use other cues to compare substitute products, such as performance, features, ease of use and durability.

3.4.3 The bargaining power of buyers

In some industries, buyers have strong bargaining power. To gain this leverage, buyers are well informed about the seller's product and cost. Many consumers in different markets have knowledge about the products they want to buy and understand different terms and conditions. They also have information about other competitors' products, including their prices, which limits the seller's ability to make a profit. For a high-involvement product, customers are likely to make extensive searches for information about the price and place to buy the product, and they analyse different promotional material in the media to gather information, which gives them greater bargaining power. This puts some industry members at a disadvantage, especially when buyers are price sensitive and look for lower prices or discounts. Buyers are likely to negotiate lower prices with the seller; they demand high product quality and benefits in exchange for their money. Buyers who bargain are determined to obtain better deals and special treatment. Different factors may contribute to increased buyer bargaining power, such as the following:

- **Undifferentiated products.** Companies that face strong buyer bargaining power are those which sell products that lack differentiation and do not offer customers any unique benefits, including companies that sell to consumer groups. In this situation, buyers select a product based on price, which increases price competition among suppliers or vendors.
- **Switching costs.** Buyers have strong bargaining power when the costs of switching to a rival brand or substitute are relatively low.

Because of the availability of many alternative products and low-priced competing brands, suppliers are forced to spend more on advertising and sales promotion to stop customers from defecting. Strong buyer bargaining power affects the supplier if the buyers are large or are in a group demanding reduced prices. In this case, the seller has no choice but to grant concessions.

- **Sensitivity to price.** Consumers use price as an indication of quality and consumers' sensitivity to price limits the ability of sellers to charge higher prices. Consumers have strong bargaining power when there is sensitivity to price. When buyers of raw materials have lower profits or earn a low income, their **price sensitivity** increases. If the supplier of raw material is selling to a large group of buyers who are price sensitive, these buyers may tend to reject any price increase.
- **Customer budget.** If the product purchases constitute a large portion of the buyers' total purchases (i.e. purchases take up a large portion of the buyers' budget or define their cost structure), the buyers become more price sensitive. In this case, buyers can easily switch to competing products that offer lower prices.
- **Integrating backward.** Buyers are under a greater threat when they integrate backward by self-manufacture of raw material, such as when companies manufacture their own component parts which could have been bought from a supplier. Their independence of accessing a substitute product also increases their bargaining power.

To defend themselves, companies develop superior and quality offerings that strong buyers cannot resist. In addition, larger suppliers defend themselves against the bargaining efforts of their customers (and potential new buyers) in a number of ways:

- **The size of the company.** Larger suppliers with resources and competencies feel less threatened by smaller buyers. These suppliers have established good long-term relationships with many buyers who have a greater demand for their products. They sell quality raw materials and through their experience in the industry, they have moved along the learning curve. They have an extensive network of

operation which allows them to refer buyers to another supplier if the product is not readily available.

- **The customer's reliance on the supplier's product.** Suppliers defend themselves against buyers' bargaining power if there is only one or a limited number of suppliers of raw material serving the entire industry. In such an industry, the supplier is free to charge the buyers a high cost as the buyers cannot easily switch to other suppliers and the cost of switching is relatively high.
- **Payment methods.** In some industries, suppliers use payment methods that give customers less chance to delay paying for their purchases and that encourage them to pay. These industries only sell for cash-on-delivery and offer less credit to buyers for purchases of durable goods or high-involvement products.

3.4.4 The bargaining power of suppliers

To stimulate the strength of competitive force, suppliers must have sufficient bargaining power to influence the terms and conditions of supply in their favour. An industry becomes very unattractive if the suppliers of the raw materials have the authority to increase prices or the ability to decrease the quantity supplied at will. The industry's suppliers gain strong bargaining power if there are few suppliers and product substitutes, which forces buyers to stay in business and discourages switching to rivals. The cost of switching suppliers may be high and buyers of the supplier's product may depend on the supplier's production input, which gives the supplier more power to charge industry members higher prices. This results in a limited win-win sales relationship and limited opportunities to find better deals elsewhere.

To be successful, industry members must develop long-term relationships with suppliers in an effort to defend themselves against the supplier's strong bargaining power. In some industries, companies use multiple sources of supply if there are many substitute products. A number of factors influence the strength of suppliers' bargaining power, such as the following:

- **Demand for raw material.** When there are few suppliers in the industry serving the demand of large segment of buyers, the supplier gains in bargaining power. If companies are facing a shortage in their inventory or storage capacity, they will have a strong demand for the supplier's product and will ultimately have to pay extra to order merchandise for their stock inventory.
- **Quality of raw material.** Suppliers who provide enhanced-quality raw material and differentiated input which enhances the industry's product performance develop strong bargaining power. Companies in the industry will be vulnerable to a particular input that enhances the performance or quality of their competitors' product in relation to their own.
- **High switching cost.** Strong bargaining power of suppliers is associated with high switching cost for industry members. Suppliers have strong bargaining power when it is difficult or costly for buyers to switch to other suppliers. This occurs when there is a limited number of suppliers in the industry and few available substitute products. When the costs of switching are low, suppliers lose their bargaining power because companies have the opportunity to evaluate suppliers' prices relative to switching cost and prefer a supplier who charges a low price when they purchase raw materials.
- **Size of the market.** Suppliers have strong bargaining power when they sell to a few large companies with a strong demand for their products. A smaller-sized industry gives suppliers the ability to increase prices and deny access to low prices as these companies are vulnerable to the supplier's input for their production. To challenge the suppliers' strong bargaining power, this small group of buyers must be well organised, be able to negotiate good contracts and develop win-win solutions.
- **Key component of the industry's product.** When suppliers offer a key component for the industry's product, such as a production input or component part, companies in the industry will depend on the suppliers' key attribute for production. Suppliers therefore have the opportunity to hold strong bargaining power. This occurs when the companies have no choice but to purchase raw material from these

suppliers due to limited access to substitute component material that may equal the industry's product quality.

Suppliers in other industries may face various types of threat that may affect the strength of the competitive force in the market in relation to the buyers of their products, such as the following:

- **Backward integration and self-manufacture.** When suppliers are well organised, this creates possibilities for them to integrate downstream, which gives them power against buyers of raw materials. Many suppliers have the ability to create sustainable competitive bargaining power against their buyers. This discourages buyers from self-manufacturing the product that they have been buying from the suppliers. This process is referred to as backward integration or self-manufacture.
- **Availability of good substitute products.** The bargaining power of suppliers is reduced when members in the industry have access to raw materials or component parts from many alternative suppliers. If there are good substitutes for the suppliers' product, buyers gain strong bargaining power and seek discounts or preferential treatment. This forces suppliers to consistently supply quality raw materials and ensure that the industry members are always dependent on them for the supply of raw materials, and they must offer better prices and performance.
- **Targeted customers of suppliers.** In an industry where target customers contribute a large portion of the suppliers' total sales volume, the suppliers' bargaining power reduces (i.e. if companies reject the purchase of the supplier's input). This forces the suppliers to charge reasonable prices and provide exceptional quality and innovative products.

3.4.5 Intensity of rivalry

The size of the industry influences its operation. Some industry members may implement aggressive strategies in an effort to obtain a significant portion of the industry's market share, which makes the

industry unattractive. For example, rivalry exists among the channel members such as the wholesalers and retailers, as many retailers implement aggressive promotional strategies to create maximum awareness and visibility of the products on their shelves. The wholesalers pay for advertising of branded goods, as the retailers may only invest in the promotion of the store brand. The intensity of competitive rivalry in an industry forces members to enhance their competitive position by investing in advertising expenditure, which aims to attract more consumers and create a strong image for the brand. The company must also engage in continuous production to meet the demand of the buyers of the industry's product, and this can lead to a price war in the industry. Some industries have a high fixed cost (i.e. investment in machinery and equipment, including marketing and operational costs), which influence companies to increase their output cost to cover the cost of production and labour. Successful industries are those characterised by rivals who are well organised.

Competition in the industry intensifies if the market segment is small. This occurs when there are only few buyers of the industry's goods or services. Competition intensifies if the rivals in an industry have established reasons to stay in the industry due to high investment in assets and equipment, which in turn increases the exit barriers as the company may require a high return on investment in selling its assets to other companies. Companies in the industry need to make strategic decisions to stabilise the impact of competitive forces. For example, some members in the industry engage in strategic alliance and joint ventures.

The bargaining leverage of the industry members against their suppliers of component parts or raw materials increases during situations when they perceive high price sensitivity. Price sensitivity refers to the importance of lower prices to the buyer, which increases the intensity of their demands for price negotiations. The price sensitivity of companies in the industry increases if the product or service component has little influence on the performance or quality of the end product, or if the cost of the product makes up a significant portion of the company's budget or total costs, or if the company is

making smaller profits and needs assistance of the supplier. When competition intensifies, companies in the industry face strong pressure to negotiate concessions. Different factors influence the intensity of competition depending on the consumers' price sensitivity to the supplier's offerings:

- **Size of the market segment.** The bargaining leverage of buyers increases when there are few customers who make large-volume purchases of the industry's product, such as the small segment of buyers who purchase the supplier's raw materials and component parts. This occurs when the suppliers are dependent on a small number of companies to purchase raw materials (i.e. a few customers may reject purchasing from the suppliers). The suppliers remain dependent on one or a few customers who purchase raw materials, and this increases the supplier's excess capacity in its storage inventory.
- **Switching cost.** In industries where buyers have low switching cost, buyers become less dependent on the suppliers. This occurs when suppliers offer different substitute products that have little differentiation in terms of quality or attributes. If buyers perceive little differentiation among the competing suppliers, the pressure on the demand for lower prices is intensified. Easy access to substitute products decreases the customer's loyalty to a single supplier, and this creates a price war.
- **Backward integration or self-manufacturing.** Suppliers may face a threat from buyers who may want to negotiate the terms and conditions of purchases. Such buyers may refuse to purchase the product and resort to alternative ways of manufacturing it themselves. Backward integration occurs when buyers have the machinery, equipment and skill to develop their own component parts, which intensifies competition.
- **Knowledgeable customers.** Because of their increased sensitivity to prices, many customers have sufficient knowledge about the products and component parts they use. These customers evaluate the cost and quality of component parts among different suppliers and opt for the best supplier. Competition increases as some

companies learn other ways to use the remaining raw materials after production to produce different products.

The pressure of competitive rivalry among sellers depends on a number of factors, such as the following:

- **Rate of demand.** Many companies in an industry compete to increase their market share and profitability. To overcome their competitors, these companies use strategies such as offering price discounts, using heavy sales promotions and building loyalty programmes with their customers in an effort to maximise their sales volumes. Rivalry increases when the demand for the industry's product declines or grows at a slow rate.
- **Switching cost.** In an industry where switching costs are low, customers become less loyal. It is easy for new entrants to attract a significant proportion of customers away from rivals. Buyers are less likely to switch brands if the switching costs are high, and if there is a high cost associated with time, money and efforts involved in searching for an alternative product.
- **Differentiated offering.** When sellers in an industry offer undifferentiated brands that lack unique benefits or superior quality, buyers are more likely to switch between rival brands and are less likely to become brand loyal. The more the industry product is identical or less differentiated, the stronger the intensity of the rivalry.
- **Inventory cost.** Rivalry increases in industries with high excess capacity or unused production capacity in the inventory. Because of fixed cost or storage costs, many companies change strategies in an effort to sell all the remaining stock in the inventory, which intensifies competition. This occurs in industries selling perishable or seasonal products and services. Companies engage in price wars to ensure that the stock in the inventory is sold.
- **Growing number of competitors.** Lower entry barriers to an industry make it easier for many competitors to enter, which increases competitive intensity. Companies that operate in overcrowded industries seek to build a strong demand for their

products. These companies may cut prices to increase sales and establish a profitable market position. This results in marketing warfare because it leads to more price wars between rival companies.

- **Expansion into global markets.** Many companies seek additional buyers for their products by expanding into international or global markets. The new countries may often impose restrictive policies and trade costs. Some companies seek to create strategic alliances and joint ventures with companies that have already established and developed successful footprints in global competitive markets as they may be more familiar with the trade policies in foreign markets and may have built successful networks with dealers.
- **High exit barriers.** High exit barriers make it difficult and costly for weaker companies to leave the industry. This occurs when a company cannot easily sell its assets (i.e. buildings, technology and resources). If the industry's exit barriers are high, many competitive companies are forced to stay in the market and employ strategic moves to cover the cost of output already produced and capture the remaining sales.

3.5 Analysing the industry competitors

Once companies have understood the Porter's five forces model, which analyses the threat of entry from new rivals, the threat of available substitute products, the bargaining power of buyers, the bargaining power of suppliers and the intensity of competitive rivalry, it is important for them to examine the key competitors in the industry. This includes analysis of the companies competing in an industry and others that may compete indirectly with a company. The key competitors are those companies that target the same market segment and may include other companies outside the boundaries of the industry in which it operates. Companies that compete directly with

each other within an industry are referred to as current competitors, and other companies that management will view as important in strategy analysis are referred to potential competitors.

Analysis of the industry's competitors enables the company to determine whether competition is strong from companies that operate inside or outside the boundaries of its operation. It is also important for a company to know whether its strategies fit well in the industry in which it operates. When analysing key competitors, a company must meet a number of objectives. It must

- identify its competitive position and build strong output capacity in terms of production, sales and marketing relative to its rivals
- examine the strengths and weaknesses of the company as well as the opportunities and threats in the industry
- understand the competitor's likely reaction before and after launching the product, which requires the company to conduct a competitive response analysis.

Many markets are becoming more competitive and they use innovative technologies that bring new opportunities for competing. This requires companies to understand the importance of "competitive intelligence systems". These systems include the analysis of three or more companies, which may be the major competitors. Because of increased competitive markets, it is important for companies to understand customers and analyse their competitive situation in the market. When the company understands the conditions of the market in the industry, it is possible to predict the key competitors' potential actions in the future. This provides direction on how to implement generic business strategies in the industry. Many companies seek to be the industry's low-cost provider by offering low prices and using relatively low-cost raw material to produce quality products, investing in low-cost countries for production and paying low-cost labour, while others seek to offer consumers differentiated value, which provides benefits such as product quality and after-sales service. For example, Woolworths has differentiated its product offerings in terms of quality and

freshness and it uses flexible supply chain management to develop an advantage over its competitors.

3.5.1 Analysing current competitors

The competitive forces in an industry force companies to understand their current competitors. It is important to assess the level of the company's competitive market position against other industry rivals. An analysis of the competitor's market position involves understanding the following factors:

- **Size, growth and profitability of the industry.** Analysis of the current competitors begins with an evaluation of their broad-based business strategy. A competitor who has a strong market position and achieves continuous growth and profitability dominates the industry by holding a significant amount of the market share in percentages. The level and rapid growth of sales and market share are the most important indicators of the success of the business strategy. A decline in the company's market position relative to that of its rivals indicates a financial or organisational threat that may affect its stability and interest in competing. A competitor with a profitable business generally has high access to capital for investment. Such a company has the machinery and equipment to produce quality products and has invested in production, sales and marketing. It is always developing new and innovative designs.
- **Image and positioning strategy.** In addition to research and development, promotion and advertising, packaging and pricing of competing companies will also indicate the market positioning of companies in the industry. Companies use advertising and promotional strategies to build a strong positive image of their products in the minds of consumers relative to the competitor's product, which is termed positioning. This analysis will identify the company's competitive positioning against that of competing companies. The more customers have a positive perception of the image of the company and its products, the more likely they are to purchase that product.

- **Objectives of the competitor.** Many companies battle for a large market share of the industry, which requires an understanding of the competitors, such as their current profitability, market share growth, cash flows, technological leadership and service leadership. By analysing the competitor's objectives, an overview is provided of how it reacts to different competitive conditions and identifies the market segments that can be targeted in the future. Competitor response analysis examines the competitor's reactions before and after a company launches its products. If a company identifies a new profitable market segment, this opens new opportunities for industry rivals. If the rivals have identified an opportunity in the segments that are currently served by the company, the company will have to increase its competitive activities, which aims to protect its market share and profitability.
- **Strategies of competitors.** It is important for a company to analyse the current and past strategies of the competitors to understand the changing market environment. A company may compete against a competitor using a low-cost provider strategy (i.e. by using low-cost raw material to produce a quality product, low-cost labour and inexpensive machinery, and offering lower prices to consumers). Other companies may implement the strategy by investing more in the production of high-quality products and services, and spending more on advertising and charging the consumer higher prices. Some competitors maintain a strong differentiation of the product to indicate the ability of producing unique benefits that satisfy the customer value, which is the perception of customers of the product delivering the expected benefit that provides value for their money. Understanding these strategies will help the company to develop and implement strategies that will enable it to compete successfully in the industry.
- **Culture of competitors.** The culture of the company may provide an indication of the types of customer it seeks to target. Many companies use humour in their advertising messages to capture the customer's attention to their products and services. The culture of companies is a useful tool to use when conducting day-to-day business activities, namely the dress code, the manager's

intervention in the strategic implementation, which involves visiting various departments and business units to provide motivation, delegating responsibility to other managers in the department and providing incentives and rewards for best the performing sales managers and employees.

- **Cost structure.** Companies must analyse the cost structure of the industry with regard to production costs, which include the cost of machinery and equipment, raw materials, manufacturing and labour. Other companies in an industry can benefit from economies of scale by manufacturing products that meet the demand of the market and achieve a greater advantage over rivals. Apart from the production cost, companies must assess the cost of distribution and promotional activities, such as advertising. The cost structure of an industry provides a direction on other companies' future pricing options and competitive power. An industry with high-cost structures is unattractive to companies as this makes it difficult to secure market share and improve the market standing.
- **Exit barriers.** When the rate of growth starts to decline and sales drop, the company is no longer making profit, and customers switch to a competitive product, it becomes difficult for a company to withstand the competition. If a company finds it difficult to compete in the industry it may look for possible ways to exit from that industry. A company may consider selling its remaining share to other competitors and withdraw from the market. Exiting an industry is not always easy for many companies. Many different factors, such as legal or moral obligations to customers; creditors; employee-related expenditure, such as contract payments and severance packages; government restrictions; low asset salvage value due to over-specialisation or obsolescence; lack of alternative opportunities; high vertical integration, and emotional barriers make it difficult for a company to withdraw from a market. Many companies risk staying in an industry if they continue to maintain their variable and fixed costs, although this may affect the profits in the entire industry. The industry members may continue to raise the intensity of competition to the point where weaker companies withdraw from the market.

3.5.2 Analysing potential competitors

Once the company has identified and analysed its key competitors, and understood its current competitor's market position, it is important to understand the potential competitor's market position. Those companies that threaten market entry into the industry by depending on their strength to compete successfully are referred to as potential competitors. Companies that become a threat to industry rivals are potential new entrants to the industry with possibilities of having strong competitive capabilities. To be successful in maintaining a strong foothold in an industry, many potential new entrants engage in different marketing activities such as the following:

- **Market expansion.** Many companies with sufficient resources and competency expand into new market segments with the purpose of finding new customers. Market expansion involves going beyond the current market served by the company to find a new customer segment. A company may target different market segments (i.e. another age, different gender or income group). Other companies search for untapped markets that have not been served by their products. Some companies expand to other regions or countries, which is referred to as geographic expansion. The potential of these companies becomes a threat to companies operating in home markets.
- **Product line extension.** Other companies have the potential to develop new products more rapidly. A company may enter another industry by replicating its technology to produce quality products and new innovative designs. For example, Samsung was competing in the electronic appliances market and discovered a technology that it used to enter and compete successfully in the cellphone manufacturing industry. A potential new entrant becomes a threat if it uses flexible production processes and raw material that allows the addition of more products to its product line. Product line extension involves adding new features to the existing products to cater for different customer needs. To satisfy different customers' needs and preferences, companies ensure that their products are available in different kinds, shapes and colours.

- **Backward integration strategy.** Potential competitors who enter an industry with the ability to manufacture their own component parts do not source raw materials from the suppliers, instead they integrate backwards by manufacturing the component part, which becomes a threat to suppliers of the industry's component parts or raw materials.
- **The export of assets.** A company in an industry may acquire a smaller competitor, making it a major entrant to the industry through a joint venture or strategic alliance. This requires companies to examine areas of synergy of their business operations, which includes analysis of the objectives, business strategies, strengths and weaknesses. The advantage of exporting assets is the combining of production processes and sharing of machinery and equipment, including skills, knowledge and experience, thus moving along the learning curve, especially if the smaller competitor has valuable assets.
- **Retaliatory or defensive strategies.** Companies defend themselves against threats of a move by a potential new entrant into their industry and others retaliate against competitive reactions. When new entrants have the resources and capabilities to enter an intensive and competitive industry, members are forced to use different defensive strategies to protect their market share, such as increased advertising expenditure to attract customers and build loyalty programmes.

3.6 Analysing entry barriers

The more profitable the industry, the higher the entry barriers will be. Potential competitors make it difficult for other companies to enter their industry. To understand the entry barriers, new entrants need to analyse current and potential competitors. New entrants must satisfy

the different entry barriers to maintain a strong foothold in an industry, such as the following:

- **High capital requirements.** To compete successfully and make a profit in an industry, a company that seeks entry must be in a position of substantially high capital assets. To enter an industry, a company may be required to have costly resources and capabilities that are used in that industry. It may also have to pay high costs for administration and employee training and skills development. Industry members or early participants may already have established financial relationships with the best suppliers and dealers, which further raises the entry barriers for new companies.
- **High economies of scale.** Industry members and potential competitors benefit from economies of scale in the industry as a result of high investment in production capacity. These companies have the capacity to manufacture large quantities of goods or provide service on a large scale that meets or exceeds the demand in the market. A new company entering an industry must use production processes that will meet the demand of customers for the industry's product. This would be an entry barrier for companies that cannot meet the quantity requirements for the product demanded.
- **Patents and licensing requirements.** Some industries have stringent licensing requirements that are difficult for new companies to meet. Some industries also have strict policies that govern the production processes, such as the type of raw materials used, the quality of the machinery used in production, employees' skills and knowledge, inspection of final product, the distribution processes, and marketing and sales of the product. It is even more difficult if all the industry members follow these rules.
- **Scarce locations.** When an industry increasingly becomes overcrowded with companies and the intensity of competition increases, many companies focus strongly on protecting their market share. This occurs when there is an influx of companies into the industry, which limits the space for the entrants. For example, the retail industry in South Africa has targeted township locations (e.g.

Maponya Mall in Soweto) to make it convenient for customers. The South African taxi industry is one of the largest industries with a great many taxis on the road, which forces the association to limit the number or not to offer further public permits. South African Breweries (SAB) continues to issue the liquor licences to traders such as taverns and pubs in the townships despite the number of them that are already operating in these locations. Thus SAB should work closely with members of the town and regional planning authorities to determine the availability of locations.

- **Raw materials.** The quality of raw materials used by industry members to produce goods and services may raise entry barriers. Raw materials used in some industries are sourced from only one supplier, which makes it difficult for the new entrant to copy such resources. When the supplier provides companies with resources that are rare, difficult to copy and not substitutable, all the industry members are forced to rely heavily on this supplier, which gives the supplier strong bargaining power to increase the price of the raw materials. The supplier may also gain enduring power and start to limit the quantity supplied, which may be an entry barrier for other companies to enter the industry.
- **Access to intermediaries.** Accessibility of channel members (i.e. suppliers, distributors and dealers) can be an entry barrier to new companies. These companies may find it difficult to gain access to channel intermediaries and build their reputational requirements. If the potential competitors have already established strong market positions, they have access to flexible distribution networks. These companies build strong partnerships with the best and cheapest suppliers and dealers in the network and negotiate deals for quality raw materials and components; they have occupied the most favourable market, and have low fixed costs. Because of the low [reputation](#) of a new member, new entrants will find it difficult to build a reputation in the face of competitive pressure from industry members. This becomes a strong barrier to new competing companies that are willing to enter such industries.

3.7 Analysing industry key success factors

The main purpose of key success factor (KSF) analysis is to structure and use components of a competitor analysis, which compares the company with its key competitors on key success factors in the industry. The industry's key success factors differentiate between weak companies and strong competitors and between profit and loss. Key success factors such as strategic elements, product attributes, operational approaches, resources and competencies/capabilities affect the industry's competitiveness and the ability of companies to compete. These factors differ from industry to industry, even from time to time in the same industry. An analysis of KSFs involves using the following three-step process.

3.7.1 Step 1: Identify key success factors in the industry

The first step is to identify all the factors that have a significant impact on the performance of the company in that industry, such as particular assets, skills or competencies required in order to succeed in the industry. The company will then assess its strategic fit into that industry against these factors to determine its strengths or weaknesses. A good strategic fit between the company's unique competencies (strengths relative to weaknesses) and the success requirements of the industry signals that the company could be successful in the industry based on the strengths identified in the analysis. The following questions may guide the identification of KSFs:

- Why do some competitors succeed and others fail in the industry?
- What motivates customers' choices of products or services? What attributes do customers consider as important in the product selection?
- Which value chain activities create value-added benefits for customers? The activities that contribute more value are the key factors that determine success.

- How difficult are the entry barriers in the industry and market segments? Any factor that makes it difficult for rival companies to enter the market or segment is a KSF.

Many industry members have potential sources of success in their industry, ranging from functional ability, financial stability or flexible production processes. They also have the ability to respond quickly to customer needs, provide quality innovations and offer after-sales service, especially for technically complex products or products that use technology. As these factors contribute to the company's success, they are used to compare the company with its competitors.

Once the factors that led a company to success have been identified, the company will create scores for each factor in order of importance. The different weights that are allocated to the KSFs must add up to 1. For example, these factors could range from the company's product quality, financial strength and the skills and expertise of its employees as the most important KSFs for competitive success within an industry. Other factors such as innovativeness, technical assistance to customers and extensive distribution networks may be relatively important.

3.7.2 Step 2: Rate the company and competitors on each KSF

In this step, the idea is to create a corresponding map which illustrates the weights of each key factor against the most threatening competitors on those KSFs. The scale may range from 1 (very poor) to 5 (very good). After the rating has been done, the marketer needs to multiply the rating of each KSF by the weight allocated to it in order to calculate a score for each company/competitor and each KSF. The marketer will then add all the KSF scores for each competitor into a total, which will determine the position of competitive strength and compare them with each other.

3.7.3 Step 3: Consider the implications for competitive strategy

Once the competitive profiles have been made, they can be used to identify the possible competitive strategies based on each of the KSFs in relation to those of the competitors. A company may establish its competitive position in a target market based on its own strengths and weaknesses as follows:

- If a company can control the behaviour of other competitors and has a wide choice of strategic options, it has a dominant competitive position in the industry.
- If a company can take independent action without risking its long-term position and can maintain this position regardless of competitors' actions, it has a strong competitive position in the industry.
- If a company has an exploitable strength and a greater-than-average opportunity to improve its position, it has a favourable competitive position in the industry.
- If a company can maintain a satisfactory level to warrant its continuation in business, but is under pressure of the dominant companies and has a less-than-average opportunity to improve its position, it has a tenable competitive position in the industry.
- If a company's performance is unsatisfactory, but opportunity exists for improvement, it has a weak competitive position in the industry. This company must change or else it may have to exit the market.
- If a company's performance is unsatisfactory and there is no opportunity for improvement, it may have no viable competitive position in the industry and will have to exit the market.

3.8 Anticipating competitors' actions

Once the key success factors in the industry have been identified, the next step is to conduct a competitor response analysis, which is a

process of anticipating the reactions of competitors in more competitive and changing market conditions. This information is helpful in anticipating the future competitive trends in the industry. Companies must understand the impact of competitors' responses to marketing activities in the industry, as these have a direct influence on competition in the industry.

3.8.1 Likely reaction patterns of competitors

The best way to understand the reactions of competitors is to study their competitive profiles, which include their moves and possible responses to previous competitive activities. The competitor profile can be grouped into the following four categories:

-  **Laid-back competitors.** These competitors take time before they respond to a rival's move. They analyse the rival's marketing campaign and competitive conditions before developing any reactions to rival companies. These companies may believe that they have a large segment of customers who are loyal to their brand and there are fewer chances for rivals to steal their market share.
-  **Selective competitors.** These competitors respond to certain competitive actions that threaten their competitive position in the industry. For example, these companies will compete only if there are price changes in the industry and believe that promotion and distribution strategies are effective and efficient.
-  **Tiger competitors.** These competitors respond immediately to competitive threats. These are companies with a strong potential to respond to any competitive moves. They use their competitive resources and capabilities to protect their market share in an industry.
-  **Stochastic competitors.** These competitors do not have clear, predictable reaction patterns. They may or may not react to competitive moves.

3.8.2 Direct rivalry among competitors

As the competitive situation differs from industry to industry, some industries are characterised by strong competitive rivalry among their members. These companies compete for position in the industry and build strong market shares. In such industries, competitors use the four Ps strategy (product, price, place and promotion) of marketing to intensify rivalry. For example, companies in such industries invest more in promotion and advertising to create awareness and remind customers of their brand, others implement distribution strategies (i.e. [intensive distribution](#)) that make their products available in different markets, some may use low cost by charging customers low prices and producing good quality products. Direct rivalry among competitors creates a marketing war, as companies have to match the moves by their competitors to protect their position.

A number of factors help a company to understand competitive equilibrium in the market and to determine whether the direct rivalry is strong or weak:

- **The similarity of competitors.** The more competitors in an industry are closely identical and adopt similar competing moves, the more unstable the competitive equilibrium that they have because it is difficult to establish competitive differentiation between them.
- **The competing factor.** When a single major factor is the critical factor to compete in an industry, companies have unstable competitive equilibrium. The cost differentiation opportunities in economies of scale or advanced technology or experience may provide a company with a cost break through resources or competency, and it may cut prices and gain market share at the expense of other companies.
- **Multiple factors.** Where multiple factors are critical factors, different competitors enjoy the advantage of competing as they can offer different attributes to attract customers. Multiple factors are used in an industry where companies compete based on factors such as quality, service and convenience, and they take advantage on competing on one of these factors.

- **Fewer critical competitive variables.** When there are few critical competitive variables in an industry, this industry becomes unattractive and will have fewer competitors. Because only one factor is critical to customers there will be less competition as the rivals make use of only one factor to compete.
- **Switching costs.** When the switching costs in an industry are high, buyers tend to rely only on one supplier for raw materials, which makes equilibrium more likely. The more durable or specialised the product, the higher the switching costs.

3.9 Conclusion

Because companies serve many customers with different needs and preferences, they must understand the marketing environment in which they operate. For instance, a company is influenced by both internal and external factors. It is critical to understand the competitive forces in the industry that could lead to the survival and competitiveness of the company in a continuously changing market environment by analysing the opportunities available in the market segments that promise the largest potential profitability.

The company must analyse and define the industry's competitive structure, namely whether the competition is monopolistic, oligopolistic or pure. Different structures result in very different rules of the game when it comes to competitive behaviour. Michael Porter's competitive force model helps to understand the industry structure, and includes factors such as the rivalry that exists between direct competitors, the threat of entry from new competitors, the threat of substitute products, the bargaining power of suppliers and the bargaining power of buyers.

As the markets keep on changing and competition intensifies, one of the most important tasks for a company is to identify and analyse

competitors. This is followed by developing descriptive information on the industry and its members both nationally and internationally. It is important to realise that the company may be competing either directly or indirectly with competitors depending on the type of product it offers to the market. With this in mind, the company should analyse both key and potential competitors. The objective of the key competitor analysis is to predict key competitors' potential actions, especially those taken in response to the actions of the local company.

The key success factor (KSF) analysis helps to identify key success factors in the industry, rate the company and competitors on each KSF, and consider the implications of competitive strategy. It also helps a company to anticipate its competitors' actions and their most likely reaction patterns. In addition, KSF analysis identifies the direct competitors of a company and suggests which competitors a company may attack or should avoid altogether.

DISCUSSION QUESTIONS

1. Define the term competitive environment.
2. Explain the four levels at which competition emerges in an industry.
3. Explain the four industry structures.
4. Explain different tools used to analyse the industry's potential success.
5. Identify the five competitive forces to analyse the competitive structure of any industry.
6. Explain the different types of industry barrier.
7. Explain the different benefits that make consumers perceive a substitutable product as valuable.
8. Discuss the factors affecting the competitive pressure of companies offering substitute products.
9. Discuss the factors that contribute to increased buyer bargaining power.
10. Explain the factors that influence the strength of the supplier's bargaining power

11. Explain the different factors that affect the intensity of rivalry in an industry.
12. Identify different objectives for a company to analyse the key competitors.
13. Explain the activities that new entrants engage in to maintain successful entry.
14. Discuss three steps in the analysis of an industry's key success factors.
15. Explain the four categories of competitor profiles.
16. Discuss the factors that help to explain the competitive equilibrium to determine whether direct rivals are in a state of war or peace.

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4

CONSUMER BEHAVIOUR AND CONSUMER DECISION MAKING

LEARNING OUTCOMES

AFTER STUDYING THIS CHAPTER, YOU SHOULD BE ABLE TO

- provide an overview of consumer behaviour
- explain the importance of understanding consumer behaviour
- discuss the internal factors that influence consumers' behaviour and buying decisions
- discuss the external factors that influence consumers' behaviour and buying decisions
- describe the types of buying decision that consumers make
- discuss the stages in the consumer decision-making process
- demonstrate your understanding of the theory discussed in this chapter by providing practical examples to illustrate any of the aforementioned learning outcomes.

KEY CONCEPTS

- ATTITUDE
- BRAND PERSONALITY
- CONSUMER BEHAVIOUR/CONSUMER DECISION MAKING PROCESS
- EXTERNAL FACTORS
- INTERNAL FACTORS
- OPINION LEADER
- POST-PURCHASE BEHAVIOUR STAGE
- POST-PURCHASE DISSONANCE
- PURCHASE INTENTION
- REFERENCE GROUPS



4.1 Introduction

You have been a consumer since an early age and have evolved as a consumer as you matured. As a baby you consumed the products that your parents bought, such as nappies; as a primary school student you selected your school stationery that your mother paid for, and as a high school student you had to decide which university you wanted to enrol in after listening to the recommendations of family, friends and school advisors. Now you are a university student and you have to make more complex decisions, such as which vehicle you want to drive. After considering the amount of pocket money (income) you receive each month, you decide to buy your monthly groceries from a low-priced retail outlet. This example sketches your behaviour as a consumer.

Consumer behaviour is an integral part of your everyday life. It describes how you select and evaluate products or services, how you make the purchase and also how you discard the packaging of the product or the product itself after consumption. It is an ongoing process where you can be the family member who initiates a buying decision or the influencer, decider, purchaser or consumer of the product. It describes whether you make decisions individually or as a family, and moreover determines whether you buy products out of habit or based on your loyalty towards the brand. Consumer behaviour explains the stages you go through when you decide to make a purchase in order to satisfy a need that you are experiencing.

Understanding consumers' behaviour and their decision making has become vital to marketers. Marketers need to develop an appropriate marketing mix (product, price, place, promotion) to satisfy consumers' changing needs better than the competitor. This cannot be achieved without a thorough understanding of consumer behaviour.

This chapter provides an overview of consumer behaviour and discusses the importance of understanding consumer behaviour. It informs the reader about the various internal and external factors that may have an influence on their behaviour and decision making. The chapter furthermore describes the various types of buying decision that consumers make and concludes with a discussion on the consumer

decision making process that consumers go through in order to make a purchase.

4.2 The importance of understanding consumer behaviour

We buy products or services on a daily, weekly and monthly basis in order to satisfy a need. In order to create value for consumers, i.e. to satisfy their needs, businesses make products and services available to consumers. We can say that in order for businesses to survive, it is important for them to know their customers. Businesses need to understand who their customers are, what they want to buy and how they will make these purchases. It is also important to understand how they will dispose of (get rid of) the products they have bought or their packaging once they have finished with them. In doing so, businesses also capture value in return, i.e. offering a product or service that fulfils consumers' needs that subsequently leads to a sale or future sales, profit and a loyal consumer base. Remember, when businesses continue to fulfil consumers' needs with their market offering, i.e. their product or service, this will lead to satisfied consumers who remain loyal and continue to make purchases. Consider [Example 1](#):

Example 1

Elsa, a 30-year-old mother of two daughters, lives in Johannesburg. Her home is situated near a neighbourhood shopping centre. Elsa works a 9-to-5 job and therefore does her weekly shopping on Mondays after work. She enjoys shopping at Woolworths as it is close to her home, is open until late and provides all the products that she needs at affordable prices. Elsa enjoys purchasing Woolworths' ready-made meals as this reduces her burden of cooking for her family during the week. In the dairy section, Elsa selects the Barbie-branded yoghurt tubs for her daughters and for herself she selects the low-fat plain yoghurt. In the toiletries aisle she selects Sensodyne Repair & Protect toothpaste for herself, Colgate Original toothpaste for her husband and Aquafresh Milk Teeth toothpaste for her two daughters. As she progresses through the aisles Elsa remembers a radio advertisement promoting

Woolworths' milk. She quickly goes back to the dairy section and takes four litres of milk. At the check-out counter, Elsa grabs a packet of dried mango as this is her daughters' favourite snack. Before Elsa pays for her weekly groceries, the cashier asks for her Woolworths' card to swipe and thereafter the payment is made. At home Elsa unpacks her groceries and one of her daughters immediately grabs the packet of dried mango, eats it and throws away the empty package in the recycle bin for plastic containers.

From [Example 1](#) above we can see that Elsa's purchases were influenced by her own needs (her need for low-fat yogurt and Sensodyne Repair & Protect toothpaste), as well as her family's needs (her husband's need for Colgate Original toothpaste and her daughters' needs and wants for Barbie-branded yoghurt, Aquafresh Milk Teeth toothpaste and a packet of dried mango). Elsa was also influenced by a radio advertisement that she heard earlier in the day which led to her purchasing the milk that was on promotion. We can also see from the example that the packaging of the dried mango was thrown away in a specific manner. This example illustrates consumer behaviour. Consumer behaviour refers to the decision making process that consumers go through in selecting, evaluating, buying, using and disposing of products and services (Cant & Van Heerden, 2013: 55).

From the example we can infer that Elsa's needs determined some of the products that she bought. When consumers' personal needs, motivation, perception, learning, attitudes and personality determine their buying decisions and buying behaviour, we refer to these factors as *internal determinants* of consumer behaviour or [internal factors](#) (Cant & Van Heerden, 2013: 55). Other external factors may also influence consumer behaviour. Recall that some of Elsa's purchases were influenced by the needs of her family. In this instance, we refer to this influence as *external determinants* of consumer behaviour or group factors. External factors include family, culture and subculture, social class, and [reference groups](#) and opinion leaders (Cant & Van Heerden, 2013: 55). Marketers need to be familiar with both the internal and external determinants of consumer behaviour in order to understand fully the driving force behind the purchases made by consumers.

4.3 Factors influencing consumer behaviour

Many factors influence consumer behaviour. These can be divided into internal and external factors.

4.3.1 Internal factors

Internal factors include those aspects that are processed in the minds of consumers or that can be thought of as inherent parts of consumers (Babin & Harris, 2012: 26). These factors include motivation, perception, learning, attitudes and personality (Cant & Van Heerden, 2013: 55).

4.3.1.1 Motivation

What motivates you to make a purchase? This is not an easy question to answer. Motivation is the energising force that activates consumers' behaviour and provides purpose, direction and drive to that behaviour (Quester, Pettigrew, Koanidis, Rao Hill & Hawkins, 2014: 298). Motivation is what moves consumers into action (Cant & Van Heerden, 2013: 56), i.e. consumers are motivated to purchase products or services in order to satisfy their needs.

The energising force as mentioned above is usually caused by a state of tension which exists as a result of an unfulfilled need. Naturally, consumers do not want to experience tension and therefore try to alleviate the tension state by taking a specific action they feel will fulfil their need. Consider [Example 2](#):

Example 2

Sam, a student at a local university, is hungry. He goes to a supermarket close to the university to purchase a sandwich.

In [Example 2](#), Sam has experienced a tension state – the state of being hungry. He does not want to feel hungry and has therefore decided to go to the supermarket to purchase himself a sandwich. In the process Sam has satisfied his need of hunger. Sam's hunger has directed certain behaviour in order to reduce the tension state he has experienced. By understanding the motivation or drive that causes consumers to behave and purchase in a specific way, marketers will be able to focus the marketing communication message to appeal to the identified motivating factors in these consumers.

4.3.1.2 Perception

Why do you prefer to shop at one retail outlet and not another? An answer to such a question may be found in the way that you perceive the two retail outlets and the products and services they offer. Perception is a measure of how consumers see a product, brand or retail outlet based on their five senses of sight, sound, smell, touch and taste (Cant & Van Heerden, 2013: 60). It is a process during which consumers select, organise and interpret the stimuli (or information) that they receive in order to create a meaningful and clear image of the world (Lamb, Hair, McDaniel et al., 2010: 86; Hoyer, MacInnis & Pieters, 2013: 80; Kotler & Armstrong, 2016: 148).

For example, consumers may be exposed to marketing communication stimuli such as a television advertisement, in-store display or product packaging. These stimuli are interpreted and a perception is formed. This perception influences consumers' buying behaviour. If you perceive a retail outlet to be expensive, for instance, it might lead you not to shop there. Others may want to shop at this retail outlet as expensive or high-priced products signal quality to them.

Consumers' perception is important for marketers as they need to ensure that their marketing communication messages are perceived by consumers in the correct manner or in the way intended by the marketers, so as to encourage positive or favourable buying behaviour.

4.3.1.3 Learning

All individuals possess the ability to learn. While reading this chapter you are learning about consumer behaviour. In the context of consumer behaviour, learning is the process through which consumers acquire new information and knowledge about products or services, which in turn are used in future buying decisions (Kardes, Cline & Cronley, 2011: 198). Consumers also learn through their past experiences with products, services or retail outlets. For example, you have learnt through past experience that Woolworths has a broader range of organic food compared with Checkers. Based on this learning you prefer to go to Woolworths when you need to purchase organic food. How consumers learn is important to marketers as they want consumers to learn about the products or services they offer. It is important for marketers to know how consumers learn because it will influence the information that consumers choose to retain about the business's products and services, and the overall value that these products and services provide to consumers.

4.3.1.4 Attitudes

Which brands do you like and which brands do you dislike? When you like a specific brand we say that you have a *positive attitude* towards the brand and when you dislike another brand we say that you have a *negative attitude* towards that brand. In the context of consumer behaviour, attitude is a learned disposition to respond consistently favourably or unfavourably to a variety of things such as a product or service, a retail outlet or a television programme (Quester et al., 2014: 336).

Understanding consumers' attitudes toward the marketer's product or service is important. Marketers want consumers to like or have a positive attitude towards their products as this will lead consumers to purchase these products. Marketers need to influence the attitude of consumers constantly as it influences consumers' behaviour and buying decisions. Consider [Example 3](#):

Example 3

Tsepho dislikes a particular smartphone brand and therefore has a negative attitude towards this brand. When his need for a new smartphone arises he decides not to consider or purchase a smartphone under this brand name.

From [Example 3](#), we can see that Tsepho's negative attitude towards the particular smartphone brand influenced his buying decision. He will not purchase a smartphone under this brand name unless marketers influence his attitude towards this brand. This can be achieved through marketing communication messages directed at Tsepho that aim to change his beliefs or perception about the brand. A radio advertisement can, for example, be used to emphasise a technological innovation that is available only in the smartphone under this brand name.

4.3.1.5 Personality

What type of personality do you have? Do you view yourself as outgoing or more reserved? Personality refers to an individual's psychological characteristics that make him or her unique and distinguishable from others (Kotler & Armstrong, 2016: 146). Marketers need to consider personalities as consumers' personalities influence the products or services they purchase. Consumers tend to purchase brands which complement their own personalities. It is for this reason that marketers have created brand personalities. Brand personalities are a mix of human characteristics ascribed to brands (Kotler & Armstrong, 2016: 146).

Products are created to have brand personalities that marketers believe match the personalities of those consumers who are likely to purchase their product or service. Brands can therefore be seen as fun, caring or trustworthy. The Coca-Cola brand is believed to be sincere and competent. Consumers view Pepsi as a cheerful, young and trendy brand (Gandhi, 2014: 13). It is then assumed that these brands will attract consumers who have the same personality trait. In other words, if you see yourself as a sincere or competent individual, you are likely to purchase Coca-Cola and if you consider yourself as a cheerful, young and trendy individual, you are likely to purchase Pepsi.

4.3.2 External (group) factors

Consumers surround themselves with other individuals or groups that influence their behaviour and buying decisions, usually because buying decisions are not made in isolation and because purchasing situations often occur in a social context. Group factors include family, culture and subculture, social class, and reference groups and opinion leaders (Cant & van Heerden, 2013: 67).

4.3.2.1 Family

Family members have a great deal of influence on each other's purchasing behaviour and the products purchased for household consumption. Family is defined as two or more people who are related to each other by blood, marriage or adoption and who reside in the same housing unit (Babin & Harris, 2012: 212; Parumasur & Roberts-Lombard, 2015: 285–286). Family, more commonly referred to as households, consists of four types of structure, namely:

- 1 → the one-person household consisting of one independent person
- 2 → the nuclear household consisting of a single family nucleus, namely a married couple with or without children
- 3 → the extended household consisting of the nuclear family as well as other relatives, such as grandparents, uncles, aunts, cousins and parents-in-law
- 4 → the single-parent household consisting of one parent and at least one child (Parumasur & Roberts-Lombard, 2015: 285–286).

Marketers need to be aware of the family structures of the consumers they serve as the structures influence buying behaviour and the types of product or service that each would consider buying. For example, the products or services that nuclear households buy will differ from the products or services purchased by the individual in the one-person household. In a nuclear household, a family with children may buy

nappies, whereas an individual in the one-person household may use his or her money for a spa treatment.

Family members assume a variety of roles in the purchase process, especially when the products or services are to be consumed by the entire family, for example in the case of deciding where to go on a family holiday. It is also important to note that these roles may differ from one purchase situation to the next. The various roles are described as follows:

- The *initiator* is the family member who initiates the buying process.
- The *influencer* is the member whose opinion other family members value and which they take into account when a buying decision must be made.
- The *decision maker* is the member who makes the decision as to whether or not the product or service should be bought.
- The *purchaser* is the family member who purchases the product or service, i.e. exchanges money for the product or service.
- The *consumer or user* is the family member who actually consumes the product or service (McDaniel, Lamb & Hair, 2011: 212).

Consider [Example 4](#):

Example 4

Sophie's little daughter wants a doll's house for her fifth birthday. Sophie speaks to her husband about possibly buying the doll's house but she is concerned about the price. Sophie's husband makes suggestions on the available brands of doll's houses and their price ranges. Both Sophie and her husband later decide to purchase the doll's house priced at R2 000. Sophie phones up the doll's house manufacturer, places an order and makes an electronic payment, after which the manufacturer comes to their home and custom-builds the doll's house.

In [Example 4](#), we can see that Sophie's daughter is the initiator – she wants a doll's house. Sophie's husband is the influencer as he makes

recommendations in terms of the available brands and price ranges. Both Sophie and her husband are the decision makers as they both agreed to purchase the doll's house that costs R2 000. The purchaser in this situation is Sophie, who pays the manufacturer by electronic funds transfer (EFT). The actual consumer or user of the doll's house is Sophie's daughter.

Marketers need to be aware of the various roles assumed by family members during the buying process. In many instances the decision maker is the purchaser and consumer of the product but, as we can see from [Example 4](#), this is not always the case in family decision making. Marketers need to be aware that more than one family member can be part of the decision making process, and that each family member can play different and multiple roles, depending on the product or service being considered. Marketers need to note that their marketing communication messages should not be directed only at those who make the purchase, but also at other family members, such as Sophie's husband who also influenced the buying decision. In this instance, marketers need to ensure that their marketing communication messages are directed at all role players in the decision making process. A Naartjie Kids clothing magazine advertisement must, for example, appeal to both the decision maker and the purchaser, who is typically the mother, and to the user, who will be the child wearing the clothing.

Marketers also need to consider role specialisation. Role specialisation refers to the situation where different family members deal with different types of purchase, depending on their expertise and experience (Quester et al., 2014: 436). Men are often expected to make purchases concerning security, repairs and maintenance, whereas women fulfil more domestic roles. However, in today's economic environment and with changing socio-cultural norms, more women are employed outside the household and they are increasingly making buying decisions outside of their previously assigned roles. Marketers have taken this into account, making power tools or DIY tool sets available in colours, styles and functionality that are attractive to female consumers. An increasing number of women are also taking

part in the decision making on products and services such as home security and car maintenance, which were traditionally the domain of the men in the household.

4.3.2.2 Culture and subculture

Culture is an essential characteristic of society that distinguishes it from other societal groups (McDaniel et al., 2011: 202). Culture signals appropriate behaviour within a particular cultural group and is conveyed from one generation to the next (American Marketing Association, 2017a). Moreover, culture includes underlying elements such as values, language, myths, customs, rituals and laws that help form the behaviour of the individuals in the culture, as well as the material artefacts or products of that behaviour (McDaniel et al., 2011: 202).

Important factors in a culture include religion, music, work patterns, products and food customs, to name but a few (Kotler & Armstrong, 2010: 148). Marketers need to be aware of these factors. Religion, for instance, plays an important role in influencing the food choices and ultimate purchases made by many consumers. For instance, in the Hindu and Buddhist religions, the consumption of both pork and beef is discouraged as the meat is considered to be unclean (Dindyal & Dindyal, 2003: 1). Culture furthermore influences how consumers within a particular culture dress, what they think and feel, and what language they speak.

Each culture contains smaller subcultures or groups of people. A subculture is a homogeneous group of people who share elements of the overall culture as well as cultural elements unique to their own group. The attitudes, values and buying decisions of individuals within the subculture are generally more similar than within the broader culture (Lamb et al., 2010: 99–100). Factors such as age, language, religion and race are some of the characteristics that help to create and define subcultures (Kotler & Armstrong, 2010: 149). Various subcultures based on the characteristic of race exist in South Africa, namely the so-called Black Diamonds and *Izikhothane*. A more recent subculture based on race and fashion is the Smarteez.

Black Diamonds

In essence, the term “Black Diamonds” refers to the up-and-coming black middle class in South Africa. The black middle class consumer market can be segmented into four categories, as illustrated in [Table 4.1](#) (Bizcommunity, 2006).

Table 4.1 The four segments of the black middle class in South Africa

The Established	This segment includes consumers aged between 35 and 49 who are married with school-going children. These consumers are viewed as wealthy and well educated.
The Young Family	This segment consists mostly of females who have young children (mostly under the age of six). A large number of these consumers are single and many live with their parents.
The Start-me-ups	Start-me-ups are viewed as youngsters who are starting out and are on their way up the corporate ladder. They are mostly single and childless and in the 18 to 29 year age group with a male and white-collar job bias. These consumers are perceived to be fun-loving and very social.
The Mzansi Youth	This segment consists of primarily young, single students with low incomes who live with their parents. They are, however, very optimistic, health conscious and have clear plans to further their education.

Source: Bizcommunity (2006)

Izikothane

Izikhothane is a Zulu word meaning “to boast” or ‘to brag’. More recently the term *ukukhothana* has been adopted to describe a subculture and its activity within the townships in South Africa, in particular the black townships of Soweto and Diepsloot (Nxedlana, 2012; The Observers, 2013).

A group of young consumers living in Soweto adopt this culture when they buy and burn expensive designer-branded apparel that they can ill afford, in a display of extravagance. They walk around in the township wearing Carvela shoes, visibly spending money while sipping on

expensive alcoholic brands, in order to gain status within the community (House of York, 2017). The premise of this ritual is that what consumers own and how much it is worth is a reflection of their status and social standing in the community (Nxedlana, 2012).

Smarteez

Like *Izikothane*, Smarteez also hails from Soweto and its members use fashion as a means to express their subculture. This subculture consists of a small group of Generation Y consumers, including fashion designers who dress in bright, mismatching colours and patterns to express themselves. Individuals within this subculture believe that they are born to express themselves freely through the clothing they wear and at the same time draw attention to themselves (House of York, 2017).

Both culture and subculture need to be considered by marketers, in particular when segmentation of a market needs to take place. Racial subculture can be used to segment the beauty and personal care market in South Africa. So, for example, women of one race may prefer Pantene shampoo and conditioner, whereas women from a different race may prefer Dark & Lovely products. Marketers can moreover segment the South African luxury market based on the *Izikhotane* subculture as these consumers are prone to consume luxury shoe brands.

4.3.2.3 Social class

Almost every society has some form of social class structure. A social class refers to a group of people in society who are classified on the basis of status and community esteem and who regularly socialise among themselves, both formally and informally. Members of the same social class typically share similar income levels, occupations, education, values, interests and behaviours (Babin & Harris, 2012: 188; McDaniel, Lamb & Hair, 2013: 206; Lamb et al., 2010: 105; Rammile & Van Zyl, 2010: 151; Solomon, 2013: 471). Social classes typically consist of upper class, middle class and lower class, and individuals in society are classified accordingly. However, in South

Africa social classes are not fixed and consumers can move from one social class to another (Cant & Van Heerden, 2013: 69).

Marketers deem social class to be an important external factor as consumers within the same social class tend to exhibit similar buying behaviour and purchase similar types of product or service. Consumers within a high social class tend to purchase luxury products, such as luxury vehicles and designer clothing. The characteristics important to consumers when evaluating products or services also differ from one social class to another. Consumers within a lower social class will typically focus on price when making a buying decision, whereas consumers within a high social class will focus on characteristics such as quality and the status obtained from purchasing the product (Rani, 2014: 54). Understanding this behaviour enables marketers to tailor marketing communication messages according to the different social classes and furthermore allows marketers to emphasise certain benefits or qualities of products when communicating to a certain social class.

4.3.2.4 Reference groups and opinion leaders

People are by their very nature social creatures who desire contact and affiliation with others and therefore often belong to or aspire to belong to a number of formal or informal consumer groups (Babin & Harris, 2015: 147; Blythe, 2013: 215). Consumer groups generally include two or more consumers who share a set of norms, values or beliefs and have certain implicitly or explicitly defined relationships that make their behaviour interdependent (Blythe, 2013: 216; Quester et al., 2014: 458). These consumer groups are commonly known as reference groups. A reference group is a group of people that other individuals refer to and use as a point of reference when making buying decisions.

A distinction can be made between *aspirational reference groups* and *dissociative reference groups*; these terms refer to the extent to which consumers desire to belong to a particular reference group (Quester et al., 2014: 459). Aspirational reference groups are groups that consumers do not belong to but want to be associated with. Consumers typically aspire to belong to these groups in the future due to a positive attraction or inspiration they feel towards the group (Salmon, 2008: 3).

Dissociative reference groups are groups that consumers do not identify with and do not desire to belong to. The types of reference group are of importance to marketers as consumers are likely to purchase products thought to be consumed by the group they aspire to belong to in order to achieve actual or symbolic membership of the group (Quester et al., 2014: 459). Within the South African context it is believed that many black township consumers aspire to own the products consumed by celebrities and musicians. It is for this reason that marketers make use of these reference persons (also referred to as “opinion leaders”, discussed in the next paragraph) as part of their marketing communication programmes. On the other hand, consumers who do not want to belong to a particular reference group will avoid those products assumed to be purchased by the group (Quester et al., 2014: 459). Products that are perceived to be consumed by older consumers are not likely to be consumed by younger consumers. So, for example, a teenage son will not want to use the same after-shave as his father, or a female university student will not want to wear the same clothes as her middle-aged mother.

Reference groups commonly consist of individuals who are known as opinion leaders (Lamb et al., 2010: 103). An opinion leader is an individual within a reference group who is knowledgeable about a particular product or service category and who is sought out by other consumers who are seeking trustworthy and credible advice and information on the product or service in the particular category. Consequently, opinion leaders are in a good position to influence these consumers’ behaviour. Opinion leaders can include professional individuals such as doctors or athletes, celebrities or even a neighbour, family member or friend.

Marketers try to identify the reference groups and opinion leaders of their target market due to the influence they exert on consumers’ buying behaviour and buying decisions. It is believed that word-of-mouth communication or the advice and information provided by opinion leaders can be substantially more effective than traditional marketing activities and can be ascribed to the perceived trustworthiness of the information sources (Hawkins & Mothersbaugh,

2013: 230; Trusov, Bucklin & Pauwels, 2009: 90). It is easier for the consumer to trust a friend than an advertisement.

Many marketers recruit opinion leaders to serve as brand ambassadors. This is referred to as “buzz marketing” and the aim is to create an atmosphere of excitement and activity (i.e. a buzz) around the business’s products. So, for example, Red Bull has recruited student brand ambassadors on many university campuses in South Africa who can often be seen driving around in a Red Bull-branded Mini Cooper handing out Red Bull energy drinks with the aim of sharing their passion for the brand with their peers.

4.4 Types of consumer buying decisions

The products purchased by consumers can range from simple bread and milk to a pair of expensive shoes. Consumers’ decisions to buy are not all based on the same degree of effort. Some buying decisions are complex and require an extensive information search by the consumer, while other buying decisions are less complex and require less information searching (Schiffman, Kanuk & Hansen, 2012: 64). The amount of effort, or involvement, that goes into making a buying decision can range from very high to very low and therefore there are different levels of involvement in consumer decision making (Schiffman et al., 2012: 64; Solomon, 2013: 322).

Involvement refers to the amount of time and effort that consumers invest during their decision making processes, including how much information they search for and how many alternative products or services they evaluate (Lamb et al., 2010: 84). Consumers’ buying decisions can be plotted along a continuum from low-involvement to high-involvement purchases. Low-involvement purchases include inexpensive products or services that consumers purchase on a regular basis and there is generally little difference between brands (e.g. sugar or salt) (Rammile & Van Zyl, 2010: 162). High-involvement

purchases, on the other hand, are typically characterised by items being expensive, having serious personal consequences for consumers and having the ability to reflect consumers' social image (e.g. luxury products) (Kerin, Hartley & Rudelius, 2013: 114). As consumers move from a low level of involvement with the purchase to a high level of involvement, their decision making becomes more complex (Quester et al., 2014: 64). The more complex a buying decision is, the longer the decision making takes (Kotler & Armstrong, 2013: 150).

Three kinds of consumer buying decisions can be identified, namely nominal decision making, limited decision making and extended decision making (Hawkins & Mothersbaugh, 2013: 491; Quester et al., 2014: 64).

4.4.1 Nominal decision making

Nominal decision making is a buying decision that involves little or no conscious effort from consumers (Kardes et al., 2011: 63; Levy & Weitz, 2012: 92). During this decision making, consumers do not search extensively for information about brands and evaluate few or no alternatives (Hawkins & Mothersbaugh, 2013: 491; Kerin et al., 2013: 114; Jobber & Ellis-Chadwick, 2016: 86; Schiffman et al., 2012: 64). Once consumers recognise a need, an internal search from their long-term memories provides a single preferred solution, namely the product or service that they purchase in the end to satisfy their needs (Quester et al., 2014: 66).

Nominal decision making occurs when there is a low level of involvement with the purchase and little significant differences exist between brands (Hawkins & Mothersbaugh, 2013: 491; Quester et al., 2014: 66; Kotler & Armstrong, 2013: 151). This type of decision making is normally associated with frequently purchased, low-cost products or services (Lamb et al., 2010: 84) and results in repeat purchasing behaviour (Quester et al., 2014: 66). For example, when a consumer notices that the bottle of his or her favourite brand of coffee is almost empty, he or she is triggered to purchase the same bottle of coffee on the next trip to the supermarket. In this situation the

consumer will not consider switching to another brand of coffee (Quester et al., 2014: 66).

During nominal decision making consumers will only evaluate other alternatives if the regularly purchased brand does not perform as expected (Quester et al., 2014: 66). Consumers who purchase nominal decision products also typically do not experience [post-purchase dissonance](#) (discussed in [section 4.5.5.1](#)) as they do not tend to feel anxious when they have purchased a product they are familiar with and have purchased previously.

Nominal decision making can be categorised into brand loyal decisions and repeat purchase decisions (Quester et al., 2014: 66). Consumers are brand loyal when they regularly purchase the same product or service without thinking about it (Levy & Weitz, 2012: 93; Parumasur & Roberts-Lombard, 2012: 257). Repeat purchasing, on the other hand, involves the purchase of the same product or service over time, with or without loyalty to that product or service (Quester et al., 2014: 66). The main difference between brand loyalty and repeat purchasing is that brand loyal consumers have a bond with or commitment to a specific product or service over time and believe that the consumption thereof delivers value to them (Babin & Harris, 2012: 253; Hawkins & Mothersbaugh, 2013: 492). With repeat purchasing this is not the case as consumers typically do not have a bond with or commitment to a particular product or service (Babin & Harris 2012: 253), but may be purchasing it out of habit or because they are unaware of available alternatives.

Let's explain the difference between repeat purchasing and brand loyalty by illustrating it with scenarios 1 and 2 below:

Scenario 1: Sarah recognises the need for washing powder. She goes to the supermarket and finds the brand of washing powder that she usually purchases on the shelf. She sees that the price has increased slightly. Without thinking about other washing powder brands, she takes the brand from the shelf, moves to the check-out counter and purchases the brand. Sarah feels comfortable in her purchase as she trusts this brand and believes it is the best washing powder on the market. In this scenario we can say that Sarah is loyal to her preferred brand of washing powder. Despite the price increase, Sarah is

still committed to her preferred brand and continues to believe that this washing powder is the best available option for her.

Scenario 2: Sarah recognises the need for washing powder. She believes that all washing powders are more or less the same and perceives washing powder to be a low-involvement purchase. She goes to the supermarket and finds the brand of washing powder that she always uses on the shelf and purchases this washing powder. Sarah makes this purchase based on her satisfaction with the brand and therefore continues to purchase this brand of washing powder repeatedly. Sarah is not, however, committed to this brand of washing powder.

From the above scenarios, we can say that the main difference between brand loyalty and repeat purchasing is the fact that Sarah likes her brand of washing powder and despite the price increase, still commits to the brand by purchasing it, as she really believes this washing powder is the best in the market. In repeat purchasing this is not the case. In the second scenario we can see that Sarah believes all washing powders are the same and she makes the purchase based on her satisfaction with the brand. In this scenario her decision to purchase the brand of washing powder is not made on her absolute commitment to the brand.

4.4.2 Limited decision making

Limited decision making is the middle ground between nominal decision making and extended decision making (Quester et al., 2014: 68). Limited decision making generally occurs as a result of relatively low product involvement and when there are low levels of purchase risk involved in purchasing the product or service (Babin & Harris, 2012: 253).

Many purchases fall under this type of decision making and consumers who engage in limited decision making search for internal information to assist in their decision making and limited external information searching takes place. Consumers also search for few alternatives. After a limited-decision purchase has been made, little post-purchase evaluation occurs and consumers also do not experience post-purchase dissonance (see [section 4.5.5.1](#); Hawkins & Mothersbaugh, 2013: 492; Quester et al., 2014: 68). Consider [Example 5](#):

Example 5

Vusi realises that her husband's bottle of coffee is almost empty. Vusi, who is a tea-drinker and knows very little about coffee brands, must now decide which brand of coffee she should purchase for her husband. While in the supermarket Vusi takes similar brands of coffee and compares the prices in order to assist in her decision making. Based on this brief comparison in accordance with price, Vusi makes a decision, moves to the check-out counter and purchases the bottle of coffee. Vusi feels satisfied with the purchase she has made.

From [Example 5](#), we can see that Vusi evaluated a few alternatives based on price, but this information search that took place while in the supermarket was not as intensive and time consuming as it would have been if Vusi had bought a higher priced item such as a new vehicle. We can say that Vusi was involved in limited decision making.

4.4.3 Extended decision making

Extended decision making is viewed as the most complex type of consumer buying decision and is generally used when consumers purchase unfamiliar and expensive products or services, or products or services that they do not purchase frequently (Hawkins & Mothersbaugh, 2013: 493; Lamb et al., 2010: 84; McDaniel et al., 2013: 196). This kind of decision is generally made as a result of a high level of purchase involvement and when there is a high level of purchase risk (Babin & Harris, 2012: 252; Quester et al., 2014: 68). So, for example, consumers will engage in extended decision making when they need to purchase an expensive pair of shoes or a new car.

Consumers typically engage in extended decision making when they need to ensure that they are making the correct buying decision (Jobber & Ellis-Chadwick, 2016: 85). As a result, consumers will engage in both internal and external information searching. Thereafter they will evaluate numerous alternatives. After they have purchased an extended decision product it is likely that they will experience post-purchase dissonance (see section [4.5.5.1](#); Kerin et al., 2013: 114;

Hawkins & Mothersbaugh, 2013: 493; McDaniel et al., 2013: 186). Consider [Example 6](#):

Example 6

Tshepo has graduated with his marketing degree and needs to start his new position as a marketing intern in the new year. He realises that he needs a car to get himself from home to work. He knows that he really enjoys the brand of car that his family has driven over the last 20 years. In addition, he asks his friends what they think about the particular car he has in mind. Tshepo searches extensively on the internet and compares various vehicle brands on factors such as affordability, style, comfort and fuel consumption. He spends two weeks visiting various car dealerships. After careful consideration Tshepo decides on the brand of car he wants to purchase. Tshepo goes to the car dealership and applies for financial assistance from his bank. Once his finance has been approved by his bank he purchases the car. Since buying the car Tshepo feels guilty about making such an expensive purchase.

From [Example 6](#), we can see that Tshepo did not take this decision lightly. He did extensive research on the various car brands available and compared these alternatives based on various criteria such as affordability and style. He made use of both internal and external sources of information to assist him in his decision making. Tshepo also took his time making this decision as he perceived the car to be expensive and knew that it would be risky to make a hasty decision. After his purchase we can also see that Tshepo experienced post-purchase dissonance as he felt guilty about making such an expensive purchase. We can say that Tshepo was involved in extended decision making.

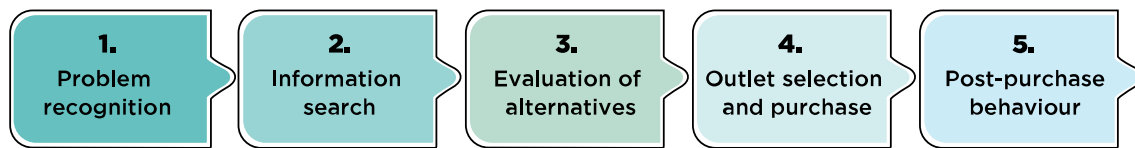
4.5 Stages in the consumer decision making process

Now that we have looked at the various types of consumer buying decisions, it is necessary to look at how consumers make buying decisions. Consumer decision making refers to the selection of a

product or service from two or more alternative choices. Consumers make these decisions subconsciously, i.e. without thinking about how the decision is made and what is involved (American Marketing Association, 2017b; Lantos, 2011: 66; Schiffman et al., 2012: 63).

As illustrated in [Figure 4.1](#), the consumer decision making process consists of five stages: problem recognition, information search, evaluation of alternatives, outlet selection and purchase, and [post-purchase behaviour](#).

Figure 4.1 The consumer decision making process



From [Figure 4.1](#), it is clear that consumers consecutively pass through five stages when purchasing a product or service. However, during nominal decision making, consumers tend to skip a few stages, going directly from problem recognition to purchasing the product or service. During extended decision making, consumers will pass through all stages (Kotler & Keller, 2012: 188; McDaniel et al., 2013: 186; Parumasur & Roberts-Lombard, 2012: 251).

4.5.1 Stage 1: Problem recognition

The consumer decision making process starts with problem recognition, i.e. consumers recognise a problem or realise that they have an unfulfilled need (Babin & Harris, 2012: 254; Quester et al., 2014: 20). Consumers experience a need when there is a gap between their desired state (the state they want to be in) and their actual state (their perceived current situation) (Hoyer et al., 2013: 185; Babin & Harris, 2012: 254). For example, when you are hungry (your current state) you will most likely buy a sandwich to eat and become full (your desired state). You have bought the sandwich to fulfil the need that you are experiencing. From this example we can say that need recognition is triggered by an internal stimulus – a stimulus within the consumer, such as hunger (Lamb et al., 2015: 85).

In many instances consumers are not aware of their needs (needs and wants are discussed in [Chapter 1, section 1.4.](#)) Problems that consumers are aware of or will become aware of in the future are referred to as active problems. Inactive problems are problems that consumers are unaware of (Hawkins & Mothersbaugh, 2013: 496; Mihart, 2012: 125). When consumers are aware of their needs, marketers need merely to convince them to purchase their product or service. For inactive problems, marketers need first to make consumers aware that they have a need for a product or service and thereafter convince them to make a purchase. Think of the numerous infomercials that you see on TV. Have these infomercials made you aware of a product that you did not know you needed (or wanted)? Also, has a TV advertisement of the latest fashion or newest smartphone ever made you wish you could own it?

In the aforementioned examples marketers attempt to get consumers to recognise a need. It is important to note that marketers cannot create a need such as hunger, but they can create consumer wants for a specific product, for a certain attribute or feature of a product, or for a specific brand (Lamb et al., 2015: 85). The American Marketing Association (2017c) describes wants as the wishes or desires of consumers. Examples of wants may include wanting the newest smartphone or desiring the convenience of home deliveries that numerous retailers have started to implement.

4.5.2 Stage 2: Information search

Once consumers have recognised a problem or need, they engage in information searching. As consumers search for information they become aware of alternative products, services or brands, the various retail outlets they can purchase from and the different prices at which products are being sold. This information provides them with the necessary information to evaluate the various alternatives in order to make the best purchase that will satisfy their need (Levy & Weitz, 2012: 83; Parumasur & Roberts-Lombard, 2012: 254).

During the information search stage, consumers will first search their own long-term memories for a possible solution to the recognised

problem. This is referred to as an internal information search and is normally a culmination of consumers' previous experiences with the product or service. Internal information searching is common when low-involvement decisions need to be made (Hawkins & Mothersbaugh, 2013: 512; Babin & Harris, 2012: 256; Kardes et al., 2011: 77).

When consumers make use of external information sources we say they partake in external information search. External information search is typically undertaken by consumers when their internal information search failed to provide an adequate solution (Kardes et al., 2011: 77).

Two types of external information search can be identified, namely pre-purchase searching and ongoing searching (Hoyer et al., 2013: 195). Consumers conduct pre-purchase searching for information in response to their problem recognition (Hoyer et al., 2013: 195). Ongoing searching, on the other hand, is the deliberate external information search that occurs in the absence of problem recognition and is generally conducted by consumers to acquire information that they can use in possible future purchases. Ongoing searching is also conducted as many consumers find the process itself pleasurable (Hawkins & Mothersbaugh, 2013: 512).

External information sources may include personal sources such as family and friends; commercial sources such as advertising and salespeople; public sources such as internet searches, and experiential sources, which include handling, examining and testing the product, also known as a trial (Kotler & Armstrong, 2013: 153). Various factors are taken into consideration by consumers when deciding on the most appropriate source of information to use during this stage, such as the trustworthiness of the source or their objectivity. Think about the following: assume you want to purchase a new pair of luxury fashion shoes. Do you trust the opinion of your friend who you perceive to be a fashionista more than the shoe advertisement? Consumers generally find recommendations from family or friends to be more trustworthy

than impersonal mass-media communication (Babin & Harris, 2012: 257; Cant & van Heerden, 2013: 392).

4.5.3 Stage 3: Evaluation of alternatives

The next stage in the consumer decision making process involves the evaluation of the alternatives that were identified during the consumer's information search (Blackwell, Miniard & Engel, 2006: 79; Belch & Belch, 2009: 113; Parumasur & Roberts-Lombard, 2012: 258). In this stage, consumers need to decide on a course of action, i.e. which alternative to purchase (Parumasur & Roberts-Lombard, 2012: 258–259). Consumers are confronted with numerous options to choose from and they need to evaluate each brand based on its relative advantages and disadvantages (Blackwell et al., 2006: 80; Parumasur & Roberts-Lombard, 2012: 258–259; Solomon, Bamossy, Askegaard & Hogg, 2010: 333; Solomon, 2013: 336).

In order to simplify this process, consumers make use of two types of information – a list of brands from which they plan to make their purchase, called the evoked set, and the criteria they will use to evaluate each brand, called the evaluative criteria (Schiffman et al., 2012: 72, 77).

Evoked set

The evoked set consists of a small number of brands (normally three to five brands) that consumers are familiar with, remember and find suitable to purchase (Schiffman et al., 2012: 72; Solomon et al., 2010: 334). These are the brands that consumers seriously consider before making a buying decision (Lamb et al., 2015: 89). In essence, the evoked set is the shortlist of brands that consumers will carefully evaluate before making the final buying decision (Jobber & Ellis-Chadwick, 2016: 77).

A distinction can be made between consumers' evoked set, their inept set and their inert set. Consumers' inept set consists of brands they do not consider before making a buying decision as these brands are viewed as unacceptable or inferior to other brands. The inert set are brands that consumers feel indifferent towards as they are perceived

not to have any particular benefits (Lantos, 2011: 113; Schiffman et al., 2012: 72).

Evaluative criteria

Consumers make use of particular criteria to evaluate the alternative brands that constitute their evoked set (Belch & Belch, 2009: 124; McDaniel et al., 2013: 192). They use the information stored in their long-term memories as well as the information obtained from external information sources to develop evaluative criteria (Lamb et al., 2013: 89). Evaluative criteria include standards or specifications used to compare different and competing products or services (Blackwell et al., 2006: 80; Solomon et al., 2010: 337; Solomon, 2013: 336). Evaluative criteria can be product attributes and benefits, but they can also include emotions and the reactions of important reference group members (for socially consumed products or services) (Fahy & Jobber, 2012: 65; Hawkins & Mothersbaugh, 2013: 548; Schiffman et al., 2012: 75).

Various types of evaluative criteria can be identified: namely technical, referring to the performance of the product; economic, referring to the cost involved in the purchase; social, referring to the impact that the purchase might have on consumers' perceived social relationships (i.e. social belonging) and personal, referring to concerns about how the product or service relates to the individual psychologically (i.e. in terms of self-image) (Fahy & Jobber, 2012: 65–66).

4.5.4 Stage 4: Outlet selection and purchase

The next stage in the consumer decision making process entails the where and when of the actual purchase, based on the outcome of the previous stage, i.e. the evaluation of alternatives.

Purchase intention precedes consumers' purchases. Purchase intention is consumers' intention or plans to purchase the most favourable brand (Lantos, 2011: 118). In the evaluation stage, consumers rank brands and then form purchase intentions (Kotler & Armstrong, 2013: 154). It is only thereafter that they decide whether to purchase the most preferred brand or not. It can be said that there is a time delay between

the formation of an intention to purchase a product or service and the actual purchase, in particular with high-involvement purchases. Once consumers have decided which brand to purchase, they still need to implement the decision and make the actual purchase (Belch & Belch, 2009: 127).

This stage also includes the selection of a retail outlet. Once consumers have decided to purchase a product or service, they are confronted with two choices: from whom to purchase (i.e. which retail outlet as well as the kind of retail outlet – bricks-and-mortar versus online) and when to purchase (i.e. time) (Hawkins & Mothersbaugh, 2013: 574; Kerin et al., 2013: 112). Consumers are confronted with numerous factors that influence their choice of retail outlet, such as the retail outlet's terms of sale and return policy. Consumers' past purchasing experience with the retail outlet also plays an important role. Deciding when to make the purchase is influenced by factors such as when the preferred brand is on sale (Kerin et al., 2013: 112) as well as the availability of funds. Other factors include in-store influences such as salespersons, product displays, electronic media and point-of-purchase advertising (Blackwell et al., 2006: 81). After deciding where and when to purchase, the consumer proceeds to make the actual purchase.

4.5.5 Stage 5: Post-purchase behaviour

The consumer decision making process does not stop once consumers have made a purchase. After the purchase has been made, consumers may experience post-purchase behaviour. This behaviour of consumers depends on how satisfied or dissatisfied they are with the perceived performance of the product or service they have purchased (Blackwell et al., 2006: 83; Rammile & Van Zyl, 2010: 163).

Consumers are satisfied if the perceived performance of the product or service matches their expectations. On the other hand, they will be dissatisfied or disappointed when their experiences with and the perceived performance of the product or service do not match their expectations (Blackwell et al., 2006: 83). The saying of “Do not over-promise and under-deliver” becomes true. Marketers should only

promise what their brands can deliver. Satisfied consumers are critically important to the success of any business. When consumers are satisfied, they will repeatedly buy the same product or service, will spread positive word-of-mouth, pay less attention to competing brands and are more likely to try other products or services sold by the business (Kotler & Armstrong, 2013: 155).

4.5.5.1 *Post-purchase dissonance*

An important component of post-purchase behaviour is post-purchase dissonance. Post-purchase dissonance refers to the doubt that consumers may experience after they have purchased a product or service (Schiffman et al., 2012: 84). Consumers typically experience post-purchase dissonance when they have made a difficult buying decision or purchased an expensive product or service (Belch & Belch, 2009: 128; Hawkins & Mothersbaugh, 2013: 612; Kerin et al., 2013: 113; Rammile & Van Zyl, 2010: 164).

Post-purchase dissonance can also occur because a buying decision involved some form of compromise (Rammile & Van Zyl, 2010: 164). Think about the following: assume that you needed to make a choice between two of the newest smartphones. You decided on brand X due to screen size and web-browser ability. You might feel satisfied with brand X but still experience post-purchase dissonance as you are losing out on brand Y's benefit of screen clarity.

The likelihood that consumers will experience post-purchase dissonance depends on various factors. If the buying decision can be revoked, consumers will be less likely to experience post-purchase dissonance. It is also likely that consumers will not experience post-purchase dissonance when the buying decision is of less importance to them. In addition, consumers are inclined to experience post-purchase dissonance if they have the predisposition to experience anxiety and if they find it difficult to choose between available alternatives when making a buying decision (Hawkins & Mothersbaugh, 2013: 623). Consumers are also more likely to experience post-purchase dissonance when making a high-involvement buying decision compared with making nominal or limited decisions. As previously

mentioned, consumers tend to experience post-purchase dissonance due to compromise – the relatively permanent commitment to a chosen alternative during a high-involvement purchase that requires consumers to give up the attractive features of the alternative that was not chosen (Fahy & Jobber, 2012: 65; Hawkins & Mothersbaugh, 2013: 613).

Post-purchase dissonance is an unpleasant experience and consumers try to avoid or reduce its effects (Babin & Harris, 2012: 294; Hawkins & Mothersbaugh, 2013: 613; Keng & Liao, 2009: 1327; Lamb et al., 2010: 83). Several tactics can be employed by consumers to reduce post-purchase dissonance, including increasing the desirability of the brand that has been purchased, decreasing the desirability of rejected alternatives, decreasing the importance of the buying decision and revoking the buying decision by returning the product before using it. Other common strategies employed by consumers to reduce post-purchase dissonance entail searching for external information that serves to confirm the wisdom of their purchases, avoiding information that challenges their buying decisions, self-reassurance that the purchases were wise and searching for negative features of the brands that were not chosen (Babin & Harris, 2012: 294; Hawkins & Mothersbaugh, 2013: 613; Kerin et al., 2013: 113; Lamb et al., 2010: 83). Consumers can also attempt to persuade friends or neighbours to purchase the same brand in order to confirm the wisdom of their choice, or they may consult other satisfied owners for reassurance (Schiffman et al., 2012: 84–85).

Marketers should assist consumers in reducing post-purchase behaviour by, for example, focusing on the long-term benefits of the product or services bought by consumers. Businesses can give emphasis to their return policy and emphasise that they accept exchanges after purchase. Many businesses also offer toll-free numbers and websites to handle enquiries and complaints (Kotler & Armstrong, 2013: 155).

As mentioned in [section 4.2](#), satisfied consumers are key to a business's success and therefore marketers should aim to minimise

dissatisfied consumers. Dissatisfied consumers respond in numerous ways, such as spreading negative word-of-mouth. Businesses must put complaint-handling systems in place that encourage consumers to voice their complaints directly to the business.

Let's look at how the consumer decision making process is applied in [Example 7](#):

Example 7

Stage 1: Need recognition	Stage 2: Information search	Stage 3: Evaluation of alternatives	Stage 4: Purchase and outlet selection	Stage 5: Post- purchase behaviour
Sue needs a new pair of sneakers.	<i>Internal search:</i> Sue usually purchases brand A. <i>External search:</i> There is a radio advertisement about brand B. Sue also reads about brands C and D in a magazine.	<i>Evoked set:</i> Brand A Brand B Brand C Brand D <i>Evaluative criteria:</i> Price Durability Colour Style	<i>Outlet selection:</i> Retail outlet X based on convenience. Based on the evaluative criteria, Sue decides to purchase brand B.	Sue is satisfied with brand B. or Sue is disappointed in the durability of brand B and spreads negative word-of-mouth about brand B.

From [Example 7](#), we can see that Sue recognised the need for a new pair of sneakers. From her long-term memory she knows that she usually purchases brand A and has been very satisfied with this brand over the years. On her way to university she hears a radio advertisement about brand B and learns that brand B is on special at retail outlet X which is located close to her university. She also reads

about brands C and D in a magazine. Based on the characteristic of convenience she decides to purchase from retail outlet X. Sue is still a student and has limited resources and therefore decides to purchase brand B based on the evaluative criterion of price. Either she is satisfied with her purchase and consequently spreads positive word-of-mouth about brand B, or she is dissatisfied with her purchase and consequently spreads negative word-of-mouth about brand B.

4.6 Conclusion

The numerous consumers that make up South Africa's consumer market vary greatly in terms of several characteristics such as age, income and education level. These consumers' behaviour and buying decisions are also influenced by various factors such as their perceptions or their culture. Marketers continue to ask questions such as "How should we approach the culturally diverse South African market?" or "With which products should we target the black township consumer market in South Africa?" Understanding the differences among South African consumers, as well as the numerous factors that influence these consumers' behaviour and the products or services they buy, remains a challenge to South African marketers when also taking into consideration that consumers' needs and preferences are constantly changing. Great importance is therefore placed on understanding consumers' behaviour and the buying decisions they make.

In this chapter we discussed the importance of understanding consumer behaviour. We examined the internal and external factors influencing buying behaviour and also looked at the different types of buying decision consumers make. The chapter concluded with a discussion on the consumer decision making process.

DISCUSSION QUESTIONS

1. Provide an overview of consumer behaviour.
2. Discuss the importance of understanding consumer behaviour.
3. Discuss the factors that influence consumers' behaviour and buying decisions.
4. Think about one product that you bought in the past week. Discuss any two internal and any two external factors that influenced you when you bought this product. Provide examples relevant to your chosen product as part of your discussion.
5. Identify and discuss the five roles fulfilled by family members during family decision making. Apply each role to a decision that you and your family have made in the past.
6. Distinguish between aspirational and dissociative reference groups.
7. Make recommendations regarding a brand of your choice about the type of reference group marketers should use as part of their marketing communication campaign. Support your recommendations with the use of examples relevant to your chosen brand.
8. In table format, compare the three types of consumer buying decision in terms of the following:
 - 8.1 The level of involvement
 - 8.2 The extent of information search
 - 8.3 The extent of evaluation of alternatives
 - 8.4 The likelihood of experiencing post-purchase dissonance
 - 8.5 The types of product typically purchased
9. Identify and justify the type of consumer buying decision that consumers will undertake when purchasing the following products
 - 9.1 A can of cold drink
 - 9.2 A tube of toothpaste
 - 9.3 A new brand of coffee
 - 9.4 Designer clothing
 - 9.5 A luxury vehicle
10. Differentiate between repeat purchasing and brand loyalty by developing two purchasing scenarios that illustrate the major differences.

- 11. Discuss in detail the stages in the consumer decision making process. Apply each stage to a mother who is going to a retail outlet to purchase a pair of sneakers.**
- 12. Explain the difference between active and inactive problems. As part of your discussion, explain the impact of active and inactive problems on marketing strategy.**
- 13. Think of one product that you have purchased in the past three months. Identify the external information sources that influenced you to purchase this particular product.**
 - 13.1 Explain the difference between evoked set, inept set and inert set.
 - 13.2 Assume you want to purchase a new smartphone. Identify the brands that will be in your evoked set, inept set and inert set.
 - 13.3 Discuss post-purchase dissonance.
 - 13.4 Think about a situation in which you experienced post-purchase dissonance. Discuss the various strategies for reducing post-purchase dissonance that you could have used.

Websites

For current and up-do-date information on marketing-related issues visit <http://www.bizcommunity.com>. Click on the Marketing & Media link.

Section 4.3.1.1 discussed motivation as an internal factor that influences consumers' behaviour and decision making. Abraham Maslow, an American psychologist, developed Maslow's hierarchy of needs (Maslow, 1943). This is a motivation theory in psychology consisting of five hierarchical levels within a pyramid (see Figure 1.1). The aim of developing this hierarchy of needs was to gain an understanding of what motivates consumers. In this chapter we stated that consumers are motivated to satisfy unfulfilled needs. In his hierarchy, Maslow illustrates typical needs that consumers experience. The basic premise of this hierarchy is that some needs take preference over others. Typically, the lowest level of need will be satisfied first

and once this need has been fulfilled, the consumer is motivated to satisfy the needs in the next level (McLeod, 2016).

In order to learn more about Maslow's hierarchy of needs, watch the YouTube videos at:

1 ➡ <https://www.youtube.com/watch?v=Ugp3hm2JIqM>

2 ➡ <https://www.youtube.com/watch?v=yM8SwZkvCIY>

It is also important to search for and read the following information on Maslow's hierarchy of needs:

<https://www.simplypsychology.org/maslow.html>

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5

INTRODUCTION TO MARKETING RESEARCH

LEARNING OUTCOMES

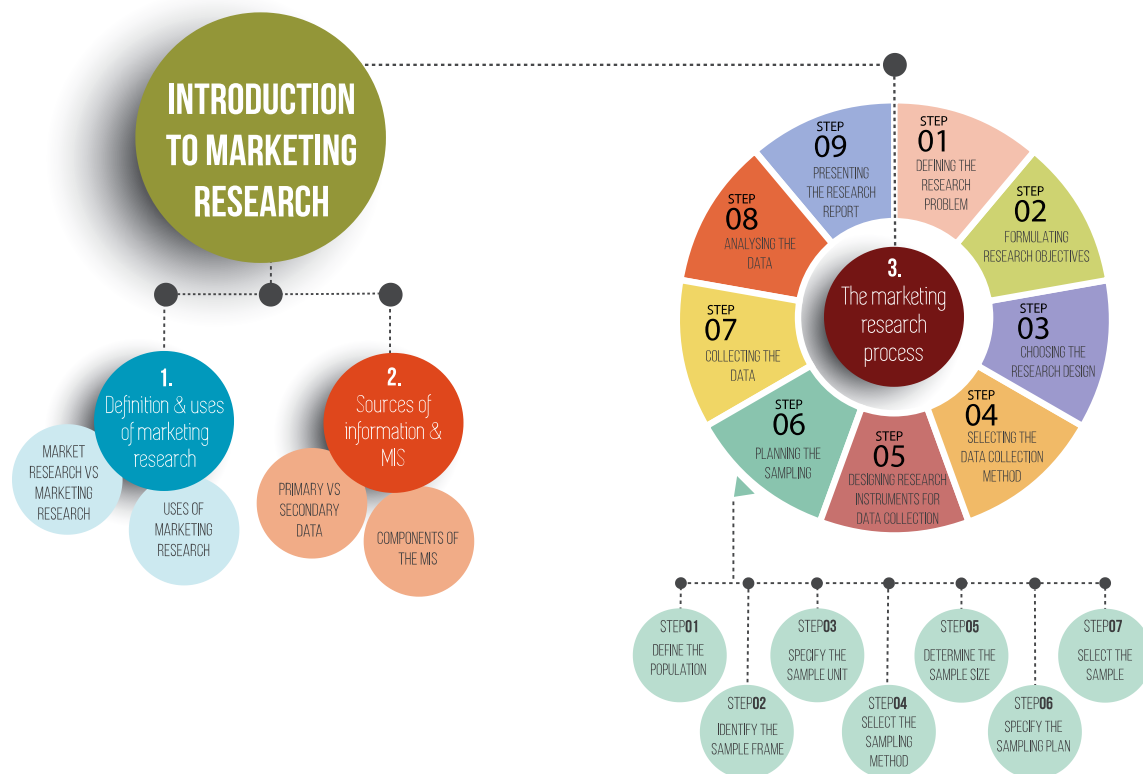
AFTER STUDYING THIS CHAPTER, YOU SHOULD BE ABLE TO

- define marketing research and explain the uses of marketing research
- discuss the components of the marketing information system (MIS) and its role in marketing research, and explain when marketing research should be conducted
- explain and apply the steps in the marketing research process
- formulate a research problem, primary objective and secondary objectives
- differentiate between exploratory, descriptive and [causal research designs](#) and qualitative and quantitative research methods
- differentiate between research instruments for qualitative and quantitative research
- understand the importance of a pilot study, screening questions, question wording and questionnaire flow
- design questions for a structured questionnaire using different response formats
- explain and apply the steps in the sampling process
- explain the errors that can occur during data collection and how to control for these
- comment on different analysis techniques and the importance of the marketing research report.

KEY CONCEPTS

- CAUSAL RESEARCH DESIGN
- DATA COLLECTION ERRORS
- DATA COLLECTION METHODS
- DESCRIPTIVE RESEARCH DESIGN
- EXPLORATORY RESEARCH DESIGN
- MARKET RESEARCH
- MARKETING RESEARCH
- MARKETING RESEARCH PROCESS

- OBJECTIVES
- QUALITATIVE RESEARCH
- QUANTITATIVE RESEARCH
- RESEARCH DESIGN
- RESEARCH INSTRUMENTS
- RESEARCH PROBLEM
- SAMPLING PROCESS



5.1 Introduction

A marketing strategy focuses on selecting the right target market segments for an organisation's products and services, and designing a suitable marketing mix to satisfy the needs of the right target market segments. However, the marketing environment is unpredictable and

new challenges and opportunities may arise quickly, prompting managers to make strategic decisions about their organisation's marketing strategy. To make good decisions, marketing managers need information that is accurate, relevant and timely. Consequently, organisations conduct marketing research to support their decision making.

To ensure that marketing research collects accurate, relevant and timely information, a systematic process (known as the marketing research process) must be followed. Moreover, marketing research involves the commitment of resources such as time and money, so marketing managers must evaluate whether marketing research is really needed (e.g. it would be pointless to conduct marketing research if the information already exists).

This chapter introduces students to the field of marketing research by focusing on its definition and uses. Students will first become acquainted with the marketing information system (MIS), which is an internal structure that enables organisations to collect information more effectively. The steps in the marketing research process will then be explained and applied to a central case study.

5.2 Definition and uses of marketing research

Marketing research is a systematic process focused on designing, gathering, analysing and reporting information relevant to a specific marketing situation facing an organisation (Burns & Bush, 2014: 34; Kotler & Armstrong, 2014: 128). Marketing situations faced by managers may be related to opportunities (e.g. introducing a new product for a new market segment) or challenges (e.g. a decline in the sales of existing products). In both situations, marketing research can be used to collect relevant information to enable managers to make sound decisions.

Often the terms *marketing research* and *market research* are used interchangeably, and while the terms are related, they do not have the same meaning. Market research is concerned with gathering and analysing information related to a *specific market*, whereas *marketing research* is much broader and concentrates on gathering and analysing information related to a specific marketing situation (e.g. should the organisation develop a new product offering or not?). Subsequently, market research forms part of the broader field of marketing research.

Suppose that a soft drink company would like to develop a new premium, herbal-based cold drink made from natural ingredients that are scientifically proven to reduce stress and aid relaxation. The company is, however, unsure how consumers will respond to the product concept, how to brand the cold drink, which consumer market segments to target, how to distribute and price the cold drink, and how to communicate effectively with targeted consumers. In this example, the company can use marketing research to do the following:

- **Identify consumer needs.** Marketing research can assist managers to align product attributes with consumer needs. For example, marketing research may reveal that although consumers have a need for herbal-based cold drinks made from natural ingredients, they may want the drink to taste refreshing and not make them drowsy. The company must therefore exercise caution in selecting product ingredients.
- **Select target markets.** Marketing research can provide insights into the size of the different market segments as well as which segments are growing or shrinking. In our soft drink example, marketing research may reveal that there is a growing desire among younger consumers (aged 22 to 35) for drinks containing natural ingredients. Marketing research may further reveal that these young consumers mainly reside in urban areas, earn a middle income, and are just starting out in their careers. These are examples of market research.
- **Refine the product offering.** A company can use marketing research to test consumers' reactions to new product concepts and refine the offering before commercialisation. Using marketing

research, the soft drink company can test consumers' response towards different can volumes (250 ml versus 500 ml), product names and package designs before launching the product in the market.

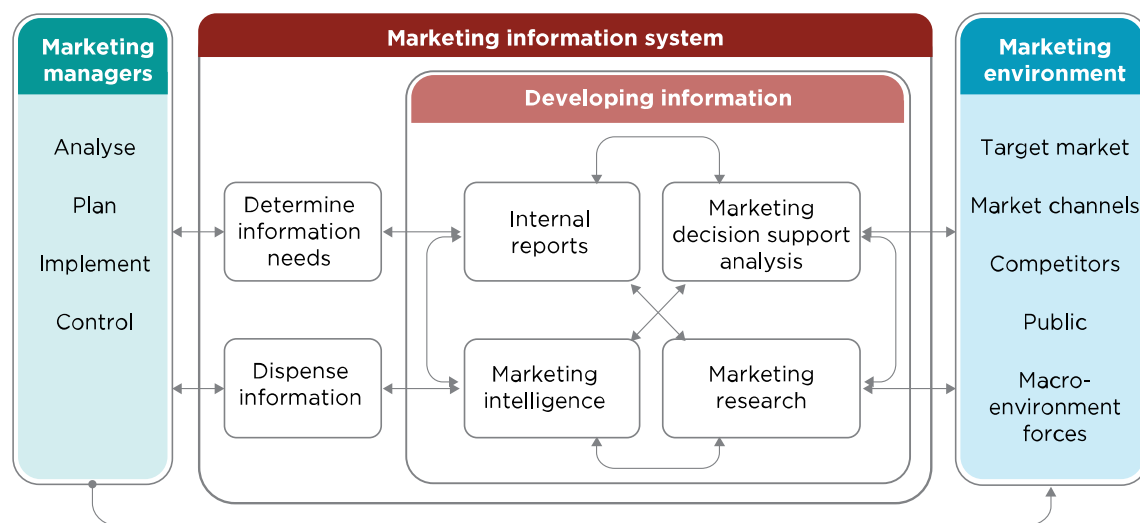
- **Determine pricing strategy and tactics.** Marketing research can be used to determine customers' reactions towards different price points in comparison to competitor offerings (e.g. affordable, value for money) as well as their response towards altered pricing tactics (such as buy one, get one free versus 10 per cent discount). In our soft drink example, marketing research may reveal that consumers deem a price of R18 for 250 ml as affordable and react favourably towards the tactic of buy one, get one free.
- **Determine the distribution strategy.** Marketing research can reveal where consumers currently purchase products, and which [distribution channels](#) are most effective in reaching the target markets. For example, marketing research may reveal that young consumers value convenience, and would like to purchase the drink while grocery shopping. The company should therefore consider following an intensive distribution channel for the new soft drink.
- **Determine the promotion and communication strategy.** Marketing research can gain insight into the promotion mix and communication strategy a company should use to communicate effectively with its target market. In our soft drink example, the company can test consumers' reaction to messages with different content, as well as consumers' preference for advertisements placed on different social media platforms.
- **Monitor marketing performance.** A company can use marketing research to monitor the marketing performance of its products and services. Once the new herbal drink is launched on the market, the soft drink company can monitor its stock-keeping unit (SKU) at different grocery retailers to determine sales through this distribution channel.

5.3 Sources of information and the marketing information system

Information can either be generated from primary or secondary data. *Primary data* are normally collected by an organisation for a specific purpose. For example, primary data will be collected if the soft drink company decides to conduct marketing research among consumers aged 22 to 35 to determine their reaction to the product concept (i.e. the herbal-based cold drink). In contrast, *secondary data* already exist either outside an organisation (such as industry reports compiled by Statistics South Africa) or internally (such as an organisation's sales report).

Technological advancements have made it possible for organisations to collect primary and secondary data more effectively via the marketing information system (MIS). The MIS is a structure comprised of people, equipment and procedures that are dedicated to collecting, organising, analysing, evaluating and distributing relevant, timely and accurate information to marketing decision makers (Burns & Bush, 2014: 39). [Figure 5.1](#) depicts the MIS and its various components.

Figure 5.1 The marketing information system



Source: Adapted from Burns and Bush (2014: 40)

Figure 5.1 shows how the MIS connects marketing managers to the marketing environment and vice versa. Within the MIS, information is developed from the following four components (Burns & Bush, 2014: 39–40):

- 1 ➔ **Internal reports system.** This is information related to revenue and costs that are generated from internal reports. Examples include orders, billing, inventory levels, stock outs and sales calls records.
- 2 ➔ **Marketing intelligence system.** An organisation uses this system to collect information about relevant trends and developments occurring in the marketing environment. Examples include scanning newspapers, magazines and trade publications available via offline and online platforms.
- 3 ➔ **Marketing decision support system.** This system is used to access and analyse collected data using software tools and techniques that assist managers with decision making. For example, salespersons might complete daily reports related to customer visits and orders placed. These reports can then be captured in a database and managers can perform spreadsheet analyses to determine whether the department is on track for achieving their set sales quotas.
- 4 ➔ **Marketing research system.** This system is used to collect specific information related to a particular marketing situation. Normally the information required for this type of decision making is so specific that it cannot be provided by other components of the MIS.

5.3.1 When is marketing research needed?

The previous section focused on the MIS as an internal structure that organisations can use to collect information for decision making. Although marketing research is a component of the MIS, not every decision requires marketing research. To determine whether there is a

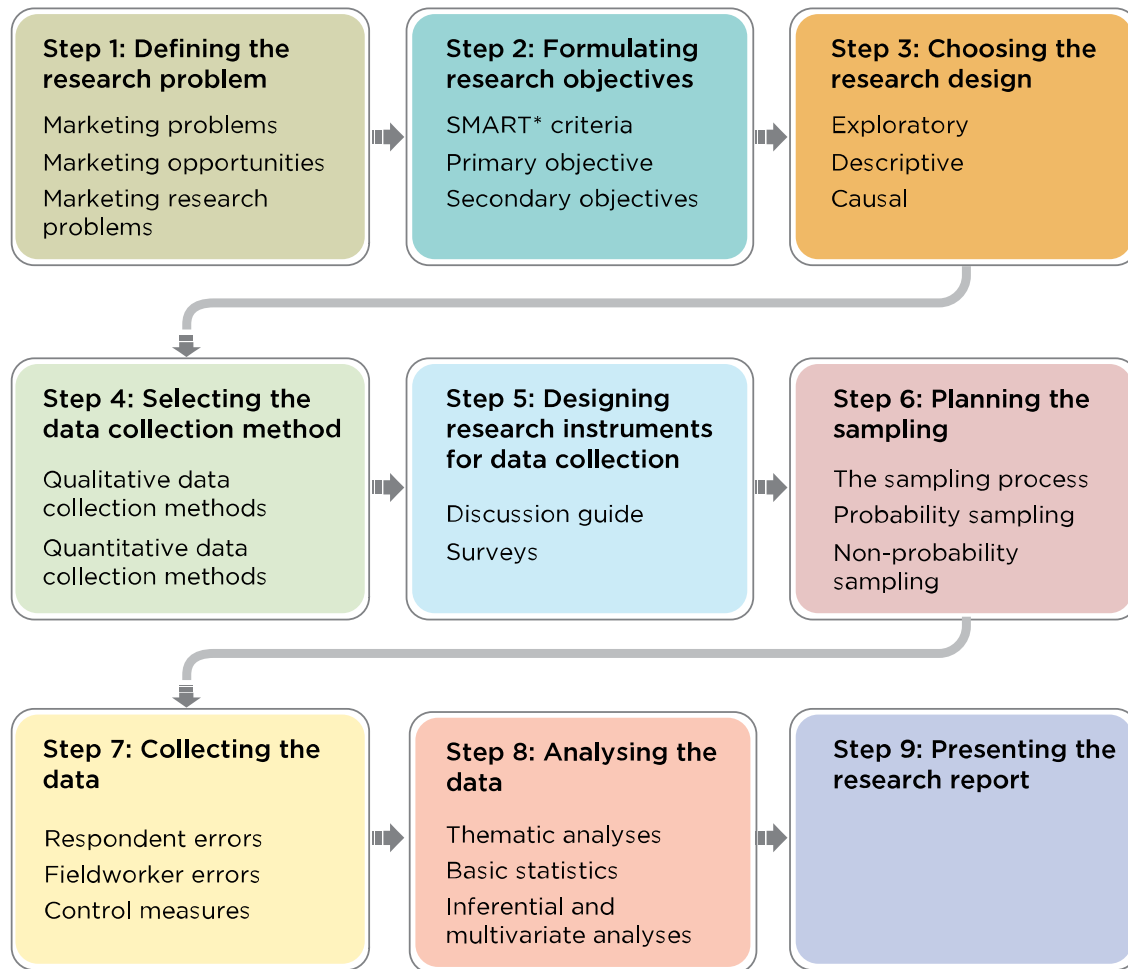
need for marketing research, organisations must consider the following (Burns & Bush, 2014: 71–72; Zikmund & Babin, 2013: 17):

- **Availability of information.** Information may already be available via other components of the MIS or via other forms of secondary data. However, marketing research must be considered when there is a lack of adequate information for decision making.
- **Time constraints.** Conducting rigorous marketing research takes time, but changes in the marketing environment may require managers to make immediate decisions. Sufficient time must be available to conduct marketing research.
- **Availability of funds and resources.** Adequate funds must be available for conducting marketing research. Moreover, money will be wasted if an organisation does not have the resources to implement the research recommendations.
- **Benefits versus the costs.** The benefits or the value offered by marketing research must outweigh the costs thereof. For example, it will be more beneficial to conduct marketing research when an organisation decides to launch a new product as opposed to making slight package alterations to an existing product.

5.4 The marketing research process

Once organisations have decided that there is a need for marketing research, a process must be followed to ensure the systematic collection of relevant and reliable information for decision making. [Figure 5.2](#) highlights the steps in the marketing research process, which serve as a guide for conducting marketing research.

Figure 5.2 The marketing research process



**SMART = specific, measurable, attainable, realistic, time dependent (see page 104)*

To explain better how each step is applied in the marketing research process, assume that our soft drink company (the example introduced in [section 5.2](#)) has decided to conduct marketing research on the new premium, herbal-based cold drink called Soothe. In the subsequent sections, each step in the marketing research process will be explained and then applied to the Soothe cold drink [case study](#).

5.4.1 Step 1: Defining the research problem

Defining the research problem and formulating the research objectives are considered to be the most crucial steps in the marketing research process. Organisations often waste money, time and effort because the

research problem is unclear, resulting in obtaining the wrong answers at the end of the research process.

When defining the research problem, it is important to distinguish between symptoms and causes. *Symptoms* are observable by decision makers and are usually related to indicators of market performance (such as decreased sales, low customer traffic and loss of market share), whereas *causes* are the underlying reasons for those symptoms. Causes are usually unobservable and not properly understood by decision makers. For example, the causes of decreased sales could be low-quality products, poor distribution or the unethical treatment of customers. The Iceberg Principle is an analogy used by Hair et al. (2013: 57) to differentiate between symptoms (i.e. the tip of the iceberg, the indicators visible above the waterline) and causes (the immense bulk of the iceberg hidden below the waterline). Extending this analogy, conducting marketing research is similar to diving below the waterline to investigate the underwater proportion of the iceberg. This “diving exercise” is crucial in translating underlying causes into a *research problem*, or the central issue that a marketing researcher decides to investigate (Berndt & Petzer, 2011: 27).

Research problems normally arise from two sources, either a failure in achieving marketing objectives or problems (e.g. actual sales are lower than projected sales) or when a marketing opportunity arises (e.g. an organisation decides to expand its market and develop new products and services). To ensure that a research problem is properly defined, it is important to ask questions related to marketing problems and opportunities. For example:

- **Marketing problems.** What are the possible internal and external factors that cause our organisation to fail to achieve our marketing objectives? Is our decrease in sales due to a new competitor who has recently entered the marketplace with a better valued offering? Or have our sales decreased due to negative customer perceptions about our product’s quality?
- **Marketing opportunities.** What are the possible success and failure factors that will enable or prevent us from grasping this marketing

opportunity? Are these factors internal (such as using the right marketing mix for a new product) or external (such as being first in the marketplace with this new offering)?

When asking questions, it is important to understand all possible internal factors (i.e. within the organisation, usually derived from the MIS system) and external factors (i.e. outside of the organisation, usually related to the marketing environment) related to marketing problems and opportunities. The researcher may consequently have to conduct a background study comprised of a situation analysis, literature and case studies, and obtain specialist opinions via experience surveys. The internal and external factors that are identified must be discussed with the decision makers who initiated the research project, and who will be responsible for implementing its findings.



APPLICATION: SOOTHE COLD DRINK

Based on recent consumer trends for healthier living, the soft drink company has developed a new premium, herbal-based cold drink. The company would like to call the cold drink Soothe, since it is made from natural ingredients that are scientifically proven to reduce stress and aid relaxation. The soft drink company is presented with a marketing opportunity, because Soothe is a new product that will serve new target market segments. The soft drink company decides that marketing research is needed to determine possible internal and external factors that may hinder or enable Soothe to become a marketing success. After conducting a background study, and talking with various marketing experts, the researcher discovers that most new products fail because the marketing mix is incorrectly applied and does not resonate with the target market. The soft drink company needs to ensure that the marketing mix used for Soothe is correct. Therefore, the research problem is as follows:

Do customers have favourable perceptions of the proposed marketing mix of Soothe?

5.4.2 Step 2: Formulating research objectives

Based on the research problem, research objectives must be formulated. The formulation of clear research objectives is important to provide focus to the research project and the information that should

be collected for decision making. Moreover, research objectives form the benchmark against which the success of a research project is determined – does the collected information address the research problem or not?

Research objectives formulated should be SMART. In other words:

- **Specific:** clear and precise
- **Measurable:** quantifiable to determine if the objective has been achieved
- **Attainable:** possible to achieve
- **Realistic:** a faithful representation given the research project's timeline and budget
- **Time dependent:** when the objectives must be achieved

In research projects, both primary and secondary objectives are set. A primary objective is the key or main outcome that the research desires to achieve, whereas secondary objectives reflect the detail associated with the primary objective, thus supporting the primary objective (Berndt & Petzer, 2011: 29). Objectives often start with the word “to”. This helps the researcher to formulate the objective and ensure that an action is linked to it (Berndt & Petzer, 2011: 29).



APPLICATION: SOOTHE COLD DRINK

RESEARCH PROBLEM

Do customers have favourable perceptions of the proposed marketing mix of Soothe?

PRIMARY OBJECTIVE

To determine if customers have favourable perceptions of the proposed marketing mix of Soothe

SECONDARY OBJECTIVES

- 1 To determine if customers have favourable perceptions of the proposed product concept “Soothe”

- 2 To determine customers' preference for Soothe's branding and package designs
- 3 To determine if customers have favourable perceptions of the proposed pricing of Soothe
- 4 To determine customers' preference for proposed price tactics for Soothe
- 5 To determine if customers have favourable perceptions towards the proposed channels of distribution for Soothe
- 6 To determine if customers have favourable perceptions of the proposed promotion mix for Soothe

From the above-mentioned [case study](#), it can be seen that all the secondary objectives formulated are related to either product, price, place or promotion (i.e. the tools in the marketing mix). The secondary objectives therefore support the broader primary objective of the research study.

5.4.3 Step 3: Choosing the research design

Once the research objectives have been formulated, the research approach to achieve these objectives must be planned. A [research design](#) can be regarded as a blueprint or master plan that details the methods and procedures to obtain the needed information as set out in the research objectives (Burns & Bush, 2014: 98; Malhotra, 2007: 78). The research design details the following:

- The type of data that will be collected
- The research methods that will be selected
- [Data collection method\(s\)](#)
- How data collection instruments will be designed

The research design therefore lays the foundation for a research project. Research designs can be classified into three categories, namely exploratory, descriptive and causal research. These categories are summarised and compared in [Table 5.1](#).

Table 5.1 A comparison of different research designs

Comparison of	Exploratory	Descriptive	Causal
Objectives	Provide deeper insight and understanding Clarify research priorities	Describe market characteristics Measure consumer perceptions and attitudes Make statistical predictions	Determine cause and effect relationships
Characteristics	Unstructured Open-ended questions Flexible Small samples Focus on depth of understanding (quality)	Structured Closed-ended questions Standardised questionnaires Large samples Focus on measurement (quantity)	Structured Manipulation of dependent variable (x) Large samples
Research methods	Qualitative Experience surveys Focus group observation In-depth interviews Projective techniques	Quantitative Cross-sectional surveys Longitudinal surveys	Quantitative Experiments

Comparison of	Exploratory	Descriptive	Causal
Use when	Research problem is unclear and requires greater understanding Concepts needs clarifying	Research problem is clear Relationships need to be tested via statistical analyses The findings of the study need to be projected to a larger population	Research problem is clear If change in independent variable (x) causes a change in a dependent variable (y))

Source: Adapted from Malhotra (2007: 81); Burns and Bush (2014: 101–107)

5.4.3.1 Exploratory research

Exploratory research is typically unstructured, informal research undertaken to gain background information about the general nature of the research problem (Burns & Bush, 2014: 101). Researchers opt for exploratory research to gain background information about the research problem, define terms and concepts associated with the research problem and establish research priorities.

Exploratory research is associated with *qualitative research methods*, which are unstructured research methodology based on small samples that provide insight into and understanding of the research problem (Malhotra, 2007: 145). Qualitative research focuses on collecting, analysing and interpreting data based upon what people say and do (Burns & Bush, 2014: 146). Qualitative research methods include focus groups, in-depth interviews, observation and projective techniques. These research methods are discussed in more detail in step 4 in [section 5.4.4.1](#).

APPLICATION: SOOTHE COLD DRINK



The soft drink company should determine customers' reaction to a herbal-based cold drink product concept before developing a marketing mix. Qualitative research with an exploratory research design can also be used to determine customers' underlying motivations, and reasons for wanting to purchase a product such as Soothe. For example, in a focus group, participants can be asked open-ended questions such as the following:

- 1** What do you think of herbal-based cold drinks? Why?
- 2** What do you expect the product Soothe to look like? Provide a detailed description.
- 3** What do you think of the name Soothe?
- 4** Do you think people will buy Soothe? Why or why not?

Notice that the questions are open-ended and broad. This type of exploratory research will allow the soft drink company to understand underlying motivations and reasons better. Findings from this research can then be used to refine the product offering and proposed marketing mix before retesting customers' reactions.

5.4.3.2 Descriptive research

Descriptive research follows a structured process that is focused on describing something (usually the target market or other market characteristics) by answering who, what, when, where and how questions (Burns & Bush, 2014: 103):

- Who are our customers?
- What brands do customers buy and in what quantities?
- Where do they buy these brands?
- When do they buy these brands?
- How did they find out about our products?

Researchers use descriptive research when they have a good understanding of the research problem but would like to obtain conclusive evidence (usually based on statistics) from large samples to determine a course of action. Descriptive research makes use of

quantitative research methods that are focused on administering structured questions with predetermined response options to a large number of respondents (Burns & Bush, 2014: 146). The drafting of structured questions is discussed in more detail in step 5 (see [section 5.4.5.2](#)) of the marketing research process. Quantitative research normally makes use of surveys, which can either form part of *cross-sectional studies* (the survey is administered only at one point in time) or *longitudinal studies* (the survey is administered at different points in time). Quantitative research allows the researcher to make use of statistical techniques to measure research problems and determine relationships between variables (or aspects) that are part of the research problem.

For example, a bank might have a good idea about the aspects that determine their customers' satisfaction, such as convenient ATMs, good user experience with internet banking and mobile apps, and helpful services inside the branch. To determine whether these aspects should be changed or not, the bank needs to measure (or quantify) customers' satisfaction with these aspects. Each respondent therefore completes the same structured questionnaire with predetermined responses, allowing the data to be standardised. The bank can then use statistical techniques to determine underlying relationships (e.g. the aspect with which respondents are least satisfied) and make inferences from these findings (i.e. are ALL our customers least satisfied with that aspect?).



APPLICATION: SOOTHE COLD DRINK

The soft drink company decides to conduct market research to determine the potential market size for Soothe in Cape Town, Johannesburg or Tshwane. A survey is administered which asks respondents the following questions:

1 In which city do you currently reside? (Mark with an x)

Cape Town	
Johannesburg	
Tshwane	

Other, please specify	

2 How old are you? (Mark with an x)

18 years or younger	
Between 19 and 24 years	
Between 25 and 30 years	
Between 31 and 35 years	
35 years or older	

3 Please indicate your gender.

Male	
Female	

4 Do you include health foods in your diet?

Yes	
No	

5 Would you be interested in purchasing a herbal-based cold drink made from natural ingredients that are scientifically proven to reduce stress and aid relaxation?

Yes	
No	

This is an example of market research using descriptive research, since the soft drink company is trying to describe its potential target market in terms of residence, age, gender, health food consumption and interest in a herbal-based cold drink. Because all respondents complete the same survey, the data are standardised. The soft drink company can use statistics to “count” customers and determine Soothe’s potential market size.

5.4.3.3 Causal research

Causal research is used to determine the cause-and-effect relationship between two variables in an experiment. An experiment normally involves the manipulation of marketing mix elements to measure

customers' reaction to the proposed change (Berndt & Petzer, 2011: 106). The two variables included in the experiment are either independent or dependent. An *independent variable* (x) influences the outcome of another variable, and is typically changed or manipulated in the experiment to determine its effect. Independent variables are related to elements in the marketing mix (the four p's). Examples include proposed new product packaging, different advertising copy and different types of promotion. A *dependent variable* (y) is reliant on the independent variable, and is normally of particular interest to an organisation. Examples of dependent variables include sales, market share and customer attitudes, perceptions and actions.

To ensure that the experiment is *valid* (the change in y is due to the change in x), it is important to control for all possible *extraneous variables*. Extraneous variables affect the dependent variable (y), but not the independent variable (x). For example, suppose you and your friend want to determine which brand of fuel (Engen or Sasol) offers the best fuel mileage. You fill up your tank with Engen and your friend fills his with Sasol, and when the tanks are empty, you have driven 450 km and your friend 800 km. Can it be said that Sasol offers the best fuel consumption or can the result be attributed to other factors? For example, the car type (you drive an SUV and your friend a small compact car) or tyre inflation (you drive off-road, so your tires are not inflated as much as your friend's) could have impacted fuel use in addition to the fuel brand. Experiments must therefore be designed in such a manner that external or extraneous variables are controlled for. In the above example, you and your friend would have had to drive the same type of car at the same speed, travel the same roads to and from the same destination, and have had the same tyre pressure during the experiment.

In summary, when designing an experiment it is important that you compare apples with apples to ensure that the change in the dependent variable can be attributed to the independent variable and nothing else. Obviously, this is quite challenging in the field of marketing, which is why some researchers opt for laboratory experiments as opposed to

field experiments. These are discussed in more detail in step 4 (see [section 5.4.4.3](#)) of the research process.



APPLICATION: SOOTHE COLD DRINK

The soft drink company would like to use an experiment to determine customers' preference for different package designs. More specifically, the soft drink company would like to determine which package design (independent variable) will have a greater effect on customers' intention to purchase Soothe (dependent variable). The soft drink company designs two different package designs for Soothe: one is funky and colourful, the other is elegant and simple. These designs are printed on separate posters.

To obtain conclusive evidence, the soft drink company samples 100 customers. It shows 50 customers the funky and colourful design, and the other 50 the elegant and simple design. The customers' intention to purchase Soothe is measured by asking the following:

Based upon this design, how likely are you to purchase Soothe?

Unlikely to purchase								Likely to purchase		
0%	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%

The soft drink company can compare the results of the 50 customers who were shown the funky and colourful design to the results of the 50 customers who were shown the elegant and simple design to determine the one that has the greatest effect on customers' intention to purchase Soothe.

What extraneous variables do you think can affect the validity of this experiment?

5.4.3.4 Research design: a word of caution

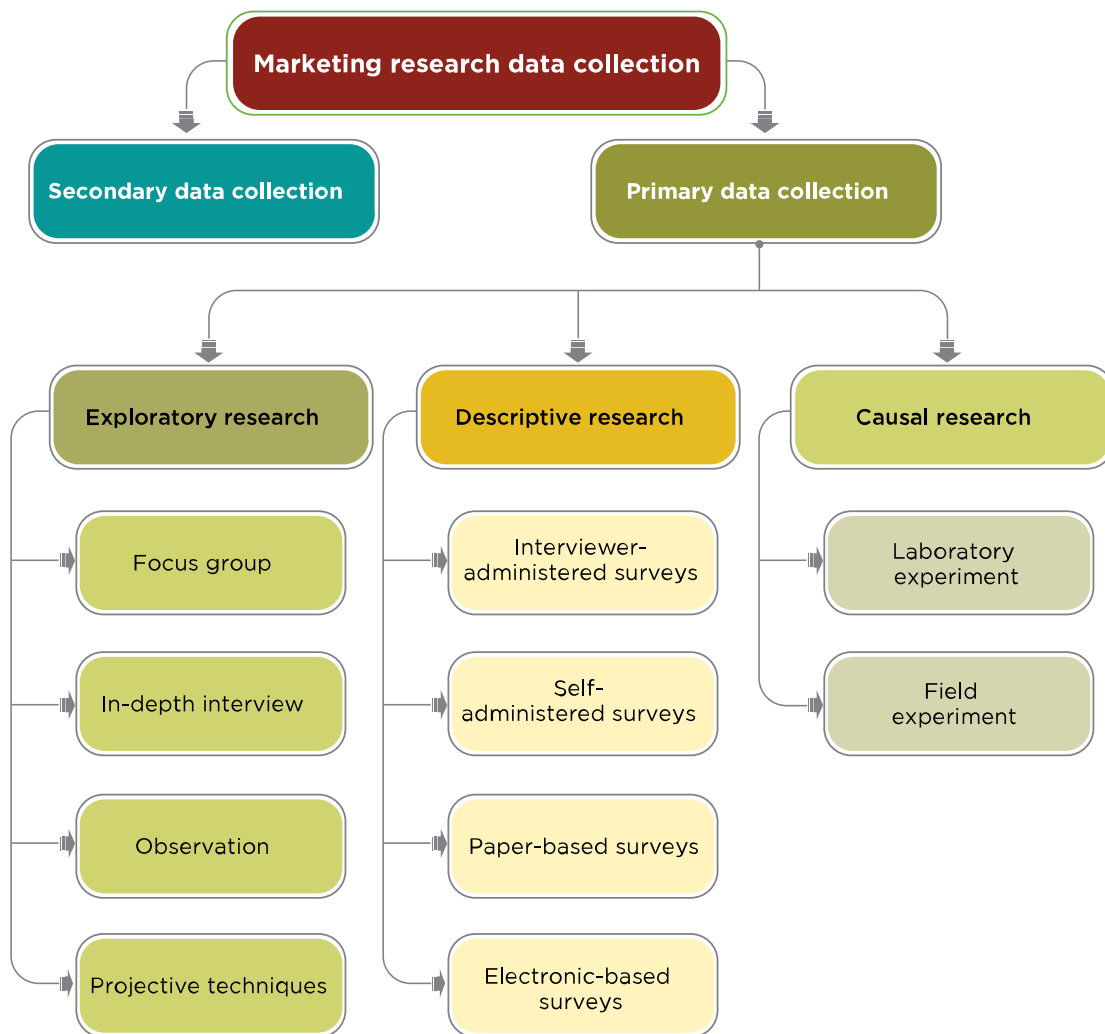
The type of research design selected will depend on the information an organisation needs to obtain to make a decision as well as the research objectives set for the study. Some research studies may make use of *mixed or pluralistic research methods* (i.e. both qualitative and quantitative) to reach the research objectives, whereas other studies can achieve the research objective with just one research method and

design. Practical aspects such as availability of time and funds will also affect the type of research design and methods selected.

5.4.4 Step 4: Selecting the data collection method

The manner in which data are collected is dependent on the research design selected for a research study. Figure 5.3 shows different data collection methods associated with different research designs.

Figure 5.3 Data collection methods

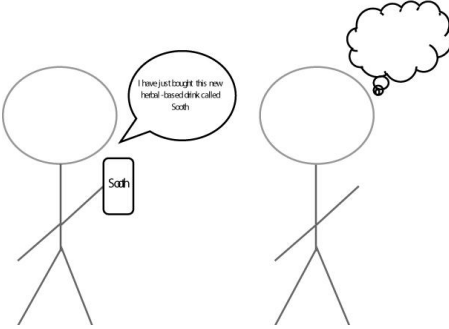


5.4.4.1 Qualitative data collection methods associated with exploratory research

The following data collection methods are used with qualitative research and an [exploratory research design](#):

- **Focus groups.** A small group comprised of 6 to 10 participants takes part in a flexible discussion about certain topics predetermined by the researcher. Focus groups are led by trained moderators who ensure that all topics are adequately covered. Focus groups are often used to test new product concepts, generate ideas, and to gain insight into consumers' attitudes, needs and decision making.
- **In-depth interview.** A one-on-one interview is held with a participant about certain topics predetermined by the researcher. The interview is unstructured, the participant is asked questions and the researcher probes to gain deeper understanding by asking why in follow-up questions. In-depth interviews are appropriate when the research topic is sensitive (e.g. the buying of personal hygiene products) or confidential, and when a detailed understanding of complex issues (such as attitudes and decision making) is needed or when an experience survey is conducted with industry experts.
- **Observation.** This is when researchers observe participants' behaviour and record what they see. Observation can either occur with the participants' knowledge (e.g. going on a shop-along at a supermarket) or without (e.g. watching the in-store CCTV footage). Observation can be used to understand consumers' shopping behaviour, and overcome faulty recall (e.g. consumers may not know how long they browse in-store).
- **Projective techniques.** These are techniques used when participants are placed in simulated activities that allow them to project beliefs and feelings onto a third party or an object. Projective techniques are indirect means of questioning, and are used in the hope that participants will reveal more about their true beliefs and feelings as opposed to being asked directly what those beliefs and feelings are. [Table 5.2](#) provides an overview of different projective techniques, applied to our soft drink company example.

Table 5.2 An overview of different projective techniques

Projective technique	Description	Application: Soothe cold drink
Word association techniques	A series of words are read to participants who have to respond with the first word that comes to mind.	What are the first words that come to mind when I say: Health Relaxation Herbal drinks
Sentence completion techniques	Participants are given a number of incomplete sentences and asked to complete them in their own words.	Complete the following sentences in your own words: Drinks that made from natural ingredients are _____ I would drink a herbal-based drink if _____
Cartoon or balloon test	Participants are given cartoon characters with thought and speech balloons and asked to complete these.	Speech balloon: I have just bought this new herbal-based drink called Soothe. What is the other cartoon character thinking? 
Role-playing activities	This is an expressive technique in which participants are asked to pretend that they are a “third person” and then act out a specific situation.	Imagine that you are the brand manager of Soothe. A customer would like to know what Soothe is and why he or she should buy it. What will you tell the customer?

Projective technique	Description	Application: Soothe cold drink
Brand personification techniques	These techniques ask participants to think about brands as if they were people and describe how the brands would think and feel.	Imagine Soothe is an actual person, not a product. What would Soothe be like? Is Soothe male or female? Why? How old is Soothe? Why? What car would Soothe drive? Why? Would you be friends with Soothe? Why or why not?

5.4.4.2 Quantitative data collection methods associated with descriptive research

Descriptive research normally uses surveys (or questionnaires) to collect data. Surveys make use of structured questions with predetermined response options, which allows standardisation and easier administration. For example, Ster-Kinekor cinema often administer surveys to movie club members to determine their customer experience in theatres and to help them improve service delivery. These surveys ask all customers the same questions, and the customers respond by clicking on standardised response options (e.g. agree, do not agree). This standardisation allows Ster-Kinekor to analyse data collected from thousands of customers. Surveys can be as follows:

- **Interviewer administered.** An interviewer asks respondents the questions, provides them with the options, and captures their responses in the survey.
- **Self-administered.** The respondents complete the survey on their own without an interviewer.
- **Paper based.** The survey is printed on paper for the interviewer to administer or for the respondents to complete on their own.

- **Electronic based.** The survey is created using software programmes such as Google Docs or Qualtrics. A link is then created, allowing interviewers or respondents to access the survey via electronic devices such as desktop computers, laptops, tablets and smartphones.

These survey types each have advantages and disadvantages, which are summarised in [Table 5.3](#).

Table 5.3 Advantages and disadvantages of different survey types

Survey type	Advantages	Disadvantages
Interviewer administered	Questions can be explained to respondents. Creates rapport with customers who might be suspicious about the survey beforehand. Better quality control because the interviewer can make sure that respondents with the desired profile (age, gender) complete the survey. Interviewers can adapt to respondent differences (e.g. a respondent who must be helped to complete the survey step by step).	Interviewers can make mistakes due to fatigue, boredom or repetition. Interviewers can cheat by steering the respondent to answer in a certain way, or deliberately record answers that are incorrect. It is slower and takes longer to complete than other survey types. It is costlier to carry out than other survey types since the interviewers must be compensated for their time. The presence of the interviewer may lead to respondent anxiety and cause them to alter their normal response.

Survey type	Advantages	Disadvantages
Self-administered	Reduced cost as there are no interviewers. Respondent is in control and sets the pace of completing the survey. Respondents might answer more truthfully as there is no interviewer present to “judge” them.	Respondents may not understand the questions and answer incorrectly. Respondents may not be motivated to complete the survey on their own, or submit the survey timeously. It is difficult to exercise control over the profile of the respondent who completes the survey. There are high questionnaire requirements to ensure that instructions and questions are clear.
Paper based	Surveys can be completed by respondents in remote areas without internet access or electronic devices. Respondents’ responses on paper can be controlled and checked before the data are captured. Visual stimuli such as pictures can be used.	This is relatively expensive as surveys need to be printed. Data must be captured separately into a database by data capturers, costing time and money.
Electronic based	Visual stimuli such as pictures, videos and graphics can be used. Data on an electronic device can be synchronised to a database (Excel, Access, SPSS). Respondents’ responses can be recorded faster. This is relatively cheaper, since the surveys do not need to be printed and the data do not need to be captured.	Interviewers or respondents must have access to the survey via electronic devices. Interviewers or respondents must have access to the internet. Interviewers or respondents must be technologically savvy. Research know-how regarding software programming is needed. There is no paper trail to check whether the programme synchronised the data correctly.

Apart from considering the advantages and disadvantages outlined in [Table 5.3](#), organisations should also take into account the following aspects:

- **Time availability for data collection.** Interviewer-administered and paper-based surveys take longer to complete than other survey types.
- **Funds available for data collection.** Some survey types are more expensive to administer than others.
- **Type of respondent interaction required.** The research may require the respondent to view visual stimuli such as an advertisement, package design or logo. The survey method selected should support these stimuli.
- **Incident rate of the study.** Incident rate is the percentage of a population that has the characteristics necessary to partake in the survey. The higher the incident rate, the more difficult it is to find and screen respondents with the desired characteristics. For example, it is easier to find respondents who purchase soft drinks on a weekly basis than to find respondents who are medical doctors who prescribe specific medication to patients.
- **Cultural or infrastructural considerations.** The researcher may need the permission of gatekeepers (such as community leaders) before they can ask respondents to partake in the survey. In some areas respondents may not have access to the internet or electronic devices, and thus cannot take part in the survey.

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Soothe would like to administer a survey to male and female respondents who are between the ages of 22 and 35, reside in the urban areas of Cape Town, Johannesburg and Tshwane, earn a middle income, are employed full time, drink soft drinks and follow a healthy lifestyle. As part of the survey, the soft

drink company would like to show respondents different video clips containing different advertisement options for Soothe. The soft drink company has a tight deadline and limited funding for the project.

Based on this description, which survey method(s) would you recommend the soft drink company use? Motivate your answer.

5.4.4.3 Quantitative data collection methods associated with causal research

As mentioned previously, causal research makes use of experiments to determine whether one variable has an effect on another. There are two types of experiment, namely laboratory experiments and field experiments.

Laboratory experiments

Laboratory experiments are conducted in an artificial setting to allow the researcher to control for as many extraneous variables as possible. For example, Coca-Cola has a laboratory in Atlanta, Georgia, where they can mimic any place that customers buy the company's products, including supermarkets, convenience stores and fastfood outlets. Coca-Cola use this research facility to study and observe customers' shopping behaviour in a controlled environment and their reaction to new products, branding, [labelling](#) and advertising.

The major advantage of laboratory experiments is that a researcher can exercise more control over extraneous variables. However, because the experiment is conducted in an artificial setting, it is difficult to generalise findings to the real world.

Field experiments

Field experiments are conducted in a natural setting, such as actual supermarkets and convenience stores. For example, suppose that Coca-Cola has identified a new product label from its laboratory experiments that they hope will increase sales. Before replacing the label on all bottles, the company decides to conduct a field experiment to determine whether the new product label will increase sales in the

real world. They decide to replace old bottles in selected supermarkets with the new labelled bottles and measure sales in these supermarkets.

The primary advantage of field experiments is that findings are more generalisable as the study is conducted in a real-world setting. However, it is difficult to control for extraneous variables, and is time consuming and expensive.

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The soft drink company would like to determine whether customers are more likely to purchase Soothe at supermarkets or convenience stores. Would you recommend an experiment? If so, which type?

5.4.5 Step 5: Designing research instruments for data collection

After the researcher has selected the data collection method(s) for a study, the **research instrument** must be designed for data collection. The research instrument is the primary tool used to collect data in the research study. To ensure that an effective research instrument is designed, considerable time must be spent to determine *what* questions to ask and *how* to ask them. Specifically, the following factors must be considered:

- **The purpose of the study.** Why is the research study being conducted? Researchers must distinguish between “nice to have” information (which may unnecessarily increase the length of the research instrument and confuse respondents) and “need to have” information (which is required to achieve the research objectives and assist managers in their decision making).
- **Respondent profile.** From whom will data be collected? Are these respondents able to read and write? Do they have access to the internet?

- **Data collection method.** Will qualitative or quantitative data collection methods be used? Will an interviewer be responsible or should the respondents complete the questionnaire on their own?
- **Size of the sample.** How many respondents must be included in the research study to draw meaningful conclusions?
- **Type of data analysis required.** Based on the research objectives, does the study require statistical analyses or a thematic analysis of respondents' verbatim answers? These data analysis techniques will be discussed in more detail in step 8 (see [section 5.4.8](#)) of the marketing research process.

5.4.5.1 Research instruments associated with exploratory research

Recall that exploratory research is unstructured and undertaken to obtain background information about the research problem and to gain deeper understanding of consumers' decision making. Exploratory research therefore normally makes use of a *discussion guide* as a research instrument. A discussion guide is usually comprised of open-ended questions centred on the research problem and objectives being investigated. The discussion guide may also describe tasks for the participants to complete (generally related to projective techniques). The purpose of a discussion guide is to facilitate a flexible and spontaneous discussion between moderators and participants.

Discussion guides are mostly used during focus groups and in-depth interviews, and projective techniques. The researcher may also use other aids during data collection in combination with discussion guides to provide better insight, such as audio recordings, video recordings and participant-produced material (usually related to projective techniques) (Belk, Fischer & Kozinets, 2013: 120).

The drafting of a proper discussion guide (i.e. one that will provide quality insight) requires the expertise of a seasoned, skilled qualitative researcher. A discussion normally begins with the moderator's introduction (which outlines the purpose of the research and the insight

that the managers wish to gain), and a participant introduction (where the moderator introduces himself to the participants and the topic to be discussed). Thereafter warm-up questions focusing on broad topics are asked to put respondents at ease. The flow of questions and tasks in the discussion guide are determined using a funnel approach, in which the moderator first asks questions related to broad topics before narrowing them down to more specific ones (Kreimer, 2010).



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Below is a brief example of a discussion guide that the soft drink company can use.

MODERATOR'S INTRODUCTION

The purpose of the research project is to gain deeper understanding of consumers' attitudes towards health and health-related products, and to test consumers' reactions to the proposed product concept, Soothe, and its proposed marketing mix.

PARTICIPANT INTRODUCTION

Moderator to introduce herself: "Good morning, my name is _____ and I am from _____. Today we are going to have an informal discussion as you would do with a group of friends. We will be discussing your thoughts and opinions about health and health-related products. There are no wrong answers. Please say what you feel. This is not a test. You will see that we are also recording the discussion with this microphone. The recording will be used as an aid for compiling the report after the discussion. Is that okay? Any questions before we begin? Can I ask everybody to introduce themselves to the group?"

WARM-UP QUESTIONS

- What is the first thing comes to mind when I say health?
- And health-related products?
- Do you buy healthy foods and drinks? If so, which brands?

REACTION TO SOOTHE PRODUCT CONCEPT

I would like to read you a product concept for a cold drink called Soothe. Soothe is herbal based, and made from natural ingredients that are scientifically proven to reduce stress and aid relaxation. Soothe will be available in a 250 ml can.

- Based upon this description, what is your impression of Soothe?
- Would you buy Soothe? Why or why not?

REACTION TO SOOTHE'S PROPOSED MARKETING MIX

I am now going to show you the proposed packaging design for Soothe, as well as different advertisements. [moderator shows respondents the package design and then the advertisements]

- What do you think of the package design? What do you like and dislike about it?
- Would you be friends with Soothe? Why or why not?
- What do you think about the advertisements? What do you like and dislike about them?
- Where do you expect to see Soothe's advertisements?
- Would you buy Soothe? Why or why not?

During *observation*, the researcher can either use an *observational check list* to tick what behaviour the participants exhibited (i.e. stopped at the store shelf, checked the prices of cold drinks), or *audio-video recordings* to analyse consumers' in-store behaviour in more detail.

5.4.5.2 Research instruments associated with descriptive research and causal research

Recall that descriptive research focuses on obtaining conclusive evidence (usually based on statistics) to describe something, whereas causal research determines the cause-and-effect relationship between two variables in an experiment. In both instances, surveys (i.e. questionnaires) are often used as research instruments. As mentioned in [section 5.4.4.2](#), surveys allow data standardisation from a large number of respondents. To enable such standardisation, surveys are normally structured with predetermined responses. When designing surveys, special attention must be given to the development of questions, the sequence of questions in the survey and the types of question.

Development of questions

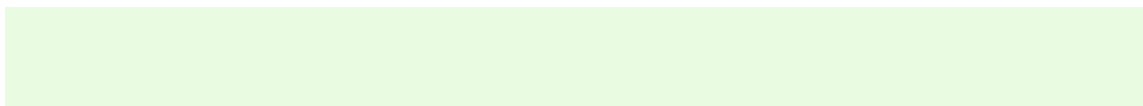
Attention must be given to the wording of questions. The questions included should:

- be focused on a single issue or topic
- be brief and to the point
- be grammatically simple and correct
- be crystal clear about what they are asking.

The sequence of questions in the survey

The sequence of questions in a survey is normally as follows:

- **Introduction.** The questionnaire begins by introducing the purpose of the survey, and states that respondent participation is voluntary. A contact number is given for the researcher responsible for the research project.
- **Screening questions.** These are qualifying questions asked to determine whether the respondent is part of the study population (i.e. a desired person from which to obtain information).
- **Warm-up questions.** These questions are not too complex and do not require a lot of interaction from respondents, for example questions related to respondents' patronage habits.
- **Transitional questions or statements.** These are questions or statements that notify respondents that the topic on which the questions focus is going to change.
- **Complicated questions.** These are questions that require a lot of respondent evaluation. These types of question usually include the use of visual stimuli and interval scales such as Likert scales, percentage scales, constant sum scales and semantic differential scales.
- **Demographic questions.** These are questions that allow the researcher to categorise respondents who participate in the study.



APPLICATION: SOOTHE COLD DRINK



Below is a brief example of a survey that the soft drink company can use.

INTRODUCTION

The purpose of this survey is to obtain feedback regarding your view of health and health-related products such as herbal-based soft drinks. Taking part in this survey is completely voluntary, and your responses will be kept confidential. The survey is comprised of four sections, and should take no longer than 15 minutes to complete. Your co-operation is highly appreciated. Should you have any questions, please contact the research leader:

Name:	
Contact details	

SCREENING QUESTIONS

Please answer the following questions:

Where do you currently reside?

Cape Town	Continue
Johannesburg	Continue
Tshwane	Continue
None of the above	Close interview

How old are you?

Younger than 22 years	Close interview
Between 22 and 35 years	Continue
Older than 35 years	Close interview

Are you currently employed full-time?

Yes	Continue
No	Close interview

Do you drink soft drinks?

Yes	Continue
No	Close interview

Do you follow a healthy lifestyle?

Yes	Continue
No	Close interview

WARM-UP QUESTIONS

1 How often do you drink health soft drinks?

Daily	
Twice a week	
Once a week	
Once a month or less often	

2 On average, how much do you spend on health soft drinks per month?

R_____ per month

3 Have you ever drunk a herbal-based soft drink before?

Yes	
No	

4 Where do you currently purchase health soft drinks? (Please tick all applicable answers)

Woolworths		Spar	
Checkers		Shoprite	
Pick n Pay		Other: please specify	

TRANSITIONAL QUESTIONS OR STATEMENTS

5 Next, I am going to read several statements related to your health habits, and after each statement I want you to tell me whether you agree or disagree with the statement and to what extent (1 = strongly disagree and 5 = strongly agree).

Statements	Strongly disagree – Strongly agree				
	1	2	3	4	5
I exercise at least twice a week.					
I prefer to buy organic foods.					

I study product labels for their ingredients.					
I prefer to purchase soft drinks that are herbal-based.					

COMPLICATED QUESTIONS

Now I am going to show you a picture of a new herbal-based soft drink called Soothe. Soothe is made from natural ingredients that are scientifically proven to reduce stress and aid relaxation. Soothe will be available in a can size of 250 ml at a price of R25.00 per can.

6 Based upon this description and picture, do you view Soothe as:

Attractive	1	2	3	4	5	Unattractive
Affordable	1	2	3	4	5	Too expensive
Unhealthy	1	2	3	4	5	Healthy
A quality product	1	2	3	4	5	An inferior product

7 Based on this description and picture, how likely are you to purchase Soothe?

Unlikely to purchase								Likely to purchase		
0%	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%

8 Below are different advertising media that Soothe can use. Please distribute 100 points among the characteristics in order of your preference. The more points you assign to a medium, the more likely advertisements for Soothe will be to grab your attention. When you have finished, double check to ensure that it adds up to 100.

Television	
YouTube	
Radio	
Facebook	
Instagram	
Newspapers	
Total	100

DEMOGRAPHIC QUESTIONS

Almost done! Could you please answer the following questions for classification purposes:

9 What is your highest level of education?

Some primary school	
Primary school completed	
Some high school	
Matric/Grade 12 completed	
Technical college diploma	
University or technology diploma	
University degree (B degree or Honours)	
Postgraduate degree (Master's or Doctorate)	

10 What is your personal gross income per month?

R	Prefer not to state

Thank you for participating in this survey!

Types of question

Table 5.4 provides a summary of the different types of question and application to the soft drink example.

Table 5.4 Summary of the different types of question

Type of question	Description (and application from previous survey example)
Open-ended question	No predetermined responses, answer is written in. Examples: Q2 and Q10.
Closed-ended questions	Predetermined responses that are ticked.
Dichotomous	Respondent can only select one of two options. Example: Q3.
Multiple choice	Respondent can select more than one option. Example: Q4.

Type of question	Description (and application from previous survey example)
Scaled response questions	Responses are recorded on a predetermined scale with set values.
Semantic differential scale	Used to measure respondents' perception of product attributes. Example: Q6 .
Likert scale	Indicates respondents' level of agreement/disagreement with statements on a continuum. Example: Q5 .
Percentage scale	Respondents indicate their level of agreement using percentages. Example: Q7 .
Constant sum scale	Respondents are asked to split a total into categories. Example: Q8 .

5.4.5.3 Pre-testing the research instrument

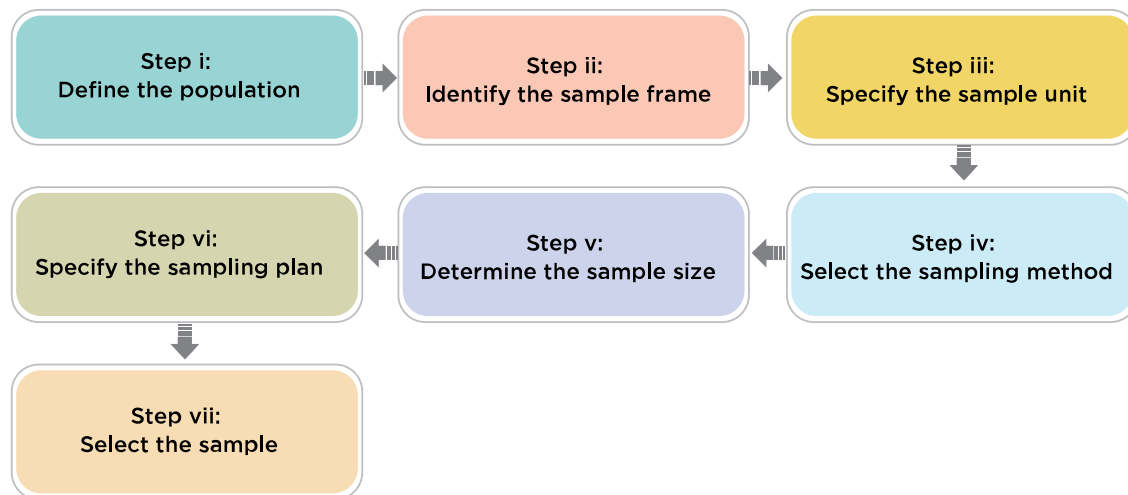
The collection of data takes time and can be costly. It is therefore important to pre-test your questionnaire using a pilot study to determine whether the questions asked are clear and understandable.

5.4.6 Step 6: Planning the sampling

Once the research instrument has been designed, respondents must be selected to participate in the research study via sampling. A *sample* is a representative subset of the population (discussed in step 1 of the [sampling process](#) (see [section 5.4.1](#))). Drawing a sample has several advantages for cost and time. Have you ever wondered why South Africa only conducts a *census* every 10 years? Because it is costly and takes a long time to collect data from every South African in the country. While sampling has its advantages, there's also a disadvantage, namely *sampling error*. Sampling errors occur because there is no guarantee that the opinions and viewpoints of the respondents included in the research study will mirror those of the entire population that an organisation wishes to study.

Data must be collected from respondents with the right profile for the research study. In our soft drink example, the company would like to target persons between the ages of 22 and 35, who reside in either Cape Town, Johannesburg or Tshwane, earn a middle income, are employed full-time, drink soft drinks and follow a healthy lifestyle. Our soft drink company believes that these respondents are representative of Soothe's target market. It would therefore be wasteful to collect data from a respondent in a rural area who is unemployed, as Soothe will be unable to draw useful conclusions from that data. To ensure that the correct respondents are selected in the correct manner, the sampling process must be followed as outlined in [Figure 5.4](#).

Figure 5.4 The sampling process



Source: Adapted from Berndt and Petzer (2011: 170); Wiid and Diggins (2009)

5.4.6.1 The sampling process

Step i: Define the population

In sampling, the *population* refers to the entire group under study as specified in the research project. In other words, the population represents the persons the organisation would like to obtain information from.

In our soft drink example, the population consists of all persons between the ages of 22 and 35 who reside in either Cape Town,

Johannesburg or Tshwane, who are employed full-time, drink soft drinks and follow a healthy lifestyle.

Step ii: Identify the sample frame

The *sample frame* is a master list containing all the sample units in the population that are available for sampling at the time of the study. Examples of sample frames include a telephone directory, maps of residential areas in a city, or an organisation's customer database. In an ideal world, the sample frame would be complete, updated and 100 per cent relatable to the population in the research study. The reality is, however, that few sample frames are current (telephone directories are updated once a year), representative of the population (residential maps might not reflect the desired respondent profile), and available to organisations (organisations might not have a customer database and even if they did, the Protection of Personal Information (POPI) Act 4 of 2013 prohibits the sharing and use of customer details for research). *Sample frame error* (i.e. when the master list fails to account for the entire population) is a great possibility. Researchers therefore often select sample units subjectively or on the basis of convenience.

In our soft drink company example, assume that there is no database of existing customers who match the targeted profile of Soothe. The company therefore has no sample frame that they can use to draw the sample from.

Step iii: Specify the sample unit

The *sample unit* is the basic level of investigation. The unit can either be a household (as is the case in census studies) or a person. In our soft drink company example, the sample unit is a person between the ages of 22 and 35, who resides in either Cape Town, Johannesburg or Tshwane, earns a middle income, is employed full-time, drinks soft drinks and follows a healthy lifestyle. To ensure that sample units selected are part of the population, the survey must include screening questions to qualify the respondent. In the case of Soothe, these screening questions would determine the respondents' age, residential address, income, employment status, soft drink consumption and

lifestyle before they were allowed to take part in the survey. Screening questions were discussed in step 5 of the marketing research process.

The selection of the sample unit depends on the research study's research design and the method of data collection. For example, if electronic-based surveys are used and the survey is e-mailed, the sample unit must have an e-mail address.

Step iv: Select the sampling method

Sampling methods specify how the sample will be drawn, i.e. how sample units will be selected. Sampling methods can be classified into two broad categories, namely probability sampling and non-probability sampling. Samples in *probability sampling* are those in which all members of the population have an equal chance of being selected to form part of the sample. With probability sampling, sample units are selected at random using a controlled procedure, and are therefore free from bias. Probability sampling requires the availability of a sample frame for the research project. [Table 5.5](#) gives an overview of the different probability sampling methods available to Soothe if they had access to a sample frame.

Table 5.5 Probability sampling methods

Methods	Description	Application: Soothe cold drink
Simple random sampling	Members of the population are selected directly and at random. All members of the population in the sample frame have an equal chance of being selected.	Soothe has a customer database consisting of 6000 customers. If the sample size is 600, sample units will be selected at random without any clear pattern or structure. If customer telephone numbers are available, random digit dialling can be used to select 600 sample units.

Methods	Description	Application: Soothe cold drink
Systematic sampling	Members of the population are selected systematically using a skip interval. A skip interval is calculated by dividing the total number of population members in the sample frame by the sample size. Every nth member is then selected as a sample unit.	Soothe has a customer database consisting of 6000 customers. Soothe would like to draw a sample of 600 respondents, so the company calculates the skip interval ($6000/600$), which is 10. Therefore every 10th customer in the database is selected as a sample unit.
Stratified sampling	The researcher divides the population into homogeneous subpopulations called strata. The sample selected must be proportionally reflective of these strata. Sample units are then selected at random from these strata.	Of the 6000 customers on the soft drink company's database, 2000 are male and 4000 are female. There are proportionally more females than males, and therefore the sample must reflect the proportion. In a sample of 600, 200 must be male and 400 must be female.
Cluster sampling	The researcher divides the population into groups called clusters, and then selects one cluster of a few clusters from which to draw the sample. Clusters are usually related to geographical areas.	Of the 6000 customers on the soft drink company's database, 3000 reside in Johannesburg, 2500 in Tshwane and 500 in Cape Town. The researcher selects Johannesburg and Tshwane as clusters from which to select sample units at random.

Non-probability sampling occurs when sample units are selected subjectively by the researchers based on a pre-determined criterion. Therefore not all population members have an equal chance of being selected and included in the sample. Researchers often opt for non-probability sampling when no sample frame is available, and when facing significant cost and time constraints. [Table 5.6](#) provides an overview of the different non-probability sampling methods available to Soothe if they do not have access to a sample frame.

Table 5.6 Non-probability sampling methods

Methods	Description	Application: Soothe cold drink
Convenience sampling	The researcher uses high-traffic locations (such as malls or busy pedestrian areas) to intercept members of the population. These areas are selected because population members are readily available to the researcher. However, only specific members, at a specific time and place, have the chance of being selected.	The soft drink company goes to specific malls in Johannesburg, Tshwane and Cape Town to recruit respondents outside supermarkets and convenience stores or those drinking soft drinks in restaurants.
Purposive sampling	Sample units are selected deliberately and subjectively. The researcher uses his or her own judgement to identify who should be in the sample.	The soft drink company deliberately chooses to go to trendy office parks, as sample units selected here are more likely to be employed. The soft drink company can also recruit respondents at gyms, as these sample units are more likely to maintain a healthy lifestyle.
Referral sampling	Sample units are selected according to certain characteristics. The researcher then asks the sample unit to refer him or her to other sample units with the same characteristics.	The soft drink company chooses to recruit sample units from office parks, and then asks respondents to refer them to friends, family and colleagues with the same criteria (as specified in step iii of the sampling process).
Quota sampling	The researcher identifies quotas to ensure that non-probability sampling reflects desired proportions of the population. Quotas are characteristics related to demographic information or product usage factors.	The soft drink company sets quotas based on geographical areas (Johannesburg, Tshwane and Cape Town) and age (22 to 27 years and 28 to 35 years). The soft drink company would like to get 200 sample units each from Johannesburg, Tshwane and Cape Town (thus 600 in total). From the 200 respondents selected in each geographical area, 100 must be between the ages of 22 and 27 years and 100 between the ages of 28 and 35 years.

Step v: Determine the sample size

The sample size can either be determined using statistical methods, subjectively based on previous studies and conventional approaches, or practically based on the availability of time and funds and the type of analysis required. Furthermore, the dispersion or variance in a population affects the sample size. For example, South Africa has 11 official languages and our soft drink company would have to include enough sample units from each of these language groups to improve the sample's precision. Therefore the more variance in the population, the bigger the sample size has to be.

Step vi: Specify the sampling plan

The definition of the study population, the availability of a sample frame, how the sample unit is specified, and the sampling method must be explained to fieldworkers or interviewers responsible for data collection. Interviewers and fieldworkers must receive proper training on the procedures to use to qualify respondents and select sample units.

Step vii: Select the sample

In this step, the sample units are actually selected, which requires a considerable amount of office work and fieldwork. [Section 5.4.7](#) provides more detail in this regard.

5.4.7 Step 7: Collecting the data

Once the research instrument has been designed, data must be collected from participants or respondents. When using focus groups or in-depth interviews, participants are normally recruited by field workers according to the criteria specified by the researcher. In the soft drink example, participants will be recruited based on their age, city of residence and soft drink consumption habits. The moderator collects data from respondents when the interview is conducted. In survey research, field workers are normally used to collect data from respondents.

In order to manage the **data collection** process, it is important to understand the different types of error that can occur and how to control for these errors. Errors can either be *intentional* (e.g. the respondent falsifies information, or the interviewer cheats and completes the survey on his own), or *unintentional* (e.g. the respondent does not understand the question and answers incorrectly, or the interviewer becomes tired and makes mistakes). These errors can be controlled for by training field workers, supervising the data collection, back-checking interviewer's work, and designing a proper survey with clear questions.

APPLICATION: SOOTHE COLD DRINK



Revisit the survey example. Suppose that Soothe has decided to use an interviewer-administered survey. What possible errors could occur during data collection? What control mechanisms would you suggest for Soothe to use?

5.4.8 Step 8: Analysing the data

The collected data should be analysed to provide useful information for decision making. Data collected from exploratory research are normally analysed using *thematic analysis*. Thematic analysis focuses on identifying emerging themes across the data. Software programs such as ATLAS.ti are helpful in this regard. A detailed discussion of thematic analysis is beyond the scope of this text book.

Recall that the purpose of descriptive and causal research is to obtain conclusive evidence. Therefore data analyses normally involve statistical analyses. The analyses may range from *basic* (such as reporting percentages, frequencies and mean scores), to more advanced, such as *inferential analyses* to test hypotheses. *Multivariate statistical analyses* are often used to provide conclusive evidence of the relationship between different variables. A number of software programs are available to the researcher, such as Excel, SPSS, R,

Statistica, AMOS and MPlus. A detailed discussion of inferential and multivariate analyses falls beyond the scope of this book.

5.4.9 Step 9: Presenting the research report

The manner in which findings and information are reported and presented to management is an important step in the marketing research process. The research report and presentation is often the only record of the entire research project. Therefore the researcher must spend time to ensure that the report is understandable and meaningful for decision making. A research report is normally structured as follows:

- Title page
- Executive summary
- Table of contents
- Background information of the research problem and research objectives
- Methodology, i.e. the research design selected and why, the study population and sampling, how the data were collected and analysed
- Results, i.e. what the findings were
- Conclusions and recommendations
- Limitations of the study

The research report normally makes use of visual aids such as histograms, pie, line and bar graphs, and tables to summarise information. The software packages mentioned in step 8 of the marketing research process can assist researchers in generating these visual aids.

APPLICATION: SOOTHE COLD DRINK



Revisit the survey example. What type of visual aids can Soothe use to communicate the results of the survey? For which questions specifically? How would you tabulate the results?

5.5 Conclusion

This chapter introduced the field of marketing research to students as a process to be followed to obtain accurate, relevant and timely information for managerial decision making. The difference between marketing research and market research was explained, and the uses of marketing research were highlighted. The various internal (including the MIS) and external sources from which information can be obtained were described, and several considerations were explained to determine whether marketing research is needed or not. In the event that marketing research is needed, students were presented with a systematic nine-step process to follow. These steps included defining the research problem; formulating research objectives; choosing the research design; selecting the data-collection method; designing research instruments for data collection; planning the sampling; collecting the data; analysing the data; and presenting the research report. Each of these steps was explained and applied to a central case study.

DISCUSSION QUESTIONS

1. Using practical examples, differentiate between market research and marketing research.
2. Your university would like to communicate with prospective postgraduate students to increase enrolment in postgraduate programmes.

- 2.1 Explain how your university can use the components in the marketing information system (MIS) to collect information about prospective postgraduate students.
- 2.2 Advise your university on the need to conduct marketing research or not.
3. **In 2012, the toy manufacturer LEGO faced criticism from various feminist groups. They accused the company of manufacturing playsets for boys only. LEGO therefore committed to deliver meaningful and imaginative play experiences to girls worldwide. Since LEGO did not know much of girls' playing experience with LEGO, several girls between the ages of 5 to 12 were invited to the LEGO Play Lab. In the Play Lab the girls were divided into focus groups of five and given LEGO bricks and playsets to play with. Based on the results of the study, LEGO released the "LEGO Friends" playset for girls.**
 - 3.1 Explain to LEGO the various advantages that marketing research can offer them.
 - 3.2 Identify the type of research design that LEGO used in the research into LEGO Friends' playset for girls and motivate your answer.
 - 3.3 Explain how LEGO could have applied various projective techniques to generate deeper insight into girls' playing experience with LEGO.

CASE STUDY: CREAM RESTAURANT

Clarissa is a restaurateur who would like to open a stylish, upscale restaurant in Johannesburg called Cream. Cream will operate as a fine-dining restaurant that serves gourmet meals, with the option of pairing wines that complement each individual meal. Apart from quality food, Cream would like to offer customers an unforgettable dining experience through knowledgeable staff who are well educated in the culinary field, and present a tasteful atmosphere consisting of white table cloths, contemporary art décor and ambient music. Cream would like to position itself as one of the top restaurants in Johannesburg, a go-to destination for special occasions, business meetings or for people who seek a unique dining experience. Since gourmet meals are quite expensive, Cream would like to target male and female patrons between the ages of 25 and 65 residing in Johannesburg, who appreciate fine dining and have a high disposable income. Clarissa

would like to determine the attractiveness of such a restaurant concept in Johannesburg and has hired you as a marketing research consultant to assist her. You propose that Clarissa should use a **descriptive research design** and collect data through a survey. Together with Clarissa, you have set the following research objectives:

1. To provide insight into respondents' eating out habits (including how often they eat out, at which sit-down restaurants, and how much they spend on eating out per month)
2. To determine how much on average respondents are willing to pay for individual gourmet meals
3. To determine respondents' preferences for different advertising media such as radio advertisements, the social media, websites and **sponsorships**
4. To determine respondents' perceptions of the different design features that Cream would like to use in the restaurant, including décor, atmosphere, waiting staff uniforms and type of seating
5. To compile a detailed demographic profile of respondents who take part in the study (including population group, marital status, gross monthly income and level of education)

You suggest that Clarissa should draw a sample consisting of 400 respondents, with a 50 per cent gender split (i.e. 200 males and 200 females). As Cream will be a start-up business, Clarissa is unable to supply you with a client list from which to draw the sample.

- 1. Clarissa has limited her choice of survey method to either electronic based or interviewer administered. Advise Clarissa on the best survey method to use.**
- 2. Define the population and specify the sample unit for Clarissa's study.**
- 3. Should Clarissa make use of probability or non-probability sampling? Motivate your answer.**
- 4. Discuss four different sampling methods that Clarissa can use to select respondents for participation in the research study. For each sampling**

method, include a practical example to clearly explain how Clarissa should use that sampling method to select respondents.

- 5. Based on the research objectives, design a suitable self-administered questionnaire by answering the following questions. Pay attention to the wording you use for each question.**
- a. Write a covering letter clearly explaining the purpose of the study. Make sure that the covering letter provides respondents with the required information that will encourage them to participate in the research study.
 - b. Formulate two suitable screening questions, with appropriate response formats as they would appear in the covering letter.
 - c. Formulate two warm-up questions with appropriate response formats, related to respondents' eating-out habits (research objective 1).
 - d. Formulate two transitional questions with appropriate response formats, related to respondents' preferences for different advertising media, and the amount they are willing to pay for individual gourmet meals (research objectives 2 and 3).
 - e. Formulate one question with the appropriate interval scale to determine respondents' perceptions of different design features that Cream would like to use in the restaurant (research objective 4).
 - f. Formulate two different questions with appropriate response formats related to respondents' demographic profile (research objective 5).

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6

SEGMENTATION, TARGETING AND POSITIONING

LEARNING OUTCOMES

AFTER STUDYING THIS CHAPTER, YOU SHOULD BE ABLE TO

- explain the concept of segmentation
- understand the process of segmentation
- understand the qualifying dimensions in market segmentation
- determine the attractiveness of a target segment
- understand how to choose the segments to target
- understand targeting strategies and be able to decide which targeting strategy is the most appropriate in a specific scenario
- understand the concept and role of positioning
- understand the various positioning strategies
- understand the role of a positioning statement
- understand the concept of perceptual mapping
- apply the STP model to a practical example.

KEY CONCEPTS

- HETEROGENEOUS MARKET
- HOMOGENEOUS MARKET
- MARKET SEGMENTATION
- PERCEPTUAL MAPPING
- POSITIONING
- POSITIONING STATEMENT
- TARGET



6.1 Introduction

Companies or organisations are generally required to segment their potential and actual customers into groups with similar characteristics

in order to market their products and services more effectively to them. As very few products and services tend to satisfy the wants and needs of every possible customer in a market, this chapter will clearly define the process of segmentation, targeting and positioning (STP) and illustrate how to apply the STP model practically.

Each company is unique and as a result has different resources at its disposal. Marketers need to select *target markets* carefully so as to make good use of the company's possibly scarce resources and achieve the best return from the chosen customer base. A target market consists of a set of consumers who share common needs and/or have similar characteristics to those that the company decides to serve (Vigar-Ellis in Kotler & Armstrong, 2013).

As the product continues to be sold, the marketer gathers more and more information about the consumers, their changing needs, wants and expectations, as well as their purchase behaviour. Only rarely can one product satisfy all the needs of all customers, so marketers also need to analyse the population to identify a group of potential customers who have similar needs and demographics to those of the existing customers and are most likely to respond positively to the product or service. Segmentation is the first step.

6.2 Segmentation

In a constantly evolving macro-environment, business are always looking for a way to differentiate themselves. All companies are faced with the reality of their limited resources having to satisfy potential customers. One way to differentiate a company from its competitors is by making or supplying products that satisfy only a certain group of potential customers. This will allow the company to focus its efforts in an area that will allow maximum return on its investment. In order for the company to decide on which market to focus its energies, it needs to complete a number of internal processes. This process of dividing

the different groups of customers into homogeneous groups is called *segmentation*.

Cant and Van Heerden (2016) state that the primary objective of companies is to make a profit. This is the reason why segmentation is needed. It identifies those segments that will be economically viable and realise a profit for the company.

To summarise, **market segmentation** is the process of dividing up a varied and differing group of buyers, who exhibit diverse characteristics, into smaller groups with similar characteristics and needs (Kotler & Armstrong, 2013).

A *heterogeneous market* is made up of individuals or organisations with diverse needs for products in a specific product class. In a *homogeneous market*, a large proportion of customers have similar needs for a product (Pride & Ferrel, 2014).

6.2.1 Segmenting the market

Market segmentation is the process of dividing the whole market for a particular product or product category into groups or segments of potential customers with similar needs (Lamb, Hair, McDaniel et al., 2010).

According to Cant and Van Heerden (2013), there are a number of both advantages and disadvantages in segmentation of the total market.

6.2.1.1 Advantages

- It forces marketers to focus more on customer needs. Thus marketers can adapt products to the customers in target segments through a greater understanding of their requirements. In turn, this leads to more satisfied customers as communication and products are more relevant to them.
- It leads to the identification of excellent new marketing opportunities if research reveals an unexplored segment.

- It provides guidelines for the development of separate market offerings and strategies for the various market segments. Determining the correct segmentation approach is therefore crucial to the development of an effective marketing mix.
- It can assist the company in allocating its scarce marketing resources.
- It focuses efforts on those segments where the greatest sales, profitability or awareness can be generated.
- It creates greater differentiation, leading to greater standout from the company's competitors.

6.2.1.2 Disadvantages

- The development and marketing of different offerings for different markets is expensive.
- Only a limited, potentially small, segment of the market is covered.
- Excessive differentiation of the company's products may lead to a proliferation of models and variations, which may end up cannibalising from each other.

6.2.2 Prerequisites for segmentation

Markets are made up of a number of different groups of people, all with different product requirements. The main aim of market segmentation is to group these potential customers. Before marketers decide on the different target markets, they need to determine whether the potential groups meet certain criteria or prerequisites. For market segmentation to be effective, the segments need to meet the following criteria (Cant and Van Heerden, 2013):

- **They must be homogeneous.** Everyone within the segments should be similar but not identical.
- **They must be measurable.** Without being able to measure the size, purchasing power, potential profit, etc. of the segments, it would be

difficult to properly assess their attractiveness.

- **They must be large enough to be profitable.** Too small a segment may not be profitable enough. A segment needs to be the largest possible homogeneous group worth exploiting with a tailored offering and strategy.
- **They must be accessible.** It is imperative for marketers to be able to reach the segments with their offering and strategy.
- **They must be actionable.** It must be possible for the company to develop separate market offerings for the different market segments identified.
- **They must be distinct.** Different market segments must exhibit heterogeneous needs, in other words the segments need to be sufficiently different from each other.

6.2.3 Bases for segmenting consumer markets

Once marketers are satisfied that a specific segment meets these prerequisites, it can be considered as a possible target market. Marketing managers can use a number of different variables to segment a market.

Table 6.1 shows the bases for segmenting consumer markets. This list should not be viewed as exhaustive, but rather indicative.

Table 6.1 Bases for segmenting consumer markets

Bases	Potential variables
Geographic	Where are they? The most basic and simple level
Geographic region or province	Gauteng, KwaZulu-Natal, Cape Peninsula, East Rand, Lowveld region
Size of city or town	Quantifiable
Density	Urban, rural, semi-rural
Climate	Summer rainfall, hot, humid, dry

Bases	Potential variables
Example: Beach umbrellas and deckchairs – the best target market would be geographically based around coastal towns and beaches	
Demographic	Who are they? The most popular basis as these variables are the easiest to identify and measure.
Age	Quantifiable, useful to group together
Gender	Male, female
Family size	1, 2, 3 or more members
Stage of family lifecycle	Young married without children, young married with children, older married without children
Income	Usually within certain brackets, e.g. from R20 000 to R30 000
Occupation	Professional, technical, unemployed
Literacy level	No schooling, less than Grade 7, less than Grade 9, matric
Religious affinity	Catholic, Muslim, Jewish, Protestant
Race/ethnicity	White, black, coloured, Asian, Afrikaans speaking, Xhosa people, southern Ndebele people, etc.
Education level	Below Grade 12, matric, diploma, degree
Example: Professional single black men between the ages of 35 and 49 with a postgraduate degree who earn between R600 000 and R800 000 per year	
Geodemographic	A combination of demographics and geographics. Grouped together by virtue of living in the same neighbourhood such as a golf estate, hence the belief that they have similar demographics.
Psychographic	How they think or live To get into the mind of the consumer
Lifestyle	Outdoors, indoors, conservative
Personality	Gregarious, authoritarian, impulsive, ambitious
Social class	Lower, middle, upper
Behaviourgraphic	How we behave An in-depth understanding of the potential customer is needed; involves grouping customers according to the benefits they seek or their behaviour
Purchase frequency	Regular, occasionally, special occasions
Benefits sought	Economy, convenience, speed

Bases	Potential variables
User status	Current user, non-user, ex-user, regular user
Usage rate	Heavy user, medium user, light user
Loyalty status	Absolute, strong, medium, none
Readiness stage	Unaware, aware, informed, interested, intending to buy
Attitude towards product	Enthusiastic, positive, negative, indifferent.

Source: Adapted from Cant and Van Heerden (2013)

Taking the bases and variables in [Table 6.1](#) into account, various segmentation groups or names can be applied. One of these is the Black Diamond group. During 2006, the Unilever Institute and TNS Research Surveys joined forces to bring marketers the latest research information available on the “emerging black middle class market”. This project explored South Africa’s emerging black middle class for the first time and called them “the Black Diamonds”, a term that appears often when researching segmentation. Using the above-mentioned bases and variables, the Black Diamond group *could* be described as black people earning between R22 500 and R72 000 a month. They own their own means of transportation. They have completed tertiary education. They are employed in white-collar jobs. Many of them own their own homes.

The Unilever study found that there were 2 million Black Diamonds in 2005. A large proportion (0.45 million) lived in the suburbs and 1.55 million lived in formal houses within townships. Their buying power was R130 billion annually (22% of South African spend), which showed that 10% of black South Africa is responsible for 43% of black buying power.

6.2.3.1 Living Standards Measure (LSM) and latest segmentation models

The South African Advertising Research Foundation’s (SAARF) Living Standards Measure (LSM) is a useful tool in South Africa for

dividing the population (using a combination of non-personal variables, such as appliance ownership or level of urbanisation) into groups or levels of people that reflect similar lifestyles. (Also see discussion in Chapter 2, [section 2.4.1.3.](#))

According to Pretorius (2015), there are a number of *problems* with the nature and use of this *segmentation tool* which necessitates a reconsideration of its usefulness. Various research organisations are currently considering the implementation of a new segmentation tool, with the most recent tool being Ask Africa's TGI SEL (socio-economic levels) tool which could provide a viable alternative to the LSM tool (Petousis, 2013). This tool has not been implemented yet.

6.2.4 Bases for segmenting business markets

Like consumer markets, business-to-business (B2B) markets can also be segmented using a number of different bases.

- **Personal characteristics of buyers.** Personality, demographics and lifestyle of individuals in the buying centre
- **Situational factors.** The urgency of purchase, size of order or product application
- **Purchasing approach.** Buying centre structure (centralised/decentralised), buying policies, nature of existing relationships and buying criteria
- **Operating variables.** Technologies applied by the company and manner in which products are used
- **Demographics.** Company age, location, industry (standard industrial code – SIC) and size

There are many ways to segment a B2B market and [Table 6.2](#) demonstrates some of these, for example on the basis of size, location, how often businesses use/need the product, etc. It's important to identify the most suitable variables when segmenting a B2B audience. The rules for effective segmentation should be taken into account and a multi-level segmentation approach is often used.

After a segmentation exercise has been conducted, it pays to create a profile of each group, in both consumer and B2B markets. A profile gives a succinct summary of each group explaining how they are made up and what members are interested in. These profiles provide everyone involved in the marketing process, such as agencies, with a clear picture of the target audiences and are invaluable when developing an appropriate positioning approach.

Table 6.2 Examples of organisational segmentation

Characteristics of buying organisations	Example
Size (the scale of operations of the organisation)	Small, medium, or large – based on sales or employee numbers
Geographical location	In South Africa: Gauteng, Western Cape, KwaZulu-Natal, Eastern Cape, North West, Free State, Limpopo, Mpumalanga and the Northern Cape
Usage rate	Non-user, light user, moderate user, heavy user
Structure of procurement	Centralised, decentralised
Product/service application	
Standard industrial code (SIC) category	Varies by product or service
End market served	Varies by product or service
Value-in-use	High, low
Characteristics of purchasing situation	
Type of buying situation	New task, modified rebuy, straight rebuy
Stage in purchase-decision process	Early stages, late stages

6.2.5 Objectives in the market segmentation process

There are three important objectives in the market segmentation process according to Walker and Mullins (2014):

- 1 ➡ Identifying a homogenous segment (group of buyers) that is different from other segments
- 2 ➡ Specifying criteria that clearly define the segment, so that members can be easily identified
- 3 ➡ Ascertaining the size and potential of the segment

Given the abovementioned objectives, the steps below apply to the process that is relevant for both consumer and B2B markets.

6.2.6 Steps in segmenting a market

The overall objective of segmentation is to identify marketing opportunities in both consumer and business markets. Once the bases and variables for each segment have been decided on, marketers need to follow the following steps in order to segment the market (Lamb et al., 2010):

- **Step 1: Select a market or product category for the study.** Define the overall market or product category in which the company already operates – a new, but related, market or product, or a completely new one. For example, Coca-Cola studied the bottled beverage market before deciding to target sportspeople with their energy drink.
- **Step 2: List the potential needs in this market or product category.** This is essentially a brainstorming session to identify as many needs as possible. The idea is to identify reasons why consumers might buy the product. These could include money saving, lower calories or user friendliness.
- **Step 3: Chose a basis or bases for segmenting the market.** This step requires managerial insight, creativity and market knowledge.

There is no scientific procedure for selecting segmentation variables. See the column headed “Bases” in [Table 6.1](#) for segmenting markets. The successful segment must, however, meet the prerequisites discussed in [section 6.2.2](#).

- **Step 4: Select segment descriptors.** After choosing one or more bases, the marketer must select the segment descriptors. Descriptors identify the specific segmentation variable to use. For example, if a company selects demographics as a basis of segmentation, it may use age, occupation, gender, etc. as the demographic descriptors. This step ought to lead to segments that are homogeneous within, but heterogeneous between other different segments.
- **Step 5: Profile and analyse homogeneous segments.** The profile of the segment from step 4 should include the segment’s size, expected growth, purchase frequency, current brand loyalty and long-term sales potential. Once profiled, the segment must meet the “prerequisite” requirements (see [section 6.2.2](#)).
- **Step 6: Identify the determining dimensions.** A determining dimension is the dimension that will eventually determine a consumer’s decision to buy or not to buy. A determining decision is related to the seller’s competitive advantage.
- **Step 7: Name and select the target markets.** The final step in the segmentation process is to name the individual segments.

Once the segment has been decided on, the next step is to decide how to approach this segment. This is called targeting.

6.3 Targeting

On completion of the segmentation process, marketers should have a view of at least one or two segments of the market that may be suitable for targeting. Developing profiles of these segments will help determine which segments are the best to target with their marketing

mix. An example of a detailed segment profile may be: a group of single, employed females between the ages of 25 and 35, who have tertiary education, live alone in an urban area, enjoy dancing and reading, and attend a gym regularly.

The idea of targeting is selection. “Marketers select their ideal customer segment(s) to target” (Iacobucci, 2013) and the key to selection is understanding differentiation (Sarvary & Elberse, 2006).

Once a company or organisation has undertaken both an industry analysis and an internal organisational analysis, it is in a position to determine which customer segment(s) could be served more optimally with what the company can offer. The selected customer segment(s) is called a target market.

A target market therefore “consists of a set of buyers who share common needs and/or have similar characteristics to those that the specific organisation decides to serve” (Vigar-Ellis in Kotler & Armstrong, 2013).

Even though a specific segment may be viable in terms of size, growth rate and attractiveness, the company should always consider its own strategic goals and resources and ensure that there is a logical fit between these and the specific segment(s).

It is suggested that you watch the interesting video on targeting available at: <https://www.youtube.com/watch?v=UgbBtCEfWtE>

6.3.1 Target market selection

Selecting specific target markets involves marketers making decisions about which market segment(s) a business should prioritise for its marketing efforts and how many. Once the potential target segments have been selected on the basis of their profiles, they need to be evaluated to find out whether or not they will be sustainable as an ongoing target market. Determining the attractiveness of a target segment is a critical factor in the marketing process. Aspects that should be considered are:

- the growth rate of the segment – past and future potential
- potential profitability which could be determined by considering the potential growth rate, anticipated competitive activities and probable consumer expectations
- the strategic fit between the potential target segment and the business's goals and resources
- the brand loyalty of the potential target customers – are they available for brand switching?
- the expected market share – this will assist in determining promotional budgets as well as assessing what the competitors may spend.

The matrix in [Figure 6.1](#) is a useful conceptual tool for illustrating that not all potential segments should be targeted. As mentioned above, companies should consider how well placed they are to serve the segment and whether it is an attractive segment. Factors should be used to assess the organisation's degree of ability to serve the segments and the attractiveness of each segment.

Figure 6.1 Directional Policy Matrix

		Attractiveness		
		Unattractive	Average	Attractive
Ability to serve segment	Weak	Strongly avoid	Avoid	Possibilities
	Average	Avoid	Possibilities	Secondary targets
	Strong	Possibilities	Secondary targets	Prime targets

Source: Adapted from Ringland and Young (2006)

It is suggested that you watch these videos, available at:

<https://www.youtube.com/watch?v=211oyyG9RGk> and

<https://www.youtube.com/watch?v=vOkL9Hgsazs>

6.3.2 Appropriate targeting strategy

The company will then need to decide on the extent of its market coverage, i.e. which and how many segments it will serve with its product range.

It is suggested that you watch the video available at:

<https://www.youtube.com/watch?v=RDgaJFXv1Rk>

There are various target marketing strategies that could be followed by a company:

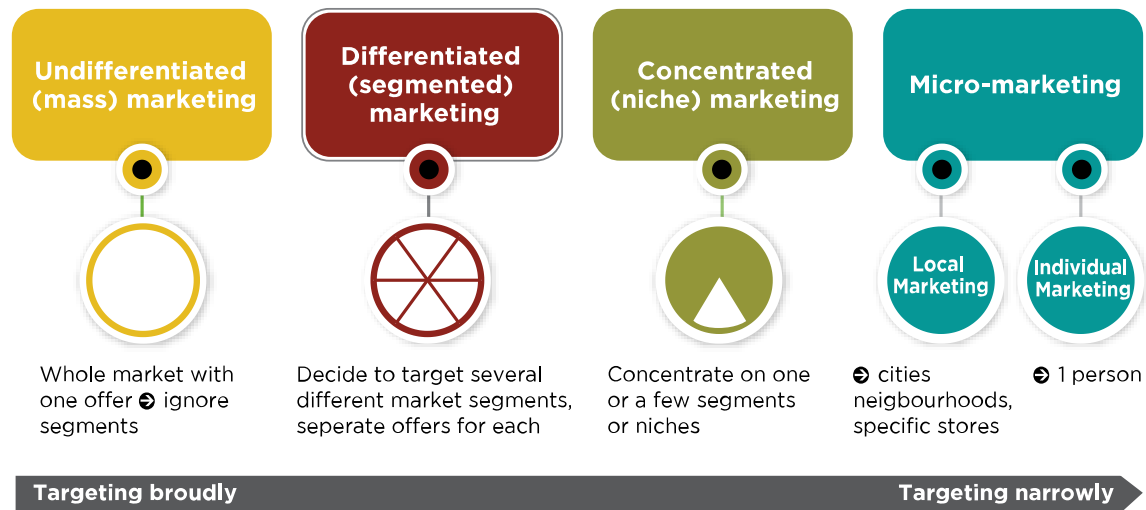
- **Undifferentiated (mass).** Companies focus on common needs and wants, and therefore serve the entire market with one product. This

means one type of product, one price, one promotional message and one distribution system. Mass marketing is used when there is little differentiation with the competitive products, for example white maize meal.

- **Differentiated.** Companies target different market segments with a different marketing mix for each segment. This is sometimes also called “segmented marketing”. This is used by most fast-moving consumer goods companies (FMCG), such as Unilever or Tiger Brands. For example, Unilever may target the following segments: new mothers (for baby products), active sports lovers (for deodorants and shower gels), young ladies (body sprays) and families (soap and toothpaste).
- **Concentrated/niche marketing.** Companies target one product to a specific need within a larger segment with a single marketing mix. This strategy is usually undertaken when a company has limited resources. For example, Lamborghini targets a very small segment in the luxury car segment.
- **Micro-marketing.** Each customer is targeted individually. This is even more specific and has an even smaller market. It involves a greater degree of customisation, such as a custom-made Bugatti Chiron, the ultimate, quintessential super sports car costing upwards of R42 million.

These strategies are illustrated in [Figure 6.2](#).

Figure 6.2 Market targeting strategies



Source: Claessens (2015)

6.3.3 Choosing a targeting strategy

To select the most appropriate targeting strategy, a company needs to consider the factors shown in [Table 6.3](#).

Table 6.3 Choosing a targeting strategy

Factors	Criteria	Most appropriate strategy
Resources	Limited	Concentrated marketing
Product variability	Uniform products such as oranges or steel	Undifferentiated marketing
	Various designs or models	Differentiated marketing
Product life cycle stage	New product – possible only launching with one product line	Undifferentiated, concentrated
	Mature stage	Differentiated marketing
Market variability	Same tastes or needs or requirements	Undifferentiated marketing
Competitors' marketing strategies	Differentiated or concentrated strategies are used by competitors	Should also use differentiated/concentrated. Cannot use an undifferentiated approach. The opposite also true.

Source: Adapted from Kotler and Armstrong (2013)

6.3.4 Summary of targeting

There should be a link between corporate fit and segment size and attractiveness. To assist with this process, it is important to go back to the industry and SWOT analyses discussed in [Chapter 2](#), as these generally form the bases of selecting the most appropriate target market.

Identifying the most appropriate target market is the key to implementing a successful marketing strategy as it places a company in a better long-term financial position and it also assists in serving the chosen target market even better.

6.4 Positioning

Product positioning is an important part of the marketing function. Once you have a clear understanding of your market, you have broken the market down into different unique segments and you have selected the most appropriate target markets for your product or service, it's time to position your product or service correctly in the minds of the consumer.

Positioning refers to where your product or service stands in relation to that of competitors, in the mind of the consumer. From a marketing perspective, it's essential to understand your specific consumer segment and then develop positioning strategies to reach that segment and offer your product or service. In so doing, you are creating a clear and distinct image in the consumers' mind of your specific product or service. Positioning of a product or service should not be left to chance, it needs to be planned for.

It is important that the consumers' perception of your product or service is positive and consistent. It's the marketers' task not only to ensure that the positioning is good and appropriate to the consumer segment but also that the product or service is unique in the eyes of the consumers, thereby making them believe that there is a distinct benefit to using the product or service being offered.

Correctly positioning a product or service makes it a unique selling proposition. In today's world where the consumer is faced with a magnitude of offerings with similar benefits, a unique and good positioning will help the product or service stand out in relation to what's offered by the competition, provide the ability to charge a higher price and keep the competition at bay.

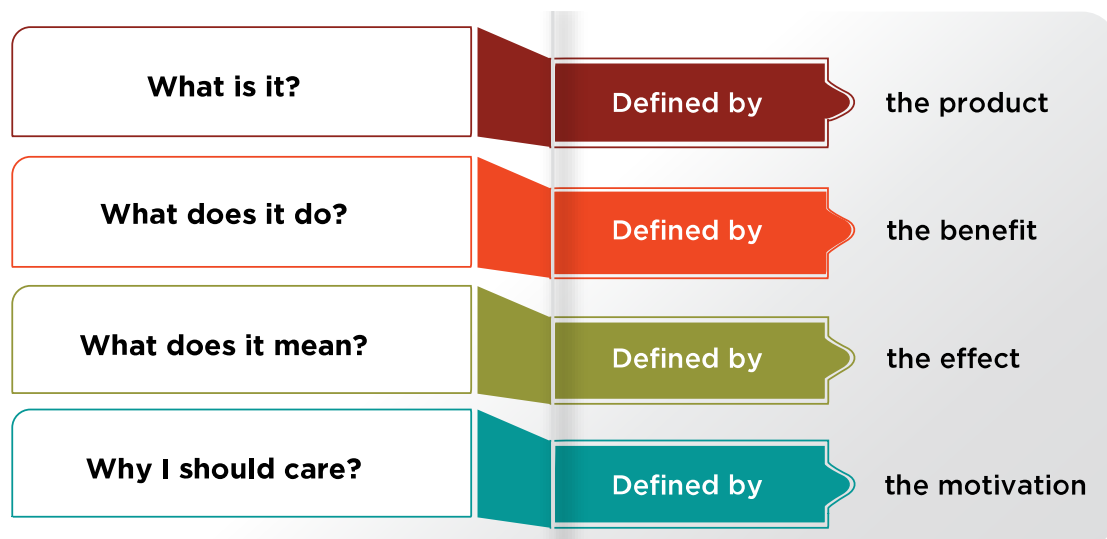
When the product or service has been appropriately positioned, flexibility is provided in terms of product extensions, changes, distribution and advertising.

6.4.1 The role and concept of positioning

Product or service positioning is the final stage in the STP process. Positioning is a marketing concept that outlines what a business should do to market its product or service to its customers. In positioning, the marketer creates an image for the product based on its intended audience. This image is created using promotion, price, place and product. The more intense a positioning strategy, typically the more effective the marketing strategy is for a company. A good positioning strategy elevates the marketing efforts and helps a consumer move from knowledge of a product or service to its purchase.

Customers develop opinions about companies and products, and the positioning of each in the mind of the customer always occurs in relation to the competition or the customer's other alternatives, which may include doing nothing. See [Figure 6.3](#).

Figure 6.3 From positioning to communication



Source: MaRS (2013)

While marketing communication plays a part in developing the desired position, it's worth noting that in reality customers make up their minds based on a wider range of factors, including packaging, pricing, product performance, references and media recommendations.

6.4.2 Positioning fundamentals

Some key aspects which marketers should keep in mind when developing a positioning strategy are as follows (adapted from MaRS, 2013):

- Positioning is the single greatest influence on a customer's buying decision.
- Each customer evaluates products in the market according to his or her mental map of the market.
- Positioning exists in customers' minds, not in [positioning statements](#).
- People do not easily or willingly change their minds about a product's positioning.
- Positioning must first demonstrate a product's relevance, using supportable, credible and factual terms.
- Making the product easier to buy through effective positioning makes the product easier to sell.

Positioning strategies can be conceived and developed in a variety of ways. They can be derived from the product or service attributes, competition, application, the types of consumers involved, or the characteristics of the product class. All these attributes represent a different approach in developing positioning strategies, even though all of them have the common objective of projecting a favourable image in the minds of the consumers or audience.

Companies have two basic choices when it comes to positioning their products versus the competition: go head to head in direct competition or differentiate their own product by making it so unique that it has no direct competition.

There are six basic strategies by which companies can position their products (Strategic Performance Group, 2009):

 **Positioning by attributes or benefits.** The most frequently used positioning strategy tries to capitalise on a specific product

attribute, benefit or feature. Economy, reliability or durability are attributes frequently used in this strategy. Products can be positioned in terms of a combination of attributes. However, using too many attributes in a positioning strategy may confuse consumers as to what the product stands for.

2 ➡ Positioning by quality or price. The best way of looking at this strategy is in terms of a continuum from high to low. In some cases, a strategy of high quality/high price is pursued, while other companies pursue a strategy of good value at a low price.

3 ➡ Positioning by use. To stimulate consumption of products whose growth has slowed, companies attempt to develop new ways for consumers to use a product. An example is orange juice, for which the following message was used to stimulate consumption: “It’s not just for breakfast anymore”.

4 ➡ Positioning by user. This strategy entails associating a product with a user or a class of users. For example, Harley Davidson broadened its image to reach a new class of motorcycle enthusiasts: aging Baby Boomer professionals.

5 ➡ Positioning by product category. With this strategy, one objective is to get consumers to associate a product with a product category about which they have a positive image. For example, Folgers instant coffee positioned itself as tasting like freshly brewed coffee.

6 ➡ Positioning by competitors. Positioning relative to competitors can succeed when a competitor is well known or has a well-established image. The most famous example of this strategy is the Avis Car Rental slogan, “We’re number two, but we try harder”.

6.4.3 Steps for market positioning

Follow these seven steps to determine market positioning (SMARTLING, n.d.):

- **Step 1: Draft a positioning statement.** There are four simple questions that will yield a set of basic facts about the identity you have determined for your company: who are you as a brand and what does your brand stand for? Who are your target customers and what do they need or want? How will you reliably meet those needs or wants? Who are your competitors and what do you do differently? The positioning statement is the result of plugging those facts into a basic, formulaic sentence structure.
- **Step 2: Compare to identify your own uniqueness.** Differences between your own messaging strategy and communication channels, and those of your competitors reveal openings in the market that your positioning message should address.
- **Step 3: Competitor analysis.** Investigating and analysing the competition helps to determine the strengths and weaknesses of your own business measured against the competition. Understanding the differences between a business and its competitors is central to finding gaps in the market that can be filled.
- **Step 4: Determine current position.** Determining your existing market position is every bit as vital as any competitor analysis. That's because you must understand your own market position to be able to compete properly for your share.
- **Step 5: Competitor positioning analysis.** An accessory to the competitor analysis, competitor positioning analysis identifies the conditions of the market that influence how much power competitors can exercise.
- **Step 6: Develop a unique positioning idea.** With all the analytical data in hand, you should have a better idea of who you are, who you are not, and who your best audience is. It's time to make a statement about those facts.
- **Step 7: Test the effectiveness of your brand positioning.** Testing methodology will consist of qualitative and quantitative data gathering, mainly determined by the steps prior to this, but may also

include focus groups, surveys, in-depth interviews, ethnography, polls, etc.

6.4.4 The positioning statement

A key component of positioning is the development of a positioning statement. A positioning statement is an *expression* or *summary* of how a given product, service or brand fills a consumer need in a way that its competitors don't. It is written in terms of how customers will see the product.

A good positioning statement answers the following three questions:

- 1 ➡ Who are the customers?
- 2 ➡ What is the set of needs that the product fulfils?
- 3 ➡ Why is the product the best option to satisfy those needs?

A marketer should formalise a positioning statement that specifies the place the company wishes to occupy in its target customers' minds. The following is a commonly used form:

Our _____ [product brand] is _____
[single most important claim] among all _____
[competitive frame] because _____ [single most important support].

According to Sarvary and Elberse (2006), the positioning statement is directed to potential customers. It guides the development of the marketing plan – it is often said that “solving” the positioning problem enables the company to solve its marketing-mix problem. For example, if a computer company finds that a market segment with budgetary constraints prefers its products because they are significantly cheaper than competitive offerings, it could aim for a “no frills” product line, closely monitor its price advantage, emphasise the low price in its

advertising, and use a direct-to-consumer channel strategy that limits the **mark-up** on its products.

When developing positioning, marketers should aim for the following (West, Ford & Ibrahim, 2010):

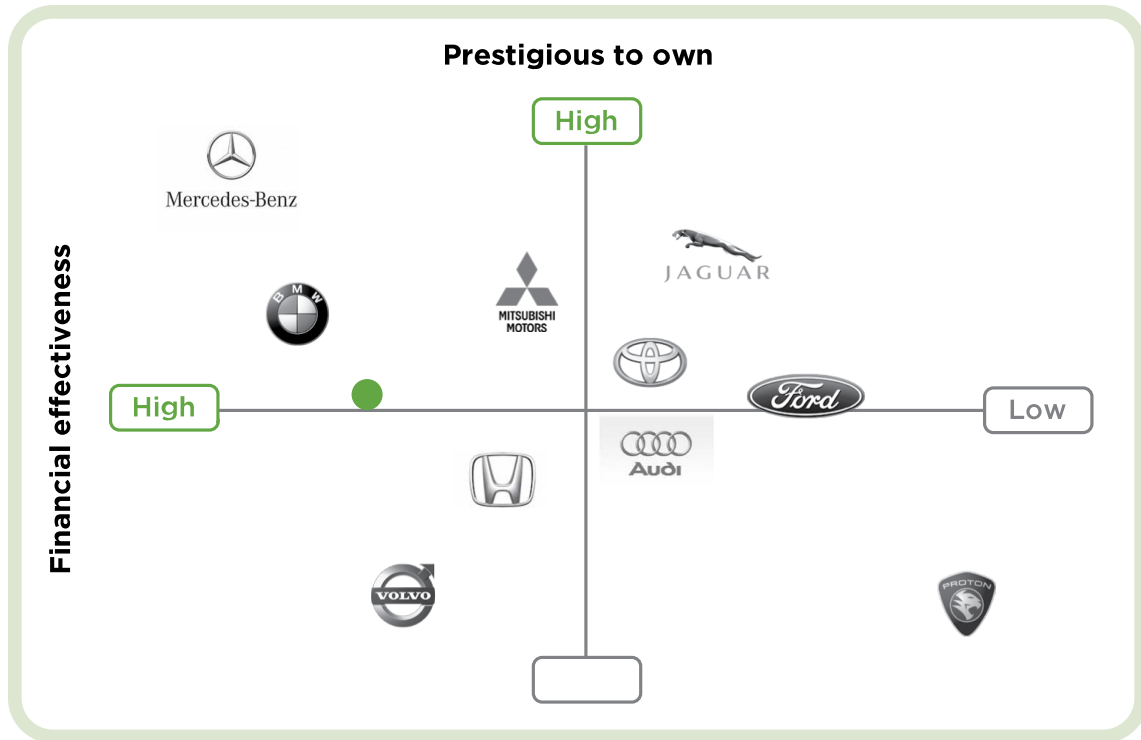
- **Clarity.** Give a clear, unambiguous message.
- **Credibility.** The message must be consistent with the mission and ethics of the company.
- **Consistency.** The message must be consistent with other activities of the company.
- **Competitiveness.** Benefits must be well defined in relation to competitors.

6.4.5 Perceptual mapping

A useful marketing tool when looking for the best possible position for a product is a *positioning map* (or **perceptual map** or positioning matrix). This is a graphical representation of the various products offered to the target market, showing all the competitors on a matrix, with the axes being relevant benefits. Unless the marketer is planning to compete directly against the competition, he or she should be looking for gaps, where there are no competitors, and use those to their advantage.

Figure 6.4 shows an example of a positioning map for motor vehicles using the attributes “prestigious to own” vs “financial effectiveness”.

Figure 6.4 Applying the perceptual mapping concept into brand positioning



Source: Byrne (2013)

The map in [Figure 6.4](#) shows us that Mercedes-Benz scores highly on prestigious to own as well as on financial effectiveness, while Toyota is average on both. A gap may be available for a new motor vehicle to position itself at higher financial effectiveness (higher than Volvo) and above-average prestigious to own (above Honda but below BMW): the opportunity indicated by the green dot.

6.4.6 Summary of positioning

Product positioning involves tailoring an entire marketing plan, including product attributes, image and price, as well as packaging, distribution and service, to meet best the needs of consumers within a market segment. In this way, product positioning is part of the overall process of market segmentation. *Effective product positioning* is necessary for success; even more so when marketing a new product. Everybody knows that product and service positioning means standing out from the crowd and differentiating yourself from your competition.

Effective positioning means you should be asking yourself if your product or service can be used in ways that your competitor's products can't.

6.5 The STP model

The STP model may generally be used as a follow-on from the insights gained from the SWOT analysis and is useful when considering “next steps”.

Segmentation, targeting and positioning (STP) information are essential steps to be used in completing the planning phase of a marketing initiative and the STP model is an extremely useful framework for doing that. This more scientific analysis using a theoretical model is a recent development in marketing and a significant departure from the previous decades when product differentiation was the main driver of the process.

6.5.1 Advantages of the STP model

The usefulness of this model lies in its structure which directs the marketer through a few logical and sequential steps. This results in improved clarity in terms of how the product or service should be positioned for the maximum effect. It is useful in that it forces the marketer to analyse the offering and use the information from this process to inform the communication of benefits and values to a specific group. The result of the approach suggested by the STP model is to offer an audience-focused approach to the marketing message, rather than the product-focused approach which formed the basis for most marketing campaigns a few decades ago.

An example of this would be how the marketing message in the City Lodge group of hotels is adapted for the various product offerings it has available for the different segments in the group of people who use

hotels; the message for the different target markets is adapted for each one of the different offerings in the stable of the hotel group:

- **City Lodge.** The market for this offering is the domestic business traveller, top to middle management, and guests travelling by air and using hired cars, as well as sports groups.
- **Town Lodge.** This is a lower cost hotel with smaller rooms and walk-in showers with no bath tub; it's for use mainly by business travellers.
- **Courtyard Suite hotels.** These offer to discerning guests an exclusive option with a more gracious ambience than would be available in most normal hotels.
- **Road Lodge.** These are good-value accommodation offerings with the same room rate being charged irrespective of the number of people in it.

The ultimate outcome of the effective use of the model is therefore that it assists the marketer to identify the most appropriate revenue-rich customers, then develop products or services with the marketing messages that will suit them optimally. Each target group can therefore be engaged with effectively and by using personalised messages, which is something that will almost always result in higher sales.

6.5.2 The STP model

This model is structured around three clearly defined action steps:

- **Step 1:** Segment the market
- **Step 2:** Target the customers
- **Step 3:** Position the offering

Apart from the fact that this model facilitates the effectiveness of the marketing communication message, it also ensures commercial effectiveness by pinpointing the most valuable segments of the market on which to focus business activity. It also includes the key activities

of developing a marketing mix and product-positioning strategy for every segment of the market.

6.6 Practical application

6.6.1 How to use the STP model

The process of segmenting helps you to identify the niches of the market with specific, identifiable needs for which you would develop specific, focused marketing messages.

A recent article in *Sunday Times Lifestyle* with the title “Competitive edge: Go under the knife, keep your job” by Shanthini Naidoo (2017) suggests that an increasing number of men are having cosmetic surgery done to make them more physically appealing and accepted in their jobs. More mature men realise that the world, and their customer base, is getting younger and younger and that they need to move with the times in order to be acceptable to the client.

It is especially men in the sales and service industries who have to rely on projecting a more youthful image – insurance and car salesmen, estate agents and men in the communication and entertainment industries are having procedures done to make them look healthier, fresher and less tired. It used to be male celebrities only who were willing to admit having had to resort to the knife to make them look better, but now a dramatically increasing number of ordinary men in demanding positions are not shy to admit that as a result of a cosmetic procedure they now feel happier about themselves, have increased confidence and find it easier to go out and meet clients who are most likely going to be younger than they are.

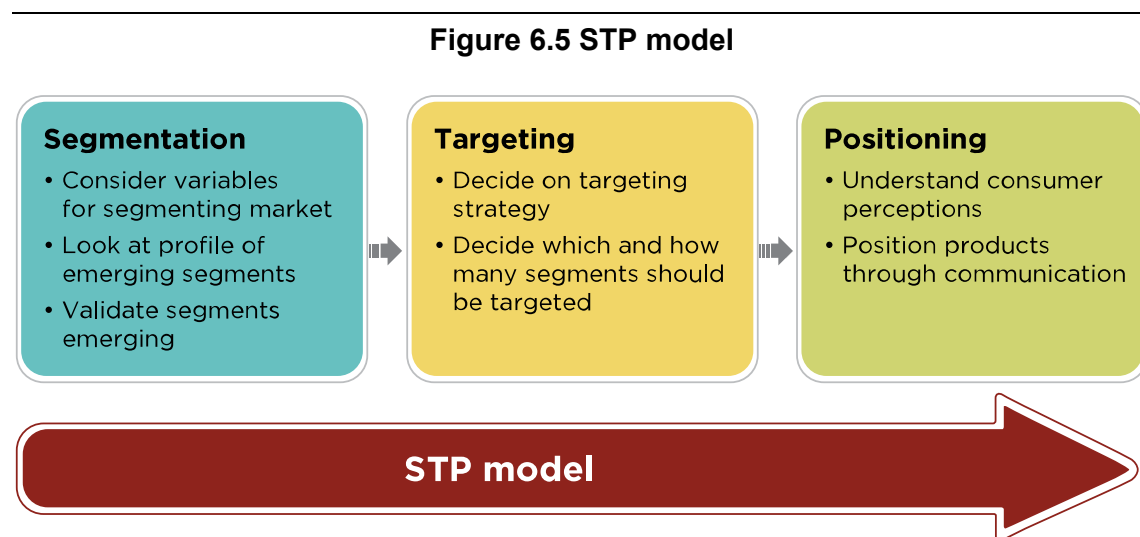
The reporter goes on to list the most common procedures South African men tend opt for:

- Blepharoplasty or removal of droopy bags under eyes (R35 000.00)
- Rhinoplasty or altering the nose structure (R40 000.00 to R60 000.00)
- Gynaecomastia or reduction of man boobs (R25 000.00)
- Liposuction or removal of love handles or reduction of tummy (R35 000.00 to R65 000.00)

Some men do more than have their faces re-sculpted and turn their attention to the body when they find that they do not have the time to correct the damage of age, lack of exercise and an unhealthy diet.

South African men have crossed the divide which suggested that this was an option only for women and more are finding that it is a viable route to make them feel better about themselves, gain more confidence in dealing with strangers and perhaps even extend the lifetime of their careers.

We could apply the process inherent in the STP model to help a plastic surgeon position his practice to take maximum advantage of the change in South African men's attitudes towards cosmetic surgery (see [box](#) above and [Figure 6.5](#)).



Source: Adapted from Dibb et al. (2006)

6.6.1.1 Step 1: Segment your market

It is not possible for a business to be all things to all people. The act of segmenting implies dividing the overall market into smaller groups of customers with a collection of common characteristics, needs and expectations. Segmentation makes the business more effective than those businesses which have a “one size fits all” approach.

Applied to the scenario from the short case study in the [box](#), we may segment the market for the plastic surgeon as follows:

- *Demographic* – men over the age of 50 in the sales, marketing and entertainment industries
- *Geographic* – the metropolitan areas in which the highest concentration of the industries mentioned above are located
- *Psychographic* – men who are career driven with high levels of ambition and the need to succeed while maintaining a high-energy lifestyle for networking with customers of all ages
- *Behavioural* – men who may be bold enough to seek help but who may want to remain below the radar regarding the fact that they have had the procedure done

6.6.1.2 Step 2: Target your best customers

With the market segmented, you now need to decide which segments to target. The most attractive segment is likely to be the one that will have the best potential for contributing to the bottom line of the business. The model in [Table 6.4](#) will inform your decision regarding the attractiveness of the market segment.

Table 6.4 Assessment of market attractiveness

		Attractiveness		
		Unattractive	Average	Attractive
Ability to serve segment	Week	Strongly avoid • Unemployed • School children	Avoid • Low-income earners	Possibilities • All business sectors
	Average	Avoid • Males living far from urban areas	Possibilities • All urban males	Secondary targets • All urban males over 40 years of age
	Strong	Possibilities	Secondary targets	Prime targets

		• People in urban areas other than where the practice is based	• All urban males in the metropolitan areas over 40 in sales, marketing and entertainment	• Urban males over 40 in marketing, sales and entertainment in the urban area where the practice is based

The target market is, however, inclined to have additional characteristics which may not be included in the matrix above but which makes it attractive:

- Is there some likelihood that the market will grow in the future and attract more of the kind of people who currently make it an attractive market?
- Is the market large enough to ensure that new customers will be a longer-term reality?
- Are enough new professionals entering the market to ensure that the customer base will continue to expand for some time into the future?
- Are the activities that the professionals in the market are involved in likely to remain a relevant and integral part of the business environment into the future?

The use of the PESTLE framework (political, economic, social, technological, legal and environmental factors), when applied to the segment, is likely to provide some additional answers to the questions listed above. The information you obtain from applying the PESTLE framework will inform your targeting strategy.

6.6.1.3 Step 3: Position your offering

This step helps you to position the product or service to target the most valuable segments.

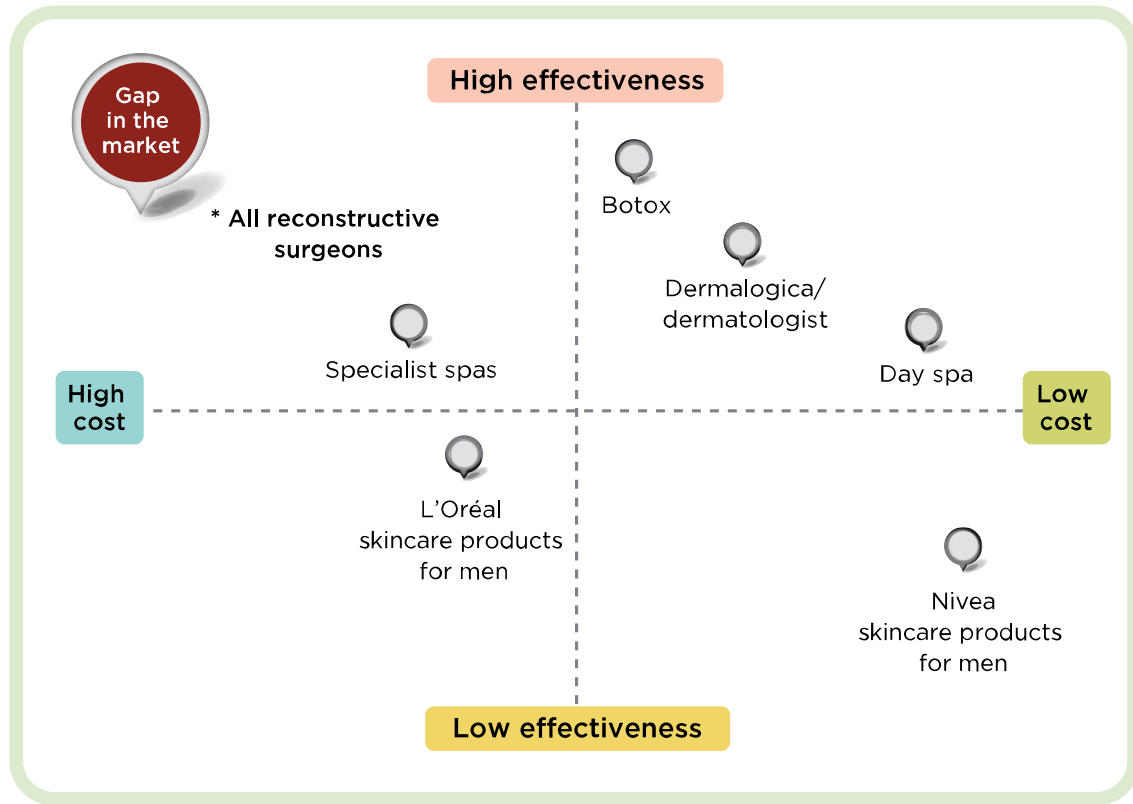
- **Unique selling proposition.** What could you offer as a unique feature of the service which will distinguish it from the offerings

from other providers in the field? Could you perhaps offer this as a service which will, as it were, make you look as good as the job you are doing?

- **Positioning map.** This helps you understand how each one of the segments in the market is perceiving your offering and where the opportunities or gaps are. See [Figure 6.6](#).
- **Value proposition.** How will your offering be better able to satisfy the requirements of the consumer than any of the competitors in the marketplace? The fact that you will be specialising in a process specifically aimed at men over 40 years of age with the objective of helping them look younger will mean that you are adding value in a narrowly defined segment of the market.

The STP process is now complete, with the marketer having segmented the market, targeted the most relevant customers, and ensured that by leveraging the differentiating factors, the product or service is appropriately positioned to satisfy the wants and the needs of said target market.

Figure 6.6 Illustrative positioning map for anti-ageing products for men



6.7 Conclusion

This chapter highlighted the importance of marketers being required to segment the larger population, select the most viable target market and position the product or service in the mind of the customer. This differentiated positioning operates against the backdrop of the competitive environment.

The ultimate challenge for the marketer lies in the ability to understand the need to focus on a clearly defined segment of the possible market in order to gain maximum use for the marketing rand. No market is homogeneous, but segments can become more homogeneous when careful selection through the STP process is applied.

The next step would be to ensure that the positioning is brought to life and appeals to the selected target segment in a focused approach, through employing the marketing mix.

DISCUSSION QUESTIONS

1. Discuss the levels of marketing segmentation, including an example of each level.
2. An outdoor adventure company is wanting to segment a market. Discuss why psychographic segmentation would be the best basis for the segmentation process.
3. What are the benefits of using the Living Standards Measure (LSM) as a basis for segmentation?
4. When companies wish to find the best positioning for a product they can use various bases of positioning. Discuss these bases and include an example for each.
5. There are four levels of market segmentation. Describe each level and provide a practical example for each. Develop two segment profiles of consumers using Apple iPads.

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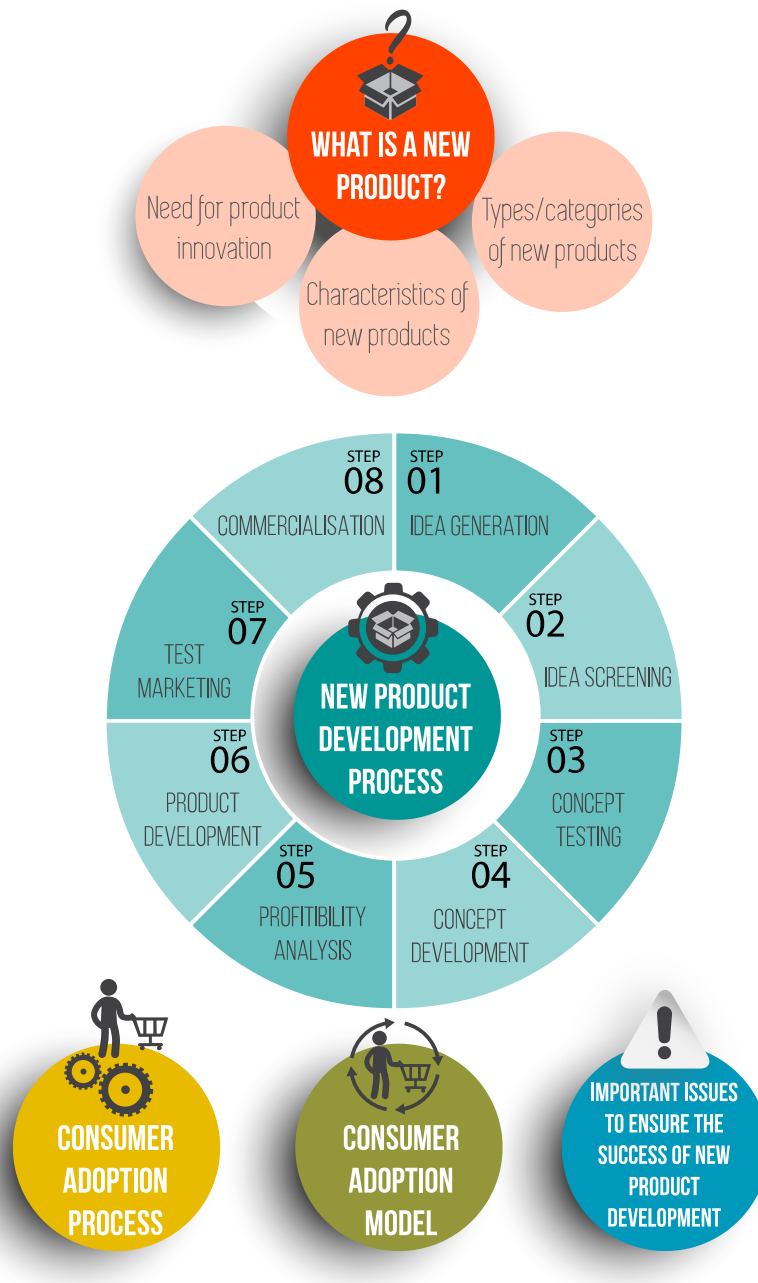
LEARNING OUTCOMES

AFTER STUDYING THIS CHAPTER, YOU SHOULD BE ABLE TO

- define what a new product is
- identify the elements that create a need for product innovation
- discuss the characteristics of a new product
- name and provide examples of types of new products
- discuss the product development process and its sequence
- identify important issues to ensure the success of new product development
- understand the consumer adoption process
- describe the consumer adoption model.

KEY CONCEPTS

- CONCEPT DEVELOPMENT
- CONCEPT TESTING
- IDEA MANAGEMENT
- NEW PRODUCT STRATEGIES
- NEW PRODUCTS
- POSITIONING
- PRODUCT DEVELOPMENT PROCESS
- PRODUCT IDEAS
- PRODUCT INNOVATION
- PRODUCT-MARKET FIT
- SCREENING



7.1 Introduction

In this chapter we are going to look at the development of new products in a company. We will identify how the need for new

products arises, what the characteristics of a new product are and what types of new product can be developed. The new **product development process** will then be discussed in detail showing what the company needs to manage when coming up with a new product idea and taking it all the way to commercialisation in the market. Finally we will consider how new products are accepted/adopted into the market by the consumer and outline important issues that ensure the success of new product development.

7.2 What is a new product?

A new product can be seen as any newcomer to the market. It can either be a completely new product that meets a new need of consumers, a new attribute of an existing product or a substitute for a current product. The most important characteristic is that the new product should be significantly different from existing competitors' products in order to be viable in the market.

7.2.1 The need for product innovation

There are various reasons why companies need to come up with new ideas for products. This can be anything from the changing landscape of the market all the way to increased competition in the market. Let's have a look at some of the changes that necessitate new product development:

- Changes in the market can necessitate that the company make changes to their current product or launch a new product. Changes in the market which can cause a need to adapt include the economic situation of consumers. For example, if the company is aware that consumers no longer have enough disposable income to purchase their product, it would be advisable to launch a smaller, more affordable pack or size.

- New competitors who launch new products that might create a new need among consumers can cause a company to create a similar product or a substitute. For example, once the first smartwatch was launched on the market, competitors of that product needed to re-evaluate their product offering and design something similar or better.
- Competitors providing equivalent or substitute products can cause a company to re-work their current product mix and modify their products to remain relevant. For example, a competitor launches a thicker variant of a lotion, which forces the company to change their own variant.
- New technology is being developed and invented almost daily. This makes it important for companies to review the products they have on offer regularly and identify possible changes or improvements that can be made. For example, the development of portable fingerprint technology forced cellphone manufacturers to modify their product design to incorporate a fingerprint scanner.
- Changing needs of consumers can often cause a company to make changes to their product offering to remain relevant in the market. For example, as consumers become more health conscious, a well-known bread manufacturer launches a low-calorie bread in the market.
- As consumers become more educated and are exposed to better communication, they tend to become more discerning and set higher expectations for the products they buy. For example, consumers might boycott a company that was exposed in the media for using unfair labour practices.

7.2.2 Characteristics of new products

In order for a product to be successful in the market, it is important that the product be seen by consumers as being of value and that they be willing to spend money to obtain it. Apart from willingness to part with their hard-earned cash, consumers need to be convinced to choose one particular product above others in the market. To minimise

the risk, there are five factors to which companies should pay attention in order to do this:

- 1 ➔ **Relative advantage.** Can consumers see the value in the product and are they willing to exchange the amount required to obtain the product? For example, do consumers see the value in paying R15.99 for a loaf of vitamin-enriched bread vs R12.99 for normal bread?
- 2 ➔ **Compatibility.** Can consumers see how the new product is compatible in the current market? If so, products are more likely to be accepted. For example, the new smartwatch launched on the market is compatible with consumers' smartphones and can be linked and data synchronised.
- 3 ➔ **Complexity.** How easily can consumers fully understand the product? This relates to the degree of difficulty associated with understanding the product. For example, how easy or difficult is it for consumers to understand the concept of a smart TV?
- 4 ➔ **Divisibility.** Will it be possible for consumers to test the product, or some of its functions, before making the final decision to accept or reject the product? For example, consumers can see how a television works in store before they purchase it.
- 5 ➔ **Communicability.** How difficult or easy is it to communicate the benefits of the product to the consumer? It is easier to communicate the core benefit of a product than the improved product benefits. For example, anti-wrinkle cream is normally advertised by focusing on the benefits to consumers, but it is not always possible to communicate longer-term benefits such as improved self-esteem.

New products can be categorised into different types by the market's perception as well as the perception of the company.

7.2.3 Types and categories of new products

New products can range from anything that is completely new to the world, such as a new invention, to something that enables a company to enter a new market category, to add-ons to a current product line such as a variant or new formulation, and finally to product improvements. We will now discuss these in more detail:

- *New-to-the-world products* are new inventions or new creations based on a combination of current products. An example of a new-to-the-world product is the smartwatch, which provides a solution to a new need in the market but combines the attributes of a smartphone, a pedometer and a wrist watch.
- *New to the category products* are those that are a new addition to a range the manufacturer already has. In many cases the marketer of the company is not familiar with marketing products in that specific category and would thus follow market competitors for cues on how to market those products successfully. An example of a new-to-the-category product is when a well-known manufacturer of soap and lotion adds shampoo to their product mix.
- *Line extensions* are the lengthening of the product line by adding a new flavour or size to the current market offering. Although the product is not completely new to the market, it is new to the company. An example of a line extension is when a company adds a new flavour of yoghurt or frozen yoghurt to the product line.
- *Repositioned products* can also be seen as new products. This is when a company takes an existing product and repositions it in a new market segment or finds a completely new target market. An example of a repositioned product is when a manufacturer of aftershave focuses their marketing efforts on younger consumers and rejuvenates a specific product.
- *Improved products* are better versions of current products on the market. In many cases changes in technology and consumer needs necessitate improvements in products. Examples of product improvements are the annual launches made by smartphone manufacturers with updated phones and software.

7.3 New product development process

The new product development process is structured in a funnel pattern, starting with a variety of new ideas funnelling all the way down to a [product fit for market](#). The process consists of eight steps, each of which need to be correctly completed for the next step to be successful. The steps in the new development process are as follows:

- **Step 1:** Idea generation
- **Step 2:** [Idea screening](#)
- **Step 3:** [Concept testing](#)
- **Step 4:** [Concept development](#)
- **Step 5:** Profitability analysis
- **Step 6:** Product development
- **Step 7:** Test marketing
- **Step 8:** Commercialisation

7.3.1 Step 1: Idea generation

The first step in the new product development process is to generate ideas. New ideas can come from a variety of internal and external sources, which can be anything from consumers to competitors. Let's have a look at these various sources and give some examples:

- **Consumers.** The ever-changing needs of consumers will force a company to look regularly at the products they have on offer and make sure that they are still meeting the needs of consumers. For example, a consumer suggests to a company that they need to add a full-cream yoghurt variant to the product line for children.
- **Employees.** As employees are the front line of contact with the consumer, they may be more aware of what consumers needs are and if they change. For example, an employee who is regularly

asked for a full-cream variant of children's yoghurt can suggest to the company that they add this to their product line.

- **Distributors.** As distributors are not always the distribution channel for just one company, they may be aware of changes in the market as well as consumers' needs. For example, a distributor of yoghurt informs the company that there is an increased need for full-cream yoghurt as their competitors, for whom they are also distributors, are selling a lot of that product.
- **Competitors.** Companies can, by looking at what the competition is doing, gauge changes in the market and new needs of consumers, and they can then make changes to their product mix accordingly. For example, if the manufacturer of yoghurt notices the competition launching a full-cream variant this may be an indication of a need in the market.
- **Research and development.** Many companies do ongoing research to keep in touch with what the market and its consumers want. For example, research conducted by the yoghurt manufacturer indicates that there is a need in the market for full-cream children's yoghurt.
- **External consultants.** A company can also use the services of external consultants to determine changing needs in the market. The company pays them to do research on their behalf. For example, a company hires a consultancy firm to do research and see if there is any emerging need in the yoghurt market.
- **Top management.** Decisions made on a strategic level by top management might create the need for new products to be developed. For example, the management of a yogurt-producing company makes a strategic decision to focus more on the children's market and thus a new product, full-cream yoghurt, will have to be developed.

Once a company has compiled a list of new product ideas it is important for the product manager to do idea screening to decide which ideas are worth investing time and money in to develop.

7.3.2 Step 2: Idea screening

The process of screening ideas is important as it will eliminate those which are not consistent with the strategy of the company or are not appropriate for the market. The elimination of inappropriate ideas will save the company time and money. Screening will take the attractiveness of a new product idea into consideration in both the short and the long term. Factors that should be taken into account include the company's competitive advantage, available resources, legal implications, technological feasibility, demand/need, competition, buyer behaviour, channel behaviour, marketability and profitability.

7.3.3 Step 3: Concept testing

During this step in the new development process, the product ideas which made it through the screening process need to be tested on the potential market. Concept testing is important as it aims to estimate the market's reaction to a new product before actual development takes place. Concept testing is done by focusing on two specific concept statements: core ideas and positioning statements. Firstly, core ideas will be presented to the market. These tend to be short general statements regarding the function of the product, designed to test whether the basic idea of the product is attractive and/or acceptable to the potential target market. Next is the positioning statement, which is aimed at the benefits of the product as well as the elements of the marketing mix. The positioning statement is tested to determine how consumers would react to the cull concept that they would be exposed to in the market. If the reactions of the potential consumers are not favourable, the elements of the marketing mix can be adapted and retested before a decision is made not to go ahead with the production of the new product.

7.3.4 Step 4: Concept development

As new product ideas have moved through the screening test and passed the concept testing phase, it is now time to develop the actual concept. The development of the concept will include all the product decisions that a company will have to make in order to develop a successful product. This includes decisions on product attributes

(features, quality, style and design), concept/offering (core benefit; basic, expected, augmented and potential product), classification (convenience, shopping or specialty products) and design decisions (branding, labelling and packaging). These elements will be discussed in detail in [Chapter 8](#).

7.3.5 Step 5: Profitability analysis

It is during this stage in the new product development process that the company needs to decide whether it will be profitable to add this new product to their product mix before they start mass producing it. Management will have to have a clear understanding of the product market potential, which will be based on calculations of production cost, demand, forecasted unit sales, marketing costs and incremental profitability. Unfortunately there is no one way to determine whether the launch of a new product will be profitable and thus it is suggested that companies use more than one method to make the best informed. There are various financial techniques companies can use for new product development. Two of the most common techniques are sales forecasting and breakeven analysis.

7.3.6 Step 6: Product development

During this step, the actual product will be produced for demonstration, trials, performance assessment and testing, and usage testing. This is called a prototype. Once the product has been produced, it can be put through a series of tests to determine whether it is ready for the market, for example:

- **Functional testing.** This can be conducted to ensure that the products perform as they should and that everything works safely and effectively.
- **Consumer testing.** This is done by actual consumers, who try out the product. Consumer testing can highlight changes that need to be made to the product before it is mass produced.

7.3.7 Step 7: Test marketing

Test marketing is the limited launch of a small number of products or the launch to a small number of outlets to test the product in the actual market. The main idea behind test marketing is to expose the consumer to the actual product in combination with the marketing effort and then use that experience to predict sales and profit from which marketing strategies can be developed. It is important to keep in mind that the product that is used in this step has already been through concept, functional and consumer testing. There are some important considerations when deciding whether to test market or not:

- Test marketing will give the competition access to the product, and they could poach the company's idea. If the competition is larger and able to copy and mass produce the product before the company can get to the market, significant losses might be suffered.
- The timing and duration of test marketing is important because various factors could impact trial purchases which may not be relevant to the product and provide skewed results. Examples include seasonality or luxury items, which may not sell as well during the middle to the end of the month.

7.3.8 Step 8: Commercialisation

The last step in the new product development process is commercialisation. This refers to the final full market launch of the completed product. There are two main ways in which a company can launch its product:

-  **Immediate national launch.** In this strategy, the product is available in all markets and outlets at the same time in one massive launch.
-  **Rolling launch.** This is done when the company gradually increases the number of outlets at which the products are made available, slowly moving towards national distribution.

7.4 Consumer adoption process

The consumer adoption process outlines the stages the product will go through in order for consumers to accept/adopt it. Marketers should also use these steps to identify which marketing objectives are to be set to achieve the next level of adoption. These steps are as follows:

- Awareness needs to be created in the market in order for consumers to find out that the new product exists.
- Interest and information is the next level of adoption. The company needs to spark the interest consumers so that they start looking for more information about the product.
- Evaluation occurs when consumers start seeking information on the product and comparing the product to the competitors' product or substitutes on the market.
- The trial stage is where the company wants consumers to be. If the company can get consumers to try the product, the benefits and attributes of the product should speak for themselves and repeat purchases will be made.
- Adoption is the stage at which consumers accept the product in the market. It has moved beyond the trial phase and regular customers purchase the product.
- Post-adoption behaviour can range from consumers becoming loyal to the product to being willing to recommend it to others.

We will now look at how the different levels in the consumer adoption process can impact on the decisions made by a marketing manager (see [Table 7.1](#)).

Table 7.1 Impact of levels of consumer adoption on marketing decisions

Level of adoption	Marketing objectives	Marketing strategies

Level of adoption	Marketing objectives	Marketing strategies
Awareness	Create awareness Increase visibility	Free samples In-store activation Penetration pricing strategy
Interest and information	Generate interest of consumers	Directing traffic to website Demonstrations of product
Evaluation	Communicate value Gain competitive advantage	Advertising that focuses on quality elements of the product
Trial stage	Increase trial purchases	Bundle pricing Bundle promotions
Adoption	Generate repeat purchases	Discounts on next purchase
Post-adoption behaviour	Build loyalty Generate referrals	Loyalty programmes Refer-a-friend promotions

7.5 Consumer adoption model

Consumers are categorised into five groups according to the rate at which they adopt a new product. It is important for marketers to know their target market and understand which of these categories are represented as this will influence the strategies followed during product development and marketing efforts. The five categories of adopters are as follows:

-  **Innovators.** This is the first 2.5 per cent of consumers who purchase the product and tend to be enthusiastic about technology.

- 2 ➔ **Early adopters.** This is the next 13.5 per cent of consumers who purchase the product. This group tends to be the opinion leaders of their local reference groups.
- 3 ➔ **Early majority.** This group is the next 34 per cent of consumers who purchase the product. Consumers in this category are cautious about new innovations and need more information before purchasing.
- 4 ➔ **Late majority.** The next 34 per cent of consumers to adopt the product are known as the late majority. They are traditionalists and are wary of progress.
- 5 ➔ **Laggards.** The last group of consumers to adopt a product are the final 16 per cent. This group makes decisions based on the past and are tradition bound.

Table 7.2 shows the different strategies that a company should use when dealing with each of these categories of adopters.

Table 7.2 Market strategies for different categories of adopters

Category	Main characteristic	Marketing strategies
Innovators	Like technology and new products	Focus on technology and exclusivity of new product, e.g. invitation to launch party of new product
Early adopters	Willing to buy new products, but only once established	Provide testimonials of product used by innovators, e.g. testimonials on TV of consumers already using the product
Early majority	Seek information about new products before purchasing	Provide information about the product and its attributes, e.g. demonstration of product information
Late majority	Purchase once product is accepted in the market	Focus on strong customer base in advertising, e.g. South Africa's largest network
Laggards	Only purchase once product is declining	No specific strategies, laggards will buy when they buy

7.6 Important issues to ensure the success of new product development

For a new product to be successful, companies must pay attention to the following:

- Defining the needs of their customers to be able to address them
- Making use of existing knowledge and resources in the development of a new product
- Screening and testing concept ideas before laying out the investment to develop and produce products
- Coordinating the research, development and marketing departments
- Having an organisational environment that is conducive to entrepreneurship and risk taking, which will help to generate ideas for new product developments
- Linking new product development to organisational goals.

7.7 Conclusion

In this chapter we examined the development of new products by a company. We discussed how the need for new products arises and the characteristics of a new product, and investigated the types of new product which could be developed. The new product development process was discussed in detail, showing what companies need to manage in order to come up with a new product idea and how they will take it all the way to commercialisation on the market. Finally, we discussed how new products are perceived when they are launched on the market, how they tend to be accepted and adopted by consumers, and looked at those factors that ensure the success of new product development.

DISCUSSION QUESTIONS

1. Define what is meant by a new product in your own words.
2. What are the elements that create a need for product innovation? Provide a smartphone manufacturer as an example of each.
3. Think about the latest product currently on the market: can you identify the characteristics that make it a new product?
4. Discuss the various types of new product than a company can develop. Provide an example of each.
5. If you are a company that is trying to compete with the latest smartwatch, how would you go through the new product development process to get a worthwhile substitute product on the market?
6. Discuss the factors that ensure the success of new product development.
7. Discuss how you as a consumer went through the different levels of the consumer adoption process when you first found out about virtual reality glasses.
8. Discuss the different categories of adopter in the consumer adoption model and identify a product you believe would suit each category.

RECOMMENDED READING

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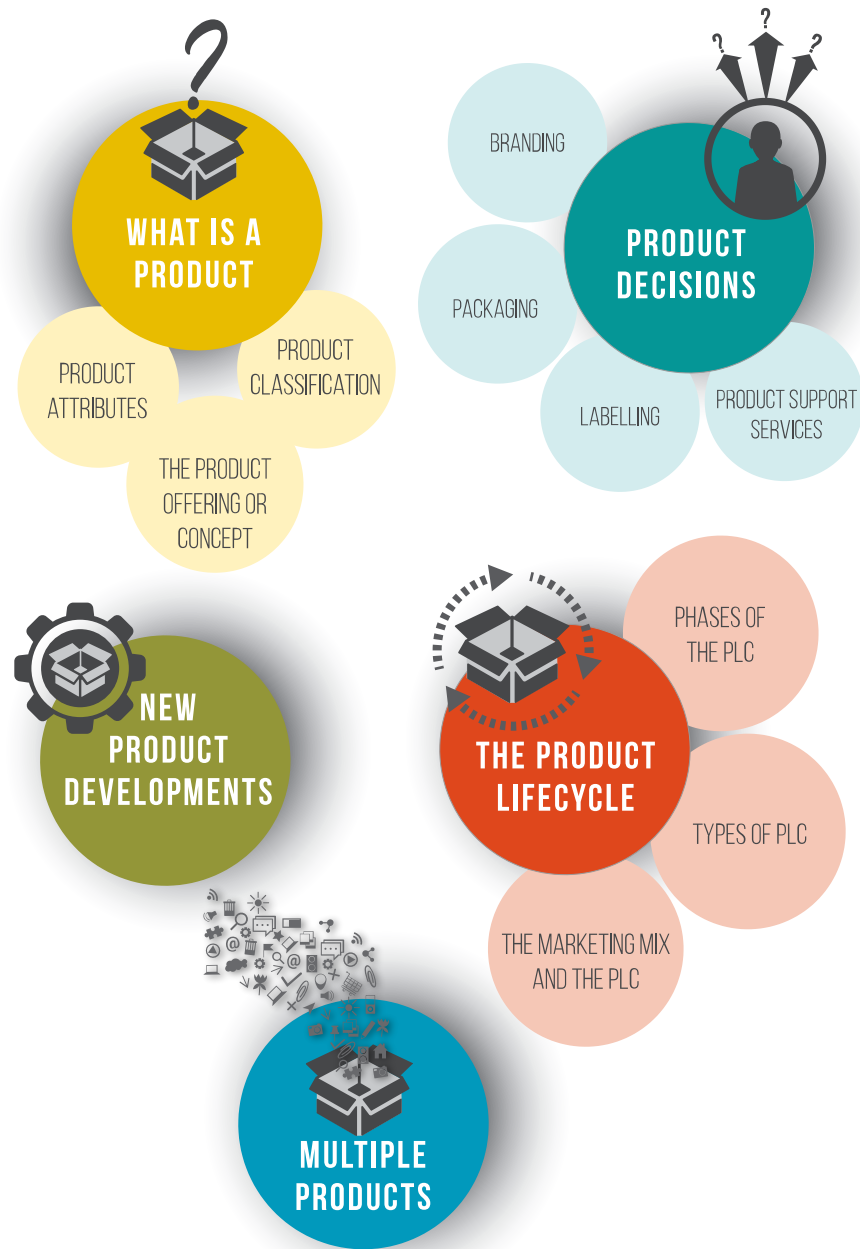
LEARNING OUTCOMES

AFTER STUDYING THIS CHAPTER, YOU SHOULD BE ABLE TO

- define the term “product”
- describe what is meant by the term “product offering”
- identify product attributes successfully
- identify the considerations for packaging and labelling
- illustrate the sequence of the product life cycle (PLC)
- identify strategies in the different phases of the PLC
- describe decisions to be taken and strategies to be used for multiple products.

KEY CONCEPTS

- BRANDING
- LABELLING
- NEW PRODUCT DEVELOPMENTS
- PACKAGING
- PRODUCT ATTRIBUTES
- PRODUCT CLASSIFICATIONS
- PRODUCT DECISIONS
- PRODUCT LIFE CYCLE
- PRODUCT OFFERING
- PRODUCTS
- SUPPORT SERVICES



8.1 Introduction

In this chapter we will look at the entire product offering of a company and all the elements that go into the product offering that need to be

investigated, in detail. A lot of strategy, planning and various decisions go into the successful implementation of a product. We will look first at what products are defined as and all the various elements that make up the product offering. Then we will explore the various product decisions that need to be made regarding product lines, branding, labelling and packaging. Finally, we will look at the product during its entire life cycle and the strategies that companies can follow to remain profitable.

8.2 What is a product?

A product is the offering that a company puts on the market for its customers to satisfy a need or a want. It is important for the product offering to be something that consumers see value in and are willing to exchange for, in most cases, money. Products provide consumers with specific benefits and are traditionally a combination of tangible and intangible attributes grouped together to create the value offering up for exchange. Products are normally associated solely with the physical item, but in many cases do also include a significant intangible service element (refer to [Chapter 9](#) on the marketing of services). They are not always in the form of a physical item that can be purchased and taken home, but can often be in the form of an idea or a service rendered – for example, going for a massage or having your car serviced. Some examples of products include smartphones, bread, yoghurt, ice cream, soft drinks and household appliances. Let's have a look at the product attributes that form part of the offering.

8.2.1 Product attributes

As mentioned above, the product offering is a combination of various elements that need to include and satisfy certain attributes. Product attributes should address the following elements:

- *Product features* should be designed in such a way that they should solve consumers' problems. In order for companies to achieve this they need to research the products that consumers currently use, what they use them for and what specific product features consumers want.
- The *quality of the product* offering should always be in line with the position of the product in the market and at the level required by the consumer. Support and aftersales service need to be on the same level as the quality.
- *Product style and design* should also match both the current standing of the product in the market and the image your company wishes to portray.

Let's look at these attributes in an example:

- **Product features.** Petroleum jelly is a product widely used in the market. A company selling petroleum jellies should keep in mind the various uses consumers may have for them. Consumers can use petroleum jellies for babies, as a lubricant around the house and in many cases it is also used similarly to moisturisers or body creams. Thus when developing the product the company needs to think of the various sizes of petroleum jelly that consumers would need to buy, based on the various uses; it could also have different scents to suit consumers who use it as a moisturiser as well as a mild variant for babies.
- **Quality of the product.** If your petroleum jelly is currently the leading product in the market, it should mirror this quality in the ingredients used. The petroleum jelly should be long lasting and priced accordingly. Consumers can sometimes feel that a product is too cheap to be of acceptable quality, but it can also be priced too high. Support services and aftersales service should be of a high standard if the product is first in its category.
- **Product style and design.** The style and design of your packaging should display the quality and level of your product. Packaging should be durable and communicate the same product values as the product inside.

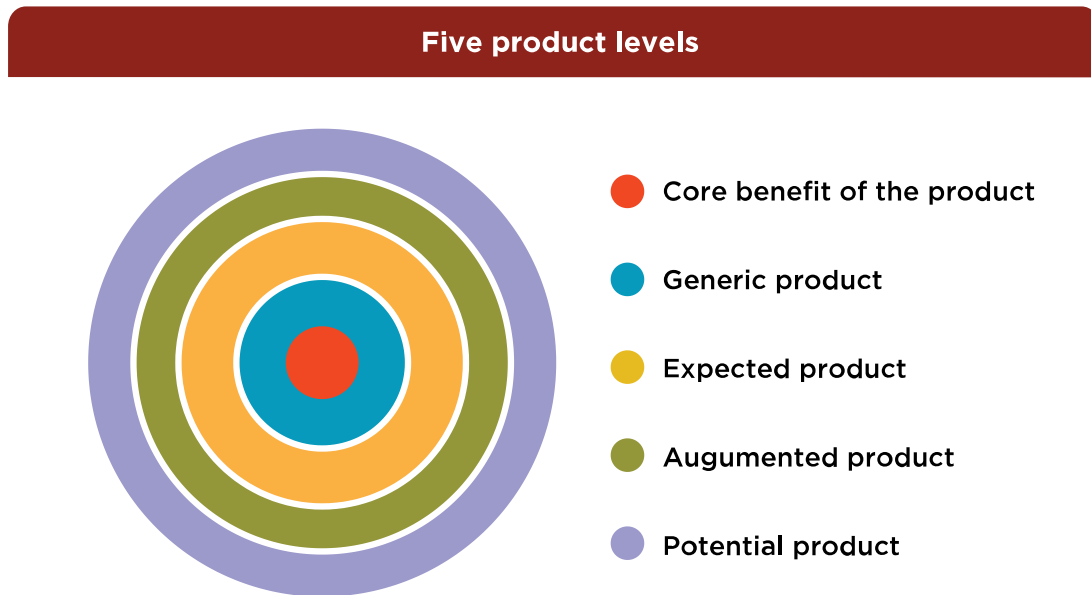
8.2.2 The product offering or concept

At the beginning of this chapter we discussed the product offering and all the various elements that make up the product offering that a company puts on the market. As a result of these combined elements, the product can be seen and experienced by consumers as more than one product. The “product concept” refers to the broad spectrum of tangible and intangible benefits that a consumer will gain from purchasing a product. This spectrum will range from the primary characteristics all the way through to the auxiliary functions a product serves.

The product concept consists of five product benefits (see [Figure 8.1](#)):

- 1 ➡ Core benefit
- 2 ➡ Generic (basic) product
- 3 ➡ Expected product
- 4 ➡ Augmented product
- 5 ➡ Potential product

Figure 8.1 The product concept: five product benefits



Source: Mulder (2012)

Table 8.1 shows a few examples of products to illustrate the product concept or offering.

Table 8.1 The product concept/offering defined with examples

Product element or layer	Definition	Car	Smartphone	Petroleum jelly
Core benefit	This is the fundamental service or benefit a consumer gains from the product once purchased. It addresses the need that the product satisfies.	Transport	Communication	Moisture

Product element or layer	Definition	Car	Smartphone	Petroleum jelly
Generic (basic) product	The actual product is represented here. It is the physical features which the product offers that make it unique: the design of the product, its branding and packaging.	Types of brakes Leather seats Air-conditioning	Camera, speed, battery life, memory	Thick jelly-like substance
Expected product	The set of attributes that is gained from the product as well as what the consumer would expect the product to have, or the service that the consumer expects the product to provide.	Safety features Fuel efficiency Working engine	Calling ability Functional camera Internet connectivity	Softened skin Protection from rashes Lubrication
Augmented product	These are elements that exceed the customer's expectations. They are added benefits that do not only satisfy, but also delight consumers and their experience with the product. They are also sometimes referred to as additional services and benefits.	Maintenance services Warranty Credit	Free software with phone	Long-lasting soft skin Being able to use less
Potential product	Potential improvements and future product launches which can be developed from the current product are found in this area.	Better fuel consumption	Faster connectivity Better speeds	As a base for another product, e.g. mixing it with a lotion

8.2.3 Product classification

Just as products and their benefits can be separated into various levels, so can the types of product that consumers use be divided into different classes. These classes are based on the level of decision making involved as well as the frequency with which purchases are made. The different classifications of consumer products include convenience, shopping and speciality products:

- *Convenience products* have a low level of involvement from consumers. They are considered staple products that employ minimal purchase effort from the consumer and may be an impulse purchase. They are purchased on a regular basis (occasionally on an emergency basis) and can be said to be relatively cheap or affordable. Examples of convenience products are chocolate, bread and milk.
- *Shopping products* exhibit a medium level of involvement from the consumer and the purchase decision is not made on the spur of the moment. Shopping products can be uniform or non-uniform. Uniform products are so similar in quality that comparison is made only on the basis of price differences, while non-uniform products have differentiated product features that are more important than price. Products in this class are compared during the purchase interaction based on suitability, quality, price and style. They can range from low prices to high prices. Examples include cosmetics, television sets and toothpaste.
- *Speciality products* are on the last level of product classification and have a high level of involvement from the consumer. Purchases in this class are often a result of brand loyalty or brand preference. Speciality products involve a special purchasing effort by the consumer due to products being unique with speciality attributes, expensive and seldom purchased. Examples of speciality products are a holiday, car or engagement ring.

8.3 Product decisions

Once a company has determined what the consumers want, what they will use the product for and what level of benefits they will receive from the product, various product decisions need to be made. At this point in the process, the company will have to make decisions on the physical design of the product.

8.3.1 Branding

One of the first and most important decisions that a company will have to make regarding the product is branding (see [Chapter 15](#) for a full discussion on branding). A *brand* is a unique design, sign, symbol, words, or a combination of these, employed in creating an image that identifies a product and differentiates it from its competitors. Definitions of branding should always emphasise that branding is not restricted just to names or the physical products, and that it confers a sustainable competitive advantage.

Brands can normally be identified based on the following:

- The brand name is normally the part that can be vocalised by consumers.
- A brand has a mark, symbol, design or distinctive colouring which cannot be vocalised but is recognised.
- The trade name is the legal name of the company, which can either be directly related to the brand or is in many cases not related.
- A trademark is a brand name, symbol or logo which is registered and thus protected by law from being used by competitors.

Characteristics of brands include the following:

- Brands play a significant role in the identification of a product and also make it possible for consumers to distinguish between competing products. For example, different brands of soft drink

have specific differentiating colours and branding, which could be blue with white writing vs red with white writing vs orange with blue writing, etc.

- A brand is a company's promise of consistency and performance. Based on previous performance and product quality, the brand itself will become the promise from the company pertaining to consistency and performance. For example, if a company consistently provides excellent service and high-quality products, its brand will be associated with good service and quality. Unfortunately, the reverse will also become true.
- A brand will be a company's reassurance of authenticity and performance. As new competitors enter the market, products might be faced with substitutes or even imitation products. A company's brand will stand as a sign of authenticity and quality assurance. For example, an imitation of a premium brand of watch might be launched onto the market at a significantly lower price, but the original branded watch will carry the quality assurances of the brand as well as prove authenticity.
- Lastly, the brand will be the company's indicator of certain properties and attributes for which the product will be known. For example, if a company is known for using organically sourced ingredients in production, the brand will provide a guarantee/indication that this will always be the case.

8.3.2 Packaging

Packaging is defined as actions taken by a company with regard to the design and creation of a container or holder for distributing and selling its products. It should be designed and created in such a way that it protects products during handling, storage and transportation, but also allows for effective identification and marketing. Having said this, the main aim of packaging is always protection.



Source: Shutterstock

Packaging serves the following functions:

- **Protection.** Packaging needs to provide protection for products in order for them to be safely and easily handled, stored and distributed. For example, the box that sweets come in keeps them all together in one place and prevents them being damaged or getting wet.
- **Reusability.** Packaging can be re-used by consumers as an alternative storage container. For example, empty margarine containers can be used to store household items like food or buttons.
- **Ease of use.** Packaging should be unique but should also be practical. It should be easy for consumers to carry, store, open, use and dispose of if not able to be re-used. For example, a bag of dog food may have a handle to make it easy to carry.
- **Communication.** Packaging can be a form of communicating the product image through its labelling, colour, brand name and display. For example, the colour of a can clearly indicates the brand of soft drink and distinguishes it from the competition.

- **Distribution.** Packaging needs to take into consideration the various members of the supply chain when designed; it should not hinder the process. For example, boxes of long-life milk should be easily stackable in the truck for distribution.
- **Product development.** During product development, new packaging can be a good type of innovation. For example, a yoghurt container's lid may be changed to make it more user friendly.
- **Differentiation.** Packaging can be a way for companies to differentiate their products from others on the shelves in stores. For example, the colouring of a box of washing powder clearly distinguishes it from the other brands, for example blue vs green.
- **Consumer affluence.** Well-designed packaging can influence consumers to pay more for convenience, appearance, dependability and prestige. For example, the consumer might decide to purchase one brand of all-purpose household cleaner rather than the competition's cleaner because the packaging looks more durable.
- **Market segmentation.** Packaging can also be a way of targeting products to specific segments based on design, colour, shape and size. For example, deodorant aimed at teenagers is branded in bright neon colours.

8.3.3 Labelling

Labelling is the final element of packaging. Labelling is the printed material that appears on the outside of product packaging. Product labels display product information, warnings, instructions and specific information as required by law. General information included on labelling contains weight/volume, barcode, name, price and contact information. Consumer demand has necessitated that more information be provided with regard to added or extra ingredients, nutritional information, environmental friendliness, improvements and grading of the product. In many cases labelling also promotes the product.

Labelling answers the following questions:

- Who made it?
- Where was it made?
- When was it made?
- What does it contain?
- How is it to be used?
- How can it be used safely?



Source: Shutterstock

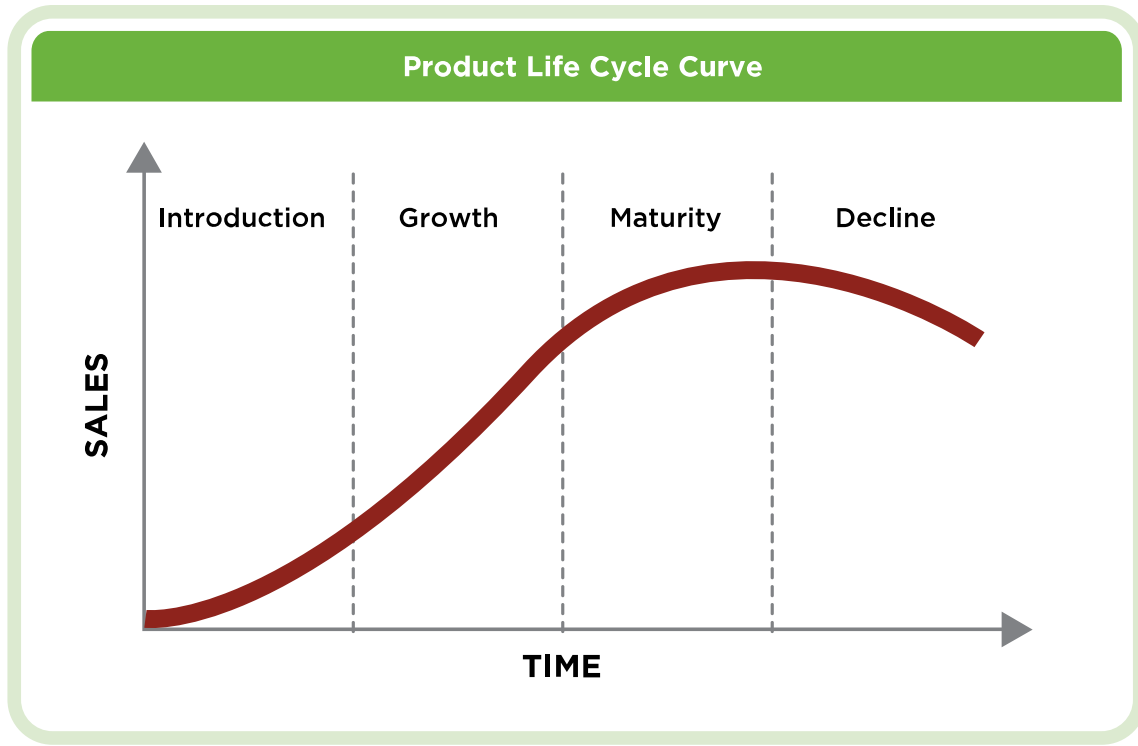
8.3.4 Product support services

It is as important to provide product support or aftersales service as it is to sell products to consumers. Consumers often need assistance with the products they have purchased, whether it is information on how to use or how to assemble them. As we discussed previously, good service can form part of the augmented product (see [Table 8.1](#)). In many cases, good service can differentiate a company from its competition and provide a marketing advantage.

8.4 The product life cycle

The product life cycle (PLC) represents the current status of a product. It is normally plotted on a chart based on sales figures and the time it has been in the market. The PLC can be seen in terms of a comparison between the life cycle of a human and the life cycle of a product as it enters and exits the market. Similar to people, products are born, they grow up, reach a level of maturity and eventually die or cease to exist. The PLC provides an explanation to companies of the changes that take place in the sales of a product as well as the changes that take place in its profit position, relative to competitors. The PLC is a tool for planning and analysis during the product management process as it provides a framework that companies can use to implement and evaluate strategies. It consists of four stages: introduction, growth, maturity and decline. See [Figure 8.2](#).

Figure 8.2 Product life cycle curve



8.4.1 Phases of the PLC

8.4.1.1 Phase 1: Introduction

A product will be in this phase of the PLC the first time it is placed on sale in the market. At the beginning, sales may be relatively small as the product will initially be purchased by only a small group of consumers. After approval by innovators (willing to try new products as they are launched), early adopters (willing to try new products based on recommendation of friends) will start purchasing the product. The satisfaction of these consumers, reinforced by marketing communication, will lead to repeat purchases, and sales will increase further. Examples of products currently in this phase could be smart TVs or 3D TVs.

8.4.1.2 Phase 2: Growth

Just as the name suggests, this phase is characterised by a strong growth in sales within the target market which is a result of the

repurchasing and trial purchases made by the early majority of consumers (those willing to purchase before the average consumer). It is normally during this stage of the PLC that competitors start entering the market. Subsequent to increased competition as well as competitors' marketing communication efforts, this gives further momentum to the demand for the product. An example of a product in the growth phase could be the increased competition for smartwatches in the market, as well as the increased demand for them.

8.4.1.3 Phase 3: Maturity

As soon as a product enters the maturity phase, growth and demand for the product tend to level off. The late majority (those who are sceptical of new products) is also already buying the product. However, relatively few consumers remain. Due to additional competitors entering the market, the company could introduce improved products which will subsequently attract the early adopters again and so on until market saturation is reached. Sales normally start to decline in this phase of the PLC, even though this is when the last consumers to adopt a new product will start buying it. Smartphones are a good example of products currently in the maturity phase as competition is extremely high, the market is saturated and only a few people still need or want to purchase them.

8.4.1.4 Phase 4: Decline

Finally, a product enters the decline phase. During this phase sales tend to decline rapidly as consumers have new needs that old products do not meet. Increased competition in the market now enjoys increasing acceptance. An example of a product currently in this phase could be normal cellphones without smart technology or data-accessing functions.

8.4.2 Types of PLC

As you might imagine and as you think about products that you use, it is impossible for all types of product to fall into this standardised

version of the PLC. Different products will move through the different phases at various speeds and in this way lead to different types of PLC.

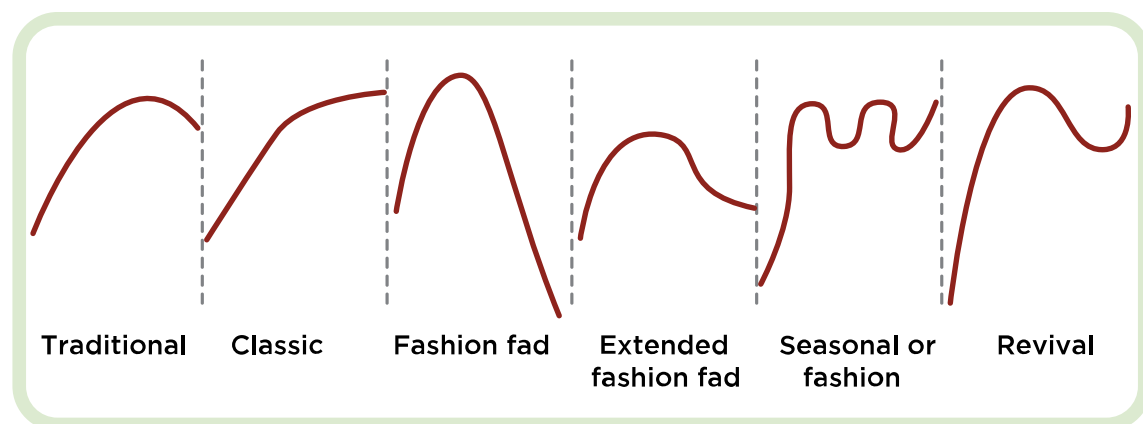
Let's have a look at the different types of PLC (illustrated in [Figure 8.3](#)):

- **Traditional.** Here the standard format of the PLC, as discussed previously, is followed where the product moves from introduction, growth and maturity, finally to decline. For example, CDs moved through the PLC at a normal rate and are now phasing out due to music becoming more digitally available.
- **Classic.** Within the classic PLC sales tend to surge during the growth phase but will level out as a result of sales stagnating due to a lack of new outlets or consumers. Basically, current consumers purchase the product but there are no new consumers buying it or no new markets to which it is being distributed. A gaming console and games are good examples of the classic PLC. Upon its inception, there was a boom in the market as people purchased the gaming console and games compatible with it. However, with newer versions of the console being released, demand for the previous version's games are stagnating and there is a lack of interest – new markets are not adopting them.
- **Fashion fad.** During this type of PLC, products gain popularity quickly and seem to lose it just as quickly. Products in this type of PLC tend to be products sold for a specific season. For example, a popular cellphone game based on a well-known animated comic series had huge popularity in the market and a significant number of consumers downloaded and played the game, but the popularity of this game has since declined. The decline happened almost as quickly as the initial adoption.
- **Extended fashion fad.** This is very similar to the fashion fad as products gain popularity quickly in the market, but the decrease in popularity does not happen so quickly. Sales tend to level out instead of decline completely. For example, American doughnuts in South Africa had a surge of purchases as the product entered the

market; although the demand has not yet declined drastically, these doughnuts are steadily losing popularity.

- **Seasonal or fashion.** This type of PLC refers to products that sell well during a specific season. However, this happens on a continuous basis and is not just a once-off as is the case with the fashion fad PLC. For example, the sales of Christmas decorations increase dramatically during November and December, but decline almost completely in January.
- **Revival.** Products can sometimes regain their popularity if the market can be revived. Products previously seen as old-fashioned could now be seen as retro or vintage. For example, there may be a demand for army jackets.
- **Fiasco.** Finally, the last type of PLC is called the fiasco as the product seems to be a failure right from the start. Products that follow this PLC do not move past the introductory phase.

Figure 8.3 The different types of PLC



8.4.3 The marketing mix and the PLC

It is necessary for a company to adapt its marketing mix depending on the phase of the PLC its products are currently in.

[Table 8.2](#) shows the different objectives and strategies of the marketing mix of a company as its products move through the PLC. It is

extremely important for companies to adapt their strategies throughout the different phases in an attempt to achieve the desired objectives.

Table 8.2 Application of the marketing mix and the PLC

	Introduction	Growth	Maturity	Decline
Objective	Create product awareness and generate trial purchases	Increase market share	Maximise sales while trying to maintain market share	No longer invest in the product while still trying to get some last profits
Product	Product development	Product improvements (small scale) and establishing the brand Specific action plan: • New features • Quality improvement	Further product improvements (bigger scale) Specific action plan: • Product modification • Repackaging • Co-branding	No investment in development or improvement Specific action plan: • Maintenance • Harvesting (make as much as you can) • Withdrawal
Place	Products can be tested in specific retailers	Distribution can be increased as product is adopted Specific action plan: • Distribution channel additions • New segments	Intense distribution Specific action plan: • Market modification	Distribution tends to be limited to areas of interest or loyalty

	Introduction	Growth	Maturity	Decline
Price	Skimming strategy can be used to establish value or penetration strategy can be used to generate trial purchases (discussed in Chapter 12 in detail)	This will depend on the chosen introductory strategy; a skimming strategy will become low prices and a penetration strategy will become higher prices	Price should be maintained at what loyal customers want	Prices can be lowered to generate sales
Promotion	Intensive advertising efforts to create awareness	Advertising will continue but can become less	Advertising is aimed at differentiation	Little to no investment in advertising, except for specific demand Specific action plan: • Rebranding • Repositioning

8.5 Multiple products

Companies usually do not have just one product on offer on the market but various different products, and thus decisions need to be made regarding the assortment of products. The selection of products a company has on offer on the market is referred to as a *product line*. These items are generally related to each other, sold to a similar target group and have similar price ranges. When a company makes decisions regarding the product line, various elements need to be taken into consideration; the considerations refer to the depth and the breadth

of a product line: the depth of a product line represents the number of variations of a product a company has on offer, while the breadth of a product line refers to how many different products a company has to offer. The depth of a product line is the number of different sizes or flavours available for a particular line, for example a specific brand of breakfast cereal being available in different-sized packages and various flavours. The breadth of a product line is the diversity within the line, for example a specific brand of breakfast cereal, including breakfast bars and breakfast drinks.

As we have seen above, as product(s) move through the phases of the PLC, changes in strategy will be needed. In many cases changes to the product line can be the solution to declining sales or lack of interest due to increased competition. There are four possible product line strategies that companies can use to compensate for such changes: line extensions, line pruning, brand leveraging and line retrenchment:

1 ➡ Line extensions. The product line can be lengthened by adding a new flavour or size to the current market offering. Line extensions will probably be made as a result of new or differentiated interest in the market. As a company sees different needs arise from the target market, it can implement such changes. For example, an ice cream company could add a larger tub to cater for families buying ice cream.

2 ➡ Line pruning. Certain variants can be removed from the product line, such as sizes or flavours. Line pruning or even culling would probably be applied to line items that are not performing well on the market. For example, an ice cream company could remove a specific flavour as it is not a good seller.

3 ➡ Brand leveraging. The product line can be broadened by adding a new product, using the same brand name. When a company has built a strong brand name and presence in the market, it can leverage that and introduce a new product which will, by association, carry similar quality and brand promises. For example, an ice cream company could add frozen yoghurt to its

market offering because of increased health consciousness in the market.

4 ➡ Line retrenchment. Whole products can be removed from the product line and not just sizes or variants. In some cases the brand name does not translate well into a new product category and then the entire product is removed from a company's product line. For example, an ice cream company could remove frozen yoghurt from its market offering because of implied unhealthy elements, due to the company being known for ice cream with a high sugar content.

Once a company has more than one product line in the market, this is known as a product mix. The product mix is the combination of all the products a company has available and has a specific width, length, depth and consistency. The width of the mix refers to the number of product lines a company has available (e.g. a company has a hair care line, lotion line, bath products line); the length is the total number of products available from a company (e.g. a company has 40 different products on the market, in different categories, variants etc.); the depth is the number of variants within a specific product line (e.g. a company offers full-cream, low-fat and fat-free yoghurts in various flavours); and, finally, consistency refers to how closely related the product lines are (e.g. a company has various products on the market but all are in the personal care category).

8.6 New product developments

Based on everything we have covered in this chapter, it is clear that various opportunities for new product developments will arise regularly, which will result in the development of new products. New product development was discussed in [Chapter 7](#).

8.7 Conclusion

In this chapter we have examined all the aspects relating to the product decisions a company needs to make in order to be successful. We looked at what products are defined as, as well as the features and attributes they may have. We discussed how products are not just the item the consumer buys, but that they also provide a variety of benefits to the consumer in the categories of core, generic or basic, expected, augmented and even potential. We saw how different products can be classified, and looked at the important product decisions companies need to make regarding branding, packaging, labelling and support services. Furthermore, we investigated how products move through the market via the product life cycle (PLC) from the introduction of a product all the way to its decline, as well as how marketing managers can cope with these life cycle changes. Finally, we considered what companies can do when they have more than one product on the market and saw how possibilities for new products can come into being. From what we have learnt, it is exceedingly important for marketing managers to be aware of all these elements and to incorporate them into their marketing strategies.

DISCUSSION QUESTIONS

- 1. Think of the smartphone you use and use the definition of a product to determine whether it can be defined as a “product”.**
- 2. Considering the term “product offering” and all the elements that form part of a product offering, discuss how a marketing manager would define the marketing objectives for each of the levels in the product offering, e.g. an objective focusing only on the core benefit, etc.**
- 3. Place the items in the list of consumer products below into the different classifications and justify your answer.**
 - a. Petroleum jelly
 - b. Body lotion

- c. Soft drinks
 - d. Sport utility vehicle (SUV)
 - e. Smart TV
 - f. Smartwatch
 - g. Facial wash
 - h. Flu medicine
- 4. Identify the product attributes of a can of baked beans.**
 - 5. Discuss how the branding decisions a company has to make have been implemented by the manufacturer of your favourite pair of trainers.**
 - 6. Look at the packaging of the washing powder you buy. Discuss the functions that the packaging serves and identify ways in which the packaging can be improved.**
 - 7. Conduct some research on the internet and find the South African legislation that applies to labels and what should be included.**
 - 8. Discuss how labelling can be used as a marketing tool.**
 - 9. Discuss the product line decisions available to a company and provide a practical example of each within the hair care industry.**
 - 10. Draw a diagram of the product life cycle (PLC).**
 - 11. A brand of breakfast cereal has a product that is currently in the maturity phase of the PLC. Assist the marketing and product managers by suggesting probable marketing objectives and outline how each element in the marketing mix will be influenced by this position on the PLC.**
 - 12. Have a look at the label of the most recent item you bought. Can you answer these six questions?**

Who made it?	What does it contain?
Where was it made?	How is it used?
When was it made?	How is it used safely?

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LEARNING OUTCOMES

AFTER STUDYING THIS CHAPTER, YOU SHOULD BE ABLE TO

- explain the importance of the services industry
- describe the nature and characteristics of services
- interpret and apply the extended services marketing mix
- distinguish between the people involved in service delivery
- determine the dimension of the physical environment.

KEY CONCEPTS

- INSEPARABILITY
- INTANGIBILITY
- NON-OWNERSHIP
- PERISHABILITY
- PHYSICAL EVIDENCE
- PROCESS
- VARIABILITY



9.1 Introduction

Services are a major part of any economy and contribute to a country's GDP, growth and employment. Services contribute 63.5 per cent of the

global wealth and consist of industries such as tourism, financial services, telecommunication services and education. Services are of great importance, particularly to emerging markets. In South Africa, the services sector contributed more than 65 per cent of the GDP in 2015, and more than 70 per cent to employment. In Nigeria, services contributed more than 54 per cent of the total GDP in 2015, and in Brazil, they contributed more than 75 per cent of the total GDP in 2015 (Statistics South Africa, 2015).

Given the size of the services sector in South Africa and across the world, it is therefore of great importance that marketers understand the sector and differentiate it from the market for and marketing of products.

9.2 Nature and characteristics of services

Services consist largely of acts or performances conducted by people or machinery, for customers and for a fee. The American Marketing Association defines services as “activities, benefits and satisfactions which are offered for sale or are provided in connection with the sale of goods”. Services do not result in the ownership of anything, unlike physical products. For example, when a customer buys fruit, the transaction results in the customer owning the fruit purchased. The customer can touch, smell, taste and see the fruit purchased and can walk away with the fruit. The same is not applicable to services. If the same customer purchases an insurance policy, he or she cannot touch, taste, feel or hear the policy. Although the customer is entitled to the benefits of the insurance policy, such as cash upon death, he does not physically own anything, nor can he physically take it home with him.

Services are unique and can be characterised as intangible, perishable, variable and inseparable, they don't result in ownership ([non-ownership](#)).

9.2.1 Intangibility

Intangibility refers to the idea that a customer cannot touch a service purchased. For example, a customer cannot touch education purchased from a university. The certificate after graduation is tangible evidence that the customer obtained a qualification, but it is not the actual service purchased. This makes services difficult to evaluate before purchasing. When purchasing sneakers (trainers), customers can touch the sneakers, try them on, compare various sneakers and see if they are exactly what they want before purchasing. However, evaluating services before purchase is difficult and marketers of services are required to rely on other tools and cues to convince customers that they should purchase the service from them.

Group discussion

How can marketers convince customers to purchase their services rather than those of competitors when customers cannot see and touch the services before purchase?

9.2.2 Perishability

Perishability refers to the idea that services cannot be stored for later. To explain this concept, let us think of Coca-Cola. During summer customers purchase higher quantities of Coca-Cola compared with winter. Therefore, the Coca-Cola company can produce lots of Coca-Cola during winter and store it in a warehouse in order to have enough stock during the peak season in summer. The same cannot be done for services. Let us consider a barber. During the low times, such as a weekday between 09:00 and 13:00, they may have few customers and barbers may be sitting idle. During peak times, such as on a Saturday between 10:00 and 15:00, there may be more customers than available barbers and they may have to turn some customers away. They cannot produce haircuts during low times to store and keep for peak times. This makes the marketing of services difficult as marketers need to consider how to shift demand from low times to peak times to ensure that they have a smooth demand throughout the week.

Group discussion

What would you recommend a barber to do in order to manage demand and ensure that he has enough customers and barbers at all times?

9.2.3 Variability

Variability refers to the idea that services may differ from one encounter to the next. When you go to the barber to get a haircut, one barber may be better than another. Or the same barber may take more care and produce a good-quality haircut in the morning, but may be tired by the end of the day and therefore start slacking. This is also known as “heterogeneity”, which means one service is likely to be different from the next because of the human element. This is generally not the same in products such as Coca-Cola, as the production is usually automated and has set standards and processes. It is therefore important for marketers of services to ensure that they develop standards of quality, employ the right people and provide training, as well as get constant feedback to ensure that customers are not disappointed.

9.2.4 Inseparability

Services production and consumption are **inseparable**. This means that a service is produced and consumed at the same time and one cannot separate the processes. Let us think of a can of Coca-Cola again. Coca-Cola is produced in a factory, then transported to a supermarket and only purchased by the customer some time after it has been produced. The customer may take the can of Coca-Cola and only drink it later in the day at home. The same cannot be said about services. A customer cannot purchase a haircut without physically being there to receive the haircut. A customer also cannot pre-purchase a haircut, take it home and use it later when his hair has grown too long. A customer can pre-pay for the haircut, but this is not the same as receiving the service.

9.2.5 Non-ownership

The last unique characteristic of services is that the purchase of a service does not result in ownership of anything. This is related to the idea that services are intangible. An example is when a customer purchases an airplane ticket from Johannesburg to Cape Town on Mango Airlines. The customer is entitled to a seat in the plane on the scheduled date and time, but does not own the seat or the plane. Service providers therefore need to highlight the experience the customer is purchasing and differentiate it from that of the competitors. South African Airlines (SAA), for example, communicates that a flight on SAA allows the customer to experience some warm South Africa hospitality.



Source: South African Airways

9.3 Managing services

Managing products requires careful consideration of the 4 Ps of marketing, namely product, price, place and promotion. Given the unique nature and characteristics of services, the traditional 4 Ps are not sufficient for fully developing a services marketing strategy. The 4 Ps are therefore extended by adding people, process and physical evidence to have 7 Ps of services marketing.

We begin with a brief review of the product, price, place and promotion in the context of services and then proceed to discuss the role of people, process and physical evidence. [Figure 9.1](#) illustrates the services marketing mix.

Figure 9.1 Services marketing mix



9.3.1 Product

The product is the core benefit a customer is paying for. This may include a process and some performance by people. What is important to note is that the core product in services is intangible. An example of a core product is a flight from Johannesburg to Cape Town on Mango Airlines. The core product is the flight from O.R. Tambo International

Airport to Cape Town International Airport. Service providers sometimes include additional tangible benefits to differentiate themselves from competitors. An example of this may be to book a flight with SAA instead of Mango Airlines because it includes tangible benefits such a complementary meal and drinks on the flight, as well as a free copy of the latest newspapers. In this example, the core product remains the flight itself, which is intangible.

9.3.2 Price

The pricing of services is complicated as costs are sometimes difficult to calculate. Tangible products are usually easy to price as the components of the product are easy to cost. For example, if you owned a bakery, the price of a cake would be based on the cost of the ingredients, plus a component of operating costs such as electricity and staff, as well as an additional mark-up for profit. The same cannot be said for services. How would you determine the price of a massage? What are the “ingredients” or costs related to providing a massage? Therefore the price of a massage may vary from establishment to establishment as many other components are considered in the pricing that differentiate the massage experiences.

Note that price is intended to be an indicator of quality and that even when price promotions are communicated, the quality of the services is not compromised.

flysaa.com

WORLD AIRLINE
WINNER
SKYTRAX
AWARDS 2015

Special **MAY** offer.

FLY AS LOW AS \$250*
BETWEEN ABUJA & JO'BURG THIS MONTH.

PROMOTIONAL FARE (EXCLUSIVE OF TAXES)
*Terms and conditions apply

SOUTH AFRICAN AIRWAYS
A STAR ALLIANCE MEMBER

» BOOK YOUR SEAT NOW!

Source: South African Airways

Group discussion

What components do you think a spa can add to differentiate its massage service from that of another spa in order to charge a higher price?

9.3.3 Place

Place refers to the location at which the service is delivered to the customer. In the marketing of products, place would refer to the shop at which a customer purchases a can of Coca-Cola, such as at a petrol station or Checkers. In the marketing of services, place becomes important as a differentiator. The location depends largely on factors such as proximity to customers, convenience, customer needs and popularity of location. A hotel in Johannesburg city centre and a hotel in Sandton city centre can be differentiated solely on location.

Group discussion

Look at the salons in the photos. What does the location (*only the location*) of each of these salons say about the service being offered?

Street salon – Cape Town



MIDORI Eco Salon – Sandton



Sources: http://www.streetphotographer.co.za/2013_05_01_archive.html;
<http://www.joziliciousblog.co.za/2013/04/hair-makeover-at-midori-eco-salon.html>

9.3.4 Promotion

The promotion of services is especially difficult due to their nature and characteristics. Service providers therefore need to be creative in how they communicate their services in comparison with those of competitors. The first thing that service providers need to ensure is that they have a strong brand that makes them stand out. Service providers can also make use of tangible cues that accompany the service. Sun International Hotels, for example, use celebrities, glitz and glamour to market themselves as more than just a hotel.

Group discussion

Compare the Sun International advert with the Road Lodge one to determine what each hotel is communicating.

Winners know when to stop. Gambling only for persons 18 years and older. Responsible Gambling Programme. Counselling Helpline +27 (21) 674 5830.



Source: Sun International



Source: Road Lodge

9.3.5 People

People are a major part of any service, given that people predominantly perform and provide the service. Services are inseparable from people, whether these are the people providing the service or the customers receiving the service. There are three types of people in the service experience: the first is the employee who provides the service; the second is the customer receiving the service; and the third is other customers of the service provider who may influence a service experience.

9.3.5.1 Employees

Employees are the most important people in the service experience. They represent the organisation and are part of delivering quality to the customer. It is therefore important to hire the right people for the right job. For example, some people are naturally friendly and customer oriented. These are the type of people an organisation needs to put in the public eye. They are the front-line, customer-facing employees, and their role is to interact with the customers. An example of a front-line employee is a waitress in a restaurant. Some employees may have the technical skills but not the people skills required. These people should generally be given “behind the scenes” roles, and they are referred to as back-office employees. In a restaurant, this may be the staff preparing the meals, cleaning the dishes or keeping records of transactions.

Service providers must also ensure that they train their employees. One of the biggest challenges with delivering services is the variability in the service experience. Different employees may deliver varying levels of service quality. This is where training comes into play. Service providers need to develop standards and then train their employees to meet the required levels of quality. For example, a hairstylist needs to be trained on how to colour hair, cut and trim, and deliver a variety of hairstyles. This may come naturally to one hairstylist, but another may need more help to ensure that customers are satisfied.

Service providers also need to reward high-performing employees. Rewards can be in the form of recognition, monetary rewards such as a performance bonus, or non-monetary rewards such as extra days off. This will result in improved employee morale and better service delivery. A great service begins with satisfied employees.

9.3.5.2 Customers

Customers receiving the service play an important role in the service experience as they are inseparable from this experience. Primarily, customers must be able to communicate the service they want. For example, a lady customer must be able to explain to a designer what

kind of wedding dress she wants. The better the customer is at describing her needs and wants, the better the designer will be able to interpret these in the form of a wedding dress. Customers also take part in the service delivery. For example, a customer signing up for a gym must do his part by eating healthily and visiting the gym regularly, as well as performing the right exercise in order to get the expected results.



Sources: <http://www.livelifactive.com/2014/05/28/10-things-not-to-do-at-the-gym;>
<https://za.pinterest.com/pin/28429041375527963>

9.3.5.3 Other customers

Other customers also play a big role in determining the service experienced. It is therefore important for service providers to determine who their target market is and to ensure that they communicate this clearly in order to attract the right customers and to limit any possible conflict.

Group discussion

How can other customers affect the service experience of a person in a restaurant setting?

It is therefore important for service companies to employ the right people to deliver the right service for customers to receive a good quality service experience.

9.3.6 Process

Process refers to how the service is delivered and includes the role of customers, employees and any service equipment and machinery. For example, the process for a customer buying a happy takeaway meal at McDonald's inside the store is as follows:

- Customer walks into restaurant and joins a queue.
- Customer places order with teller.
- Customer pays for order.
- Teller (front-line employee) inputs customer's order into system and sends it to the back office (kitchen) for preparation.
- Teller gives customer receipt.
- Teller prepares customer's drink.
- Back-office employee prepares meal and sends it to teller.
- Teller packs meal, drink and serviette into a bag and hands it over to customer.

This process could be more detailed or more simplified, depending on what companies see as being necessary to document. The process may also include time limits. For example, McDonald's has specific guidelines on how long it should take to take a customer's order, prepare the order and deliver it to the customer. It is therefore important that all the key players are aware of what function they fulfil in the service delivery and that all machinery and equipment, such as stoves, cash registers and computers, are fully functional. It is also important to note that the process would be different for a drive-through customer, and even more different for a customer ordering a sit-down meal at a high-end restaurant.

The service process cannot be separated from the service experience and service providers must therefore train their employees to deliver a service correctly, at the required level of quality, the first time around.

9.3.7 Physical evidence

The last of the 7 Ps of services is physical evidence. This refers to all the tangible clues that service providers use to communicate the type of establishment they are, the type of customer they are attracting and the level of quality they are aiming for. Physical evidence is categorised into three dimensions: ambient conditions, spatial [layout](#), and signs, symbols and artefacts.

9.3.7.1 *Ambient conditions*

“Ambient conditions” refers to how the service environment affects your senses. The sounds (music and noises), the lighting and colours, the temperature and the smells in the environment all affect customers.

Group discussion

Imagine you are at a restaurant. What ambient conditions do you expect in terms of noise? Would these differ between the Spur and Pigalle restaurants at the Michelangelo Towers in Sandton?

9.3.7.2 *Spatial layout*

The spatial layout refers to how the physical environment is arranged, for example the chairs and table in a restaurant and how close they are to each other, or the proximity of the kitchen to the guests. Some restaurants have open kitchens so customers can watch the chef prepare their meals as part of the service experience. Consider the desks and chairs in a lecture hall. Smaller venues may have desks in a circle to encourage conversation and interaction among students for a tutorial. A larger lecture hall may have rows of unmovable chairs and desks to encourage focus on the lecturer at the front.

Group discussion

Look at the two office spaces in the photos and determine what kind of working environment each is communicating.



Call centre cubicles



Google cubicles

Sources: http://gzflyinghorse.en.ec21.com/Call_Center_Cubicle-7596551_7596552.html; Google cubicles: Photo Copyright© Chris Silver Smith <http://silvery.com>

9.3.7.3 Signs, symbols and artefacts

The last dimension of the physical space is the signs, symbols and artefacts. These refer to the building itself, its design and interior decoration, as well as to signage such as directions to the reception and toilets, and to branding and logos. This also includes elements like the uniform worn by the staff and paintings hanging on the wall. A doctor's office may include a human skeleton and an advertising office may use creative posters on its walls to communicate the type of service it offers.

Group discussion

Look again at the salons in the photos in [section 9.3.3](#). What does the physical evidence of each of these salons say about the service being offered?

The people, process and physical evidence are important elements to consider when developing a services marketing mix and they allow service providers to differentiate themselves and communicate the type of service being provided. They also ensure that the company is able to deliver the service expected by the customer.

9.4 Conclusion

Services are different from products and therefore require different marketing. The nature and characteristics of services make it difficult for service providers to develop and differentiate their offerings. Service providers therefore need to ensure that they consider the services marketing mix in developing their strategy, specifically paying careful attention to the people, the process and the physical evidence.

DISCUSSION QUESTIONS

1. Why are services important to any economy?
2. Describe the nature of services.
3. What are the characteristics of services?
4. Provide an example of how each of these characteristics makes the marketing of services difficult.
5. What is the services marketing mix?
6. When purchasing a service, what is the product?
7. Discuss why the pricing of services is difficult.
8. Discuss the three types of people involved in a service experience.
9. Distinguish between front-line and back-office employees.
10. What role do employees play in service delivery?

11. How can service providers ensure that their employees provide good-quality service?
12. How can other customers influence a service experience positively?
13. How can other customers influence a service experience negatively?
14. What is meant by the process of service delivery?
15. Discuss the dimensions of the physical environment and give examples of each.

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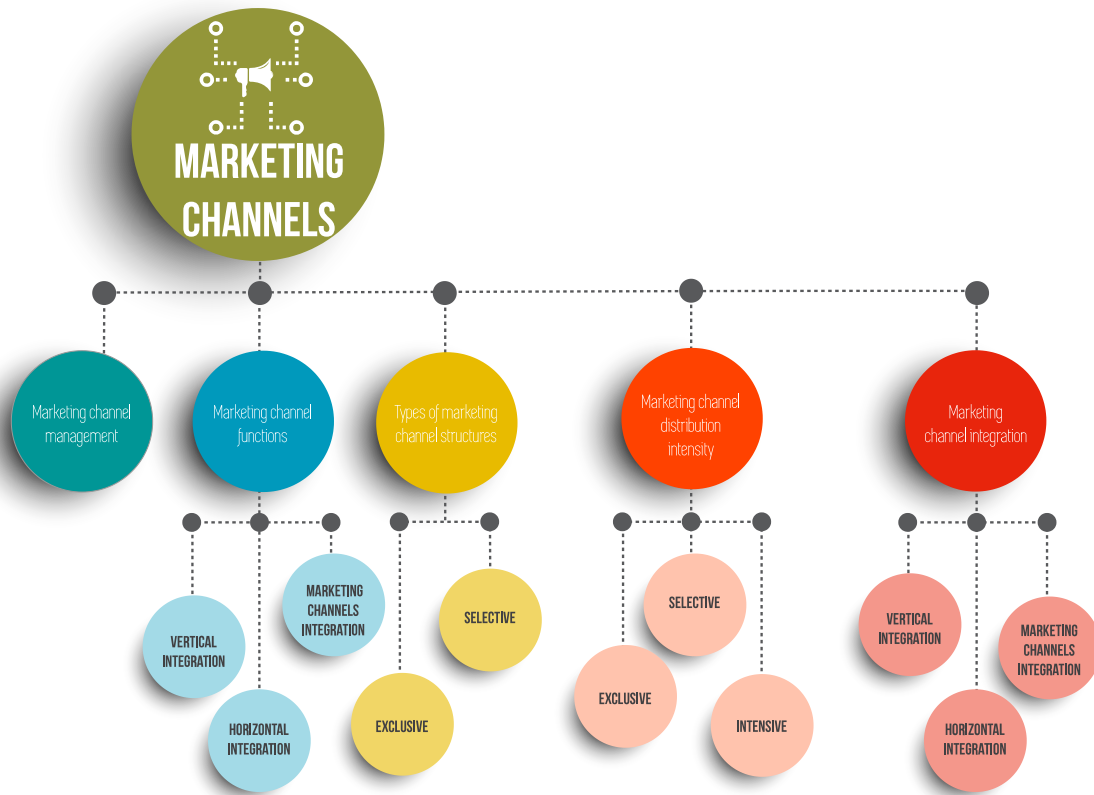
LEARNING OUTCOMES

AFTER STUDYING THIS CHAPTER, YOU SHOULD BE ABLE TO

- explain what a marketing channel is
- understand the functions of the marketing channel
- describe the different types marketing channel
- discuss the various marketing channel structures
- explain channel integration and systems
- outline channel management issues.

KEY CONCEPTS

- EXCLUSIVE DISTRIBUTION
- FACILITATING FUNCTIONS
- HORIZONTAL MARKETING SYSTEM
- INTENSIVE DISTRIBUTION
- LOGISTICAL FUNCTIONS
- MARKETING CHANNEL
- MARKETING CHANNEL STRUCTURE
- SELECTIVE DISTRIBUTION
- TRANSACTIONAL FUNCTIONS
- VERTICAL MARKETING SYSTEM



10.1 Introduction

The fourth “P” of marketing refers to “place”, which is also known as the distribution aspect. This chapter discusses the [marketing channel](#), also referred to as the channel of distribution, which ensures that the right product is available at the right place and at the right time (McDaniel, Lamb & Hair, 2013: 449).

The marketing channel is made up of channel intermediaries such as merchants, agents and facilitators (Elliot, Rundle-Thiele & Waller, 2014: 355). These channel intermediaries are considered to be useful if they can assist in ensuring that the goods reach the consumers more efficiently (Elliot et al., 2014: 355). For example, consider a farmer who is located in a rural area in South Africa: how would he get his

fresh produce to the consumer located in the city? The farmer could sell his produce at the side of the road near his farm, but traffic in the rural area could be low and it would be too far for consumers in the city to drive. The farmer could rather get an intermediary to assist with the pick-up and delivery of the produce to local produce stores in the city, thereby ensuring that the consumer can conveniently purchase the produce.

For a company to create something of value for consumers, they need to ensure value delivery by looking at marketing channels from the beginning to the end (Kotler & Keller, 2012: 224).

10.2 Physical distribution of goods

The physical distribution of goods can be performed by any member in the marketing channel (Elliot et al., 2014: 364). Final goods need to make their way to the end-user, and the following main activities are carried out in this process (Elliot et al., 2014: 364–369):

- **Order processing.** This refers to receiving, handling and filling a sales order. Order processing starts when the consumer or buyer places an order on the goods wanted, and once the quantity, price and delivery have been agreed upon, the availability of goods is confirmed before the purchase is completed. For example, Thembi is an interior decorator who is responsible for furnishing an office. She begins the order processing when she places an order for office chairs and tables. Once she has liaised with the company she is buying from on the price of the goods and the delivery, she finalises the order by confirming the quantity she needs.
- **Inventory management.** This refers to maintaining the right stock levels while keeping holding costs to a minimum. Companies need to have the right amount of stock because if they have too little they will encounter out-of-stock situations, and if they have too much it

will cost them money to store and insure the goods. For example, the above-mentioned company that supplies Thembi with office furniture needs to manage their inventory. They need to know how many office chairs and tables they usually sell and hold just enough stock to get them by. If the company did not have enough stock readily available and needed to make more chairs, Thembi could easily find another supplier if her order was needed within a specified time frame.

- **Warehousing.** This refers to storing and moving goods. Warehousing is an important aspect of inventory management as it allows companies to keep the right amount of stock readily available. The office furniture company would most likely have a small warehouse available to store their readymade chairs and tables, which could be at the same location as their office or another location.
- **Transportation.** This refers to actual movement and delivery of goods via road, rail, sea, air or pipelines. The use of various modes of transport is referred to as intermodal transportation, for example goods imported from overseas could either be shipped or flown in and then transported via trains and trucks to reach the warehouse. In the above-mentioned office furniture example, once Thembi has finalised her order, the company will then have to deliver the office chairs and tables to where Thembi specifies at the agreed time and date.

10.3 Marketing channels

Most producers do not sell goods directly to the final end-user (consumer or buyer), but rather make use of a network of interdependent channel intermediaries (Kotler & Keller, 2012: 224). Channel intermediaries are organisations that assist and participate in the distribution of goods to ensure that they reach the consumer

(Jobber & Ellis-Chadwick, 2013: 632). A marketing channel, in essence, is an organised system where products, resources, information, money and the ownership of goods move from the producer to the consumer (Ferrell & Hartline, 2011: 265). The aim of marketing channels is to add value for the consumer (Grewal & Levy, 2016: 494). In order to do this, producers form relationships with intermediaries who work together to ensure that consumers are able to acquire the goods in the most convenient way for them (Kotler & Armstrong, 2012: 365). Within marketing channels, there are generally organisations that excel in certain aspects that the others are unable to do as well (Ferrell & Hartline, 2011: 267). The producers (e.g. Dove soap) are superior at making goods that consumers want, whereas wholesalers (e.g. Makro) and retailers (e.g. Pick n Pay) tend to be better at selling the goods to the consumer, and facilitators (i.e. value logistics) that specialise in the transport or storage of goods would most likely be better equipped to do so.

The marketing channel used by a company has an influence on all other aspects of marketing (Kotler & Keller, 2012: 224). Marketing channels perform four key functions for a company (Boone & Kurtz, 2011: 417):

- 1 → They simplify the exchange process by reducing the number of contacts needed for the sale of goods. For example, a small shop owner could go to Makro to purchase stock for his store as they would most likely have a wide variety of goods, so the shop owner would not have to go to a number of different stores for the various goods he needs
- 2 → They sort the goods by regulating differences in the market's assortment of goods and services. For example, Pick n Pay offers a variety of different brands and lines of varying products. They have a variety of yoghurt brands, such as Danone, Gero, Fairview, Nutriday, Dairy Belle, Clover and Parmalat for instance, and each brand has different flavours and types of yoghurt.

- 3 ➡ They standardise the transactions by setting expectations for products and transfer processes. For example, products such as yoghurt have a shorter shelf life than pasta and can perish if not kept at the right temperature. Such products therefore have to be delivered more frequently and in refrigerator trucks to keep them cool in transit.
- 4 ➡ They bring together buyers and sellers. For example, agents link producers with wholesalers and retailers who stock their goods.

10.4 Marketing channel functions

Intermediaries within marketing channels perform a variety of functions which make the lives of the end-user easier by assisting with the process of moving goods from the producer to the supplier (Ferrell & Hartline, 2011: 266). As illustrated in [Figure 10.1](#), there are three main groups of intermediaries, namely merchants, agents and facilitators (Kotler & Keller, 2012: 229). Merchants such as wholesalers (e.g. Makro) and retailers (e.g. Spar, Pick n Pay, Checkers) generally buy and take ownership of goods for resale (Kotler & Keller, 2012: 229). For example, Makro buys OMO washing powder and takes physical ownership of the goods and usually stores the goods in their warehouses or makes them available in store. Agents such as brokers and buying and selling representatives do not take ownership of the goods, but rather search for buyers and sellers to negotiate a sale (Kotler & Keller, 2012: 229). For example, a real estate agent does not take ownership of the property for sale, but finds buyers who are interested in the property. Similarly, facilitators also do not take ownership of the goods or negotiate sales, but rather perform other marketing functions such transporting, warehousing and advertising the goods (Kotler & Keller, 2012: 229), for example an advertising agency responsible for developing a campaign for the goods or a

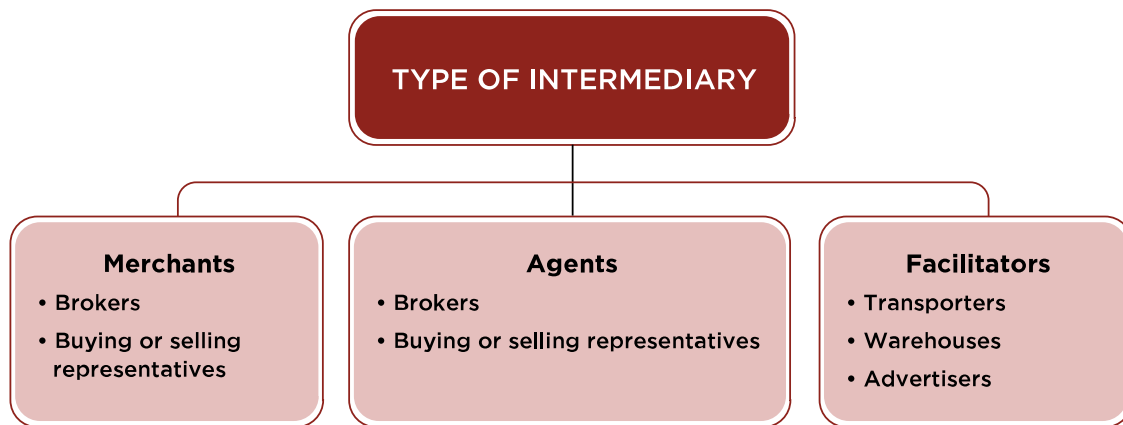
logistics company responsible for delivering the goods ordered to the end-users.

Having differentiated between the different types of marketing intermediary, we will now discuss the functions performed within the marketing channel. Marketing channel intermediaries generally specialise in one or more of the following functions; however, it is highly unlikely that they are able to do all of them (Ferrell & Hartline, 2011: 267). Three main types of function are typically performed by marketing channel intermediaries (McDaniel et al., 2013: 454):

- **Transactional functions.** These include contacting potential buyers and promoting goods to them and trying to make a sale, negotiating the purchase of the goods, and taking the risk of owning the goods. Transactional functions in essence deal with the exchange of the goods between the seller and the buyer or consumer. These functions are generally done by merchants and agents. For example, Nourish with Love produces food that does not contain preservatives and additives. Transactional functions by Nourish with Love would be to contact various retailers such as Spar or health shops to stock their products. The retailers would then stock the goods and might include the items in their brochures or put up posters to promote Nourish with Love products to consumers.
- **Logistical functions.** These include distributing the goods, maintaining inventories, storing the goods, sorting the goods in bulk breaking and grouping similar goods together. Depending on the organisations, these functions are generally done by the merchants and facilitators. For example, the retailers would have to keep track of how much Nourish with Love products they have on the shelves and in their warehouse and how much they sell. On the other hand, health shops could make use of transporters to deliver the varying ranges of goods that they stock.
- **Facilitating functions.** These include doing research on buyers and consumers, and providing financing to channel intermediaries. For example, an advertising agency responsible for promoting Nourish

with Love products would have to do research on the market and their target market in order develop an effective marketing strategy.

Figure 10.1 Types of intermediary



Source: Adapted from theory Kotler and Keller (2012: 229)

10.5 Types of marketing channel structures

Producers can make use of either direct or indirect channels for the goods to reach the end-users. It is important for companies to evaluate the different channel structures available to ensure that the best ones are used to reach their consumers or buyers. There are three main factors that influence the decision as to which channel to use:

- ➡ *Product characteristics*, such as whether the goods are standardised or customised. Consumers or buyers wanting customised products would most likely work directly with the producer or through an agent as they are better able to communicate the specifications that they want. For example, an amputee who needs a prosthetic limb would deal directly with the producer to ensure that the limb was made specifically to fit his or her body. On the other hand, a standardised product such a toothbrush or a vacuum cleaner would probably be distributed

through indirect channels because it does not need to be specific.

2 ➔ *Consumer or buyer considerations*, such as how often the goods are purchased and how long they are willing to wait for the goods. Consumers or buyers who are willing to wait for the delivery of goods would most like purchase directly from the producer or agent. However, those that urgently need goods that they do not usually purchase would most likely buy from a retailer, wholesaler or distributor who stocks the goods. For example, Thandi is getting married and would like to decorate the wedding venue with a lot of candles. If she planned in advance, she could order directly from the producer to specifically make the type and quantity of candles she wants and wait for them. On the other hand, if she did not have enough time to wait for them, she could go to a retail store to buy what they have in stock.

3 ➔ *Market characteristics*, such as how many consumers or buyers are in the market and where they are situated. Consumers or buyers who are in many different locations may buy directly from the producer or from retailers, wholesalers or distributors (McDaniel et al., 2013: 453–454). For example, Giordano is a Hong Kong-based retailer not available in South Africa, therefore if the consumer wants their goods he would have to buy directly from their online site. On the other hand, Nike is available in a number of different retail outlets in South Africa, which allows the consumer to buy from them.

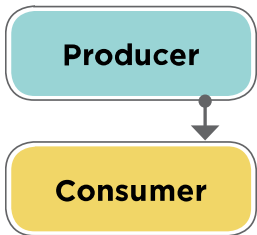
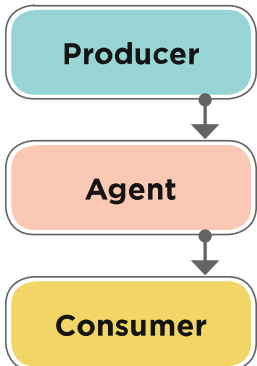
It is common for some companies to make use of several channels to distribute their goods (Jobber & Chadwick, 2013: 636). For instance, with the growing trend of shopping online, more producers are selling goods via the internet directly to their consumers while still making use of retailers (Jobber & Chadwick, 2013: 636). Either way, it is important that companies exploit the benefits that each channel has to offer (Jobber & Chadwick, 2013: 636). [Section 10.5.1](#) explains how intermediaries in the consumer market and the business market differ.

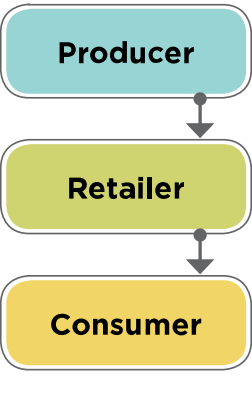
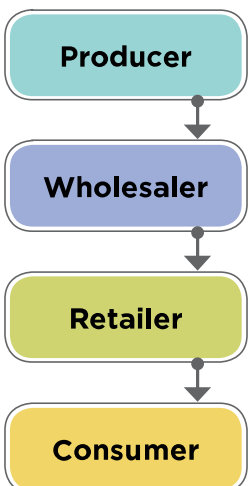
There could be other combinations of marketing channels, but the most common ones are discussed below.

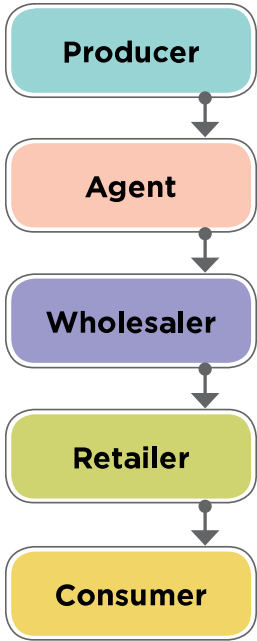
10.5.1 Consumer market

The main combinations of channels in the consumer market are discussed in [Table 10.1](#).

Table 10.1 Main channel combinations in the consumer market

Channel	Explanation
 <pre> graph TD P[Producer] --> C[Consumer] </pre>	Recently, this direct channel has increased in popularity and is expected to grow as more and more consumers are using the internet to conduct research and buy goods from the producer instead of an intermediary. This is the simplest channel, where the producer deals directly with the consumer. Examples include telemarketing, catalogue shopping or online shopping. This approach is generally used for service products and for goods that require extensive demonstrations to persuade the consumer to buy. For example, in terms of a service product, a passenger travelling from South Africa to Dubai could choose to fly with Emirates. In this scenario, Emirates can be considered as the producer of a service product and the consumer buying the flight tickets from Emirates' website would be the direct channel. When using this channel, producers not only need to ensure that they can produce the goods but also that they are able to deal directly with the consumers, effectively distribute the goods to them and be wary of other intermediaries' reactions to bypassing them and selling directly to the consumer.
 <pre> graph TD P[Producer] --> A[Agent] A --> C[Consumer] </pre>	In this distribution channel, the producer provides the goods to the consumer through an agent. This approach is generally used in the finance industry, for example if you wanted to purchase life insurance and a retirement annuity plan from Discovery, you would most likely work with a broker to determine the best package for yourself.

Channel	Explanation
 <pre> graph TD A[Producer] --> B[Retailer] B --> C[Consumer] </pre>	In this distribution channel, the producer provides the goods through retailers to the consumers. Relating to the previous example of Emirates airlines, the retailer could be a travel agency such as Flight Centre through which consumers are able to purchase their flight tickets. Well-established retailers generally prefer using this channel and dealing directly with the producer because they can buy large quantities without having to deal with wholesalers. Due to the growth of the retailers' base, it has also become more economical for producers to sell directly to retailers. On the other hand, consumers prefer this channel because they feel that retailers offer more personalised service than producers.
 <pre> graph TD A[Producer] --> B[Wholesaler] B --> C[Retailer] C --> D[Consumer] </pre>	In this distribution channel, the goods go through wholesalers and retailers before reaching the consumers. This channel is generally used for goods that are sold in large quantities by a variety of retailers. The wholesaler buys in large quantities from the producer and then breaks the goods into smaller quantities for the retailers. An example of this would be Sir Juice, who produces a variety of different flavoured juices and supplies for Makro, who then sells to convenience stores such as spaza shops and cafés. This channel allows the producer to work with a smaller number of buyers (manufacturers/producers), making distribution easier to manage. The retailer is also able to buy a wide range of goods from one supplier, for example a spaza shop owner could also purchase an assortment of cold drinks, chips and sweets from Makro and make one trip to the store instead of making several journeys to different sources. This channel therefore makes more economical sense for smaller retailers.

Channel	Explanation
 <pre> graph TD Producer[Producer] --> Agent[Agent] Agent --> Wholesaler[Wholesaler] Wholesaler --> Retailer[Retailer] Retailer --> Consumer[Consumer] </pre>	This is the longest distribution channel, where the producer's goods go through an agent, a wholesaler and a retailer before reaching the consumer. This channel is generally used for export or mass-marketed goods where agents are better at selling to wholesalers who have a greater understanding of the different cultures, legalities and regulations regarding the consumer. This channel is also used in markets where there are many producers and wholesalers who do not have sufficient resources to find each other, and an agent brings the two together. For example, if Sun-Moon Lake black tea, which is produced in Taiwan, wanted to enter the South African market, which the company is not familiar with, they would most likely involve an agent who understands the import regulations of South Africa, and knows the South African tea market and which merchants should be contacted to stock the goods.

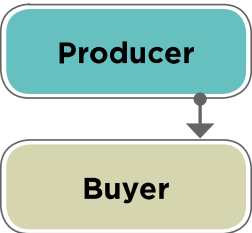
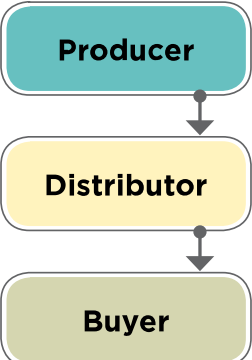
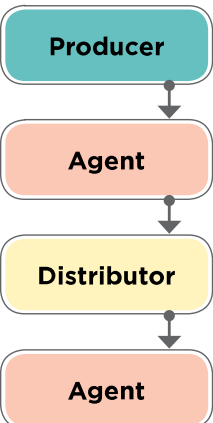
Source: Elliot et al. (2014: 357–359); Jobber and Chadwick (2013: 635–636); Boone and Kurtz (2011: 419); McDaniel et al. (2013: 456–457)

10.5.2 Business-to-business market

In business-to-business (B2B) markets, producers sell goods to other businesses in order to make other goods or to run their business (Elliot et al., 2014: 359). The main channel members in the business market are producers, agents, distributors and buyers. Similar to the consumer market, there are both direct and indirect channels that can be used to reach the buyer. These will now be discussed in [Table 10.2](#).

Table 10.2 Main channel combinations in the B2B market

Channel	Explanation

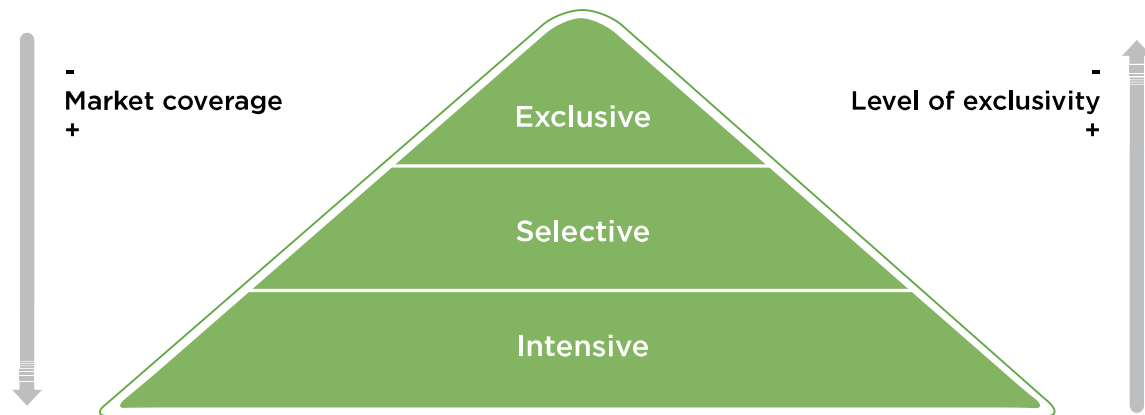
Channel	Explanation
 <pre> graph TD Producer[Producer] --> Buyer[Buyer] </pre>	This channel is the most commonly used in business-to-business transactions. Due to the fact that goods purchased are generally crucial for businesses to run smoothly, buyers want to work directly with producers to ensure that they have direct access to what is required. There needs to be direct contact between the producer and the buyer in order to ensure that issues are resolved as efficiently as possible. An example is Business Card Printing, a company that designs and prints business cards. The buyer is therefore Business Card Printing, who purchases paper directly from a producer such as Sappi, who produces paper.
 <pre> graph TD Producer[Producer] --> Distributor[Distributor] Distributor --> Buyer[Buyer] </pre>	In this distribution channel, the goods go through a distributor before reaching the buyer. Distributors play a similar role to buyers as a retailer does to a consumer. This channel is generally used for less expensive goods sold in large quantities. For example, a farmer who grows olives and makes olive oil may get a distributor involved. This distributor would be responsible for delivering the olive oil to all Food Lovers Markets around South Africa.
 <pre> graph TD Producer[Producer] --> Agent1[Agent] Agent1 --> Distributor[Distributor] Distributor --> Agent2[Agent] </pre>	This channel is used by producers who prefer to use agents when they do not have sufficient resources and when buyers prefer to deal with distributors instead of agents. For example, a small producer that just entered the market may use an agent, Tshidi, who is specialised in the high-end decorating market. Instead of dealing directly with the buyer, Tshidi would then find distributors to sell the product as his customer base might not be as comprehensive as the distributor's. Depending on the agreement within the marketing channel, distributors can either work with various non-competing producers or only one producer.

Source: Elliot et al. (2014: 360); Jobber and Ellis-Chadwick (2013: 637–638); Marketing Donut (2017); Treadwell (2017)

10.6 Marketing channel distribution intensity

When it comes to the distribution of goods to consumers, there are three basic options based on the market coverage and level of exclusivity (Ferrell & Hartline, 2011: 270). As illustrated in [Figure 10.2](#), it is clear that the intensive distribution channel has a large market coverage and the least amount of exclusivity. However, [exclusive distribution](#) conversely has the smallest market coverage and the most exclusivity. This type of channel distribution intensity system will now be discussed.

Figure 10.2 Channel distribution market coverage and level of exclusivity



10.6.1 Exclusive distribution system

The exclusive distribution system only allows goods to be accessible to consumers at a limited number of locations. The aim is to create the image of exclusivity and prestige (Clow & Baack, 2010: 331). Exclusive distribution is the most restrictive system when it comes to market coverage as the company generally only gives one outlet the sole right to sell the goods within a specific geographical location (Ferrell & Hartline, 2011: 270). This distribution system is generally used for prestigious goods or industrial products that are targeted at a specific market segment that is willing and able to search and travel in order to purchase the goods (Ferrell & Hartline, 2011: 270). By using the exclusive distribution system, the marketing costs are limited as the

company only deals with a handful of accounts (Boone & Kurtz, 2011: 425). For example, Brown's Jewellery only sells their goods in their own branded store and there are a limited number of stores in each province. Another example is Louis Vuitton, who also only sells their products in their own branded stores, of which there are a limited number in South Africa.

10.6.2 Selective distribution system

The selective distribution system is the middle ground between intensive and exclusive distribution, which ensures that goods are available at selected locations (Clow & Baack, 2010: 331). **Selective distribution** allows a few outlets to sell the goods within a specific geographical location (Ferrell & Hartline, 2011: 270). This distribution channel is generally used for goods such as clothing, cosmetics and electronics (Ferrell & Hartline, 2011: 270). For example, Forever New ladies' clothing can be purchased from their own branded store or from other selected stores such as Edgars. Another example is FitBit fitness trackers, which are available from selected stores such as Cellucity, Dion Wired, Incredible Connection and Sportsman's Warehouse. A selective distribution channel and working only with a few stores could reduce marketing costs and form strong relationships within the channel (Boone & Kurtz, 2011: 425).

10.6.3 Intensive distribution system

The intensive distribution system enables goods to be accessible to consumers in as many locations as possible. The aim is to ensure full market coverage (Clow & Baack, 2010: 331). Intensive distribution makes the goods available from the maximum number of merchants to get as much exposure and sales as possible (Ferrell & Hartline, 2011: 270). This distribution system is generally used for convenience, mass-market products such as foods, toiletries and beverages, where consumers have a number of competing brands to choose from (Jobber & Ellis-Chadwick, 2013: 640). For example, if you want to buy bread, you will notice that there are a variety of brands to choose from, such as Albany, Blue Ribbon, Futurelife, Sasko and Sunbake. These makes of bread are available at various retailers such as Spar, Pick n Pay,

Shoprite and even petrol stations and local convenience stores such as spaza shops and cafes. The intensive distribution system is usually used when the goods appeal to various different groups of consumers (Boone & Kurtz, 2011: 425).

10.7 Marketing channel integration and systems

Channel integration occurs when certain responsibilities and obligations are redistributed among the different channel members (Elliot et al., 2014: 360). Channel integration aims to develop a smooth channel network of all channel members to allow the effective flow of information and goods and services (Ferrell & Hartline, 2011: 272). The three Cs of successful channel integration are as follows (Ferrell & Hartline, 2011: 272):

- **Connectivity.** Having the relevant information and technology tools to ensure that channel members have real-time information
 - **Community.** Ensuring that all channel members have similar goals and objectives and are willing to work together to achieve them
 - **Collaboration.** Understanding that team work is needed to ensure that all members will succeed and be stronger by working together
- Channel integration can be either vertical or horizontal.

10.7.1 Vertical marketing systems

Vertical marketing systems occur when wholesalers and retailers act as one unified system where one member has power over the others (Kotler & Armstrong, 2012: 369). Vertical marketing systems in essence involve partial ownership by one channel member (Clow & Baack, 2010: 318). Vertical channel integration can either move forwards or backwards. Forward vertical integration occurs when the producer decides to use his own distribution system or own his own

stores. For example, Samsung used to sell their home appliances through other wholesalers and retailers such as Makro and Game only, but now have their own store which stocks a variety of their own products. On the other hand, backward vertical integration occurs when the retailer decides to use his own distribution system or begins to produce his own products to sell. Examples are Woolworths producing their Studio W homewear line or Checkers producing its no name brand.

10.7.2 Horizontal marketing systems

Horizontal marketing systems occur when two or more organisations at the same level work together and combine resources in order to exploit opportunities, or when one company buys the competitor on the sale level (Kotler & Armstrong, 2012: 372). By doing so, the two organisations become stronger (Clow & Baack, 2010: 318). Horizontal marketing systems can occur through mergers or acquisitions (Jurevicius, 2013). Mergers occur when the companies amalgamate, and acquisition occurs when the one company buys the other (Jurevicius, 2013). For example, when Facebook bought Instagram, both were on the same level and after the acquisition, Facebook became stronger and grew and gained access to a larger market (Tarver, 2015).

10.7.3 Integrating multichannel marketing systems

Multichannel marketing systems occur when a channel member uses two or more different marketing channel structures (Kotler & Keller, 2012: 224). Consumers nowadays expect multichannel integration so that they can purchase goods online, return goods at the nearest store and receive promotional offers on all purchases made through different structures (Kotler & Keller, 2012: 224). Multichannel marketing has the benefits of increased market coverage, possible lower channel costs and more customised selling (Kotler & Keller, 2012: 233). For example, Garmin produces a variety of goods such as GPS and fitness trackers. Their products are available from wholesalers such as Makro, retailers such as Incredible Connection and Takealot, and they also sell the products online via their website.

10.8 Marketing channel management

To ensure that the marketing channel is of value, channel members should aim for synergy, which entails the whole channel being better than the sum of all the channel members (Ferrell & Hartline, 2011: 272). In order to create synergy, channel members need to work together and combine their abilities (Ferrell & Hartline, 2011: 272). Different aspects of channel management are discussed in the following sections.

10.8.1 Selecting channel members

The channels used have an influence on the perception of the consumer or buyer (Kotler & Keller, 2012: 230). For example, if a consumer wants to purchase an item from the only retailer that stocks it in Pretoria, the consumer might be upset if he travels all the way to the consumer only to find that they do not have stock. Or if the retail store employees were rude and unhelpful, this could result in a negative image of the producer. Therefore producers need to select their channel members carefully. Aspects regarding the channel members include the number of years they have been in business, other companies they work with, their growth and profit, their financial stability, their willingness to cooperate and their reputation (Kotler & Keller, 2012: 230). Organisations should, however, also view the channel members as customers, and determine their needs and wants in order to come to an agreement that would be beneficial to both (Kotler & Keller, 2012: 230). For a channel to function optimally, the channel members must work together and understand that they play an important role in ensuring that goods reach the consumers or buyers (Kotler & Keller, 2012: 230).

10.8.2 Types of channel relationships

To create and maintain an effective environment of exchange, channel members must manage their relationships with each other (McDaniel et al., 2013: 0264). There are three types of relationship based on the

degree of closeness between the channel members, namely transactional, collaborative and alliance (Badenhorst-Weiss, Van Biljon & Ambe, 2017: 120–123):

1 Transactional relationship. This is the most commonly used relationship as it is the most appropriate for once-off purchases and on-going transactions. It is characterised by having many relationships that aim to address short-term objectives with the price of the goods being the main focus.

2 Collaborative relationship. This relationship refers to working with the supplier to maintain a cooperative trading relationship over time. It recognises that being interdependent and cooperative may lead to a beneficial relationship. It is characterised by having a limited number of relationships that aim to address long-term goals with the commitment of working together.

3 Alliance-based relationship. This type of relationship refers to building long-term, mutually beneficial relationships based on specific performance requirements and conditions with clear measures of success. It requires hard work, time and trust. It is characterised by having few relationships that aim to address long-term goals by sharing risk, opportunities and rewards.

10.8.3 Managing channel relationships

When it comes to managing channel relationships it is best that all channel members should be willing to work towards mutually beneficial relationships (Grewal & Levy, 2016: 203). A successful channel relationship is dependent on the following aspects (Grewal & Levy, 2016: 501–203; Ferrell & Hartline, 2011: 276):

- **Shared trust.** When channel members trust each other, they are more likely to work together, share ideas, clarify issues and communicate better. Trusting each other also ensures that members are not constantly checking up on each other.

- **Open communication.** When channel members are open and honest with each other, they have a better understanding of each other's goals, roles in the relationship and problems that may occur.
- **Joint goals.** When channel members have joint goals, they have greater motivation to share resources and use each other's strengths to exploit opportunities together.
- **Mutual interdependence.** When channel members are mutually interdependent they will develop and sustain long-term relationships because they have become intricately linked.
- **Reliable commitments.** Channel members need to make commitments that are dependable in order to ensure the success of the relationship. When a channel member promises to do something, it must be done as promised.
- **Cooperation.** Channel members should be willing to support each other and give a little extra when needed. When a channel member goes out of his way to do something for the others, it should be reciprocated.

10.8.4 Managing channel power

With any business relationship, it is important to understand the different types of power and which is most appropriate in a particular situation (Clow & Baack, 2010: 320). Having power means that one member in the channel has the ability to influence the behaviour of another (Dunne, Lusche & Carver, 2014: 200). There are five main types of power (Dunne et al., 2014: 201):

- ➡ **Reward power.** This occurs when one member is able to provide rewards to another. For example, if the channel has a strong producer, they could offer the retailers rewards for meeting the set sales quota.
- ➡ **Expertise power.** This occurs when one member is more knowledgeable or experienced than another. For example, if the retailer is well established, he may know more about the

consumers' purchasing behaviour than a new producer who has just entered the market.

3 ➔ Referent power. This means that one member has a strong brand or specific image with which the others want to be associated. For example, a new producer of a range of natural beauty products may want to be associated with health stores.

4 ➔ Coercive power. This means that one member is able to punish or harm another member. For example, a producer of a high-end product could refuse to supply a retailer if they do not keep their store clean and well maintained.

5 ➔ Legitimate power. This occurs when one member has the right to influence another member – it is usually associated with a contract. For example, if a contract was signed requiring the retailer to meet certain standards and they are unable to do so, the producer has the right to stop supplying them with goods.

10.8.5 Channel conflict

Poor channel management will likely result in channel conflict (McDaniel et al., 2013: 468). Unless the channel members are closely aligned with one another, conflict is likely to occur because each member aims to satisfy their own needs and maximise their profits (Grewal & Levy, 2016: 498). There are a few factors which could result in channel conflict (McDaniel et al., 2013: 468):

- **Different goals.** A producer of a particular product may want to make a certain sales volume, while the retailer aims to sell as much as possible in order to make a huge profit.
- **Unmet expectations.** If the retailer was expecting delivery of goods on a certain day and the producer was unable to deliver as promised, this might lead to conflict, especially if the producer did not give valid reasons for it.
- **Dissimilar perceptions.** The retailer may have easy return policies on the goods and the producer may have stricter policies which

require careful inspection of the goods returned. This may lead to conflict because the retailer simply accepts the consumer's word and gives a refund, whereas the producer does not because on inspection finds that the consumer did not follow the instructions when using the product.

- **Stakeholder pressure.** If one of the channel members is under pressure to change the way in which they conduct themselves and this is very different to what was agreed upon, conflict could arise as other channel members would have to adapt or change as well.

To successfully avoid and resolve conflict within the channel, the following methods can be employed (Jobber & Chadwick, 2013: 647):

- **Creating partnerships.** Channel members should constantly liaise with one another and develop mutual trust and cooperation. When conflict occurs, channel members are likely to work through the issues if they have developed a relationship.
- **Conflict training.** Each channel member should have employees who can handle conflict in stressful times. Being able to negotiate calmly and communicate effectively is likely to ensure that channel members are able to reach a win-win situation.
- **Improving performance.** If one of the channel members is simply not performing as agreed upon, something needs to be done to ensure that they improve. For example, if the retailer received some complaints regarding the producer's goods, the retailer would pass this on to the producer so that the goods can be improved.
- **Obtaining ownership.** Although this is costly, it is considered to be quite effective when one channel member buys another. When one member has more control, conflict can be resolved faster as this member can make an executive decision on an issue.
- **Applying pressure.** In some channel relationships, one channel member may have more weight in the relationship. In this instance, if the member is not satisfied with the performance of the other member, they could threaten to withdraw from the agreement which would cost the other member more.

10.8.6 Channel member evaluation

Evaluating channel members is crucial as it provides a company with the relevant information to determine whether to keep working with their current channel members (Jobber & Ellis-Chadwick, 2013: 646). However, the evaluation of channel members depends on who has more power (Jobber & Ellis-Chadwick, 2013: 646). For example, if the producer is small and relies more on the intermediaries, the producer may not be as flexible when it comes to evaluating them and taking corrective action (Jobber & Ellis-Chadwick, 2013: 646). On the other hand, if the producer is large and has a number of other intermediaries to choose from, evaluation is likely to be done more frequently (Jobber & Ellis-Chadwick, 2013: 646). If the producer is strong and an intermediary is not performing well, the producer can easily select another intermediary to work with.

Producers should set standards and those members that do not meet them should be given more guidance, training, motivation or simply be terminated (Kotler & Keller, 2012: 231). However, those that do well should be recognised and rewarded for adding value to the end-users (Kotler & Armstrong, 2012: 380). Channel member performance standards could include meeting sales quotas, maintaining inventory levels, ensuring efficient end-user delivery time, willingness to participate in training programmes and dealing well with damaged or lost goods (Kotler & Armstrong, 2012: 380).

10.9 Trends in marketing channels

There are a number of trends in marketing channels that need to be taken into consideration (Ferrell & Hartline, 2011: 278–282):

- **The growth of electronic commerce (e-commerce) and mobile commerce (m-commerce).** With technological advances, the use of e-commerce and m-commerce is increasing, which makes it more

convenient and cost effective to get the goods to the consumer or buyer.

- **Shift in power within the marketing channel.** Previously producers had more power dictating the terms; however, more wholesalers and retailers are becoming established within the consumer markets.
- **Increase in outsourcing.** More organisations are looking to outsourcing to improve their operational efficiency. By getting other businesses to assist with warehousing or transporting, for example, a company could be allowed to concentrate on its core functions such as actually producing the goods.
- **The rise of direct channel and non-store retailing.** More consumers want convenience and efficiency when it comes to shopping. Examples of non-store [retailing](#) include the use of vending machines or catalogue marketing.

10.10 Conclusion

The proverb “a chain is only as strong as its weakest link” is very true when it comes to marketing channels. If a channel member does not perform, it puts the rest of the channel at risk of not meeting their goals and objectives. The aim of a marketing channel is to create value for the end-user. In order to do so, various transactional, logistical and facilitating functions need to be performed to ensure that the goods reach the end-user to satisfy their needs and wants. It should be evident that to ensure synergy within the channel, selection of the right channel and channel members is crucial in delivering value to, and ensuring the effective management of, the marketing channels.

DISCUSSION QUESTIONS

1. What are the four main activities involved in the distribution of goods?
2. Explain in your own words what a marketing channel is.
3. List the four key functions performed within a marketing channel.
4. What are the three main factors that influence which marketing channel to use?
5. Discuss the different consumer marketing channels.
6. Explain the different business-to-business marketing channels.
7. Define channel integration and compare the different types.
8. What are the three Cs of marketing channel integration?
9. Discuss the three types of channel relationship.
10. Discuss what aspects are needed to ensure successful channel relationships.
11. Explain the five different types of power.
12. Identify and explain the factors that lead to channel conflict.
13. Explain the different methods that can be used to avoid or resolve channel conflict.
14. Explain what channel member evaluation entails.
15. Identify the trends in marketing channels.

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LEARNING OUTCOMES

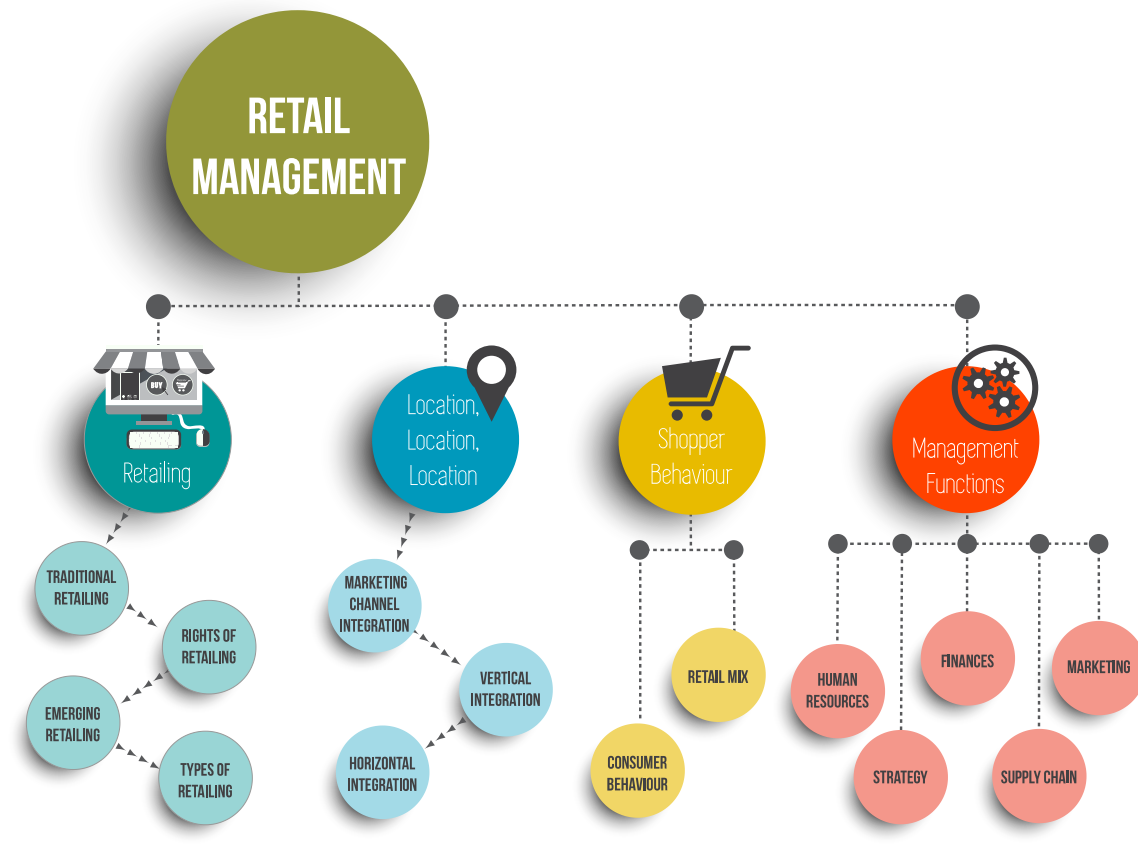
AFTER STUDYING THIS CHAPTER, YOU SHOULD BE ABLE TO

- define retailing
- differentiate between the various types of retailer
- discuss the emerging trends of online and township retailing
- discuss the retail mix and depict it graphically
- explain the importance of location within the retail context
- describe the relevance of good store design and layout
- describe the importance of being aware of consumer behaviour
- apply the management functions within the retail environment.

KEY CONCEPTS

- BEHAVIOUR
- CONSUMER/CUSTOMER/SHOPPER
- DESIGN
- FINANCES
- FRANCHISEE
- HUMAN RESOURCES
- LAYOUT
- LOCATION
- MANAGER
- MARKETING
- ONLINE RETAILING
- PARTNERSHIP
- PRODUCTS/GOODS
- RETAIL MIX
- RETAILING
- SERVICES

- SOLE PROPRIETORSHIP
- STRATEGY
- SUPPLIER
- SUPPLY CHAIN
- TOWNSHIP RETAIL



11.1 Introduction

Retailing has become an integral part of our daily lives. How many times have you heard someone say that they are going to buy milk on their way home from work? Retailing is considered the final step in the supply chain as it offers consumers the products or services they need. Retailing consists of three main themes, namely business activities,

selling of goods and/or services, and consumption and/or use of a service (Terblanche, 2016a: 3; Erdis & Cant, 2015: 3; Dunne, Lusch & Carver, 2014: 4; Berman & Evans, 2013: 33).

The business activity that we, as consumers, are often unaware of is that during which the retailer negotiates and purchases products from the supplier in bulk at a low price, before repacking and selling them to consumers. Services cannot be purchased in bulk and therefore they are designed to adapt to the expectations and needs of consumers. This business activity is focused on getting the product or developing the service, packaging it and influencing the consumer to purchase the product or service from the retailer. The aim of retailers is to ensure that their products and services are purchased by the final consumers. The role of retailers is to make products and services available to the final consumer who cannot gain access to the original supplier. Therefore, the retailer is often seen as the middleman. Adverts often motivate consumers to cut out the middleman. Retailers raise the price of goods and services when selling to consumers. However, these goods are often more expensive when you, the consumer, buy them directly from suppliers. The reason for this is that retailers buy in bulk, which qualifies them for discounts, such as those Simba Chips or Lindt may offer to retailers such as Pick n Pay, who buy directly from the factory. The products that sell the fastest are consumables, such as food. Think about Maslow's hierarchy of needs (see [Figure 1.1](#)): food is right at the bottom, which is the first level of satisfaction that consumers aim to achieve. Selling consumables and services is often high risk and therefore retailers spend a lot of time and effort to make products and services attractive for consumers.

Think about the last time you went to the store to purchase bread and milk:

- Did you purchase only those items?
- Why did you purchase additional products?
- Do you think that retailing has changed over the past few years? If so, how?

11.1.1 Traditional retailing in South Africa

Before the digital age, people used to shop for their necessities at the general dealer in town. Think of it as the local Pick n Pay or Spar. But there was only one and everyone in town shopped there. General dealers made it possible for the final consumers to get hold of products that were not readily available in their immediate environment.

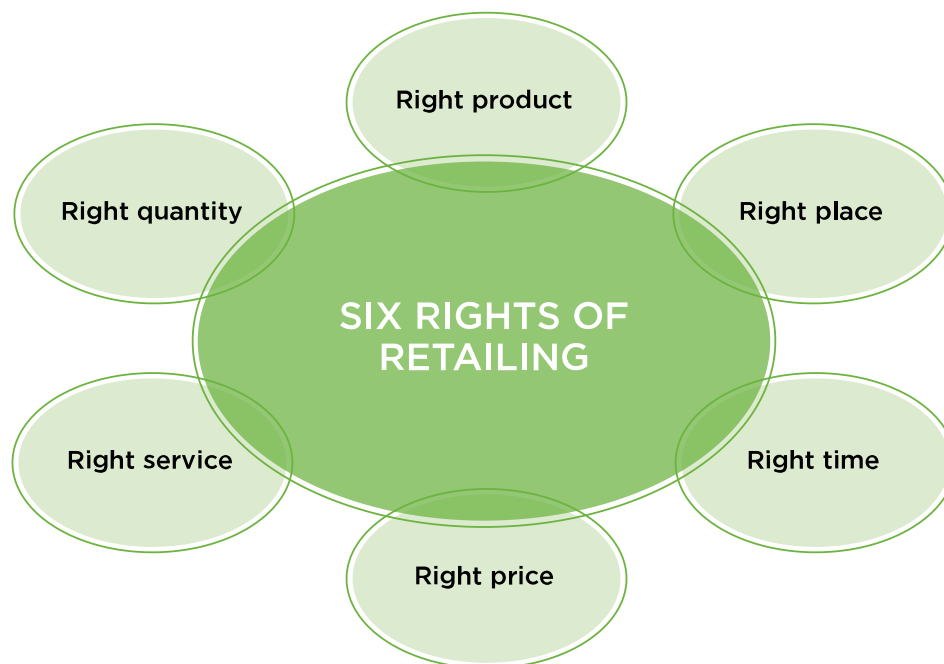
The formula for being a good retailer is remaining consumer orientated, integrating the retailer plans and activities, and setting achievable goals that ensure success in the retail environment (Terblanche, 2016a: 8). Retailers must set goals that focus on achieving financial and non-financial success through the provision of consumer-satisfying products and services. Taking Pick n Pay as an example, it is clear that this formula for retail success was followed by Raymond Ackerman. Pick n Pay, as a retailer, focuses on monitoring the business environment and finding innovative ways of integrating its activities and plans to provide products and services to consumers, for example the building of the Longmeadow distribution centre in Johannesburg; this is situated in Gauteng province, which is the economic hub of South Africa. Retailing is the management of continuous change in order to satisfy consumer needs and expectations (Terblanche, 2016a: 8; Erdis & Cant, 2015: 7; Dunne et al., 2014: 5).

In the 1960s, retail giant Pick n Pay started gaining noticeable ground in the South African retail space. This was thanks to the vision of Raymond Ackerman, who was fired by Checkers in the late 1970s for his “wild” ideas on transforming retail in South Africa. During that time, Pick n Pay’s main focus, like that of OK Bazaars and Checkers, was food retailing: ensuring that consumers have access to food and related products. Raymond Ackerman and his previous employer had different views on how to grow and change the South African retail environment. What made Pick n Pay successful was the fact that Raymond kept a close eye on consumer trends and needs. Shortly after Pick n Pay was founded, its first hypermarket opened in Boksburg, Gauteng, and changed the retail scene in South Africa. This was due to the fact that it was the first place that offered everything from food,

gardening and home décor to anything else consumers might need or want.

It is evident from Pick n Pay's history that the retail environment is ever-changing. Organisations have to keep up with trends to ensure that they stay on top of the changing environment and consumer needs (Pick n Pay, 2017a & b; Dunne et al., 2014: 5). In the 1990s, for example, most people would go to the closest Pick n Pay to purchase their monthly groceries. Nowadays, you can purchase your groceries online and they will be delivered to your door. This is, once again, an indication of how the retail environment has adapted to the needs and expectations of its consumers. Erdis and Cant (2015: 8–9) indicate that the six rights of retailing are key to the success of a retailer (see [Figure 11.1](#)). Consumers are aware of the products being offered at each retailer and technology allows them easily to find products and services that will satisfy their expectations and needs.

Figure 11.1 Six rights of retailing



Source: Adapted from Erdis and Cant (2015: 8)

Retailers such as Pick n Pay, Makro and Woolworths have to ensure that the products consumers need are available in sufficient quantities. For example, you may buy only one loaf of bread, but there could be a thousand other shoppers who also want to purchase a loaf of bread on the same day. Retailers should ensure that there is enough bread in stock to provide for all their customers' needs. Furthermore, the availability of products and/or services at the right time, price and place is extremely important and will determine the retailer's success. Retailers must constantly change their way of doing business and adapt to trends and consumer needs.

11.1.2 Emerging retailing

Online shopping has become a global trend that has forced South African retailers to adapt once again. More and more consumers are seeking retail experiences that can accommodate their busy schedules and meet their demands. As such, e-tailing is considered the future of retail as most consumers enjoy shopping from the comfort of their own homes and having the products delivered to them. The only challenge at this stage is ensuring that you have a large audience that has access to the online environment and who can make use of a fully online retail service (Dunne et al., 2014: 157).

11.1.2.1 Online retailing

With the emergence of online shopping, retailers feared that the internet would replace the traditional retail stores, which it did not. Retailers have started to embrace the opportunities that the internet presents to increase sales and provide better consumer service. Online shopping has also changed considerably as consumers are making use of their smartphones to download the mobile applications of certain retailers, browse their online catalogues and then purchase items, which will be delivered to their door within a few days (Dunne et al., 2014: 6). There are various forms of [online retailing](#), such as websites and mobile applications, some of which are used daily, while others are used monthly or annually. The platform through which the consumer purchases a product or service depends on customer expectations and characteristics (Berman & Evans, 2013: 211).

In the early 2000s and before then, people could have newspapers delivered to their houses early in the mornings or purchase them at intersections, the local retailer or a filling station. Since the inception of smartphones, media houses such as Naspers have developed mobile applications for their various newspapers and magazines. Readers can subscribe to a particular newspaper or magazine online and pay a monthly fee to read it daily. This is a new way of retailing, where the consumer does not even have to speak to anyone to purchase this service. Another example of an online retailer is Takealot.com. Takealot.com is based in South Africa and has two large warehouses that stock products from various departments and delivers them to its clients within a specific time frame. The Takealot.com website allows you to specify when and where you want the product to be delivered. This shows that the company considers the ever-changing expectations and needs of South Africans, by making shopping convenient and satisfying. Takealot.com's focus is to become a customer-centric organisation that provides products and services across a variety of departments and changes the way people shop in Africa.

Retailers who wish to retain the traditional shop format that consumers visit must focus on providing a more personalised service. Such a service should create a memorable experience that will motivate the consumer to return to the store in future. Retailers constantly need to find ways in which they can increase sales inside the store and online; as the market and consumer changes, so will the retail environment. The availability of the internet makes the online retail environment extremely competitive as one can easily compare prices before purchasing (Dunne et al., 2014: 8; Berman & Evans, 2013: 211). Retailers across various industries could also join forces and develop a product or service in which consumers at the one retailer receive benefits when doing business with the other retailer and vice versa. This is another way in which the traditional retail store will not become obsolete as people will always have a desire to go to shops to interact with others and benefit from the opportunities they are provided with. A typical example of retailers in different industries that joined forces to increase consumer spending is First National Bank (FNB) (bank retailing) and Checkers (fast-moving consumer-

goods retailing). FNB clients earn e-bucks when shopping at Checkers and receive Checkers shopping [coupons](#) when using the FNB banking application. This joint venture between FNB and Checkers allows these two organisations to share consumers and attract a higher market share through the specials they make available. This is one of the ways in which retailers can increase market share through the use of online platforms.

11.1.2.2 Township retailing

[Township retail](#) is a rather new and interesting concept within the retail environment and is specific to the South African industry. Townships are mostly known as informal settlements on the outskirts of towns and cities. These informal settlements used to have very few resources and services available in comparison with the cities and towns. However, this has changed considerably over the past few years with the South African government spending billions on the development of retail infrastructure within these informal settlements.

In 2015, the Gauteng MEC for Economic Development, Environment, Agriculture and Rural Development, Lebogang Maile, indicated that the expansion of retail giants such as Shoprite, Checkers, Spar and Pick n Pay into the informal settlements could add significant value to the local economies (News24, 2015). Townships have a large number of informal traders, which one could say are entrepreneurs, as they sell products and/or services to their local communities to make a living. There are various opportunities for township retailers to make an impact in the retail environment and become successful retailers. One such example would be for retailers to put their resources together and purchase products in bulk. The local retailers could then provide products and services at lower costs to the local community and in doing so strengthen the local economy and uplift the community through retail initiatives. The opportunity for entrepreneurial activities in the township retailing environment is significant and this can lead to job creation and decrease the current unemployment rate.

In 2015 the Gauteng provincial government embarked on a retail development project in which the government would partner with 500

retail shops within six of the province's informal settlements – Katlehong, Atteridgeville, Sharpeville, Randfontein, Alexandra and Khutsong. This drive to create more township retail opportunities was created due to the high demand of township citizens requesting to have similar retail services made available in townships to those of the towns and cities in the province. These partnerships would allow the townships to create over 1000 job opportunities, as well as access to Pick n Pay's distribution centre, to purchase a variety of products to sell in the local communities. This shows that there are a lot of opportunities for entrepreneurial township activity as support and guidance is made available through a public-private partnership. The local government has extended the development of township retail to such an extent that 53 textile and clothing businesses supply the local hospitals with linen. There are also 2787 construction and building maintenance businesses in the Gauteng townships which supply services to government-related building projects. Through these initiatives introduced by the Gauteng provincial government, local township retailing is growing and will in the next five to ten years contribute millions to the local economy (*News24*, 2015).

When thinking about township retailing, the following retail shopping centres come to mind: Soshanguve Crossing, Gateway Shopping Centre in Mamelodi, Maponya Mall in Soweto, Eyethu Orange Farm Mall and Jubilee Mall in Hammanskraal. These are all previously disadvantaged communities which, through government support, investment from private retailers and entrepreneurial activity, were able to supply their communities with relevant retail products and services. These are true examples of what communities can achieve through partnerships with the government and private sector in developing themselves within the townships and becoming retailers of note.

11.1.3 Types of retailers

Retailers within the South African landscape differ from one another and apply the [retail mix](#) differently in order to attract their target audiences. Therefore, retailers are divided into two categories:

consumables and general merchandise. However, before we discuss these categories, we are first going to look at retailer characteristics.

11.1.3.1 Retailer characteristics

Corbishley (2016a: 42) argues that due to a variety of factors within the retail environment, certain aspects will influence retailer characteristics, making it necessary to consider the form of ownership and retail mix.

Forms of ownership

The form of ownership is important for the overall management of a retailer. The majority of retailers are franchises, such as Spar, Checkers, Edgars, Jet & Builders' Warehouse. These retailers have often been passed on from one generation to the next. [Table 11.3](#) summarises the forms of ownership.

Table 11.1 Forms of ownership

Form of ownership	Description of ownership
Sole proprietorship	This form of ownership describes a business that is managed and owned by one individual, usually when the business is small and easy to run. The owner acts as the legal entity and all taxes are deducted from the owner's income; there is no business continuity. Capital is acquired by the owner, sometimes unsuccessfully, due to the owner's lack of security.
Partnership	A partnership describes a business that is managed and owned by a minimum of two people and no maximum number of partners. The agreement between partners could be contractual or oral. The partnership is not a legal entity, but the word "partner" could be used in documentation as a legal entity for easy reference. The partners have joint control over the partnership and should add capital together when starting up. There are minimal legal requirements for starting up and the partners are held accountable for any wrongdoing. There is also no continuity; a partnership has to dissolve if a member resigns or passes on.

Form of ownership	Description of ownership
Limited liability company	Companies are established based on the Companies Act 71 of 2008. They can be either public or private companies, both of which are considered legal entities. There is no restriction on the number of shareholders allowed. Shareholders have limited liability, but that does not stop them from accumulating capital together. Both public and private companies have continuity and shares can be easily transferred among shareholders. The legal requirements for starting up a company are significant and require high operational costs.
Franchisor and franchisee	A franchisor is a company in which the original owner sells his concept and idea to a franchisee under strict policy-regulated conditions. The franchisee has to adhere to the standard rules and agreements set up by the franchisor and has to report on annual sales.

Source: Adapted from Corbishley (2016a: 42–44); Strydom (2016: 74–78, 81–88)

Once a retailer has determined the form of ownership, the next step would be to determine the best retail mix.

Retail mix

The retail mix, as depicted in [Figure 11.2](#), depicts what retailers must consider when a new, existing or revived product is placed on the market in order to determine whether it will or does satisfy consumer needs and expectations.

Figure 11.2 Retail mix



Source: Adapted from Corbishley (2016a: 44); Erdis and Cant (2015: 129)

- *Location* refers to the location of the retailer. It is crucial that retailers monitor the changes in the store's environment to determine whether it is still attracting the target market and whether it is close enough to the target market. Retailers often change location due to profitability and competition in the geographical location. They therefore have to ensure that they select the right location, store design, product and price that will attract their customers.
- *Design and layout* refers to the store's design and how the customers flow through the store. The store should be easy to self-navigate and allow customers to find the products they need without difficulty. The store design should adjust to customer behaviour and ensure that retail employees can provide better customer service. If you think about a clothing retailer, the children's clothes are often next to the female clothing as retailers are aware that more often than not mothers will shop with their children.
- *Communication* should convey a product's message to the customers before they buy the product. This communication

between the retailer and the consumer can take various forms and utilise various methods and technologies. The manner in which salespeople communicate with the customer about the product or service impacts the buying behaviour. If the salesperson shows that he or she has sufficient product knowledge and explains it in laymen's terms to the customer, this increases the likelihood that the customer will buy the product.

- *Merchandise* depends on the type of retailer. It is important that the retailer select the right suppliers who can deliver stock on time and in the right quantities. Managing stock is crucial in retailing; there must always be sufficient stock to address customers' needs. Retailers study the expectations and needs of customers and you will rarely find that a retailer stocks a specific product for which there is no demand.
- *Pricing* of products and services in the retail environment is important as all operational costs, expenses and profits have to be factored into it. The challenge that most retailers face is to remain both competitive and profitable. The retailer is considered to be a middleman who places a mark-up fee on the initial costs of the product or service. This mark-up fee is determined by adding expenses, profit and price reduction, and dividing it by the total sales and price reductions.

$$\text{Average initial mark-up} = \frac{\text{Expenses} + \text{Profit} + \text{Price reduction}}{\text{Sales} + \text{Reductions}}$$

- *Customer service* is the single most important aspect that makes customers come back again and again. The saying "the customer is king" is extremely important in the retail environment. Even if the customer is not always right, the retailer must ensure that he or she is treated fairly and professionally at all times.

The retail mix allows the various types of retailer to design strategies to locate themselves in the right place, communicate effectively to customers, provide relevant products in sufficient quantities, determine the right pricing to ensure competitiveness and profitability, and design a store layout that is easy for the customer to navigate.

11.1.3.2 Food-orientated retailers

Food is the first level of satisfaction on Maslow's hierarchy of needs that we as humans need to fulfil (see [Figure 1.1](#) in [Chapter 1](#), and the end of [Chapter 4](#), [Websites](#)). Food retailers can be classified into various categories based on the products and services they offer within this multi-billion-rand industry. [Table 11.2](#) provides an explanation and examples of typical food-oriented retailers in South Africa.

Table 11.2 Types of food retailer in South Africa

Type of food retailer		Examples
Supermarkets	These stores are designed to make groceries, meat and produce available to the consumer. Supermarkets also have a limited number of other products, such as do-it-yourself (DIY), electrical, plumbing and general gardening items.	• Spar • Pick n Pay • OK Bazaars • Shoprite
Hypermarkets	The products available are similar to those in supermarkets, with the exception that there is a bigger variety of gardening, entertainment, outdoor and décor products. Hypermarkets allow the consumer to purchase products in bulk, making products more affordable.	• Pick n Pay hypermarkets • Checkers hypermarkets • Superspar
Warehouse clubs	These are no-frills stores that stock a variety of products, such as food, office equipment, homeware, gardening products, electronic supplies and liquor that can be purchased in bulk or single units. These stores are common in metropolitan regions. The consumers who shop here are wholesalers, informal traders, small business owners and the general public.	• Makro
Convenience stores	These stores are located in close proximity to or in residential areas and stay open for longer hours to accommodate working individuals who need basic food products for the evening or the next day. These stores are usually in a shopping complex with some other stores that relate to general living, such as optometrists, liquor stores, pharmacies, fastfoods and fuel.	• Kwik Spar • Woolworths Food • Pick n Pay Express

Source: Adapted from Corbishley (2016a: 45–46); Berman and Evans (2013: 151–152)

11.1.3.3 General merchandise retailers

Table 11.3 briefly describes the various types of general merchandise retailer in South Africa. These types of store focus on items other than groceries and fresh produce.

Table 11.3 Types of general merchandise retailer in South Africa

Type of general merchandise retailer		Examples
Department stores	Within the South African context, department stores have declined significantly due to the rising competition from malls and discount stores tapping into their market share. Department stores tend to sort their products into specific sections in the shop to enable customers to find products faster. Such sections include promotion layouts, customer service and control. Department stores offer consumers various products, such as clothing and homeware.	• Edgars • Ackermans
Discount retailers	These retailers offer a wide range of merchandise that includes private brands and well-known brands at competitive prices. The level of service is low, but this is mitigated by high levels of advertising and promotions.	• Game
Speciality stores	These stores are focused on providing quality service and products in the particular area of the general merchandise sector, such as jewellery, branded sports clothing or fastfoods.	• NWJ • Adidas • Krispy Kreme
Category specialists	These stores focus on particular products. They often buy their products in bulk and make them available to the consumer at a discounted rate, with high levels of product knowledge and consumer service.	• Hi-fi Corporation • Dis-Chem • Mr Price Home

Type of general merchandise retailer		Examples
Off-price retailers	Unlike most retailers, these stores always buy what is left of a particular product or brand from manufacturers. These products include the previous season's stock, rejected products and/or cancellation orders that need to be sold. Although these retailers do not offer discounts or lay-by services, they sell products at reduced prices.	• JAM • Factory shops

Source: Adapted from Corbishley (2016a: 47); Berman and Evans (2013: 155–157)

Although South Africa boasts a variety of retailers, there are also some gaps within this sector. It is important that retailers know the environment in which they operate since sustainability and profitability depend on the manner in which they react to it. The next section will explore the retail environment and the importance of being aware of and consciously scanning the environment for opportunities or threats.

11.2 Location, location, location

As time goes by, the retail company, like any other business, has to adapt to its current environment. Since retail is influenced by consumer expectations and needs, it is crucial to ensure that retailers are where the consumers are. This could be in airport corridors between transit flights, nestled in the central business district (CBD), in a mall that has thousands of feet moving through it daily, or next to the supermarket and fuel station where consumers purchase their daily necessities (Dunne et al., 2014: 25).

11.2.1 Importance of selecting the right retail location

Have you ever wondered why the specific fastfood outlets in your neighbourhood are where they are? Or why filling stations are often

within a few kilometres or metres from one another? Have you ever come across a retailer that you thought was situated in a bad location? These retail brands are situated where they are because the retailers have determined that the type of resident in this area and their spending habits will make their outlets more likely to succeed. The importance of choosing the right location for your retail outlet is significant as the wrong decision could lead to it closing down. If you walk through a shopping mall, you might think that a gift shop has no significant value and that it is probably struggling to make ends meet, but that same retailer could rather have a shop (branch) inside a hospital or airport with limited stock and be extremely successful. Why? Because people with sick friends or relatives or who miss their loved ones will always look for something to buy them. Location is a long-term decision and retailers have to ensure that the right location is identified so that future growth and expansion are possible (Terblanche, 2016b: 88; Dunne et al., 2014: 25).

Retail outlets are located in one of the four types of retail location. These locations are known as the central business districts (CBDs), shopping centres (e.g. Mall of Africa, Sandton City and V&A Waterfront), free-standing units (e.g. Makro) and non-traditional locations (e.g. airports and tourist attractions). These locations each have their own sets of unique characteristics that determine whether the location will benefit the retailer.

In some cases, retailers can place in more than one, or even all, of these types of location. McDonald's, for example, has placed outlets in all four of the location types with great success. It is crucial that the retailer researches a geographical location before setting up or relocating the store (Dunne et al., 2014: 264). The research to be conducted by both aspiring and current retailers is illustrated in Figure 11.3. First, these retailers have to examine the characteristics of the local residents and other retailers in the neighbourhood and determine how these characteristics relate to their product or service, and whether they will make for a viable location. Based on the product or service offering, as well as the market segment that they are targeting, retailers must determine whether the outlet should be situated within a mall,

such as Menlyn, Gateway or Canal Walk, or whether they should opt for a remote retail outlet within a city or town CBD. This is an important decision because if your retail outlet is in the wrong geographical location, then the consumers might not be able to reach you to purchase your product or service and will rather support the competition closer to them. Once a retailer has decided on the geographic location for his retail outlet, he must analyse the sites within the retail location to determine where he wants to set up shop (Berman & Evans, 2013: 258).

Terblanche (2016b: 88) agrees that retailers should spend time to make sure that the right location is selected in order to ensure that the outlet prospers and will be able to expand in future, should consumers' needs change. The next section will address the key principles that retailers should focus on regarding the location of the retail outlet.

11.2.2 Retail location principles

Retailers have to be mindful of the retail principles that have to be considered when planning to start up a retail outlet, to relocate a retail outlet to a new geographical area or to expand into other geographical areas due to an increase in demand for their products and services.

Table 11.4 Retail location principles

Principle	Description
Adequacy of present market area potential	Retailers must be aware of the number of consumers or people in close proximity to the retail outlet and must determine their purchasing power, spending behaviour and the products or services they buy the most. If the retailer can secure all of the business in the retail location, what will it amount to? The retailer also has to consider expansion should the market become saturated.

Principle	Description
Accessibility of site market area	To ensure that retailers obtain the maximum market share of a specific location, they must consider the types of business within the region. <i>Generative businesses</i> are those that generate their own business as a result of their strategic location, such as at a busy intersection or shopping complex in a residential area. An example of such a business is a supermarket. <i>Shared businesses</i> are those that attract consumers due to their proximity to other businesses. An example of such a business is a liquor store next to a supermarket; both the liquor store and supermarket share consumers. <i>Susipient (receiving) businesses</i> are those that focus primarily on providing services, such as fastfood outlets situated at airports or in office parks.
Growth potential	Retailers have to ensure that they situate themselves in a promising location that allows for future expansion, which will, subsequently, impact the volume of sales and increase profits. Retailers have to acknowledge the importance of growth and how the right location can play a role in growth.
Business interception	Consumers tend to go to the same shop every time they need something. Situating your retail outlet between an established retail outlet and the target audience increases the likelihood of consumers stopping at your outlet first as you offer the same product. If consumers can get the same product at a more conveniently located store, the chances are they will change their habits.
Cumulative attraction	Retailers believe that if they offer products that are similar or complementary to those of outlets close to them, it will increase the number of consumers visiting their outlets. An example of retailers with similar products are First National Bank, ABSA, Nedbank and Standard Bank, all of which are often situated next to each other. Another example of complementary retailers is Checkers Hyper and House and Home, which share the same store entrances and offer complementary products. Checkers Hyper provides the daily necessities and some homeware, whereas House and Home offers home furniture and equipment.
Compatibility	Compatibility is determined by how businesses either support or harm one another. Retailers have to ensure that their location supports other retailers as more business can be generated through such interaction.
Minimising of competitive hazards	Retailers must be careful of relocating or setting up shop in a centre where there are a number of vacant spaces as competitors could move in and cause disruptions in the market. It is important that retailers are far away from their competitors and are established in such a way that it would be challenging for competitors to intercept their business.

Principle	Description
Site economics	Retailers have to determine the economic viability of the product and/or service on offer. Aspects such as the size, shape, topography, building structure and amenities should be considered, together with their impact on the retail outlet.

Sources: Terblanche (2016b: 90–93); Dunne et al. (2014: 281–297); Nelson (1985)

The most important retail location principle is considering the target market as this will determine retailers' success. Retailers must analyse the geographical location, consumer demand and spending behaviour carefully in order to make an informed decision.

11.3 Design and layout

Retailers have to ensure that the store design and layout, including interior and exterior décor, relate to their retail model and strategy. If they do not, the chances of loyal customers going to the competitor are inevitable as their perception of and feelings about the store might change. For example, if you visit a Guess store in Sandton City that looks like a low-cost retailer and is messy, you will avoid it in future as the experience does not match the brand that Guess projects. The same applies to a customer who goes to Shoprite and expects low-price banners and specials throughout the store. If their local Shoprite store takes on the look and feel of an upmarket supermarket, then that customer will feel unwelcome. The customer's perception of Shoprite as a low-cost consumer-focused retailer might change to that of a high-income focused retailer (Beneke, 2016: 119).

It is important for retailers to have a strategy in place that will build loyalty and increase sales and the number of visits to the store. The retail strategy ensures that the right market is targeted as it will allow the retailer to gain a sustainable and profitable competitive advantage.

However, profitability and sustainability only come about if the retailer ensures that the expectations of his customers are met. A sustainable retailer creates loyalty between his store and his target market. This makes the retailer competitive and allows him to expand his product and service offerings based on customer loyalty and experience.

Loyal customers are the best marketing material that any retailer can ask for as they will gladly share their experiences and levels of satisfaction with friends and family, thereby continuously referring new clients to the retailer. The more customers and the more referrals made by loyal customers, the better the chances of the retailer experiencing an increase in sales and visits from customers. If the retailer ensures that the store design, décor and layout are continuously updated, sales will also increase. Often customers find certain retailers extremely fascinating due to the layout and décor used to attract their attention; this forms part of the retail strategy based on customers' expectations and needs. Continuously updating store layout and décor is a costly exercise and retailers have to ensure that when they plan on redesigning the store, the right target market and possible future trends are considered. Furthermore, the design and layout of a retailer can easily change due to competitors coming into the market and approaching retail from a completely different angle. It is best to choose a flexible and adaptable design to make it easier to stay on par with competitors (Levy, Weitz & Grewal, 2014: 484–486).

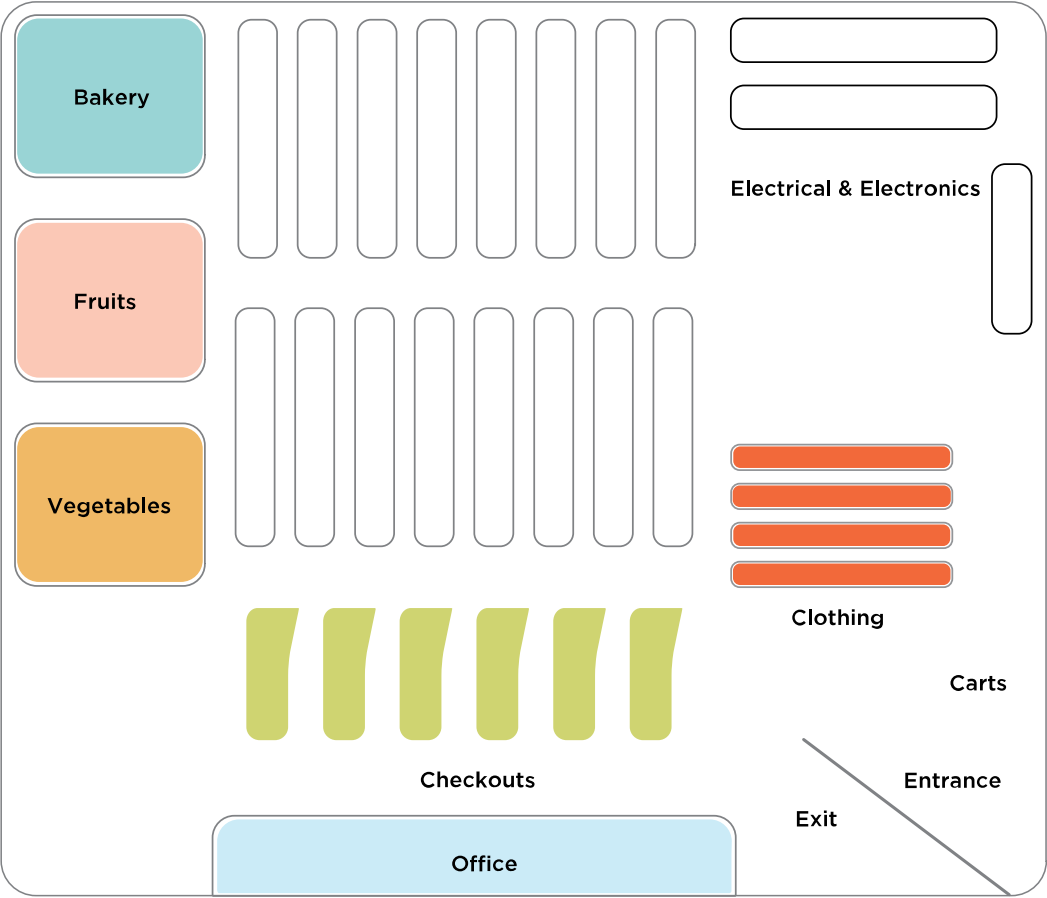
Legislation also plays a role in store layout and design; retailers must ensure that their store designs are in line with their country's laws. For example, if your retail outlet is designed to accommodate people who are sight-, mobility- or hearing-impaired, you might attract more customers, since those who are impaired would rather support a retailer addressing their needs. Customers who are not impaired in any way, but who understand the challenges faced by those who are, might also decide to support a retailer who provides for such customers. Legislation, to some extent, forces retailers to make their outlets accessible to as many customers as possible, by following specific guidelines.

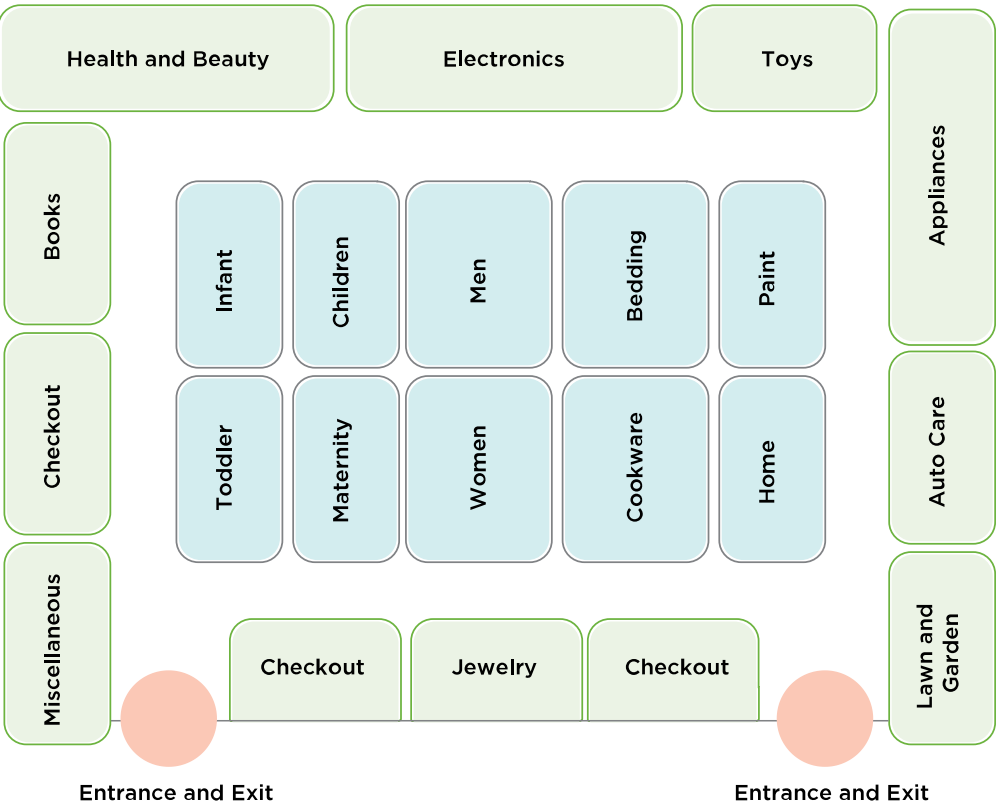
Retailers know that in order to increase sales and profits, they have to place the right products at the right places in the outlet. Most supermarkets place milk and bread fairly close together, since they know that most South Africans purchase these products on a regular basis. Some consumers will place these products at the back of the supermarket to expose the consumer to their other product offerings. This often leads to the consumer purchasing more than just bread and milk. There are, however, also retailers who are aware of customers' need to purchase only important day-to-day necessities and, in order to be competitive, place them right at the front of the store for easy access (Levy et al., 2014: 487–489).

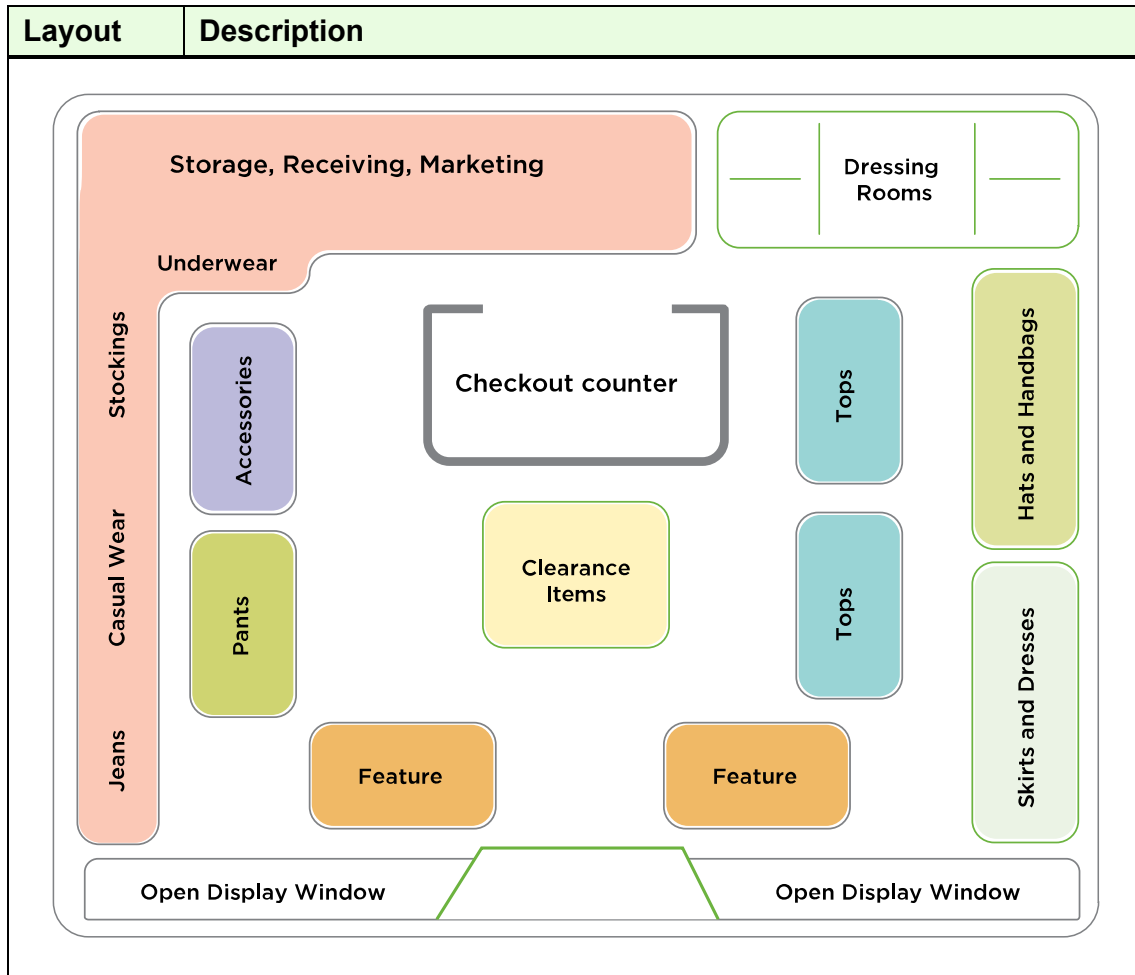
Retailers have to determine whether their store design enables good customer flow through the store and whether it motivates them to spend more. The type of product or service on offer must also be considered when deciding on store design (Erdis & Cant, 2015: 130). [Table 11.5](#) presents the three common store layouts that can be adapted to suit a retailer's product offering.

Table 11.5 Various types of store layout

Layout	Description
Grid layout	Aisles run parallel to one another with merchandise on both sides of the aisle. Cashiers are located at the entrance/exit of the store. This is a typical supermarket layout that focuses on convenience and is often used by stores such as Spar, Pick n Pay and Checkers.

Layout	Description
	
Racetrack layout	This layout is predominantly used by clothing retailers as it guides the customer through the various store departments. The retailer might have several entrances and must assist customers to reach the main aisle from where they can reach smaller sections. Stores like Woolworths and Foschini typically use this layout.

Layout	Description
 The diagram illustrates a free-form store layout. It features two main entrances and exits at the bottom, indicated by orange circles. The store is divided into several sections. At the top, there are three sections: 'Health and Beauty', 'Electronics', and 'Toys'. Along the left wall, there are three sections: 'Books', 'Checkout', and 'Miscellaneous'. Along the right wall, there are three sections: 'Appliances', 'Auto Care', and 'Lawn and Garden'. The central area is filled with a grid of product categories. The top row of the grid includes 'Infant', 'Children', 'Men', 'Bedding', and 'Paint'. The middle row includes 'Toddler', 'Maternity', 'Women', 'Cookware', and 'Home'. The bottom row of the grid includes 'Checkout', 'Jewelry', and 'Checkout'.	
Free-form layout	Designer and speciality stores tend to use this layout, which does not have much of a customer flow or direction. Salespeople focus more on personal selling and providing assistance in store. Examples of stores that use this layout are Guess and Apple I-store.



Source: Compiled from Levy et al. (2014: 489–493)

Signage and graphics inside a retail outlet add value to the customers as they assist them in navigating the store and finding the products they want. Traditional retail signage is either pictures or words on a board that hangs from the ceiling. With the increased use of technology, retailers are moving towards using digital signage in stores. Digital signage is much more attractive and various adverts or directions can be placed on a digital platform for the customer, making it appealing to the customer to visit a particular section or aisle in the shop through the promotion of products and services (Levy et al., 2014: 494). Retailers can also influence customers by having areas in the outlet dedicated to showcasing new items or products. [Table 11.6](#) explains the various types of feature area in retail stores.

Table 11.6 Types of feature area inside retail stores

Type of feature area	Description
Windows	Most retailers allow consumers to view their offerings through the window, where they often display their latest products and services to attract attention to the store and increase the number of walk-ins. Typical examples are Edgars and Dion Wired.
Entrances	Retailers often place their latest products and services or specials at the shop entrance. By doing so, retailers direct customer attention to specific products and services, which customers will often proceed to buy. Examples of stores that follow this approach include Spar and Woolworths Food.
Freestanding displays	These displays are focused on attracting customer attention and motivating them to purchase the product. These displays are often at the start of an aisle.
Mannequins	Fashion retailers use mannequins to showcase the clothing available in store. Stores such as Jet, Pep and Ackerman's make use of mannequins.
Promotional aisle or area	Retailers often combine the entrance areas and promotion areas to showcase the specials available. Some retailers have promotional aisles that showcase all products and services on promotion, for example Mr Price Home.
Walls	The store walls are in most instances also used for promotional purposes and for displays of products or services on offer. This is done due to limited space available inside the outlet.
Dressing rooms	Clothing retailers optimise their floor space by also using the dressing rooms to promote the latest in fashion and accessories, for example Mr Price.
Cash wraps	Woolworths and Dis-Chem use their checkout queues to promote various products, such as snacks, lip ice and cold drinks. Customers walk through these aisles to get to the pay points or wait there until they can pay for their products.

Source: Compiled from Levy et al. (2014: 495–497)

In conclusion, store layout and design, signage and graphics, as well as the feature areas are important factors to consider in retail as they have the potential to increase customer spending. Beneke (2016: 120)

suggests that retailers apply the four key principles of store layout (Table 11.7) if they want to be successful.

Table 11.7 Four key principles of store layout

Totality	• The store should reflect the retailer's vision and mission. • The retailer must be able to address the expectations and needs of the target market.
Focus	• The store design and layout should promote customer expenditure. • Any products or services that remain on the shelf should be a source of concern to the retailer.
Ease of shopping	• The store must be easily accessible and customers should be able to navigate the store with ease. • The retailer should focus on satisfying customer expectations and needs as this will lead to customer loyalty. • The retailer should address any customer queries as soon as possible to avoid bad word-of-mouth.
Change and flexibility	• Retailers must stay in touch with the latest developments in their retail environment. • The retailer should renovate the outlet every five to seven years. • Retailers have to be flexible and adaptable to retain their market share.

Source: Compiled from Beneke (2016: 120)

11.4 Shopper behaviour

The very existence of a retailer depends on the behaviour of consumers towards the products or services on offer. It is important for retailers to study customer behaviour as new trends emerge every day and customer needs change often. Retailers have to be flexible and

adaptable to changing trends in the retail environment as they relate to customer behaviour.

11.4.1 Consumer behaviour

Consumer behaviour can be defined as the decisions consumers make when they are interested in a product or service, and how they go about making those decisions (see also [Chapter 4](#)). Consumers are influenced by the stimuli they receive from various retailers which, in turn, determines whether or not they purchase a product or service (Cant & Machado, 2016: 422). Consumer behaviour has a significant impact on the profitability and sustainability of the retailer. The retailer has to be aware of changes in consumer behaviour, in order to develop and implement strategies that allow him to capitalise on these changes. Therefore, retailers have to be proactive in satisfying the consumers' needs by making products and services available before consumers even ask for them. This ensures increased competitiveness in the market as consumers never have to ask for the latest products or services; they are already available (Dunne et al., 2014: 71).

11.4.2 Components of the retail mix

The retail mix consists of six main components (see [Figure 11.2](#)). Retailers have to ensure that they have addressed these components before opening a retail outlet. A retailer is sure to be successful if he addresses these components; the level at which they are applied will make for a memorable shopping experience for the consumer. Through the application of this model, retailers are sure to address their financial objectives, the most important of which are profitability and sustainability. The retail mix allows retailers to provide merchandise that is relevant to a certain market segment and to promote it accordingly. This allows sales to take place and consumers to use the product or services. The emphasis is therefore on designing a store that attracts consumers and motivates them to come back. The products or services made available are restricted by prices; if the price is right and fits the consumer's pocket, the retailer can be sure that his products and services will generate profit.

However, the opposite can easily happen if the store is located on the wrong premises or geared towards the wrong market segment. Retailers have to ensure that their outlets are located within or close to their market segment to ensure a continuous flow of consumers through the outlet.

The type of product or service on offer will determine the level to which customer service and selling is needed within the retail outlet. In a general supermarket, customer selling is not as important as it is, for example, in a specialised electronics outlet where the product has to be demonstrated to the consumer (Dunne et al., 2014: 67).

11.5 Retail management functions

Functional areas are the same across all businesses, whether in the mining, agricultural, transportation or retail industries. However, while the principles of each of these functional areas are similar, how they are applied differs across industries. For the purpose of this chapter the focus and application of the management functions will be on retail management.

11.5.1 Human resources management

The role of **human resources** (HR) in a retail business is to ensure that the right person is appointed in the position being advertised. The HR department is responsible for developing and providing training to all employees, tailored to the specific function that they fulfil in the organisation. In the event that an employee is not performing according to the organisation's requirements, the HR department has to step in and manage the situation. This often ends in the employee leaving the organisation or being motivated to achieve the goals and objectives set in the performance review discussions. The HR department furthermore has to ensure that relevant motivational practices are applied throughout the retail outlet and that a positive

image is portrayed about the retailer to the employees. Reviewing an employee's potential, stimulating that potential and putting relevant guidelines in place to promote employee growth and retention is also an HR function (Venter, 2016: 353; Levy et al., 2014: 236; Berman & Evans, 2013: 320–321).

11.5.2 Financial management

All businesses, regardless of the industry, have to practise sound financial management. The finance department is responsible for providing all managers in the retail outlet with the latest financial figures and statements. The financial manager of a retail establishment must set financial goals and objectives to guide and assist other departmental or divisional managers in the retail outlet in minimising expenses and increasing income. Financial information provides retail managers with the relevant information to make strategic decisions and save costs at all retail levels.

Although a retail manager or employee will not necessarily be asked to set up an income statement, balance sheet or cash flow statement, he must be able to interpret these data in order to improve the outlet or division's financial position. Financial management considers various ratios, such as liquidity, solvency, profitability, efficiency and productivity, of which the breakeven analysis is the most well known (Venter & Bruwer, 2016: 394; Levy et al., 2014: 156; Berman & Evans, 2013: 336–341). A more in-depth discussion of financial management is beyond the scope of this book.

11.5.3 Supply chain management

It is important for a retailer, regardless of the industry, to have a well-designed supply chain management department which ensures the timely delivery of products ordered to secure customer satisfaction. Customers are not aware of what needs to happen behind the scenes to obtain a product from producers; all they are interested in is purchasing the product from their favourite retailer. If it is not available, they might end up going to a competitor.

Supply chain management encompasses the entire process from where the product or service is created or assembled, to where the customer purchases the product or service and consumes or uses it. It is therefore extremely important that retailers ensure that their supply chain management divisions manage planning, implementation and stock control efficiently and effectively in order to meet the needs and expectations of the customers. The most well-known supply chain within the retail environment is retailer–wholesaler–distributor, all of whom are responsible for delivering products and services to customers in a timely manner (Corbishley, 2016b: 259–260; Levy et al., 2014: 274).

11.5.4 Strategic management

All businesses have a strategy that encompasses the organisation's vision, mission, objectives and goals. These must be formulated in such a way that stakeholders know what the company is striving to achieve. It is critical that a retailer has a strategy and that it is reviewed on a regular basis to keep up with the continuous changes in consumer behaviour and demands. The development and design of a retail strategy allows all managers in the retail outlet to ensure that resources are adequately used and that employees know what is expected of them. Senior management also has the responsibility to review the organisation's objectives and goals on an annual basis to determine whether the retailer is on track with achieving its vision and mission. If a retailer has achieved its vision or mission, senior management must review the vision and mission statements and formulate a new vision and mission to guide employees on the way forward (Pentz, 2016: 441; Levy et al., 2014: 124–125).

11.6 Conclusion

This chapter briefly explored the retail management environment and how it functions within the South African landscape. It is clear that

retail is exposed to continuous changes within the macro- and micro-environments. Retailers have to be proactive in adapting to the changes within the retail environment to address the expectations and needs of customers. Satisfying customer expectations creates loyalty and positive word-of-mouth for a retailer, which increases its competitive advantage.

DISCUSSION QUESTIONS

1. Define the theoretical term “retailing”.
2. Explain the difference between the types of retailers within the South African border.
3. By making use of examples, discuss the retail mix.
4. Identify and explain the types of food retailers within South Africa.
5. Name and explain the general merchandise retailers in South Africa
6. Describe the importance of location for a retailer.
7. Graphically depict the steps to take in choosing a retail outlet location.
8. Identify and describe any four of the retail location principles.
9. Discuss the importance a retailer having a good store layout and design.
10. List and explain the three types of store layout.
11. Identify and explain any four types of feature area that retailers could use to showcase their product offerings.
12. Identify and discuss the four key principles of store layout.
13. Explain consumer behaviour.
14. Graphically depict the retail mix.
15. Identify and describe each of the retail management functions.

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12

PRICING DECISIONS

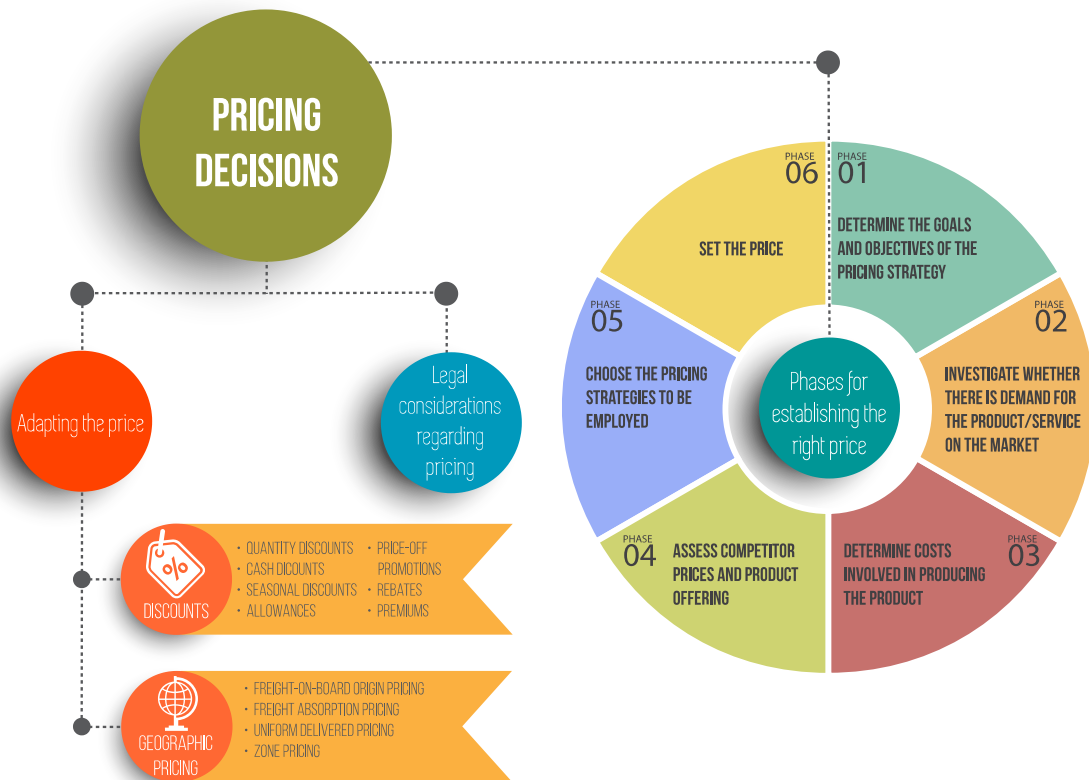
LEARNING OUTCOMES

AFTER STUDYING THIS CHAPTER, YOU SHOULD BE ABLE TO

- understand the role of price in the marketing mix
- understand the phases for establishing the right price
- demonstrate an understanding of the types of pricing strategy
- understand the legal considerations regarding pricing within a South African context
- distinguish between the pricing adjustment tactics used when refining the pricing strategy.

KEY CONCEPTS

- DISCOUNTS
- GEOGRAPHIC PRICING
- LEGAL CONSIDERATIONS
- PRICING
- PRICING OBJECTIVES
- PRICING STRATEGIES



12.1 Introduction

When one talks about pricing decisions, what is the first thing that comes to mind? Usually, from the consumers' perspective, it is the final price they pay in order to acquire a product or service. From the marketers point of view, pricing is a process of evaluating the consumers' behaviour and from that, establishing the right price that the consumer will accept and that will meet the company's goals, i.e. making a profit.

Price, by definition, is regarded as something that is given up, usually by the buyer in exchange for the acquisition of a specific product or service from the seller (McDaniel, Lamb & Hair, 2011: 629). In any buying situation, prices are set by buyers and sellers in order to attain

the product desired (the buyer) or to make a profit (the seller). This traditional setting has, however, evolved over time due to the impact of the internet on business transactions. The internet allows sellers to differentiate between buyers and allows buyers to differentiate between sellers in a number of ways (Kotler & Keller, 2009: 227). This means that buyers are presented with the opportunity to compare prices from various websites instantly and choose the most cost-effective alternative while having their need for the product met. Think of when you plan your vacation to Cape Town, for example. If you don't have family in Cape Town to stay with, you will most likely need to find accommodation. Websites such as SafariNow and Sleeping-OUT offer price comparisons from various suppliers for your convenience. Sellers in this context can monitor buyer behaviour, thus being able to tailor their offerings to the individual consumer as well as give consumers great specials. Platforms such as OLX, for example, allow consumers and businesses to sell products that buyers may need at a negotiated price. This platform has been particularly well adopted in South Africa by both private and commercial sellers.

For companies, price is a key element in attaining revenue, which is in turn a key element in making a profit (McDaniel et al., 2011: 630). First, it would be best to explain the difference between *revenue* and *profit*. Revenue is regarded as the price that companies charge for goods and services multiplied by the number of units of the product sold. From the revenue generated, companies pay for fixed and variable costs, such as production costs, marketing costs, financial costs and distribution costs. Once all the variable and fixed costs have been paid, what the company has left is regarded as profit. One can see that it is particularly important for the company to set a price that is not too high, not too low and that will be accepted by the consumer (McDaniel et al., 2011: 630). Pricing is tricky because consumer markets are not all the same. Some consumers earn more than others and their spending won't be the same. Marketers need to keep this in mind when setting the price: who they are targeting and whether the market can afford their product or services. In South Africa particularly, we have what is called the Living Standards Measure (LSM) descriptors that categorise consumer markets based on

variables such as income and where consumers live (see [section 2.4.1.3](#) in Chapter 2 for a full discussion on LSMs; also [section 6.2.4](#) in [Chapter 6](#)). These LSM descriptors give marketers an overview of the consumer groups they can target. For example, consumers within the LSM group 1 are characterised as being male or female, having completed primary school and living in traditional huts within small urban and rural areas (South African Advertising Research Foundation, 2012). The income of these consumers may not be high and therefore marketers must set affordable prices carefully in order to capture this market.

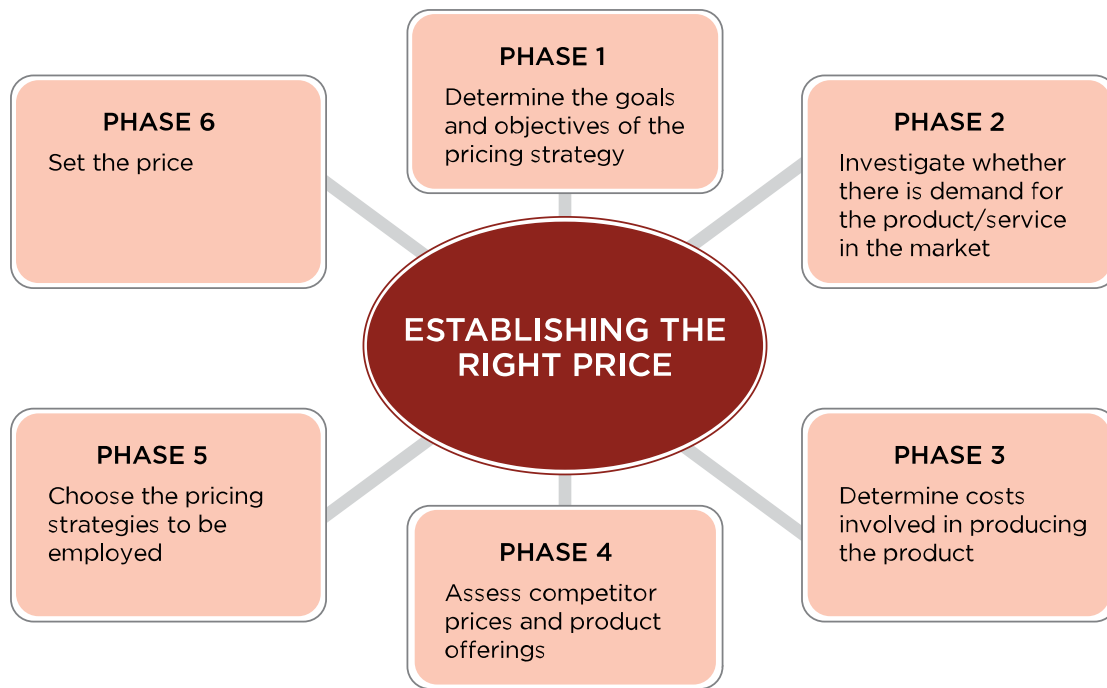
Another aspect that makes pricing so complex is that consumers tend to evaluate the value and quality of a product or service based on the price set for it. For example, in the consumer's mind, an expensive product may be perceived as a high-quality product. Similarly, an inexpensive product may be associated with perceptions of lower quality. In reality, however, a lower-priced product does not necessarily translate into a lower quality product; therefore, companies need to consider price carefully.

In this chapter, we will uncover some of the steps that marketers would go through when determining the right price for the product or service offered in the market. As the chapter proceeds, try to put each discussion into perspective by identifying buying situations you have encountered where these principles are applied.

12.2 Phases for establishing the right price

In this section, we will follow the various phases that companies go through in the pursuit of setting the correct price. These phases are illustrated in [Figure 12.1](#).

Figure 12.1 Phases for establishing the right price



Source: Adapted from Kotler and Keller (2009: 229–240)

12.2.1 Phase 1: Determine the goals and objectives of the pricing strategy

The first phase is to determine the pricing goals and objectives. In other words, in this phase the marketer has to determine what the pricing strategy must achieve. **Pricing objectives** should be derived from the company's marketing goals, which also need to come from the business goals (Peter & Donnelly, 2013: 172). Companies need to ensure that they establish the correct pricing objectives in order for them to appeal to the sought-after target audience. Pricing objectives can either be profit orientated, sales orientated or follow a status quo approach (Lusch, Dunne & Carver, 2011: 360–361; Lamb, Hair & McDaniel, 2011: 296–298).

Earlier we differentiated between revenue and profit. The first type of pricing objective relates to the profit that the company stands to make. Profit-orientated objectives include the following:

- **Target return.** This is where a specific level of profit is predetermined. Companies often set this amount as a percentage of sales or capital investment. For example, a small spaza shop in Soweto might establish its target return as 2.5 per cent on total sales. This would mean that the spaza shop owner converts 2.5 per cent of his sales into profits.
- **Profit maximisation.** This is where the company sets the price so that the revenue generated is as high as possible compared with the costs. It is important to note that profit maximisation does not ultimately translate into higher prices being set. The balance depends on the competitiveness of the industry. For example, a kiosk or convenience store may pursue this pricing objective when very little competition exists.
- **Satisfactory profits.** This is where the company doesn't aim to maximise profits but rather just to make enough to keep stakeholders happy. The level of profit made is usually consistent with the levels of risk the company faces.

Sales-orientated pricing objectives include the following:

- **Market share.** Sales-orientated pricing objectives may be centred on the company's market share. Market share refers to the company's total sales within the entire market. For example, Multichoice is a video entertainment and internet entity that offers consumers in South Africa, and across Africa, a wide range of products or services. When companies such as Multichoice aim to increase the number of their customers in South Africa, their objective is considered to be focused on their market share.
- **Sales maximisation.** In this case, the company may strive to increase sales at all costs. When a company opts for this pricing objective, it chooses not to consider profits, the competition or the environment; its ultimate goal is to make as many sales as possible. If, for example, a clothing retailer has excess winter stock left over, then the sales maximisation pricing objective might be most suitable in order to get rid of it. Offering customers a discount may

encourage them to purchase these products even if the stock is out of season.

The objective of status quo pricing is as follows:

- **Status quo pricing.** This is where the company aims not to “rock the boat”. The purpose is not to maximise profits or increase market share, but rather to maintain existing prices or match the competitor’s prices. The South African hair extensions industry may be considered as a good example of this pricing objective. In South Africa, Brazilian, Peruvian and Indian hair are in high demand. Whereas in the past, these products were imported from China, local suppliers are now delivering these products from other countries to the consumer at status quo prices. Suppliers may meet competitor pricing depending on how products perform in the market.

Once the marketer has determined what goals and objectives the pricing strategy must achieve, the next task is to establish whether there is demand for the product or service in the market. Demand is important as this gives the marketer an indication of whether consumers want the product or service offered.

12.2.2 Phase 2: Investigate whether there is demand for the product or service in the market

Once the pricing objectives have been set by a company, the next step is to investigate whether there is demand for the product or service being offered. In most cases, price and demand are closely linked in the sense that price may have an impact on demand. Demand is explained as the number of units of a product that will be sold in the marketplace at varying prices for a specific period of time (McDaniel et al., 2011: 634).

The number of units sold depends on the price of the product. If consumers perceive the price of the product to be too high (meaning that the consumers’ perceived value does not match the price set for the product), they will demand less of the product. Conversely, the lower the price of a product, the more of the product consumers may

purchase. Companies need to consider factors such as demand carefully when determining price. Yes, the lower the price, the more demand there will be. However, price is also used by consumers as a mechanism to evaluate the quality of the product. Therefore these intricate factors need to be considered and well balanced in order to attract the right consumers and to protect the [brand equity](#).

Kotler and Keller (2009: 230–231) identified three variables that companies must consider when determining demand for their product or service offering, discussed below.

12.2.2.1 Variable 1: Price sensitivity

Price sensitivity refers to the amount by which changes in a product's cost tend to affect consumer demand for that product (*Business Dictionary*, 2017a). Price sensitivity in this regard tends to fluctuate according to how important price is for the consumers in relation to other buying conditions. For example, consumers are usually less price sensitive when purchasing low-cost items (such as a hair brush, a mop or a broom) or when price is not the main determinant in their decision making – these are ideal consumers who appeal most to companies.

[Table 12.1](#), [Table 12.2](#) and [Table 12.3](#) illustrate the factors that tend to influence the consumers' price sensitivity.

Table 12.1 Factors relating to consumer perceptions as well as personal preferences

Influences on price sensitivity	Description	Examples

Influences on price sensitivity	Description	Examples
The uniqueness of the product or service offering versus the value	This refers to when consumers perceive the product or service offering to be unique in the benefits it offers. In this case, the consumers tend to be less price sensitive because they believe that there are no alternatives that match their need in the market.	A few years ago, waist trainers created quite a stir in the market due to international trends. When this product was launched in South Africa, prices for these products ranged from R700 to R800. Demand for this product grew as consumers thought the benefits of the product were unique and there were very few alternatives in the market. Consumers were therefore less price sensitive. Today, various alternatives and variations of this product are available and prices have thus decreased.
The relationship between price and quality	This refers to when the consumer believes that the product offered is of high quality and is worth the premium price. In such cases, consumers tend to be less price sensitive because their main motivation is to attain quality products no matter what the cost.	A male consumer may be looking for a good-quality formal jacket to purchase. He may opt to purchase a Daniel Hechter formal jacket for R1450 at a Truworths store rather than buying a similar jacket at a Jet store. He may perceive the higher-priced jacket as better quality than the lower-priced jacket.

Source: Adapted from Mullins and Walker (2013: 287)

Table 12.2 provides the factors relating to the consumer's awareness and attitudes towards substitutes that impacts on the consumers sensitivity to price.

Table 12.2 Factors relating to the consumer's awareness and attitudes towards substitutes

Influences on price sensitivity	Description	Examples
How aware consumers are of substitutes in the market	This refers to when consumers are not really aware of competitive brands in the market that may fulfil their identified need. In this case, consumers may be less price sensitive and will purchase what they know. There could be a number of reasons why consumers may not be aware of alternatives. For instance, the product may be too complex.	Suppose a consumer has no idea of the various brands that offer smartwatches. The consumer may be less price sensitive and buy the smartwatch offered by his cellphone brand (e.g. Huawei brand) simply because he doesn't know what else is on the market.
Inability of the consumer to compare alternatives	This refers to when the consumer finds it difficult to compare the quality and product features. The products may be too complex for the consumer to understand or the technical jargon used by the company may leave the consumer confused. The consumer would therefore be less price sensitive as he cannot objectively examine and compare alternatives with each other.	A consumer looking to purchase a laptop at Incredible Connection may be less price sensitive and purchase a brand he knows (such as HP) simply because he finds it difficult to compare alternatives properly. The consumer may not know the difference between the Intel Core variations and will therefore be unable to compare laptops from HP, Acer and Lenovo.
Benefits sought	This refers to when the consumer is less price sensitive because he is purchasing the product in order to enhance or gain the full benefits of a product previously purchased.	A consumer may want to buy rechargeable batteries in order to operate a digital camera previously bought. In this buying situation, he may not be concerned about how much the rechargeable batteries cost because he has to buy them to make use of the digital camera.

Source: Adapted from Mullins and Walker (2013: 287)

Table 12.3 provides the factors relating to the consumer's ability to pay for the product that impacts on the consumers' sensitivity to price.

Table 12.3 Factors relating to the consumer's ability to pay for the product

Influences on price sensitivity	Description	Examples
Consumer income versus the expense of the product	This refers to when the consumer is less price sensitive because the cost of the purchase is relatively low compared with his total income.	A consumer may be more price sensitive when considering purchasing a lounge suite that costs R60 000, when he only earns R15 000 per month.
Having the cost of the product or service shared	This refers to when the consumer is less price sensitive because the cost of the product or service is shared among various parties.	Suppose a company pays 60% of its employees' monthly medical aid premiums. As a result, the company's employees will not focus simply on the cost of the medical aid premiums, but rather on the benefits offered by the medical aid as their employer contributes to the employees' membership.
Merchandise management	This refers to when consumers are less price sensitive because they cannot store large quantities of the product.	Stores such as Makro give consumers discounts on products bought in bulk. However, if the consumer lives in a relatively small apartment with very little space, she is not likely to be concerned about the discounts offered by Makro as she cannot store these products.

Source: Adapted from Mullins and Walker (2013: 287)

12.2.2.2 Variable 2: Demand estimation

The next variable that companies need to consider is estimating the demand for the product or service. Demand estimation is essentially when the company predicts the future behaviour of consumers in the market (Lohrey, 2017). Companies have a few options to use when estimating demand. Firstly, they can conduct research, asking the population or target market how they would react to different pricing structures. However, consumers may not be forthcoming about their true intentions, with the aim of discouraging the company from setting

high prices (Kotler & Keller, 2009: 231). Secondly, the company can test various prices across different avenues. For example, they can charge consumers a certain price for purchases in store and charge them carrying cost prices online. The aim of this is to see how consumers react to the different prices. Lastly, the company can statistically scrutinise the previous prices, amounts sold at those prices and other data that might help in establishing the demand for the product (Kotler & Keller, 2009: 231).

While trying to estimate demand, companies need to bear in mind the effect of non-price factors such as inflation, consumer income and product changes. If consumers have more disposable income or the cost of living is bearable, demand for certain products may be positively affected, but under tough economic conditions, demand may be low as consumers become more conscious about what they buy.

12.2.2.3 Variable 3: Price elasticity of demand

The third variable that companies need to consider is the price elasticity of demand. This refers to insight into how consumers may react to price changes. For example, will you as a consumer spend more on products or services when prices increase or when prices decrease? Therefore, by definition, price elasticity of demand refers to how the market responds to price changes (Mullins & Walker, 2013: 287).

When considering price elasticity of demand, there are various concepts (i.e. elastic, inelastic and unitary) that companies need clarity on. These concepts are explained in [Table 12.4](#) (see also [Chapter 19](#) on marketing metrics).

Table 12.4 Concepts surrounding the price elasticity of demand

Concept	Description	Example

Concept	Description	Example
Elasticity	Demand is considered to be elastic when there is a change in the demand for a product or service as prices change.	It's relatively easy to determine an elastic demand. In an everyday situation in which consumers have access to a number of alternatives, they can choose to buy or not to buy a product or service because of price changes. For instance, a consumer who isn't brand loyal to detergent brands can switch from OMO detergent to Sunlight detergent if the price of OMO has increased.
Inelasticity	This refers to when the demand for a product or service does not change significantly when prices change. Demand in this case would be inelastic.	An example of an inelastic demand would be the demand for petrol. In South Africa, we experience frequent increases and decreases in the price for petrol. However, the demand for petrol does not change as it is a commodity necessary in both the business and consumer markets.
Unitary	A unitary elastic demand is described as a proportional change in one factor that yields a proportional change in another. These factors could be price and demand.	Suppose the price of treadmills increased by 15%. If the demand for these treadmills decreased by 15%, the elasticity of demand would be considered to be unitary.

Sources: Adapted from Kotler and Keller (2009: 231); Mullins and Walker (2013: 287)

The following formula can be used to calculate the price elasticity of demand for a specific product or service (Mullins & Walker, 2013: 287):

$$\text{Price elasticity of demand (E)} = \frac{\text{Change in quantity demanded (\%)}}{\text{Change in price (\%)}}$$

Companies can interpret the price elasticity of demand in various ways (McDaniel et al., 2011: 636):

- Demand is considered to be *elastic* when the price elasticity of demand is larger than 1.
- Demand is considered to be *inelastic* when the price elasticity of demand is less than 1.
- Demand is considered to be *unitary* when the price elasticity of demand is equal to 1.

12.2.3 Phase 3: Determine the costs involved in producing the product

As can be seen from [Figure 12.1](#), the third phase in the process of establishing the price is estimating costs. In this phase, the company considers the costs incurred in ultimately producing the product and making it available to the target market. When setting prices, companies cannot only consider demand, but must also consider how much it will cost them to produce the product. These costs are referred to as fixed costs and variable costs.

Fixed costs, also known as overhead costs, are those costs that are constant in the short term (Mullins & Walker, 2013: 289). Regardless of how many units are sold or produced, the company will still incur these costs. For instance, suppose a local company manufactures a product in the Western Cape; it will incur rent and electricity costs regardless of how much revenue it makes.

Variable costs, on the other hand, refer to those costs that change in magnitude in relation to the levels of production (Mullins & Walker, 2013: 289). They include costs such as packaging, labour and the cost of materials incurred when producing each unit of the product (Mullins & Walker, 2013: 289). Although these costs are constant per unit produced, they are referred to as variable costs because their total varies with the number of units produced (Kotler & Keller, 2009: 232).

Total costs are the sum of the variable costs and fixed costs. In order for the venture to be viable for the company, the price of the product must cover the total cost amount (Mullins & Walker, 2013: 289).

12.2.4 Phase 4: Assess competitors' prices and product offerings

The fourth phase in establishing the right price is evaluating competitors' prices, costs and product offerings. Competitors' prices are an important aspect to consider as they act as a reference for both the consumer and the company. Consumers may compare prices in their decision making process and the company may use the competitors' prices as a benchmark for its own prices. Once the company has evaluated competitors' prices against product features and value given to consumers, it can objectively determine the most suitable pricing strategy in order to achieve the pricing objectives set.

For example, suppose a small business owner would like to launch a new chicken franchise within various townships in Gauteng. It would be ideal for him to scrutinise carefully who his competitors will be and what prices the competition is offering. The reason for this is that if the new business's prices are going to be higher than those the competitors are offering, then consumers will probably continue to purchase chicken from the franchises they know and trust. As a new franchise on the market, the small business owner has yet to establish his brand in the market and earn the trust of the consumers.

12.2.5 Phase 5: Choose the pricing strategies to be employed

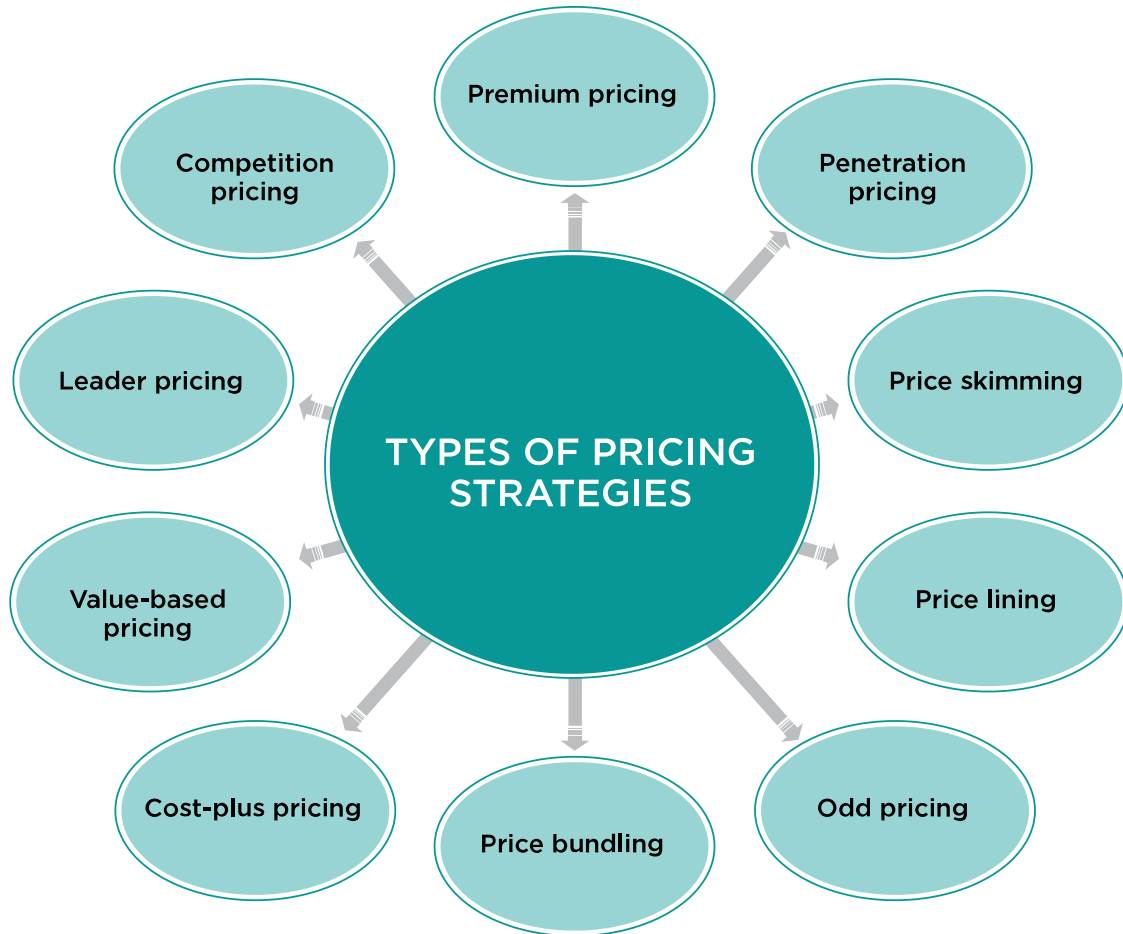
At this stage of the process, the background work has been done and now the company needs to determine the pricing strategy to employ. Thus far, various aspects have been highlighted as key variables to consider in establishing the right price – variables such as the product offering, demand for the product and pricing objectives.

Companies have at their disposal a number of pricing strategies (see [Figure 12.2](#)) in order to achieve both organisational and marketing objectives. As we go through each pricing objective, consider a buying situation where you have encountered these pricing strategies and determine whether you believe they have been effective.

12.2.5.1 Types of pricing strategies

The 10 types of pricing strategy are shown in Figure 12.2 and discussed in the sections that follow.

Figure 12.2 Types of pricing strategies



Sources: Adapted from Lusch et al. (2011: 368–37); Winer and Dhar (2014: 296–297, 412–416)

Premium pricing

Premium pricing refers to when the price is set by the retailer in order to indicate the exclusiveness of the product or service (Learn marketing, 2017). An example of premium pricing is illustrated in the airline industry in South Africa. South African Airways (SAA) offers travellers the opportunity to purchase business class tickets when travelling by air to various destinations. The premium price is usually

higher in relation to the economy class tickets. Business class is exclusive to those willing to pay the premium and in return enjoy various benefits such as exemplary catering services, more comfortable seating and preferential access to the aircraft (South African Airways, 2017).

When companies are considering premium pricing, it is important to realise that in order for consumers to accept this pricing strategy, they need to believe that the benefits attached to the price are unique (Pettinger, 2013). If competitors can easily respond and counter-attack the premium price, however, then the pricing strategy will not be sustainable in the foreseeable future (Pettinger, 2013).

Premium pricing also requires a relatively strong brand (Pettinger, 2013). Consumers generally feel comfortable paying a premium on a product or service sold by a brand that they know offers exceptional quality.

Lastly, companies need to consider the target market they wish to reach. Realistically speaking, in South Africa, only a certain percentage of consumers can afford exclusive products. Therefore, if the organisational goals are to reach the masses, premium pricing is most probably not the best option. Brands such as Prada and Porsche cater for a niche market.

Penetration pricing

Penetration pricing refers to when companies set prices as low as possible in order to maximise sales and increase their market share (NetMBA, 2010). Penetration pricing is essentially when a company sells products (perhaps new products in the market) at a low price in order to encourage consumers to buy the product and gain market share. Usually, once the company has established a significant share in the market, other strategies will be employed.

This pricing strategy is well illustrated by internet companies in South Africa. When optical fibre was first introduced, Telkom offered uncapped fibre services at an all-inclusive price of R799. As not many companies were offering uncapped fibre at such a price, this

encouraged consumers rather to opt for Telkom as their service provider for fibre and move away from the traditional ADSL.

Penetration pricing is considered to be most appropriate under the following conditions (NetMBA, 2010):

- *When demand for the product or service offering is projected to be highly elastic.* For example, if interest rates and tax rates are expected to increase after the Finance Minister's national budget speech, companies can anticipate that consumers may become price sensitive and tighten their spending. If a company uses the penetration pricing strategy, the demand for its products may increase as the price decreases. Due to inflation, for instance, consumers may become price sensitive and cut down on fastfood consumption. In such cases, fastfood outlets could use the penetration strategy to encourage consumers to continue purchasing fastfood. Fastfood outlets such as Steers, for example, have combo meals that offer consumers good value at a relatively low price.
- *When a large decrease in costs is anticipated as cumulative volume increases.* For example, if there has been a significant decrease in the cost of producing a product (considering variable and fixed costs), then manufacturers might expect that they can produce more goods. With larger volumes of the product being produced, the price can be set as low as possible and the company can still make a profit.
- *When it is expected that the product will gain mass attraction very quickly.* For example, if the product is being launched in South Africa for the first time and has it been a success overseas, companies may use this pricing strategy as consumers are expected to be attracted to this product.
- *When companies are aware of the threat of approaching competitors.* For example, if a new retail complex is built in a residential area, existing retailers at nearby complexes may adopt this pricing strategy because of the new retail stores that will soon be operational.

Price skimming

A price skimming strategy targets the less price-sensitive consumer. This is when companies initially set prices high and gradually lower them (Perreault, Cannon & McCarthy, 2012: 416). Skimming may maximise profits in the market during the introductory phase of the product life cycle, especially if there are limited alternatives (Perreault et al., 2012: 416).

A good example of price skimming can be seen in the telecommunications industry. When brands introduce new cellphones to the market, the prices are usually set very high and decrease as the devices move through their product life cycle. The latest technologies on these [mobile devices](#) are justifications for the price skimming. This pricing strategy is not sustainable because technology evolves quickly and competitors can easily respond. Therefore prices need to be adjusted accordingly.

Price lining

Price lining refers to when a company sets different prices for its different types of product (McDaniel et al., 2011: 678). This is when companies offer a product line with various items at different prices (McDaniel et al., 2011: 678). An example of price lining is the different DStv packages that Multichoice offers in South Africa (Multichoice, 2017).

Product lining offers several advantages (McDaniel et al., 2011: 678):

- Consumers are offered various benefits at varying price levels that will suit them.
- The different price levels enable the company to reach a wider market, including consumers who would otherwise not be able to afford this product. Offering differently priced DStv packages provides consumers from lower income levels access to a range of television channels.
- This pricing strategy may reduce the number of price markdowns annually. Retailers often need to mark down their product or service offering seasonally. By making use of the price lining strategy,

retailers reduce how often they have to mark down prices in order to get rid of stock.

Odd pricing

Odd pricing refers to when companies set prices that end with 5, 8 and 9 (Dunne, Lusch & Carver, 2014: 413). In such cases, the price for a product could be either R199.95 or R449.98 or R999.99. The rationale behind odd pricing is that consumers perceive it to be cheaper than it really is (Holdershaw, Gendall & Garland, 1997: 1). Researchers believe that this perception of “the cheaper option” triggers a response from the consumer. Another explanation for odd pricing is that it suggests to consumers that products are priced by the retailer as low as possible. Marketers believe that the more precise a price is, the more persuaded consumers are that the price is credible. As a result, the marketer transfers the image of honesty that would not have been achieved if the price was rounded up.

Marketers also believe that odd pricing is effective because of the “circles attract the eye” theory. In this regard, it is believed that consumers are drawn to these digits (such as 9), that they like to receive change and therefore they would be more attracted to these prices (Holdershaw et al., 1997: 1).

Price bundling

Price bundling is when a company offers consumers products in a package. This package can be priced lower than the sum of the products purchased individually (Winer & Dhar, 2014: 296). For example, FNB Connect could offer consumers an HP laptop with a portable printer, a carrying bag and a Bluetooth-enabled mouse – all for the price of R3999. If the customer were to purchase these items individually, he would most likely pay more for them in total. Retailers such as Clicks regularly make use of this pricing strategy. Clicks usually has month-end specials whereby consumers can buy three products from the same offer and receive the cheapest one for free.

Price bundling can also be approached by companies in a different manner. The company can bundle the same product and charge more

for each item. In that case, the consumer would see the value they receive in purchasing these bundled products.

Cost-plus pricing

In this pricing strategy the price consists of the production costs as well as the mark-up (Learn marketing, 2017). The mark-up is determined by how much profit the company wishes to make from the unit (Learn marketing, 2017). For example, when using this pricing strategy, the company would take into account the fixed and variable costs involved in manufacturing the product and also consider the profit envisaged.

The primary concern surrounding this pricing strategy is that it does not consider the demand for the product and the prices set by competitors (Learn marketing, 2017).

Value-based pricing

Value-based pricing strategy refers to when companies take into consideration the value (benefits) that product or service offering provides to the consumers, instead of focusing on the product costs involved (Learn marketing, 2017).

This particular pricing strategy requires great insight because value is subjective to the individual consumer. Consumers may consider value as (Macdivitt & Wilkinson, 2012: 9):

- getting more than what they paid for or expected
- requiring one company's product or service offering more than the competitor's product or service offering
- receiving the very best deal
- receiving the "feel good" aspect through the preference they show for a particular company's product or service
- receiving a product or service offering that makes life a little easier.

Cosmetics companies such as Mac and Bobbi Brown may use this pricing strategy and the price is justified by the benefits their cosmetics

offer.

Leader pricing

Leader pricing is an attempt by a company to attract new consumers by setting the prices for its product close to or below cost, with the hope that consumers will purchase the products once they are available (McDaniel et al., 2011: 678). This particular pricing strategy is used mostly in supermarkets for products that consumers know would be a bargain. Supermarkets such as Pick n Pay occasionally use this strategy during certain days of the month. For example, they may sell a 3 kg bag of OMO Auto washing powder for R58.99 at the end of the month. Consumers who usually purchase OMO Auto washing powder would be attracted to such offers as they know that a 3 kg bag of OMO Auto washing powder usually costs more.

This pricing strategy is also used by companies that offer services in the market. For example, gyms such as Planet Fitness may offer new customers one month free when they join during a specific period. Again, Tuscan BBQ, for example, has a promotion where consumers can eat for free at any of their restaurants on their birthday (Tuscan BBQ, 2016). In order for consumers to redeem this, there must be at least one paying customer in the party. This is an example of what we often see in the “buy one, get one free” strategy.

Competition pricing

Competition pricing refers to the practice by companies to set prices in relation to competitors' prices (Learn marketing, 2017). The South African insurance industry is very competitive in its pricing. For example, in recent years Outsurance has claimed that if it cannot beat a consumer's current insurance premium, he can receive a R400 or R800 payment from the company. In this regard, Outsurance is very confident that it can give consumers the most competitive price for their insurance needs. Clientèle is another example of a company that is very competitive in its pricing. It claims that it is currently the only funeral plan in South Africa that pays consumers their premiums back for the deceased member (Clientèle, 2017).

12.2.5.2 Pricing strategies in the product life cycle

A product goes through various phases in the product life cycle. These phases include the introductory phase, the growth phase, the maturity phase and the decline phase. Pricing strategies in each phase of the product life cycle would not be the same as the market responds differently in each phase. We will now evaluate what pricing strategies would be ideal in each phase of the product life cycle.

The introductory stage

In the introductory phase, the product or service offering is relatively new on the market and the company has yet to establish its market share. Because of this, a company may initially offer products at a low price. In such cases, the company aims to penetrate the market. Companies such as Verimark often use this pricing strategy when Bastille, Twista and Floorwiz products are launched. The price is usually set low in order to encourage consumers to purchase these products.

Companies may, on the other hand, use price skimming and set prices high in the introductory phase. Apple, for example, makes use of price skimming, setting the price for MacBook products high. A 12-inch MacBook 1.1 GHZ Core may be priced at R23 999. Compared with other brands that offer laptops to consumer, the price Apple has set is relatively high.

The growth stage

Once the product has been on the market for a period of time, it will move into the growth phase. In the growth phase, the product already has some market share, has been tried by consumers and sales begin to gain momentum. This might be because more and more consumers are using and accepting the product or service offering. However, new competitors may enter the market during this phase, therefore pushing the company to lower its prices (Havaladar, 2014: 392). Due to the increasing number of competitors, companies may lean towards product differentiation strategies as consumers can now compare competitor prices and products with the company's product offering.

Sales in this growth phase will continue to grow until the product reaches the maturity phase in its life cycle.

Pricing strategies that can be used in this phase of the product life cycle include price lining, as the focus is on product differentiation and product line extension. For example, the Samsung product line of washing machines can be extended to include various drum sizes (e.g. 8 kg, 7 kg or 6 kg frontloader).

The maturity stage

In the maturity phase, competitors become more aggressive as many companies are in the market (Havaladar, 2014: 392). The challenges that companies face in the maturity phase of the product life cycle are that sales may reach a maximum, market share may start to decrease and this may lead to decreased profits (Living Better Media, 2017). Companies would therefore adopt competition pricing, either matching the competitors' prices or lowering their prices in order to maintain market share. For example, the Huawei P9 was launched in South Africa in June 2016 and the recommended retail price was R11 699 (Vermeulen, 2016). This product may be in the maturity stage of its life cycle and now retails within the range of R7299. Prices are lowered in order to maintain market share.

The decline stage

Once the product has moved through the maturity phase, it will progress into the decline phase. This is when the company will experience a great decrease in prices as the remaining competitors try to make a profit from the remaining consumers in the market (Lamb et al., 2011: 306). At the stage of the product life cycle, companies may adopt the price bundling strategy or use discounts either to get rid of leftover stock or to maximise profits as sales decrease. For example, as spring starts, clothing outlets such as Truworths may sell ladies boots and coats at 50–75 per cent off the original price. These discounts will allow Truworths to sell any leftover winter stock.

12.2.6 Phase 6: Set the price

The final phase is selecting the price for the product or service offering. We have thus far looked at a number of factors that companies need to consider: the competition, pricing strategies, price adjustment tactics, and where the product is in the product life cycle. After taking all these factors into consideration, the company is left with extracting meaning from its evaluations, namely what price would best achieve the organisational and marketing objectives? The price chosen will realistically not be one price for the whole South African population, but rather a pricing structure to accommodate the market the company wishes to capture (Kotler & Keller, 2009: 241).

12.3 Legal considerations regarding pricing

The Competition Act of 1998 changed South Africa's competition legislation, giving more influence to the competition authorities than is the case in European Union, US and Canadian best practices (Brand South Africa, 2013). The Competition Act bans anti-competitive behaviour in the market and obstructive practices such as price fixing, and prevents larger entities from "abusing" the system (Brand South Africa, 2013). In recent years, we have seen a few companies being brought into the spotlight because of pricing irregularities. In 2007, Tiger Brands was fined R98.8 million by South Africa's Competition Commission when the company admitted it colluded with competitors to fix the price of bread in the country (Bloomberg, 2007).

According to White (2017), the Competition Commission in South Africa discovered that resident and global financial services providers were involved in fixing the rand/dollar exchange rate in 2017. Such allegations are very serious and can have a negative impact on companies. The consequences of such actions may lead to extensive penalties for the companies involved. The damage caused is not only monetary, but may also affect the brand. It is for this reason that companies tread carefully and operate ethically.

Cravens and Piercy (2013: 337–338) highlight the ethical conduct that companies need to consider when setting the price:

- **Price fixing.** This refers to when companies conspire to set prices for a product or service. ArcelorMittal, a steel manufacturing entity, was found guilty of price fixing in 2016 and was fined R1.5 billion (*Mail & Guardian*, 2016). ArcelorMittal's payment for this penalty was not to be less than R300 million per year, according to the stipulations of the settlement agreement (*Mail & Guardian*, 2016).
- **Price discrimination.** This is when companies sell the same product to different consumer segments at different prices. This is done in order to maximise sales and profits. It is important to note that this is not unethical in itself, but price discrimination that lowers rivalry or establishes a monopolistic environment is considered to be unethical and illegal. In 2009, Eskom, the South African electricity service provider, was found guilty of price discrimination (*Mail & Guardian*, 2009). It was said that residents were paying more than was fair for electricity and therefore funding the industry (*Mail & Guardian*, 2009).
- **Deceptive pricing.** This refers to price deals that are misleading to the consumer. An example of this is when a company offers a product or service at a very low price in an attempt to get the consumer to enter its retail store. Once the consumer has shown interest and is attracted by the offer, the store will then try to persuade him or her to purchase a higher-priced item. This could be done by the store claiming not to have the lower-priced item in stock. The South African Consumer Protection Act 68 of 2008 protects consumers against companies that might mislead them with regard to pricing strategies. It specifically states that companies are not allowed to provide incorrect or misleading representations regarding their product and service offerings (SA Consumer Complaints, 2017). In addition, companies in South Africa are not allowed to be vague or embellish products or the benefits of the products (SA Consumer Complaints, 2017).
- **Predatory pricing.** This is the act of companies setting prices very low in an attempt to reduce the number of their competitors. In such

cases, the company would raise prices when competitors are no longer a threat. Media24 was found guilty of this offence in South Africa (Slabbert, 2017). The Competition Tribunal discovered that the media house had a pricing strategy that essentially drove out a local newspaper called *Gold Net News* (GNN) in Welkom, Free State (Slabbert, 2017).

12.4 Adapting the price

The four Ps (product, price, promotion and place) need to be constantly evaluated and adapted according to the company's performance in the market. For example, the company may need to adjust its prices due to economic variables. Pricing tactics that the company can use include various types of discount and allowance. These tactics are discussed next.

12.4.1 Discounts

Discounts are regarded as a valuation approach whereby the company offers products that were initially marked up at a reduced cost to the consumer (Business Dictionary, 2017b). Discounts can be applied in various phases of the product life cycle in order to adapt the pricing strategy with the aim of attracting more consumers and increasing sales. Types of discount include the following (Perreault et al., 2012: 420–421; Mullins & Walker, 2013: 301–303; Lamb et al., 2011: 318–319):

- **Quantity discounts.** This type of discount refers to when the consumer receives a discount for buying products in large quantity from the retailer. Stores such as Makro give consumers quantity discounts as products are bought in bulk rather than individually. With such discounts, the retailer (who buys from a wholesaler like

Makro in bulk) gets more from this transaction as storage costs are reduced when bulk purchases are made.

- **Cash discounts.** Cash discounts are price reductions offered to the consumer. For instance, suppose a consumer has a vehicle finance loan with Wesbank. If the consumer settles the outstanding amount before the contractual end-date, he receives a cash discount because of the early settlement. Financial service providers use cash discounts to encourage consumers to pay their debts.
- **Seasonal discounts.** Seasonal discounts are given by retailers to consumers for products that are “out of season”. This type of discount encourages consumers to purchase products when demand for the products isn’t very high. For example, clothing retail stores give consumers seasonal discounts on winter stock sold during summer. Because the demand for coats and boots is relatively low during summer, seasonal discounts may encourage consumers rather to purchase products before winter when prices are at the highest.
- **Allowances.** The most common allowance used by companies that is aimed at final consumers is trade-in allowances. Trade-in allowances are price reductions awarded to consumers for returning an old product when purchasing a new one. We see this type of pricing tactic in the motor industry. Apple has also adopted this tactic: Apple users can now trade in any of their previously owned iPhones, iPad or Macs and receive cash back when purchasing a new iPhone, iPad or Mac (iStore, 2015).
- **Price-off promotions.** Price-off promotions involve a reduction in price under certain conditions. Pick n Pay applies this pricing tactic with its “brand match” initiative. Essentially, what this initiative is about is that the company compares the prices of products from other leading supermarkets and if they cannot beat that price, they give the consumer money off on his or her next purchase. For instance, suppose a customer does his or her grocery shopping at a Pick n Pay Hypermarket and the store could not beat the price of All Gold tomato sauce from other retailers. Then Pick n Pay would give the consumer a reduction (e.g. R10) off his or her next purchase.

- **Rebates.** A rebate is a cash reimbursement given to customers for purchasing a product or service during a specific period of time. Rebates can be applied in full. For example, some companies may have a 30-day full money-back guarantee on certain products. Clothing retailers such as Truworths also offer rebates to consumers for items of clothing returned within seven days, provided that the proof of payment is shown and that the clothing is still in good condition.
- **Premiums.** Premiums are used to attract consumers by adding an incentive to their purchase. For example, Romans Pizza could run a special whereby consumers receive a free 2 litre bottle of coke when any two large pizzas are purchased.

The internet has provided consumers with an alternative channel of acquiring products. For example, platforms such as [Takealot.com](https://www.takealot.com) offer a variety of product categories with the advantage of having the products delivered to the consumer nationwide. With various delivery options, transportation costs are sometimes incurred by the final consumer. It is for this reason that [geographic pricing](#) adjustments are done by retailers.

12.4.2 Geographic pricing

Geographic pricing is necessary because many sellers have consumers in various parts of the world. Types of geographic pricing adjustment include the following (Mullins & Walker, 2013: 299–300; Lamb et al., 2011: 321):

- **Freight-on-board (FOB) origin pricing.** This pricing tactic requires the consumer to bear all the transportation costs for the product bought. So the further away from the company the consumer is, the more he will pay for the product to be delivered to him. For example, suppose South African women prefer to purchase Brazilian hair extensions from China, then they will most likely incur shipping costs in their purchase.
- **Freight absorption pricing.** Freight absorption pricing is applied by companies that pay or incur the transportation costs on behalf of

the final consumer. For example, [Takealot.com](https://www.takealot.com) may incur transportation costs for consumer orders placed with the company when the standard delivery time of seven days is applied, but consumers may incur transportation costs when they request an overnight delivery.

- **Uniform delivered pricing.** This is when the company applies the same transportation costs across all consumer segments, regardless of their location. For example, a company can apply a standard transportation cost on all online orders. This would, however, mean that the consumer closer to the company might end up paying more for the delivery and the consumer located further may in effect be receiving a discount.
- **Zone pricing.** This refers to when the company segments the location into zones and charges transportation rates based on the zone. For example, suppose a company is based in Gauteng; it might segment the country into inland and coastal areas. Consumer purchases from coastal areas such as Cape Town and Durban may incur a set transportation cost which is different from the transportation costs incurred by consumers from inland areas such as the Free State and North West provinces.

12.5 Conclusion

Price plays a vital role in the achievement of company and marketing objectives. Price is what the consumer gives up in exchange for a product or service. Much is attached to price; a relationship between price and quality is established. Consumers tend to use price as an indicator of quality and therefore companies need to consider the price set for their product or service offerings carefully.

In this chapter, the phases for establishing the right price were discussed in order to provide a holistic view of the considerations

taken into account before a pricing structure is established within a South African context. Pricing does not follow a “one-size-fits-all” approach; consumer markets are different and respond differently as a result of economic variables. Therefore appropriate pricing structures must be applied.

DISCUSSION QUESTIONS

1. In this chapter, we have discussed various types of pricing strategy. Analyse the airline industry in South Africa and identify the pricing strategies used by the airline companies.
2. Cite examples of conditions in which the demand for a product or service may be elastic.
3. Explain how a consumer’s personal preferences may affect his or her sensitivity to price.
4. In your opinion, what are the benefits of geographic pricing?
5. Visit the Takealot.com website. What aspects covered in this chapter are applied by this company?

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13

PROMOTIONS IN THE MARKETING MIX

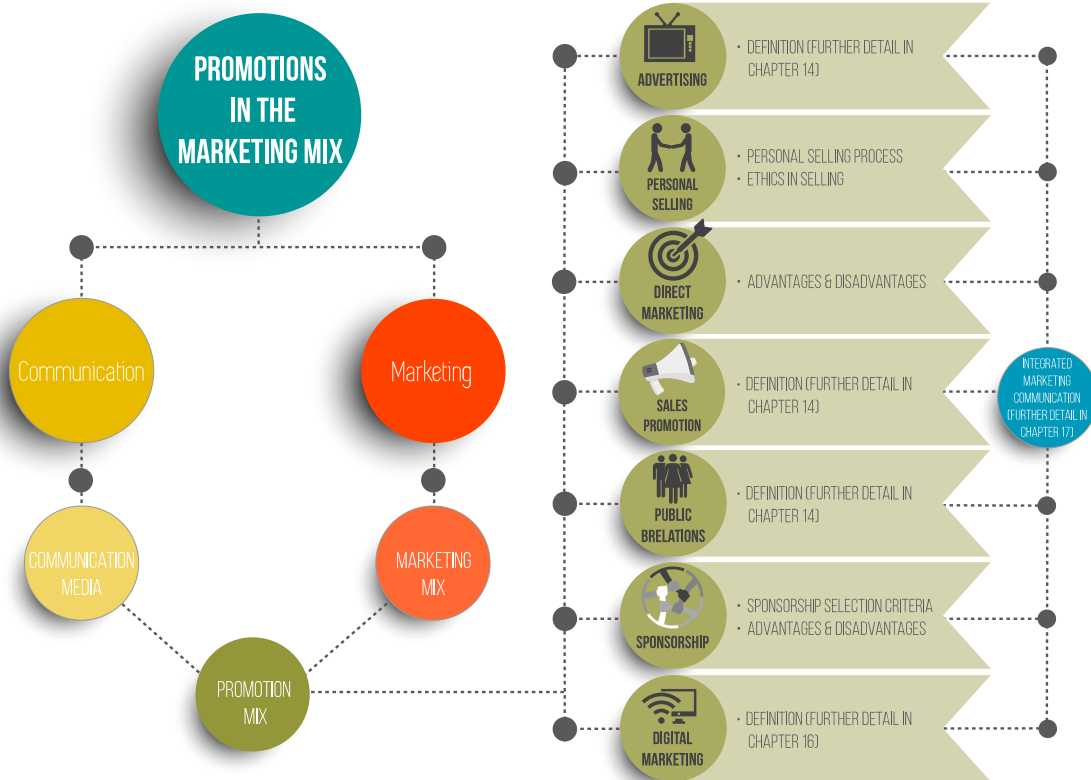
LEARNING OUTCOMES

AFTER STUDYING THIS CHAPTER, YOU SHOULD BE ABLE TO

- define the term promotions
- describe the communications process
- distinguish between the different promotion mixes available
- describe what advertising entails
- identify the steps in the personal selling process
- explain what direct marketing is
- describe the role of public relations
- explain what sponsorship is.

KEY CONCEPTS

- ADVERTISING
- DIGITAL MARKETING
- DIRECT MARKETING
- INTEGRATED MARKETING COMMUNICATION
- PERSONAL SELLING
- PROMOTIONS
- PUBLIC RELATIONS
- SPONSORSHIP



13.1 Introduction

Imagine a life without marketing. Imagine a world without billboards, internet pop-up adverts, mobile marketing and television advertisements. How would you know about your favourite snack, cold drink, the newest cellphones, the coolest clothing brands or the latest vehicle models?

It is difficult for companies to sell something that consumers do not know about. Therefore companies inform consumers of the value and benefit of their products or services to encourage sales. Communication is a process of transferring information or an exchange of information (Daniels, Hunter, McGhie, Middleton Horn, Van Jaarsveldt and Van Vuuren, 2014: 32), which is coupled with marketing, which in turn is the process of communicating the value of

a product or service with the goal of exchanging that product or service for a monetary value (Pires & Stanton, 2015: 6).

For a company to communicate the value and benefits of its products and services successfully, it can make use of the marketing mix element known as promotion. The marketing mix is made up of product, price, promotion and place. Promotion is the use of communication to inform consumers of the company's product and service offerings – its features, benefits, attributes, brand positioning and more (Chitty, Hughes & D'Alessandro, 2012: 14–15). However, before implementing promotions, the company needs to understand the bases of promotions, which are communication and marketing (i.e. the marketing mix).

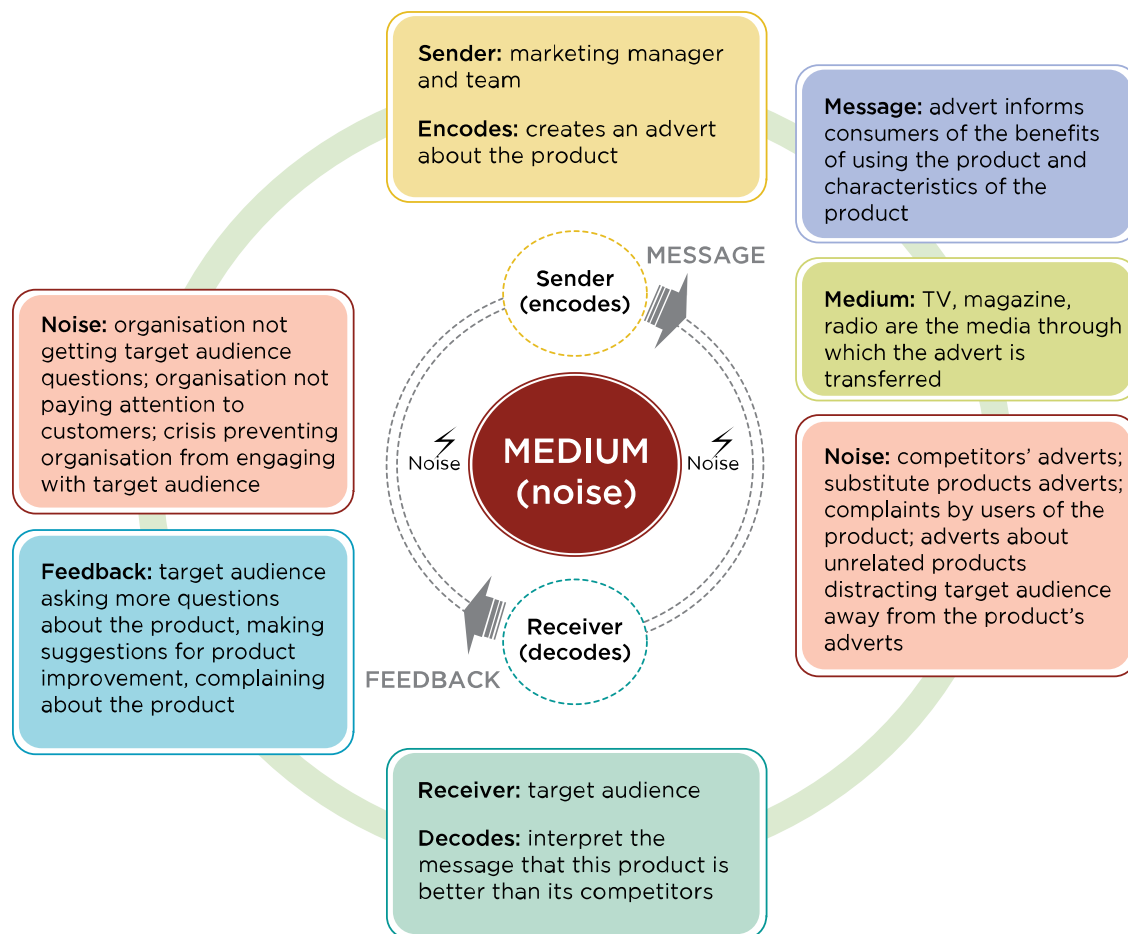
This chapter looks at communication, marketing and the related promotion mix. The promotion mix is discussed, followed by [integrated marketing communication](#), which is the process of combining the promotion mix to inform consumers of a company's products and services.

13.2 Communication

Communication is the process of exchanging verbal and non-verbal information, ideas and feelings with one or more individuals. Verbal communication is spoken and written communication, while non-verbal communication includes body language, hand gestures and facial expressions (Hurn, 2014: 188). In some instances communication is linear – from one person to another or from a company to its target audience. Communication can be cyclic, where the company communicates with the target audience and the target audience provides feedback. A communication model visually represents the elements within the model and the process of communication (Fourie, 2014: 226).

The communication model is the foundation for all forms of communication. Elements in the communication model include the sender, message, receiver, feedback, noise and communication medium. The sender forms or encodes a message and shares the message with a receiver across a communication medium which may experience noise or distortions. The receiver decrypts or decodes the message and may respond to the message in the form of his or her own message or feedback which could also experience noise or distortion (Daniels et al., 2014: 32). The communication model is illustrated in Figure 13.1.

Figure 13.1 Basic communication model



Sources: Adapted from Baker (2014: 401); Daniels et al. (2014: 38)

Communication can be applied to marketing, as marketing is the process in which a company strives to meet the wants and needs of

customers by offering the right product or service at the right price, at the right place and using the right promotion mix (Keegan, 2014: 27). Three objectives for a company to communicate with consumers are as follows (Cant, 2013: 177–178):

1 ➔ **To inform.** The company must communicate with loyal customers and potential customers about the products and new product features. For example, promotions which inform consumers of the company's rebranding such as changing their colours, or what a large cellphone network did some years ago. See the video on the change in branding at https://www.youtube.com/watch?v=tBjoYKK_C3s

2 ➔ **To persuade.** The company has informed customers of the product or service offering and now wants to persuade them to purchase the product or service. Persuasion can come in the form of using emotive language, or words indicating why the product or service is the best or the best value for money. For example, advertising which reminds consumers that they should make use of the company's product because of the benefits the product offers. An advert may give a reason for using the company's services, such as reduced cellphone airtime rates at night, which is beneficial for those who work night shifts. See <https://www.youtube.com/watch?v=y1v0AkZy4rc>

3 ➔ **To remind.** The company must remind its current customers and potential customers about the product. Reminders can come in the form of repeated advertising, or in the case of seasonal products, advertising just before the season starts. A great way of reminding consumers of your existence is to link the company's adverts to current news. A certain fastfood restaurant in South Africa is very good at linking their adverts to current events which they post on their Twitter page: https://twitter.com/NandosSA?ref_src=twsrc%5Etfw. This restaurant has even won awards for their adverts. See <http://www.sapeople.com/2016/08/21/nandos-wins-big-south-african-loeries/>

There are a number of media which a company can use to communicate with its stakeholders. The media can be categorised according to print media (magazines and newspapers); broadcast media (television, radio); digital media and out-of-home media (cinema and outdoor media) which are all known as above-the-line media. Sales promotion and [direct marketing](#) are known as below-the-line media – where more one-on-one interaction with the consumer takes place.

13.2.1 Communication media

The different possible communication media that a company can use are shown in [Table 13.1](#).

Table 13.1 Communication media

Print media	Description
Newspapers	A collection of stories, pictures, advertisements and puzzles assembled as a printed package made of lightweight paper
Magazines	Mostly controlled content, as the magazine has a say in what is included in the text. Different types of magazines are available on the market.
Consumer magazines	Sources of information, advice and entertainment to readers, normally relating to the time they are not at work. There are highly targeted, for example women's magazines, health magazines, sport magazines, and so on.
Professional/business magazines	Managerial publications, which are aimed at the business market, providing professionals with advice and news on the current market position.
Educational/academic magazines	Highly targeted with a specific focus area in academia. Various disciplines have different journals for medicine, accounting and marketing, which cover field-specific content.
e-Zines	Magazines available online. Their advantage is the possible inclusion of multimedia sources, which could lead to significant competition for traditional print magazines.

Print media	Description
Brochures	Designed either as something to create awareness or provide solutions and information. A brochure is normally only one document, which can be folded, depending on its purpose.
Broadcast media	
Television	Broadcast media which uses airwaves to transmit audio and visuals for television
Radio	Broadcast media which uses airwaves to transmit audio for radio
Digital radio	Digital audio broadcasting that can be transmitted over any digital platform, such as digital television, or streamed over the internet and mobile phones
Digital media	
Internet	A huge network of inter-connected computers
World-wide web (web or WWW for short)	A collection of web pages on the internet
E-mail	Electronic mail, defined as the transmission of a message by telecommunication
SMS	“Short message service”, also referred to as texting or SMS-ing.
Blog	Online diary
Social networking sites	Websites created for groups of people who share the same interests to post videos, pictures and comments for the group to see
Out-of-home media	
Aerial advertising	Advertising which is viewed in the air, such as small aircraft towing banner adverts, or blimps or inflatables in the air
Bus/taxi advertising	Vinyl wrap around a bus or taxi advertising a product, service or campaign
Street lamp advertising	Smaller boards (compared to billboards) which are also visible in high-traffic areas attached to lamp poles in the city or along main roads
Washroom advertising	Vinyl wraps on walls, toilet stall doors, frames behind bathroom doors or in the general bathroom areas, which are usually related to hygiene or health issues

Sources: Bivens (2014: 19); Davis (2015); Fleming (2010: 24–32); Gordon (2011: 261); Heath (2013: 850); James and Wosh (2011); Kellison (2009: 42);

In [Chapter 1](#), we defined the term “marketing” and briefly discussed the marketing mix (7 Ps). The promotions element of the marketing mix will be discussed next in [section 13.3](#).

13.3 Promotions

In some cases, consumers purchase a product before hearing about it. In most cases before a sale can occur (where consumers purchase a product or service), communication from the company has to occur in the form of promotions to convey the value of purchasing the product or service (Fourie, 2014: 16). The concept of promotions identifies the value of a comprehensive plan that assesses the strategic role of the promotion mix and combines the promotion mix tools to provide clarity, consistency and maximum communication impact (Eagle, Dahl, Czarnecka & Lloyd, 2014).

Promotions encompass the promotion mix which can be used by the company to communicate with consumers. Promotions are especially effective when the marketer is sensitive to the consumers’ needs and wants, which is the basis for communication although in a responsible, respectful and relevant manner. It represents every opportunity that the company uses to communicate with consumers, whether through billboards, websites, social media networks or simply calling the switchboard at head office. It strives to persuade, inform or remind consumers of the company’s product and service offerings (Cant, Van Heerden & Ngambi, 2013: 24).

13.3.1 Promotional objectives

There are particular criteria that the company should use to ensure that the objectives are of a high standard. A clever acronym has been created as an aid to remembering the advertising objectives: SMART, which stands for specific, measureable, actionable, realistic and time based. These objectives were also discussed previously in [Chapter 5](#) in [section 5.4.2](#). [Table 13.2](#) acts as a refresher for these objectives.

Table 13.2 Promotional objective criteria

S	Specific	The objective must have precise wording which indicates all the relevant details, such as who the target audience is, what the goal is, in what time frame, and the budget available to achieve the goal.
M	Measureable	Objectives have to be quantifiable. Vague terms must be avoided and terms must be clearly stated, for example increase awareness by 20% over the next financial year.
A	Actionable	To be actionable, the objective must be within the bounds of the available tools, human resources and data that the company possesses. For example, if the company has to attend four trade shows at the same time, but there are only two staff members available, this will not be within human resource capability.
R	Realistic	The set objective must be achievable – in other words, the objective cannot be an outrageous set of activities which are simply not possible by any means. For example, increasing the one million customer base by 100% in the next week – that is simply unattainable if the current customer base took many decades to accumulate.
T	Time based	Objectives must have a time limit in which to achieve them, otherwise there is not a set goal to work towards and the company will not focus on achieving the objectives. For example, the social media campaign must run over a period of six weeks, after which the campaign will be evaluated.

Despite the primary objectives that a company may have to communicate to its target audience, there are more in-depth and specific objectives regarding promotions. These are discussed below (Koekemoer, 2011: 29).

13.3.1.1 Objective 1: To build primary demand

The objective is for promotions to create a demand for the product which the company sells. All organisations want the target audience to choose their products and services rather than the competitors'. For example, as South Africa has a braai (barbeque) culture, when supermarkets advertise their braai packs (these could be chicken, lamb or beef) they can link their advertising to the braai culture in South Africa. Supermarkets can even go so far as to advertise items required for a braai such as charcoal, fire lighters, grills, braai packs and drinks.

13.3.1.2 Objective 2: To create brand awareness

The objective is for more and more of the target audience to become aware of the brand and the company, therefore repetitive advertising and product launches are geared towards this objective. Can you think of a particular advertisement that keeps playing during the ad break of your favourite television show? It could be an annoying advertisement or an enjoyable one that you find yourself singing along to, nevertheless you are aware of the advertisement and therefore the brand. An example of an attention-grabbing advertisement can be viewed at the following website: <https://www.youtube.com/watch?v=fQB3GY0Fvxs>

13.3.1.3 Objective 3: To provide relevant information

The objective is to add information after the target audience has become aware of the brand, which may not galvanise the target audience to make a purchase, but may make them seriously consider this product or brand above others. For example, consumers who are environmentally aware will be interested in using washable nappies that look like popular disposable nappies, which can be purchased online from: <http://fancypantsproducts.co.za/>

13.3.1.4 Objective 4: To create interest

The objective is to create wonder for the target audience – they become more interested in a product or brand when the advertisement

is interesting. For example, look at the animated advertisement at the following website: <https://www.youtube.com/watch?v=aJNYK2piPr8>

13.3.1.5 Objective 5: To influence attitudes and feelings

The objective is to position the brand in the consumers' minds in a favourable manner, thus influencing their attitudes and feelings about the brand or product. Considering the movement towards more organic foodstuffs, this company emphasises their endeavour to source organic foodstuffs, which could change the attitudes and feelings consumers may have towards this company. Have look at the advert at the following website: <https://www.youtube.com/watch?v=W57JLtQOw9A&list=PL36D950224B2081D7>

13.3.1.6 Objective 6: To create desires

The objective strives to create a desire by the target audience to purchase the product. Think of trendy clothing brands and cosmetics. A particular South African celebrity has created hype around her clothing line by wearing it in her music videos and promoting it every chance she gets. You can view this on the following video: <http://www.youtube.com/watch?v=xNQb45iK6nM>

13.3.1.7 Objective 7: To create preferences

This occurs when the company strives to position its brand as the preferred one. In South Africa the hypermarkets are quite competitive with their prices and have to look for ways to be the preferred store for grocery shopping. This particular hypermarket has included a price check feature showing that their prices are indeed researched to be the lowest at the time of purchase: <http://www.picknpay.co.za/picknpay/applications/picknpay/custom/builds/2014/brandmatch/index.html>

13.3.1.8 Objective 8: To facilitate purchase and trial

This enables organisations to entice the target audience to purchase the product and give it a try. For example, a website that allows online

purchasing where the payment is made only after the order has been placed: <https://www.mydailydeal.co.za/pages/buy-now-pay-later>

13.3.1.9 Objective 9: To create loyal customers

The objective is for customers to make return purchases, thus showing customers that being satisfied with the product or service and repurchasing them is in their own best interest. Loyal customers are the ultimate goal of any company as a loyal customer tends to continue purchasing from the company despite price increases or other changes.

Promotion mixes will be discussed next.

13.4 Promotion mix

There are a number of promotion mixes that a company can use. These include: advertising, [personal selling](#), direct marketing, sales promotions, [public relations](#), sponsorship and [digital marketing](#).

13.4.1 Advertising

Advertising is any form of paid mass communication of ideas, products and services by an advertiser with the objective of informing, creating awareness, influencing, reminding and persuading targeted audiences to purchase the product or service or to be favourably inclined towards the ideas, products or services (Grewal & Levy, 2012: 536). Advertising uses advertisements (or adverts) and advertising campaigns. Adverts are specific messages created by the company to persuade audiences.

An advertising campaign is a sequence of coordinated advertisements that revolve around a theme about the product, service or company. The aim of advertising is to persuade consumers to take action. Persuasion is winning the consumers' hearts and minds so that they

will take action according to the communication (Lamb, Hair & McDaniel, 2011: 262).

Advertising is discussed in detail in [Chapter 14](#).

13.4.2 Personal selling

Personal selling is the process of persuading a prospective or potential customer to purchase a product or service. The process occurs in a face-to-face setting where the salesperson is able to demonstrate the product or explain the service and thus convince the potential customer that the product or service will satisfy their wants and needs (Swayne & Dodds, 2011: 1208).

Characteristics of personal selling include the following (Pride & Ferrell, 2013: 519):

- It takes the form of dyadic communication, which is communication between two people, in this case the salesperson and the prospect.
- It can be flexible as the message the salesperson conveys to the prospect can change to suit the situation.
- It assists in establishing relationships between the customer, the salesperson and the company through continuous communication from the salesperson to the customer and maintaining the customer's account.
- As personal communication is two-way communication, it enables engagement between the customer and the salesperson to clarify and elaborate on the sales message.
- It is expensive as investment by the company has to be made in training the salesperson and providing continuous support. It also concentrates on one prospect at a time compared to advertising, which reaches a mass audience. However, the cost of personal selling could be justified as the prospects may purchase many units of the product over a long period of time.

Personal selling is used when a customised product is sold, one which has few customers, a high product value, a concentrated customer base and technical complexity. This is the ideal situation in which a company can use personal selling (Swayne & Dodds, 2011: 1209). For example, a health machine where the salesperson has to convince the customer of its benefits and explain the different settings for different ailments would require a more detailed presentation for the consumer. See the example at: <http://www.ozoneair.co.za/ozone-spa-bath-mat.php>. Conversely, personal selling will not be ideal in a situation where a standard product is on offer, there is a large customer base with customers spread over a large geographic area, the product value is low, and the product or service is relatively easy to understand.

13.4.2.1 Steps in the personal selling process

The personal selling or sales process is a sequence of tasks a salesperson has to undertake to persuade a prospect to purchase the product or service on offer (Armstrong & Kotler, 2011: 454):

Step 1: Prospecting customers

During this step, the salesperson identifies new customers. This occurs when the salesperson checks the viability of individuals/organisations of becoming customers. Once a prospect has been identified, the salesperson has to qualify the prospect, which involves establishing whether the prospect will use the product or service, whether the prospect can afford the product and whether the product or service can satisfy the prospect's wants and needs.

Prospects can be found using various sources: leads from the company (such as company records), referrals (recommendations from satisfied customers) and cold calling (calling individuals from a telephone list) (Van Heerden & Drotsky, 2014: 97). Have you ever been called by a company trying to sell you a cellphone contract? That is an example of cold calling.

Once a lead has been established, the salesperson can move to the next step, which is the pre-approach.

Step 2: The pre-approach

In the pre-approach, the salesperson continues to gather information so as to have a well-researched and informed presentation when the approach occurs. The amount of information depends on what type of sale the salesperson is making. If the prospect will be using the product or service for personal use, then the salesperson will only gather personal information (Lamb et al., 2011: 289). If the prospect is a company, the salesperson will gather personal information (i.e. from LinkedIn or social media websites) of the contact person at the company as well as organisational information (annual reports, organisational websites).

Once the salesperson is able to access the prospect (either by making an appointment or cold calling, for example), then a well-prepared and researched presentation should be delivered, although it should be a presentation that can be adapted to the reactions of the prospect (Grewal & Levy, 2012: 573). It is therefore important to know what the prospect would want to use the product or service for – whether for personal or professional use.

Step 3: The approach

The approach is when the first interpersonal communication takes place between the salesperson and the prospect before the presentation is given. The prospect will either expect the salesperson to call because an appointment has been made, or will not know that the approach will happen because the salesperson is using the cold calling method. This is when the salesperson introduces himself or herself to the prospect. First impressions count, therefore the first moments of the approach are essential for the entire sales process. The opening of the approach can either be a formal greeting with polite conversation or it can be attention grabbing, followed by the introductions.

Step 4: The sales presentation

The sales presentation is a verbal explanation of the product and service complemented by a visual presentation (such as a PowerPoint presentation, video, slide show or a product demonstration). During the presentation, the salesperson must always indicate to the prospect

the product features (the product's physical characteristics), the product advantages (advantages as a result of the product's physical characteristics) and product benefits (how the prospect will benefit by purchasing the product). This is known as FAB (features, advantages, benefits) (Koekemoer, 2014: 238).

Step 5: The trial close

The salesperson establishes whether the prospect is convinced by the presentation. The trial close is also known as the temperature question, which is how the prospect views the presentation and product: either cold (not convinced) or hot (very convinced). This will provide the salesperson with an indication of how much further into the sales pitch he or she has to go. The trial close is simply a test which is most effective after the salesperson has made a strong selling point, answered an objection, completed the presentation, or before moving to the close of the sale.

Step 6: Handling objections

Objections should not be considered as defeat but as an opportunity to justify the buying decision, provide a better deal or provide additional information. Often an objection will be made by the prospect due to time constraints, unconvincing sales presentation, not being convinced of the need for the product, or insufficient information.

The salesperson could use some of the following tactics to handle objections:

- **Compensation.** The salesperson provides additional benefits and positive features of the product to the prospect after the prospect has indicated a flawed benefit.
- **Ignoring the objection.** Sometimes objections are merely statements made by prospects. It is not necessary to respond to these, but all the same the salesperson should not underestimate the seriousness (or possible negativity) of the statement.
- **Direct denial.** The salesperson simply offers a direct denial which must also be handled with care so as not to lead to an argument.

- **Indirect denial.** The salesperson initially agrees with the prospect but continues to provide factual information pertaining to the product or service.

There are many other ways to handle an objection which can be found at: <https://www.saleshacker.com/10-tips-negotiation-objection/>

Step 7: Closing the sale

This step occurs when the salesperson goes in for the close, or when he or she asks for an order for the product or service. This is where the salesperson needs to read the prospect, as a close that comes too early or too late could mean a failed sales presentation. It is therefore necessary for the salesperson to look for the prospect's indications of readiness (Kurtz & Boone, 2010: 580).

An indication of being ready for the close typically includes verbal and non-verbal signals. Verbal signals occur when comments are made which show that the prospect is convinced by the presentation and would like to make a purchase. Non-verbal signals are the body language of the prospect, such as leaning forward, nodding the head – these are indications that the salesperson can make the close.

Step 8: The follow-up

The follow-up is just as important as the pre-approach – this is the step after the sales presentation where the salesperson continues to make contact with the customer in order to build a relationship and establish reasons for the customer to repurchase. The follow-up also prevents the customer from regretting the sale or experiencing purchase dissonance. The three elements in the follow-up are as follows (Van Heerden & Drotsky, 2014: 161–162):

- ➡ **Dissonance.** This is the post-purchase anxiety that customers feel. They seek an outlet by talking about the product or service, which the salesperson should attempt to turn into positive talk and away from negative talk (complaints) about the products or services.

2 ➔ Customer retention. By establishing a relationship with the customers, in a sense the salesperson is recruiting a brand ambassador, provided that the customers only talk positively about the product and services.

3 ➔ Self-analysis. This is a form of research into the salesperson's performance and methods to determine whether they have to improve or change any of their techniques.

13.4.2.2 Advantages and disadvantages of personal selling

The advantages and disadvantages of personal selling are given in [Table 13.3](#).

Table 13.3 Advantages and disadvantages of personal selling

Advantages of personal selling	Disadvantages of personal selling
• Greater detail can be provided in the selling process • Customer empowerment can occur – customers learn how to use the product • Sales can customise the message according to the prospect • Immediate appropriate responses can be provided by the salesperson • Immediacy of sale (unlike other integrated marketing communication tools) • Directed sales presentations focus only on possibly interested individuals, thus there is a greater possibility of sales • Customer retention is greater with follow-up (linked to continued upkeep of product or service)	• An expensive marketing communication tool in terms of salespersons (recruiting, training, managing and rewarding salespeople) • Costly in terms of prospecting (travelling, canvassing) • Negative impression of company when salesperson does not perform well (due to lack of skills or etiquette) • Time consuming due to one-customer-at-a-time approach • Unaligned sales pitch by salespersons at the company due to individual perceptions, skills and attitudes • Demotivating element of not closing sales • Unethical behaviour by salesperson in order to gain more sales

Source: Du Plessis, Strydom and Jooste (2012: 382)

13.4.2.3 Ethics in selling

Ethics are the unspoken rules which govern the behaviour of a person or persons in any given situation. Especially in a setting where the behaviour of the salespersons can tarnish the image or reputation of the company, it is essential to have rules which guide their behaviour.

Ethical behaviour includes being honest, remaining faithful to the customer, following the regulations (both of the company and the country), fair treatment, organisational loyalty, work ethic and professionalism (Koekemoer, 2011: 134–136). Examples of unethical behaviour are lying to the customer or company, signing over more stock than was agreed, abusing entertainment allowances, accepting gifts which are bribes, bribing, divulging confidential organisational information, moonlighting (working for more than one company, therefore skimping on salesperson duties), fooling customers into signing false documents or documents they do not understand, or signing on customers without their permission. Unethical behaviour is detrimental to the company and should be avoided.

Organisations can put procedures in place to hold salespersons accountable.

13.4.3 Direct marketing

Direct marketing is the combination of advertising, sales promotion and personal selling where the company attempts to reach the target audience directly, without the assistance of a middle man. Direct marketing is based on using databases of customers with similar profiles, wants or needs, in other words, audiences are targeted so that measureable marketing results are obtained based on the response received from the customers (Du Plessis et al., 2012: 363–364).

Direct marketing is a promotion mix tool which uses more than one medium to interact with the target audience to get the target to respond by phone, mail, e-mail or a personal visit. In direct marketing, a

segment which is highly likely to be interested in the particular product or service advertised is targeted by advertising or sales promotion. Have you ever seen an advertisement which demonstrates a product and then provides you with information on how to order the product immediately? See the following example: https://www.youtube.com/watch?v=Tle_jm4-IoM

Customers are shown a television advert about a product and are persuaded to call in to make an immediate purchase, or an SMS is sent to customers stating that if they purchase R1000's worth of goods they will get 20 per cent off, or letters in the mail invite customers to take out a bank loan. These are examples of the **pull strategy** where promotions pull the customer to the seller (retailer, bank, financial institution, online retailer, etc.).

Direct marketing uses marketing databases which consist of a comprehensive list of consumer details which was gathered from many organisational touch points (filling in a survey, adding your name to a mailing list for catalogues, giving your number for a competition). The information from a database can be used at any in time to obtain customers' details (Blakeman, 2015: 211–212). This is data that marketers are able to access where customers with particular set of characteristics can be identified to form a target group. The data has a number of uses for marketing purposes. It can be separated from other sensitive data and only provide details such as shopping patterns or preferred products. The lists which are used are known as follows (Koekemoer, 2011: 286):

- **Compiled lists.** They are derived from current public lists such as telephone lists, voters' lists or property registrations.
- **Response lists.** These are the compilations of individuals' details who have shown an interest in particular promotions or advertising.
- **Business lists.** These are derived from business conducted with other businesses, and are thus considered as information derived from business-to-business marketing.

- **In-house or organisational lists.** This is the information that a company might sell to other companies, usually for a once-off use. However, this may be in contravention of South Africa's Consumer Protection Act 68 of 2008.

13.4.3.1 Advantages and disadvantages of direct marketing

There are a number of advantages and disadvantages to consider that pertain to direct marketing. See [Table 13.4](#).

Table 13.4 Advantages and disadvantages of direct marketing

Advantages of direct marketing	Disadvantages of direct marketing
• A selected target market is reached • Database allows precise segmentation • Media frequency can be increased • Customising messages for target audience or individuals is possible • Measurement of direct marketing is possible from the responses by the target audience to the promotions	• Over-communicating may occur • Incorrect targeting could lead to discontented customers • Outdated lists could be bad for business • Customers could opt-out of the promotions or from the databases • Saturation of messages could mean customers ignore messages altogether

Source: Adapted from Blakeman (2015: 225)

[Table 13.5](#) shows the most common direct communication media used by direct marketing (Armstrong & Kotler, 2011: 477–486).

Table 13.5 Direct communication media

Tool	Why use this tool?

Tool	Why use this tool?
Direct mail	• Effective tool to reach the target audience • Many format options in terms of colour, design, size, etc. • Possible to market one product or a range of products, such as through catalogues • Controlled schedule, as target audience will read it when they receive it or when they read their mail
Print media	• Wide range of publications to choose from such as specialised magazines • Long shelf life • A personal preference of the target audience so the target audience chooses to examine its contents • Relatively inexpensive testing
Direct television	• Powerful visual demonstrations of products • Convincing • Results of commercials can be seen
Radio	• Effective tool to reach target audience as these individuals listen to particular radio stations • Stimulating and compelling medium as it is audio stimulation only • Production timing is short • More affordable option for tests and full campaigns
Telemarketing	• Fast and direct targeting • Personal communication, which allows engagement • Effective tool to reach target audience • Very flexible if changes need to be made • Testable

13.4.4 Sales promotion

Sales promotion is a marketing activity which offers incentives that provoke the desired response from the target audience. The incentives only last for a limited amount of time and are used to meet short-term

marketing goals (Armstrong & Kotler, 2011: 459). Sales promotions should involve three target groups:

- 1 ➔ **Internal stakeholders.** These are usually the salespersons who will be involved in marketing the product to the consumers.
- 2 ➔ **Intermediaries.** These are the retailers who will stock the product for sale.
- 3 ➔ **Customers.** These are the individuals who purchase from the retailers and who will be exposed to many products from which they can choose which are most suited to their needs and wants.

The specific characteristics of sales promotions are as follows (Grewal & Levy, 2012: 553–556):

- The aim of sales promotions is to provide *an incentive* for customers to be drawn to a product and make a purchase. The incentives offered to consumers include competitions, point-of-sale material and coupons. An example of sales promotion is the sale of a bundle of washing powder and softener for less than the price of the items purchased separately, thus enticing customers to purchase the bundle.
- Sales promotions have a *short-term focus* and are only on offer for a limited period of time. Think of the advertisement pages you receive with your weekly newspaper from department stores, grocery stores and hardware stores – the offers usually last only a week or two before the special prices or discounted prices on items revert to the normal pricing.
- Sales promotion *creates a response from consumers*, such as if purchased within a certain period, a discount or additional items will be given, for example the popular buy-one-get-one-free while stocks last offer, or one-day specials on all the products in the store.
- Sales promotion must be *supplemented with other promotion mix tools* to be effective, such as television advertisements or direct marketing (catalogues).

For further discussion on sales promotion, see [Chapter 14](#).

13.4.5 Public relations

Public relations strives to build communication with all stakeholders (those individuals who have an influence on the company) in order to develop positive relationships and create an alignment between the organisational goals and societal expectations of the company. Public relations manages the adoption of organisational values and objectives by the organisational stakeholders (Lattimore, Baskin, Heiman & Toth, 2012: 4). In addition, public relations is the development of communication campaigns in order to earn stakeholders' understanding and acceptance of the organisational policies and structures in place (Rensburg & Cant, 2009: 35).

The Public Relations Institute of South Africa defines public relations as “the deliberate, planned and sustained effort to establish and maintain mutual understanding between the company and its various publics – both internal and external” (PRISA, 2015).

The fundamentals of public relations include the following (Guth & Marsh, 2012: 6–7):

- Public relations is a two-way communication – it is engagement of the company and its stakeholders.
- Public relations involves researching the market environment in which the company operates in order to understand what its current working environment entails.
- Public relations focuses on building relationships with its stakeholders for the benefit of all parties involved.
- Public relations guards the reputation of the company, ensuring that the company is perceived as a socially responsible member of society.

More detail on public relations can be found in [Chapter 14](#).

13.4.6 Sponsorship

Sponsorship is an attempt to build a bond with customers, which provides a feel-good connection with the company (Eksteen, 2014: 37). When a sponsorship agreement is between a bank and a national sports team, the fans of that team think of the bank as supporting the team to get them to greater arenas – this already creates a bond in the fans' mind. Fans will show their support of the sports team by supporting their sponsors. Fans who already support the bank will do so with more drive, thus the arrangement creates brand loyalty. In addition, sponsorship fosters the building of a brand and recognition of the sponsors' products and services through an alternative path other than traditional advertising.

Sponsorship can be in the form of resources (monetary, equipment, human resources) which the sponsor (the company) sponsors for the sponsoree or beneficiary (event, celebrity, other company). The sponsorship agreement stipulates that the beneficiary should perform tasks in return for rights of association (Percy, 2014: 139). Sponsorship does not stand on its own, but is a partnership with other promotion mix tools in an effort to meet commercial or corporate objectives. This is achieved through the rights of associations for commercial value with a company, a brand, an event, a celebrity or a sports star. Can you think of an example of a sponsorship? Think of the relationship between sports brands and sports stars or banks that sponsor sporting events.

How do companies decide on who to align themselves with? The decision is based on the values of the company and which promotion mix tools would be best suited to the objectives of the company and the desired outcome in terms of return on investment, whether in monetary or non-monetary terms.

Table 13.6 shows the sponsorship objectives, which range from corporate to marketing to sales expansion objectives.

Table 13.6 Corporate, marketing and sales expansion objectives

Corporate objectives	Marketing objectives	Sales expansion objectives
• Increase/maintain awareness • Improve corporate image • Improve/change target market perceptions	• Enhance brand image • Create positive brand associations with target audience • Establish brand relevancy	• Increase sales • Increase brand awareness • Build product image • Improve brand preference • Increase media coverage
• Increase involvement with community • Build organisational relations • Enhance staff relations • Enhance staff motivation • Build goodwill with stakeholders	• Enable customer engagement • Build organisational relations • Compile databases • Demonstrate good corporate citizenship	• Increase sales and market share through licence agreements or product endorsements • Launch new product

Sources: Blythe (2014: 554); Smith and Zook (2016: 412–413)

13.4.6.1 Sponsorship selection criteria

Sponsorship selection criteria require considerable research by the company. The selection criteria will determine which event or celebrity the company will sponsor, and they will vary for each company's objectives. The factors on which sponsorship selection is based are given in [Table 13.7](#).

Table 13.7 Factors affecting sponsorship selection

Target market coverage	The sponsorship event must reach the target market with which the company wishes to communicate. Think of how medical aid

	schemes in South Africa sponsor sporting events such as races or cycle tours.
Timing or seasonality	If the product is seasonal (e.g. only available during winter) then the company may look at an event that is held during winter.
Competitor activity	The company should research what events the competition is involved with so as not to have similar sponsorship events.
Communication	The type of communication will be determined by the type of sponsorship. Sponsoring a walk for cancer will have different messages than sponsoring an entertainment/arts and culture event.
Event profile	If an existing event was previously sponsored by a very prominent company, it will take a lot of effort by the new sponsor to dislodge the equity built up by the previous sponsor. People will remember the previous sponsor, especially if they were very visible and long term – it will take time to associate the event with a new sponsor.
Potential media exposure	Television, social media and print media exposure is possible through large events, especially when there is on-site branding.
Brand relevance	It would be at odds if an energy drink company sponsored a children's toy festival – there is no brand relevance. If an energy drink company sponsored sporting events, there would be brand relevance as the energy drink would be intended to give the person drinking it the energy to continue running or cycling.
Image	The image of the event must align with the image of the corporate and brand image. The image projected by the event is stipulated in the sponsorship agreement and its policies.
Budget	The sponsorship must be within the particular budget that the sponsor is willing to contribute towards the beneficiary or event.
Exclusivity	This refers to a one-to-one basis of sponsorship. If a beneficiary or event has more than one sponsor, it reduces the main sponsor's impact.
Technical sponsors	Technical sponsors provide equipment, services or products to the beneficiary; however, this is alongside a secondary sponsor.
Licensing and merchandising	This refers to the licensing contract that a company may have with a sporting organiser which stipulates quality standards and the right to print the event logo on their merchandise (e.g. clothing items) or use the organiser's logo on banners alongside the sponsor's logo.

Source: Cant, Van Heerden and Ngambi (2013: 380–381)

13.4.6.2 Advantages and disadvantages of sponsorships

If sponsorship is managed correctly, there are great advantages that could lead to a huge return on investments and huge increases in brand equity and brand loyalty. However, if the company does not know how to manage a sponsorship agreement, many detrimental situations may arise from mismanagement and simple ignorance of the process. [Table 13.8](#) shows the advantages and disadvantages of sponsorships.

Table 13.8 Advantages and disadvantages of sponsorship

Advantages of sponsorship	Disadvantages of sponsorship
• It can unite a nation. Think of the 2010 Soccer World Cup and its effects on South Africa. That feeling was transferred to the sponsors who made it possible. • It creates opportunities for the sponsor and beneficiary and the communities in which they operate as access or enhanced productivity could have a positive effect on all involved. • It is cost effective as coverage is at a more favourable rate than traditional advertising.	• The sponsorship agent may have other agendas such as double dealing (selling sponsorship rights to more than one company) or charging inflated fees, thus leaving very little funding for the actual event (in terms of advertising, etc.). • A company associating itself with the official sponsors' taglines when it is not a sponsor is known as ambush marketing. When used by competitors, this can weaken the sponsorship of the official sponsor.

Advantages of sponsorship	Disadvantages of sponsorship
• It enables international awareness as events in South Africa could involve international companies which will lead to greater coverage and awareness. • It leads to improved ethics as employees are encouraged by the enhanced organisational image and reputation. • It has more flexibility as the marketer is able to manage the demographics, psychographics, time and location relating to the event/brand association, which enables increased media exposure.	• The sponsor should have first option on the broadcast rights, which the media may sell to competitors, thus creating ambush marketing. • The event name is sometimes abbreviated, which loses the sponsor's name, so the sponsor must always ensure that the name is correct. • Once-off sponsors do not reap as many successes as long-term sponsorship agreements. • Ignorance of the sponsorship agreement contract could lead to missed opportunities which are usually associated with sponsorship agreements (such as broadcasting rights).

Source: Smith and Zook (2016: 41–418)

To see examples of events that are named after the sponsors, follow the link: <https://www.olympic.org/sponsors>

13.4.7 Digital marketing

Digital marketing is marketing done over electronic media, also known as digital media. Digital marketing (the messages about the products and services) takes place over the internet and mobile digital technology, through communication media such as websites, blogs, podcasts, e-mails, social media networks or [search engine optimisation](#) (Best, 2014: 308–309).

For more information on digital marketing, refer to [Chapter 16](#).

13.5 Integrated marketing communication

Integrated marketing communication is consumer centric (focused on the customer), which is clear and consistent and delivered through numerous communication channels to foster a profitable relationship with customers and other stakeholders to create and maintain brand equity (Šerić, Gil-Saura & Ozretić-Došen, 2015: 960). It is the synergistic plan which uses a range of promotion mixes to promote products, services, companies, personalities or causes. The promotion mixes have to be well matched to allow one tool to compensate for the weaknesses of another (Vos & Schoemaker, 2011: 130). For more information on integrated marketing communication, refer to [Chapter 17](#).

13.6 Conclusion

This chapter discussed the topic of promotions and how they relate to communication, and the different media that could be used as part of the promotion mix to communicate with target audience. Communication media include print media (newspapers and magazines), broadcast media (radio and television), out-of-home media (billboards and pole posters) and digital media (social media networks, websites and e-mails). The manner in which these communication media are used is determined by the type of promotion mix and its objectives. A combination of communication media can be used for each of the marketing communication techniques. The promotion mix includes advertising, personal selling, direct marketing, sales promotion, public relations, sponsorship and digital marketing. [Chapter 14](#) delves into the promotion mix tools of advertising, public relations and sales promotion.

DISCUSSION QUESTIONS

1. What are the main elements in the communication process and how is the communication process relevant to promotions?
2. What are promotions?
3. What is the difference between communication media and the marketing promotion mix?
4. What are the criteria for all promotional objectives?
5. What is the purpose of advertising and what are the related objectives?
6. Why must personal selling be used in conjunction with other IMC tools?
7. Why is the pre-approach as a step in the personal selling process important?
8. Direct marketing is a combination of two marketing promotion mixes. Identify these tools and explain why direct marketing is considered a combination of them.
9. When is personal selling necessary?
10. What are the main benefits of using sponsorship in a promotions campaign?
11. What are the criteria for media used in digital marketing?
12. What is the significance of using digital marketing? Explain in your own words based on your own experiences.
13. What is the purpose of integrated marketing communication?
14. Why is media exposure an important factor for a new medical aid scheme that wishes to sponsor an event?
15. Why is ethics in selling an important consideration?

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14

ADVERTISING, PUBLIC RELATIONS AND SALES PROMOTION

LEARNING OUTCOMES

AFTER STUDYING THIS CHAPTER, YOU SHOULD BE ABLE TO

- explain the uses of advertising
- discuss advertising objectives
- describe push, pull and profile strategies
- distinguish between advertising categories
- define public relations
- explain the techniques used in public relations
- explain public relations objectives
- define sales promotion
- explain sales promotion categories
- describe sales promotion effects.

KEY CONCEPTS

- ADVERTISING
- ADVERTISING STANDARDS AUTHORITY
- BUSINESS PROMOTIONS
- CONSUMER PROMOTIONS
- COUPONS
- PUBLIC RELATIONS
- PULL STRATEGY
- PUSH STRATEGY
- REPUTATION
- SALES PROMOTIONS
- TRADE PROMOTIONS



14.1 Introduction

We are all exposed to promotional messages on a regular basis. [Chapter 13](#) provided a summary of the promotion mix, but this chapter

focuses on advertising, public relations and sales promotions as these are the most popular tools.

When driving through a city you will probably drive passed billboards, street pole advertising or signs outside of shopping centres; these are all evidence of advertising. Have you seen any AIDS campaign advertisements such as *LoveLife* billboards, which attempt to change people's perceptions of safe sex? Or how about stop smoking advertisements? These promotion mix tools that strive to get people to change their perceptions are examples of public relations.

Can you remember a time, walking into a grocery store, when there was a taste-test stall for the latest cheeses, wines or sausages? Or the coupons you received from being a loyalty card member of a particular store? The taste tests and coupons are examples of sales promotion.

14.2 Advertising

Advertising is defined as paid, controlled and non-personal messages which provide information about a product, service or company directed at the target audience through mass media with the intention of influencing the target audience's attitude towards the advertisement (adverts) and to react favourably (Lamb, Hair, McDaniel, Boshoff, Terblanche, Elliott, Klopper, 2010: 339).

Advertising can be broken down into various categories (Du Plessis, Strydom & Jooste, 2012: 324–325):

- **Paid.** Adverts are created and aired on different platforms (radio, TV, etc.) in exchange for money. For example, a supermarket pays an agency to create an advert about its products, then pays for the advert to be aired during a given period.
- **Controlled.** The company controls the message and the look of the advertisement. For example, a fashion store wants models with

different skin colours, sizes and heights to feature in its advertisements, which it achieves – it controls what is in its advertisement.

- **Non-personal message.** This indicates that the advertisement does not allow for interpersonal communication between the advertiser and the target market. For example, a pet store may create an advertisement which is aired on radio and therefore does not allow for interaction with clients.
- **Provides information about a product, service or company.** This refers to the concept being advertised, i.e. the purpose of the message. For example, an advertisement informs consumers about a product, such as shampoo, or a service, such as insurance, and its benefits, or about an organisation and its goodwill or involvement in a particular campaign.
- **Directed at the target audience.** Here the message is directed at the target audience who have been identified as being most likely to purchase the product or service. For example, a company will choose to air its advertisement about farming equipment on a radio station which caters for those who work in the agricultural sector, which is suited to the target market.
- **Through mass media.** This refers to the communication media which are most suitable to the advertisement and target market. For example, a fashion website may be used as the mass medium to communicate the recruitment of young aspiring fashion designers to join a new fashion label.
- **Where the intention is to influence the target audience's attitude towards the advertisement and to react favourably.** A particular aim is set for the advertisement along the lines of informing or reminding consumers of a company's products and services, and by so doing persuading consumers to react positively, i.e. to purchase from the company.

In addition, the advertisement provides information about the company that commissioned the advertisement in the form of a logo or its name showing in the advertisement.

14.2.1 Objectives of advertising

The goal of advertising is to mobilise customers through the buying process. The objectives target particular points during the buying process. Advertising objectives include the following (Kurtz, 2010: 538; Armstrong & Kotler, 2011: 414–415):

- **Informational objectives.** These are used most often when a new product is being introduced. In this case, the objective is to build primary demand. The task to achieve with this objective is to build awareness about the company, brand and product, and to share knowledge about product application and product attributes. For example, a motor vehicle manufacturer will have an advert about its latest model, which comes with a sun roof, new colours, Bluetooth, rear-view camera, traction control, large tyres and many more features. Thus the purpose of the advert is to inform the target audience of the latest model and its added features which make it appealing.



Source: Shutterstock

- **Persuasive advertising or attitudinal advertising.** This is used when competition increases and therefore the company wants to build selective demand. Or the company may want to create comparative advertising by which it compares its brand with others. However, this becomes dangerous when unfair claims are made, thus creating legal issues. The task to achieve is associating the brand with a user type and encouraging positive brand preference and thus brand loyalty. For example, a company could point out why purchasing from its stores is better, not necessarily mentioning the competition, but indirectly indicating that no other store measures up to its customer service, prices or product range. Can you think of an example?



Source: Shutterstock

- **Reminder advertising or behavioural advertising.** This type of advertising is more often used for mature products as it helps to maintain customer relationships and reminds the customer about the product. The task is to use awareness, knowledge and brand attitudes to create repeat purchasing. For example, a company may

use a television advert on the assorted biscuits that it specialises in to remind consumers that these are the best biscuits that everybody loves and that they are sought after. An advert of this can type be viewed at <https://www.youtube.com/watch?v=62eF7I4H8u0>



Source: Shutterstock

14.2.2 Advertising message

When developing the advertising message, we need to consider the advertising appeal and the executional style.

14.2.2.1 Advertising appeal

When creating an advertising message, one could consider an informational or emotional appeal (Grewal & Levy, 2012: 543).

Information appeals assist consumers to make purchase decisions by offering factual information, especially key benefits that encourage the consumer to judge the product or brand favourably. When consumers are informed about the product or brand's source of competitive

advantage, such as its features and attributes, this information encourages purchasing. For example, a kitchen appliance manufacturer can include in its adverts that it has been nominated in the Top Brands Consumer Awards in the large kitchen appliances category. For South Africa's favourite brands awards, see <https://www.iol.co.za/business-report/the-sunday-times-top-brand-survey-2017-winners-11390757>

Emotional appeals strive to satisfy consumers' emotional desires rather than their practical needs. This appeal focuses on empathy and thus strives to show how the consumer and the brand link through feeling; such feelings may include fear, safety, humour, happiness, love, comfort or nostalgia.

14.2.2.2 Advertising execution styles

Advertising execution style refers to the best approach in terms of style, tone, words and format when executing an advertisement that is meant to capture the target market's attention and interest. There are several execution styles (Armstrong & Kotler, 2011: 420–421).

<i>Slice-of-life</i>, which refers to one or more types of people who usually make use of the product, such as a family sharing a meal with a particular cool drink	 Source: Shutterstock
	<i>Lifestyle</i>, which refers to how a product fits in with a particular way of life, such as an energy bar that provides the stamina required for a runner's daily exercises



Source: Shutterstock

Fantasy, which refers to the imaginary perception created around a product or its use, such as feeling like a princess when wearing a particular fashion label's gowns



Source: Shutterstock



Source: Shutterstock

Mood or image, which encourages the perception of beauty, love, joy or peacefulness around a product (e.g. when advertising a spa, that those who visit the spa will be relaxed and at peace)

Musical, where people or cartoon characters sing about the product (e.g. particular music may be used when advertising the product, so that there is a song associated with the product)



 Source: Shutterstock	Source: Shutterstock Personality symbol, which refers to a character who represents the product throughout a series of advertisements (e.g. see the link https://www.youtube.com/watch?v=QcNEf6Z9fqo)
Technical expertise, which demonstrates that the company has the know-how to make the product, such as showing how particular components are carefully selected and fitted together	 Source: Shutterstock
 Source: Shutterstock	Scientific evidence, which provides proof that a particular company is better at making the product than other companies (e.g. face creams which have been tested and found to be the best for oily skin)
Testimonial evidence or endorsement, which provides a highly credible source that vouches for the product or brand (e.g. a client of an insurance company who can speak of its fast service, compassionate responses and sensitive handling of claims during funeral policy claim processes)	

14.2.3 Classification of advertising

In order for a company to reach the target audience of the products and services that it offers, it needs to ensure that it is correctly directing the advertising at the relevant consumers who are interested, or potentially interested, in its products or services. A company can advertise according to particular classification criteria such as purpose, target audience, geographic area and medium. Each of the classifications will now be discussed.

14.2.3.1 Advertising according to purpose

There are a number of reasons why a company would want to make use of advertising. The various purposes of advertising are described in [Table 14.1](#) (Koekemoer, 2014: 63–65).

Table 14.1 Advertising purposes

Purpose	Description
Primary demand	This is designed to stimulate demand for general products which are new to the market. “General products” refers to the entire category of a given product. If, for example, the South African government encourages citizens to have savings accounts, this refers to savings accounts in general.
Selective demand	Demand is created for a specific brand through reasons why consumers should purchase the brand. For example, based on the recommendation by the South African government for citizens to have savings accounts, Bank D will advertise its 32-day notice account which has a high interest rate and particular features that will suit different individuals. Thus the bank is advertising its particular savings account.

Purpose	Description
Product/brand	The focus is on consumers, traders and industrial customers. Consumers are focused on in the hopes that demand will increase, thereby encouraging retailers to supply more of the product. For example, a well-known sportswear company has launched sportswear for Muslim female customers (in this case mostly athletes) who have a need for a hijab with lightweight material, breathability and flexibility while still remaining in place. The brand could aim the advertising at customers and retailers alike to increase the demand for this particular brand and in this case its particular line of clothing. For more information see https://www.dezeen.com/2017/03/08/nike-pro-hijab-design-female-muslim-athletes-sportswear-fashion
Corporate image	A company could promote itself in terms of its values and philosophies. A good example of a company that advertises its values and philosophies and prides itself on offering organically grown food is Woolworths (see http://www.woolworths.co.za/store/cat/_/N-nmexhj)
Commercial	Commercial advertising has the end goal of making a profit. Therefore primary demand and selective demand advertising fall under this category.
Non-commercial	Non-commercial advertising is used for non-profit purposes, such as by non-profit companies, governments or social change campaigns, for the pursuit of ideas, images and issues. An example is a campaign to make citizens aware of the dangers of speeding on the national roads. The campaign's purpose is to tackle an issue (road safety) rather than to make a profit from the campaign.
Action	Such adverts intend to elicit an immediate action from consumers. An example is adverts that indicate one-day promotions or specials on items in a retail store, which indicate to the consumers that they have to take immediate action to get to the store to benefit from the one-day specials.
Response	This focuses on eliciting a response from consumers over a longer time frame by making them aware and interested, thus persuading them to purchase a particular product or service. An example is adverts that continuously encourage consumers to purchase vitamins for the continued strengthening of their immune systems.

Purpose	Description
Retail	This attempts to attract consumers into a retail store to purchase the retailer's products or to purchase particular advertised products. For example, a supermarket can encourage consumers to purchase their groceries there because of the benefits of using their loyalty card (see http://www.picknpay.co.za/smartshopper-overview)

14.2.3.2 Advertising according to target audience

Companies offering more than one product that may relate to different consumers need to advertise their products according to the target audience. This includes consumer advertising and business-to-business advertising (Percy, 2014: 81):

- *Consumer advertising* is directed at individuals who make use of the product, either locally or nationally (also known as business-to-consumer advertising).
- *Business-to-business advertising* is directed at individuals who purchase on behalf of companies or those who can influence the purchaser. There are four main categories:
 - i. *Industrial advertising* is directed at individuals who purchase on behalf of or who influence the decision of industrial companies. For example, a large printing machine company will direct its advertising at large companies in order to get a contract to supply the company with printing machines and to maintain these machines.
 - ii. *Professional advertising* is directed at professionals as products that are specialised for their business fields. For example, customer service consultants will advertise to service companies to offer their services as trainers for the company's service employees.
 - iii. *Trade advertising* is directed at agents, retailers and wholesalers to persuade them to purchase the company's product in order to persuade consumers, in turn, to purchase that particular product.

Therefore, this is supplying retailers in order to supply consumers. For example, an entrepreneur has created a special hot sauce so he directs his advertising to restaurants to supply the special hot sauce when serving customers their food (food that will be complemented by the sauce).

- iv. *Agricultural advertising* is directed at those in the agricultural industry such as farmers and related businesses. For example, a tractor company will direct its advertising to farmers at an agricultural trade show.

14.2.3.3 Advertising according to geographic area

There is no use in advertising a product to an entire country when that product is only available in a small region. Therefore, there may be a need to advertise according to geographic area. The supplier, available resources and the target audience will determine the geographical area in which advertising will be done (Koekemoer, 2014: 66–67).

National advertising usually pertains to image creating and relates mostly to product information such as price, availability and service information. Think of sportswear that is on special at a departmental clothing store. Usually the store will advertise the sportswear and where it can be found, and at what price or discount price. During winter there may be more adverts about gas heaters: South Africa in recent years has struggled with electricity outages or “load shedding” which resulted in consumers turning to gas for cooking and heating.

Regional advertising is directed at target audiences within a particular region such as Johannesburg. This type of advertising is used when a product or service is only available in a particular region. Think of radio stations in Johannesburg that play advertisements that are relevant to people in that general area, i.e. the region to which the radio frequency is limited (not taking into account internet radio).

Local advertising is directed at locals within an area. Think of the *Pretoria News* – there are advertisements for local grocery stores that have specials on – or *Junkmail* which advertises products and services

that are relevant in that particular area. An even more particular example is the *Record* which is delivered to local areas in Pretoria and that targets, for example, Pretoria East or the Moot area (each of which covers a number of suburbs).

Multinational companies make use of *international advertising*, especially cosmetics or skincare companies. In most cases these companies advertise their brand.

14.2.4 Media scheduling

By scheduling adverts, the medium or media (radio, television or social media) used for advertising is allocated a particular vehicle (such as local radio, national television or Facebook) and then the insertion dates for when the adverts will be aired or published (Lamb, Hair & McDaniel, 2011: 237). Measuring the media scheduling plans includes concepts such as reach, frequency and gross rating points (Kurtz, 2010: 547). *Reach* is the number of people who are exposed to the advert. *Frequency* refers to the number of times individuals are exposed to an advert during a particular time period. *Gross rating point* refers to a formula where $\text{Reach} \times \text{Frequency} = \text{Total weight of the media effort}$. *Time* refers to the duration of the campaign which is further discussed below. There are four types of media schedule (time) (Lamb et al., 2011: 237; Grewal & Levy, 2012: 544):

1 ➡ *Continuous media schedule* refers to a continuous schedule which has a consistent pattern for a set period of time. This type of media schedule is usually used for products that are in the later stage of the product life cycle. For example, a pasta sauce advert airs on television every Tuesday, Wednesday and Thursday night during the first advertisement break of *7de Laan* (South African local “soapie”) for a period of eight weeks.

2 ➡ *Flighted media schedule* refers to a media schedule that focuses on particular times of the month (either every month or every other month), sometimes in relation to particular lifestyle or other matters relating to the product. This media schedule

attempts to achieve greater impact with an increased frequency and reach at those times. For example, a biscuit brand may make use of a flighted media schedule to air its adverts just before people get paid as the biscuits are considered to be a luxury item.

3 ➔ *Pulsing media schedule* refers to a combination of continuous and flighted media schedules, allowing for media scheduling throughout the year, with flighted media scheduling during high peak seasons such as during holiday season. For example, a clothing store will advertise consistently throughout the year, but when clearance sales are on it will have increased media scheduling during those times.

4 ➔ *Seasonal media schedule* refers to media scheduling that takes place during seasonal times. For example, because the Western Cape and Gauteng have different rainy seasons, an umbrella company will advertise during winter in the Western Cape (their rainy season) but advertise during summer in Gauteng (their rainy season). Thus a company needs to consider when its product will be in high demand if it is seasonal.

14.2.5 Push, pull and profile strategies

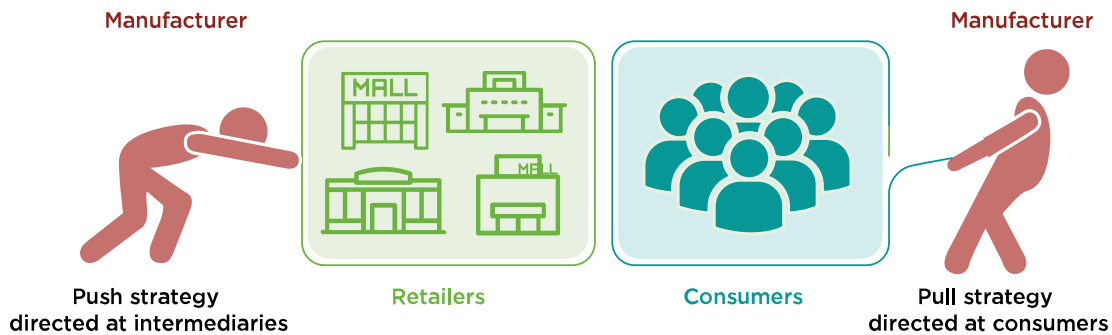
Companies use different strategies to communicate with consumers, namely **push strategy** and pull strategies (see [Figure 14.1](#)) and profile strategies (Bax & Woodhouse, 2013: 86; Grewal & Levy, 2012: 538):

- *Push strategy* is where the manufacturers promote, recommend and sell the brand to the members of the distribution channel, such as intermediaries and retailers, through personal selling and sales promotion. Therefore, push strategy encourages the intermediaries to purchase the product to sell to the end consumer. For example, a wine maker (manufacturer) would take part in a wine exhibition which restaurant owners attend to find new wines to add to their restaurants' wine lists. The wine maker would use **trade promotions**

and personal selling to get the restaurant owners to purchase his particular range of wine.

- *Pull strategy* is where the manufacturer directs promotions to end consumers to convince them to have their intermediaries stock and thereby supply the product. Therefore, manufacturers use the pull strategy to encourage consumers to purchase their products, which in turn will create a demand from the consumer to the manufacturer. For example, a bread bakery has created a loaf of bread slices which are a different cut and texture to normal bread. Advertising this product on television compels supermarkets to purchase the bread as consumers ask for this bread to be stocked in the store.

Figure 14.1 Visual representation of push and pull strategies



- *Profile strategy* focuses on building awareness, positive perceptions, attitudes and reputation. It is used to satisfy the company's promotion goals which in turn are intended to satisfy the stakeholders' requirements. The company can meet the promotion goals through public relations, sponsorship or advertising (Bax & Woodhouse, 2013: 86). In addition, profile strategy strives to build awareness of the product and service, and make an emotional connection between the brand and the consumers (Robinson, Fallon, Cameron & Crotts, 2016: 86). For example, a company may wish to promote itself as a socially responsible business that cares about the causes people believe in today. To see how the promotion of a company went wrong when not properly aligning the product to the concept of a rights movement, go to <http://metro.co.uk/2017/04/05/kendall-jenners-resistance-pepsi-advert-hasnt-gone-down-well-6554496/>

14.2.6 Regulation of advertising

There are two branches of regulation, namely self-regulation and governmental regulations, which apply to advertising. The Advertising Standards Authority of South Africa functions in association with the European Advertising Standards Alliance.

Advertising self-regulation, like advertising itself, is a grassroots activity that operates most effectively at national level. Two vital factors therefore determine the form that advertising self-regulation takes in any country. The first is tradition: each country's self-regulatory system must take account of its cultural, commercial and legal traditions. The second factor is opportunity: self-regulation's relationship with the law is a complementary one and self-regulation can flourish only insofar as the legislative landscape allows it sufficient scope

(Advertising Standards Authority, 2004)

South Africa has a number of Acts that regulate the advertising of particular products and services. A few of the Acts are mentioned below.

The Consumer Protection Act 68 of 2008 is probably the most important and prominent Act when it comes to promotions (Republic of South Africa, 2008a: 70–96). Chapter 2, in particular, includes the following:

- Part E, which refers to the right to fair and responsible marketing
- Part F, which refers to the right to fair and honest dealing

The Medicines and Related Substances Amendment Act 14 of 2015 pertains to the registration of medicines and related substances. It requires labels and advertising that bear the ingredient information and other prescribed particulars for these items (Republic of South Africa, 2015: 14).

The Tobacco Products Control Amendment Act 23 of 2008 stipulates the tobacco requirements in terms of the promotions, distribution, display, packaging and labelling. Advertising of Tobacco products is no longer permitted under the Act – hence there are no more billboards or television advertisements of tobacco products (Republic of South Africa, 2008b: 2–10).

The Foodstuffs, Cosmetics and Disinfectants Act 54 of 1972 regulates the manufacturing and labelling of foodstuffs and requires correct information pertaining to food, cosmetics and disinfectants (Republic of South Africa, 1972: 1–30).

For more information on the Advertising Standards Authority of South Africa, see <http://www.asasa.org.za>

14.3 Public relations

There are differences between public relations and marketing. The focus of public relations is on building goodwill and fostering a positive corporate image, while marketing focuses on the promotion of goods and services for transfer between the company and the consumer (Tripathy, 2011: 130). The immediate goal of public relations is for a shared understanding and positioning of the company, while marketing's immediate goal is for an increase in sales.

Public relations strives to create positive perceptions, while marketing strives to make a profit in the long run. With each concept there is a need for measurement, which in the case of public relations comes in the form of stakeholders' support, whereas in marketing the results come in the form of the number of sales and the resulting profit (Tripathy, 2011: 130).

The confusion between public relations and marketing comes in where public relations utilises “marketing” tools to advertise the company, while marketing uses public relations tools to promote the company's products and services (Rensburg & Cant, 2009: 47).

View this video on YouTube on public relations:
<https://www.youtube.com/watch?v=UCiK5-R2c0I>

14.3.1 Public relations objectives

There are several types of objective that relate to public relations (Broom & Sha, 2013: 270–271; Bobbitt & Sullivan, 2014: 25–28):

- *Output objectives* refer to tactical tasks required for the fulfilment of campaigns. This includes delivering speeches or contacting media houses for conferences.
- *Impact objectives* refer to the desired changes in the stakeholders (those individuals who have an influence on the company) based on the public relations campaigns that have been rolled out. Included in impact objectives are the following:
 - *Informational objectives*, which refer to the exposure and comprehension of stakeholders of the message. For example, students at university must be made aware of the student funding/bursaries/scholarships available to them.
 - *Attitudinal objectives*, which refer to a change in the stakeholders' attitude based on the campaign. For example, the objective may be to change citizens' perspective on the need to keep the environment clean and litter free.
 - *Changing existing attitudes* involves altering the perceptions of stakeholders of a particular brand product or company. For example, when oil spills occur, an oil company will want to change or mitigate the negative perceptions that individuals will have of the company.
 - *Statutory objectives* refers to attempting to have an impact on the policy decisions of government bodies and to gain the support of citizens. For example, media houses, media associations and journalists are against restrictions being placed on reporting by particular bills.
 - *Financial objectives* refers to increasing sales or donations (for non-governmental organisations, NGOs). For example, such companies may experience an increase in sales which will lead to an increase in profits during peak shopping periods. NGOs may experience an increase in funds as a result of a particular request for funding of worthy causes, such as for the victims of veld fires

in the Western Cape or for animal shelters which are in need of donations to purchase food and to pay veterinary accounts.

- *Process objectives* refers to tasks performed during the public relations campaign. One such task could be the placing of a series of messages on social media in the lead-up to a funding campaign by a company supporting a particular medical research association, such as cancer research.

14.3.2 Public relations techniques

The implementation and completion of public relations strategies require particular techniques in order to communicate with target audiences. A number of techniques are used to achieve public relations goals and objectives (Theaker, 2012):

- *Media relations* refers to the linkages to media entities and the required tasks involved in media communications, such as drafting press releases and feature articles. For example, a company may provide a news release to several media houses providing information on a new product line.
- *Publications* involve drafting the material required for internal and external stakeholders, such as news releases, newsletters, social media posting and annual reports. Internal publications are internal memorandums, notice boards, internal newsletters, etc.
- *Corporate image* refers to stakeholders' experiences, impressions, feelings, beliefs and knowledge of and about the company, which public relations should try to impact positively. For example, a pharmaceutical company may be aware of the campaign against the cruelty of testing its products on animals and therefore find other means to test its products and make the public aware of that.
- *Corporate advertising* utilises promotion mix tools, such as sponsorship and advertising, to exert a positive influence on stakeholders' perception of the company's image and corporate brand. For example, by making the public aware of a

pharmaceutical company's policy against animal testing, a corporate image is created that the pharmaceutical company is environmentally aware.

- *Promotional activities* include promotional tools such as direct mail, events, conferences and exhibitions to promote the company's image. For example, a company may demonstrate its charitable nature through its charity work.
- *Internal communication* involves communicating to internal stakeholders to encourage buy-in from employees and management in order to achieve the goals of the company. For example, there may be posters along office passages with messages encouraging employees to provide service with a smile.
- *Crisis management* refers to the management of sudden and unpredictable situations which can be damaging to the company if not controlled. For example, a motor vehicle manufacturer may have to recall a number of its vehicles for technical reasons. This would be a crisis, which would be managed through a form of compensation to affected customers.
- *Managing the reputation* of a company requires constant monitoring and maintenance in order to ensure that its economic and social interactions assist in the company's progress. Reputation includes social responsibility pertaining to people (ensuring that communities and employees are taken care of) and the environment, and the technological advances that the company needs to take into account to remain competitive.
- *Lobbying* refers to maintaining relations with regulators in terms of understanding the regulatory processes, as well as petitioning where necessary, when regulations will limit company process. Lobbying must be in line with environmental, social and technical considerations.
- *Networking* refers to the relationships that companies should build with stakeholders in the market environment, including the employees, customers, prospects, suppliers, professional bodies and professions in the field. For example, a representative of an

information technology company may attend a relevant conference to listen to presentations by experts in the field, talk with other delegates and even exhibit on behalf of the company.

To fulfil the roles of public relations as discussed above, a public relations practitioner has specific objectives to perform. With the public relations objectives in mind, coupled with the public relations techniques used to accomplish public relations campaigns, various types of persuasive campaign are used.

14.3.3 Different types of persuasive campaigns

Persuasive campaigns are commissioned by the company to gain the support of target audiences for its course of action. There are different types of persuasive campaign which are used for different reasons, divided into five categories, namely political, commercial, reputation, educational and social action (Bobbitt & Sullivan 2014: 3–4). We will not discuss political campaigns here.

- The purpose of a *commercial campaign* is to promote a company's new products or services using marketing, public relations and advertising. An example would be a company launching its products during a relevant celebration, such as introducing soy products during Earth Week, which may have a big impact. The reasoning would be that the production of meat products uses a large amount of natural resources, whereas soy products are more environmentally friendly.
- A *reputation campaign* (or image campaign) serves the purpose of improving the target audience's perception of the company. A reputation campaign is used in times when a company's image has been tarnished, or when the reputation can be improved (due to repositioning of the company). Can you think of a South Africa company that has performed a reputation campaign? An example of a reputation campaign can be found at:
<http://www.africanbusinessreview.co.za/leadership/40/Africas-biggest-brands:-MTNs-recipe-for-success>

- An *educational campaign* (or public awareness campaign) serves the purpose of educating audiences about particular social concerns. Advocacy groups or non-profit companies make use of two types of educational campaign in order to promote behavioural change. The purpose of behavioural change campaigns could be (1) to change behaviour by starting to do something (such as going for cholesterol checks) or (2) to change behaviour by stopping or reducing a particular behaviour (such as eating too much salt). These campaigns are usually related to health issues, such as information about medical conditions (stop eating too much salt as it leads to high blood pressure, or stop eating fatty foods as it leads to a high cholesterol), or they may encourage a behavioural change in terms of social concerns, such as domestic violence, protecting yourself from STDs or STIs or HIV and AIDS. There are other educational campaigns, such as highlighting the plight of the poor, especially in terms of feeding schemes for children, which a fastfood restaurant in South Africa and an adventurer collaborated on in 2013 to encourage individuals to donate for a social cause. For more information, see <https://www.vimeo.com/63401096>
- A *social action campaign* refers to advocacy of a social issue or cause with a long-term outlook. An example is a broad, open-ended campaign that will continue the effort to pass laws such as improved sanitary conditions for learners in all schools (rural and urban).

14.3.4 The role of the Public Relations Institute of South Africa

The Public Relations Institute of Southern Africa or PRISA is an association for public relations professionals in the southern African region. PRISA provides a code of ethics and professional standards for public relations professionals. Being associated with PRISA is an indication of excellent communicators who add value to a company. PRISA's registration system looks at an individual's academic qualifications and experience. Members are registered at different levels, being APR (accredited public relations practitioner), CPRP

(chartered public relations practitioner) or PRP (public relations practitioner).

PRISA has developed a set of standards for the consulting industry – with different measurements for small, medium and large businesses. Accreditation ratings will be based on criteria including transformation, business plans, new business, resources, client campaigns, human resources and training. The benefits of being an accredited consultancy are for both the companies and their clients. Consultancies can use their achievement as a marketing tool and clients will have recourse if something does go wrong

(Public Relations Institute of South Africa, 2015)

For more information on PRISA, visit their website at <http://www.prisa.co.za>

For a list of established public relations (and marketing) companies in South Africa, see <http://www.bizcommunity.com/Companies/196/18.html>

14.4 Sales promotion

Remember the time you went to a hypermarket at the end of the month and there were a number of small stalls with people giving out sample portions of sausages, cheeses or sauces for tasting? Or how about the time you bought your favourite magazine and there was a sample of perfume? Even the newspaper sometimes has a sample of coffee or tea. These are examples of sales promotions.

Sales promotions utilise short-term incentives or rewards to encourage the purchase of a product or service. They are used by many role players in the distribution channel, including manufacturers, distributors and retailers (Lamb et al., 2010: 346). Non-profit companies also make use of sales promotions, such as giving free beaded keyrings away to promote their business. Sales promotions are usually used in conjunction with other promotional tools, such as advertising, personal selling and direct marketing. When a sales

promotion is used in conjunction with advertising, for example, it creates excitement and pulls the customers towards the product.

When we look at each element of the definition of sales promotions, we find that there is greater depth in the wording (Kurtz, 2010: 287–289):

- Sales promotions are usually *short term* and are only available for a specific period of time (emphasis on short term), which is long enough to draw the consumer while simultaneously not causing financial ruin for the company – thus it must be viable.
- Sales promotions aim to provide some sort of *incentive or reward*, which should be a big drawcard for the consumers. For example, the reward should be enough to draw the consumers yet not so large that it will cause financial problems for the company.
- Sales promotions are *action driven*, that is they are an attempt to pull the consumers to the product and thus require an action towards the product.

Sales promotions are used to reinforce the product's position and build long-term customer relationships, rather than being a quick fix to draw customers to the product in that short period of time (Armstrong & Kotler, 2011: 459).

There are several different types of sales promotion (Lamb et al., 2011: 279):

- **Consumer promotions**, which are targeted at final buyers
- Trade promotions, which are targeted at retailers and wholesalers
- **Business promotions**, which are targeted at business customers
- Sales force promotions, which are targeted at salespeople

14.4.1 Sales promotion objectives

Depending on the type of sales promotion that the company is performing, there are a number of different objectives, which relate to the different types of sales promotion (see [Table 14.2](#)). While consumer promotions aim to increase sales, for example, trade and salesforce promotions are geared towards carrying out the company's personal selling process.

Table 14.2 Types of sales promotion

Type of sales promotion	Typical objectives
Consumer promotions	• Encourage short-term buying • Enhance customers' involvement with the brand
Trade promotions & business promotions	• Encourage retailers to carry more product items • Encourage increase in order numbers • Promote the product • Dedicate more shelf space to the product
Sales force promotions	• Increase sales force support for the product • Encourage sales force to sign up new customers for accounts

Sources: Adapted from Lamb et al. (2011: 280); Smith and Zook (2016: 438)

14.4.2 Sales promotion tools

This section focuses on the different types of sales promotion and the tools that fall under each type available to the company (Grewal & Levy, 2012: 553–556; Pride & Ferrell, 2013: 538–543).

14.4.2.1 Consumer promotions

Sales promotion tools include samples, coupons, refunds, premiums, contests, competitions and games, point-of-purchase displays and loyalty programmes.

- *Samples* are a fraction of the amount of the normal product size and they serve as a trial amount of the product. This is the most effective, yet most expensive, way to introduce a product or create enticement for the existing one. Samples are delivered in different ways: via mail, attached to advertisements (e.g. a perfume sachet with a magazine) or attached to related products (e.g. a sample of clothing softener attached to a pack of washing powder).
- *Coupons* are certificates that provide buyers with a discount when they purchase specific products. They are especially used for an early trial of a new brand or to stimulate sales of a mature brand. For an example of coupons, see <http://www.couponsa.co.za>
- *Refunds* occur after the sale has taken place and the consumer has spent the money on purchasing the product. A refund entails sending the receipt to the manufacturer, who gets refunded in part.
- *Premiums* are additional items attached to the product either free or at a minimal extra cost, the purpose of which is to entice the consumer to purchase the product. An example of this is when fastfood restaurants include a toy with children's meals to encourage the sale of children's meals. See <http://www.happymeal.com>
- *Contests, competitions and games* provide the chance for consumers to win something, perhaps a certain supply of the product, cash or a trip. These promotions create brand attention and the consumer involvement increases.
 - Contests require the consumer to submit an entry, such as a selfie competition with the product in an unusual place. See *5 Selfie contests that truly flashed on social media* at <http://www.blog.digitalinsights.in/selfie-contests-on-social-media/05226687.html>
 - Competitions require consumers to provide their names for a draw to win something. See an example of this at <http://www.afternoonexpress.co.za/competitions/stand-a-chance-to-win-a-set-of-double-tickets/2470>
 - Games present consumers with something to do to take part in the competition, such as finding letters for a full word, finding special

writing or a sticker on a product, or a special code. For an example of a game, see the website:

<https://www.beaconbunny.co.za/>

- *Point-of-purchase displays* are the displays found in stores, such as aisle displays, promotional signs or demonstrators offering a trial taste of the featured food items.
- *Loyalty programmes* refer to a reward system companies adopt to thank consumers who are loyal to the brand, store or products. They are created to form long-term, mutually beneficial relationships through enticements to encourage return purchasing. For example, many hypermarkets and pharmacies have loyalty programmes which feature a card that, when swiped, earns the consumer points based on the amount of money spent. For an example, see http://www.dischem.co.za/dis-chem-benefits-loyalty-programme?_zp_sid=ldg9p1c32e74h1mhuqo6kqlfm4

14.4.2.2 Trade promotions

Trade promotions aim to persuade resellers to carry their products and brands, allocate shelf space to the products, promote them in advertising and push them to the consumers. Manufacturers attempt to get the product on the shelves of the retailer or wholesaler through offering allowances, buy-back guarantees, or free goods. Although trade promotions include similar tools to those of consumer promotion, such as contests, premiums and displays, other tools are also used. Trade promotion tools include the following (Lamb et al., 2011: 284–285):

- *Discount* refers to an amount off the listed price during a particular time. For example, a wholesaler who sells cool drink in bulk to *spaza* shops (small informal stores found mostly in the townships in South Africa) may offer a discounted price of R50 for six 2 litre cool drink bottles, compared with the normal price of R80 for six 2 litre cool drink bottles, just before the festive season.

- *Allowance* refers to a discount off the list price on the condition that the manufacturer's products are displayed in a particular manner. The allowance is a reward in exchange for the display whose purpose is to advertise the product. For example, a dairy company may give a 15 per cent discount on any bulk order of its 1 litre of milk if the milk is displayed at eye level in the supermarket stores (eye level is where consumers look first, thus considered a premium display spot).
- *Free goods* refer to extra merchandise provided to the retailer for particular shelf specifications. For example, an olive oil company may give a supermarket 15 extra bottles of olive oil for every order of 150 bottles if the store agrees to place the bottles of olive oil in the cooking oil section and at the end of an aisle close to the tills.
- *Push money* refers to monetary gifting to the retailers to push the manufacturer's goods. For example, if a department store agrees to give a particular brand the best display positions in store (such as in the shop window), then the particular company will give the department store a cash reward.
- *Speciality advertising* items refers to a manufacturer providing the retailer and wholesaler with speciality items such as pens, printed T-shirts or calendars that carry the manufacturer's name. For example, a social club may arrange events for students at unexpected venues to promote the venues and the social events. Unexpected venues for social events could include a poetry night at a book store, or a night of dancing at a small restaurant. The social club leaves its social events calendar at all its unexpected venues for students to see so that when individuals visit these unexpected venues they can get a free calendar or pen which could make them think of using the social club to promote other venues in future.
- *Training* refers to retailers providing instruction on how a product is used, especially in the case where the product is complex. For example, a cellphone manufacturer has created virtual reality headgear. As this is a product innovation, the manufacturer is required to provide training to retail assistants who will be expected to explain the use of the headgear to the consumers.

- *Free merchandise* refers to products offered to retailers for free in place of what would have perhaps been a price-reduction sales promotion tool. Therefore, instead of a discount, the company will offer 10 extra units for free. For example, instead of a 10 per cent discount, a biscuit company could provide 10 per cent more boxes of biscuits based on the order placed.
- *Store demonstrations* refer to offering consumers samples of products, such as foodstuffs. Promoters are used to promote the products in-store, at the shelf where the products are kept, in order to draw the consumers' attention to the product. For example, where the sausages are kept in a store, there will be a promoter who fries some sausages and offers them to individuals as testers.

14.4.2.3 Business promotions

Business promotions are used to generate business leads, reward customers, stimulate purchases and motivate salespersons. They include many of the sales promotions tools that consumer promotions and trade promotions make use of, in addition to the usual sales promotions tools, such as conventions and trade shows. Business promotion tools include the following (Kurtz, 2010: 594):

- *Conventions and trade shows* are exhibition-type shows where manufacturers promote their products. They hold many benefits for the manufacturer apart from showcasing its products, such as opportunities to find new sales leads, introducing new products, meeting new customers, selling more to current customers and educating customers through publications and audio-visual materials. For example, the largest consumer exhibition in Africa, known as the Rand Show, invites many companies to showcase their products to consumers.
- *Sales contests* are used to motivate salespeople to increase their sales performance over a particular period of time and to recognise good sales performers. For example, the car salesperson who makes the most sales during a period of time will be awarded with prize money.

14.4.3 Sales promotion effects

There are a number of ways that sales promotion affects sales, namely brand switching, repeat purchasing, purchase acceleration and category expansion, which are discussed below (Koekemoer, 2011: 152–154).

Brand switching refers to consumers switching their product brand preferences from one product to another. There is aggressive and defensive brand switching. Aggressive brand switching refers to consumers switching from their initial brand preference to another brand preference. For example, Sandy is not satisfied with the manner in which her hairstylist did her hair even after indicating that to the hairstylist over the last three appointments, so Sandy decides to make use of the services of another hairstylist. Defensive brand switching refers to switching from the initial brand preference to another brand and then back again to the initial brand preference. For example, Jenny was unsatisfied with her hairstylist's services and switched to another hairstylist only to find that the second hairstylist's services were even worse. Thus Jenny returned to her initial hair stylist.

Repeat purchasing refers to a consumer coming back to purchase the product again. There are two types of repeat purchasing. The first effect is positive in that it is a result of the implications of purchasing the brand, where the consumer sustains the habit of continuing to purchase the brand and learns about the performance of the brand and product. Thus the sales promotions encourage the purchase of the product which would otherwise not have occurred. For example, a family tested a new cheese spread when they tasted it at a sales promotion stall at the supermarket and liked it so much that they have included it in their monthly grocery shopping. The second effect is negative as a result of the consumer purchasing the product due to the sales promotion, but having the undesired effect of the consumer's attitude towards the product being negatively affected. For example, a type of fruit juice has had sales promotions for months on end, creating the perception that the fruit juice must have something wrong with it and that a sales promotion is the fastest way to get rid of the bad batches of fruit juice. Thus consumers may never want to purchase the fruit juice as a result of their negative perception. The second effect is

also known as the promotional usage effect and provides evidence that companies should make use of a balanced promotional strategy rather than just using sales promotions continuously since they are meant to be only be a short-term strategy rather than a long-term strategy.

Purchase acceleration refers to when consumers are encouraged to purchase in larger amounts than previously done, or more frequently. For example, a bakery has introduced a new type of sliced bread loaf, but there are fewer slices in the loaf than in a normal loaf of bread. This means that consumers will have to purchase more loaves of the new bread to be equivalent to a normal loaf of bread.

Category expansion refers to stimulating demand for the product so that when the sales promotion has been completed, the normal purchasing levels are actually increased, instead of going back to normal purchasing levels. Category expansion can increase demand through encouraging consumers to purchase the product for more than its general use. For example, flour is generally used to bake cakes, but it could also be used for other cooking like making pumpkin fritters or white sauce for pasta dishes.

14.4.4 Benefits and limitations of sales promotions

There are a number of benefits and limitations of sales promotions which are illustrated in [Table 14.3](#) (Du Plessis et al., 2012: 355; Grewal & Levy, 2012: 553).

Table 14.3 Benefits and limitations of sales promotions

Benefits	Limitations

Benefits	Limitations
• Add extra value to the product, which encourages the consumer to purchase that product rather than other brands • Stimulate product sales of a new product • Renew consumer interest in a product that has been in decline • Emphasise the product's good value compared with other brands through giving allowances such as lay-bys or discounted prices for good value • Encourage potential customers to purchase the product and therefore increases sales volumes	• Can only be short term and are therefore not a long-term solution • Should have limited budget as sales promotions are usually used in conjunction with another promotional mix tool and should not work in isolation • Cannot correct a bad reputation or untrained salespeople • Usually evoke a response from the competition and could lead to sales wars with undercutting of product prices

14.5 Conclusion

This chapter covered advertising, public relations and sales promotions. Advertising is the most commonly used marketing communication tool as it applies to so many communication media (discussed in [Chapter 13](#)).

There are numerous aspects to consider when creating an advertisement, such as the objectives, the advertising message, the target audience, the region and, very importantly, the regulations which apply to advertising messages. The aspects that need to be taken into account all depend on what the company wishes to communicate about and the purpose of the advertisement.

Public relations, with its focus on the perceptions that consumers or stakeholders in general have of the company, is marketing communication on a large scale as it encompasses everything that falls

under the company's umbrella (conduct of employees, image, products, services).

Public relations makes use of many marketing communication tools to achieve its objectives. Sales promotions have unique techniques to reach the consumers, from sampling to coupons to advertising specialities. Sales promotion has a short-term outlook on either consumer promotions, trade promotions or business promotions.

DISCUSSION QUESTIONS

1. Why would a company make use of advertising?
2. How does the type of advertising objective influence the type of advertising the company chooses?
3. Which advertising execution style would a company use when it wants to be provided with research results which prove that, chemically, it has the best skin care product?
4. Which strategy is better: push strategy or pull strategy?
5. A company selling a polaroid camera (which takes a picture and immediately after prints the picture) wants to advertise the camera. The angle of the advertising is based on the idea that in today's era of smartphones people hardly print pictures anymore but rather store the pictures on memory sticks or hard drives. The advertising should emphasise that having that instant picture when using the polaroid camera could mean memories being captured and printed, to save on the fridge, on a memory wall or in your wallet to remind you of the good times. Which type of advertising appeal would best suit the angle this company wishes to take? Provide motivation for your answer.
6. How would a company decide on which advertising classification to utilise if it has a new product – washing powder safe for babies – whose target audience is parents and which is available in stores nationwide?
7. Explain the role of public relations.
8. What is the difference between marketing and public relations?
9. Explain the technique used in public relations that relates to the media.
10. Explain the difference between public relations output objectives and impact objectives.

11. A non-profit organisation wishes to create a campaign that emphasises the importance of citizens donating blood. The NGO wants to emphasise times when shortages of blood for transfusions occur, these being times such as Easter and during the festive season (due to high accident numbers). Which public relations campaign is most suited for the blood donation drive? Motivate your answer.
12. In which situations would a company make use of sales promotions?
13. Explain the difference between the types of sales promotion.
14. Explain what the effects of sales promotions are.

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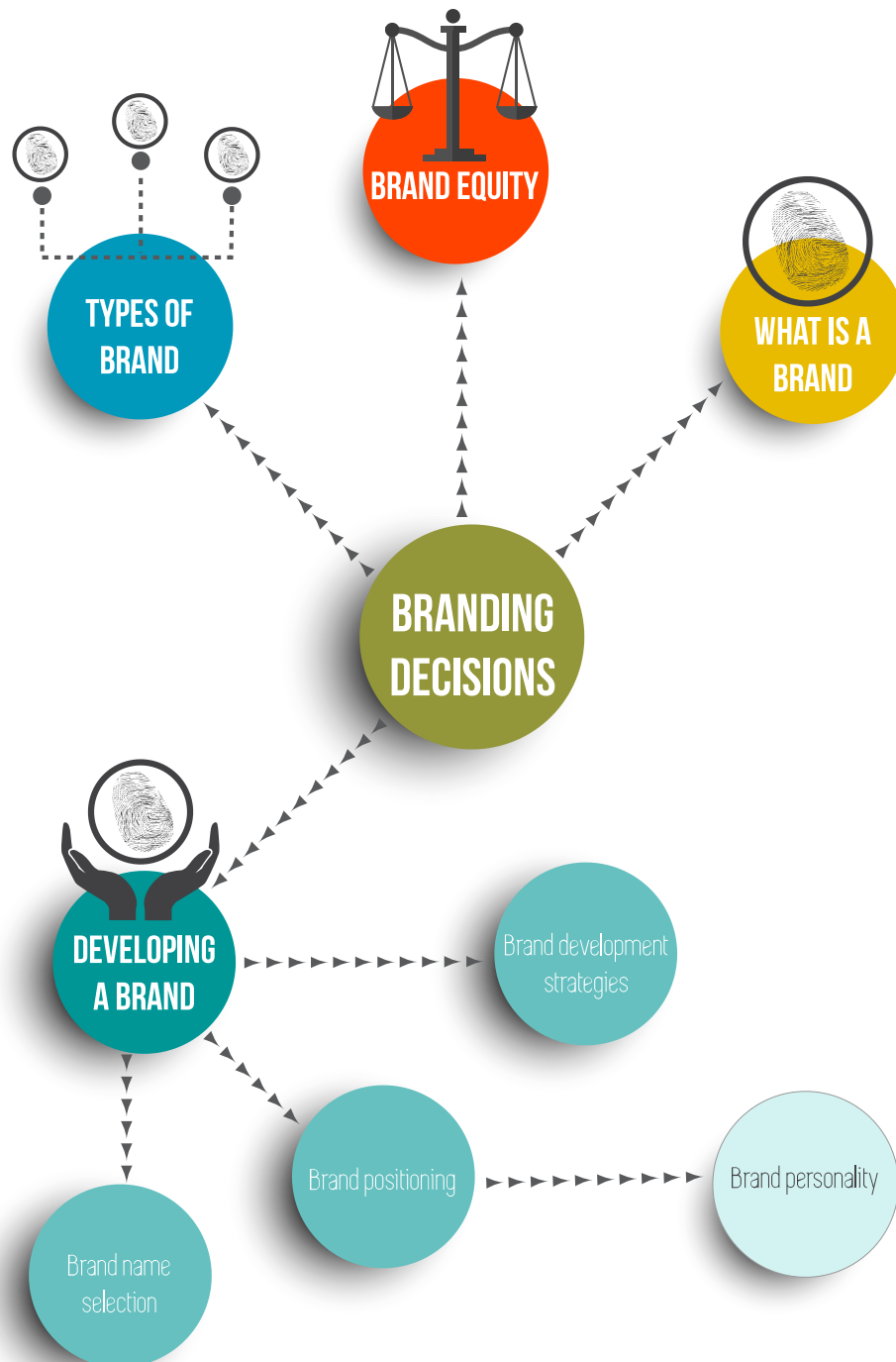
LEARNING OUTCOMES

AFTER STUDYING THIS CHAPTER, YOU SHOULD BE ABLE TO

- understand the importance of brands
- distinguish the types of brand and identify examples of each
- discuss branding strategies and the key considerations in developing brands
- describe brand equity and how it is measured.

KEY CONCEPTS

- BRAND
- BRAND EQUITY
- BRAND EXTENSION
- BRAND PERSONALITY
- BRANDING
- DIFFERENTIATION
- LINE EXTENSION
- MULTI-BRAND
- NEW BRAND



15.1 Introduction

According to the American Marketing Association, a brand is “a name, term, design, symbol, or any other feature that identifies one seller’s good or service as distinct from those of other sellers” (American Marketing Association, 2017). Generally consumers do not make any distinction between the brand and the brand name, but the two are not the same. The brand name, for example, is McDonald’s, but the brand encompasses far more than just the name. In most instances, a brand is a combination of the various features that consumers can recognise and associate with the brand name.

Brands have become an essential part of our lives and assist consumers in making purchasing decisions daily. Brands have also become a big part of the economy, with Apple being the most valuable brand in the world, worth more than US\$150 billion. Table 15.1 shows the 10 most valuable brands.

Table 15.1 Ranking and value of brands

Rank	Brand	Brand value (in US\$ billions)
1	Apple	154.1
2	Google	82.5
3	Microsoft	75.2
4	Coca-Cola	58.5
5	Facebook	52.6
6	Toyota	42.1
7	IBM	41.4
8	Disney	39.5
9	McDonald’s	39.1
10	General Electric	36.7

Source: Forbes (2016)

African brands have also become valuable, with MTN being the most valuable brand in Africa, worth R54 billion (US\$4 672 million) in

2015. Figure 15.2 shows the most valuable African brands.

Table 15.2 Top brands in Africa

Brand	Category	Country of origin	Brand value 2014 (US\$ M)	Brand value 2015 (US\$ M)
MTN	Telecommunications	South Africa	5 381	4 672
DStv/GOTv Multichoice	Media	South Africa	827	840
Safaricom/M-Pesa	Telecommunications	Kenya	357	371
Dangote Group	Consumer, non-cyclical	Nigeria	253	309
Tusker	Alcoholic beverages	Kenya	263	300
GLO/Globacom	Telecommunications	Nigeria	298	289
Zenith Bank	Financial services	Nigeria	174	235
Golden Penny Foods	Food	Nigeria		215
Orijin	Alcoholic beverages	Nigeria		194
Star Beer	Alcoholic beverages	Nigeria	132	179

Source: African Business (2015)

In a powerful statement, a Coca-Cola executive was quoted as saying, “If Coca-Cola were to lose all of its production-related assets in a disaster, the company would survive. By contrast, if all consumers were to have a sudden lapse of memory and forget everything related to Coca-Cola, the company would go out of business” (Ellodave, 2015). This is a true testament to the importance and value of brands, and it is therefore vital that marketers should spend time developing and sustaining strong brands.



Source: African Business (2015)

Branding is therefore the art of developing and maintaining a brand in the eyes and minds of consumers. Brands and branding having benefits for both the brand owner as well as the consumers. Some benefits of brands are as follows:

- They allow consumers to simplify their shopping and decision making if products are easily recognisable.
- They reduce the risk for consumers as they can trust that they will receive an expected level of quality when purchasing a known brand.
- For the brand owner, brands allow easy recognition and can result in loyalty to the company's products.
- Brands also allow the company to position its products and differentiate them from those of its competitors.

There are various types of brand, and before we venture into how to develop brands and understand branding decisions, it is necessary to discuss these.

15.2 Types of brand

When marketers develop a new product, they have various options for branding it. Marketers can choose to develop a new brand from scratch, or leverage existing brands available to them. The key differentiation relates to who sponsors the brand. Let us now consider the various brand sponsorship options.

15.2.1 Manufacturer brands

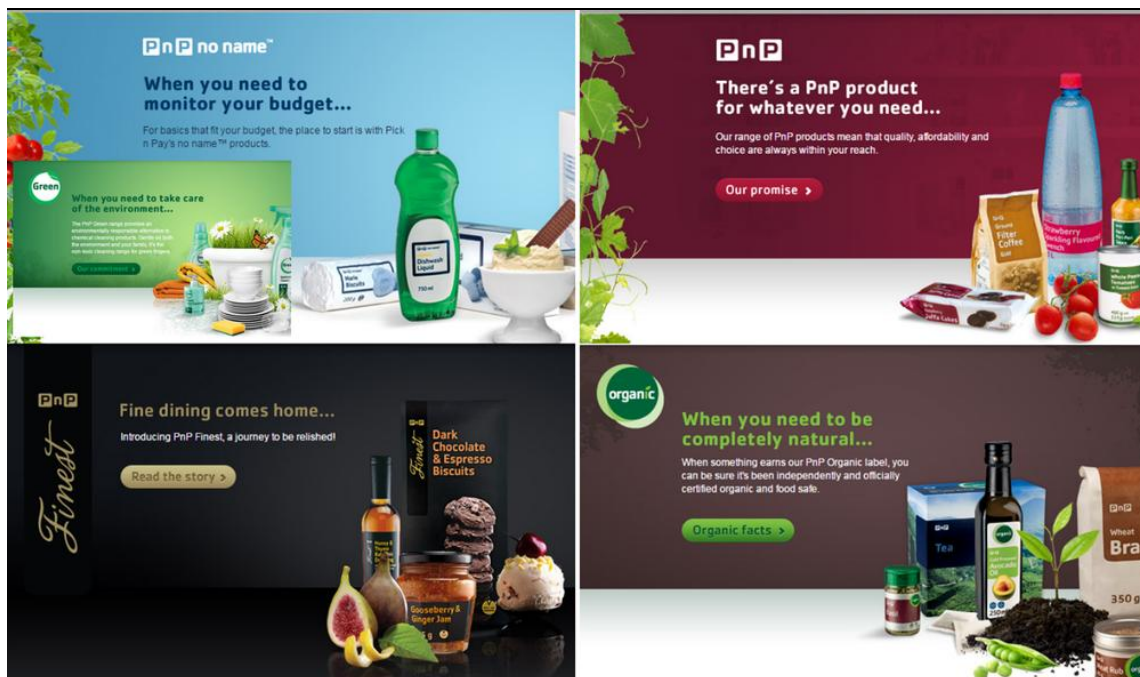
A manufacturer brand is a brand that is owned by the manufacturer of the product, but distributed by someone else. An example of a manufacturer brand is Sunlight from Unilever. In this case, Unilever is the manufacturer and Sunlight is their brand. Unilever has full ownership and control of the brand and all branding decisions related to Sunlight. They then make use of distributors/resellers such as Pick n Pay and Checkers to get the Sunlight products to consumers. The marketing of the brand is the responsibility of the manufacturer. This responsibility ranges from product innovation to advertising, and such brands are typically supported by substantial advertising budgets.

Although many resellers also sell their own products bearing their name, the reseller benefits from having these products in their stores. Manufacturer brands build credibility for the reseller and drive traffic into the stores due to the extensive marketing efforts by the manufacturer. Manufacturer brands gain sales for the reseller without the reseller having to carry the risk of owning the brand. Resellers therefore pre-negotiate a mark-up on the products sold, and may still have the option to return the stock should it not sell as expected. The cost of reselling manufacturer products is shelf space which could be allocated to their own store brands.

15.2.2 Private label brands

Over the past few decades, private label brands have grown in number, popularity and quality. Private label brands, also known as store brands

or distributor brands, are brands that belong to resellers such as Pick n Pay. These products are not necessarily produced by Pick n Pay, but rather by manufacturers such as Parmalat and Libstar. The manufacturer company produces the products and sells them unbranded to the retailer, who then sells them under its own brand name. The success of these private label brands is therefore dependent on the strength of the reseller brand. A great example of private label brands in South Africa is Pick n Pay's. Their first private label brand was the No Name brand, which was seen by consumers as inferior in quality and was typically priced in the entry-level range. Over the years, private label brands have become widely accepted in South Africa as offering more than just a cheaper alternative to fast-moving consumer goods (FMCG) brands. Pick n Pay now have various private label brands competing at entry level under the No Name brand, middle range under the Pick n Pay brand and premium range under the Finest brand as well as Green brand and Organic brand.



Source: Pick n Pay: <http://www.picknpay.co.za/house-brands>

Private label brands account for a great portion of retailer sales in Europe and the US, and the trend is starting to pick up in South Africa, with private label brands accounting for nearly 20 per cent of retailer

sales in 2015. Resellers such as Woolworths have developed business models in which the majority of the brands sold in the stores are store brands, with a limited number of very popular manufacturer brands. As consumers continue to accept store brands, resellers keep increasing the number of store-branded products and shelf space. The benefit for the reseller is that their **profit margins** are much higher as these brands belong solely to them and the biggest portion of the cost is the cost paid to the manufacturer outsourced to produce the products.

15.2.3 Licensed brands

At times companies develop brands that are used by other companies. A form of this is brand licensing, where a manufacturing company such as Woolworths pays for the licence to use the Walt Disney Company brands such as Mickey Mouse on their children's clothing and accessories. This licence is usually not limited to one manufacturer. The licence is also not necessarily limited to one manufacturer in one category.

The licensing industry is a valuable one, with the top 150 licensors making retail sales of more than US\$260 billion in 2015, and Walt Disney accounting for US\$7.2 billion of those retail sales. The licence agreement may require approval for the use of the brand to ensure that the image and reputation of the brand is maintained. Licensed brands allow the manufacturer (licensee) to leverage an already established, valuable and popular brand, and allow the owner of the brand (licensor) to make additional income from the use of the well-established and popular brand.

15.2.4 Co-brands

Some brands have two or more co-owners, who have formed a strategic partnership to develop the **co-brand**, which may or may not possess both brands. The strategic partnership can come in various forms, but the purpose is for both brands to leverage their combined strengths to develop an even stronger brand.

There are a variety of options of co-branding that companies can pursue. Some are overt and easy for consumers to identify, and others are subtle, where a new brand name altogether is developed, but for present purposes we will discuss overt co-branding. A very successful example of an overt co-brand is the Oreo and McDonald's Oreo McFlurry. The McDonald's brand as well as the Oreo brand appear on the combined brand. Another example is Visa and MasterCard and their strategic partnerships with credit card providers such as First National Bank's VISA Credit Card and Standard Bank's MasterCard credit cards. In both examples, both brand names appear on the product as shown below:



Sources: <https://www.fnb.co.za/private-banking/private-clients/outstanding-value.html>;
<https://www.standardbank.co.za/standardbank/Personal/Banking/Credit-cards/Card-types/Titanium-credit-card>

Sometimes well-established brands require the legitimacy provided by another brand and therefore not only form a partnership, but use the co-brand as a marketing communication message. An example of this is the “Intel inside” campaign, where Intel developed the “It’s what’s inside that counts” campaign and computer manufacturers came on board and communicated that they have “Intel inside”, so much so that this appears on their manufactured products.

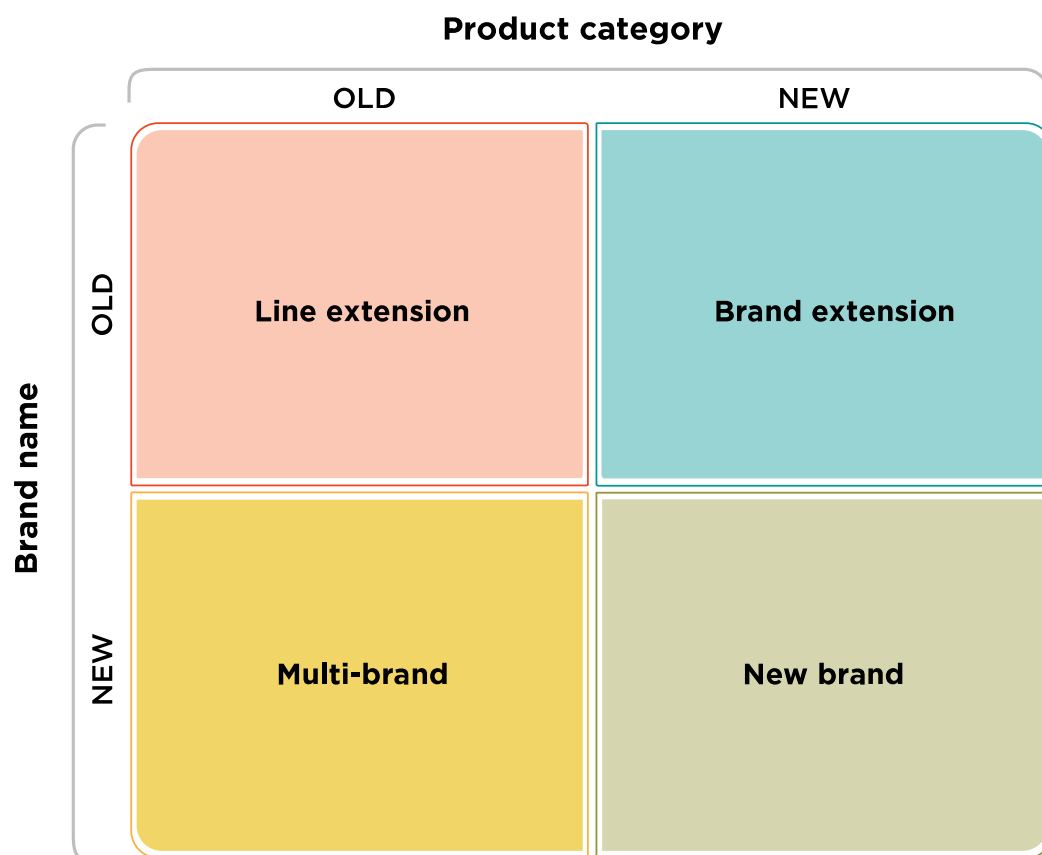
15.3 Developing a brand

Now that we have considered the different types of brand options available, let us discuss key considerations when developing a brand. The process begins by looking at the business objectives as well as the target market, but we will focus on key steps.

15.3.1 Brand development strategies

When manufactures decide to develop a brand, they need to consider how this brand will fit into their existing portfolio of brands. There are four brand development strategies marketers can follow, given the product category and the use of an existing or a new brand name. See [Figure 15.1](#).

Figure 15.1 Brand development strategies



15.3.2 Line extension

The first strategy marketers can opt for is line extension. This strategy is where the brand introduces another product in its portfolio, using the existing brand name in an existing product category. Therefore the brand extends its line of product offerings by adding another item to its range. This strategy is used often in highly innovative categories, where technology improves at a rapid rate and consumers are constantly looking for something new. The beauty industry is such an industry, where consumers regularly want a new shampoo, a new face cream or a new mascara.



Source: <http://forum.xcitefun.net/Gisele-bundchen-pantene-pro-v-campaign-2014-t93110.html>

The risk of this strategy is that at times the new product in the line may cannibalise existing products, resulting in volume shifting from one of the existing products, in place of stealing share from competitors, or even bringing new consumers to the category.

15.3.3 Brand extension

Another strategy available and often used is **brand extension**. This refers to when a brand extends its offering by entering a new product category, therefore introducing a new product line under the same brand name. The most popular and successful example of brand extension is Virgin. The Virgin brand, which started off as a record label, has since extended into categories such as the airline industry, gyms, telecommunications and gaming stores, to name a few. Virgin Group has also made some extensions that were not successful, but was fortunate enough that the brand as a whole was not affected. For more on some successful and not-so-successful recent brand extensions, see <https://www.theguardian.com/media-network/media-network-blog/2014/oct/23/virgin-success-brand-extension-easygroup>

When done correctly, brand extensions allow manufacturers to leverage an already-established, strong and well-recognised brand to extend into other categories and diversify their offerings. But this is not always possible and it is important for brands to understand the risk that the extension may fail and tarnish the reputation of the brand overall.

15.3.4 Multi-brand

Multi-brand is the brand development strategy that enables manufacturers to develop multiple brands within the same product category. This is popular in categories with high volume and is usually achieved by larger companies, such as in the case of Unilever and their laundry detergent brands. One of the main reasons for multi-brand strategies is that consumers often have a variety of needs that cannot be met by one brand name. In the case of the laundry detergents, some consumers want a tough stain remover, some consumers are more price conscious and others may require a softer detergent for delicate fabrics. In such an instance, one brand may not be able to fully capture all these consumers, and manufacturers therefore target each of these needs with different brands.

Multi-branding also poses the risk of consumers switching from one brand to another in the same stable, which may not result in increased volume and share. It is therefore important for manufacturers to

understand their consumers' needs and clearly differentiate each brand offering.

15.3.5 New brand

The last brand development strategy is usually used when manufacturers want to enter a new product category, but do not have a suitable brand to leverage. In this instance, manufacturers need to develop a new brand with a new brand name. FutureLife is an example of a completely new brand that was not an extension of any brand or product category. The manufacturer had to develop a new brand from scratch, and build the brand reputation in an environment where competitors were already established. Over the years, FutureLife has grown phenomenally. It has grown to such an extent that half of it was recently purchased by Pioneer Foods, and it now joins a portfolio of cereals and health foods in the Pioneer Foods stable.

Pioneer Foods acquires half of FutureLife

Pioneer Foods is upping its competitive ante again under new(ish) CEO, Phil Roux, with an announcement today that it's to acquire 50% of Durban-based FutureLife Health Products, the fast-growing functional food products company, and together create a joint venture to unlock new product opportunities. The purchase price is undisclosed.

Says a Pioneer announcement:

"The transaction allows Pioneer Foods, which houses well-known brands such as Weet-Bix, Bokomo, Liqui-Fruit, Sasko and White Star, to complement its existing product portfolio with the addition of one of South Africa's fastest-growing health brands within the functional foods category, in which Pioneer Foods is not currently represented."

The joint venture provides an opportunity for both companies to combine their expertise in both the food and beverage, and functional foods sectors in order to explore profitable categories outside of their respective traditional markets, and to unlock new product opportunities that may otherwise not be accessible to either company.

"As a leading FMCG company, innovation is at the core of our business. This joint venture with FutureLife, an industry leader in the functional foods category, provides Pioneer Foods with an opportunity to shape a winning brand portfolio

by fast tracking product innovations and developing new product categories,” said Phil Roux, CEO of Pioneer Foods.

Founder and CEO of FutureLife, Paul Saad, said the joint venture is set to be a win for the South African consumer: “Combining Pioneer Foods’ scale and experience in the food and beverage market together with our functional food expertise in creating the first smart food range of products will result in exciting new health choices for the consumer.”

The transaction is subject to a number of conditions precedent, which are standard for a transaction of this nature, including Competition Commission approval.

Saad will lead and manage the joint venture.

Source: <https://www.foodstuffsa.co.za/pioneer-foods-acquires-half-of-futurelife/>

15.3.6 Brand positioning

As you have learnt, positioning is quite key in marketing. Every marketer needs to consider where they would like to position the brand in the eyes of the consumer. Positioning can be based on various elements, such as price range, product features and attributes, or the **brand personality**, to name a few.

15.3.6.1 Price positioning

Looking at pricing, the brand can be positioned as affordable or as premium. Either position can be profitable if executed correctly with due consideration of competitors and consumer needs. For example, Unilever has four different brands in the detergent market: Surf, Sunlight, Omo and Skip. These products are all in the same category, but are differentiated first on price. Surf is the entry level offering and is priced the lowest in the Unilever stable. It targets the price-conscious consumer who is looking for a trusted brand. Sunlight is mid-ranged and offers a few more products than Surf. Omo and Skip are the premium-priced products that offer more benefits, a wider product range and a higher price. It is important to note that these are not solely differentiated on price, but are a good example of similar products playing in different price ranges.



Surf Regular Washing Powder Flexi Bag
2kg

R39⁹⁹



Sunlight Auto Flexibag Powder 2kg

R49⁹⁹



Omo Auto Washing Powder 2kg

R59⁹⁹



Skip Intelligent Flex Washing Powder
2kg

R61⁹⁹

Source:

[http://shop.pnp.co.za/b2c_pnp/b2c/display/\(cpgnum=1&layout=5.1-6_2_4_90_91_8_3_3&uiarea=3&care=4F3D67E648198570E10080000A050131&cpgsize=12\)/.do?rf=y](http://shop.pnp.co.za/b2c_pnp/b2c/display/(cpgnum=1&layout=5.1-6_2_4_90_91_8_3_3&uiarea=3&care=4F3D67E648198570E10080000A050131&cpgsize=12)/.do?rf=y)

15.3.6.2 Product features and attributes positioning

Brands can also be positioned based on product characteristics such as features and attributes. This allows brands to highlight key features that competitors may not have. A good example is the Dove soap bar, which differentiates itself by stating that it contains “a quarter moisturiser”, or Tastic rice, which promises to cook perfectly every time.

Group discussion

Consider the two brands below. What is the key product attribute? Is this differentiated? As a consumer, how will you make a purchasing decision between these two brands?



Brilliant stain
removal in **1 wash**

Source: <http://www.arielsouthafrica.co.za/en-za>



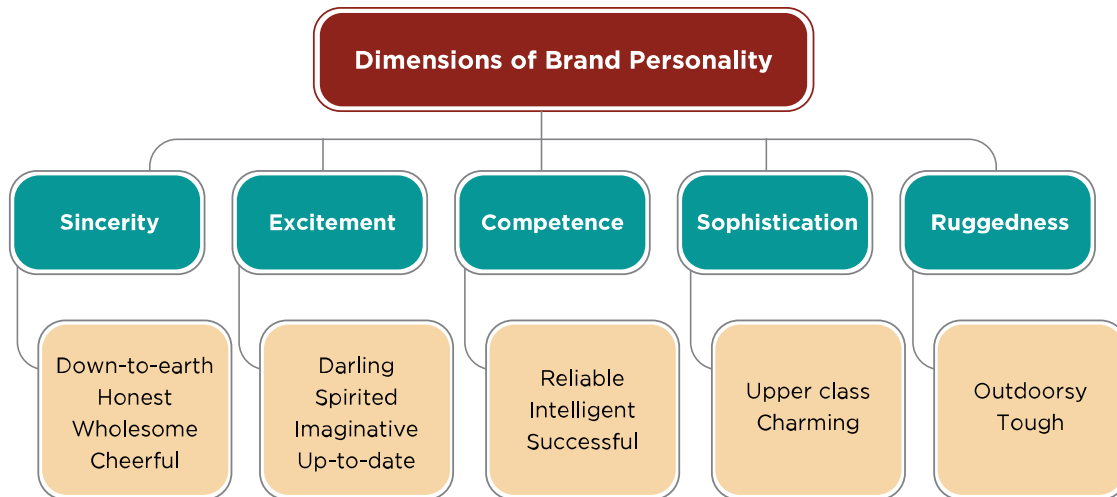
Source: <https://www.omo.co.za/>

15.3.6.3 Brand personality

The last positioning we will discuss is brand personality. This is when a brand personifies itself with human characteristics. This allows consumers to identify with brands and feel that they are an extension

of their personalities. Aaker (1997) developed the dimensions of brand personality which are widely used in developing brand personalities.

Figure 15.2 The dimensions of brand personality



Source: Aaker (1997)

In the study, brands are categorised into Aaker's five core dimensions. Brands that are considered to be sincere are seen by consumers as down-to-earth, honest, wholesome and cheerful. Some brands are seen as exciting and therefore daring, high-spirited, imaginative and always current. Some brands are categorised as competent, and therefore consumers expect these brands to be reliable, intelligent and associated with success. Some brands are characterised as sophisticated, and consumers perceive them to be suitable for the upper-class consumer who is charming. The last dimension is brands that are categorised as rugged. These brands are adventurous and outdoorsy as well as tough and durable.

Consumers will typically identify with these personality traits and therefore develop a bond with a brand possessing these differentiated traits as an expression and extension of who they are. When brands can clearly and successfully differentiate themselves using personality, they then have an identity which governs their behaviour and can rarely be changed. A good example of a brand that has a very distinct personality that is accepted and now expected by South Africans is

Nando's. Nando's falls under the exciting brand dimension, and is seen as quite a cheeky brand which is not afraid to go where no other brand dares to go. Nando's over the years has found a voice and bravely tackles current, relevant and usually controversial topics in the South African media as well as in the international space to get the attention of consumers (see [photos](#)).





Source: <http://www.10and5.com/tag/nandos/>

Group discussion

Think of some of your favourite brands. Do they fall into any of these brand personality dimensions?

Brand positioning is an important step in the process of developing brands. What is crucial is that marketers should identify a gap in the market and position a brand in the space that is not occupied by another brand. This will allow consumers to clearly recognise the brand as different and to develop a unique relationship with that brand.

An example of two brands that are very similar in positioning, product benefits and communication are given in the photos. When Procter and Gamble (P&G) launched Ariel on the market, it was the beginning of a laundry battle that both Unilever and P&G were prepared for. It will be interesting to see how the market eventually settles with both manufacturers in this market.

Latest season of soapie has extra grime and dirt

Roxanne Henderson 2015-05-11 00:12:28.0

Ariel laundry detergents might or might not “remove tough stains better in one wash” but the brand’s record with the Advertising Standards Authority [ASA] is definitely not squeaky clean.

Ariel was recently ordered to withdraw one of its television ads, which it did, after the ASA found that its claims of superiority over other brands was not adequately substantiated.

The complainant was Unilever, which manufactures Omo, Sunlight, Skip and Surf. This is not the first time the companies have clashed.

In the past two years the makers of Omo have laid six advertising complaints against Ariel, which is owned by Procter & Gamble. Three of the complaints were upheld or partially upheld.

In Unilever’s latest complaint, it said Ariel claimed that its Ariel Auto outperformed Omo in fighting “food greasy stains” without backing up the claim.

In the advertisement, local television personality Noeleen Maholwana-Sangu, journalists and a lab technician “put Ariel Auto to the test”. The technician smears solutions of clay, baby food, liquid butter and yoghurt onto pieces of white fabric before putting them into containers with water and two detergents – Ariel and “the best-selling detergent”.

After a good shake, Ariel is seen to have removed more of the stains than the other detergent.

Unilever said most of the staining agents used were not really “food greasy stains” and that although the advertised product is intended for automatic washing machines, no washing machine features in the commercial. The ASA agreed.

Unilever is not only monitoring its competitor on television and billboards. A Facebook advertisement led to a complaint in December last year.

Ariel thanked users for “helping us reach 50 000 fans who have switched to Ariel in one wash”, but Unilever said there was no proof that 50 000 Facebook fans had switched to the product in one wash – or at all, for that matter.

Unilever has had to admit defeat on other occasions. In June 2013, when it complained about Ariel’s claim that it “removes many tough stains better in one wash than the best-selling washing powder”, the ASA dismissed the complaint because Ariel had scientifically substantiated its claims.

Ariel, which says it respects the ASA’s rulings, believes it is creating healthy competition. Unilever failed to respond to requests for comment.

15.3.7 Brand name selection

The next thing to select is the brand name. When selecting a brand name, it is important to consider the characteristics of a good name. Many brands have made irreversible mistakes in selecting a brand name that was inappropriate, which resulted in the end of the brand.

Characteristics of a brand name are as follows:

- The name must be easy to pronounce: consumers must be able to confidently say the name of your brand and ask for it in shops.
- The brand name must also be short and easy to remember.
- A brand name must be adaptable and consider translation and meaning in other languages. This is particularly of concern when brands are developed in other countries and gain popularity in external countries where the spoken language is different.
- Brand names must reflect the product personality and promise.
- A brand name must also be distinctive from competitor brand names.

Once these characteristics have been considered, marketers are then able to develop strong, differentiated brands that will resonate in the minds of consumers and grow in value. Developing a brand is only the first step in the branding process. Marketers then need to ensure that they continue to maintain these strong brands and make them valuable. Marketers must be able to measure their efforts of building strong

brands. Brand equity is one of many measures used by marketers to monitor brands.

15.4 Brand equity

According to the American Marketing Association (2017), brand equity is “the value of a brand and is based on consumer attitudes about positive brand attributes and favourable consequences of brand use”. How then do marketers measure the value of a brand? What is meant by “Apple is the most valuable brand in the world” or that Apple is worth US\$154.1 billion? The answer is found by unpacking brand equity. Brand equity is a combination of proprietary-based evaluations as well as consumer-based evaluations. Proprietary-based evaluations take into account patents and other legal considerations.

Brand equity considers the value of the brand in the mind of the consumers, in isolation as well as in comparison to competitors’ brands. According to Keller (1993), consumer-based brand equity is a function of two dimensions: brand awareness and brand image. Brand awareness considers whether a consumer can recognise a brand and brand-aided recall and brand-unaided recall. To put it simply, can consumers recognise the brand when they see it, and when considering products in a specific category, do they recall the brand on their own, or do they recall the brand when it is mentioned as an option among several brands in the category? Brand image relates to how consumers perceive the brand, i.e. what they associate the brand with, what kind of imagery, whether they consider the brand reliable or not, and how they rate the brand on performance and pricing, among various attributes.

Brand equity is a technical measure and most manufacturers make use of research agencies to measure their brand equity and that of competitors. Given the resources allocated to building strong brands and the investment in research to measure brand equity, marketers

need to ensure that they keep their fingers on their most valuable assets – this is explained in [Chapter 19](#).

15.5 Conclusion

Brands and branding are important parts of marketing, and many people are employed to develop and sustain brands. Brands are of great value to manufactures and therefore require great skill to manage. Marketers need to ensure that their brands are carefully developed, well positioned and clearly differentiated from those of competitors. Brands need to respond to consumer needs and marketers must ensure that they continuously monitor their brands. They are probably the most valuable and irreplaceable assets in any organisation.

DISCUSSION QUESTIONS

1. Why are brands important?
2. Discuss what a brand is.
3. Distinguish between manufacturer brands and private label brands.
4. Why would a reseller stock manufacturer brands?
5. Why would a reseller develop its own brands?
6. Discuss co-branding as a sponsorship alternative and explain why manufacturers would consider this option.
7. Discuss the benefits of licensing.
8. Use an illustration to describe the different brand development strategies.
9. Why would a manufacturer have multiple brands in the same product category?

10. Discuss brand positioning, paying careful attention to the different ways a brand can position itself.
11. What are the dimensions of brand personality?
12. Given the brand personality dimensions, how would you describe the MTN brand in comparison to the Vodacom brand?
13. How can marketers measure the success of their brands?
14. Evaluate Louis Vuitton as a brand name with reference to the characteristics of a good brand name.
15. What are the dimensions of consumer-based brand equity?

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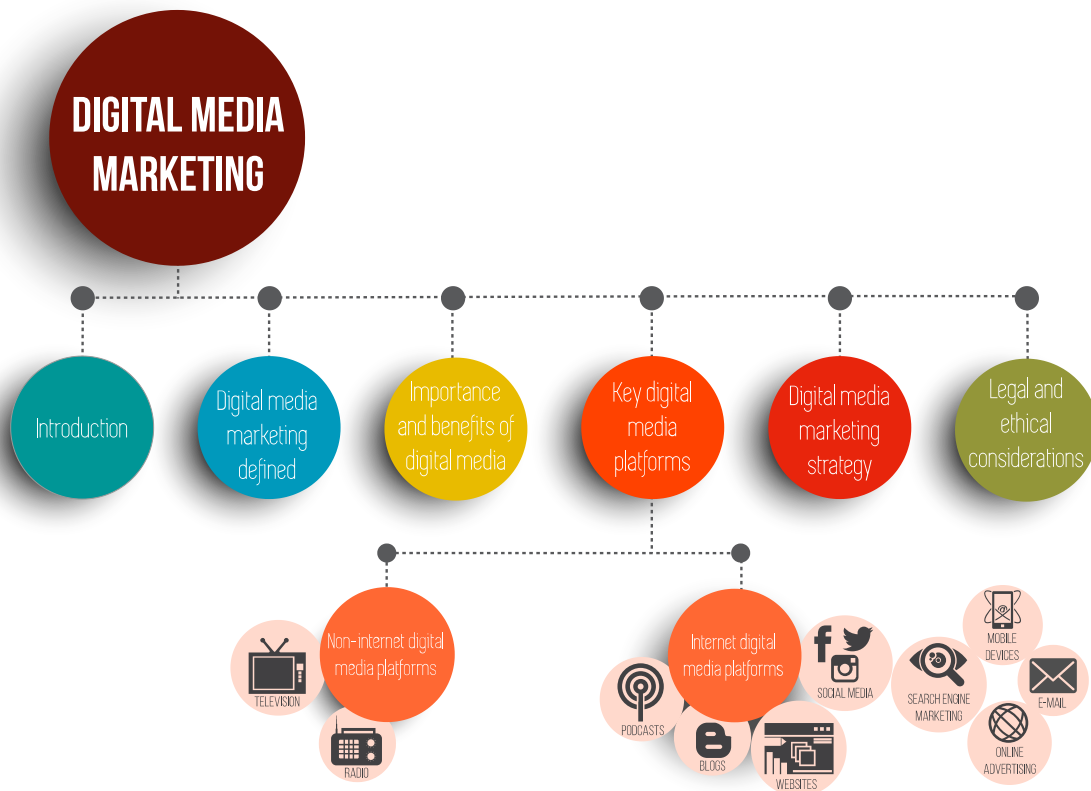
LEARNING OUTCOMES

AFTER STUDYING THIS CHAPTER, YOU SHOULD BE ABLE TO

- define digital media and digital media marketing
- understand the key digital media platforms
- discuss how the key digital media platforms are used in marketing
- plan a digital marketing strategy
- understand the legal and ethical issues surrounding digital media marketing.

KEY CONCEPTS

- AFFILIATE MARKETING
- CONTENT MARKETING
- DIGITAL MARKETING
- DIGITAL MEDIA
- E-MAIL
- INTERNET
- MOBILE DEVICE
- REAL-TIME MARKETING
- SEARCH ENGINE MARKETING
- SEARCH ENGINE OPTIMISATION
- SOCIAL MEDIA
- SPAM
- WEBSITE



16.1 Introduction

Over the past decade technology and the internet have advanced rapidly. These advancements in technology have changed the way in which we interact and communicate with each other, our teaching and learning environments, the way in which business is done and the way in which we gather information about the world around us.

Today we are able to access any information instantly on the internet through search engines such as Google. We are able to communicate in an instant with friends and family all over the world, 24 hours a day through e-mail, Skype and applications such as WhatsApp and Facebook. Companies are also able to sell their products globally 24 hours a day through online stores on their websites and even through

social media applications. Students all over the world are given the ability to study through online courses and receive an accredited degree. Technology has opened up a new era of instant connectivity to the rest of the world through various digital means.

These new advances in technology have had a huge impact on the way in which companies communicate and interact with their customers. The explosion of digital media has provided many opportunities for both small companies and large companies to expose themselves to the market and to build long-lasting relationships. Through the use of digital media, companies are able to target specific customers, gather information about their customers and identify their specific needs and wants.

The advent of these new technologies and communication media has brought about digital media marketing, which makes use of various digital media to interact, communicate and market products and services to customers. In this chapter we define digital media and look at the use of various digital media as marketing tools. The chapter also addresses social media and the various social media tools used in digital marketing. Finally, digital media marketing strategy and the ethical and legal issues surrounding it are explained.

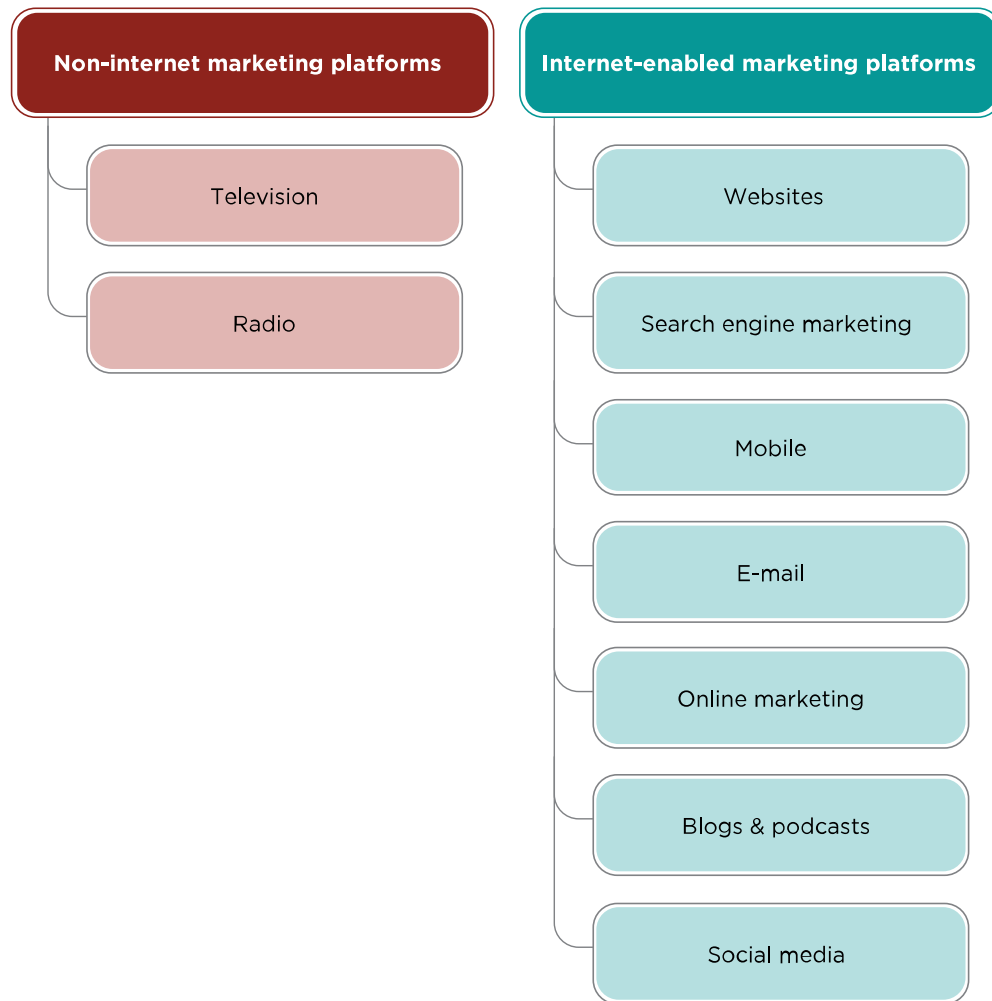
16.2 Digital media marketing defined

Digital media refers to videos, audio, photos or any content that has been coded in order to be transmitted through any wireless signal or electronically through the internet on any screen, computer, mobile or any digital device (Dewdney & Ride, 2014: 9). Digital media platforms include, among others, digital audio such as mp3s and mp4s, videos, video games, digital photos, web pages and websites, SMSs, e-mail and social media.

Digital media marketing is defined as the promotion of a company and its products and services through various forms of electronic media such as broadcast media, a website, social media, mobile devices and other digital devices and applications (Miriyala & Reddy, 2015: 211), for example using Facebook to target a certain age group or gender and YouTube to target another.

There are two major components of digital marketing; internet-enabled digital media and non-internet digital media (Hargrove, 2017: 249). Internet-enabled digital media include channels such as websites, search engine optimisation, mobile devices, e-mail, online banner advertisements and social media. Non-internet digital channels include television and radio, etc., which do not need to be used with the internet. See [Figure 16.1](#)

Figure 16.1 Components of digital media marketing



However, digital marketing is not just about the various marketing platforms that can be used, it is also about the *way* in which people interact with each other, new technology and different media, and the environment around them (Stokes & the Minds of Quirk, 2013: 4). Consumers today have so much information at their fingertips. They are able to research a company, compare prices, get reviews and make purchases over the internet through various digital devices. They also have the resources to engage with brands and to create brand content, good or bad. For example, if a customer had a good experience with a brand, he may well post his satisfaction with the brand through various online channels (through social media, on the brands website, on review sites, etc.), thus creating brand content. This also produces e-word of mouth (electronic word of mouth), which refers to word-of-

mouth communication that happens electronically on some digital platform. The opposite is also a possibility – customers who have had a bad experience can leave negative reviews on the various online channels, thus creating a negative image of the company or brand.

There are two fundamental aspects to digital marketing: segmentation and measurability (Stokes & the Minds of Quirk, 2013: 5).

Digital marketing allows for precise *segmentation* of the market. This essentially allows the company to personalise communication to the specific customer. Through the use of cookies (small text files used to send and store information on the website) and algorithms, the company is able to track customers' activities on their websites, what they purchased, and what products they have clicked on and browsed through. Through the use of customer data, the company can, for instance, identify which products you've purchased the most during the past year or month and offer you a discount on your next purchase of the item at its store. The company can also use your previous purchase and browsing history to "suggest" products for you to purchase. For example, say that you visit an online clothing store and browse through their catalogue. You exit the website without making any purchase. The next time you visit the store's website there are "suggestions" or "recommended" products for you to purchase based on what you searched for on the website previously. The online store Superbalist indicates "recently viewed" products that show what items you viewed and purchased previously on the site. The online store Spree indicates "recommended for you" items based on what category you have selected to browse.

Digital marketing is also *measurable*, as every time a customer logs onto a website or clicks on an advert it is recorded. Digital marketing campaigns can be tracked and the company is able to see how many people responded to or watched the advert, and which marketing channels are most beneficial to the company (Stokes & the Minds of Quirk, 2013: 5). For example, the company is able to track the reach (how many people saw the campaign), the social media impressions (the number of times the company's content was displayed) and the

engagement (the number of likes, comments, shares and retweets that were made to its online advert). These data then give the company an indication of which media channels were most valuable for the campaign.

The company makes use of information that has been recorded through cookies to retarget the advertisements. Say, for instance, you visit an online store and look at a specific pair of shoes. You leave the website without making any purchase and go onto your Facebook account. An advertisement appears on your Facebook account showing the same pair of shoes you looked at from the online store you just visited. This advertisement also appears on your Google homepage and various other websites that you visit. This is known as *retargeting paid media*, where once a user engages with a website, the advertisements of the website are displayed across all digital media platforms (that the website has paid for) (Deiss & Henneberry, 2017: 214).

16.3 The importance and benefits of digital media marketing

On 13 January 1910, a live performance of the Metropolitan Opera House was broadcast on public radio (Patel, 2017). This was the first live public radio broadcast and it led to an increase in sales for the opera house (Patel, 2017). This was essentially the first digital marketing campaign. Since then the digital landscape has advanced tremendously and with the introduction of the internet, many new communication media were made available for companies to market their products and services to customers.

According to Internet World Statistics (2016), the number of world internet users surpassed 3.6 billion by the end of June 2016. In South Africa, the number of internet users had risen from 2.4 million people in December 2000 to more than 28.5 million internet users by 30 June 2016 (Internet World Stats, 2016). More than half (53.5%) of

households in South Africa has one member who has access to the internet from either work, home, an internet café or a university (Statistics South Africa, 2015: 14). In South Africa, the majority (92%) of the adult population own a cellphone, with 60 per cent of the population owning a smartphone (Shezi, 2016). On average, South Africans spend about five hours on the internet daily through a computer or a tablet and about four hours on the internet daily through their mobile phones (Shezi, 2016).

These statistics provide an indication of the increase in the use of digital devices by consumers around the world and in South Africa. This increase has resulted in more companies making use of digital media to reach and interact with their target audiences. In today's increasingly digital world it is essential that companies incorporate digital media marketing in order to maintain a competitive advantage (Pride & Ferrell, 2017: 215).

One of the major benefits of digital media marketing is that it can give companies access to a much larger target audience. Through the internet companies are able to bypass limitations such as time zones, geography and even language to reach consumers globally (Ryan, 2017: 206). The website can also be translated into various different languages, which will further increase the company's accessibility and reach. Websites allow the company to be accessed 24/7 from anywhere in the world. Another benefit of digital media marketing for companies is the ability to personalise communication for customers (Pride & Ferrell, 2017: 215). Through various software technologies, companies are able to gather customer data easily and are then able to design strategies that are specifically personalised for each individual customer.

The use of digital media also provides companies with the ability to foster better relations and engagement between them and their customers. Companies can use various digital media platforms (e.g. Facebook, Twitter, e-mail, etc.) to contact customers and to receive feedback from them which can foster real-time customer service. They are able to interact directly with the company and do so in real time

(e.g. retweeting the company's Tweets, liking, sharing or commenting on a Facebook post). Digital media marketing is often also much more cost effective for the company to invest in as there is such a wide variety of platforms which range in price and ease of use. Social media channels, for example, are less costly than print media.

With digital media marketing, companies can easily measure and track the results of a marketing campaign. The company can see how many people clicked on an online advert, or how much traffic it has to a website, how many customers purchased a certain product, etc. This makes it easy for the company to see which digital and online tools are the most successful. The company can then change its marketing strategies accordingly.

With all of the benefits mentioned above with regard to using digital media marketing, one should keep in mind that there isn't a "one size fits all" strategy as websites may work more effectively for one division of the company, while social media may be more effective for another. The key is ensuring that the correct platform is used for the correct segment, otherwise it could be a costly exercise with little return on investment.

16.4 Key digital media platforms

As a result of shifting consumer behaviours, advancements in technology and the internet, the marketing environment has changed drastically over the years. Marketers have started to include various digital media in their marketing strategies.

Digital media platforms include all media that make use of digital technology (internet-based and non-internet based) to communicate and interact with the consumer. The non-internet-based digital channels (radio and television) have already been discussed in [Chapter 13](#) (see [Table 13.1](#)). In this section we will focus on the various

internet-based digital media platforms that are used by companies in their marketing strategies.

16.4.1 Internet-enabled digital media channels

There are various internet-enabled media channels that a company can make use of in its marketing campaigns. These include websites, [search engine marketing](#), mobile devices, e-mail, online marketing, blogs and podcasts, [content marketing](#), [affiliate marketing](#) and social media. Let's take a look at these digital media and how they are used.

16.4.1.1 Websites

Almost every company today has a website that has information about the company such as who the company is, what it offers, the prices of its offerings and contact details. The website is the digital portrayal of the company, the public face of the company that is available 24/7. It is essentially a set of web pages that are grouped together to make up the site (Campbell, 2017: 2).

The company's website is often the first place that a consumer goes to when looking for more information about the company. There are several reasons why a company develops a website. These include showing legitimacy, educating clients, generating sales, creating awareness and generating leads (adapted from Koekemoer, 2014: 436):

- **Showing legitimacy.** A company can build a website to establish the company and its products in the market. For example, when consumers search for information about the clothing brand Loxion Kulca, the link to their website appears in the search results. This shows that the brand is established and that it has a web presence, thus showing legitimacy.
- **Educating customers.** The website can be used to provide customers with information about the company, the products and services that it offers and to explain the products or services and how they work. The Loxion Kulca website will have information about how the company started and its owners, it will have a

catalogue of all the products it offers, it will show where to find stores that stock the brand, and it will also show the contact details of the company.

- **Generating sales.** The website can be used to convince consumers to either go to the store or make a purchase or order directly online from the website. Through their website (showing a catalogue of their products, advertising their current promotions on the website, etc.), Loxion Kulca can convince consumers to purchase their products at a store that stocks their products.
- **Creating awareness.** The company can use the website to attract new customers. If a person searches for an item and Loxion Kulca appears as part of the search results, this can prompt customers to go to their website and look at their catalogue.
- **Generating leads.** The website can be used to encourage customers to add their details to the company's client database and allow the company to send regular communications to them. Loxion Kulca could ask visitors to subscribe to their monthly newsletters or to fill in their details to receive communications regarding any promotion or sales.

A company can develop several types of website, such as a simple website with the purpose of educating consumers and creating awareness. These websites essentially act as an online brochure, showing customers what the company is about and what products it offers. The company can also develop a website that allows customers to contribute to the content by adding comments, asking questions and participating in discussions. Another type of website that the company can create is a full e-commerce site. Such a website allows customers to make purchases online. For example, Mr Price has a website that allows the user to browse their catalogue and buy online.

16.4.1.2 Search engine marketing

Search engine marketing (SEM) refers to the activities that are used to gain awareness of the company and its online platforms by increasing their visibility on the results page of a search engine (Moran & Hunt,

2015: 3). It is the means of driving traffic to the company's online platforms.

The first thing most people do when looking for information about a specific topic or information about a company or a product is to open up one of the major online search engines (Google, Yahoo, Bing), type in the search topic and click through the results that come up to find the information they need. A search engine does an online search on the World Wide Web to find information on the topic that the person has searched for. With more and more people accessing the internet worldwide every day, companies can make use of this medium to create visibility for themselves by making their websites easy to find.

Search engine marketing includes search results that are paid for as well as search results that are organic. There are thus two main strategies that are used for search engine marketing, namely search engine optimisation (SEO) and pay-per-click (PPC) advertising (Moran & Hunt, 2015: 10). See [Figure 16.2](#).

Figure 16.2 Search engine marketing strategies



Let's take a look at these two SEM strategies.

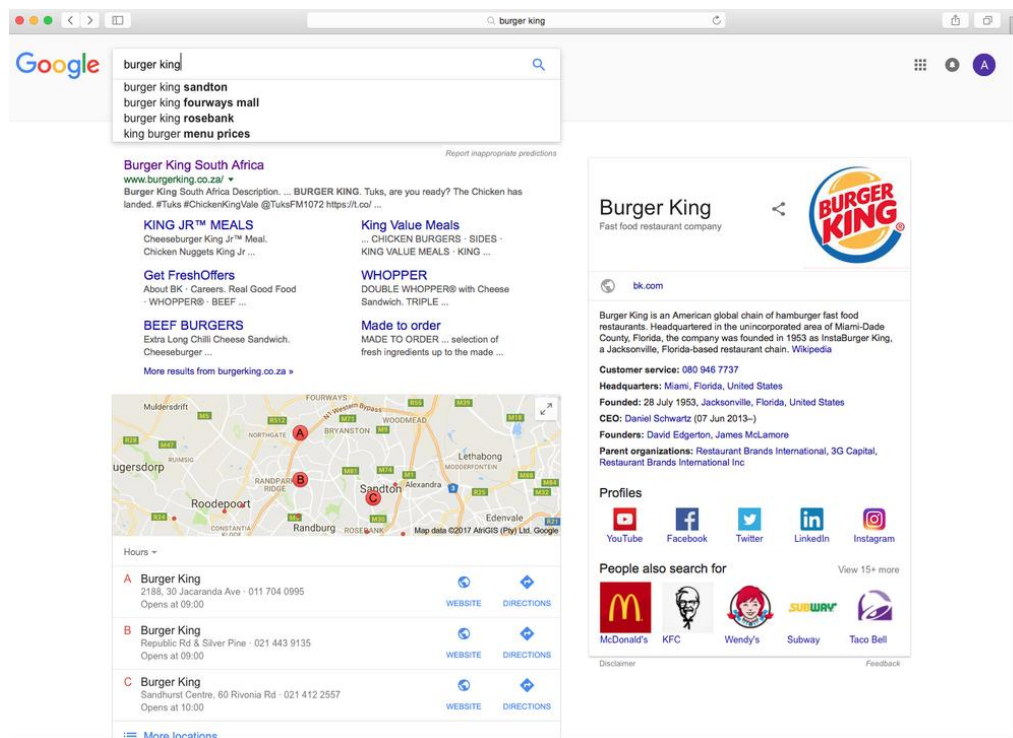
Search engine optimisation

Search engine optimisation (SEO) is a means of optimising the visibility and content of your website or company profile in order to get prospective customers to find you easily (Bently, 2013: 6). It is a

cost-effective method of increasing the company's visibility on the internet through the search engine results (Kingsnorth, 2016: 90).

SEO makes use of keywords (terms that the individual might use when searching for a website) and search phrases to ensure that the website shows up when individuals search for those specific keywords or phrases. The higher up the search results page your website is, the better chance you have of the individual clicking on your website link. The search engine makes use of an algorithm to determine the relevance of the website based on the keywords and ranks it in the result. *Organic (non-paid for)* results are shown in the search engine results page as the search engine has recognised them as relevant to the search keywords or phrases. The company does not pay for every click that is made on its website from the search engine results page.

Figure 16.3 Example of keyword results

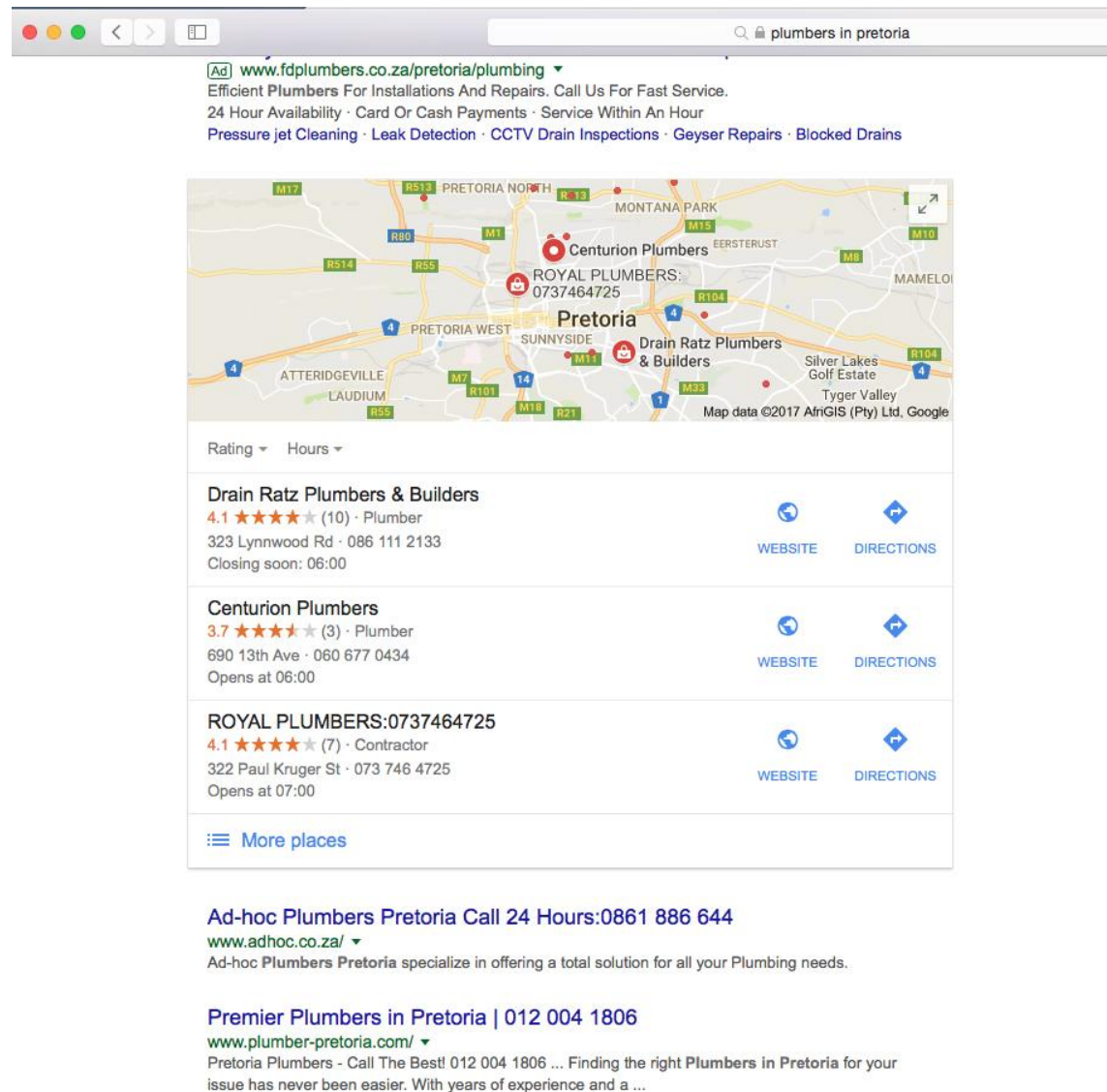


Source: Screenshot of search results at Google.co.za. 2017

In Figure 16.3 it you can see that when the keyword “Burger King” is typed into the search engine, the first result below is a link to the Burger King South Africa website.

The results of a search can also appear based on the location of the company and the person searching. This is known as search that is associated with a map. Figure 16.4 shows an example of a search for plumbers. The results show some of the plumbers that are within the city of Pretoria in South Africa.

Figure 16.4 Example of companies associated with map results

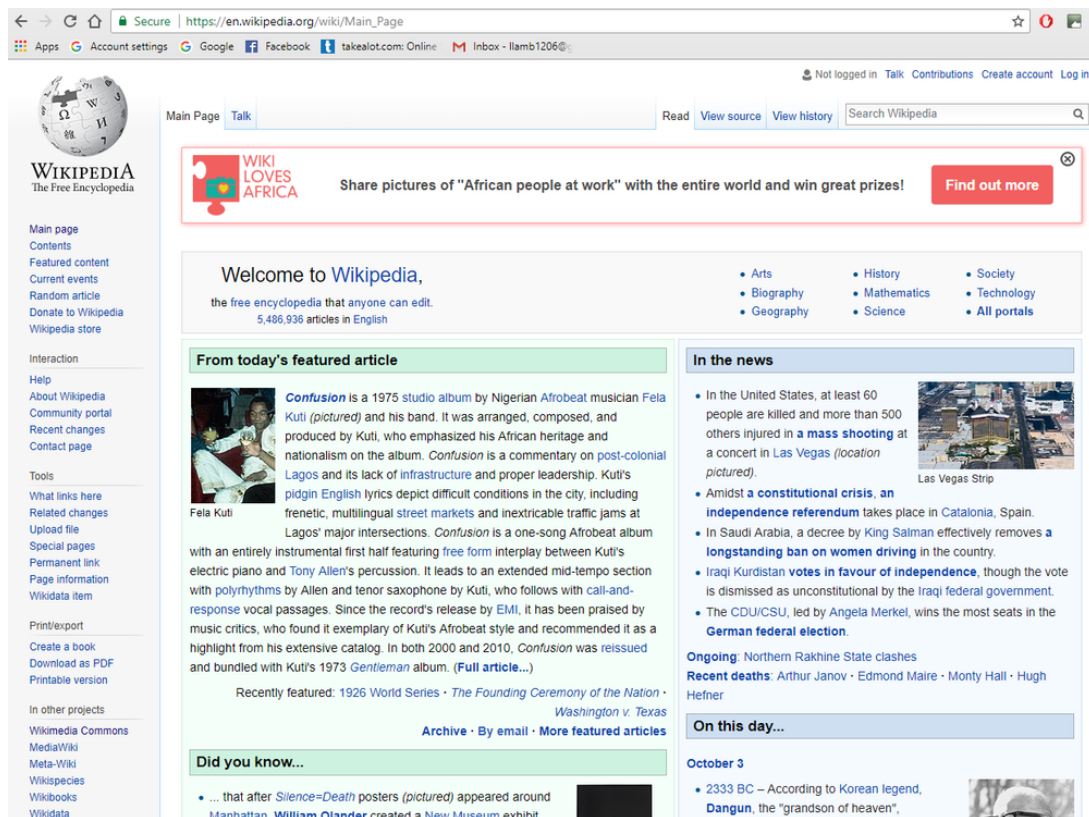


Source: Screenshot of search results at Google.co.za. 2017

There are two main SEO strategies, namely on-page optimisation and off-page optimisation (Jain, 2013: 100):

1 → **On-page optimisation.** This refers to the company making changes to the content, the structure of the website and the HTML code in order to make the website more accessible for search engines. For example, a company will ensure that it has good content that is engaging enough to keep people on the website, that the URL is easy to remember, that it has headline tags that are close to common keywords, that interesting multimedia are used, keywords are used in the first few paragraphs of the content, and internal and external links are used. The company ensures that the website works properly at all times and that it works properly on any type of digital device.

Figure 16.5 Example of on-page optimisation



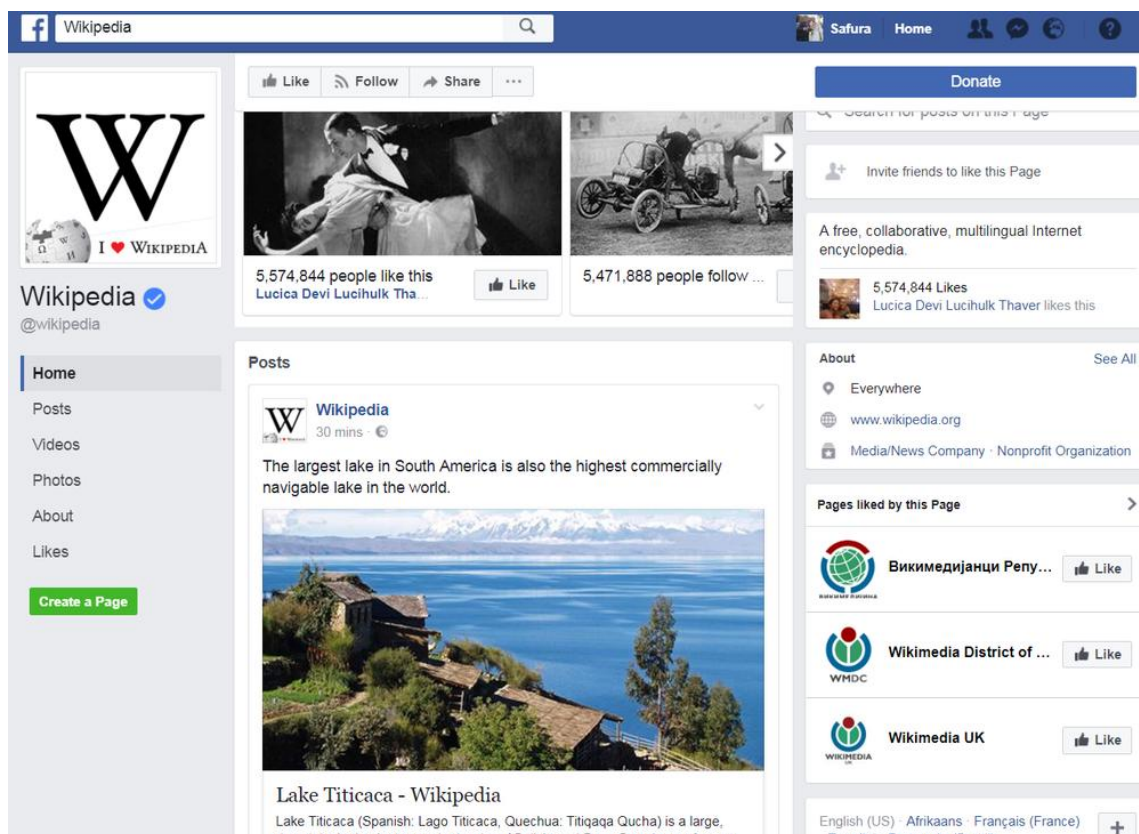
Source: Wikipedia.org. 2017

Figure 16.5 shows an example of on-page optimisation of Wikipedia. The website has a URL that is easy to remember. It also has headline tags (Wikipedia, free encyclopaedia, today's

featured article) that are picked up when keywords are typed into the search engine as well as internal links and multimedia images.

2 Off-page optimisation. This strategy focuses more on building links that lead to the website and it includes any digital public relations activities of the company, social media and other digitally related activities. With off-page optimisation, the aim is to build the online reputation of the brand in order to increase the ranking of the company on search engine results pages. The company can, for example, make use of its social networking sites and blogs, and post interesting content that is engaging and unique. This will help in promoting the company on the internet.

Figure 16.6 Example of off-page optimisation



Source: Facebook.com/Wikipedia/

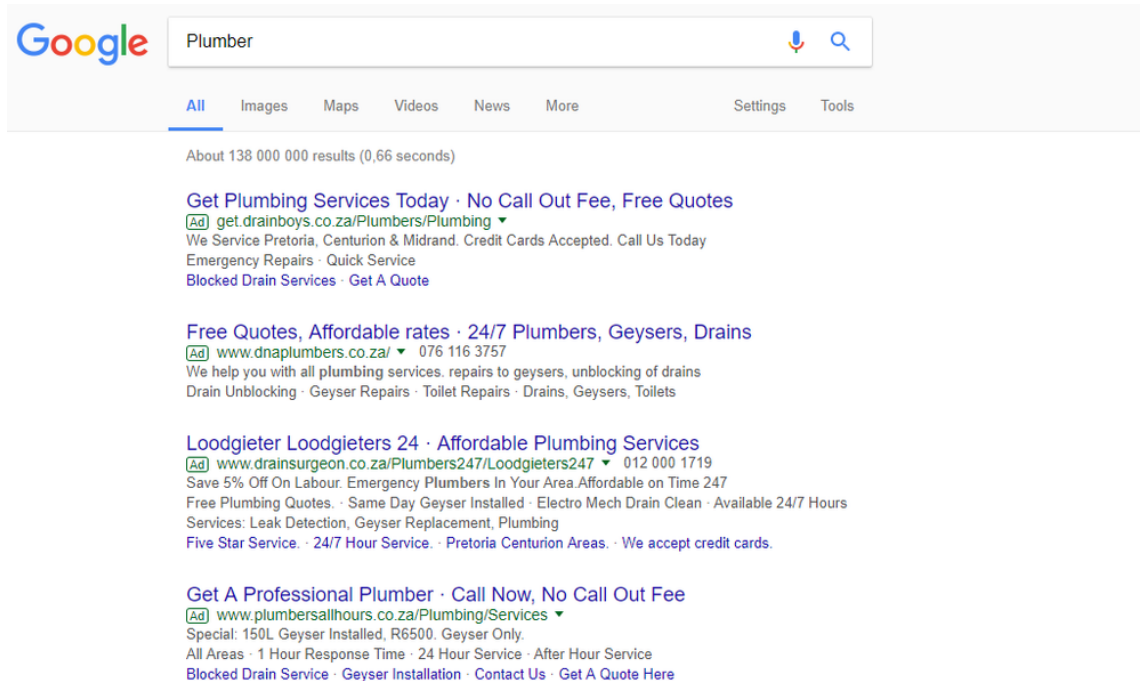
Figure 16.6 shows an example of off-page optimisation. The image is from the Wikipedia Facebook page and shows how they post interesting content, make use of multimedia and most importantly provide a link to their website.

Done correctly, SEO results in increased visibility for the website and as a result increased traffic to the company's website. It can also lead to increased return on investment for the company as more visibility often leads to an increase in sales (Jain, 2013: 101). Furthermore, the company is able to track every aspect of the strategy from the number of people who click on the website link in the search engine results, the increase in the rankings and the number of people who end up making purchases.

Pay-per-click advertising

Pay-per-click advertising is online advertising that is *paid for* and that appears on a search engine results page as well as other websites. Here the company will pay if an individual clicks on the advertisement which redirects them to the company's website (Moran & Hunt, 2015: 10). Companies "bid" for certain keywords or phrases that are associated with their companies and that they think people will type into the search engine when looking for certain products or services. These adverts will appear above the organic search results of the search engine results page and will have "Ad" next to the link to indicate that it is an advert. An example is shown in Figure 16.7.

Figure 16.7 Example of pay-per-click adverts on a search engine results page



Source: Screenshot of search results at Google.co.za. 2017

16.4.1.3 Mobile devices

We live in a multi-channel world where consumers have their cellphones or at least one mobile device with them at all times. These mobile devices give consumers the ability to stay in contact with each other 24/7, to browse the internet, to shop, to make purchases and pay bills, to play games and much more.

“Mobile devices” don’t refer only to cellphones and tablets, but include devices such as laptops, GPS navigation devices, gaming consoles, digital cameras, iPods, personal digital assistants, etc. A mobile device is essentially any small digital computing device that can be operated in the hand and that has an operating system that is able to run mobile applications (Robinson & Reinhart, 2014: 13).

Mobile devices have become an essential element in most people’s lives. In South Africa there has been a huge growth in mobile device adoption, specifically smartphones and tablets, so that by 2015, 96 per

cent of working adults were already using mobile devices (smartphones and tablets) (Harding, 2016). The most common uses of mobile devices in South Africa are for searching the internet, e-mail, social media and instant messaging (Effective Measure, 2016: 4). Most individuals spend more than three hours a day on their mobile devices and the majority use their mobile devices to access the internet and make calls.

Mobile devices provide marketers and companies with a great opportunity for communicating and engaging with their customers in a manner that the customer wants and doing so in real time. Through creative mobile marketing, companies can gain a great advantage over their competitors.

For example, Tsogo Sun found a need to communicate better with their customers and extend their customer reach. To achieve this the hotel group decided that they would undertake a mobile campaign by which they would send out their monthly e-mail newsletters via SMS to their mobile database. The SMSs were personalised and contained a shortened weblink to the online newsletter. Individuals would access the newsletter by clicking on the shortened weblink provided. Tsogo Sun managed to reach 61.3 per cent of new subscribers as a result of the SMSs that were sent out.

For the full Tsogo Sun case study, see <http://www.everlytic.co.za/wp-content/uploads/2016/05/Tsogo-Sun-Case-Study.pdf>

Mobile marketing refers to the use of any mobile or electronic portable device to communicate with customers and to market the company's products and services (Miryala & Reddy, 2015: 28). Mobile marketing is about contacting the company's customers at exactly the right time, using the right medium to provide them with what they need or want, and convincing them to purchase from the company (Stokes & the Minds of Quirk, 2013: 462).

A company can make use of various mobile marketing channels to reach its customers. These include SMS marketing, the use of quick response (QR) codes, mobile websites, applications and geolocation.

Let's take a look at these channels and how they are used:

- *SMS marketing* refers to the use of short message services (SMSs) that allows text messages to be sent from one mobile device to another for the purpose of promoting the company and its products (Dontigney, 2017). This type of marketing can be used to send bulk messages regarding a specific offer to all a company's customers or to send out individual personalised messages to customers. SMS marketing is used with the permission of the customer and there should also be an option for the customer to opt out of receiving promotional messages from the company.
- *QR (quick response) codes* make use of two-dimensional barcodes that are able to store different types of data. The customer is able to download these data once he has scanned the barcode with his mobile device. QR codes are typically used to generate traffic to the company's website or social media sites in order to find out more information about the company or a specific promotion the company is having. [Figure 16.8](#) shows an example of how a QR code looks.

Figure 16.8 Example of a quick response (QR) code



Source:
https://commons.wikimedia.org/wiki/Main_Page

- *Mobile websites* are company websites that are designed specifically to fit the screen of a mobile device. They are also designed to be able to adapt to touch-screen devices. They are convenient as customers are able to use their mobile devices anywhere and anytime to access the company's website.
- *Applications or apps* refer to software programs that are designed specifically for a smartphone, tablet or any mobile device. The app is downloaded and installed by the individual on his or her mobile device. Apps provide customers with an easy and simple way of connecting with the company. Companies can make use of this to enhance the customer experience, to solve a problem for the customer or simply to generate income by selling the application.
- *Geolocation* refers to the process of determining the geographical location of the individual and the device (OxfordDictionaries.com, 2017). Marketers make use of geolocation services to target consumers who are close to the company or who are within a certain distance of competitors (Meyer, 2017). The location of the person can trigger pop-up adverts or promotions.

Vodacom incorporated mobile marketing as part of the mobile service providers' 2016–2017 summer promotion. Vodacom launched the “Play Every Day” game where users could win prizes such as data bundles, fashion, food, technology and even island holidays (Vodacom.co.za, 2017). Users could play the game through the MyVodacom mobile app or they could dial *111 on their phones where they would follow the steps to play the game. For more information on the campaign, see <http://www.bizcommunity.com/Article/196/74/153874.html>

Mobile devices give companies many opportunities to enhance customer experiences, providing more personalised interaction. As mobile devices are constantly with the individual, messages from the company are more likely to be read within minutes. Every interaction between the company and the individual through the mobile device – whether it be via SMS, the company's app or a mobile website – can be tracked by the company.

16.4.1.4 E-mail

Electronic mail or e-mail is a digital media platform that has been around for many years and has become an essential part of our lives, whether for work or for pleasure. E-mail refers to messages that are sent electronically over the internet from one user to another (Dodson, 2016: 136). E-mails are used to communicate with and stay in touch with people worldwide in real time, to send information, to set up company meetings or to find more information about a company, etc. Various multimedia can be sent through e-mail, such as videos, music, images, etc. E-mail can thus be a highly effective method of communicating directly with the customer.

E-mail marketing refers to sending out commercial company messages directly to a customer base through the internet (Dodson, 2016: 121). Companies can send their existing and potential customers newsletters, promotions, coupons and information about the company and its offering. E-mail marketing allows companies to have one-to-one, meaningful conversations with their customers. E-mails also allow companies to segment their markets based on their needs and to send out personalised messages that suit the needs of specific customers (e.g. using the database to send e-mails only to a certain age group). E-mail marketing is also affordable and the company is able to measure the success of the campaign.

Three types of e-mail marketing campaign are available, namely direct e-mail, retention e-mail and e-mail placed ads:

1 ➡ Direct e-mails. These are e-mails that are sent directly to the customer. They are usually used by companies to promote specials for a limited time period or to share announcements. The retail store Mr Price, for example, will send out e-mails to their customer database to promote their summer sale. Sometimes these e-mails also mention the customer's name to enhance the likelihood of action.

2 ➡ Retention e-mails. These are frequent e-mails that are sent to current customers to provide news on the latest products and

upcoming offerings. Retention e-mails are usually used to retain current customers by offering them something, such as coupons and discounts. A company can, for example, send its customer database a promotional e-mail that has a special coupon code that can be used by the customer to receive a discount when making his or her next purchase.

3  **E-mail placed ads.** These are adverts that are placed within an e-mail that is sent by others. For example, a retail store can send its customer database a promotional e-mail of one of its partners.

For e-mail marketing to be successful, the company must first get permission from customers to send them e-mails and they must provide them with an opportunity to opt out of receiving communications from the company. Without permission from the customer, your e-mail could be considered as spam. *Spam* refers to unsolicited e-mails that are sent to a large number of e-mail addresses (Merriam-[Webster.com](https://www.merriam-webster.com), 2017a). Simply put, spam is any e-mail that is not wanted or requested by the receiver and could cause frustration for the consumer.

NetFlorist, one of South Africa's largest floral and gifting services, makes use of promotional e-mail campaigns. The company sends out promotional e-mails to its customer database for special days such as Valentine's Day, Mother's Day and Father's Day ([Everlytic.co.za](https://www.everlytic.co.za), 2017). Netflorist sends out one e-mail a week for their standard promotions and two e-mails a week for their special promotions that lead up to a specific event ([Everlytic.co.za](https://www.everlytic.co.za), 2017).

16.4.1.5 Blogs and podcasts

The advancements in technology and specifically the internet have provided people with the means of voicing their opinions and making them available to millions of people worldwide. Essentially, consumers create content over the internet which includes personal opinions about companies and brands. This is done through blogs or podcasts.

Blogs or *weblogs* refer to a website or online journal that is run and regularly updated by an individual (Merriam-Webster.com, 2017b). Blogs can be classified based on the genre or the media type or the status of the publisher (Ekanem, 2016: 30):

- **Genre.** Blogs of this type focus on a specific subject such as fashion, music, travel, etc. For example, South African blogger Aisha Baker's blog, "Baked the blog" focuses specifically on fashion in South Africa.
- **Media types.** Blogs can be classified based on the type of media they use. A blog may, for example, contain simple text, photos and videos. A blog that contains videos or is done through a video is known as a *vlog*, whereas a blog that contains only images is called a *photolog*.
- **Status of publisher.** A blog can be classified based on how the blogger defines the purpose of the blog. This can be a personal blog that focuses on the blogger's personal life journey. This type of blog also includes corporate or organisational blogs which focus on the company and are aimed at marketing and building the company's brand.

Blogs can be used by companies to provide customers with information about the company or its latest promotions. MTN, for example, has a blog to show how its products can be used or incorporated into the consumer's lifestyle. See the MTN blog at <http://www.mtnblog.co.za>

Blogs provide a cheap method of getting the company's message across. They also allow customers to make comments and interact with the company. In addition, the company blog is used to drive consumer traffic to the website or social media sites of the company. Blogging is a means of creating a community around your company or brand and generating productive feedback.

A *podcast* refers to a digital audio file that is made available on the internet and that individuals are able to download (Scott, 2015: 106). Podcasts are very similar to blogs as they allow individuals to voice

their opinions and to create content, except that podcasts use audio files instead of text files.

Podcasts provide the company with an easy, cost-effective method of providing marketing content to the customer database. They allow the company to create specific content for a specific audience. They are also measurable as the company is able to see how many people have downloaded or subscribed to them, and how many have people listened to them (Sachs & McHaney, 2016: 62). The content of a podcast is also controlled by the company alone. This means that the company does not have to follow any broadcasting rules and regulations. For example, the computer hardware company IBM posts podcasts on its website. These podcasts provide listeners with the latest information regarding IBM and the industry as a whole, technology and software news, as well as information on the latest offers from IBM.

For IBM's podcast feeds on their website, see <https://www.ibm.com/ibm/syndication/podcasts/>

Companies are also able to partner with podcasts to promote themselves. The company sponsors the podcast and the company and its products are mentioned during the podcast. This way the promotion of the company is less obvious as it is disguised as part of the conversation or as part of the story. The company's contact details can also be placed on the website that the podcast is placed on. For example, the South African podcast Amabookabooka has partnered with The Daily Maverick and the Book Lounge. At the beginning of the podcast they mention that the podcast is sponsored by The Daily Maverick and the Book Lounge. The podcast also has a segment on the show featuring an individual from the Book Lounge, thus incorporating its sponsor into the content.

16.4.1.6 Online advertising

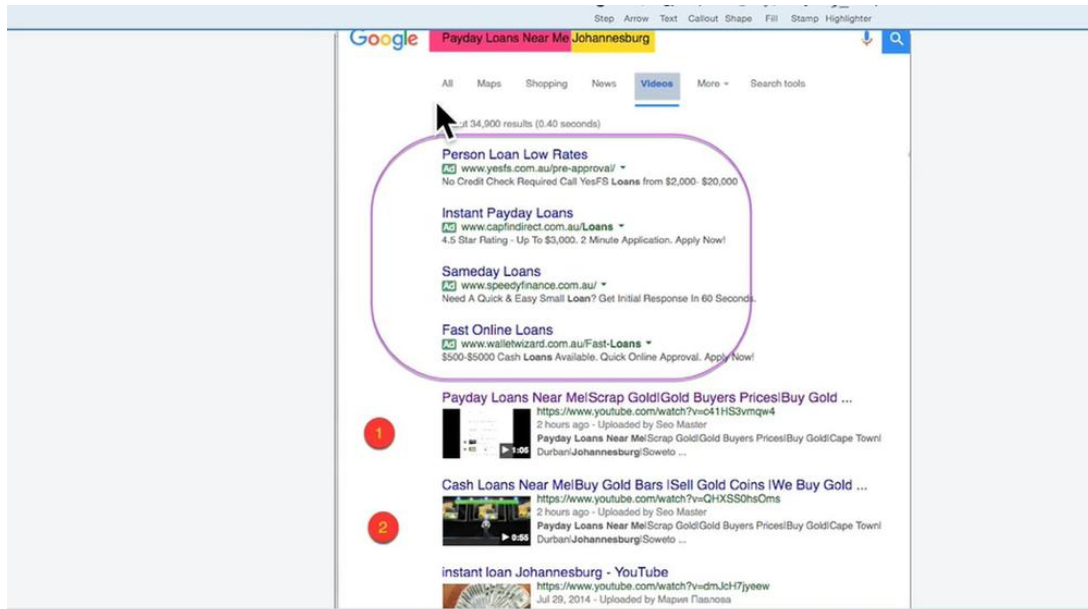
Online advertising makes use of the internet and its various functions to advertise a company. In other words, it is advertising done on the internet (Tiwari, 2016: 10). Online advertisements are generally placed

on websites, on search engine results pages and on social networks. They include display adverts or pop-up banner adverts (i.e. advertisements that appear on your Facebook home page or advertisements that pop up on your computer as you browse the internet).

Online advertising can fall within three categories, namely paid for, owned or earned (Brown, Jones & Wang, 2016: 317):

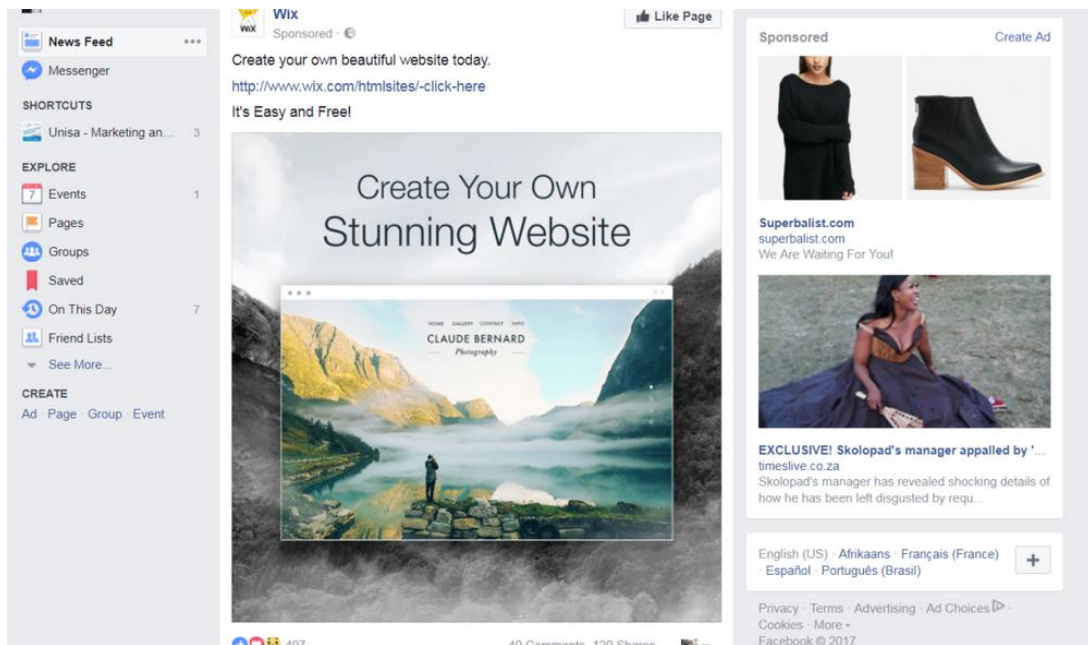
1 ➡ Paid media. This refers to online advertising that is paid for. The company pays someone else to advertise on its online platform. This includes banner advertisements and *Google AdWords* (Stokes & the Minds of Quirk, 2013: 295). Google AdWords are paid-for advertisements that appear on the search engine results page, that are based on the relevant search (i.e. keywords). [Figure 16.9](#) shows an example of Google AdWords. The results show advertisements of companies who paid to have their websites appear when people search for personal loans in Johannesburg. A *banner advertisement* is an online advertisement in the form of an image that appears on a website that is paid for. For example, companies can pay to have their adverts appear on the search engine results page, on the Facebook homepage of individuals or on someone else's website. [Figure 16.10](#) shows an example of banner advertisements that appear on a Facebook page. These companies pay Facebook to have their advertisements appear on targeted individuals' Facebook home pages.

Figure 16.9 Example of Google AdWords



Source: Seo Master (2016)

Figure 16.10 Example of banner advertisements



Source: Facebook.com (2017)

2 Owned media. This refers to online advertising that companies create themselves and includes the company's website, its own

blogs and podcasts, and social media sites. Owned media is any touchpoint that the company has with its customers where it is able to communicate and engage with them, for example Vodacom South Africa's Facebook and Twitter pages.

3 ➔ Earned media. This refers to any content or information about the company that is shared through online public relations such as online reviews, blogger reviews about the company's products, ratings, online articles about the company and online word of mouth, for example a beauty blog post that has a positive review about Revlon cosmetic products.

Online advertising creates awareness for the company and its products and services (Tiwari, 2016: 250). It also increases the probability of consumers making a purchase from the company's store. Online advertising is measurable as the company is able to track every person who clicks on its advert, visits its website and searches for the company. Online advertising allows the company to segment its market and target specific markets.

16.4.1.7 Social media

Social media refers to the various websites and applications that allow users to connect online and share information, images, photos, knowledge and opinions (Burrow & Fowler, 2016: 221). Social media is simply sharing content, commenting and viewing information online through various social media tools. These tools include social networking sites, video-sharing sites, picture-sharing sites, blogs and micro-blogs, user-created sites, etc.

Social networking sites refer to an online platform that allows the user to create an online profile and to connect with others through various tools such as Facebook and LinkedIn (Information Resources Management Association, 2017: 187). *Video-sharing* sites are websites that allow individuals to upload and share video content with the public, such as YouTube (Sachs & McHaney, 2016: 17). *Photo-sharing* sites are similar to video-sharing sites in that they allow individuals to upload and share various photos and images online, such as Instagram

(Sachs & McHaney, 2016: 234). *Blogs and micro-blogs* refer to websites such as Wordpress and Twitter that allow individuals to post their own content, experiences, opinions or observations online (Sachs & McHaney, 2016: 131). *User-created content* sites refer to websites that allow individuals to post and amend any content such as articles and essays (Egger, Lang & Schröder, 2015: 1). Examples of user-created content sites are Wikipedia and eHow.

Table 16.1 lists the various social media networks and the various social media tools for these networks.

Table 16.1 Social media networks and social media tools

Examples of social media tools	Social media network
Facebook, LinkedIn	Social networking sites
YouTube	Video-sharing sites
Flickr, Instagram, Vimeo	Picture-sharing sites
Wordpress, Twitter	Blogs and micro-blogs
Google and Yahoo	Mobile and local search engines
eHow, Wikipedia	User-created content sites

The social media tools provide companies with an opportunity to communicate with their customers in real time, to foster relationships with them and to earn loyalty. They also provide exposure for the company and generate online word of mouth.

Social media marketing can be defined as the use of social media tools to communicate and interact with customers in order to promote products and services (Schoja, 2016: 21). These social media tools are used to provide consumers with information about the company, tell them about new offerings, get feedback and build lasting relationships with them.

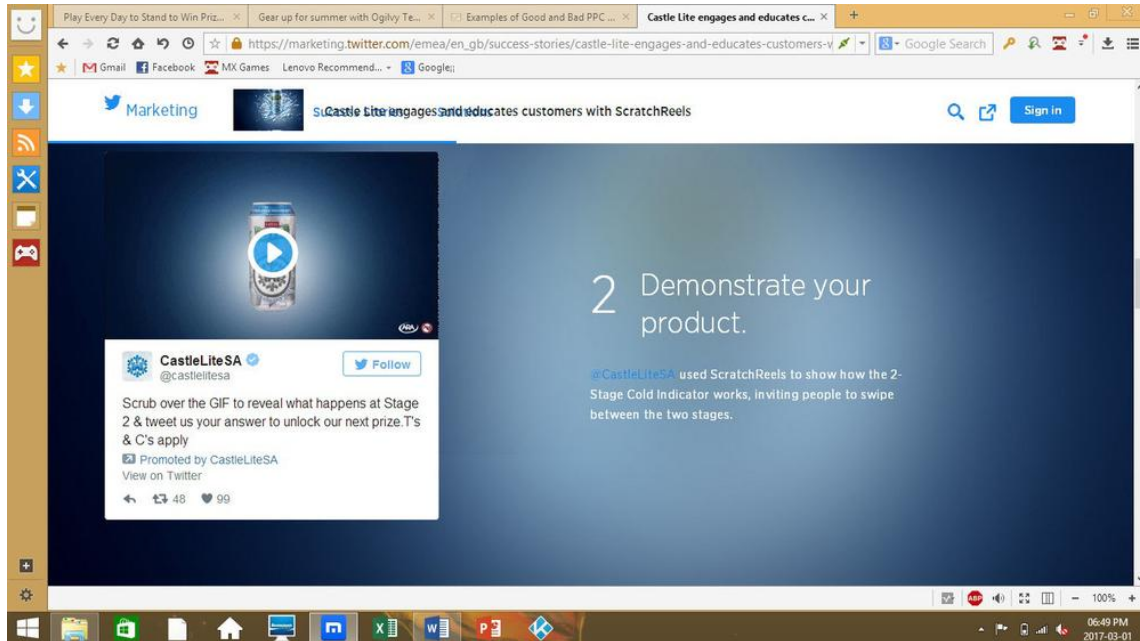
In South Africa there are approximately 14 million Facebook users, of whom about 10 million access Facebook through their mobile devices (World Wide Worx & Ornico, 2016: 3). YouTube has the second-largest social media user base in South Africa with about 8.74 million users. This is followed by Twitter with about 7.7 million users, then LinkedIn with about 5.5 million users and lastly Instagram which has about 3.5 million users (World Wide Worx & Ornico, 2016: 3).

According to the SA Social media landscape report by World Wide Worx & Ornico (2016: 2), 91 per cent of brands in South Africa have a Facebook profile and make use of Facebook, 88 per cent of brands make use of Twitter, 66 per cent of brands make use of YouTube, 63 per cent make use of LinkedIn and 62 per cent make use of Instagram.

These statistics show how important social media are in South Africa and the great opportunity they provide for companies. Social media tools give companies the opportunity to connect creatively with their customers and, used correctly, they can result in excellent results for the company.

Castle Lite's ScratchReels campaign is a good example of how social media marketing can benefit a brand. In 2016, Castle Lite made use of Twitter's ScratchReel tool to promote its two-stage temperature indicator on their bottle labels (Marketing.twitter.com, 2017). ScratchReels allow a user to control the graphics interchange format (GIF) by moving his or her mouse or finger over the GIF (Olanoff, 2015). With this movement, the image in the GIF moves back and forth. The ScratchReel showed how the indicator on the bottle turned blue as the bottle became "extra cold" (Media Update, 2017). The brand engaged the audience by asking them to Tweet at them in response. This is shown in [Figure 16.11](#).

Figure 16.11 Castle Lite tweet



Source: [Marketing.twitter.com](https://marketing.twitter.com) (2017)

The campaign resulted in 4.5 million impressions between February and mid-June of 2016 (Media Update, 2017). The average engagement rate for the campaign was 5.79 per cent and the cost per engagement was R1.61 (Marketing. [twitter.com](https://marketing.twitter.com), 2017). For more details on the Castle Lite Twitter ScratchReels Campaign, see https://marketing.twitter.com/emea/en_gb/success-stories/castle-lite-engages-and-educates-customers-with-scratchreels.html

Graphic interchange format, commonly referred to as GIF, is basically a moving image. How it works is that several images are combined into one file that then creates an animated moving picture (William, 2016).

With the advancements in technology and more digital media tools that allow for two-way, creative and interactive communication, marketing communication has evolved and new marketing techniques have developed to engage consumers in a more creative manner, such as affiliate marketing, content marketing and [real-time marketing](#), etc.

Affiliate marketing refers to the use of a third party to advertise your company or products on their website (Information Resources Management Association, 2017: 643). The third party or “affiliate” will receive a fee for every sale that you make that is from the affiliate’s website. For example, the South African blogger Teeteeiswithme will add links to certain stores where the products she talks about in her blogs can be found. Teeteeiswithme is thus the “affiliate” in this case and receives a fee from these stores whenever an individual clicks on the store’s website link from her blog site.

Content marketing makes use of online tools to create and share content in the form of text, video, images, etc. that will stimulate interest in the brand (Content Marketing Institute, 2017). The aim of content marketing is to attract and retain customers and essentially to drive customers to make purchases. Content marketing can lead to increased sales for the company, more loyal customers and it is cost effective. With content marketing, the focus is on engaging content that attracts the consumers. The brand can make use of various online media to deliver engaging content, such as text of videos.

An example of content marketing is Sanlam’s One Rand Man webisode documentary. A *webisode* is an online video or short film that is used to promote a product or brand (Hanson, 2016: 369). In July of 2015, to emphasise the need for South Africans to save, Sanlam did a social experiment where one man had to live off R1 coins for an entire month. Weekly episodes on YouTube showed the man’s story every step of the way. Experts were also used to weigh in on any difficulties that he encountered (Ramiah, 2015). For details on the Sanlam One Rand Man Campaign, view the video on <https://www.youtube.com/watch?v=xWxeTRgkjBw>

Real-time marketing refers to the use of various marketing communication media to communicate and interact with customers in real time (TrackMaven, 2017). It focuses on responding to current events and trends as they happen. This marketing technique makes use of customer data to understand customer behaviour and to provide real-time personalised content through various media channels.

Nando's, for example, makes use of real-time marketing as it responds to current events and situations that happen in the country. During South Africa's 2017 State of the Nation Address (SONA), Nando's posted an advert on its Twitter account which read "Some addresses will leave you in a state" with the hashtag SONA2017 (<http://www.Twitter.com/Nandos>, 2017). The advert further commented on the situation in parliament and read "If you're looking for a little order, we're only 350 m away from Parliament".

16.5 Digital marketing strategy

The internet and rapid advances in technology have resulted in companies changing the way in which they sell products and services. They have created new methods of connecting and building relationships with customers and achieving company goals of generating profit.

The digital marketing strategy should build on the principles of traditional marketing by incorporating the opportunities offered by digital media into the marketing strategy. This strategy is essentially a blueprint or plan of action for achieving the company's desired goals (Hudson, 2016). There are three important questions that you need to be able to answer when planning your digital marketing strategy: *who* are you as a company, *what* are you offering and *how* are you doing so (Kingsnorth, 2016: 68)?

There are certain steps that a company needs to take when developing a digital marketing strategy. These steps include the following (adapted from Kingsnorth, 2016: 69; Heinze, Fletcher, Rashid & Cruz, 2016: 35):

- Context
- Value proposition

- Objectives
- Digital tools
- Ongoing flexibility

Let's take a look at these steps in more detail.

16.5.1 Context

The first step is looking at the environment in which your company operates. At this stage you will do a situation analysis by examining the environment, the company, and its potential and current customers, and identifying who its competitors are.

Busi's Designs is a local fashion brand that sells high-end designs that incorporate the local South African culture. In developing its digital marketing strategy, Busi's Designs must first do a situation analysis. In examining the company's environment, Busi's Designs has determined that they have enough resources for the company to be successful. They have identified their target market and what they are interested in, what online communication channels they make use of and what their needs and wants are. Busi's Designs have also identified all their competitors and have looked at how they price their goods and what they offer compared with themselves.

16.5.2 Value proposition

Once you have examined the company and its environment, the next step is to determine what value your company can offer. This refers to any extra benefits your company and its products will offer the consumer. In order to identify the value proposition you will need to have a good understanding of your target audience and what they need and want or see as valuable to them.

Busi's Designs must now identify the brand's value proposition. The company makes use of locally sourced quality material and the brand is affordably priced compared with its competitors. Their value proposition is that they offer quality products at affordable prices.

16.5.3 Objectives

Your objectives give you a direction or end goal on which to focus. Your objectives must answer the question as to what the purpose of the strategy is. They must be specific, clear and detailed. They must be measurable so that you are able to measure whether or not you are attaining the desired outcome. They must be attainable in that, based on your current resources, you must be able to achieve the goals set in the objectives. The objectives should also be realistic and must have a specific time frame in which they should be achieved.

Busi's Designs' company objective is to increase brand awareness by 50 per cent over the next three months.

16.5.4 Digital tools

Once the objectives have been set, the specific tools that will be used to carry out the objectives must be determined. The tools will be the various digital media tools (e.g. social network sites, website, e-mail, mobile devices, etc.) and platforms available. Each digital tool has strengths and weaknesses and should be selected based on what you want to achieve for your company.

Busi's Designs now have to look at which digital media tools they would like to use to achieve their objectives. Due to a limited budget, Busi's Designs have decided to make use of digital tools that are affordable, such as their website, their Facebook page and their online blog, to generate awareness. Busi's Designs will use these channels to post interesting and engaging content about the company and to interact and communicate with their customers.

16.5.5 Ongoing flexibility

The online and digital world is constantly evolving and new and improved media and new media platforms emerge every day. Consumers' behaviours, needs and wants are also constantly changing. In order to keep up with these changes in the environment, companies

must be flexible and dynamic when planning their marketing strategy. The strategy must be adaptable to certain changes in the environment.

Busi's Designs must ensure that their strategy and the digital media tools they use are flexible and can be adapted as needed.

16.6 Legal and ethical considerations

Digital marketing provides many benefits for companies, such as the ability to gather customer data, to track customers' online purchase history and even to locate the customer through geolocation technology. This, however, raises legal and ethical issues such as customer privacy, online fraud and misuse of intellectual property.

Digital and online media make it easier for companies to gather customer data and to track their online habits across the various online media channels. Companies such as Google and Facebook, for example, are able to track your online behaviour and use this knowledge to their advantage. Facebook, for instance, will push adverts based on your previous online searches or shopping history. This is done through the use of cookies. There is, however, a fine line between gathering data and invading the consumer's privacy. Privacy is a big issue for customers and it is important for companies to respect customers' privacy and ensure that they do not cross the privacy line. They should be open about how they collect and use customer data and notify the customer if any changes could influence their privacy (Bowden, 2014). Companies should also be aware of rules and regulations, such as the Protection of Private Information Act (PoPI) 4 of 2013, and what they entail.

Online fraud is another major security concern that affects consumers. *Online fraud* refers to any activity that attempts to deceive an individual in order to obtain money or anything else of value from them (US [Legal.com](https://www.legal.com), 2017). Online fraud involves getting individuals

to disclose personal details through various media, or the use of social media such as Facebook and Twitter to solicit funds for fake charities.

Copying and pirating copyrighted and trademarked material has become a major problem on the internet. With so much content, videos and images being uploaded onto the internet daily, it is difficult to monitor and remove all the copyright infringements. Many people also tend to download images, software, games and videos illegally from the internet. There are various reasons why people tend to download content illegally (Pride & Ferrell, 2016: 304):

- They feel that it is too expensive to pay for.
- Content is exchanged between friends and family.
- There is the thrill of getting away with it.
- They want to show off their technical skills.

16.6.1 Legal considerations for your digital marketing strategy

When developing your digital marketing strategy, it is important that you be aware of the following legal considerations (Nibusinessinfo.co.uk, 2017):

- **Opt in and opt out.** Consumers must be given an option to either opt-in or opt-out of receiving direct marketing communications such as e-mail and SMSs. In South Africa, the Protection of Personal Information (PoPI) Act stipulates that consumers must provide their consent before a company can send direct marketing content to them (De Stadler, 2016).
- **Legal implications of websites.** Your website should include any disclaimers or terms and conditions as well your company's registered address and company registration details. Your terms and conditions should indicate whether the customers' data is being collected and the purposes that it will be used for.

- **Cookies.** Cookies refer to small text files that are stored on a person's computer when they access a website and are able to hold and send data to the website. They are used by companies to monitor the individual's browsing habits. Companies are legally required to indicate to site visitors if they are using cookies and they need to indicate how they are using the cookies.

As the digital landscape evolves, there is more room for legal and ethical issues to arise. It is up to companies and markets to ensure that they are mindful of these issues and that they abide by the rules and regulations.

16.7 Conclusion

The digital evolution has had a major influence on the way in which individuals behave, the way they shop, the way they interact with each other, the way in which they search for information, etc. With the increased use of the internet and digital devices, consumers are able to communicate with each other, gather information about a company and its products, and review products and services in real time. In order to reach these consumers, companies have started to make use of these various digital media channels to communicate and interact creatively with their consumers.

In this chapter, we defined digital media and digital media marketing. We also discussed the importance and benefits of digital media in marketing. We looked at the various digital media channels and how they are used in marketing. We then discussed the digital marketing strategy and the legal and ethical issues of concern regarding digital media marketing.

DISCUSSION QUESTIONS

1. In your own words, define digital media marketing.
2. Identify and explain the two main components of digital media marketing.
3. Joseph's superstore is thinking of making use of digital media to create more awareness for the company. Convince Joseph of why he should make use of digital media marketing by discussing its benefits.
4. Identify and discuss non-internet-enabled digital media.
5. Discuss the various reasons why a company will decide to build a website.
6. Discuss the various types of website a company can develop.
7. Discuss the difference between paid media, organic media and places associated with a map. Provide an example of each.
8. Identify and discuss the various types of e-mail marketing campaign.
9. What is the difference between a vlog and a photolog?
10. Discuss and provide an example of spam.
11. Discuss and provide examples of paid for, owned and earned media.
12. Mpho Khosa is developing a digital media marketing strategy for her brand of designer make up. Discuss the steps that Mpho has to take when developing the digital media marketing strategy.
13. What are the legal considerations that Mpho Khosa should take note of when developing her digital marketing strategy?
14. Identify the various classifications of blogs and provide an example of each.
15. Explain the concept of affiliate marketing and provide an example of it.

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17

INTEGRATED MARKETING COMMUNICATION

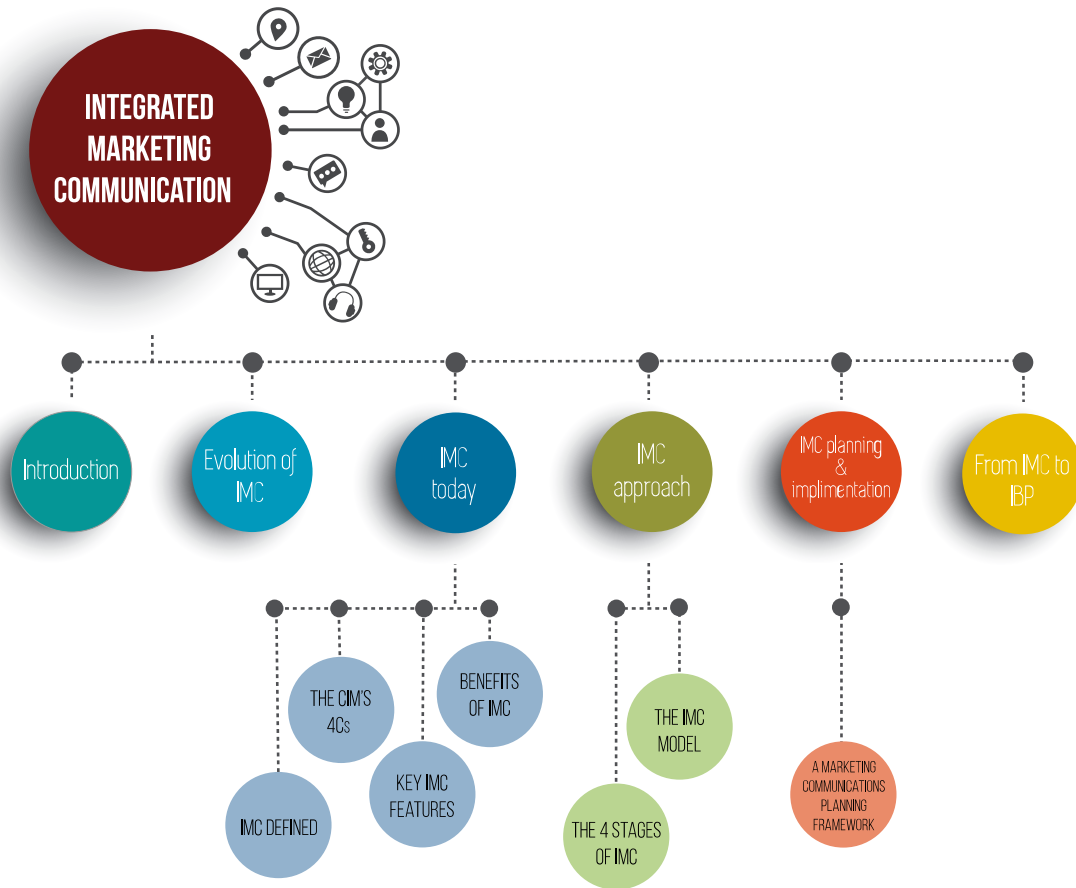
LEARNING OUTCOMES

AFTER STUDYING THIS CHAPTER, YOU SHOULD BE ABLE TO

- understand the evolution of integrated marketing communication
- define integrated marketing communication
- apply the four Cs criteria to the marketing communication mix elements
- describe the key features of integrated marketing communication
- explain the benefits of integrated marketing communication
- discuss the establishment of integrated marketing communication by specifically referring to the IMC approach
- apply the four-stage model of integrated marketing communication
- devise an integrated marketing communication plan
- discuss the methods for evaluating the success of the marketing communication tools
- contrast integrated marketing communication and integrated brand promotion.

KEY CONCEPTS

- INTEGRATED BRAND PROMOTION
- INTEGRATED MARKETING COMMUNICATION
- INTEGRATED MARKETING COMMUNICATION OBJECTIVES
- INTEGRATED MARKETING COMMUNICATION STRATEGY



17.1 Introduction

Communication can be defined as “the act or process of using words, sounds, signs or behaviours to express or exchange information, ideas, thoughts or feelings to someone else” (Merriam-Webster, 2016). This definition advocates that for communication to take place, there must be some accepted thinking between two parties and an exchange of information must take place. Thus communication can only take place when a transfer of information, ideas or feeling occurs. How accurately the information is received depends on the interpretation, the environment and the nature of the message. The perception of the receiver and the channel or medium used to exchange the message

may also affect the ability to communicate and to understand (Belch & Belch, 2014).

While communications describe the process whereby meaning is shared between organisations and individuals, marketing is the activity that focuses “on satisfying customer needs and wants through the exchange process”. On the other hand, the term marketing communications exemplifies the combination of all the promotional mix tools an organisation uses to establish the exchange of meaning with its customers. All marketing mix variables (or tools), and not just one promotional mix tool alone, can communicate with customers. Every marketing communication tool or channel plays a unique role, and by combining the tools (integrating or synchronising) they can be more effective (Shimp & Andrews, 2013).

17.2 Evolution of integrated marketing communication

In the past, many elements of the marketing communication mix were seen as separate functions and were handled in silos by the relevant experts (Koekemoer, 2014). During the early 1980s, the concept of integrated marketing communication (IMC) was unheard of, and each marketing communication mix element was treated as autonomous. Although there was an element of interrelationship and interdependence between the various communications specialists, the idea of integration was not at that stage considered as a possible approach. It was during the 1990s that IMC became one of the most talked-about topics in the marketing field. IMC was providing the opportunity to see the holistic marketing communication picture by recognising the synergy of each of the elements or disciplines. It appears that IMC was the natural evolution of traditional mass media advertising revolutionised and refined through new technology (Adetunji, Nordin & Noor, 2014: 23; Gabrielli & Balboni, 2010: 276).

During this era, innovation evolved mostly around imitating and brand copycatting. The true innovators suffered, and the conception of a better approach to communicate with clients underscored the importance of branding products by communicating their unique features. This enhanced message led to an increase in communication effectiveness. It is contended that the evolution of IMC was driven by three main influential changes (Adetunji et al, 2014: 24):

- 1 ➡ The development and diffusion of digital technology
- 2 ➡ The elevation of branding as the differentiating tool for products
- 3 ➡ The marketing and business focus on globalisation

Technology can influence IMC from the marketing and consumer perspective. It is argued that integration is needed as globalisation and interdependence between marketplaces force integration. Thus brand managers need to integrate elements of the marketing communications mix as the marketplace becomes more customer driven because of the internet, which can enhance marketing communication strategies (Kitchen & Burgmann, 2010: 2).

17.3 Integrated marketing communication today

Marketing communication tools are not “one-voice mechanisms, but part of an integrated ‘chorus’ of communication activities” which is directed by customers and consumers and their needs (Kitchen, 2005). Developing effective ways to communicate in such a way that consumers’ needs can be satisfied is one of the main objectives of IMC. The ultimate goal is to create marketing messages to reach the right target audiences through the most appropriate channels. Thus to identify the correct pathway which communication should follow to influence consumer behaviour is key in IMC. Adoption of the IMC

approach can create and strengthen relationships with consumers and send unified messages (Mihart, 2012; Kitchen & Burgmann, 2010).

17.3.1 IMC defined

All stakeholders in an IMC-focused organisation must systematically engage IMC for it to be successful. IMC integrates several marketing communication approaches into the content of one message to develop effective brand equity. Thus it attempts to integrate, combine and synergise different elements of the marketing communications mix by playing on the strengths of one to offset the weaknesses of the others (Du Plooy, 2012: 47; Kitchen, 2005). There are many IMC definitions; however, most authors state that IMC is a business process, that it is a stakeholder-based business approach and that IMC is all about the coordination and integration of communication through content and messages (Adetunji et al., 2014; Kliatchko, 2008). For the purpose of this chapter, the following definition has been adopted:

Integrated Marketing Communication is a strategic business process used to plan, develop, execute and evaluate co-ordinated, measurable, persuasive brand communication programmes over time with consumers, customers, prospects and other targeted, relevant external and internal audiences. The goal is to generate both short-term financial returns and build long-term brand and shareholder value

(Schultz & Schultz, 2003: 20–21)

Schultz and Schultz (2003) explain that this definition has four key elements:

- 1 ➡ IMC has advanced from marketing tactics to business strategy.
- 2 ➡ IMC incorporates the entire organisation and stretches over the entire spectrum of brand, customer, product and service contacts the organisation has with all stakeholders at all levels.
- 3 ➡ IMC necessitates ongoing measurement, evaluation and accountability for return on the IMC investment.
- 4 ➡ IMC is a continuing process that improves performance in the long term and builds relationships progressively with customers.

Thus companies implement IMC plans in order to present a unified message to their target audiences. All the marketing communications tools of advertising, public relations, direct marketing, personal selling, sales promotion and on-line/social media marketing are integrated to communicate one message to the target audience. Although these tools can be applied in silos (or individually), and be used in isolation, it is usually more successful to blend and mix (integrate) the elements for maximum impact. Each element of the mix can be judged against a number of criteria, called the 4Cs (Lubbe, 2016).

17.3.2 The CIM's 4Cs

The 4Cs of CIM (Chartered Institute of Marketing) are the following (CIM, 2009):

- 1 ➡ **Cost.** Is it expensive to use the tool compared to the overall cost of the campaign? What will be the cost to reach a certain number of individuals?
- 2 ➡ **Clout.** Is it possible for the campaign to reach a large number of people? Is it possible for the message to be personalised?
- 3 ➡ **Credibility.** What is the credibility of the source? It is possible that a favourable piece of press coverage will be viewed as accurate compared to an advert in general, which may be viewed with scepticism?
- 4 ➡ **Control.** Is it possible to target a particular audience? Is it possible to adjust the message to target specific individuals as the campaign progresses?

Integrating multiple communication tools can produce greater results than tools used in isolation and in an uncoordinated fashion. A synergistic effect is created when using multiple well-coordinated marketing communications tools.

The communications model or process as described in [Chapter 13](#) (see [Figure 13.1](#)) can be used as the foundation to build an integrated marketing communications programme. Attractive advertisements simply do not increase market share, sales and brand loyalty – a fully developed integrated marketing communications programme has to be devised where numerous marketing activities are integrated into a single package. This makes targeting of relevant audiences more effective. Certain critical features (Shimp & Andrews, 2013; Kitchen, 2005: 75) which are interdependent are critical to both the understanding of the philosophy of IMC and to putting it into practice.

17.3.3 Key features of IMC

The key features of IMC are discussed in the sections that follow.

17.3.3.1 The customer or prospect is key

IMC should start with the customer or prospect. Only then can the marketing practitioner work backwards to the brand and the message and selection of the media. In most instances the customers are in control. With consumer-generated content, online marketing via location-based services, social media, smartphone scanning, blogging, texting, etc., consumers can choose what they want, and how and when they want it. For example, when customers walk into a shopping centre, retail stores can send push notifications to their smartphones with special offers or promotions. The customers can decide whether they want to take advantage of these promotions.

17.3.3.2 Use any form of relevant contact

Marketing practitioners should be receptive to using all forms of contacts, or touch points, meaning any message medium should be considered that is capable of reaching the target customers. 360-degree branding suggests that every possible opportunity should be presented to the target audience to use whatever information about the brand they regard as most useful. A 360-degree approach is when an all-encompassing view of the entire customer journey is taken, from discovery to purchase, across multiple devices and touch points. The

messages should go to the places where the customers are, wherever that might be. For example, if the customer is in the airport lounge waiting for a flight to Greece, advertising other holidays at that touch point may be relevant.

17.3.3.3 *Speak with a single voice*

Consistency is key! Marketing communications should speak with a single voice. It is critical to coordinate messages and media to achieve a strong and single-voiced message and brand image with the goal of moving the customer to action. A unified message involves the selection of a specific positioning statement for a brand. This is the key idea that encapsulates what the brand stands for in the target market's mind, and only then consistently delivers the same message and idea across all media channels.

For example, Castle Lite's promise of "Extra Cold Beer" can be found at any touch point. If you visit their website at <http://www.castlelite.co.za/RepublicSummer2016/experience>, their Twitter page at <https://twitter.com/castlelitesa?ref>, their Facebook page, or look at one of their printed adverts, you will consistently find the message: "Extra Cold". When launching their new 440 ml bottles, they had to impart the same message while differentiating the bigger volume. For that reason, the delivery on the brand promise was to ensure that customers knew it was a bigger bottle providing more of the same, so the consistent message across all touch points was: "Extra Extra Cold". Visit the following website: <http://www.awardify.com/bookmarks2013/castle-lite/extra-extra-cold/integrated-digital-marketing-campaign/>

17.3.3.4 *Build relationships*

Building a relationship between a buyer and seller goes beyond a single transaction and moves to retaining customers in the long run and creating multiple exchanges. It is all about the enduring link between the customers and the brand that first leads to repeat purchase, then ideally to loyalty.

A good example of building relationships is when Coca-Cola gave each first-year student at a Colombian university bottles of Coke on their first day on campus. However, there was a “twist” as the caps of these bottles could only be opened when clicked together with another cap. This encouraged students to work together on a day when students usually feel lonely and do not know anyone yet. This campaign created positive emotions in the viewers who saw the video, and students who participated formed a “bond” with Coca-Cola. Thus Coca-Cola facilitated conversations between strangers, and those who participated could associate Coca-Cola with the start of new, important friendships and joyful and hopefully long-lasting memories (with individuals and with the brand).

17.3.3.5 Affect behaviour

Although it is unrealistic to expect an action as the result of one communication effort or from every communication effort, the ultimate objective of IMC is still to affect the behaviour of the target audience. Marketing communications should do more than just enhance customer attitudes toward the brand or influence brand awareness. Some form of behavioural response should be encouraged to lure the target audience to action.

For example, in the state of Bahia in Brazil, the problem of the lack of blood in its blood banks was solved thanks to a partnership between Hemoba (Blood) Foundation and the much-loved Brazilian soccer club, *Esporte Clube Vitoria*. Bahia was able to raise awareness of the lack of blood in its blood banks and actually increased the amount of blood donated by citizens. The soccer club removed the red stripes from its black and red jerseys and challenged fans of the team to donate blood, and every time blood donation increased, only one red stripe of the soccer jersey was “coloured in”, until the target was reached and all the red stripes were “earned” back onto the jersey. See <https://www.psfk.com/2013/03/brazilian-soccer-club-blood-donation-jerseys.html>

17.3.4 Benefits of IMC

The following are the benefits of IMC:

- **Increases communication impact.** By combining all the communications efforts, marketers can plan and create a synergistic and coherent approach. All contact points and message integration is considered by applying different communication disciplines into one campaign. The characteristics of both the corporate brand and the product brand are taken into consideration by blending every promotional mix element together to have greater impact and influence with an IMC approach, as now forces are combined.
- **Develops trust.** Delivering the same message consistently across all marketing communication platforms creates trust. Constantly receiving the same message from a brand creates certainty about what the brand means.
- **Takes away the confusion.** It is very easy to confuse the target audience when part of a message is communicated on one marketing communications platform and another part of the message via a different channel/platform. Miscommunication of a message can leave the target audience confused about what the actual message is, or they can miss the point. In contrast, when the marketing communications campaign delivers a clear, simple message, the target audience will be more likely to react in the way you want them to.
- **Increases efficiency.** A streamlined approach with a single message implemented across the chosen channels will simplify the running of the campaign. Increased efficiency, because of synergy, will also increase the effectiveness of creative ideas.
- **Is more effective.** Integrating a marketing communications campaign increases the effectiveness of the message as consistency across a variety of channels reinforces the message, which in turn empowers the message. With consistency, the interpretation of information is facilitated for customers.
- **Saves money.** Running an effective marketing communication campaign that stretches across a number of channels is costly. In particular, graphics, photography, images and content can be very

expensive; however, integration eliminates the need to duplicate, as the marketer shares across channels that will save money and time. This improved, cost-effective approach will also have a positive effect on the client's investment.

- **Increases morale.** As explained, integrated campaigns can build trust in your brand and increase revenue, but it can also assist the business or organisation internally. To successfully integrate a campaign requires that the team responsible pulls together and shares talent across a multitude of channels for great results (Woodland, 2015; Kitchen & Burgmann, 2010; Kitchen, 2005).

An example of the evident benefits of IMC is the integrated effort by Joe Public in a recent McCain campaign. The campaign portrays how McCain helped three South Africans arrange a surprise dinner for their moms. The idea was to connect emotionally through authentic stories, sharing family time and joyful moments which are at the heart of the McCain brand. Hidden cameras captured the evening of the surprise dinner for mom, where a personalised printed thank you message on mom's plate was revealed at the end of her meal for the whole of South Africa to see. Not only could the TV advert be experienced and emotions touched, but also McCain customers were offered the opportunity to be part of the campaign by purchasing their very own individually crafted plates or sets of plates through a responsive e-commerce site.

Customers could also share unique personalised messages and "memory" through social media with the hashtags JoysOfMcCain & MakeAPlate. In line with the strategic communications, the digital component saw conversations structured around the customers' stories, the plate, and finally their shared meal. All of these contributed towards seamlessly bridging the gap between offline and online media through e-mails, digital and social media advertising, branded social media pages and finally an SMS competition.

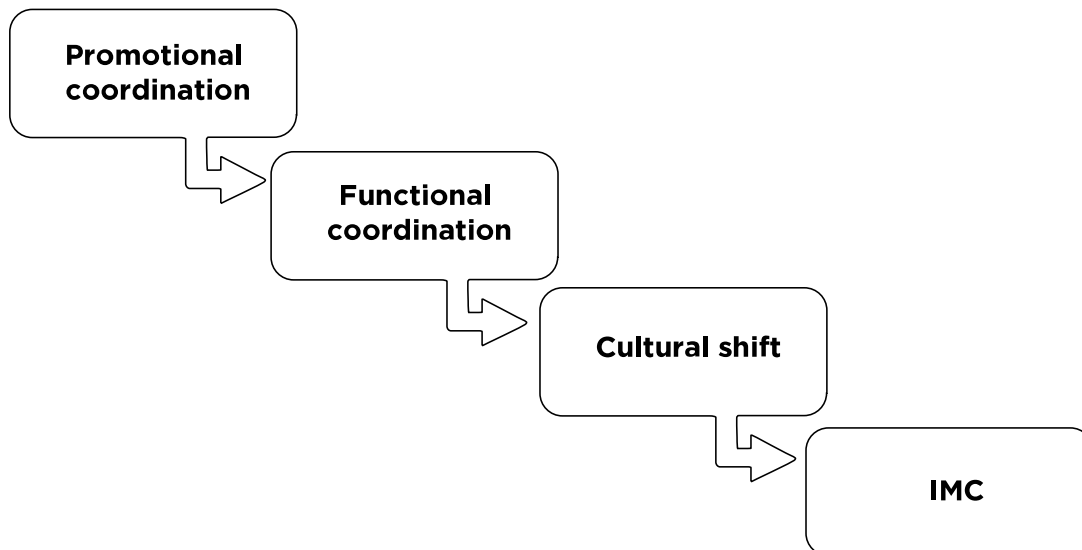
Dylan McLean, Creative Director at Joe Public commented: "Taking an idea across mediums and adding value to it, is always at the heart of what we do at Connect Joe Public. The McCain's TV ads are so real, it

was easy to expand them into an online space. It's all about finding ways to bring more life to the idea that it's little things that mean everything. We want to build true brand co-creators and create brand connection and loyalty that will last for McCain" (<https://joepublic.co.za/news/anode-tothehardestworkerofthemall>).

17.4 IMC approach

The first step in the IMC approach (see [Figure 17.1](#)) is to consider the promotional activities as a “one voice” message that must be communicated through each promotional activity (also called the marketing communication mix element). The “one voice” cannot be achieved when HR, finance, etc. do not buy into it and hence the IMC approach requires a cultural shift of beliefs and values before IMC can take place.

Figure 17.1 The establishment of IMC

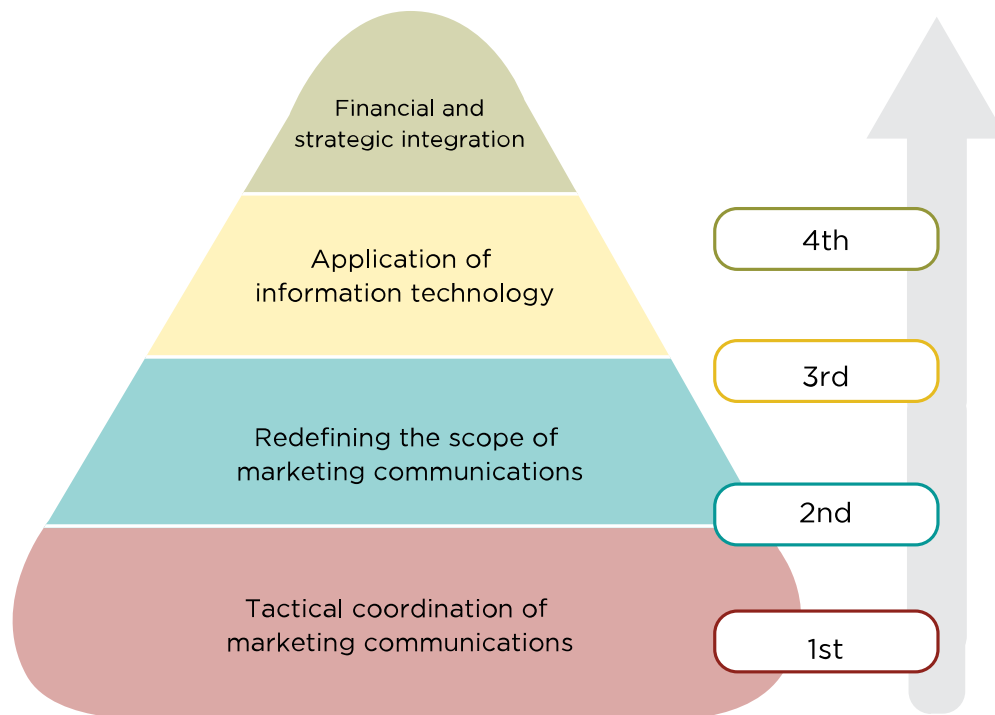


Source: Fill (2002: 469)

17.4.1 The four stages of IMC

As illustrated in Figure 17.2, the initial step toward achieving integration is to coordinate IMC at a tactical level. Harmony is key. This is also known as the “one voice” or “one sight, one sound” approach, with the primary focus on external communication of the brand. The focus is on the tactical implementation of IMC, which relates to how objectives set by the strategy can be achieved.

Figure 17.2 A four-stage IMC model



Sources: Kitchen and Burgmann (2010); Kitchen and Schultz (2001)

The second level in this approach expands to a redefinition of communication. All communication contact points a customer can have with the company should be considered. Understanding customers becomes key and a customer-centric approach is now the focus.

The third level is all about turning customer data into customer knowledge, for example how many times a customer buys from a company and what they buy. New technologies should be applied to increase the information flow between distributors, employees and suppliers. Social media is not the only application to consider;

however, as soft as it is, it is necessary for building strategic relationships with stakeholders. IMC should consider how to choose the correct marketing communications tool, how to use it, and when, where and why it should be used.

This data, which can be turned into customer knowledge, should not be viewed in isolation, but considered against the backdrop of *big data*. Some refer to big data as data sets large enough to require supercomputers; however, today it can be analysed on desktop computers with standard software (Manovich, 2012). In its deeper meaning, big data can be defined as “a cultural, technological, and scholarly phenomenon that rests on the interplay of the following three factors:

- 1 ➔ **Technology:** Maximising computation power and algorithmic accuracy to gather, analyse, link and compare large data sets.
- 2 ➔ **Analysis:** Drawing on large data sets to identify patterns in support of economic, social, technical and legal claims.
- 3 ➔ **Mythology:** The widespread belief that large data sets offer a higher form of intelligence and knowledge that can generate insights, which was previously impossible with the aura of truth, objectivity, and accuracy (Boyd & Crawford, 2012).

Finally, IMC should be deployed at the fourth, strategic level. It is at this stage that marketing and finance will be working together so that the company can become customer-centric. Corporate goals, instead of only serving tactical product brand objectives, are key, where marketing communications are constantly monitored from an ROI (return on investment) perspective (Caywood, 2011; Kitchen & Burgmann, 2010).

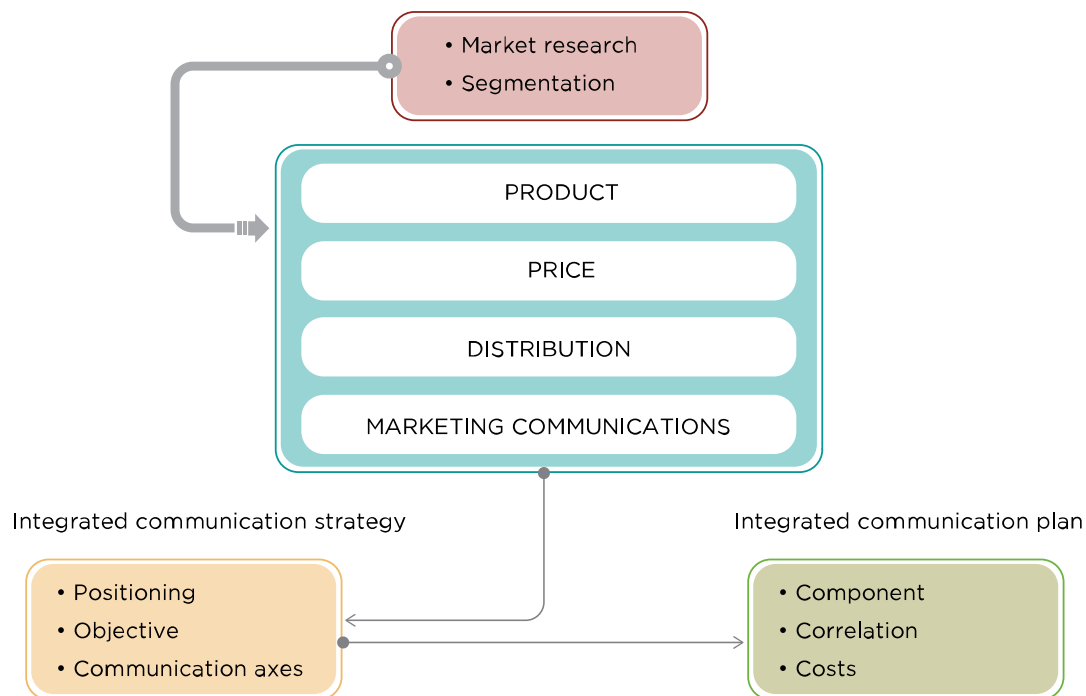
17.4.2 The IMC model

IMC can also be approached as a model as illustrated in [Figure 17.3](#) (Mihart, 2012: 129). IMC is viewed differently from other customer-

centric processes in that its foundation is *communication*, viewed as a circular rather than a linear process (Kitchen, 2005: 75).

An IMC model (Figure 17.3) specifically portrays the role of *communication* within all the components of the marketing mix, namely product, price, distribution and marketing communications (promotional element). In a service industry, the people, physical evidence and process components are added to the marketing mix. An organisation can only deliver the right product at the right price through the desired channel of distribution and communicate via the correct channels when market research supports these decisions. On the other hand, segmentation is important, as customers are not homogeneous, having different needs and wants that must be satisfied.

Figure 17.3 IMC approached as a model



Source: Mihart (2012: 129)

For example, a product has different features and benefits to meet the needs of a clearly defined customer segment. This product is brought to the market through an appropriate distribution channel such as a retail store at a certain price and the marketing communications are

tailored to the specific needs and characteristics of the target segment (Mihart, 2012: 124).

The tools which organise and support the integrated marketing communication activities are the integrated communication strategy, supported by the integrated communication plan. An integrated marketing communication strategy (as part of integrated marketing) would thus involve choosing the correct blend of marketing communication tools that reinforce and complement one another (Kotler & Keller, 2006: 19). The integrated communication strategy is further underpinned in market positioning, which is based on the organisation's objectives and on the communication axis. The integrated communication strategy can only be executed by a well-devised integrated communication plan that is focused by choosing the specific component (or channel), taking into account each component's effective correlation and cost (Mihart, 2012: 124).

For an example of the use of multiple communication channels, see the Coca-Cola example in the box.

Coca-Cola and IMC

Coca-Cola is well known for its marketing and branding, evident in their Coca-Cola Life launch campaign which demonstrated their innovative style of employing multiple communication channels. Digital screens, billboards, print, social media and point-of-sale advertising were spread across more than 7000 locations, all promoting a fully integrated message. The campaign even included a competition: this was held in London, but anyone in Britain could participate by uploading a photo at comp tags and CocaColaLife. This campaign is a perfect example of integrated marketing communication delivered across multiple channels. See <http://www.londonschoolofmarketing.com/blog/the-importance-of-integrated-marketing-communications-in-branding>

17.5 Integrated marketing communications planning and implementation

Marketing management's task is to plan the direction and scope of the communication and to blend the right mix of promotional tools (see [Chapter 13](#)) and media in order to deliver the right messages, in the right place, at the right time, to the right people or audiences. In order to do this, a [marketing communications strategy](#) and marketing communications tactics are needed.

A marketing strategy is “the way in which the marketing function organises its activities to achieve a profitable growth in sales at a marketing mix level and the ways in which these objectives will be achieved”, while a marketing communications strategy is “the ways in which the organisation chooses to communicate with its customers and other stakeholders” (Kotler, 2002: 4). The tactical phase includes detailed plans of action, concluding the process of adjustment plans and monitoring, in other words, the operations element of the communications plan. Tactics are more oriented towards the short term, while the marketing communications strategy is a long-term plan. The marketing communications tactics involve the choice the marketer makes between the different media or various marketing communication techniques to achieve the strategy (Lubbe, 2016).

To grasp what a marketing communications plan should achieve, the following principal issues should be given thoughtful consideration and be carefully planned by the marketing communications manager (Lubbe, 2016):

- Who should receive the message?
- What should the message say?
- What image of the organisation or brand are receivers expected to retain?
- How much is to be spent on establishing this new image?

- How is the message to be delivered?
- What actions should the receivers take?
- How will the organisation control the whole process once implemented?
- What should be achieved after the process?

Marketing communications planning involves a series of procedures and activities, including the setting of marketing communications objectives and the formulation of activities and plans for achieving these objectives. It is thus a systematic process. The ultimate goal of the planning process is to compose and convey a message to a specific target audience(s) in order to invoke or encourage behaviour. To communicate with the consumer takes planning, implementation and control. As planning is an essential management activity, a suitable framework is necessary. [Figure 17.4](#) presents a marketing communications planning framework.

Figure 17.4 A marketing communications planning framework



Sources: Adapted from Baines and Fill (2014: 401); Koekemoer (2014: 14); Verhage (2014: 370); Waller (2012)

17.5.1 Step 1: Executive summary and introduction

While the executive summary should come after the title, table of contents and acknowledgments, the introduction sets the scene of the plan.

The executive summary is a brief overview of the entire IMC plan, because executives and managers do not have a lot of time to read the whole thing. This makes it the most important section. Therefore it is best to write it last, once the report has been completed.

The introduction sets the scene for the IMC plan; it is not a summary but an introduction to the main body of the report. It establishes the following (Waller, 2012):

- What is being promoted?
- Who is doing it?
- Where are they doing it?
- When will it be done?
- Why is it being done?
- How long is the campaign?

17.5.2 Step 2: Conducting a situational analysis

The situation analysis briefly looks at the history and current position of the chosen organisation and examines the internal and external factors affecting a business. It includes the current position of the marketing mix elements and a SWOT or opportunity analysis, which examines how external and internal factors will influence the IMC plan.

This analysis is also referred to as the foundation of any marketing plan. It creates a good overview of the state of the organisation, and through market research identifies potential customers, projects growth, assesses competitors and identifies target factors that will hinder the business. In the analysis the potential problem, challenges

and opportunities should be highlighted and the marketing objectives should be linked to solving the chosen issue(s). In most instances, this analysis is referred as a SWOT analysis (strengths, weaknesses, opportunities and threats). Strengths and weaknesses analyse the internal aspects of the company, while opportunities and threats are an external analysis.

A thorough situational analysis includes various actions:

- Identifying internal strengths and weaknesses of the organisation; this includes policies and procedures, personnel skills, management skills, management's record of accomplishment, the financial situation, brand history and the reputation of the organisation
- Examining how the organisation is differentiated, its competitive advantages, its brand(s) and its brand equity
- Investigating the target markets and key segments, and obtaining consumer insights
- Identifying relationships such as trade relations, customer relations, competitor relations and internal staff relations; identifying any relationship issues that might arise
- Conducting a competitor analysis to identify direct and indirect competitors and to determine the brand's positioning compared to its competitors' brands
- Examining the external or uncontrollable SLEPTI factors (sociocultural, legal, economic, environmental, political, technological and international)
- Investigating the target market's media usage and identifying all the available media touch points

17.5.3 Step 3: Defining the target audience

The target audience refers to “who” you will be communicating with, which is important because if you communicate with the wrong people, you will have wasted your resources. Therefore it is important not only to segment your markets so that they will be more

manageable as regards targeting, but to also understand how you will position yourself and how you want the target audience to see you as compared to how they see the competitors.

In marketing communications, the target audience is the specific person, people, group of people or organisation(s) to whom the message should be addressed. It should be noted that not only customers are involved but also those who influence the customers. Stakeholders, investors, channel partners and employees can either influence decision makers or be part of the decision making process. The distinction between primary and secondary target audiences is thus crucial.

17.5.4 Step 4: Setting the communication objectives

Objectives of what you want to achieve in the IMC plan are written down. They are something to aim for, therefore they need to be clearly defined, easily understood and realistic. It is not possible to decide on a marketing communications strategy if the organisation has no clearly defined communication goals. It is important to note that sales targets and marketing communications goals are different. Sales are only one marketing communications element as there are many elements besides communication that contribute to sales, for example product attributes, distributor policies and competitor pricing. Making marketing communications solely responsible for sales is therefore unrealistic.

Apart from sales, marketing objectives focus on market share, market growth, service targets, relationship targets and relationship issues. **Communication objectives**, on the other hand, focus on:

- creating awareness
- achieving advertising recall
- achieving product recognition
- informing the target audience
- establishing or reinforcing desirable attitudes and perceptions

- creating an image
- eliciting liking and trust
- integrating IMC tools
- persuading the consumer.

Marketing communication objectives are formulated according to the situational analysis. They also depend on the information obtained regarding potential customers' levels of awareness of, perceptions of, knowledge about or comprehension of attitudes towards and overall degree of preference for a brand. Each objective should be SMART: specific, measurable, achievable, realistic and timed. An example of a marketing communication objective is to increase unaided brand awareness from 16 per cent to 25 per cent among the primary target audience in the next eight weeks. Another example might be to entice or persuade one in five households to plan to purchase the product within the next thirty days (Lubbe, 2016; Waller, 2012).

17.5.5 Step 5: Determining the marketing communications strategy

The marketing communications strategy is founded on the situational analysis (step 2) and the set objectives (step 4). Generally, there are three types of marketing communication strategy: push (for trade and channel intermediaries); pull (for end-user markets) and profile designed (to reach all significant stakeholders). Refer to [Chapter 14](#) for information on these strategies.

17.5.6 Step 6: Determining the marketing communications mix

The right mix of communication tools must be chosen so that the right message reaches each audience. The different marketing communication mix elements are discussed in detail in [Chapter 13](#), but for now it is important to note that there are seven principal marketing communications tools: advertising, sales promotions, public relations, direct marketing, personal selling, sponsorships and online/social

media. These tools can also be applied online (Lubbe, 2016; Waller, 2012).

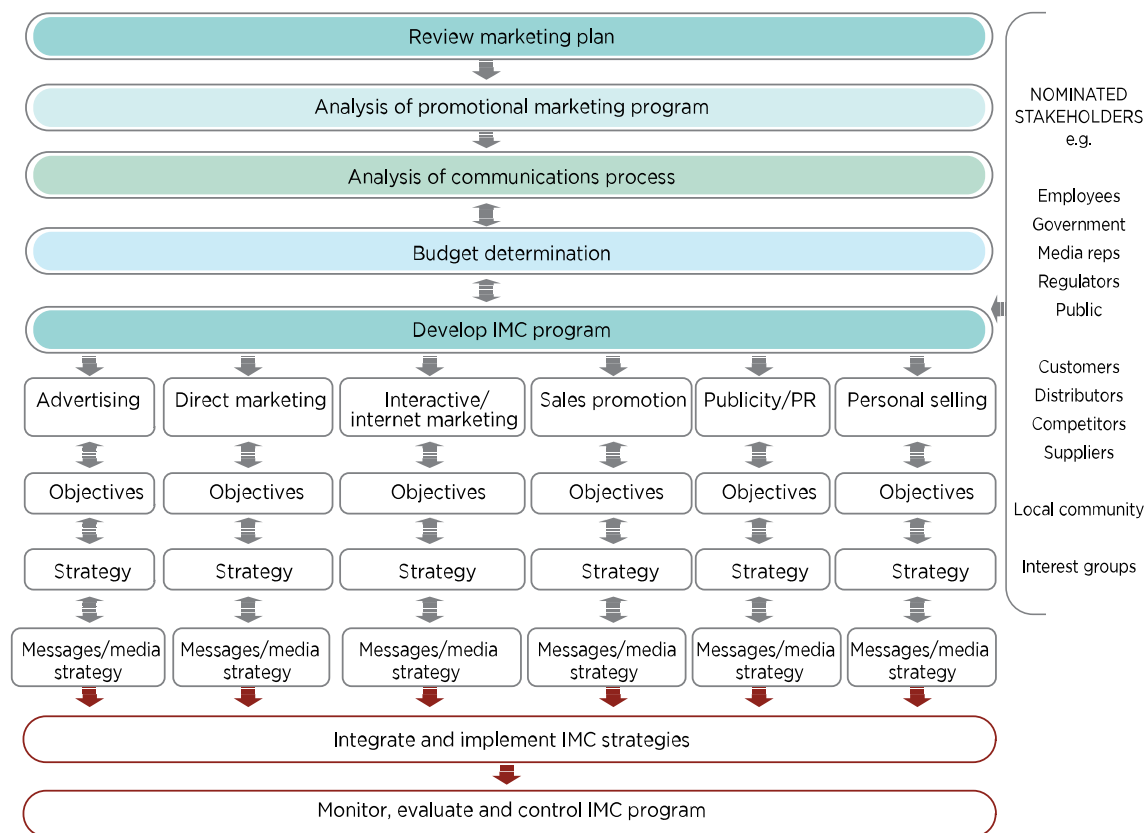
It is mostly the job of media experts to decide what kind of media to use, both online and offline. Choosing the most effective communication mix can be challenging, as the product or service characteristics, the available budget, the stage in the product life cycle (PLC), the overall goals and the target market have to be considered. Before selecting the right mix of elements, it is important to decide on the following (Lubbe, 2016; Waller, 2012):

- *What does the marketer want to say?* This refers to questions about what is happening and who, when, where and why. For example, how a new brand is communicated to the target audience will be very different from how a well-known brand will be communicated.
- *Who does the marketer want to communicate with?* It is important to specify each target audience and to develop a creative message for each. Sometimes the buyer and the decision maker or influencer can be different people in a decision making process. Take cereal as an example. The child goes shopping with the mother and sees the new “green” Otees cereal. The child then influences the mother, nagging her to buy this particular flavour of Otees, but it will be the mother who pays for it.
- *How will the marketer present the message?* The message should be relevant to the target audience, and the style and tone of the message should be considered. For example, a message from Nike to a runner will be presented differently than it would be for a brand message about, for example, the strength of Pirelli tyres to a male audience.
- *Where should the message be sent or delivered?* This refers to the medium or media that will be used. For example, some audiences such as university students would probably rather hear or see a message on a social media site than on radio or TV.
- *When should the message be sent or delivered?* For example, there may be seasonal implications, economic cycles or PLC issues to consider. It makes sense to send messages about Easter promotions around the Easter holidays, or swimwear in summer.

- *How will the marketer follow up on the message?* The marketer should have a follow-up plan with stipulated steps to generate the desired customer action (e.g. a sale or a visit to the store, or a website enquiry).

Belch and Belch (2014: 26) attempted to depict the integrated marketing communications plan (see Figure 17.5) by showing that the IMC programme should consider all the marketing mix elements simultaneously and choose the appropriate tools and then communicate the same message through each of the tools.

Figure 17.5 The integrated marketing communications plan



Source: Belch and Belch (2004: 26)

17.5.7 Step 7: Implementing, evaluating and controlling

17.5.7.1 Implementing

While the strategy section of a marketing or IMC plan describes the direction in which the organisation plans to move, the implementation section is the actual list of do's that will take place. It describes the steps the organisation will take to achieve the strategy. It is important to note that both are equally important. Poor implementation of a great strategy will not achieve the goals set and it will be wasted time and money. If implementation takes place without a strong strategic vision, even flawless execution of the tactical steps will not achieve the organisation's goals. Implementation means execution. Any missteps during this phase can be harmful to any organisation. Implementation steps may include designing, producing and running ads, visiting a prospect, launching a website, or sending direct mail. Strategic objectives will not be achieved if the implementation fails to be scheduled and completed. The implementation phase of the marketing communications plan ensures that the marketing activities happen sequentially and at the right time.

In addition, if the resources have not been determined, the implementation will also fail. Not only are financial issues the only important issues here, but the quality of the available marketing expertise also matters. For example, the organisation may not have the right marketing knowledge internally and would therefore need either to appoint an agency or recruit new people. Gantt charts or software project planning tools (even simple spreadsheets) can be used to schedule the campaign's timing as well as the resources relating to the actual budget and costs of the selected media, tools and people.

17.5.7.2 Evaluating

Evaluation of the marketing communications plan focuses on analysing, thereby measuring, the success of the implementation of the strategy. Evaluation means interpreting and examining the data to conclude whether or not the organisation achieved its strategy objectives from the implementation phase. Note, however, that measurement and evaluation should be an ongoing process throughout the entire development and implementation of any marketing

communications campaign. There are various methods of testing marketing communication tool effectiveness, as shown in [Table 17.1](#).

Table 17.1 Methods for evaluating the success of marketing communication tools

Communication tool	Method of testing
Advertising	Pre-testing of unfinished ads (e.g. concept testing, focus groups, consumer juries) and finished ads (e.g. dummy vehicles, readability tests, theatre tests) Physiological testing (e.g. pupil dilation, eye tracking, galvanic skin response, tachistoscopes, electroencephalographs) Post-testing (e.g. enquiry tests, recall tests, recognition tests, sales-tracking studies, financial analysis, likeability)
Sales promotions	Trial, sales, stock turn, redemption levels
Public relations	Press cuttings, content analysis, media evaluation, tracking studies, recruitment levels
Direct marketing	Response rates, sales, opening/reading ratios, trial
Personal selling	Activities, costs, knowledge and skills, sales, performance ratios, territory analysis
Sponsorships	Increase in awareness, increase in preference, increase in purchase intent, increase in customer loyalty, and per cent improvement in customer experience; per cent of attendees remembering the brand, number of qualified sales leads generated; conversion rate of attendees $\text{Potential sales} = \text{Number of attendees} \times \text{Conversion rate} \times \text{Average sale}$
Online/social media	Total new visits, referrals, bounce rate, conversations and projected return on investment (ROI)

Sources: Baines and Fill (2014: 408); Shimp and Andrews (2013)

17.5.7.3 Controlling

Monitoring the campaign during the evaluation phase is important and therefore controls are necessary. Controls ensure that there is no major anomaly in the plan, and that opportunities exist to put the campaign back on track as soon as possible if it does deviate. Controls can be viewed as benchmarks to assess how well the plan has achieved its goals. This must be compared with the marketing budget and market share measures.

17.6 From IMC to IBP

During the 1980s and the 1990s, the IMC concept of mixing various marketing communication tools (also called promotional tools) were argued, debated and implemented. However, promotional strategies (or marketing communication strategies) today demand that the emphasis on communication be shifted to an *emphasis on the brand*. Communicating with potential or existing customers through some sort of advertising and promotion is not enough. Organisations realise that they want to build brand awareness and identity preferences by applying the various marketing communication tools in a coordinated fashion. Thus IMC emphasises the communication effort of coordinated and synergistic messages, whereas IBP ([integrated brand promotion](#)) emphasises that coordination and synergy of communication should be on the brand and not only on communication (O’Guinn, Allen, Semenik & Close, 2015: 25–26).

IMC is essentially the link between marketing and branding. However, the terms “branding” and “marketing” are sometimes confused with each other. In essence, branding can be described as “the expression of value of an entity” (LSM Marketing blog, 2016), whereas marketing can be described as “the sum of tasks involved in guiding the flow of goods and services from producers to consumers”. At the heart of marketing is promotion and the facilitation of exchange (Hibbard, Kotler & Gayson, 2016). Effective marketing assists in the development of brand value. However, just promoting products and

services through marketing channels without considering and effectively applying a branding system can create a confused overall brand message that will result in reduced effect and efficiency. It is at this point that integrated marketing communications plays a role (LSM Marketing blog, 2016).

For an IMC campaign to be successful, careful integration of the following steps is important (Du Plessis, Van Heerden & Cook, 2010: 13):

- Step 1.** A brand strategy to enhance the brand to be more competitive
- Step 2.** Well-devised briefs to ensure there is a message focus and appropriate media selection within a budget to best persuade consumers
- Step 3.** Getting into the minds of consumers, and then affecting their consumer headspace in relevant and entertaining ways.

17.6.1 Integrated brand promotion

Integrated brand promotion (IBP) is a term which is sometimes used interchangeably with IMC. The argument behind the innovation of IMC is that firstly it is seen as the reason behind the conception of IBP, and secondly that the functional purposes of both IMC and IBP have been described as supportive in achieving brand equity. Whereas IMC is centralised on the entire marketing communications mix, IBP is a term peculiar to the development of effective brand equity. Thus IBP is seen as a supplemental effort of implementing IMC (Adetunji et al., 2014: 24).

17.6.2 IBP defined

IBP is “the process of using a wide range of promotional tools that work together to create widespread brand exposure” (O’Guinn et al., 2015: 8).

The definition, when unpacked, describes IBP as a *process* in which a wide range of promotional tools has to be *managed* to create brand exposure. The promotional tools included in IBP are varied and wide ranging, from mass media advertising to social networks and influencer marketing. The definition further explains that each tool allows a marketer to reach target customers to achieve brand exposure; however, this exposure can only be achieved when all the promotional tools consistently *work together*. An advert cannot send a message and portray an image while mobile messaging or a personal message delivers another message. This will confuse consumers about the relevance and meaning of the brand. The final part of the definition of IBP highlights that the promotional effort, together with all the advertising undertaken by an organisation, must create *widespread exposure* of the particular brand (O’Guinn et al., 2015: 8).

The following four-stage principle explains the practice of IMC in brand development (Adetunji et al., 2014: 25):

- 1 ➡ Everything about a brand can be communicated.
- 2 ➡ The art and science of a brand must be unified.
- 3 ➡ Brand value is the result of brand relationship.
- 4 ➡ External integration can be attained through internal integration.

Every opportunity for dialogue with a prospective customer must be leveraged. This means that every message that touches a customer must be positive or negative. Also, any situation in which a customer comes into contact with an organisation or brand, is a brand–customer touch point. It is essential to remember that these touch points can be any place or any occasion when customers encounter a brand. At this stage, the contact can influence the customers’ perceptions, and unfortunately not all touch points are within the control of the brand or the organisation (Du Plessis et al., 2010: 14).

A company's brand transpires from the sum of every point of contact that the customer has with the company. It is important to note that this takes place from the consumer's perspective, and hearing the same message consistently through every media channel or touch point increases the brand's integrity and establishes the brand in the consumer's mind. It is at this point that the consumer will feel a level of trust and attachment for the brand (LSM Marketing blog, 2016).

An example of IBP is when synergy can be achieved through consistent brand messages delivered at each contact point. A company's website needs to be integrated with their Facebook page, Instagram and other pages and some images should be populated across the entire social media landscape being used at that moment in time. For example, the newsletter of a company not only reaches several inboxes, but also populates social media. In addition, the "App" delivers push notifications about specials and events, prizes and contests, and these promotions also integrate with social media, the company's website, etc. All the messages delivered at all these contact points have the same tone, look and feel and the same message. Consistency is key. Online banner advertising as well as in-store sales promotions reinforce the same message found on social/mobile/online platforms and vice versa. In addition public relations events such as fundraisers are also communicated across platforms. Visit <http://www.pearstreetbistro.com> to see an integrated brand promotion campaign in action.

17.7 Conclusion

In this chapter we introduced integrated marketing communication (IMC) as the combining of selected marketing communication tools to communicate a consistent message to the target audience. The evolution of IMC was described as the natural process of moving from traditional mass-media advertising to a more revolutionised approach refined by new technology. IMC has evolved from marketing tactics to

playing a strategic business role, where the entire spectrum of the brand, customers, product and service contacts of the organisation are incorporated. At the centre of any communication is the customer and all promotional activities should be communicated as a “one voice” message. Further, integrated brand promotion (IBP) was introduced as supplemental to implementing IMC. Thus IBP is the process of managing the selected promotional tools in such a way as to create brand exposure. IBP emphasises the importance of promotional tools working consistently together to create widespread exposure of the particular brand, thus incorporating all touch points with the customer.

DISCUSSION QUESTIONS

1. In your own words, explain integrated marketing communications (IMC).
2. What are the key elements of the IMC definition?
3. What is the difference between IMC and integrated brand promotion (IBP)?
4. When was IMC established and why?
5. In your opinion, when should a marketing communications specialist apply a pull strategy, a push strategy or a profile strategy?
6. In your own words, explain the term IBP.
7. Can the seven-step framework for IMC be applied to any industry? Motivate your answer.
8. Which three steps should a marketer consider to know when an IMC campaign is successful?
9. What are the methods for evaluating the success of each marketing communication tool?
10. What are the various actions that a thorough situational analysis includes?
11. Which important decision should a marketer consider before selecting the right IMC mix elements?
12. Why is conducting a situation analysis in IMC planning so important?
13. What are the benefits of IMC?
14. In your opinion, is the four-stage IMC model still relevant today? Motivate your answer.

15. What is the difference between evaluation and control as given in the last step of the IMC planning framework?

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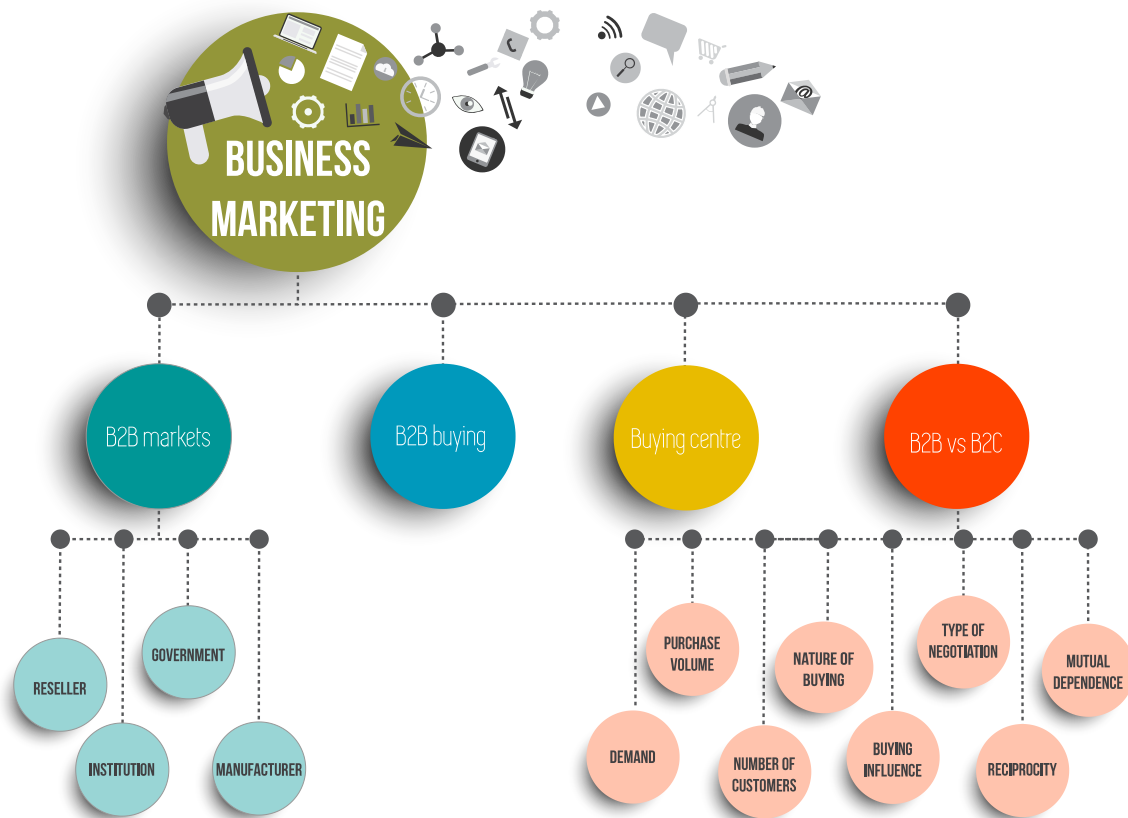
LEARNING OUTCOMES

AFTER STUDYING THIS CHAPTER, YOU SHOULD BE ABLE TO

- explain the different types of business-to-business (B2B) products
- discuss the four main types of B2B markets
- list and describe the B2B buying process
- differentiate between the three types of B2B buying
- explain the different factors influencing buyers in the B2B market
- discuss the six roles in a decision making unit
- explain the four different organisational cultures
- differentiate between the B2C and B2B markets.

KEY CONCEPTS

- GOVERNMENT MARKET
- INSTITUTIONS MARKET
- MANUFACTURER MARKET
- MODIFIED REBUY
- NEW TASK
- RESELLERS MARKET
- STRAIGHT REBUY



18.1 Introduction

It is important to keep in mind that consumer marketing and business marketing have quite a number of similarities in the sense that both have sellers and buyers making transactions in order to satisfy a need or want, and both go through a similar buying process with the final goal of satisfying the end-user (Ferrell & Hartline, 2011: 162). However, the key difference between the consumer market and the business market is the use of the goods. Consumer goods are for personal use, whereas business goods are generally for operations (Ferrell & Hartline, 2011: 163). Business markets are not likely to make impulse purchases but will rather conduct research in order to make informed purchases that suit their business needs (Jobber & Ellis-Chadwick, 2013: 154).

18.2 Types of business products

The various types of business products are equipment, input goods and supply goods (Fill & McKee, 2012:16–17).

18.2.1 Equipment

These are goods that are not used for the end-product but are needed to produce the product. For example, in a factory that manufactures socks, the materials used for the end product would be cotton, wool, polyester, elastic, etc., but the equipment would be the actual machines, such as the sewing machines, that put the materials together.

18.2.2 Input goods

Input goods consist of raw materials and component parts. Raw materials are generally goods that have not been processed much, such as fruit, tea leaves or steel. Component parts, on the other hand, are goods that have been processed to some extent and assembled into the final product. For example, the little light bulbs in electronic devices such as a TV, are likely to have been produced and purchased from another company and are then placed into the TV.

18.2.3 Supply goods

Supply goods are used to keep the business going, such as maintenance and repair on machinery, or goods such as paper and pens that are needed to keep a record of business operations. Another example could be office furniture for employees.

18.3 Business-to-business (B2B) markets

There are four main types of business market, namely the [resellers market](#), the [institutions market](#), the government market and the [manufacturers'/service providers' market](#) (Elliot, Rundle-Thiele & Waller, 2014: 154).

18.3.1 Resellers market

This market consists of channel intermediaries such as wholesalers, distributors and retailers who buy goods to resell them. For example, wholesalers such as Makro will buy from Coca-Cola in bulk to resell to retailers or other users, and retailers such as Pick n Pay, Spar and Checkers will buy goods from producers such as Koo in order to resell them to the consumer.

18.3.2 Institutions market

This market consists of various organisations such as churches, charities and clubs that purchase goods to facilitate their operations. For example, a church might host a cake sale and buy cakes from a store to resell in order to raise funds to assist the needy. Another example would be the SPCA, which is largely dependent on donations from the public. They would use the money received to buy food and other necessary supplies for the animals in their care. A tennis club may use membership money received to maintain the tennis courts.

18.3.3 Government market

This market consists of national, provincial and municipal government bodies that purchase goods and services to assist the citizens of the country. Government markets generally purchase large quantities at a time (Fill & McKee, 2012: 10). For example, the government has to source and supply state hospitals with various materials, such as surgical gloves, syringes, needles and food for the patients.

18.3.4 Manufacturers/service providers market

This market consists of manufacturers who purchase goods such as parts and finished or semi-finished goods that are used to manufacture

their products or provide services (Fill & McKee, 2012: 10). For example, a company that produces furniture needs to source wood, steel and other materials to make dining room tables, couches or chairs.

18.4 Business-to-business (B2B) buying

The buying process, buying types and factors that influence buyers are discussed in the following sections.

18.4.1 B2B buying process

Similar to the consumer market, business markets generally follow a specific buying process (Jobber & Chadwick, 2013: 158–159). There are six steps in the B2B buying process.

18.4.1.1 Step 1: Need or problem recognition

Internal and external sources such as an organisation's employees, buying centre or salespeople identify the need or problem. An example of an internal source is when employees indicate that in order for the new operations to succeed, they require new equipment. An example of an external source would be a salesperson contacting a company about new equipment that could improve their operations or meeting salespeople at a business trade show.

18.4.1.2 Step 2: Product specification

The buying centre of the organisation generally develops the product specifications for what the organisation or company requires. For simple items, such as telephones, just the main characteristics and quantity are needed. However, for more complex items, such as a new operations system, the technical team would have to specify clearly what the operations system must do.

18.4.1.3 Step 3: Request for proposal

At this stage the organisation asks suppliers to submit proposals or bids detailing what they can offer and at what cost in order to meet their product specification and to satisfy their need. In some instances, the organisation could ask the top suppliers to visit them and present their offering.

18.4.1.4 Step 4: Proposal analysis and selection

The organisation now examines the different proposals that were received in order to find one that best suits their needs. Organisations will generally also look at the supplier's reputation and expertise.

18.4.1.5 Step 5: Order specification

After selecting the supplier, the organisation can negotiate with the supplier on the purchase terms. At this stage the organisation decides exactly what it wants, at what price and when it is to be delivered.

18.4.1.6 Step 6: Performance assessment

The last stage is to assess the performance of the supplier to determine whether that particular supplier will be used again or whether another one should be found. The organisation needs to determine whether the product specifications were met and whether the right service was provided by the supplier. Based on the assessment, the organisation may continue using the supplier, provide suggestions for improvements or terminate the connection and find a new supplier.

18.4.2 B2B buying types

There are three buying types within the business market, namely **new task**, **straight rebuy** and **modified rebuy** (Kotler & Keller, 2012: 113):

- *New task* situations refer to when buyers buy certain goods for the first time. For example, when a new organisation decides it needs a company car to make deliveries, the first vehicle purchased will be a new task.

- *Straight rebuy* is when buyers reorder goods that are purchased on a regular basis. For example, if the organisation had drinking water fountains situated in various departments, it would order bottles of water refills every week.
- *Modified rebuy* occurs when buyers want to change one of the following aspects relating to their purchase: the specifications of the goods, the price of the goods or the delivery options. For example, if the organisation used to have inkjet printers and decided to change to laser printers, it would change its order for ink cartridges to toner cartridges.

18.4.3 Factors influencing buyers

Various factors influence buyers, namely external, internal, interpersonal and individual.

18.4.3.1 External

Macro-environmental factors influence buyers' decisions. If the environment is changing rapidly, buyers need to change or postpone their purchases (Ferrell & Hartline, 2011: 166). For instance, political factors could have an influence on B2B buying if new laws require the labels and packaging to be done in a certain way in an industry or even if taxes are increased (Fill & McKee, 2012: 76). On the other hand, the economy also has an influence on buying. For example, if the economy was slowing down, most organisations would probably be cautious in their spending. In addition, technology also influences buying because it changes so rapidly so that what one company offers could become outdated and the organisation would need to look for another supplier.

18.4.3.2 Internal

Micro-environmental factors also influence buyer's decisions. For example, if the goals of the organisation change, a different supplier could be needed, or if its strategies change, the required resources may be allocated elsewhere (Ferrell & Hartline, 2011: 166). On the other

hand, internal purchasing policies may also have an influence on buying. For example, some organisations may have strict policies when it comes to any purchases that require approval through various levels of management, whereas some purchases only require approval from one employee (Fill & McKee, 2012: 76).

18.4.3.3 Interpersonal

Interpersonal refers to the relationship between two parties ([Dictionary.com](https://www.dictionary.com), 2017). Interpersonal factors influence the buyer's decision because in business markets relationships are more crucial as they are dependent on each other (Fill & McKee, 2012: 77). For instance, if a manufacturing company requires a particular type of screw to make its product and finds that it does not have a good relationship with the company that supplies such screws, this could lead to some tension and delays.

18.4.3.4 Individual

The individuals in the decision making buying units discussed in [section 18.5](#) have an influence on what is bought. For instance, if certain individuals feel that there might be consequences or rewards for a bad or good purchasing decision, they will be more (or less) inclined to voice their opinions (Fill & McKee, 2012: 76).

18.5 Buying centre

The buying centre within an organisation is made up of employees who play a role in the purchasing of goods. The different roles are not necessarily fixed in the sense that people may not have the same role for different purchases (Jobber & Chadwick, 2013: 156).

18.5.1 Decision making units

Various employees are involved in decision making units (Fill & McKee, 2012: 66):

- *Initiators* are employees within the organisation who ask for certain goods to be purchased. For example, Themba may ask his organisation to purchase laptop computers to replace their current desktop computers in order for employees to be more mobile and work at other locations besides the office when needed.
- *Influencers* are employees who influence the goods to be purchased. For example, if an organisation decided to purchase new laptops for all its employees, Tumiso, who works in the IT department, could possibly influence the decision as to which brand to purchase.
- *Deciders* are employees who make the final decision on which supplier to choose and what goods to buy. For example, after reviewing the different options, Thandi could decide to purchase Dell laptops.
- *Buyers* are employees who finalise the purchase and negotiate the terms. For example, Andrew, who works in the procurement department of the organisation, would put through the purchase order with Dell.
- *Users* are employees who will use the goods purchased. For example, Themba, Tumiso, Thandi, Andrew and all the other employees in the organisation would use the new Dell laptops that replaced their desktop computers.
- *Gatekeepers* are employees who have access to the flow of information, for example, the secretary who is responsible for sending and receiving information.

18.5.2 Buying centre culture

Organisational culture refers to the values, traditions and customs that guide employees on how to conduct themselves in work situations and having an understanding of the buying centre's culture assists the seller to better approach them and identify who should be approached

(Grewal & Levy, 2016: 218). According to Grewal & Levy (2016: 218–220) there are four types of buying centre organisational culture:

- 1 ➔ With an *autocratic* buying centre, all members in the decision making unit participate, but only one person has the final say.
- 2 ➔ On the other hand, if members in the decision making unit vote and the majority wins, that would be a *democratic* buying centre.
- 3 ➔ With a *consultative* buying centre, contributions would be requested from other members before one person made the final decision.
- 4 ➔ Lastly, the *consensus* buying centre is when everyone in the decision making unit reaches an agreement together before making a purchase.

18.6 Business-to-business (B2B) vs business-to-customer (B2C) markets

Even though there are some similarities between B2B and B2C markets, there are still a number of differences which will now be discussed.

18.6.1 Demand

Demand within the business (B2B) market is generally inelastic in that price does not have as much of an influence on the purchasing decision as it has in the consumer (B2C) market (Kotler & Keller, 2012: 112). On the other hand, demand is also more volatile and fluctuates compared with the consumer market in that the purchase decisions are made for the long run (Elliot et al., 2014: 165). For instance, if a

company realises that they need to purchase an office space because their business is growing, the price of the building may not be a deciding factor because location is more important. If the company needs to be located close to their key accounts or in the business hub, then a higher price may not sway their decision.

18.6.2 Purchase volume

Purchase volumes in business markets are generally on a large scale compared with consumer markets (Elliot et al., 2014: 159). For instance, if a university needs to buy paper, it will probably purchase enough for all faculties and departments within the university.

18.6.3 Number of customers

Business markets generally work with fewer buyers compared with the consumer market (Elliot et al., 2014: 160). This means that relationship management is crucial and also that some companies may be very strong players within the market due to the fact that there is a limited number of sellers or buyers (Elliot et al., 2014: 160). For instance, a tile manufacturer may work with retailers such as Builders Warehouse, Chamberlains or ICT Tiles instead of individual consumers. In this scenario, the tile manufacturer would likely work with a few buyers for each retailer in order to stock all the different stores.

18.6.4 Nature of buying

Making purchases in the business market is far more complex than in the consumer market due to the fact that large sums of money are generally involved and the final decision to make a purchase has to go through a few people at different levels in an organisation (Jobber & Chadwick, 2013: 154). For instance, if a company decided to switch from computer desktops to laptops for their employees, the decision making unit players would need to be consulted and the decision would have to go through the purchasing process, which takes time.

18.6.5 Nature of buying influence

When it comes to a purchasing decision within the consumer market, the purchaser is generally the head of the household and decisions may be influenced by other family members (Ferrell & Hartline, 2011: 164). However, in a B2B context, the purchasing decision is a bit more complex because the organisation has a buying centre which consists of different types of buyer, namely economic buyers, technical buyers and user buyers, all of whom have different reasons for purchasing goods and services (Ferrell & Hartline, 2011: 164–164). For instance, the economic buyer would want to find the best price for a product, whereas the technical buyer would want to find the best quality product, which is likely to be more expensive, and the user buyer would want to find the most user-friendly product that might not be the best quality. In this scenario, it is complex to try to satisfy everyone.

18.6.6 Types of negotiation

Due to the fact that business purchases involve professional buyers and sellers, negotiations play an important role (Jobber & Chadwick, 2013: 156). As the goods purchased are used for the business, the price has an influence on running the business (Elliot et al., 2014: 160). In order for businesses to obtain the best price, negotiations are done more often than in consumer markets. For example, when a consumer purchases a printer from a retailer, there is little opportunity to negotiate a better price. However, if a business were to purchase 10 new printers for their offices, they could try to negotiate some sort of discount as they were buying in bulk.

18.6.7 Use of reciprocity

In the consumer market, buying and selling is usually one-way, whereas in the business market there is opportunity for it to be two-way (Ferrell & Hartline, 2011: 165). For instance, if one company produces paper and needs stationery, the company that produces stationery can both sell to them and buy their paper (Ferrell & Hartline, 2011: 164–165).

18.6.8 Mutual dependence

In the business market, it is more likely that the buyer and seller are dependent on each other (Ferrell & Hartline, 2011: 164). In consumer markets it is easier to switch between different companies and brands. However, it may be a bit more complex in the business market as there are fewer sellers (Ferrell & Hartline, 2011: 164). For instance, a business's key account contributes to 80 per cent of their revenue and if their key account were to switch to another seller then the business would suffer. When switching to another seller, the buyer (key account) would have to start building new relationships, which could take some time.

18.7 Conclusion

Even though there are similarities between the consumer (B2C) and business (B2B) markets, there are a number of key differences. It is important to understand these differences in order to target business markets successfully. Business markets use the goods purchased in their operations and, in order to satisfy their needs and wants, it is crucial that the goods are delivered as promised. If not, the business could suffer losses which could lead to it seeking alternative suppliers, and, due to the fact that there are fewer competitors in the market, poor supplier performance could be detrimental. Business markets are generally larger in scale and if targeted successfully, can be very lucrative.

DISCUSSION QUESTIONS

1. Explain what B2B refers to.

2. Name three types of business product.
3. Discuss the four types of B2B market.
4. List and explain the B2B buying process.
5. What are the three types of B2B buying?
6. Explain the different factors influencing buyers in the B2B market.
7. Discuss the six roles in a decision making unit.
8. Explain the four different organisational cultures.
9. Differentiate between the B2C and B2B markets.

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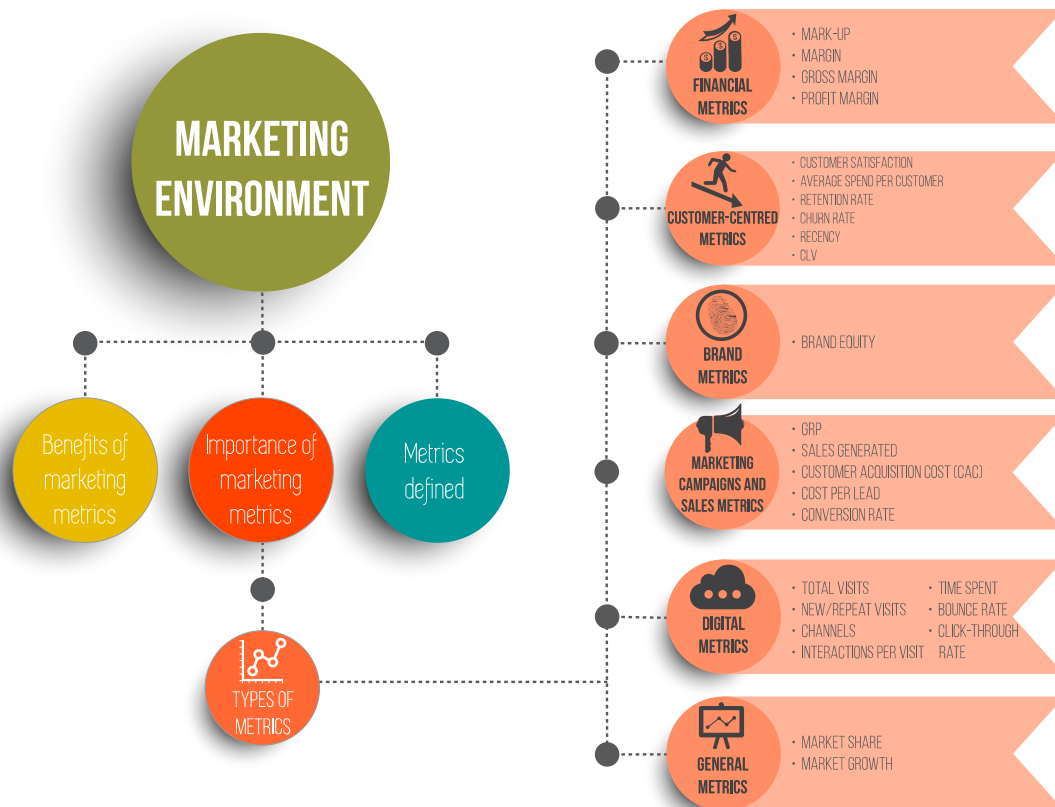
LEARNING OUTCOMES

AFTER STUDYING THIS CHAPTER, YOU SHOULD BE ABLE TO

- describe the importance of using marketing metrics
- define what a metric is
- discuss the benefits of marketing metrics
- name and describe different types of marketing metrics
- identify the correct marketing metrics to measure specific marketing activities
- correctly calculate different marketing metrics
- accurately interpret the output of different marketing metrics.

KEY CONCEPTS

- AVERAGE SPEND PER CUSTOMER
- BRAND EQUITY
- BREAK-EVEN
- CHURN RATE
- CONVERSION RATE
- COST PER LEAD
- CUSTOMER ACQUISITION COST (CAC)
- CUSTOMER LIFETIME VALUE (CLV)
- CUSTOMER SATISFACTION
- GROSS MARGIN
- GROSS RATING POINT (GRP)
- MARGIN
- MARK-UP
- PROFIT MARGIN
- RECENCY
- RETENTION RATE
- RETURN ON INVESTMENT (ROI)
- RETURN ON MARKETING INVESTMENT (ROMI)
- SALES GENERATED



19.1 Introduction

In an era where transparency and accountability are growing in importance, it is vital for marketers to take responsibility for their actions and expenditures on marketing activities. Companies' top-level management needs marketers to apply methods that accurately measure, track and report on the impact of their marketing activities, thereby demonstrating how the money they spend makes a contribution to growing and building the company. Apart from the emphasis on being able to report results to top management, marketers also need to apply these methods in order to help them uncover which marketing activities pursued provide the best results, and to enable them to respond quickly and change those activities that are not fruitful. Business owners and entrepreneurs will also benefit from applying these methods as they may assist them to monitor effectively the success of the marketing activities they pursue when launching and growing their businesses.

The methods that can be applied to help determine, monitor and report on the success of marketing activities are called *metrics*. A metric can be defined as “a quantitative measure used for assessing, controlling or decision making in all activities of a business venture” (Cant & Van Heerden, 2013: 566). Metrics are ultimately formulas that can be applied to measure the impact of different activities quantitatively, and should be interpreted and used to understand and compare the performance of these activities. Marketers need to realise the importance of their work as direct contributors to the success of a company. All the marketing activities that marketers engage in (e.g. understanding customers, building brands, running promotions, developing products, setting prices, delivering goods and services) have one core objective at the end of the day, namely generating income. The promoting and selling of goods and services to customers is at the core of any business’s survival, growth and success, and the marketing function is directly responsible for achieving this objective.

Metrics can be used to measure all sorts of business activities and performances, but when they are used specifically in the context of determining the success of marketing-related activities, marketers use and apply what is called *marketing metrics*. Marketing is a broad field in the sense that all marketing activities are closely interlinked with the different components of a business (e.g. product development, supply chain and sales). This means that there are numerous aspects of marketing activities that can be measured, and that the number of marketing metrics therefore available is almost endless. There are, in fact, so many possible marketing metrics that there are entire textbooks dedicated to the topic. This chapter, however, will focus only on the most important marketing metrics that are encountered most often in the field of marketing and with which marketers should be familiar.

19.2 Benefits of marketing metrics

The following benefits are associated with implementing marketing metrics to monitor and measure the success of marketing activities:

- Marketing metrics are useful in helping companies to understand the value of assets that cannot be documented on their financial statements. These include aspects such as the size and loyalty levels of the company’s customer base and its customers, and the public’s perceptions of its various brands.

- Applying marketing metrics to measure activities can serve as an early warning system for marketers. This means that once an activity is being measured, a marketer can see immediately whether this activity is successful or not and can take action by changing or implementing new marketing activities before money is lost on an activity that is not fruitful.
- Marketing metrics allow marketers to compare the success of different marketing activities over a period of time.
- Metrics help marketers to determine the relative success of their marketing activities (e.g. was it more effective to advertise a product with Facebook ads or to run a Google Adwords campaign? Which method produced the best results?).
- Marketing metrics help marketers to present quantitative and measurable results that can demonstrate clearly how their marketing activities are growing and contributing towards the success of a company.
- Using marketing metrics can help marketers to explain and justify the results they obtain from their activities, showing accountability and transparency with regard to their marketing expenditures.
- When marketers can communicate and demonstrate the success of their activities effectively, top-level management will be less hesitant about allocating the marketing function with the budgets requested to spend towards marketing activities.

19.3 Different types of marketing metrics

Marketing metrics can be classified in a number of ways, depending on what they measure. In this chapter, the different metrics available are classified into six categories, and each of these categories is addressed and explained in detail. Marketing metrics should always be interpreted from the perspective of the past, the present and the future. In other words, when a marketer reviews the results obtained from the different metrics, it is important always to interpret the results by asking the following:

- How did we do? (Past) – firstly review the marketing metric results obtained from past activities

- How are we doing? (Present) – review the results obtained from the current activities pursued
- How will we do? (Future) – based on the past and current results, how do we expect to perform in the future?

19.3.1 Financial metrics

As marketers' activities have a direct impact on their company's income, marketers need a sound understanding of their company's financial performance and situation. This insight can be obtained by reviewing certain aspects of a company's financial statements. A company's financial statements can serve to give marketers valuable information that can help them to understand how the company is performing and where the marketing function should focus its attention to help the company grow. An analysis of the financial statements specifically helps marketers to determine how the business performed in the past, how it is currently performing and how it is performing compared with its competitors; in this way it allows marketers to plan their activities accordingly. The first thing to understand before embarking on a financial statement analysis is how a company makes a profit.

Example

Sue is an entrepreneur and she is passionate about yoghurt. She started a brand called Yummy Yogurts a few years ago and she sells her yoghurts to all the large retailers in South Africa. Sue is not familiar with using marketing metrics to monitor the marketing activities that she and her team pursue. Recently she read about the importance of being more effective at monitoring your marketing activities and how this can be achieved by applying marketing metrics, so she embarked on a mission to learn more about it.



19.3.1.1 Mark-up and margin

In order to understand how profits are generated, marketers need to understand two basic, but often confusing, concepts when it comes to the selling of a company's goods or services. These two concepts include the mark-up and the margin percentage. In [Chapter 12](#) the details of pricing decisions were explained. This section therefore only briefly reviews these concepts in order to demonstrate the role they play in a company's financial performance and profits.

The *mark-up* is the amount (in rand) that gets added to the cost price in order to sell the product or service for a profit, while the *margin* is the profit made from

selling the product or service. Calculating the *mark-up percentage* (%) allows a marketer to express the amount added to the cost price as a percentage. The benefit of expressing the amount as a percentage is that it ensures that a marketer adds a comparative or proportional amount of revenue (income) for every item sold. For example, for everything sold in a specific product category, a 50% mark-up is added.

The *profit margin* is the amount of profit (in rand) that a company gets to keep from selling a good or service. A *margin percentage* is therefore the percentage profit that is made from selling the good or service. Expressing the margin as a percentage allows a company to know that, regardless of the different cost prices of items, the company will always make, for example, a 25% margin (profit).

When we just want to determine the mark-up or the margin expressed in monetary value, the calculation for both are the same:

Mark-up and margin in rand value = Selling price – Cost of goods sold

The formulas when determining the mark-up and margin *percentages* are, however, different.

The formula for the mark-up percentage is as follows:

$$\text{Mark-up percentage} = \frac{\text{Selling price} - \text{Cost of the goods sold}}{\text{Cost of the goods sold}} \times 100$$

The formula for the margin percentage is:

$$\text{Margin percentage} = \frac{\text{Selling price} - \text{Cost of the goods sold}}{\text{Selling price}} \times 100$$

When reviewing the percentage calculations, you will notice that the difference can be found in what each calculation is divided by. A mark-up is calculated by dividing by the *cost of the goods sold*, while a margin is calculated by dividing by the *selling price* of the goods sold. The difference between the two can therefore always be remembered as follows: the mark-up is concerned with the cost price, while the margin is concerned with the selling price. The calculations are also multiplied by 100 at the end because they should be expressed as a percentage.

Example

At a specific manufactured volume, it typically costs Sue R3 to manufacture one 500 ml tub of Yummy Yoghurt. These Yummy Yoghurt tubs are then sold to various retailers at a price

of R4.86 per unit. Both the mark-up (money added to the cost price) and the margin (profit made from selling the product) are the same:

$$\text{Selling price} - \text{Cost price} = \text{R4.86} - \text{R3.00} = \text{R1.86}$$

However, when they are calculated as a percentage, they differ.

The mark-up percentage (the percentage of money that should be added to the cost price) is calculated as:

$$\frac{\text{Selling price} - \text{Cost of the goods sold}}{\text{Cost of goods sold}} \times 100$$
$$\frac{\text{R4.86} - \text{R3.00}}{\text{R3.00}} \times 100 = 62\% \text{ mark-up}$$

The margin (profit percentage made for each Yummy Yogurt tub sold) can therefore be calculated as:

$$\frac{\text{Selling price} - \text{Cost of the goods sold}}{\text{Selling price}} \times 100$$
$$\frac{\text{R4.86} - \text{R3.00}}{\text{R4.86}} \times 100 = 38\% \text{ margin}$$

The above results therefore tell us that, in order to make a 38% profit when selling a product, a 62% mark-up should be added.



What is also important to know about a mark-up and margin percentage is that, depending on the mark-up percentage added, a corresponding margin percentage profit will always be made. The margin percentage can also never be more than the mark-up percentage, and the margin percentage will never be more than 100% (unless it costs you nothing to make the product, which is unlikely). The following margin percentages will always be achieved when applying certain mark-ups to a product or service:

To arrive at a 10% margin, the mark-up percentage is 11.1%

To arrive at a 20% margin, the mark-up percentage is 25.0%

To arrive at a 30% margin, the mark-up percentage is 42.9%

To arrive at a 40% margin, the mark-up percentage is 80.0%

To arrive at a 50% margin, the mark-up percentage is 100.0%

Percentages like the above are easily accessible by performing an internet search, where one may find extensive tables showing every possible mark-up and margin

percentage available.

19.3.1.2 Gross margin

The **gross margin** is the difference between the company's total sales revenue and the costs of the goods sold. It is expressed as a percentage, and is concerned with the cost price of the products or services sold and the revenue (income) made from selling the products or services. It represents the percentage of each rand (R1.00) of sales made that the company keeps after deducting the costs incurred to produce the products or services sold. A high percentage is therefore preferred, as a higher percentage suggests a higher amount of profit that a company gets to keep for each rand of sales made. The formula to determine the gross margin percentage is as follows:

$$\text{Gross margin percentage} = \frac{\text{Net sales} - \text{Cost of goods sold}}{\text{Net sales}} \times 100$$

The information needed to calculate the gross margin can be found on a company's income statement. An important aspect to note from this calculation is the use of *net sales*. The *net sales* represent the total **sales generated** after the costs, such as discounts given to customers, returns made by customers or a credit note issued (i.e. money placed on a voucher to compensate a customer for a product returned) have been deducted. Accountants sometimes indicate this on a financial statement only as revenue or total sales. If you don't see the word *net sales* being used on a financial statement, you can assume that words like revenue or sales on the financial statement represent the *net sales*. However, always look carefully at a financial statement to see if these specific costs incurred are not stated on the lines underneath and have been deducted, meaning that the net sales have therefore been indicated as total sales or total revenue on the financial statement.

19.3.1.3 Profit margin

The information needed to obtain the profit margin is also found on a company's income statement. The gross margin discussed above indicates the percentage of profit that a company gets to keep after the cost of the goods or services have been deducted from the sales of the goods or services. However, a company has a number of expenses that it needs to cover. These include things such as paying for rent, telephones, tax and the staff's salaries. All these expenses need to be covered and paid from the gross profit made. The profit margin (also called the net profit margin) therefore represents the final amount of profit that the company gets to keep after having covered all of its expenses. It is also expressed as a percentage and, similar to the gross margin, it represents the percentage of

profit that the company gets to keep from its sales made, but only after all of the company's expenses have been paid. The profit margin is calculated as follows:

$$\text{Profit margin} = \frac{\text{Net income}}{\text{Net sales}} \times 100$$

19.3.1.4 Selling, general and administrative (SG&A)

The acronym SG&A stands for sales, general and administrative, and includes all expenses incurred in order to enable the company to sell its products or services. It is also reported on the income statement of a company. Although the expenses included under this entry on the financial statement are generally similar, companies do differ in terms of what they report under this entry to come up with the final number indicated as the SG&A. It is always important to enquire what the specific items are that are included under this entry in order to understand and interpret it correctly. Companies sometimes also use the term *operating expenses* (instead of SG&A), or sometimes they report both on the income statement. You will need to enquire what expenses are represented under each in order to understand what they represent. This entry is of importance to marketers because sales, advertising, and research and development expenditures (money spent on marketing activities) are often included as expenses under this entry. Companies do not necessarily report marketing and/or sales expenses as a clear single entry on the financial statement.

All the expenses reported under this entry can be classified into direct and indirect expenses. Indirect expenses under the *selling* component are typically expenses that are incurred during the manufacturing of products, money spent on sales, advertising and marketing. Direct costs under the *selling* component are usually associated with activities that happen once the product or service has been sold; they can include transportation costs and sales commission. The expenditures typically included under the *general and administrative* component include all expenses required for the business to run every day, such as rent, telephone bills and staff's salaries.

Companies monitor this expense closely because it is an indication of its operating efficiency or, stated in another way, how effectively the management is managing the day-to-day activities of the business.

The SG&A entry is often expressed as a percentage of the company's sales. The purpose of doing this is to establish the percentage or the rate at which the SG&A expenses contribute to the sales generated by the company. This is calculated as follows:

$$\text{SG\&A's contribution to sales} = \frac{\text{SG\&A}}{\text{Sales}} \times 100$$

Example

First Sue turns her attention to financial statement analysis (focusing on calculating and interpreting gross margin, gross profit and SG&A as percentage of sales within the same year, but between two different companies).

She reads about the gross margin and the profit margin, and knows the importance of understanding the SG&A as a percentage of the sales. She takes out her business's financial statements for 2016, and manages to get hold of one of her competitor's (called Yoghurts R'Us) financial statements online in their annual report. She then applies the formulas to determine the gross profit, profit margin and SG&A as a percentage of sales.

2016 (in rand) Yummy Yoghurts		2016 (in rand) Yoghurts R'Us	
Total sales:	2 000 000.00	Total sales:	4 800 000.00
Cost of goods sold:	1 240 000.00	Cost of goods sold:	2 832 000.00
Gross profit:	760 000.00	Gross profit:	1 968 000.00
Operating expenses (SG&A):	240 000.00	Operating expenses (SG&A):	1 008 000.00
Net income:	364 000.00	Net income:	672 000.00

$$\text{Gross margin} = \frac{\text{Net sales} - \text{Cost of goods sold}}{\text{Net sales}} \times 100$$

$$\text{Gross margin of Yummy Yoghurts} = \frac{2\,000\,000.00 - 1\,240\,000.00}{2\,000\,000.00} \times 100 = 38\%$$

$$\text{Gross margin of Yoghurts R'Us} = \frac{4\,800\,000.00 - 2\,832\,000.00}{4\,800\,000.00} \times 100 = 41\%$$

$$\text{Profit margin} = \frac{\text{Net income}}{\text{Sales}} \times 100$$

$$\text{Profit margin of Yummy Yoghurts} = \frac{364\,000.00}{2\,000\,000.00} \times 100 = 18.2\%$$

$$\text{Profit margin of Yoghurts R'Us} = \frac{672\,000.00}{4\,800\,000.00} \times 100 = 14\%$$

$$\text{SG\&A as \% of sales} = \frac{\text{SG\&A}}{\text{Sales}} \times 100$$

$$\text{SG\&A as \% of sales Yummy Yoghurts} = \frac{240\,000.00}{2\,000\,000.00} \times 100 = 12\%$$

$$\text{SG\&A as \% of sales Yoghurts R Us} = \frac{1\,008\,000.00}{4\,800\,000.00} \times 100 = 21\%$$

INTERPRETING THE RESULTS

Just from looking at the entries next to the sales and the cost of goods sold, Sue can immediately see that her competitor manufactures and sells a lot more yoghurt than she does as their sales and cost of goods sold is almost double her own.

The analysis, however, gives Sue some interesting insights. With regard to her own business, she determines from the gross profit made that for every R1 spent, she keeps

38% in gross profit. From her profit margin, she can see that after all her expenses are deducted, her business keeps 18.2% of every R1 of sales made. When comparing this percentage with that of her competitor whose sales are a lot higher, she sees that she is actually making less profit when she compares her gross margin with her competitor's gross margin (she is at 38% while her competitor is at 41%). However, when she compares the profit margins (after all expenses have been deducted), she can see that she is actually making a larger percentage of her sales in profit, compared with her competitor (she has a profit margin of 18.2% and her competitor has a profit margin of 14%). From every R1 in sales, she keeps 18.2%, while her competitor only keeps 14%. She therefore manages her expenses better than her competitor.

When reviewing her SG&A as a percentage of sales, Sue's business is performing better when it comes to managing operating expenses and her business is therefore functioning more effectively, compared with her competitor. Yummy Yoghurts' SG&A as a percentage of sales stands at 12%, while Yoghurts R'Us's SG&A as a percentage of sales is at 21%. This means that 12% of Yummy Yoghurts' operating expenses contribute to obtaining the sales achieved, while 21% of Yoghurts R'Us's operating expenses contribute to obtaining the sales achieved. Because this is an expense, which eats away profits left over at the end of the day, a company ideally wants this percentage to be kept low. Yummy Yoghurt's low SG&A as a percentage of sales also serves as one possible factor that could explain why Yummy Yoghurts keeps a higher percentage of its profit margin (18.2%) than its competitor, Yoghurts R'Us (14%).

**The same analysis can be conducted using the same business, but comparing the results obtained with different years. Sue can, for example, compare her 2014, 2015 and 2016 financial statements to see how the percentages obtained have improved or worsened, allowing her to identify where she is performing well or where she needs to be more efficient.



A business needs to be able to cover its expenses in order to remain in existence, and therefore needs to determine what the minimum amount is that it needs to sell in order to cover its expenses and therefore survive. This is determined by performing a **break-even** analysis.

19.3.1.5 Break-even analysis

The break-even analysis result tells the company what amount of sales it requires to cover its *fixed costs*. The break-even analysis is calculated as follows:

$$\text{Break-even analysis} = \frac{\text{Total fixed costs}}{\text{Contribution margin (\%)}}$$

A marketer needs to determine beforehand what the company's *fixed costs* are. These are costs that the company has to cover in order to operate to produce the units (e.g. the cost of any machinery bought). This cost is fixed, it will not change. The company paid a fixed amount to buy these items and now needs to determine how many units it needs to sell in order to make the money needed to cover these fixed costs. Only after enough money has been made to pay this off

(Break-even = Number of units that have to be sold to pay off the fixed costs completely and therefore stands at R0.00) will the company start to make an actual profit because the machinery is paid off.

The *contribution margin* is, however, concerned with *variable costs* and is calculated as follows:

$$\begin{aligned}\text{Contribution margin} &= \frac{\text{Contribution per unit (R)}}{\text{Selling price per unit (R)}} \\ \text{Contribution per unit} &= \text{Selling price} - \text{Variable cost per unit}^*\end{aligned}$$

*The variable cost per unit in this case refers to the costs that vary depending on how much the company produces. For example, the cost of the material needed to produce the product might fluctuate if it is imported – every time the rand weakens or strengthens, the cost of the material that is imported changes.

$$\begin{aligned}\text{Break-even volume (no. of units)} &= \frac{\text{Fixed costs (R)}}{\text{Contribution per unit (R)}} \times 100 \\ \text{Break-even revenue (rand)} &= \text{Break-even volume (units)} \times \text{Price per unit}\end{aligned}$$

Go through the example in the box in detail to understand how this works.

Example

Sue sells one tub of yoghurt for R4.86 and the costs associated with manufacturing include a fixed cost of R2.30 per unit and a variable cost of R0.70 per unit. Her contribution per unit is therefore R4.16 (R4.86 – R0.70 = R4.16) and her contribution margin is therefore (R4.16/R4.86) x 100 = 85.5967%, rounded off to 86%.

Let's first look at this from a unit perspective:

The fixed cost per unit is R2.30

Variable cost is R0.70

Selling price is R4.86

Using the formula above to determine the contribution margin:

$$\begin{aligned}\text{Contribution margin} &= \frac{\text{Selling price} - \text{Variable cost}}{\text{contribution per unit (R)}} \\ &= \text{R4.86} - \text{R0.70} \\ &= \text{R4.16}\end{aligned}$$

To determine how many units should be sold to cover the fixed cost for each unit (R2.30), we can use the break-even analysis formula as follows:

$$\begin{aligned}
 \text{Break-even units} &= \frac{\text{Unit fixed cost (R)}}{\text{Contribution per unit (R)}} \\
 &= \frac{\text{R2.30}}{\text{R4.16}^*} \\
 &= 0.55 \text{ units}
 \end{aligned}$$

*Remember that Sue is selling the unit for R4.86, so the selling price already covers the variable cost once the unit is sold. After that cost has been absorbed, we want to know, based on what is left (R4.16), how many units must be sold to cover the fixed cost of R2.30. This cost is there and it cannot be ignored – it must be paid.

The result above (0.55 units) is telling Sue that in order to cover her fixed costs (to make at least R2.30), she needs to sell 0.55 units.

We can work this back to demonstrate how this works, by confirming the fixed cost per unit (as provided earlier) by saying:

$$\begin{aligned}
 \text{Fixed cost per unit} &= \text{No. of units} \times \text{contribution margin} \\
 &= 0.55 \times \text{R4.16} \\
 &= \text{R2.30 (rounded off)}
 \end{aligned}$$

Let's now look at this from a total fixed cost perspective:

Sue's fixed costs are R190 000.00. (This is the cost of the machinery etc.; we are working on this total fixed cost and not on the fixed cost per unit.)

Our contribution margin stays the same:

$$\begin{aligned}
 \text{Contribution margin} &= \text{Selling price} - \text{variable cost} \\
 &= \text{R4.86} - \text{R0.70} \\
 &= \text{R4.16}
 \end{aligned}$$

However, we now want to calculate how many units need to be sold to cover all the fixed costs associated with the production, which in this case is:

Total fixed costs: R190 000.00

To conduct her break-even analysis, she therefore says:

$\text{R190 000} / 4.16 = 45\,673.076$ units (or 45 673 units if rounded off) of yoghurt tubs must be sold to break even or, in terms of sales, she needs to obtain sales of at least R221 971.14 ($45\,673.076 \text{ units} \times \text{R4.86}$) to break even and cover the fixed costs.

To take this back to the main formula: $\text{Total fixed costs} / \text{Contribution margin \%} = 190\,000 / 85.5967\% = \text{R221 971.1}$ (calculate it using $190\,000 / 0.855967$ or use the % function on your calculator (saying 85.5967%), but the first way, using "0." before is always better).



19.3.1.6 Return on investment (ROI)

Return on investment (ROI) is a business metric that is well known and used by CEOs and CFOs. It simply represents the return obtained from money invested. ROI is mostly expressed and reported as a percentage. A simple way to calculate ROI is as follows:

$$\text{ROI} = \frac{\text{Net profit}}{\text{Cost of investment}} \times 100$$

The net profit is the final amount of profit made after all your expenses have been deducted, while the investment made refers to the money spent in order to assist the business to sell goods or services in order to make a profit. The result obtained is interpreted as representing the percentage return that is gained from the investment made. The ROI results from two different investments can be compared in order to determine which one of the investments was more effective. When comparing the two different ROI results, the higher percentage of the two is preferred as this suggests a better return gained from the money spent. The ROI essentially indicates how efficiently each rand invested performed to produce a profit. A negative ROI can also be obtained and this means that more money was spent than what was returned in profits. Marketers are, however, more concerned with specifically determining the return obtained from their marketing investments.

19.3.1.7 Return on marketing investment (ROMI)

In [section 19.3.1.4](#) where the SG&A as a percentage of sales was discussed, it was noted that marketing, sales and advertising expenses are often included under this entry on the financial statement and therefore form part of the overall expenses incurred from a number of different business activities (including expenses such as rent and salaries). The SG&A as a percentage of sales therefore provides a lot of insight with regard to how a company is managing its expenses overall (which includes marketing-related expenses), but it does not provide a company with the exact and isolated contributions made by the expenses on the marketing activities. To determine this, marketers need to make use of the [return on marketing investment \(ROMI\)](#) calculation.

There are a number of ROMI formulas, ranging from very simple to more complex calculations. Marketers may also choose to calculate ROMI focusing on the sales or revenue generated or using the net profit or net income. Below are two examples of fairly uncomplicated formulas that may be used.

A simple and fast way to calculate the ROMI using the total sales or revenue generated over the period that the marketing initiative was implemented is as follows:

$$\text{ROMI} = \frac{\text{Total revenue}}{\text{Marketing budget}} \times 100$$

Another way to calculate the ROMI focusing on the net profit that was generated over the period that the marketing initiative was implemented is as follows:

$$\text{ROMI} = \frac{\text{Net profit} - \text{Cost of the marketing expenditure}}{\text{Cost of the marketing expenditure}} \times 100$$

The results obtained from performing the above calculations therefore indicates the rate of return obtained from the marketing expenditure.

Example

Net profit (year 2016) = R364 000.00

Marketing expenses = R100 000.00

$$\begin{aligned} \text{ROMI} &= \frac{\text{Net profit} - \text{Cost of the marketing expenditure}}{\text{Cost of the marketing expenditure}} \times 100 \\ &= \frac{\text{R364 000} - \text{R100 000}}{\text{R100 000}} \times 100 \\ &= 264\% \end{aligned}$$



The marketing investment made has therefore resulted in a 264% return. This return will however only be meaningful if it is compared with the previous year, in order to see if it has increased or decreased.

19.3.2 Customer-centred metrics

Customer-centric metrics give marketers and top-level management insights with regard to aspects of the company that are not reflected in, or determined from, a review of the company's financial statements.

It is important for marketers to measure the following customer-centred metrics.

19.3.2.1 Customer satisfaction levels

Having satisfied customers is an important aspect of business. Numerous research studies suggest that satisfied customers eventually become loyal customers. Businesses want customers to be satisfied because this means that they will continue doing business with the company, which ultimately means

continued income and profit for the company. At the same time, if customers are unsatisfied, the company also needs to determine *why* and identify areas where the company should improve.

Customer satisfaction is best measured by asking customers to complete a survey in which they are asked to indicate their levels of satisfaction. This survey will typically include a measuring instrument consisting of a number of questions that a customer will rate on a five-point scale (e.g. 1 = very unsatisfied and 5 = very satisfied). This information then needs to be captured and analysed. The overall customer satisfaction score will be determined by calculating the mean (or the average) of all the responses collected. A higher score will mean higher levels of customer satisfaction. The score obtained should also be compared with the scores obtained in previous years, or before a new customer service satisfaction enhancement initiative was deployed, so that a marketer can determine whether the company has improved its levels of customer service and whether the new implemented initiatives were effective.

The marketing research process and methods of collecting data are discussed in [Chapter 5](#). This chapter is particularly relevant in order to understand how to put together a survey to measure and analyse data collected about aspects such as customers' levels of satisfaction.

19.3.2.2 Average spend per customer

This calculation is used to determine how much money a company's customer base spends on the company's products, on average. The marketer needs to decide on the specific time frame within which to calculate this rate (e.g. over six months or one year). The calculation will be conducted as follows:

$$\text{Average spend per customer} = \frac{\text{Total sales}}{\text{No. of customers}}$$

The total sales figure needs to represent the sales for the period specified, and the number of customers needs to be representative of those customers who actively bought products over that time period.

Example

At the end of 2016, Sue had 334 customers on her records. Her total sales for the year were R2 000 000.00. To calculate the [average spend per customer](#) for 2016, she performs the following calculation:

$$\begin{aligned}
 \text{Average spend per customer} &= \frac{\text{Total sales at end of 2016}}{\text{No. of customers at end of 2016}} \\
 &= \frac{\text{R2 000 000}}{334} \\
 &= \text{R5 988.02}
 \end{aligned}$$

This result tells Sue that, on average, her customers spent R5 988.02 with her business during the course of 2016. In the previous year (2015), her average spend per customer was R6 474.82. Her average spend per customer has therefore declined by R486.80 (R6 474.82 – R5 988.02) or 7.51% (R486.80/R6 474.82) x 100) per customer. Something is therefore not right and she needs to investigate what is going on. She decides to start by reviewing her customer retention rate.



19.3.2.3 Customer retention rate

This metric is concerned with determining the percentage of customers who remain active customers of the company within a specific period of time. This is of interest to marketers because it allows them to see how well they are performing at keeping their current customers satisfied.

Marketers require three sets of information in order to calculate the customer [retention rate](#):

- 1 ➡ The number of customers at the start of the specific period
- 2 ➡ The number of customers at the end of the specific period
- 3 ➡ The number of new customers acquired during the specific period

This information can be obtained by consulting a database of the company's customers and from transaction records.

The information is then placed in the following formula:

$$\text{Customer retention rate} = \frac{(\text{No. of customers at the end of the period} - \text{No. of new customers})}{\text{No. of customers at the start of the period}} \times 100$$

This calculation therefore eliminates the number of new customers obtained and only reviews the percentage of current customers who were retained. Interpreting the percentage in itself will give marketers an idea of whether they are able to keep their current customers satisfied – the higher the percentage, the more effective they are. This percentage obtained should, however, also be interpreted by comparing the percentage with the same rate that was calculated for a

previous period as this will allow marketers to uncover whether their activities are improving and contributing to retaining customers better than in the past.

Example

Sue had 312 customers on her records at the beginning of 2016. At the end of 2016 a review of her customer transactions showed that she had 334 customers. Upon reviewing the detailed customer transactions during the course of the year, she established that she had obtained 51 new clients.

Her customer retention rate can therefore be calculated as follows:

$$\begin{aligned}\text{Customer retention rate} &= \frac{(\text{No. of customers at the end} - \text{No. of new customers})}{\text{No. of customers at the start}} \times 100 \\ &= \frac{334 - 51}{312} \times 100 \\ &= 91\%\end{aligned}$$

At first glance, the high percentage seems satisfactory. Her business has managed to maintain 91% of its current customers. However, when she reviews her rate calculated for 2015 (96%), she notices that compared with the previous year, her business has lost 5% more customers during 2016 (96% – 91%), and that she needs to investigate why this happened. She decides to explore some more metrics for further insights.



19.3.2.4 Churn rate

The **churn rate**, also called the attrition rate, is concerned with establishing the percentage of current customers that a company has lost over a specific period of time (typically a year). The churn rate is most efficiently determined by using the results obtained from the retention rate to calculate it. Essentially, the retention rate tells marketers what percentage of their current customers they managed to keep. The percentage left between the retention rate and 100% therefore represents the percentage of customers lost. We'll now look at how the churn rate is calculated.

19.3.2.5 Retention rate

Because the retention rate calculation is expressed as a percentage (out of 100%), remember that the “1-” is essentially “100-”.

Example

Applying the churn rate to Sue's case, where her retention rate for 2016 was calculated at 91%, this means that she is losing customers at a rate of 9% (100 – 91). This particular rate would, however, be more meaningful if interpreted against the rate of a previous year. For the year 2015, her retention rate was 96%, which means her churn rate was 4% (100 – 96). Her churn rate therefore increased from 4% in 2015 to 9% in 2016, an increase of 5% (9% – 4%) which is not favourable.



19.3.2.6 Recency

Recency investigates the time that has passed since a customer last purchased from a company. It therefore allows a marketer to determine how often a customer typically buys from the company. It is useful to determine this because it can assist in projecting the expected income that will flow from a purchase at an expected time, but it is also important because, ideally, the time that passes should not be too long as a marketer wants customers to purchase often in order to make sales. The recency will differ depending on the product categories sold. Logically, someone purchasing a television will not buy a new one every year, whereas someone purchasing yoghurt might purchase weekly. The marketer therefore needs to establish a realistic timeframe expectation when determining whether the recency rate is good or bad.

Recency = Number of days, weeks, months or years since a specific customer's last purchase

The less the time in between purchases, the more sales are made within a given time period. Ideally, the time frame (relative and realistic to the product category) should be as short as possible and marketers need to explore potential ways in which they could get customers to purchase as frequently as possible.

19.3.2.7 Customer lifetime value (CLV)

This metric is concerned with determining the expected future value and income that may be obtained from the company's current customers, expressed in rand. There are a number of proposed formulas for determining **CLV**, but a simple and quick way to determine it, is to focus on the average amount spent per customer, the gross margin percentage and the churn rate. Looking at these particular aspects, the CLV can be calculated using the following formula:

$$CLV = \frac{\text{Average spend per customer} \times \text{Gross margin}}{\text{Estimated churn}}$$

Example

Sue's average spend per customer for 2016 was R5 509.64, her churn rate was 9% and her gross margin was 38%. Her CLV can therefore be calculated as follows:

$$CLV = \frac{R5\ 998.02 \times 0.38}{0.09} = R25\ 324.97$$

At the current rate at which she is losing customers (churn = 9%), she can therefore expect that the lifetime value of her current customers who will remain with her is R25 324.97 per current customer. Consequently, she can expect this potential future income per current customer.



19.3.3 Brand metrics

In [Chapter 15](#) all aspects of branding decisions were discussed and the importance of building brand equity was emphasised. Strong brands, high in equity, hold incredible value for companies, and it is therefore important for marketers to understand how to evaluate and report on a brand's performance. According to the brand equity model developed by Aaker (1996: 9), brand equity consists of the following components: brand loyalty (customer willingness to repurchase), brand awareness (the strength of the brand in consumers' minds, its presence in their minds), perceived quality (the reason why consumers buy the brand and how willing they are to pay a premium), brand associations (attributes that consumers associate with a brand) and other proprietary brand assets (numerous additional aspects).

From the above discussion it becomes evident that there are various aspects to brands that collectively contribute to building this value over time. The benefits of marketers' expenditure on brand-building activities are, however, not necessarily seen within a one-year period on a company's financial statements. This might frustrate a company's top-level management as they typically expect marketers to be able to demonstrate how their expenditure is contributing to growth and income on a yearly basis. Marketers therefore need to explain the importance of taking a long-term investment perspective on expenses related to brand-building activities and emphasise the value of brand equity over the long term. Marketers should, however, be armed with metrics that allow them to demonstrate how these activities are in fact contributing, even though they are not necessarily visibly contributing to the profits on a financial statement yet.

To demonstrate this, marketers should conduct market research to measure customers' responses to the different components of brand equity. As discussed earlier, these components include measuring brand awareness, brand loyalty, perceived quality, brand associations and other potential proprietary brand assets. In a similar model explaining brand equity, Keller (1993) also adds the components of brand knowledge and brand image. These aspects can also be measured. Marketers should therefore use their market research knowledge (see [Chapter 5](#)) to develop questionnaires that measure these components (there are numerous established scales available that marketers can adapt for their brand and use to conduct research) and should regularly conduct market surveys. The results obtained from these surveys should be compared over time to determine whether the marketer's branding activities are proving to be fruitful. A marketer should, for example, run a survey every year or two and compare the results obtained from the different time frames.

The above discussion on measuring brand equity and its components is a more complex, yet a very thorough way in which to determine brand equity effectively and is an important way of obtaining a thorough understanding of a company's brand equity. For the shorter term, there are, however, faster formulas using financial components that can also provide marketers with insight on their brand equity.

A simple formula that can be applied is:

$$\text{Brand equity} = \frac{(\text{Price of the branded product} - \text{Price of a similar generic product}) \times \text{Total number of units sold of the branded product}}{\text{Total number of units sold of the branded product}}$$

This calculation is strongly grounded in the assumption that brand equity allows a company to charge a higher price or a price premium for its products as consumers should perceive the brand as presenting them with more value (at least compared with a generic product with no brand name), which increases the consumer's willingness to pay more to obtain this value.

19.3.4 Marketing campaigns and sales metrics

Measuring the impact and effectiveness of advertising, marketing campaigns and sales performance is very important for marketers, especially because these activities often make up the bulk of marketers' expenses. Advertising, in particular, is not an exact science and it can therefore be tricky to measure its exact impact. Marketers can, however, apply some metrics that will allow them to obtain a good indication of whether or not a campaign was successful.

19.3.4.1 Gross rating point (GRP), reach and frequency

The **gross rating point (GRP)** is a popular method used by media companies to determine the advertising exposure of different media. It is calculated as follows:

$$\text{GRP} = \text{Reach (\%)} \times \text{Frequency}$$

A rating point, also known as the reach, is equal to 1%. This 1% represents a percentage of the population that is consuming a particular media. The frequency is the number of times that a person is expected to be exposed to the advertisement.

Example

If 1.6 million people watch a particular TV show or read a specific magazine (or any form of media), out of the total population (e.g. 50 million population size), the rating point is equal to 3.2% (1.6 million/50 million x 100). If 1.6 million people watch a particular TV show which is 30 minutes long and a company books three advertising slots during that time, it is assumed that the population (1.6 million) watching the show will be exposed to the advert three times. The frequency is therefore 3.

$$\text{GRP} = 3.2 \times 3 = 9.6$$



19.3.4.2 Sales generated

One of the most basic aspects that should be monitored when a marketer is running a campaign is the sales generated. This is simply conducted by reviewing the average sales figures before the start of the campaign and after the sales campaign, and then establishing whether the sales have increased or decreased.

$$\text{Sales generated} = \text{Sales at the end of the campaign period} - \text{Sales from the previous period (before the campaign)}$$

Example

Sue achieved R2 000 000.00 in sales at the end of 2016. The following year (2017) she embarked on an advertising campaign aggressively promoting her yoghurts and achieved R2 635 000.00 in sales at the end of the period. This means that her sales increased by

$$\text{R635 000.00 (R2 635 00.00 – R2 000 000.00).}$$



When comparing the sales generated within a specific year with the sales from previous years, it is best to calculate the output as a percentage because this allows the standardisation of the sales figures obtained between the different time periods and therefore gives a more accurate comparison. The following calculation should be applied to the sales figures generated from both time periods:

$$\text{Percentage increase} = \frac{(\text{Sales at the end of the campaign period} - \text{Sales from the previous period})}{\text{Sales from the previous period}} \times 100$$

Example

From Sue's 2016 and 2017 sales figures in the previous example, the percentage increase would be calculated as follows:

$$\begin{aligned}\text{Percentage increase} &= \frac{\text{R2 635 000.00} - \text{R2 000 000.00}}{\text{R2 000 000.00}} \times 100 \\ &= 31.75\% \text{ increase in sales}\end{aligned}$$

Her sales achieved during 2015 amounted to R1 760 000.00. When she compares 2015's sales with 2016's sales (a year when she invested a lot less in advertising):

$$\text{R2 000 000} - \text{R1 760 000.00} = \text{R240 000.00}$$

To determine the percentage increase or decrease:

$$\frac{\text{R240 000.00}}{\text{R1 760 000.00}} \times 100 = 13.64\% \text{ increase in sales}$$

It is therefore clear that she experienced a higher increase in sales during 2017 than during 2016, and even though the increase cannot be 100% attributed to the advertising campaign (e.g. external market factors and organic growth are also aspects that contribute to sales), it at least serves as a first indication of whether the campaign has brought about a shift in sales and whether it was successful.



The sales generated is one of the first aspects that needs to be determined and reviewed in order to provide marketers with a rough indication of the success of their campaigns. There are other metrics that should be considered as well to create a more accurate picture of the success of the campaign. The ROMI formula, which includes all marketing expenses and indicates their contribution for each rand of profit or sales made (see the two options discussed under ROMI

in [section 19.3.1.7](#)), is a more accurate representation of marketing's exact contribution.

19.3.4.3 Customer acquisition cost (CAC)

[Customer acquisition cost](#) is growing in importance and is used by marketers to establish the costs incurred to obtain more customers. CAC is calculated as follows:

$$\text{CAC} = \frac{\text{Amount spent on marketing campaign during a specific time period}}{\text{No. of new customers acquired during the same period}}$$

Example

Sue acquired 51 new clients during 2016. She spent only R50 000.00 on an advertising campaign that year. Her customer acquisition cost can therefore be calculated as follows:

$$\text{CAC} = \frac{50\,000}{51} = \text{R}980.39$$

This means that it cost her R980.39 per new customer that she acquired.



19.3.4.4 Cost per lead

Advertising campaigns result in marketers obtaining many leads. Leads are customers who have made contact with or shown interest in the company's products or services, but who have not bought anything from the company. It is also important to monitor the number of leads generated as it serves as an indication of the success and ability of a campaign to attract potential customers. Comparing the number of leads generated between different campaigns run during different years can also serve as a good way for marketers to see how successful they've been. Establishing the [cost per lead](#) is similar to the CAC, except that the marketer measures the cost per the number of prospective customers obtained. Cost per lead is calculated as follows:

$$\text{Cost per lead} = \frac{\text{Cost of the specific marketing campaign}}{\text{No. of leads obtained}}$$

19.3.4.5 Conversion rate

The **conversion rate** is concerned with determining the number of leads generated who end up becoming new customers. At this stage the customer normally engages with a sales person at the company and this also allows a marketer to monitor the effectiveness of the sales team at converting leads to customers. The conversion rate for different salespeople can also be compared to identify the best salespeople and those in need of more training. This is calculated as follows:

$$\text{Conversion rate} = \frac{\text{No. of leads who become customers during a specific period}}{\text{Total number of leads generated during that period}}$$

19.3.5 Digital metrics

Chapter 16 discussed digital and social media. The purpose of this section is therefore only to report on the most important metrics that can be used to monitor and evaluate a marketer's digital activities.

Unlike traditional marketing metrics, the results of digital metrics are often readily available in the form of reports using tools such as Google Analytics. Marketers do, however, spend money on online campaigns (e.g. Facebook ads or Google Adwords) and in such a case the success of a digital campaign can be measured using the metrics discussed earlier in this chapter, such as customer acquisition cost ([section 19.3.4.3](#)) and cost per lead ([section 19.3.4.4](#)).

Below is a summary of some of the most important digital metrics that marketers need to monitor actively in order to establish whether their digital activities are fruitful and to identify areas for improvement.

19.3.5.1 Total visits

This represents the number of visits to a social media page or website managed by the marketer. Ideally, marketers want as many visitors as possible to view these sites, but the important aspect here is to monitor the change in the number of visitors, especially during a campaign period, to see whether the numbers are increasing or not. Because this information is available electronically and captured continuously, a marketer can view and monitor these numbers daily.

19.3.5.2 New visitors and repeat visitors

From the total number of visitors, marketers need to establish what percentage are new visitors and what percentage are repeat visitors (visitors who have viewed the pages before). Monitoring this provides marketers with insights into the attractiveness of their site, and how useful or entertaining people find it. In

addition, if they have a high percentage of repeat visitors, it serves as a general indication of the popularity of the specific site.

19.3.5.3 Channels from where traffic is generated

It is important to monitor where visitors come from who visits a marketer's specific webpage. If the marketer is, for example, running an online advertising campaign, then the effectiveness of the advert can be determined by reviewing how many visitors to the page come from the site containing the advert. The following four channels are identified:

- 1** ➔ **Direct visitors.** This refers to visitors who arrived at the site because they know the website address (URL) and they simply typed it in at the top of their browser.
- 2** ➔ **Organic search.** This refers to visitors who arrive at the specific page through a search performed on a search engine like Google.
- 3** ➔ **Referrals.** This refers to visitors who arrive at the specific site due to a link to the page that was placed on another website.
- 4** ➔ **Social media.** This indicates the number of visitors who come to your website from your social media page (e.g. Twitter, Facebook) and serves as a good indication of the effectiveness of your content at driving people to want to engage more by visiting your website.

19.3.5.4 Interactions per visit

This refers to reviewing aspects such as the number of pages visitors view when they are on the website, where they click and what they view on each page, and the time spent per page. This helps to provide insight into how attractive and useful visitors find a website and how engaging the website is.

19.3.5.5 Time spent on site

The time spent on the website, similar to the interaction discussed above, provides an indication of how useful, entertaining or engaging a website is. Marketers can monitor whether any changes they made to the website are proving fruitful by monitoring the time visitors spend on the site, and the interactions aspects discussed above.

19.3.5.6 Bounce rate

This rate refers to the number of visitors who visited a website and left immediately, not performing any meaningful actions on the site. A high bounce rate is problematic and marketers should investigate why this is happening.

19.3.5.7 Click-through rate

Monitoring the click-through rate is incredibly important, especially when a marketer runs an e-mail campaign or a pay-per-click campaign (PPC). The click-through rate is calculated by dividing the number of times an ad was clicked on by the number of times the ad was shown (called impressions). It helps a marketer to determine how successful an ad was, by reviewing how many times people clicked on it.

19.3.6 General market metrics

19.3.6.1 Market share

Companies often want to determine what percentage of the market is purchasing their products and that therefore “belongs” to them. This is determined by calculating the company’s market share as follows:

$$\text{Market share} = \frac{\text{Company sales during period}}{\text{Total sales within feasible market during period}} \times 100$$

19.3.6.2 Market growth

Companies strive to obtain growth on a yearly basis, and achieving growth is one of the predominant objectives of different companies. Market growth is calculated as follows:

$$\text{Market growth} = \frac{\text{Total sales this year} - \text{Total sales last year}}{\text{Total sales last year}} \times 100$$

The above calculation specifically allows a company to determine whether it has experienced growth between the previous year and the past year.

Example

Market share:

Sue’s sales during 2016 amounted to R2 000 000.00. The entire industry’s sales amounted to 500 million. Sue therefore has a 0.4% market share $(R2\,000\,000.00/500\,000\,000.00) \times 100 = 0.4\%$ market share.

Market growth:

During 2016, Sue had R2 000 000.00 in sales. In 2017 she had R2 635 000.00 in sales.

Her market growth experienced is therefore as follows:

$$\begin{aligned}\text{Market growth} &= \frac{\text{Total sales this year} - \text{Total sales last year}}{\text{Total sales last year}} \times 100 \\ &= \frac{\text{R2 635 000.00} - \text{R2 000 000.00}}{\text{R2 000 000.00}} \times 100 \\ &= 31.75\%\end{aligned}$$



19.4 Conclusion

This chapter introduced the importance and the benefits of using marketing metrics. A number of the most useful and important marketing metrics that marketers can apply to measure the success of their marketing activities were introduced. Marketing is not an exact science and it can therefore be challenging for marketers to demonstrate exactly how their marketing efforts are contributing to a company's profits. A good knowledge of the most important marketing metrics can give marketers the opportunity to report on their activities, indicating to management how their efforts are making a difference to the company, and can also help marketers to monitor the effectiveness of their activities.

Marketers are advised to use a combination of marketing metrics from each of the different types of metrics introduced in order to create a complete picture of the impact of their activities. They should not only interpret the results of a metric as it stands, but also focus on comparing these results with the same metric calculated for activities measured in previous years, in order to determine whether they are improving and contributing to growing the company over time.

DISCUSSION QUESTIONS

1. Provide a definition of marketing metrics.
2. Discuss the importance of using marketing metrics.
3. Describe the benefits of using marketing metrics.

4. Identify which marketing metric should be applied to determine

- a. how much profit (after all expenses were deducted) a company is making
- b. the rate of return gained from investing in marketing activities
- c. how much sales a company should generate to remain in business (to cover its fixed costs)
- d. the rate at which the company is keeping its current customers.

5. Discuss the challenges associated with reporting on the results obtained from brand-building activities.

6. Describe the most important digital marketing metrics that marketers should monitor.

7. Review the following information and perform the calculations:

It is 2018 and Sue needs help to establish the performance of her business. Review the information provided in the box and answer the questions provided:

Financial statement 2018

Total sales:	3 100 000.00
Cost of goods sold:	1 690 909.10
Gross profit:	1 409 090.90
Operating expenses (SG&A):	407 208.00
Net income:	484 840.00

Additional information

Cost to manufacture 1 unit of yoghurt: R3.30

Selling price of 1 unit of yogurt: R6.05

Number of customers at the end of 2017: 352

Number of customers at the end of 2018: 375

New customers obtained during 2018: 18

Marketing investments (on activities): R170 000.00

Fixed costs: R236 208.00

- a. Calculate the mark-up %.
- b. Calculate the margin %.
- c. Calculate the gross margin.
- d. Calculate the profit margin.
- e. Determine the return on marketing investment (ROMI) based on the total sales.
- f. Calculate the average spend per customer.
- g. Calculate the retention rate.

- h. Calculate the churn rate.
- i. Calculate the customer acquisition cost (CAC).

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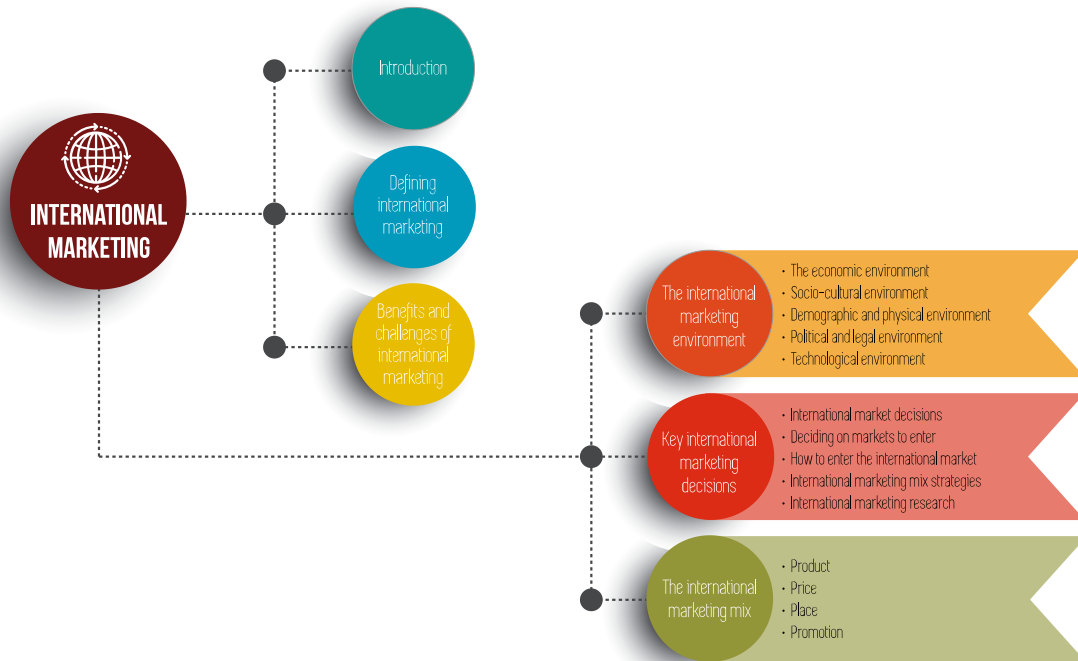
LEARNING OUTCOMES

AFTER STUDYING THIS CHAPTER, YOU SHOULD BE ABLE TO

- understand and define international marketing
- understand the factors that influence international marketing
- discuss key international marketing decisions that the company has to make
- understand international marketing research
- explain the international marketing mix and identify the various strategies the company can use for each element.

KEY CONCEPTS

- CULTURE
- ECONOMICS
- EXPORTS
- GEOGRAPHY
- INTERNATIONAL MARKETING
- MARKETING MIX
- PLACE
- POLICIES
- PRICE
- PRODUCT
- PROMOTION
- TECHNOLOGY



20.1 Introduction

International marketing has influenced many aspects of our lives. Many products that we consume or make use of on a daily basis are from outside South Africa or contain components that are manufactured in other countries. Electronics, such as televisions, cellphones and computers, are made in specific countries and sold all around the world with specifications according to their destination countries. Food items, such as fruit, that are out of season are brought in from other countries. International clothing brands, such as Louis Vuitton, Armani and Dolce & Gabbana, can be found in malls around the world. Similarly, many South African brands, food items, electronics, etc. can be found in other countries. Without international marketing, we would not have access to many of these products and the prices of goods would certainly be much higher.

Example

Branches of the South African flame-grilled chicken restaurant Nando's can be found in many countries, such as the US, UK, Australia, Malaysia and Singapore. In order to expand and survive in these different countries, Nando's has to have an understanding of the environment of each of the countries in which it operates. It has to know its customers in each country and develop marketing strategies for each country.



For companies to survive and grow internationally, it is important for them to understand the international marketing environment.

This chapter provides an overview of the international marketing environment. We will define what it is, and discuss the benefits and disadvantages of international marketing, the various factors influencing international marketing and the marketing mix strategies for international marketing.

20.2 Defining international marketing

International marketing can be defined as a company operating in different international markets around the world in which the various controllable and uncontrollable factors differ significantly between the different countries (Doole & Lowe, 2012: 6).

International marketing is more than just marketing and selling your products in a different country. It is more complex as it involves various activities such as establishing manufacturing and marketing facilities, and coordinating various marketing activities across the different countries (Gillespie & Hennessey, 2016: 4). It involves the company making various marketing mix decisions across the different countries in which it operates (Srinivasan, 2016: 3).

International marketing can also be defined based on the level of involvement of the company in the international market. These levels are export marketing, multinational marketing and global marketing (Zamborsky, 2016: 16; Morschett, Schramm-Klein & Zentes, 2015: 481):

- **Export marketing.** With export marketing, the company basically markets its products across various international markets. Here the company maintains the manufacturing and production of the product in its own (home) country, but it exports (or sells) its products to different countries. For example, South Africa exports precious metals, iron and steel, and even fruit and nuts, to the US.
- **Multinational marketing.** With multinational marketing, the company conducts various activities or operations in more than one country. Here it has some control over the marketing activities from the country of origin. Estée Lauder, for example, has an office in each country in which it operates, where day-to-day business operations take place. Its products are, however, manufactured overseas and shipped to specific countries. Its marketing is also approved by the international head office and slightly adapted (changes in language, etc.) to fit the country in which it is selling the products.
- **Global marketing.** With global marketing, the company focuses on integrating the marketing programmes across the various countries to ensure that the global objectives of the company are met. The company in this case takes advantage of the various laws, cultures, skills and overall market opportunities available in each of the countries. The global image of the company, however, remains the same. Coca-Cola, for example, is produced in each country in which it operates. The soft drink company also integrates its marketing into those countries. It creates marketing strategies that take into account each country's culture and laws, and adapts its marketing to suit the needs of the country. The global image of the brand is, however, the same in each country.

Example

The car brand Toyota initially started out as a domestic brand with the cars being manufactured and sold in Japan. Over time the company started exporting its cars to different countries. The company grew its operations to become a multinational company and eventually expanded into a global company, which has manufacturing plants in numerous countries, such as South Africa. The company also takes into account the different countries' cultures and laws, and adapts its marketing strategies based on the country.

Source: Toyota Global (2017)



20.3 Benefits and challenges of international marketing

Operating in the international market can provide the company with many benefits. Let's take a look at some of these benefits (Cant & Van Heerden, 2013: 594; Wilton, 2016):

- **Expansion of the market.** International marketing provides the company with an opportunity to expand its customer base. By extending the market to different countries, the company has a much larger market segment to target. For example, a South African-based glassware design store, Glass Studio Inc., could increase its customer base by selling its products in more than one country.
- **Increase in sales.** The broader the company's customer base is, the more potential sales the company can make. The more customers Glass Studio Inc. has, the more potential sales it will make. By entering another country, it has increased its customer base and hence its potential sales.

- **Increase in profits.** The company has more opportunities in the international market to increase profits, especially if it is operating in a niche market. Glass Studio Inc. can increase its profits through entering another country. Its customer base is larger and it has the potential to sell many more products (as it now sells to customers in two countries), thus increasing its profits.
- **Economies of scale.** International marketing can lead to an increase in the production quantities. Due to operational efficiencies this will lead to a decrease in the cost of production. Due to the larger target market, Glass Studios Inc. could produce its products in bulk and essentially decrease its production costs.
- **Networking opportunities.** Through international marketing, the company is able to connect with new customers worldwide. The company is also able to connect with new business partners and suppliers. Glass Studio Inc., for example, has the opportunity to connect with new suppliers and potential business partners in the glass industry in the additional country in which it now operates. It is also able to connect and communicate with its customers in the other country.
- **Improved quality.** In order to be recognised and to stay competitive in the international market, Glass Studio Inc. has to provide high-quality products.
- **Brand reputation.** Competing in the international market can boost the company's brand reputation. Because Glass Studio Inc. will be operating in the international market, it will have more exposure. People in the international market will be talking about these products (e.g. magazine or online reviews of the products, online comments from customers and word of mouth) and this can improve the brand's reputation.
- **Reduced business risk.** The company reduces its overall risks when operating in more than one country. If sales drop in one country, the company can make up for this through the other markets in which it operates. If its sales drop in another country, Glass Studio Inc can push its sales in the country of origin to make up for this drop.

We have looked at some of the benefits of international marketing. There are, however, challenges that the company can face when operating in the international market:

- **Different environmental factors.** Every country differs in terms of its culture (see [section 20.4.2](#)), language, norms and ethics. The company may find it challenging to understand or adapt to these different cultures or norms. In South Africa there are various different cultures and tribes, each with their own set of norms and rules. There are eleven official languages. Any company wishing to expand its business into South Africa has to take this into consideration.
- **Trade barriers.** In order to protect the local companies and local trade within a country, governments take certain steps to restrict their trade with other countries, such as by imposing taxes or trade duties. These trade barriers include tariffs, import licences, subsidies, standards or embargos. The more tariffs the international company has to pay, the higher the price at which the goods will be sold.
- **Political environment.** The political situation within a country will have a huge influence on whether or not the company will decide to enter a specific market. If the political situation is unstable, the economy of the country is likely to be unstable, making it less favourable for the company to enter the market. If the country is going through a civil war, it may also be too dangerous for the company to operate in that country.
- **Exchange rates.** The differences in the exchange rates and the fluctuating nature of currencies could make it more expensive for a company to operate in a particular country.

To understand how certain international companies failed to enter a market due to language differences, see the video at <https://www.youtube.com/watch?v=Ud-CcbT23Qkk>

20.4 The international marketing environment

When entering an international market, a company often has to make a lot of adjustments to its marketing strategies. It is thus essential that it undertakes an analysis of the environment. ([Chapter 2](#) discusses the marketing environment in detail.)

There are five general environmental factors that need to be analysed *before* a company enters a market. These are the economic environment, the socio-cultural environment, the demographic and physical environment, the political and legal environment, and the technological environment (Brady, 2015: 16; Marketing Teacher, 2017b).

20.4.1 The economic environment

The economy of a country has a major impact on a company's international marketing decisions. If the country has a slow or unstable economy, there will be a much bigger risk in entering this market. Before entering a particular country's market, the company must look at factors that will influence its success in this venture, such as the gross domestic product (GDP), the income distribution and the economic growth of the country. It is also important to look into the industrial growth of the country, its inflation rate and the fluctuations in the exchange rates of the country.

With regard to the South African economy, the following economic factors could have a huge influence on whether or not foreign companies decide to enter this country's market (Banco Santander, 2017):

- Largely free-market economy
- Large population
- Developed infrastructure
- Fluctuating strength of the rand

- High unemployment rate
- Economic policies

20.4.2 Socio-cultural environment

Culture is defined as the set of shared beliefs, attitudes, social norms, traits, rituals, religion and knowledge of a group of individuals that have been learned over time and passed down from one generation to the next (Merriam-Webster, 2017).

It is difficult for someone from outside to come into a country and adjust to the people's cultural norms and habits. There are also certain aspects of behaviour that are forbidden or frowned upon in certain countries. Specific images and words can also be interpreted completely different in various countries. It is thus important that the company do an analysis of the socio-cultural environment and try to gain a better understanding of the country's social and cultural norms before entering the country.

Culture has an influence on the way in which individuals interact with each other; it influences the family values and the social classes of a society. Awareness of the various cultural values and norms will help the company to identify its target group within the country and to formulate relevant marketing strategies.

South Africa is a multicultural country that consists of many ethnic groups. Due to this diversity, South African culture is difficult to define. Foreign investors must take the various cultures of the country into account when entering the South African market as a lack of an understanding of the local culture, languages, habits, etc. can be disastrous for the brand.

The following website discusses the various cultural and social norms that are acceptable in South Africa: <http://www.commisceo-global.com/country-guides/south-africa-guide>

Example

The Indian mobile phone brand Bharti Airtel wanted to get into the African market and opted for an advertising campaign that would appeal to the entire continent. The company's marketers used South African actors and showed images of the African savannah and coins. This did not go well for the brand and due to the company's lack of understanding of the cultural diversity within the African context, the campaign failed. The company did not take into consideration that South African actors may not be well known in other countries in Africa, so the audience may not necessarily relate to these actors. Each country in Africa has a different landscape; using images of the African savannah did not resonate with the people in different countries. Most African countries do not use only coins when making purchases, but use paper money as well as bank cards. These images clearly did not appeal to the African countries where the advertisement appeared.

For a look at other marketing campaigns that failed due to a lack of understanding of the different countries' cultures, see <http://www.k-international.com/blog/7-international-marketing-campaigns-that-failed-to-translate>



20.4.3 Demographic and physical environment

The demographic and physical environments consist of the population size, race, age groups, as well as the geographic location, time zones, natural resources, lakes, rivers and forests of the country. The physical environment will influence many aspects of the country, such as the economy, the culture, how the land is used, transportation and even the language and religion.

The company needs to know the demographic make-up of a country in much detail to assess whether it is the right market to enter, if it will have a customer base there, etc. It is also important to determine how the population is located in the country in order to determine whether the markets are accessible. The company needs to know whether it will be impacted by the country's physical environment. Certain climates make it easier to adapt certain types of product and certain routes may be difficult for delivering goods because of the physical environment.

South Africa, for example, has nine provinces, each with its own population size of different races and physical environments. An international company entering South Africa must decide which provinces it will operate in, how it will transport goods to the different provinces, the time it will take to transport goods from one province to another, the transportation routes to take, etc.

20.4.4 Political and legal environment

This environment focuses on the political stability of a country, its laws and regulations, and the government policies regarding foreign or international trade in the country. The political environment of a country can have a huge impact on the strategies and operations of the company. If a country is going through political unrest or civil war, its economy is likely to become unstable and the business environment will probably be unstable and unsafe. The company must look at how often this country changes its regime, the level of civil unrest there, etc. as this will give an indication of whether the country is politically stable or not.

The laws and regulations of a country are influenced by its political environment. Different governments will have different views regarding the freedom of businesses to operate within the country. There are many legal structures that a country may have in place that will influence the company entering that country (Lamb, Hair & McDaniel, 2017: 73):

- There may be *quotas* (rations) on the amount of international products that are allowed to enter a country. For example, South Africa may limit the amount of Chinese textiles or clothing imported into the country per year.
- *Tariffs* are usually set on products that are brought into a country. South Africa, for example, imposes tariffs on other countries that import chicken, beef and pork into the country.
- There are *trade agreements* between certain countries. South Africa, for example, has a free-trade agreement with the European Union.

- *Trade alliances* are market groups that are formed when a group of countries agrees to form a common trade area in order to further their trade opportunities between the countries. South Africa, for example, has a trade alliance with 12 Southern African Development Community (SADC) countries. This alliance ensures that there is free trade of most products between the SADC countries.

It is important for the company to become familiar with the different laws and regulations of the country in which it wishes to do business as this will ensure that the company does not run into any legal problems.

South Africa is part of the United States trade act, the African Growth and Opportunity Act (AGOA), enacted on 18 May 2000 as Public Law 106 of the 200th Congress, and as such enjoys certain tariff or duty-free benefits when trading with the US. For more information on AGOA, see <https://agoa.info/about-agoa.html>

20.4.5 Technological environment

Technological advances have had a major impact on almost every aspect of our lives. We are now able to access information on different products and services worldwide at the click of a button. Geographical boundaries are no longer an issue. People are able to order goods from anywhere in the world at any time and they will be delivered right to their doorsteps.

As a result, many companies now operate in an international market. They are no longer competing only with other companies in their own city or country, but at a global level. This access gives companies, big and small, great opportunities to grow and develop their business.

Advances in technology and the internet have changed both the business environment and the international marketing environment. There are many devices and technologies that have vastly improved the business environment and the customer's experience. Most

companies today make use of computer systems for their point-of-sales cash registers. Computers, and in some cases scanners, are used to record the goods that come into the company and the goods that are sold. In some countries there are now even stores that make use of self-service points of sale.

Companies should also consider how technologically advanced the country that they are considering moving into is, in terms of internet connectivity, infrastructure limitations, technical support and know-how, and laws. Some countries may not have enough skilled people who know how to install or repair certain technological systems. Certain technology may also not be available in the country. The company must also determine whether the country has the necessary channels needed for communication with the international market (Lamb et al., 2017: 75).

Due to political policies, certain countries such as China have restrictions on internet access. This can have a huge impact on international companies operating within those countries. These restrictions limit communication, access to information, marketing opportunities for the company and the ability to provide services to customers (Shanghai, 2016).

The articles on the following websites discuss how China's internet restrictions are hampering international companies and trade within the country: <http://www.reuters.com/article/us-usa-china-trade-internet-idUSKCN0X50RD> and d4discovery.com/discover-more/2016/10/what-chinas-internet-and-data-restrictions-mean-for-us-companies#sthash.3mh5upNX.dpbs

In the next section we will look at all the decisions the company has to consider before entering the international market.

20.5 Key international marketing decisions

When a company considers expanding into the international market, there are key decisions it must consider. It has to look at which markets it may be profitable to enter, how to enter the different markets and what marketing mix strategies to make use of, as well as do research into the international market. These decisions have been well described by Jaideep (2016) and Cant (2016: 55).

20.5.1 International market decisions

First, the company must look at whether or not it should expand into the international market. Will this be in its best interests, will it be profitable, can the company afford it? The company needs to look at its goals and objectives, how it is doing in the domestic market and whether expanding into the international market will help in achieving its overall business goals and objectives.

The company has to consider the following when deciding whether or not to enter the international market (Baines, Fill & Rosengren, 2017: 284):

- The cost of entering the international market
- The risks and difficulties that the company will face
- Whether the company has the capabilities to expand into the international market
- Whether is it feasible
- The laws or regulations of the different countries

20.5.2 Deciding on the markets to enter

Which markets will the company sell its products to? Once the company has decided that it will enter the international market, it must now determine which countries it will enter.

In making this decision, the company must consider the following points (Marketing Teacher, 2017b; Neubert, 2013: 59):

- *The company must decide on the number of countries it wants to enter.* It must consider its resources and capabilities and see whether it is able to enter one or more countries.
- *What type of country does the company want to enter?* The company must analyse the different countries, look at their economic growth, their political situation, their policies and regulations, etc. and determine how easy or difficult will it be to enter the market and whether the entry will possibly be successful for the company.
- *The company must conduct a thorough analysis of the market in the country.* It must determine whether it will have a target market in the country and whether the market will be big enough to be profitable (Neubert, 2013: 59).

20.5.3 How to enter the international market

At this stage the company must look at the various options available for how to enter the international market. These options include exporting, franchising, licensing, joint venturing, partnerships and direct foreign investments (Marketing Teacher, 2017b):

- **Exporting.** This involves manufacturing and producing goods in the home country and selling the goods to other countries. Exporting is one of the simplest ways of entering a different country and the risk is low. For example, the US exports goods such as tree nuts, prepared food and dairy products to South Africa.
- **Franchising.** This is an agreement between two parties where one party gives another permission to use its company's trademark, trade name and certain business processes to produce and sell the product in the market. When agreeing to franchise in a foreign country, the company must still ensure that it follows the regulations of its own country. In South Africa, franchises contribute approximately 12.5% to the GDP of the country (Business Tech, 2016). There are many international franchises in South Africa, such as Burger King, Starbucks and KFC.

- **Licensing.** This involves entering into a licence agreement with another company (licensee) in the country that the company (licensor) wishes to enter. Through this licence agreement, the company allows the local business in the other country to make use of any intellectual property of the company and to make and sell its goods for a fee. These types of agreement focus on the products and their branding elements, and do not include operational support systems from the licensor. For example, stores that sell Apple products need a licence to sell the products. These businesses may receive both a licence to sell the product and some marketing support.
- **Joint venturing.** This refers to partnerships between two parties (one local and one international) who come together to create a product and to market it internationally. In this case both companies have ownership of the product and both parties will invest resources into making and selling the product. Joint ventures are a more risky option for entering an international market as conflict could arise between the partners regarding how the company is run or how profits and expenditures are distributed in the local country. There may also be unrealistic expectations about the joint venture from the partners which can then cause conflict as well. Pioneer Foods, one of South Africa's largest food producers and distributors, for example, has a joint venture with HJ Heinz Company in the US. Both companies provide resources and skills in producing and distributing the Heinz brand of ketchup, soups, noodles and baked beans in the country.
- **Partnership.** This also involves two companies coming together to produce or market a product. A partnership can be formal (a legal agreement is made between the two parties) or informal (usually a spoken understanding between the two parties). For example, a South African high-end clothing store could partner with a Turkish designer to sell its products in South Africa.
- **Direct foreign investment.** Here the company sets up its business directly in the international market. It sets up its production and manufacturing facilities in another country. It also carries out its own marketing and selling activities within that country. The

company must do a lot of market research before opting for this method of entering the international market. An example of foreign direct investment is the automobile industry where car manufacturers invest in a country by opening up manufacturing plants, thus spending large sums of money and creating jobs in the country.

The company will look at the various options for entering an international market and decide on which option presents the least amount of risk and will result in the success of the business.

20.5.4 International marketing mix strategies

The company will have to make decisions regarding the marketing mix elements (product, price, place and promotion) and how they will be influenced or changed in the international market. The marketing mix strategies of the local market will be similar to those of the international market. The focus of the international marketing mix will, however, be on the international countries' customers and their needs and wants.

When looking at the products for the international market, the company must decide whether it will offer the exact same products or adapt its products for the international market's needs. In terms of price, the company will have to consider the exchange rates of the local and the international countries, as well as the tariffs and import duties that will result in an increase in the price. With regard to the place element, the company must look at the different distribution channels in the international market. It must decide if it needs to adapt the promotional elements for the international market and how to do this (see [section 20.6](#)).

Before a company enters an international market, it first needs to do extensive research on the country.

20.5.5 International marketing research

Operating in the international market comes with many risks for the company and doing market research first will minimise these risks. Market research provides the company with a greater understanding of the country and its people, what they need and want and how best to market the products to them. In order for companies to succeed they need to know their market, who the potential consumers are, what they like, their characteristics, their age groups, etc. They need to know who their competitors are, in what way they are different from them, in what way they are similar to them, their price difference and what marketing activities they undertake. This research will provide the company with information that will help it to develop relevant strategies for each country in which it operates and to make informed day-to-day business decisions.

The international marketing research process will be the same as the local marketing research process of the company (discussed in [Chapter 5](#)). The research process will just be adapted to look at information concerning the international market.

Example

South African clothing brand Woolworths operates in 11 countries in sub-Saharan Africa, Australia and New Zealand (Woolworths, 2017). Before the company entered these countries it would have had to do extensive research on each country, its economy, the people, its competitors, etc. This information would have provided opportunities and threats for the retailer in those countries. Woolworths would have also used this information to develop strategies for each country that would result in attracting customers and increasing sales.



20.6 The international marketing mix

The marketing mix has four main elements: product, price, place and promotion, known as the 4 Ps (see [Chapter 1](#)). These elements of the marketing mix must be tweaked for each country in which the company operates. Let's take a look at these elements and how a business will need to adapt them to the international market.

20.6.1 Product

A company usually already has a product that is developed and doing well in the local market and has decided it wants to expand into the international market. It now has to appeal to the local consumers of the international country. Due to differences in the cultures, language, taste and preferences of the different country, it can be difficult to appeal to the new market. Therefore when making product strategy decisions the company must decide whether it will adapt its products to the country's specifications or develop new products for the market. It must also consider the fact that the product may be at different life cycle stages in each country. It will thus have to develop strategies for each country based on the stage of the product in the product life cycle.

There are several product strategies that the company can decide on when marketing in a different country, namely the standardised approach, the customised approach and product development (Learn Marketing, 2017):

- **Standardised approach.** Here the company decides to sell its products as is to the international market. This strategy is usually adopted when the company has a large loyal following in the home country and the market that the company wants to enter has similar tastes and product use. Companies such as Nike and Adidas make use of this approach as their products are the same globally. These brands focus their marketing on similar groups of people in each country in which they operate.
- **Customised approach.** With this approach, the company adapts its product offerings based on the needs and wants of the people in the country in which it is operating. McDonald's can be found all over

the world. Their products are, however, changed based on the needs of the country. In South Africa and many Middle Eastern countries, for example, due to the large Muslim population, McDonald's is Halaal certified and does not offer any products that contain pork.

- **Product development.** The company can decide to develop new products with the international market in mind. In this case the company develops a core product that is the same for all the markets in which it operates. The company also develops derivatives or by-products that will differ across the various countries. The new products must be adaptable to the various countries to which the company wishes to sell them. Cellphone companies, for example, launch new products that are the same all over the world. The specifications of the devices and their functionality are the same everywhere. The language settings can usually be changed when setting up the devices.

20.6.2 Price

The pricing element of the international marketing mix is important as it is this element that generates revenue for the company. Any decisions the company takes with regard to pricing will have a direct influence on its sales and profitability. The pricing of a product in the international market can, however, be a complex task and must be considered carefully. The company has to take into consideration the price of the product in the local market in comparison with the pricing of competitors who sell the same or similar products. (A general discussion on pricing is given in [Chapter 12](#).)

Further factors that will influence the pricing strategies of the international marketing mix include the following (Sharma, 2015):

- The cost of tariffs and import taxes
- Fluctuations in the exchange rates of the local and the international country
- The economic environment of the country

- The cost of production
- The cost of transportation

There are several pricing strategies that the company can decide to use (Farrell, 2016: 240; McCormick, 2016):

- **Differential pricing strategy.** With this strategy, the company develops different pricing strategies for the various countries in which it operates. The company assumes that the different countries will have different value perceptions of the products. For example, a luxury fashion brand may be sold at a different price elsewhere than in South Africa.
- **Market skimming.** Here the company comes into the country with a very high price and over time the price is reduced to be more affordable. This strategy works with new and innovative products such as cellphones. When a new iPhone or Samsung phone comes into the market, the initial price is high and over time the price reduces.
- **Market-orientated pricing.** The company using this strategy will price the product at a level similar to that of the competitors in the market. The company must, however, take into account the costs of manufacturing and marketing to ensure that it will still make a profit using this pricing strategy. An international doughnut company, for example, may first look at the prices of its competitors and decide to enter the South African market at a level similar to that of its competitors.
- **Cost-based pricing.** The company could price its products based on the costs that it incurs. There are two pricing strategies that focus on the cost of the product, namely cost-plus pricing and marginal cost pricing. With *cost-plus pricing* the company takes into account all the fixed and variable costs of the product, such as manufacturing, marketing and distribution, as well as the company's profit margin. With the *marginal cost pricing* approach, the company takes into account only the costs of production and of marketing the product in the international market. For example, an international fashion brand entering the South African market may have to pay import

duties and taxes to bring its products into the country. It would also have transport and marketing costs. The brand can then decide to add the cost of the import duties or taxes, and the transport and marketing costs to the price for which it sells its products.

- **Penetration pricing.** With this pricing strategy, the company enters the international market at a low price in order to attract a large customer base in the country. The company must, however, ensure that the manufacturing and marketing costs are low enough so that it remains profitable. In order to enter the market, a new brand coming into the South African market may initially keep the price of its products low to attract customers.
- **Demand pricing.** Here the company bases its prices on the intensity of the demand for the product in the country. The more demand there is for a product in the international country that it wants to enter, the higher the price is set. If there is a low demand for the product, the price will be set lower for that country. A car brand, for example, will do market research before entering South Africa to determine the demand for the brand in the country. If the demand for the brand is high, they will set their prices high, if it is low, the prices will be set lower.

Whatever pricing strategy the company decides on, it must ensure that it reflects the perceived value that the consumers have of the product.

20.6.3 Place

The place element refers to delivering the products to the consumer at the right time and place. A *distribution channel* is used to deliver the product to the final consumer. A distribution channel is the path that is taken to deliver the products from the manufacturer right through to the final consumer (Dlabay, Burrow & Kleindl, 2017: 246).

Example

The distribution channel for Cartier's International Designer Jewellery in France bringing its products into South Africa would be as follows:

1. Designer in Paris → 2. Manufacturer in Paris → 3. Shipping to South Africa → 4. Jewellery store in South Africa → 5. Customer



The distribution channel in the international market will be influenced by the transport system of the country, the cost of transport as well as the business practices of the country. The company must also decide who its customer base will be, and whether it will be selling to the wholesalers, the retailers or directly to the end consumer in the country that it is entering (Sharma, 2015).

The distribution channel strategies for each country that the company operates in may be different due to the transport costs of each country and the profit margins of the company. There are two general strategies that the company can consider when making distribution strategy decisions, namely through intermediaries and direct distribution (Farrell, 2016: 240):

- **Through intermediaries.** With this strategy, the company will make use of several intermediaries to distribute the products in the country. Various intermediaries can be used to assemble the products, adapt the products to the characteristics of the specific country, get the products to the retailer and to the end customer, market the products, etc. Each intermediary used will add to the cost of the product, thus adding to the final price of the product.
- **Direct distribution.** Here the company sells directly to the end user. It will have to bring the product into the country and decide on a channel to supply the product directly to the consumer.

20.6.4 Promotion

The promotion element of the international marketing mix is one of the most important decisions the company will make. The aim of the promotional activities is to inform consumers about the company and the products it is offering. The way in which the company decides to

promote itself in the specific country will influence the way in which the consumers of the country will regard the company and its products.

The following should be considered when planning international promotional strategies (Sha, 2013):

- **Marketing communication channels.** The company must decide which marketing communication channels it wants to use: advertising (traditional and electronic), sales promotion, personal selling or publicity, sponsorships, etc. The medium of communication used is important as a company cannot use a communication medium that is not understood or used within a country (e.g. using a text-based communication medium in a country where the majority of the population is illiterate). The company must also ensure that it takes into consideration the marketing communication influences within the country (e.g. making use of local celebrities in advertisements, making use of popular local magazines and radio stations, etc.).
- **Standardisation or customisation.** The company can choose to standardise its promotional activities so that they are the same or similar globally. However, not all aspects of the advertising will be the same; language, for example, will have to change for each country. The company can also develop advertising that has the same look, feel, message and medium globally, but use the local language and local models or actors. A customised promotional strategy will be completely different in each country. The company will develop promotional activities that are based on the needs, wants and culture of the each country in which it operates.
- **Marketing communication message.** The company must decide on the message that it wants to communicate to its customer base for each country.
- **Budget.** Each country will have different cost structures for the various marketing channels. The company will have to consider its marketing budget for each country and decide which media channels are suitable and affordable.

- **Selection of media.** The company will have to decide on which media will be best suited for each country. It will have to take into consideration any media restrictions of the country, any laws or standards (e.g. the Advertising Standards Authority of South Africa or the Broadcasting Complaints Commission).
- **Measurement.** The company must ensure that it has effective measures in place to ensure that its overall business objectives are being met. It should also have measures (also called marketing metrics – see [Chapter 19](#)) in place to determine whether the promotional activities are actually working.

20.7 Conclusion

Deciding to enter the international market offers many opportunities for a company as well as posing various challenges. In order to be successful in the international market, the company must have an understanding of the country, its people, its policies, the language, its culture, etc.

This chapter provided an overview of marketing within the international environment. It discussed the five different types of environment (economic, socio-cultural, demographic, physical, political and legal, and technological) that the company needs to understand in order to be successful in the international market. The key international marketing decisions that the company needs to make when deciding to enter the international market were also discussed. Finally, the importance of conducting market research was highlighted and this was followed by a discussion on the international marketing mix.

DISCUSSION QUESTIONS

1. In your own words, define international marketing.
2. Maggie and Tendani have a successful South African jewellery store in South Africa, named Africa's Finest. They have also been selling their products to selected stores in the UK, Zimbabwe and Australia. Maggie and Tendani are now thinking of conducting some marketing activities of their own to gain a larger share of the market in these countries. Discuss Maggie and Tendani's current level of international marketing and the level at which they would be if they started conducting their own international marketing activities in these countries.
3. Define and explain "global marketing" in your own words.
4. Explain the benefits of expanding a business into the international market.
5. Define and explain trade barriers in your own words.
6. Thabo's Designs is a well-known local clothing designer. The brand has been doing very well in South Africa and Thabo is looking to expand into the international market. Discuss the various environmental factors that Thabo has to analyse before entering the international market.
7. Discuss the various elements that the company has to consider when making international market decisions.
8. Discuss the various options companies have to enter the international market.
9. Explain the importance of conducting market research in the international market.
10. Discuss the various product strategies that a company can decide on when marketing in a different country.
11. Explain to your friend Anele, who has to make pricing decisions for her businesses in Zimbabwe and Namibia, what factors will have an influence on the pricing of her products.
12. Explain to Anele the different pricing strategies of which she can make use.
13. Explain the distribution channel of a shoe manufacturer in South Africa that is selling its shoes in retail stores in Europe.
14. Identify and discuss the two general strategies that can be considered when making distribution strategy decisions.
15. Discuss the difference between a standardised and a customised marketing communication strategy.

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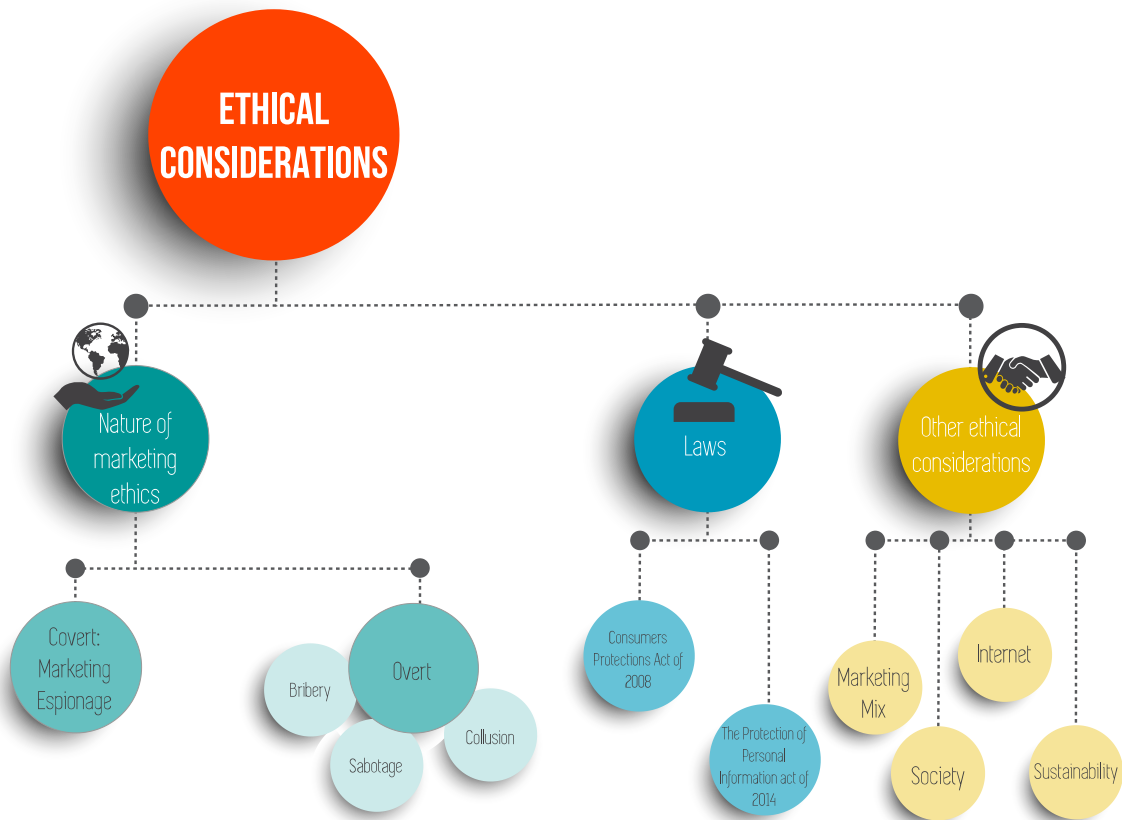
LEARNING OUTCOMES

AFTER STUDYING THIS CHAPTER, YOU SHOULD BE ABLE TO

- identify what marketing ethics are
- identify covert ethical issues in marketing
- discuss the ethical consideration in the marketing mix
- discuss types of unethical advertising
- understand the ethical consideration for the internet
- identify the consumer's rights and the importance of protecting these rights.

KEY CONCEPTS

- COLLUDING
- CONSUMER PROTECTION ACT
- CORPORATE SOCIAL RESPONSIBILITY
- COVERT MARKETING ETHICAL ISSUES
- ETHICAL BEHAVIOUR
- LIBEL
- MARKETING CONCEPT
- MARKETING ESPIONAGE
- MARKETING ETHICS
- OVERT MARKETING ETHICAL ISSUES
- SUSTAINABILITY
- UBUNTU



21.1 Introduction

Previous chapters of this book have covered all the concepts involved in marketing management which form the foundation of your understanding of marketing. The main theme is the fulfilling the consumer's needs, whether through promoting the right product, or pricing the right product fairly, or making it convenient for consumers to find products, or offering consumers quality products which they need or desire. Each marketing decision should be central to the consumer. While the focus should be on making profits, it is also important that marketers focus on doing what is right for the consumer and acting in the best interests of society as a whole. In other words, marketers must act ethically. Ethical behaviour refers to “acting in

ways consistent with what society and individuals typically think are good values” (Business Dictionary, 2017).

In this chapter we look at the ethical issues which affect various marketing concepts, such as the marketing mix, business-to-business, business-to-consumer, society and the physical environment. Ethical issues are complex and not the same in each business, individual and society. We will explore the impact of consumerism and environmentalism on marketing. We hope to produce a marketer who is an ethical citizen in the global environment.

21.2 Marketing ethics

Marketing ethics “are principles and standards that define acceptable marketing conduct as determined by various stakeholders”. An example of good marketing ethics is the principle of negotiation, which is a win-win situation. Marketing efforts must ensure that consumers win from the transaction but not at the expense of the company. A practical example is that Spar should not overcharge for their products with aim of making greater profits, but must consider what customers can afford. A good example of marketing ethics is that a used car dealership must make full disclosure of the specifications and service history of a car that is for sale and any accidents in which it has been involved. Marketing ethics or ethical marketing concerns a philosophy rather than a marketing strategy.

Ethics are concerned with basic concepts and fundamental principles that govern the conduct of companies. In a fast-moving global society, ethics have become an important aspect in the world of business. Ethics deal with morality and principles. Stakeholders expect companies to hold have high ethical standards.

21.2.1 Nature of marketing ethics

There are covert and overt marketing ethical issues. *Overt ethical issues* are easily identifiable (i.e. bribery, sabotage and collusion), but *covert issues*, although they are not as easily detectable, are as dangerous to a company's reputation (e.g. [marketing espionage](#)). Covert ethical marketing issues are complex because they are difficult to detect. There are several examples of big corporate collusion in South Africa, for instance Tiger Brands, Pioneer Foods and Premier Foods who were caught colluding on the price of bread and were fined hefty sums. Tiger Brands was fined R98 million by the Competition Commission and agreed to pay, but started disciplinary proceedings against its employees (<https://mg.co.za/article/2007-11-12-tiger-brands-slapped-with-r98m-cartel-fine>). We cannot measure the damage to their reputations that these companies experienced. The collusion cost consumers more than they should have paid for bread, which is truly unethical behaviour.

The issue of collusion is not only based on unfair competition but also on the adverse effect on consumers, especially for a staple product such as bread. There are many cases of collusion in South Africa, such as during the FIFA World Cup 2010. Several construction companies were involved in fixing the price of building the stadiums to force out smaller construction companies through pricing (Nicholson, 2013).

Due to the nature of covert marketing ethics, this tends to be complex and misunderstood, but is essential for a sustainable and caring organisation. A good example of covert marketing ethics is marketing espionage. In the marketing industry, espionage is the collection of competitor intelligence to gain an advantage. Marketing espionage is seen by some as a business practice, but others think of it as illegal and unethical as it invades other companies' privacy. Other ethical issues concerning marketing espionage are unfair ways of gathering data, which include hiding identity in the collection of a competitor's information and hacking into another company's data bases.

There are many other ethical dilemmas that the marketer can face in global markets, including cultural differences. The major dilemma that companies and marketers face is navigating between what is ethical

and what is legal. What is allowed (legal system) and what is morally proper (ethical/moral judgement) are not always the same. Under the legal system, companies have to abide by the legal requirements, but a moral judgement is made in good conscience and requires personal judgement.

In this chapter, we discuss marketing ethics related to three categories: conducting marketing activities, society and the environment. Briefly, marketing activities are all the activities which marketers use to sell their products or services, and society deals with two broad categories, namely social marketing and corporate social responsibility.

21.3 Marketing mix and ethical considerations

21.3.1 Pricing

High prices are one of most criticised aspects of marketing as many prices seem unacceptable to consumers. High prices are seen to increase the gap between the “haves” and the “have nots”. According to Armstrong, Kotler, Harker and Brennan (2012) there are several factors that affect prices, such as the high cost of distribution, and high advertising and promotion costs. The high costs charged by intermediaries is transferred to consumers, which is seen to be ethical. This unfortunately is a moral issue rather a legal issue. Refer to the legal considerations in pricing in [Chapter 12](#).

21.3.2 Products

There are some areas which cause ethical concerns when it comes to the product/service. These ethical concerns are as follows:

- **The development of products/services.** At times, products/services are not developed to satisfy needs but rather to create “needs”, which goes mostly against the wellbeing of society, i.e.

products/services that promote materialism. Products must be developed in such a way as to benefit society. Such products must be safe for consumption. An example is luxury goods which consumers cannot afford but are willing to buy in order to keep up with others. This happens a lot among university students: they purchase expensive products which they don't really need, while having more important needs to fulfil such as a food.

- **Performance of products.** It is the producer's responsibility to produce products which are safe and of good quality and which satisfy consumer's needs. An example of an unsafe product comes from the motor industry, where a certain car model caught fire and had to be recalled (Hosken, 2016). Pre-tests should be conducted to ensure that companies are supplying products which are safe. Where pre-tests have not been able to detect faults, product recalls should be made to minimise the damage. The performance of products has a bearing on the reputation of companies.
- **Packaging of products.** Packaging protects goods from harm but can also be a cause for ethical concern. Concerns include counterfeit products, which have flooded the market. There is a counterfeit product of most top brands and the differences are hard to see. These products are sold to consumers at cheap prices.
- **Promotion.** Advertising may be offensive to some groups of individuals in the community, and they lay complaints with the advertiser. A good example of this is the FNB advert "Don't be like Steve", which caused several complaints. FNB created an advert which basically mocked people called Steve when it referred to something that should not be done by saying "Don't be like Steve". There were fears that pupils who had the name Steve would be bullied (see <https://mybroadband.co.za/news/banking/115279-fnb-must-withdraw-its-steve-advertisements.html>). Besides the offensive nature of advertising, there are several other ethical issues as shown in Table 21.1.

Table 21.1 Definitions and examples of unethical advertising

Type of unethical advertising	Defnition	Example
Deceptive advertising	Advertising which wrongly attributes certain characteristics to a product with the aim of deceiving the consumer	An example is a mobile network such as Telkom that offered an unlimited data package while they were actually offering a maximum of 25 gigabytes or a soft cap. The consumer did not get what was originally offered.
Anti-competitive practices in advertising	Where the company offers a low price for a limited number of products as a bait	Companies advertise low prices while knowing that the number of products available at the low price is limited and could be sold out quickly.
Negative advertising	Where the sponsor highlights the weaknesses or disadvantages of their competitors' products	This happens a lot with comparative advertising especially in the washing powder category. The advertised detergent highlights the weakness of the "unknown" and uses these disadvantages to make their product look better.
False advertising	When the company advertises products which it doesn't have or the products do not have the advertised attributes	This happens a lot in the catering and hiring industry. The hirers overstate the goods for hire and customers find out during the event that they don't have the items which they advertised.

21.3.3 Place

The place which consumers buy their goods and services has to be in compliance with health and safety regulations. Companies need to regularly conduct health and safety checks in order to be in compliance with the law. Cleanliness of the physical store is a crucial ethical consideration both in terms of compliance and store image. An example is a KFC outlet which cleaned their chicken drumsticks on the floor using a hose pipe (Maune, 2015). Customers need to know the name of the company they are trading with in case they are offered unsatisfactory service.

21.4 The internet and ethical concerns

The internet presents a number of great opportunities for marketers not only to sell products across geographic boundaries but also to promote products to the target market. The internet is a point of access for customers who shop online. There are several ethical issues when it comes to the internet that marketing managers must be careful not to violate. Companies must have experts operating their websites and social media pages.

Some of the areas where ethical issues may arise are shown in [Table 21.2](#).

Table 21.2 Possible areas of ethical concern

Ethical issues	Explanation and example
Intellectual property issues (copyright, public domain, fair use, Creative Commons licences)	There are many intellectual property issues in copyright laws, especially websites selling designs which they acquired from social media sites.
Libel	Libel is a false statement which is damaging to a person's reputation. Marketing and human resources managers must ensure that their company's employees are trained to use the internet and social media to express their views. They should not get involved in a public altercation and make false statements.
Public disclosure of private information	One of the most serious ethical considerations for marketing managers is the disclosure private information. Many companies collect private information through cookies and contact information pages which need to be kept private. Disclosure of this information is illegal.
Distinguishing plagiarism from copyright infringement	It is hard to distinguish between copyright infringement and plagiarism. On the internet there is a lot of stealing of people's ideas.

It is hard for law enforcement agencies to apply matters that are mentioned as the nature of the internet makes it challenging. These characteristics include speed, lack of geographical boundaries and the ability of contributors be anonymous.

21.5 Society and ethical considerations

21.5.1 Consumerism

Consumers have been fighting for their rights for a long time. As society develops, consumers become more educated and more aware of unethical behaviour on the part of companies. Consumers post on their Facebook pages and Twitter to let other consumers know about unsatisfactory service that they received from a particular company. Consumers who are ethical encourage others to purchase products that are ethical. An example is activist groups which persuade other consumers to purchase organic foods and advocate for laws to enforce retail chains to sell healthier foods.

Consumerism is “an organised movement of citizens and government agencies to improve the rights and power of buyers in relation to sellers” (Kotler & Armstrong, 2016: 463). They also encourage other consumers to boycott companies which do not comply with ethical standards. The improvement of the rights of consumers is imperative to stopping companies from abusing consumers.

21.5.2 Corporate social responsibility

Corporate social responsibility refers to “business practices involving initiatives that benefit society” (Business Dictionary, 2017). Companies are now participating in activities with surrounding communities through corporate social responsibility initiatives such as planting trees and building schools. These initiatives are conducted with the objective of promoting their companies among community

members and receiving goodwill. Goodwill is the good reputation of a company in the society and among consumers, and is enhanced by corporate social responsibility. It comprises four broad categories, namely environmental efforts, philanthropy, ethical labour practices and volunteering. An example is the Old Mutual Staff Builder initiative which allows its staff members to participate in community development initiatives. This involves both volunteering and philanthropy.

21.6 The environment and ethical considerations

The earth's natural resources are being depleted and our environment is being damaged. Consumption of goods and services is one of the main contributing factors. Companies are contributing through pollution and production of consumer products. People are consuming products without much consideration for the environment.

The solution is for people to become more aware of the impact of consumerism on the planet. Consumers and NGOs have started participating in environmentalism, which is “a philosophy adhered to by ecologically sensitive advocates who wish to protect the planet from pollution or damage” (Uchegbu, 2014). These advocates are crucial for the sustainability of the environment. A good example of an organisation that advocates for sustainability is Greenpeace, which has several initiatives geared to the protection of the environment. On an individual level, many households now recycle plastic and other packaging, and generally cut back on wastage where possible.

21.7 Protection of the consumer by law

South Africa has laws to protect the consumer. Companies trading in South Africa must be careful not to break these laws as they could face severe penalties. Companies could also damage their reputations, which they spent a lot of time building.

21.7.1 Consumer Protection Act 68 of 2008

The Consumer Protection Act 68 of 2008 spells out consumer rights. The basic ethical considerations of the Act are as follows:

-  **1 The right to equality.** Every consumer must be treated equally regardless of gender, race or level of education, especially in the social media age where any form of discrimination will go viral on social media and could be damaging to the company's image and reputation.
-  **2 The right to privacy.** In the digital era, consumer privacy has become even more important as companies can collect data in more efficient ways. Sensitive information of consumers needs to be protected. During marketing research initiatives, respondents must be told that the information they provide to companies will be kept confidential.
-  **3 The right to choose.** This is the right to have options to purchase products in a competitive environment rather than from a monopoly. Product variation and categories must be encouraged so that consumers can exercise this right to choose.
-  **4 The right to disclosure of information.** Consumers have the right to know about anything that concerns them during the purchasing process. This is important especially after the meat scandal that happened a few years ago in South Africa, when horse meat was found in various types of processed meat (SAPA, 2013).
-  **5 The right to fair and responsible marketing.** It is the marketing manager's duty to ensure that the company's marketing

activities are fair and responsible. Responsible marketing takes into consideration the cultures, beliefs and religions of a society.

6 ➔ The right to fair and honest dealing. Setting of prices should be fair and honest. No changes in the prices should occur based on an individual's income, race or place of residence.

7 ➔ The right to fair, just and reasonable terms and conditions. Terms and conditions should be outlined in detail and customers must be informed of the terms and conditions regarding their purchase of goods or services.

8 ➔ The right to safe and good quality goods. Marketing managers must ensure that products which are sold by the company are quality assured and safe for use and consumption.

The eight fundamental rights are in line with the Constitution of the Republic of South Africa and the United Nations guidelines to consumer protection. The aim is to protect all consumers regardless of what they purchase and the monetary value of the goods.

21.7.2 Protection of Personal Information Act 4 of 2013

The Protection of Personal Information Act 4 of 2013 ensures that South African companies act responsibly in the collection, processing, storing or sharing of personal information and do not misuse it. Personal information is considered to be very valuable according to the Act. Individuals whose information is collected have a right to protection, as follows:

- The individual must consent to the collection of information.
- The information must be collected for the correct reasons.
- There must be transparency and accountability regarding what the data will be used for.
- The individual must have access to the information and the right to remove it when he or she so wishes.

- It must be clearly stated who has access to the information.
- Details must be provide on where and how the information is stored.
- The integrity and correctness of the information provided must be ensured.

These regulations are important for the safety of consumers. Any infringement of the regulations could lead to prosecution.

21.8 Conclusion

Since marketing deals primarily with consumers, marketing ethics is an essential part of the overall marketing strategy. In this chapter we looked at marketing ethics in detail, which can be either overt or covert.

Collusion among the largest corporates is not only unethical in terms of fostering good competition, but the costs of such unethical behaviour are transferred to consumers.

This chapter discussed the ethics that marketers need to take into account regarding marketing mix, internet, society and the environment.

DISCUSSION QUESTIONS

1. Discuss the concept of marketing ethics.
2. Explain the between difference between covert and overt marketing ethics.
3. Identify the four ethical dilemmas of marketing.

4. Identify the different ethical considerations that relate to the marketing mix.
5. Explain deceptive advertising.
6. Discuss the four ethical issues related to advertising.
7. Explain the concept of consumerism in ethics.
8. Discuss the concept of corporate social responsibility.
9. Identify the fundamental rights enshrined in the Consumer Protection Act.
10. Identify the role of society in marketing ethics.
11. Discuss product performance in relation to ethics.
12. Discuss the role and causes of ethics on the internet.

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