CHAPTER 7

Marketing process

OVERVIEW

7.1 Introduction
7.2 Situational analysis — SWOT analysis and product life cycle
7.3 Market research
7.4 Establishing market objectives
7.5 Identifying target markets
7.6 Developing marketing strategies
7.7 Implementation, monitoring and controlling

7.1 Introduction

As outlined in chapter 5, a marketing plan gives a purpose and direction to all the business's activities. Everyone in the business needs to know the plan, so all departments are working towards achieving the goal. For this reason, it is referred to as an integrated marketing plan. The marketing plan needs to 'mesh' with the business's operational plan, financial plan and human resources plan.

The steps involved in developing a marketing plan are shown in figure 7.1.

BizFACT

The acronym SMEIDI will help you remember the steps involved in developing a marketing plan.

***S**ituational analysis*
***M**arket research*
***E**stablishing marketing objectives*
***I**dentifying target markets*
***D**eveloping marketing strategies*
***I**mplementation, monitoring and controlling*



FIGURE 7.1 Steps involved in developing a strategic marketing plan. Strategic marketing planning provides a mechanism for businesses to gain a clear picture of where the business is at present, and where it could be in the future. In this sense, it is the 'road map' for marketing.

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

- realistic in the light of the situational analysis
- achievable within the business's resources and budgets.

7.2 Situational analysis — SWOT analysis and product life cycle

The most crucial step of the marketing plan is that management has a precise understanding of the business's current position and a clear picture of where it is heading. That is, a situational analysis must be undertaken based on meaningful market research. Two methods of analysis include a SWOT analysis and a product life cycle.

7.2.1 SWOT (strengths, weaknesses, opportunities and threats) analysis

Changes in the external environment can dramatically alter the course of a business. For this reason, a business must constantly monitor these changes, looking for any opportunities to exploit and any threats to avoid.

Internal forces operate from inside the organisation and are largely within the control of the business. These internal forces are unique to each business and, by analysing them, management can assess the strengths and weaknesses of the business.

To develop a clear understanding of both the external and internal environments, a SWOT (strengths, weaknesses, opportunities and threats) analysis should be conducted. A **SWOT analysis** involves the identification and analysis of the internal strengths and weaknesses of the business, and the opportunities in, and threats from, the external environment. It provides the information needed to complete the situational analysis and gives a clear indication of the business's position compared with its competitors. The marketing plan should be modified to reflect this information.

BizWORD

A **SWOT analysis** *involves the identification and analysis of the internal strengths and weaknesses of the business, and the opportunities in, and threats from, the external environment.*

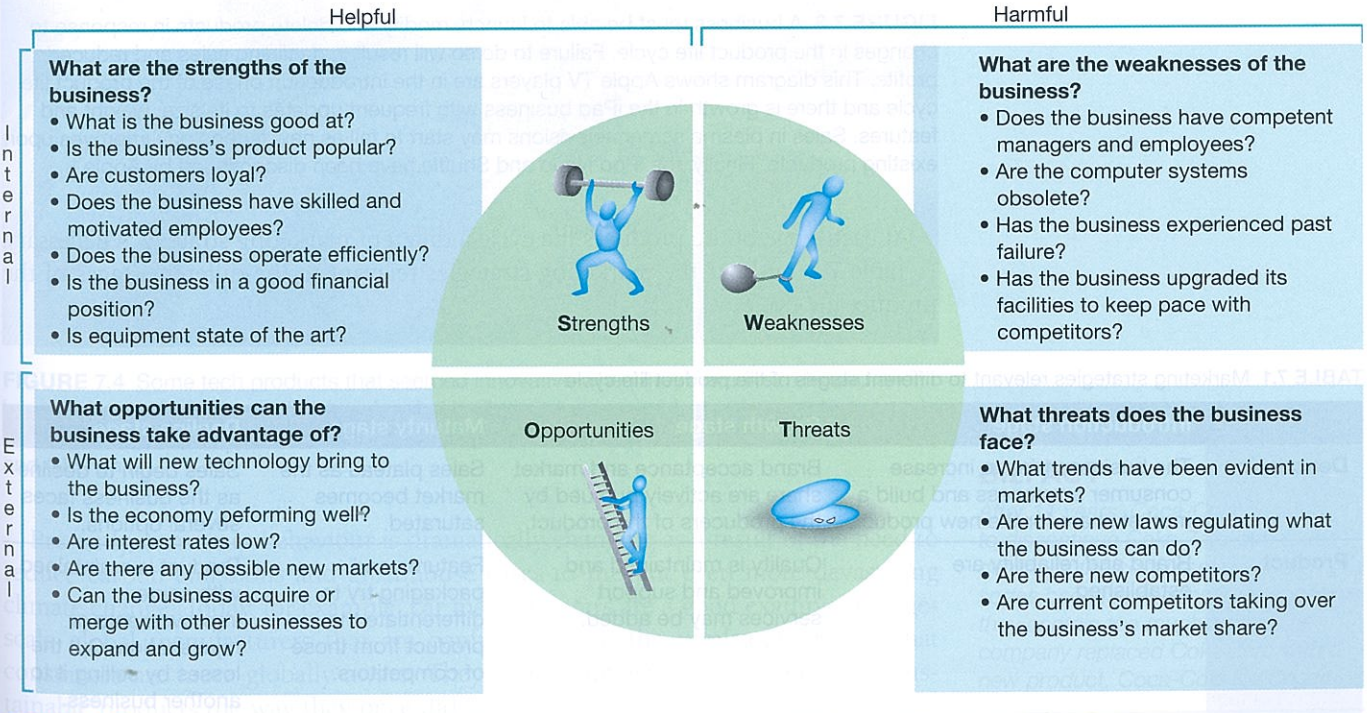


FIGURE 7.2 A SWOT analysis is a powerful tool that can be used at all stages of the marketing planning process.

Once the SWOT analysis has been conducted, an assessment of the product's position on the product life cycle should be carried out. This is necessary because different marketing strategies will need to be used at different stages of a product's life.

7.2.2 Product life cycle

BizWORD

The **product life cycle** *consists of the stages a product passes through: introduction, growth, maturity and decline.*

The **product life cycle** consists of the stages a product passes through: introduction, growth, maturity and decline (see figure 7.3). Many businesses start because of someone's great idea to produce a product (a good or service) that is new and perhaps superior to what is available. From that tiny seed, a successful business may grow; but like all good things, there is eventually an end to the cycle. Your parents and grandparents were familiar with many products that you would consider old-fashioned relics from the past, such as black and white television sets or cut-throat razor blades. Products such as these experienced the same cycle of introduction, growth, maturity and decline that products continue to experience today.

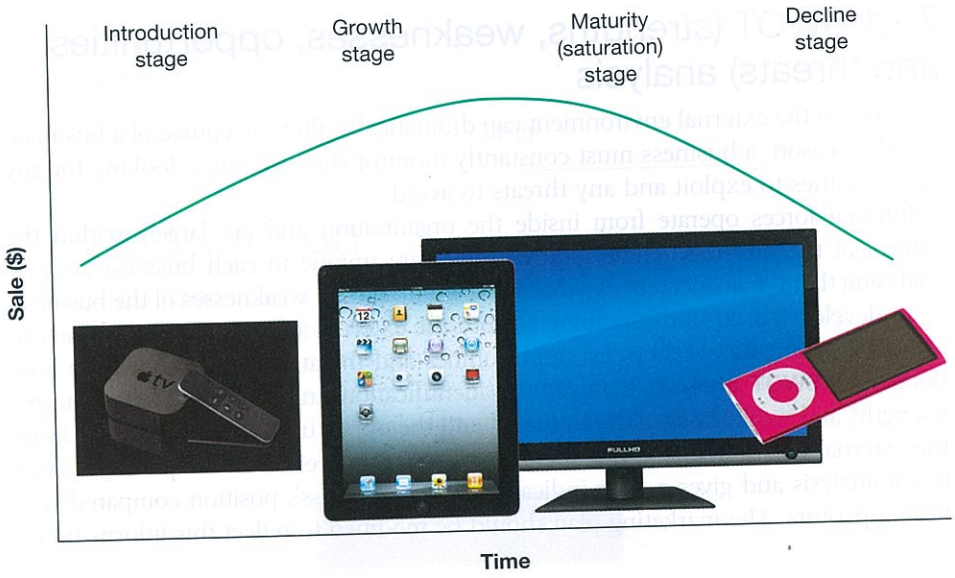


FIGURE 7.3 A business must be able to launch, modify and delete products in response to changes in the product life cycle. Failure to do so will result in declining sales and reduced profits. This diagram shows Apple TV players are in the introduction phase of the product life cycle and there is growth in the iPad business with frequent updates to its size, weight and features. Sales in plasma screen televisions may start to fall as new technology improves upon existing products. Finally, the iPod Nano and Shuffle have been discontinued by Apple.

At each stage of the product's life cycle a different marketing strategy is necessary. Table 7.1 outlines the marketing strategies relevant to the different stages of the product life cycle.

TABLE 7.1 Marketing strategies relevant to different stages of the product life cycle

	Introduction stage	Growth stage	Maturity stage	Decline stage
Description	The business tries to increase consumer awareness and build a market share for the new product.	Brand acceptance and market share are actively pursued by the producers of the product.	Sales plateau as the market becomes saturated.	Sales begin to decline as the business faces several options.
Product	Brand and reliability are established.	Quality is maintained and improved and support services may be added.	Features and packaging try to differentiate the product from those of competitors.	Product is maintained with some improvements or rejuvenation. Cut the losses by selling it to another business.

	Introduction stage	Growth stage	Maturity stage	Decline stage
Price	Price is often noticeably lower than competitors' prices in order to gain a market foothold.	Price per unit of production is maintained as the firm enjoys increased consumer demand and a growing market share.	Price may need to be adjusted downwards to hold off competitors and maintain market share.	Price is reduced to sell the remaining stock.
Promotion	Directed at early buyers and users. Communications seek to educate potential customers about the merits of the new product.	Promotion now seeks a wider audience.	Continues to suggest the product is tried and true — it's still the best.	Promotion is discontinued.
Distribution	Distribution is selective, which enables consumers to gradually form an acceptance of the product.	Distribution channels are increased as the product becomes more popular.	Incentives may need to be offered to encourage preference over rival products.	Distribution channels are reduced and product is offered to a loyal segment of the market only.

Why do some products decline?

Products end for various reasons (see the next Snapshot). These include the changing public perception of what is fashionable at certain times. New technologies are constantly being introduced and with them come new products replacing old ones. New products also sometimes reduce demand for older ones. Fluctuations in the level of economic activity constantly result in shifts in customer spending habits.



FIGURE 7.4 Some tech products that seemed innovative when they were first released and have now experienced a decline in sales due to the increasing popularity of smartphones and tablets include MP3 players, e-readers, landline phones, personal computers, digital cameras and GPS units.

Presently, consumer behaviour is dramatically changing as a result of the need to reduce carbon emissions and greenhouse gases to prevent even more devastating climate change. Today, for example, car manufacturers are a good example of large-scale global manufacturers that are confronted with the unpleasant reality that consumers are more globally aware. They will no longer continue buying unsustainable products the way they once did.

BizFACT

After 11 years, Coca-Cola decided to discontinue Coke Zero due to the decline in the consumption of diet sodas because of consumer concerns they contain too much sugar. The company replaced Coke Zero with a new product, Coca-Cola No Sugar.

SNAPSHOT

Case study: iPod Nano and Shuffle — product life cycle, 2001–17

> 'the iPhone … gradually lead to the decline of music players …'

Most successful products begin with companies searching for a solution to a problem. The iPod wasn't the first MP3 player — they had been around since the mid-1990s — the 'problem' was that the early models only stored few songs, were big and heavy, had difficult-to-navigate interfaces and took a long time to transfer songs. In 2000, Steve Jobs, Apple's CEO, decided they should develop their own MP3 player to overcome the inadequacies of the current players, so he assembled a team of engineers to design the iPod line.

The iPod was developed in less than a year and the first version was released on 23 October 2001. It was smaller and easier to use than its competitors, had an effective design, a very simple interface as well as a 1000-song capacity due to its 5GB hard drive. The initial reaction wasn't overly optimistic, with some people claiming it was too expensive (it cost $399) and not the 'breakthrough' it was hyped to be. Its price and Mac-only compatibility caused sales to be relatively slow until 2004.

The iPod began to experience some growth in 2002 due to the newer models being Windows-compatible. To promote this new feature, Jobs got his friends in the music business to help launch the new software. In 2003, sales continued to slowly increase after Apple introduced the iTunes Music Store and Oprah declared the iPod as one of her 'Favourite Things'. By June that year the one millionth iPod was sold.

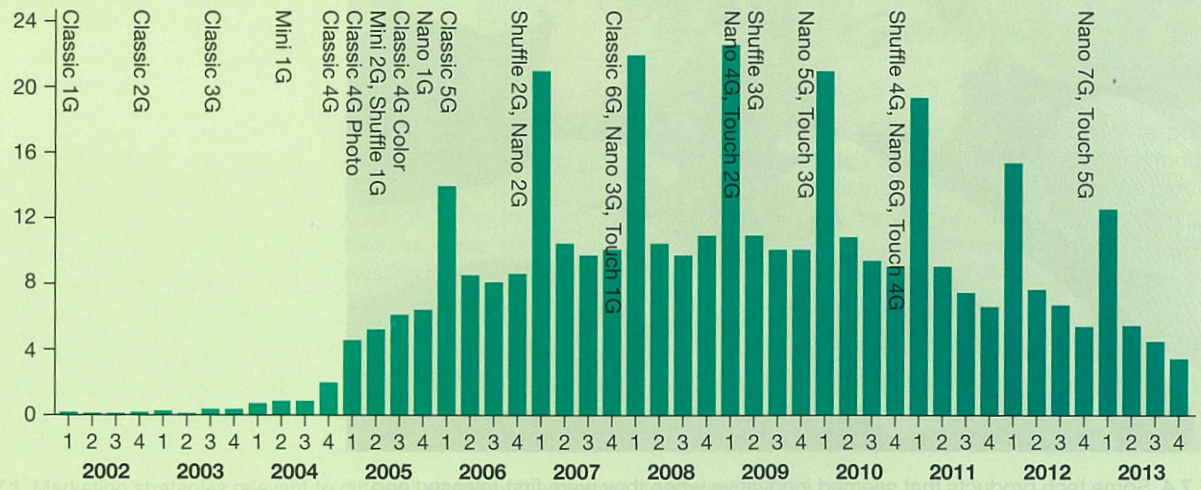
2004 lead to an exponential growth in sales. This growth can be attributed to the launch of the new iPod mini, Apple's significant investment on new advertising and promotional campaigns for the iPod as well as the fact that car manufacturers began to offer built-in iPod integration.

Apple introduced the iPod Shuffle in 2005, which could plug directly into a computer through an on-board USB. In that same year, the iPod Nano was launched, which included a colour screen and came with 1GB, 2GB, 4GB capacities. Over the years, the iPod Nano and Shuffle went through several design modifications — at first, both devices were slightly box-shaped and plain coloured before eventually getting longer, sleeker and being offered in a variety of bright colours.

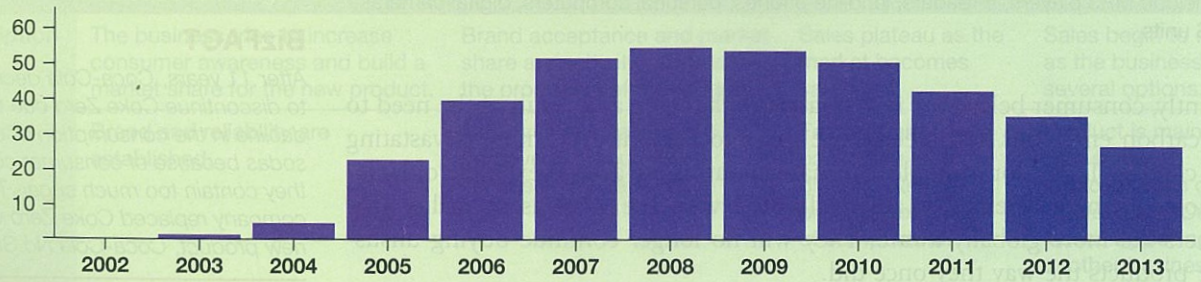
In June 2007, iPod sales started to plateau and the product entered the maturity phase. This was due to Apple's release of the iPhone, which gradually led to the decline of music players in general. In response, Apple discontinued some iPod models, dropped their price significantly and, in September that year, introduced the iPod touch, which contained the features of an iPhone without the monthly phone charges.

iPod sales chart

Units sold worldwide in millions, per fiscal quarter



Units sold worldwide in millions, per fiscal year



From 2009, iPod sales were in decline. For five years, sales continued to fall each quarter despite it still being the top-selling MP3 player in the world. Up until 2010, Apple sold more iPods than iPhones; however, by 2014, iPod sales only accounted for 1 per cent of Apple's total revenue. In 2013 Apple didn't introduce any new iPods, which lead to an even bigger decline in sales. This is because sales usually peaked each time Apple released a new iPod.

The decline of iPod sales cannot be attributed solely to the introduction of iPhones (which were more versatile than iPods) but also to the rising popularity of other smartphones that offered similar music features and to the rise of music streaming services.

So in 2017, after nearly 16 years on the market and 400 million units sold, Apple pulled the iPod Nano and Shuffle off the shelves, which signifies the end of Apple's standalone music players. Only the iPod Touch lives on.

SNAPSHOT QUESTIONS

1. Use the stages of the product life cycle (introduction, growth, maturity and decline) as your headings. Under each heading write a brief sentence to **summarise** how the iPod passed through each stage.
2. **Outline** the key marketing strategies that Apple used to respond to the challenges of each stage of the product life cycle.
3. **Explain** the factors that lead to the decline of the iPod.

SUMMARY

- A marketing plan gives a purpose and direction to all the business's activities.
- The steps involved in the marketing process are:
  - situational analysis
  - market research
  - establishing marketing objectives
  - identifying target markets
  - developing marketing strategies
  - implementation, monitoring and controlling.
- A situational analysis provides a precise understanding of the business's current position and where it is heading.
- A SWOT (strengths, weaknesses, opportunities and threats) analysis provides the information needed to complete the situational analysis and assesses the business's position compared with its competitors.
- The product life cycle consists of the stages a product passes through: introduction, growth, maturity and decline.
- At each stage of the product's life cycle a different marketing strategy is necessary.

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Syllabus area 2 | Topic 3 | Concept 1

Marketing plan
Summary screen and practice questions

EXERCISE 7.1 REVISION

1 **Clarify** why everyone in the business needs to know the marketing plan.

2 **Identify** the two features all marketing plans should have.

3 **Examine** figure 7.1, then copy the table below into your notebook. Complete the table by **recalling** and then writing against each step the appropriate statement from those given below. The first step has been completed for you.

Developing a marketing plan	Statement
Step 1: Situational analysis	The business currently has a market share of 28 per cent. The market is growing but new competitors are likely to enter the market.
Step 2: Market research	
Step 3: Establish market objectives	
Step 4: Identify target markets	
Step 5: Develop marketing strategies	
Step 6: Implement, monitor and control the plan	

Statements

(a) The business will design a new promotional campaign featuring younger women. Direct selling methods will also be introduced.
(b) The market share percentage will be examined every three months. If the results are negative, then the objectives will be reviewed.
(c) The business is to increase its market share to 35 per cent within the next 12 months.
(d) The business presently sells to 35- to 45-year-old females across all income groups. However, the product could be made to appeal to the 25 to 35 age group.
(e) The business needs to collect information about existing and potential customers.

4 **State** what the acronym SWOT represents.
5 **Outline** the value of a SWOT analysis when reviewing the business's situation.
6 **Define** the term 'product life cycle'.
7 **Outline** the four stages of the product life cycle and provide an example of a product in each stage.
8 **Identify** at which stage of the product life cycle the following products are located.
(a) CD
(b) Personal computers
(c) 3D televisions
(d) Tablet devices
9 **Explain** why the marketing strategies should change as a product advances through the stages of its life cycle.
10 **Compare** the marketing strategies for a product in the growth stage with one in the decline stage.
11 **State** the main reasons why the sale of many products eventually decline.

EXERCISE 7.1 EXTENSION

1 With a partner to share the task equally, **create** an exciting visual presentation on the life cycle of a product of your choice. You must present your work to the rest of the class (maximum time for presentation: 5 minutes).
2 'Knowledge of the product's life cycle can provide valuable insights into ways the product can be managed to enhance sales and profitability.' **Assess** the accuracy of this statement.
3 Interview a person born in the two decades after 1945. Ask them these questions:
(a) What is a product you fondly recall that no longer exists?
(b) What was the logo used to promote the product?
(c) Can you describe the advertisements?
(d) Was the product useful to you?
(e) Was the product expensive?
(f) What became of it? Why did it decline?

Construct a brief report (approximately 250 words) on the interview. Alternatively, use the interview to **create** a 5-minute PowerPoint or visual presentation to the rest of the class.

7.3 Market research

Imagine you have just been given an assessable task for your Business Studies class. If you want to achieve satisfactory results, it is important that you undertake some type of research. The research could consist of reading books and magazines, conducting surveys, accessing internet sites, carrying out experiments and talking to people. Marketing managers also have to undertake research of their market.

Market research is the process of systematically collecting, recording and analysing information concerning a specific marketing problem.

Just as a well-researched assessable task will lead to better results, marketing strategies perform best when they are based on accurate, up-to-date, detailed and relevant information. Being well-informed about all aspects of the market, especially the buying behaviour of existing and potential customers, places the business in a stronger position.

BizWORD

Market research *is the process of systematically collecting, recording and analysing information concerning a specific marketing problem.*

Case study: Market research is at the heart of IKEA's expansion

Market research is at the heart of IKEA's expansion. This focus came about as a result of the problems they encountered when entering the US market due to their lack of research. Since then, IKEA has invested a lot of time conducting marketing research and studying consumers. This is especially the case when they make the decision to expand to new countries with cultures distinctly different from their own.

IKEA founder Ingvar Kamprad was a firm believer in conducting his own market research (i.e. primary research). Before entering a new market, the company carries out their own market analysis instead of relying on conventional research involving market studies. IKEA finds this to be more practical and intuitive as it allows the business to gain access to extensive amounts of cross-cultural data.

IKEA found that surveying people doesn't always give them the right answers. Many people say things that are not entirely accurate and what they actually do may be very different to what they say. This could be because people respond to questions in a way they think they're supposed to or answer in a way that makes them sound better; often this is because people are not always fully aware of how they behave.

To overcome this, IKEA have developed a number of research methods that go deeper and give them a better understanding of how people actually behave and what they actually want and need. Their researchers take a firsthand look at customers themselves. They frequently do home visits and set up cameras in people's homes, filming them for a number of days (with their permission). Through their research they want to come closer to people's everyday lives and reality. First their researchers watch the footage and analyse it and then they sit with their subjects and get them to watch the footage. Their subjects are often surprised as they are often not aware of how they actually behave.

The following are two examples of how IKEA's research led to the development of new products to better meet consumer's needs:

- IKEA recently studied over 8000 people across eight cities to observe their morning routines. What they found was that, regardless of the city, many people find the process of picking out their outfit for the day stressful, with women spending more time on this than men. Based on this data, IKEA invented a freestanding mirror called the Knapper that has a rack on the back to hang clothes and jewellery. This mirror is meant to help customers assemble an outfit (including clothes and accessories) the night before to cut down on morning anxiety.
- Other research revealed that more and more of the world's population are living in cities with smaller living spaces. This lead to the creation of more multifunctional products such as their new range of 'wireless chargers' — a range of products that blend in with people's homes and make it possible to charge mobile devices where they need them most, without having to chase after outlets or hide messy cables.

SNAPSHOT QUESTIONS

1. **Outline** some of the market research techniques used by IKEA.
2. **Assess** IKEA's most successful method of market research (i.e. filming people in their homes).
3. **How** has market research contributed to IKEA's success?

SNAPSHOT



'Their researchers take a firsthand look at customers themselves.'

BizFACT

One of the main reasons products fail is inadequate market research.

Releasing a new product onto the market is risky. Minimising the risk is the main purpose of market research. By collecting and assessing information about the needs and wants of consumers, a more accurate and responsive marketing plan can be designed and, therefore, reduce the risk of market failure. Market research attempts to identify and outline both marketing opportunities and problems as well as evaluating the implementation of the marketing plan.

Without adequate, reliable and correct information, businesses expose themselves to market embarrassments, which could result in the product failing to sell.

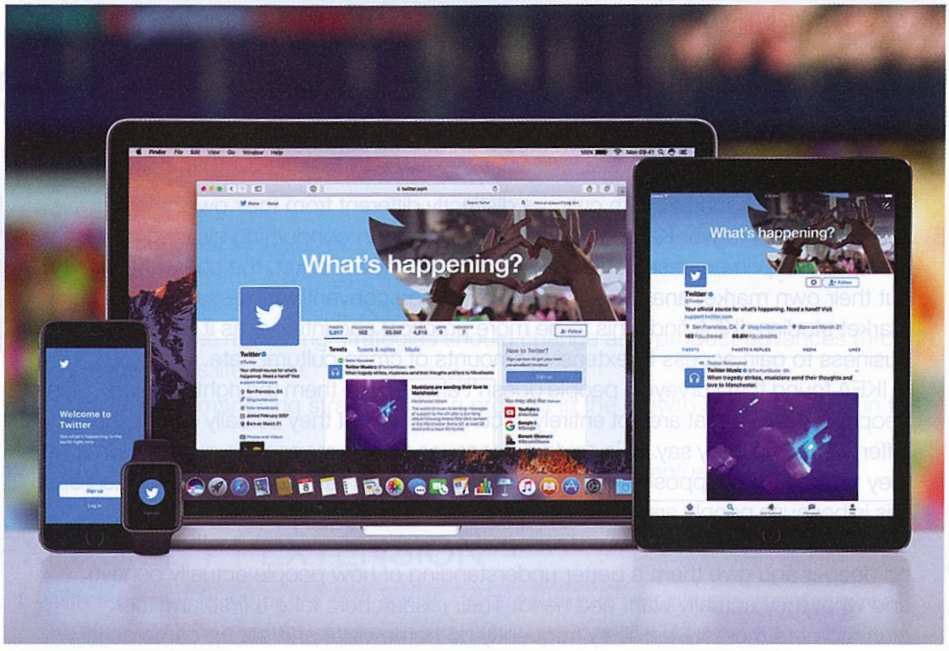


FIGURE 7.5 The founders of Twitter originally designed a podcasting platform called Odeo. Soon after, Apple launched iTunes podcasting, so the founders invested significant time researching other opportunities to build on the platform they'd already created. They eventually decided to create a portal where people could share what they were up to. With this idea in mind, the founders researched existing social networking sites and surveyed users to discover what they didn't like about those sites. In 2006 Twitter was born.

7.3.1 The three steps of the market research process

To obtain accurate information, marketing managers usually follow a three-step approach (see figure 7.6).

You will probably be familiar with this process as it uses similar steps to those needed to complete a research assignment.

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

FIGURE 7.6 The three steps of the market research process

Determining information needs

The information collected must be relevant to the issue or problem being investigated. The best method to determine the relevance of data is to constantly ask questions concerning its ultimate use. Information is useful if it:

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

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

Data collection — primary and secondary sources

Marketing data refers to the information — usually facts and figures — relevant to the defined marketing problem. Normally, market researchers use a combination of two types of data: primary and secondary data (see figure 7.7.)

BizWORD

Marketing data *refers to the information relevant to the defined marketing problem.*

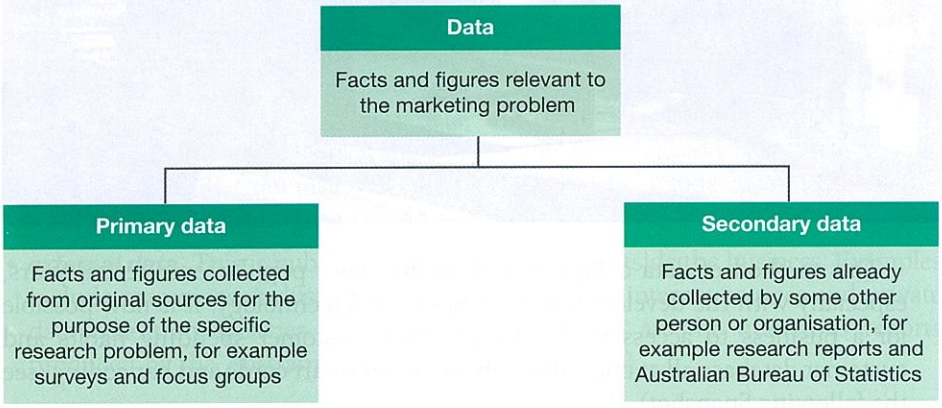


FIGURE 7.7 Two types of marketing data: primary and secondary

Primary data

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

BizWORD

Primary data *are the facts and figures collected from original sources for the purpose of the specific research problem.*

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

Three main methods are used to gather primary data.

1. *The survey method.* Conducting a **survey** means gathering data by asking or interviewing people. Surveys may be carried out by:
   - personal interviews — face-to-face interviews conducted in public places
   - focus groups — small groups of people who meet with the researchers
   - electronic methods of collection — telephone, mail and internet
   - questionnaires — a set of specific questions requiring a response from the person.

   The main benefit of a survey is that it gathers first-hand information that provides details of customers' opinions. However, gathering information through surveys is becoming more difficult because respondent rates are declining. To overcome this problem, marketing companies are using electronic methods of collecting information about consumer behaviour, as outlined in the previous chapter.
2. *The observation method.* Observation involves recording the behaviour of customers. No interviews are involved and direct contact with respondents is avoided. Instead, the actions of the customers are systematically observed. Such methods can raise serious ethical issues, especially with regard to privacy.

BizWORD

Conducting a **survey** *means gathering data by asking or interviewing people.*

BizFACT

Online surveys are increasingly being used by businesses to conduct market research. This is because they are faster, cheaper and easier to use for both participants and researchers.

Information may be gathered through:

- personal observation, such as when a researcher poses as a customer in a store
- electronic observation, using camera or counting machines. For example, the scanner and cash register at a store checkout counter can record data on sales and customers' purchase patterns (see figure 7.8).



FIGURE 7.8 The development of computerised technology has enhanced market research and enabled companies to gather even more data much quicker and cheaper than before.

BizFACT

The Queen Victoria Building shopping precinct uses security monitors to evaluate foot traffic into and past shops at different times of day.

This method of data collection has become very popular over recent years, especially with the development of computerised technology. It is now possible for a business to access its loyalty program, customer spending habits and customer database all at once, through the use of smart cards and bar coding (see the following Snapshot).

Such observation methods can be highly accurate, but their main limitation is that they explain only *what* happens, not *why* it happens.

3. *The experiment method.* Experiments involve gathering data by altering factors under tightly controlled conditions to evaluate cause and effect. Market researchers do this to determine whether changing one of the factors (a cause) will alter the behaviour of what is being studied (the effect). Experiments carried out in the field are called test marketing.

SNAPSHOT



Loyalty cards? How retailers get your data

Although called 'loyalty cards', these cards are not always about winning the loyalty of customers. The real value-added for companies is the data they generate for the company.

From micro-businesses to large transnational corporations, many retailers are developing rewards programs and encouraging customers to sign up. But, for all the points, offers and discounts customers receive, who is actually getting the better end of the deal? The reality is that many programs are likely to benefit companies more than consumers.

Due to the competitive nature of the retail industry, retailers are always looking for ways to differentiate themselves and gain more customers. By offering loyalty cards, businesses are giving customers an incentive to keep going back to their store. Just like the old adage 'Nothing in life is free', a business isn't going to give their consumers something for nothing in return. Consumers therefore need to consider what's in it for the retailer.

So what do retailers get out of loyalty programs? Loyalty programs provide retailers with an abundance of information and data. When people initially sign up, the

company can find out a great deal of demographic data about their customers such as age, gender and address. In addition, each time a customer's card is scanned, the transaction is recorded and over time the business can gather data about customer preferences and their shopping habits, including the location, timing and frequency of their purchases. Retailers then use that information to build a profile of each customer so they can promote specific goods or services they are more likely to buy in a way that most appeals to them.

SNAPSHOT QUESTIONS

1. **Outline** the benefits of loyalty cards for consumers.
2. **Explain** why businesses use loyalty cards.

'... many programs are likely to benefit companies more than consumers.'

Secondary data

Secondary data comprises information that has already been collected by some other person or organisation. It is referred to as secondary because it is information that has been collected for some other purpose; for example, census data and household expenditure surveys gathered by government and private organisations. With the advent of computer databases, an abundance of secondary data are available to market researchers.

There are two types of secondary data. These are:

- ***internal data***. This is information that has already been collected from internal sources — that is, from inside the business. Such data include customer feedback, sales and management reports, and research reports.
- ***external data***. This is published data from sources outside the business. Examples include magazines, industry association newsletters, internet sources and private data collection agencies. Probably the best known are the numerous reports produced by the Australian Bureau of Statistics (ABS).

BizWORD

Secondary data *is information that has already been collected by some other person or organisation.*

BizWORD

Internal data *refers to information that has already been collected from inside the business.*

External data *refers to published data from outside the business.*



BizFACT

The Roy Morgan Research Centre monitors what a targeted group of customers read, when and what they watch on television, what they buy, where they buy, and what they think of different products.

FIGURE 7.9 The Australian Bureau of Statistics (ABS) is Australia's official statistical organisation. They provide businesses with a range of resources to assist them with their planning and research activities. The ABS also provides a range of services to small businesses. They assist them with market research, profiling customers and planning. They can provide businesses with a wide range of data on their industry, their community, and the social and economic climate, as well as hints and tips.

Data analysis and interpretation

Once the data has been gathered, conclusions need to be drawn. Raw data is of little value until it has been analysed and interpreted. **Statistical interpretation analysis** is the process of focusing on the data that represents average, typical or deviations from typical patterns.

BizWORD

Statistical interpretation analysis *is the process of focusing on the data that represents average, typical or deviations from typical patterns.*



FIGURE 7.10 In the late 1950s, Xerox Corporation's market research indicated only a small market existed for an automatic photocopier. Luckily for Xerox, management had a 'gut feeling' that the researchers' conclusions were wrong and they decided to launch the product anyway. The photocopier was an instant success and the rest is history.

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

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

SUMMARY

- Market research is the process of systematically collecting, recording and analysing information concerning a specific marketing problem.
- To obtain reliable and accurate information, marketers follow a three-step approach.
  - Step 1: Determining information needs. The problem is clearly stated to determine what needs to be measured and the issues involved.
  - Step 2: Collecting data from primary and secondary sources. Data are collected by mail, telephone and personal surveys, personal observation or from private data sources.
    - Primary data: information from original sources. Example: interviews and surveys
    - Secondary data: information collected by other organisations. Example: industry reports and Australian Bureau of Statistics
  - Step 3: Data analysis and interpretation. Determine what the data means.
    - Statistics are processed to determine if responses show trends or patterns that can be used in the business.

EXERCISE 7.2 REVISION

1 **Define** the term 'market research'.
2 **Explain** why it is important for businesses to undertake market research.
3 **Outline** the three steps of the market research process.

studyon
Syllabus area 2
Topic 3
Concept 2
Market research: collecting data
Summary screen and practice questions

studyon
Syllabus area 2
Topic 3
Concept 3
Market research: using data
Summary screen and practice questions

4 Complete the following sentences by **recalling** the correct term from the list below.

resources	data	information
investigated	relevant	questions

(a) Information collected must be _____ to the problem being _____.
(b) The best method to determine the relevance of the _____ is to constantly ask _____ concerning its ultimate use.
(c) Marketers should treat _____ in the same way as other _____ within the business.

5 **Define** the term 'marketing data'.
6 **Distinguish** between primary and secondary data.
7 **Identify** the four methods used for gathering survey data. **State** under what circumstances each should be used.
8 **Account** for the increased use of electronic scanners to collect data.
9 **Distinguish** between the survey, observation and experiment methods of data collection.
10 **Compare** internal and external secondary data.
11 **Explain** the purpose of analysis and interpretation of data.
12 Investigate The Realise Group online to **identify** the services this market research and mystery shopping company offers its clients. Select and **summarise** one of the company's services.

on Resources

Weblink: The Realise Group

EXERCISE 7.2 EXTENSION

1 Choose a business partner in your class. Assume both of you are managers in an ice-cream manufacturing business. **Analyse** how you might use different types of market research (surveys, focus groups, observations and experiments) to determine customer reaction to a new kind of ice-cream.
2 Think about your school, or a business for which you work part-time.
(a) **Outline** how the organisation collects and processes marketing information.
(b) **Explain** what the information is used for.
(c) **Propose** what secondary sources could be used to supplement this data.
3 As the owner of a supermarket, you believe you could sell more strawberries by displaying them loose on a tray, rather than packaging them in punnets.
(a) **Describe** an experiment to test this idea.
(b) **Determine** the difficulties in conducting the experiment.

7.4 Establishing market objectives

BizWORD

Marketing objectives *are the realistic and measurable goals to be achieved through the marketing plan.*

The next step in the marketing process is the formulation of marketing objectives. **Marketing objectives** are the realistic and measurable goals to be achieved through the marketing plan. It is of little value for a business to plan and implement a marketing strategy without first deciding what it wants to achieve. This decision is considered the most important step in the marketing planning process. The marketing objectives should be closely aligned to the overall business goals, but more customer-oriented than the goals for the entire business. They are also concerned with products and markets.

Three common marketing objectives include:

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

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

BizWORD

Market share *refers to the business's share of the total industry sales for a particular product.*

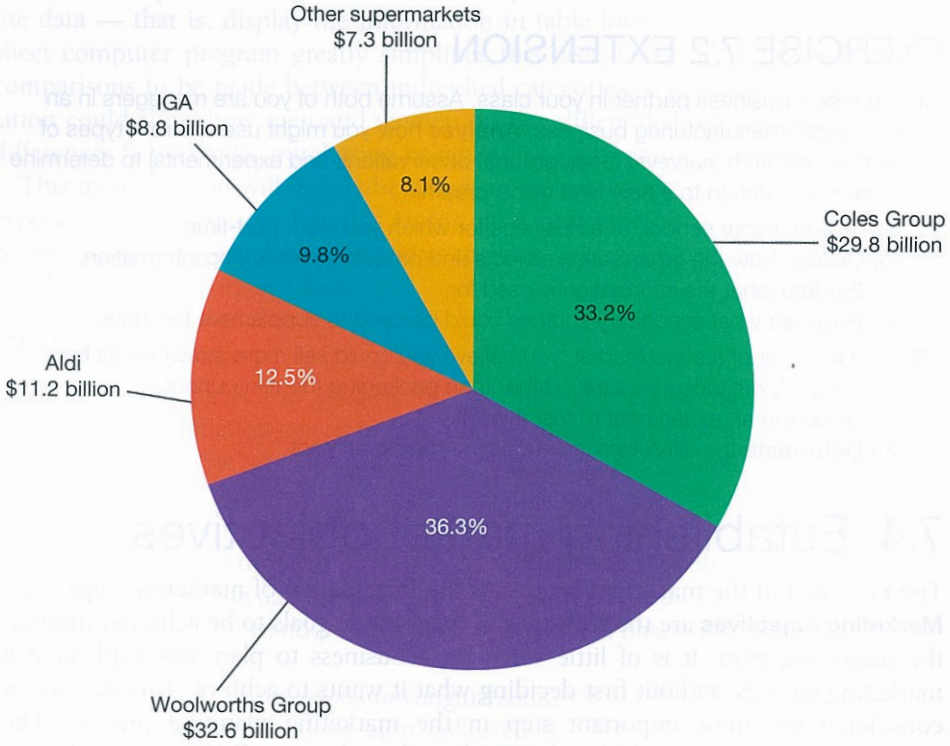
BizFACT

According to Net Market Share (2017), Google is the market leader in search engines with close to 80 per cent global market share. The average number of daily searches on Google is 4 464 000 000.

7.4.1 Increasing market share

All marketing plans aim to achieve a specified market share. **Market share** refers to the business's share of the total industry sales for a particular product. Businesses often develop an extensive product range, using many different brand names to gain an extra few percentage points of market share. The metropolitan free-to-air (FTA) commercial television broadcasters Nine Network, Seven Network and Network Ten, for example, are constantly trying to increase their market share of the viewing public as measured by the 'rating' of a program. The 'rating' is an estimate of the number of television sets tuned in to a program. The network with the highest ratings for any program can charge advertisers more for a commercial spot. Consequently, each network is constantly battling for the largest share of the total viewing audience. To achieve this, networks offer a range of products (television programs) to attract the largest number of viewers. With the development of digital television broadcasting in Australia, the FTA television stations created sub-brands of their primary channels. Consequently, they have been able to divide (segment) the TV viewing audiences into more narrowly divided market groups. The motive behind offering these different sub-brands is to broaden the appeal, attract new customers (viewers) and consequently increase market share.

Increasing market share is an important marketing objective for businesses that dominate the market, because small market gains often translate into large profits.



Note: Dollars and percentages may not add to totals due to rounding.

FIGURE 7.11 Woolworths and Coles dominate the grocery market sector (valued at close to $90 billion), with 36 per cent and 33 per cent market share respectively. Due to their large combined market share, they have faced heavy criticism from the ACCC who recently began investigating potential breaches of competition laws, including misuse of market power. Over the past few years their market share has been declining due to intense pressure from competitors such as Aldi and IGA.

7.4.2 Expanding the product mix

BizWORD

Product mix *is the total range of products offered by a business.*

The total range of products offered by a business is referred to as the business's **product mix** (see figure 7.12). Businesses are usually keen to expand their product mix, as this will increase profits in the long term. The same product mix will not remain effective for long because customers' tastes and preferences change over time, and demand for a particular product may decrease.

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



FIGURE 7.12 The product mix of Beau's Floral Studio. While floral arrangements are the main product, most florists have expanded their product mix to include gifts, vases, aromatherapy oils, helium party balloons, caneware and scented candles.

7.4.3 Maximising customer service

Of all the objectives examined so far, maximising customer service is perhaps the most important. **Customer service** means responding to the needs and problems of the customer. High levels of customer service will result in improved customer satisfaction and a positive reaction from customers towards the products they purchase. This establishes a sound customer base with the possibility of repeat purchases.

The old saying 'the customer is always right' is still correct today. Customers are the lifeblood of any business. To keep existing customers and attract new ones, the business needs to talk and listen to the customers. Research has shown that one dissatisfied customer usually tells eleven others, who in turn will each tell another five.

Customer service can no longer be regarded as merely explaining the refund policy or providing a complaints department. Rather, it is an attitude that should be adopted by everyone within the business.

The strategies a business can use to maximise customer service include:

- asking customers what they want
- training employees and rewarding them for excellent customer service
- anticipating market trends by conducting research
- finding out what competitors are offering and then reviewing the product mix
- establishing and maintaining long-term relationships with customers
- encouraging employees to focus their attention on the customer's needs (customer-oriented) and not just on making a sale (sales-oriented).



FIGURE 7.13 Newstead Financial Planning's philosophy is to exceed the customer's expectations by providing outstanding levels of service. It trains its employees in the 'above and beyond' principle of customer service — do those extra things to show the customer the business cares about them.

BizFACT

In an effort to increase their market share, Aldi boosted its grocery selection by adding as many as 250 new products to its range of about 1450 items in 2017.

BizWORD

Customer service *refers to how well a business meets and exceeds the expectations of customers in all aspects of its operations.*

BizFACT

In 2013, Roy Morgan hosted an awards night presenting awards to 39 businesses that were considered to have achieved outstanding levels of customer satisfaction. Among the winners were Commonwealth Bank of Australia, who was named Best Major Bank of the Year, Sussan for Best Clothing Store of the Year, Myer for Best Department Store of the Year, The Good Guys for Best Furniture/ Electrical Store of the Year and JB Hi-Fi who took out best Music/Book Store of the Year.

studyon

Syllabus area 2

Topic 3

Concept 4

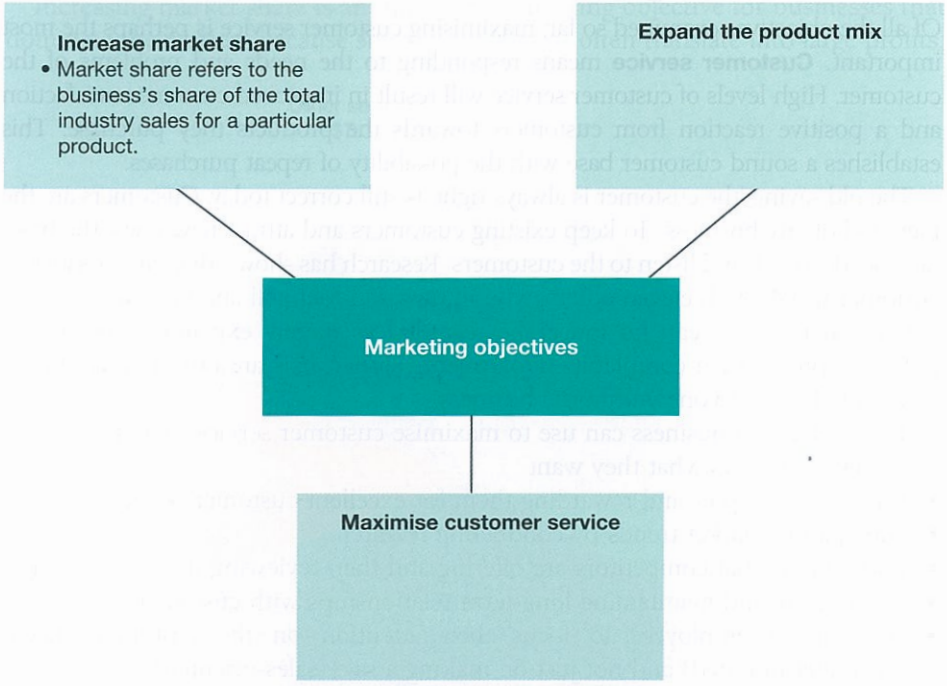
Establishing marketing objectives
Summary screen and practice questions

SUMMARY

- Marketing objectives are the realistic and measurable goals to be achieved through the marketing plan.
- The marketing objectives should be more customer oriented than the goals for the entire business, and should include specific targets to be met — for example, 'Increase market share by 5 per cent over 12 months'.
- Marketing objectives include:
  - Increase market share. Market share refers to the business's total share of the total industry sales for a particular market.
  - Expand the product range. Product mix is the total range of products offered by a business.
  - Maximise customer service. Customer service means responding to the needs and problems of the customer.

EXERCISE 7.3 REVISION

1 **Construct** a concept map (started below) **summarising** the three main marketing objectives.



2 In the following examples, **identify** which marketing objective the business is trying to achieve.
   (a) The business introduces a customer feedback form to measure the level of customer satisfaction.
   (b) The business decides to undertake an extensive promotional campaign in an attempt to attract new customers.
   (c) The business decides to offer a wider variety of products.

3 **Explain** why businesses wish to increase their market share.

4 (a) **Define** the term 'product mix'.
   (b) **Explain** why businesses are usually keen to increase their product mix.

5 **Explain** the relationship between customer satisfaction and profits.

EXERCISE 7.3 EXTENSION

1 'The most important step in the marketing plan process is the formulation of the marketing objectives.' **Evaluate** the accuracy of this statement.

2 Develop a strategic marketing plan for your school's canteen. **How** could the canteen maximise its customer service? **Predict** what major problems it would face in trying to expand off campus.

3 'There are only two ways to create and maintain outstanding business performance. First, take exceptional care of the customer and, second, develop new products. It is that simple.' **Analyse** the relationship between customer service, product mix and market share.

7.5 Identifying target markets

Because you are a senior high school student, you're part of a major target market — the teenager/young adult market. A **target market** is a group of present and potential customers to which a business intends to sell its product. The customers within the target market share similar characteristics such as age, income, lifestyle, location and spending patterns. The teenage/young adult market, for example:

- consists of people between 15 and 19 years of age
- has more disposable income than in the past
- is more willing to spend on themselves, especially designer brands and electronic devices
- makes up only 5 per cent of the Australian population but purchase approximately 25 per cent of all takeaway food
- spends on average $1100 a year on clothes.

Consequently, marketers want to tap into this highly profitable target market.

Sometimes a business may be able to identify a primary and a secondary target market. A **primary target market** is the market segment at which most of the marketing resources are directed. A **secondary target market** is usually a smaller and less important market segment (see figure 7.14).

BizWORD

A ***target market*** *is a group of present and potential customers to which a business intends to sell its product.*

BizWORD

The ***primary target market*** *is the market segment at which most of the marketing resources are directed.*

A ***secondary target market*** *is usually a smaller and less important market segment.*



FIGURE 7.14 Stationery retailer Smiggle ('between a smile and a giggle') has children and young teens aged from 4 to 14 as its primary target market. Its brightly coloured products are regarded as an essential fashion accessory by this age group. It is said that its secondary target market are the grandparents of young Smiggle fans!

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

7.5.1 Why identify and select a target market?

A business identifies and selects a target market so it can direct its marketing strategies to that group of customers. This allows the business to better satisfy the wants and needs of the targeted group. This occurs because the business is able to:

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

Businesses can choose one of three approaches to identifying and selecting a consumer target market: the mass marketing approach, the market segmentation approach or the niche market approach (see figure 7.15).

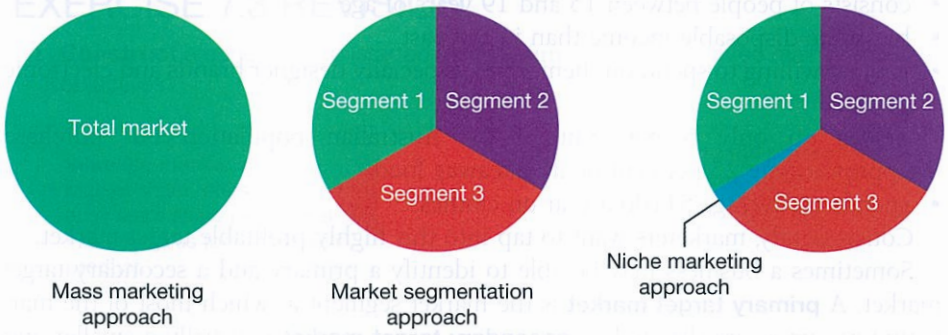


FIGURE 7.15 Identifying and selecting a market to be the target market

7.5.2 Mass marketing approach

As outlined in chapter 5, seventy years ago, marketers commonly spoke about 'mass market'. In other words, there was a large demand for a standard product. In a mass market, the seller mass-produces, mass-distributes and mass-promotes one product to all buyers. The Model T Ford, for example, was the first motor vehicle to be produced and sold to the mass market. A **mass marketing approach** seeks a large range of customers.

The mass marketing approach assumes that individual customers in the target market have similar needs. The business therefore develops a single marketing mix and directs it at the entire market for the product. This means there is one type of product with little or no variation, one promotional program aimed at everyone, one price, and one distribution system used to reach all customers.

BizWORD

*A **mass marketing approach** seeks a large range of customers.*

BizFACT

One of the main objectives of conducting market research is to identify the business's target market for its products.

7.5.3 Market segmentation approach

Few businesses can sell their products to the entire market — the market is just too big. Therefore, a business will divide the market into distinct segments. A business that is marketing motor vehicles, for example, would not direct its marketing efforts towards every person in the total vehicle market. Some people might want only a sports car; others might want a four-wheel drive. The business would thus direct its efforts towards a particular segment of the total market for motor vehicles.

Market segmentation occurs when the total market is subdivided into groups of people who share one or more common characteristics. Once the market has been segmented, the business selects one of these segments to become the target market. Segmenting a market enables a business to design a marketing plan that meets the needs of a relatively uniform group. Marketing segmentation is explained in more detail in chapter 8.

BizWORD

***Market segmentation** occurs when the total market is subdivided into groups of people who share one or more common characteristics.*

7.5.4 Niche market approach

An extension of the market segmentation approach is that of the niche market, which is a narrowly selected target market segment. In a sense, it is a segment within a segment, or a 'micro-market'. For example, an exclusive fashion boutique can carve out a niche market and, therefore, avoid direct competition with large department stores. In the last few years, some hotels have developed a niche market for their own 'boutique' beers, brewed on the premises. Such businesses market to a narrow, specific customer base (see figure 7.16).

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



FIGURE 7.16 In 2011, BMW entered the relatively young niche in the automotive industry — the electric car market — with their launch of the i3. This car targets relatively young upscale urban consumers who strongly support sustainable living.

SUMMARY

- A target market is a group of present and potential customers to which a business intends to sell its product.
- Sometimes a business may be able to identify a primary and a secondary target market.
- A business identifies and selects a target market so it can direct its marketing strategies to that group of customers.
- Businesses can choose one of three approaches to identifying and selecting a consumer target market:
  - mass marketing approach — the seller mass-produces, mass-distributes and mass-promotes one product to all buyers
  - market segmentation approach — the total market is subdivided into groups of people who share one or more common characteristics
  - niche market approach — a narrowly selected target market segment.

EXERCISE 7.4 REVISION

1 **Why** would marketers want to target the teenage/young adult market?

2 **Distinguish** between primary and secondary target markets and give an example of each.

studyon

Syllabus area 2
Topic 3
Concept 5

Identifying target markets
Summary screen and practice questions

3 Complete the following sentences by **recalling** the correct word from the list below.

customers	primary	segmentation
niche	characteristic	narrowly
target	subdivided	present

(a) A _____ market is a group of _____ and potential _____ to which a business intends to sell its product.
(b) Sometimes a business may be able to identify a _____ and a secondary target market.
(c) Market _____ occurs when the total market is _____ into groups of people who share one or more common _____.
(d) An extension of the market segmentation approach is that of the _____ market, which is a _____ selected target market segment.

4 **Why** do businesses identify and select a target market?
5 **Compare** the mass marketing approach with the segmented marketing approach.
6 **Why** is market segmentation the most common marketing approach used by businesses today?
7 **How** are market segmentation and target market linked?
8 **Explain** the relationship between market segmentation and niche market.

EXERCISE 7.4 EXTENSION

1 In pairs, conduct a survey of 30 people to find out what television shows they enjoy watching. Using a database, **classify** the respondents by age and gender. **Analyse** your results and present them to the rest of the class.
2 **Examine** a business of your choice and answer the following:
(a) **Identify** the primary and secondary target markets of the business you have chosen.
(b) **Calculate** the importance of these markets to the business.
(c) **Identify** the variables the business owner uses to segment the target market.
(d) **How** does market segmentation help the owner to achieve long-term goals?

7.6 Developing marketing strategies

Once the business has undertaken a situational analysis, conducted market research, established the marketing objectives, and identified and selected a target market, the next process of the marketing plan is to develop marketing strategies to achieve the marketing objectives. **Marketing strategies** are actions undertaken to achieve the business's marketing objectives through the marketing mix.

BizWORD

Marketing strategies *are actions undertaken to achieve the business's marketing objectives through the marketing mix.*

7.6.1 Marketing mix — the four Ps

One of the most useful ways of understanding how to develop a marketing strategy is to examine each of the elements of the marketing mix. The **marketing mix** refers to the combination of the four Ps — product, price, promotion and place/distribution. A business has control over the four Ps and uses them to reach its target market. Additionally, the business has control over other business resources — such as information, finances and employees — that may also be used to achieve marketing objectives.

BizWORD

Marketing mix *refers to the combination of the four elements of marketing, the four Ps — product, price, promotion and place — that make up the marketing strategy.*

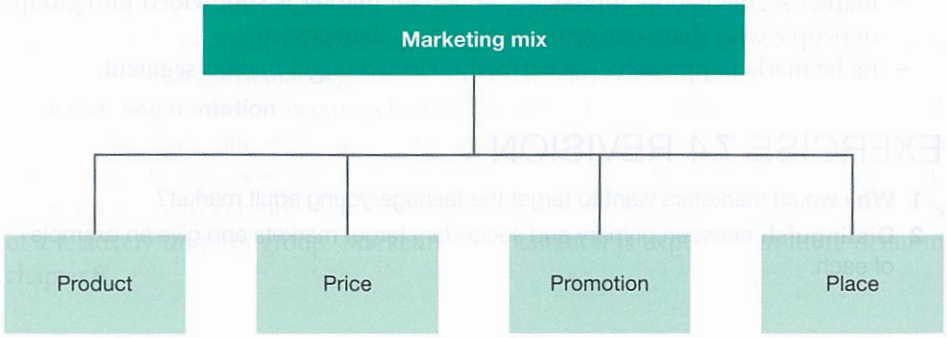


FIGURE 7.17 The four Ps, also known as the marketing mix, is probably the most well-known term in marketing and considered to be the essential elements for any marketing campaign.

Once the four Ps have been established, the business must then determine the emphasis it will place on each of the variables. This will largely be determined by where the product is positioned or its stage in the product life cycle. For example, a product that is being marketed with an image of exclusivity and prestige will require a marketing mix totally different from a no-frills, generic item. A different marketing mix will also be required for a product in its introductory stage than when it reaches the decline stage.

The following section will provide a brief introduction to the main marketing strategies based on the 'four Ps' of marketing. This information will be examined in greater detail in chapter 8. Also in chapter 8, you will be introduced to the extended marketing mix, which includes people, processes and physical evidence — the seven Ps of marketing.

BizFACT

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

7.6.2 Products (goods and/or services)

This element of the marketing mix involves much more than just deciding which product to make. The business also needs to determine such features as the product's quality, packaging/labelling, design, brand name and guarantee. The product is a combination of all these variables.

Customers will buy products that not only satisfy their needs and wants but also provide intangible benefits such as a feeling of security, prestige, satisfaction or influence. Much careful planning needs to be undertaken when developing the product strategy.

7.6.3 Price

Selecting the 'correct' price — the amount of money a customer is prepared to offer in exchange for a product — can sometimes be difficult. The major pricing decision is whether to set a price above, below or about even with the competitors' price. Of course, a business must consider other factors too, such as the costs of production and level of consumer demand. Price does not just refer to what the price is, but rather, the method or strategy the business uses to decide its prices.

7.6.4 Promotion

A promotion strategy details the methods to be used by a business to inform, persuade and remind customers about its products. The main forms of promotion include advertising, personal selling and relationship marketing, sales promotion, publicity and public relations.

Changes in technology, especially advances in information and communication technology (ICT), are having a significant impact on how businesses promote their products. The internet, for example, has become an effective advertising tool used by businesses to deliver specific messages to its target market.

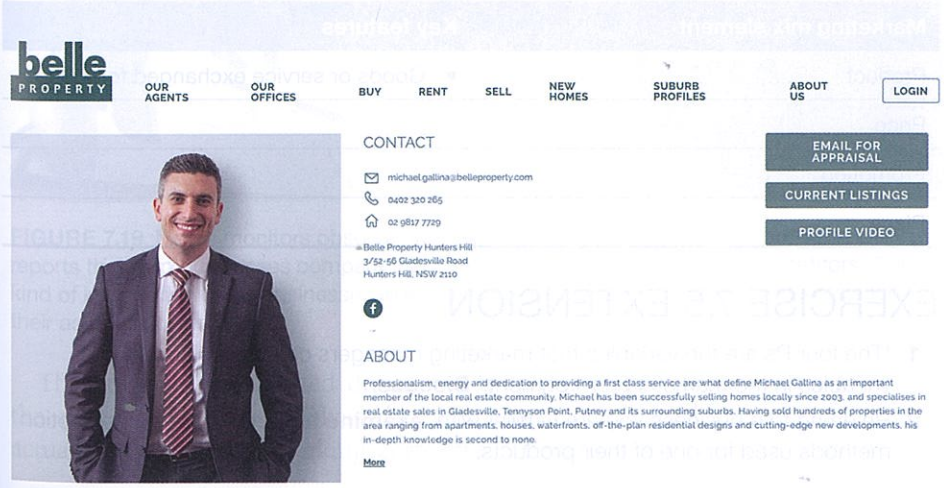


FIGURE 7.18 Michael from Belle Property relies heavily on the internet and social media to grow his business and build his reputation as a local market leader. Real estate websites and his own personal website are an effective way of marketing listings, and social media is a great way for him to connect with his community, clients and potential buyers and sellers. Content he regularly posts includes information about listings and sales, industry trends and updates, testimonials, live videos, community events, cross-promotion of other local businesses and contests.

7.6.5 Place/distribution

This element of the marketing mix deals with the channels of distribution: the ways of getting the product to the customer. This process usually involves a number of intermediaries or 'go betweens', such as the wholesaler or retailer. Apart from the retailer, the other intermediaries are often invisible; that is, the customer knows little about their role and operation.

The number of intermediaries chosen will determine how widely the product will be distributed. The business may wish to keep supply of the product restricted to a few specialised outlets, which is the distribution method usually selected by expensive products. For example, Gucci and Louis Vuitton fashion accessories are available in only a few selected locations. Alternatively, distribution may be as wide as is practically possible, which is the method used by Coca-Cola. Its distribution channels include retail stores, supermarkets, vending machines, restaurants, clubs, hotels, cafes and fast-food outlets. Today, you can buy a Coca-Cola product anywhere from London to Beijing, Cape Town to Santiago.

SUMMARY

- Marketing strategies are actions undertaken to achieve the business's marketing objectives through the marketing mix.
- The marketing mix refers to the combination of the four Ps — product, price, promotion and place/distribution.
- Once the four Ps have been established, the business must then determine the emphasis it will place on each of the variables.
- A product is a good or service that can be exchanged for money.
- The price is the amount of money a customer is prepared to offer in exchange for a product. It refers to the method or strategy the business uses to decide their prices.
- Promotion describes the methods used to inform, persuade and remind customers about a business's products.
- Place is the element of the marketing mix that deals with the channels of distribution: the ways of getting the product to the customer.

studyon

Syllabus area 2
Topic 3
Concept 6

Developing marketing strategies
Summary screen and practice questions

EXERCISE 7.5 REVISION

1 **Explain** the link between marketing strategies and marketing mix.
2 **Outline** the four Ps of the marketing mix.
3 **State** what determines the emphasis a business places on each of the four Ps of the marketing mix.
4 **Summarise** briefly the four Ps of the marketing mix by completing the table below. The first one has been started for you.

Marketing mix element	Key features
Product	• Goods or service exchanged for money
Price	
Promotion	
Place	

EXERCISE 7.5 EXTENSION

1 'The four Ps are the variables that marketing managers can control, unlike the variables in the marketing environment.' **Discuss**.
2 Referring to a business you are familiar with, **examine** and **evaluate** the promotion methods used for one of their products.

7.7 Implementation, monitoring and controlling

A marketing plan is a meaningless piece of paper until the plan is implemented. **Implementation** is the process of putting the marketing strategies into operation. Implementation involves the daily, weekly and monthly decisions that have to be made to make sure the plan is effective.

BizWORD

Implementation *is the process of putting the marketing strategies into operation.*

The previous elements of the marketing plan outlined what had to be done and why it had to be done, whereas the implementation stage is the *how*, *where* and *when* it is to be done. This is a crucial part of the process.

To implement the marketing plan effectively, a number of basic questions need to be answered:

- Is the plan fully integrated with all other sections of the business?
- How should the business be structured and organised?
- Have effective lines of communication been established between the marketing department and all other departments?
- Who are the best people for the various tasks needed to implement the plan?
- Are the marketing personnel motivated and focused on achieving the marketing objectives?
- Are all other employees familiar with the marketing objectives and marketing strategies?

The implementation stage is quite difficult, especially as unforeseen situations may arise that put in jeopardy the success of the entire marketing plan.

Once the marketing plan has been implemented, it must be carefully monitored and controlled. **Monitoring** means checking and observing the actual progress of the marketing plan. This requires the marketing department personnel, as well as other employees, to gather information and report on any important changes, problems or opportunities that arise during the life of the marketing plan (see figure 7.19).

BizWORD

Monitoring *is the process of measuring actual performance against planned performance.*



FIGURE 7.19 Media monitors observe our media channels 24 hours a day, providing daily reports that help businesses compare their media success to that of their competitors. This kind of information helps businesses to evaluate the success of marketing strategies such as their advertising campaigns.

The information collected during the monitoring stage is now used to control the plan. **Controlling** involves the comparison of planned performance against actual performance and taking corrective action to make sure the objectives are

BizWORD

Controlling *involves the comparison of planned performance against actual performance and taking corrective action to make sure the objectives are attained.*

attained (see figure 7.20). To achieve this, the marketing manager needs to constantly ask two questions regarding the marketing plan:

1. What does the business want the marketing plan to achieve; that is, what are the objectives?
2. Are these objectives being achieved?

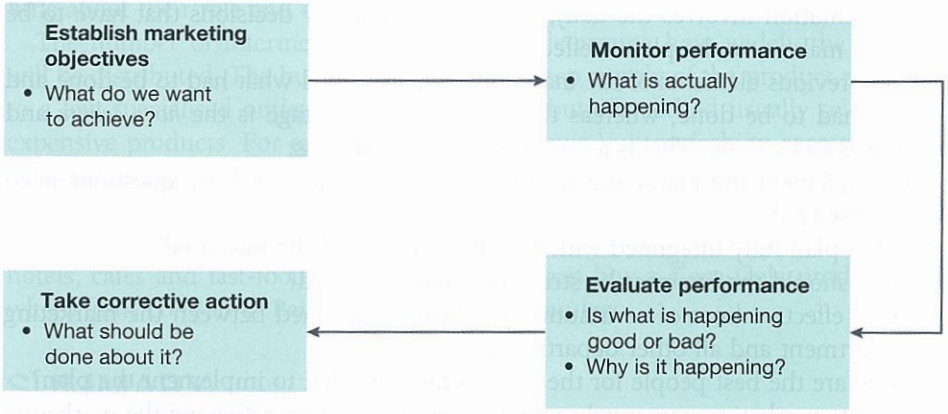


FIGURE 7.20 Once marketing objectives have been established, they must be monitored to ensure they are being met; otherwise corrective action must be taken.

The first step in the controlling process requires the business to outline what is to be accomplished; that is, to establish a key performance indicator (KPI). A KPI is a forecast level of performance against which actual performance can be compared. For example, a KPI could be:

- increase monthly sales by 5 per cent
- improve sales revenue per salesperson by 10 per cent over the next six months.

The second step in the controlling process is to compare or evaluate actual performance against the KPI. Budgets, sales statistics and cost analyses can be used to evaluate results. For example, a marketing manager could compare each salesperson's results with his or her sales quota. It is only by establishing KPIs and then comparing them with actual performance that a marketing manager can evaluate the effectiveness of the marketing plan.

7.7.1 Developing a financial forecast

BizWORD

Financial forecast *is the business's predictions about the future.*

When evaluating alternative marketing strategies, a business must develop a **financial forecast** that details the costs and revenues for each strategy. By measuring the sales potential and revenue forecasts (benefits) for each strategy, and comparing these with the anticipated expenditures (costs), a business is in the best position to decide how to allocate its marketing resources. Once this information has been gathered, it is possible to determine the most appropriate course of action using a cost–benefit analysis.

Although financial forecasting allows the marketing manager to undertake a cost–benefit analysis, the results are always open to individual interpretation.

Until a detailed analysis of the forecast cost and revenue is undertaken, a business is making decisions based merely on 'gut feelings', which is an inappropriate approach in today's competitive environment.

BizFACT

Research costs will include researcher, executive personnel and support staff time, computer usage, interviews, printing, testing, special equipment and any incentives to be offered to interviewees.

Developing a financial forecast requires two steps:

1. *Cost estimate.* How much is the marketing plan expected to cost? Costs of the marketing plan can be divided into four major components: market research; product development; promotion, including advertising and packaging; and distribution.
2. *Revenue estimate.* How much revenue (sales) is the marketing plan expected to generate? Forecasting revenues will be based on two major components: how

much consumers are expected to buy and for what price, and what sales staff predict they will sell. As time goes by, actual revenue can be compared with the forecast revenue data to determine the effectiveness of the marketing strategy.

Marketing costs are easier to forecast than revenue, because these activities are largely controlled by the business. Calculating the projected marketing revenue is much more difficult because of changes in the external environment, over which the business has little or no control. However, being able to accurately analyse both projected costs and revenues allows the business to forecast profit levels.

7.7.2 Comparing actual and planned results

Three key performance indicators used to measure the success of the marketing plan are:

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

Sales analysis

A **sales analysis** uses sales data to evaluate a business's current performance and the effectiveness of a marketing strategy. The more the sales figures are broken down, the clearer the picture becomes, as can be seen by examining table 7.2.

TABLE 7.2 Sales analysis: sales revenue by territories — 1st quarter

Sales territory	Sales quota ($)	Actual sales ($)	Difference ($)	% change (– decrease + increase)
1	50 000	58 000	8 000	+16.0
2	80 000	85 000	5 000	+6.3
3	70 000	76 000	6 000	+8.6
4	65 000	72 000	7 000	+10.8
5	90 000	94 000	4 000	+4.4
Total sales revenue	355 000	385 000	30 000	+8.4

To calculate the difference, use the formula Actual sales – Sales quota.

To calculate the % change, use the formula $\frac{\text{Difference}}{\text{Sales quota}} \times 100$.

A cursory glance at the bottom line of table 7.2 shows that the total sales revenue has increased by $30 000 or 8.4 per cent above the quota — a pleasing result and confirmation that the marketing plan is a success.

The main strength of sales analysis is that sales figures are relatively inexpensive to collect and process. Their main weakness, however, is that data for sales revenue do not reveal the exact profit level; such information can only be gleaned from further investigations of total expenditure.

Market share analysis/ratios

Just as sales can be analysed, so too can a business's market share. By undertaking a market share analysis, a business is able to evaluate its marketing strategies as compared with those of its competitors. This evaluation can reveal whether changes in total sales, either increases or decreases, have resulted from the business's marketing strategies or have been due to some uncontrollable external

BizWORD

Sales analysis *is the comparing of actual sales with forecast sales to determine the effectiveness of the marketing strategy.*

BizFACT

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

- *daily, weekly, monthly, quarterly and yearly sales reports*
- *product line sales*
- *credit as opposed to cash sales analysis*
- *sales reports for individual sales representatives*
- *company division sales reports*
- *any combination of the above.*

factor. For example, if a business's total sales revenue declined but its market share remained stable, then the marketing manager can assume that overall industry sales have fallen, perhaps due to a downturn in the economy. However, if a business's total sales revenue and market share have declined, then the marketing strategies need to be reviewed. Businesses place a great deal of importance on analysing market share statistics — a 1 per cent fall in market share can represent millions of dollars in lost sales.

Marketing profitability analysis

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

By comparing the costs of specific marketing activities with the results achieved, a marketing manager can assess the effectiveness of each activity. This evaluation also helps in deciding how best to allocate marketing resources in the future.

BizWORD

Marketing profitability analysis *is a method in which the business breaks down the total marketing costs into specific marketing activities.*

7.7.3 Revising the marketing strategy

Once the results of the sales, market share and profitability analysis have been calculated, the business is now in a position to assess which objectives are being met and which are not. Based on this information, the marketing plan can be revised (modified). Revision of the marketing plan is equally as important as all the other steps involved in creating successful marketing strategies.

Changes in the marketing mix

Because the marketing plan is operating in a dynamic business environment, the marketing mix will constantly need to be revised. Changes that could be introduced include:

- *production modifications*. No product is perfect. Businesses that continually upgrade their products will be able to maintain a competitive advantage.
- *price modifications*. Prices fluctuate due to a variety of reasons. Therefore, the price component of the marketing mix will need to be revised in response to changes in the external business environment.
- *promotion modifications*. Promotion costs will be high when a new product is first launched onto the market. During the later stages of the product's life cycle, promotion costs may stabilise and even fall during the decline stage. Promotion strategies will, therefore, need to change over time corresponding to the life cycle of the product.
- *place modifications*. As a product's success increases, the distribution channels will need to be expanded to cater for the growing market. New overseas markets may be tapped, while old markets may decrease due to demographic changes. With the development of electronic communications, new distribution channels, such as the internet, may be used.

New product development

The product life cycle tells us that all products have a life span of somewhere between five to 10 years. Therefore, if a business wants to achieve long-term growth, it must continually introduce new products. For example, if Sony had stopped product development at the transistor radio, it would probably be out of business today. However, Sony, like many other large businesses, spends vast

BizFACT

If a business wants to achieve long-term growth, it must continually introduce new products.

amounts on research and development to stay at the forefront of technology and introduce new products.



FIGURE 7.21 R&D helps keep products innovative, which assists companies achieve a competitive advantage. Samsung invests in R&D more than any other technology company, having spent more than $13 billion in 2016. This investment allows them to develop and produce some of the most sought-after electronic parts and is a major contributing factor to their success.

Product deletion

To maintain an effective product mix, a business will have to eliminate some lines of products. This is called **product deletion**. Outdated products may create an unfavourable image and this negativity may rub off on other products sold by the business. Most businesses find it difficult to delete a product, especially if it has been successful for a long time. However, when a product is in the decline stage, a decision will eventually have to be made to either delete or redevelop the product.

BizWORD

Product deletion *is the elimination of some lines of products.*

BizFACT

Car manufacturers continuously delete models due to poor performance or the introduction of new models. In 2013 Mazda made the decision to discontinue the CX-7 and Tribute to make way for the CX-5. The CX-5 is more fuel efficient, has more cargo capacity and overall interior volume than the CX-7 and is better able to compete more directly with other small SUVs.

SUMMARY

- Implementing the marketing plan means putting the marketing strategies into operation.
- Once the marketing plan has been implemented, it must be carefully monitored and controlled.
- Monitoring means checking and observing the actual progress of the marketing plan.
- Controlling involves the comparison of planned performance against actual performance and taking corrective action to make sure the objectives are attained.
- When evaluating alternative marketing strategies, a business must develop a financial forecast that details the costs and revenues for each strategy.
- Developing a financial forecast requires two steps.
  - Step 1: Estimate the cost of the marketing plan.
  - Step 2: Estimate the revenue (sales) the marketing plan is expected to generate.
- Three key performance indicators used to measure the success of the marketing plan are:
  - sales analysis
  - market share analysis
  - marketing profitability analysis.
- The marketing plan can be revised by:
  - changes in the marketing mix
  - new product development
  - product deletion.

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Syllabus area 2
Topic 3
Concept 7

Implementation, monitoring and controlling
Summary screen and practice questions

Resources

Weblink: iSentia

EXERCISE 7.6 REVISION

1 **Why** is the implementation stage as important as developing marketing objectives?

2 (a) **Distinguish** between 'monitoring' and 'controlling'.
(b) **How** are the two processes linked?

3 Research online to **examine** the function of the company iSentia.
(a) **Outline** the role of iSentia.
(b) **State** iSentia mission.
(c) Select a 'Products and Services' that interests you and **explain** how a business would use this product or service.

4 **Recall** the two questions a marketing manager needs to ask in the controlling process.

5 **Summarise** the two steps involved in developing a financial forecast.

6 **Why** is it easier for a business to forecast marketing costs than revenue?

7 A business has a sales potential of $90 000 but achieves actual sales of only $25 000.
(a) **Deduce** what this signifies.
(b) **Propose** what the business should do next.

8 'Any business that fails to conduct a sales analysis will not be able to assess the effectiveness of its marketing strategies.' **Discuss**.

9 **Examine** the following market share results for Electronic Appliances Ltd.

Year	Sales revenue ($ million)	Market share (%)
2016	28	18
2017	25	18
2018	33	14

(a) **Explain** how it is possible for sales revenue to decrease between 2016 and 2017 but market share to remain the same.
(b) If you were the marketing manager, **calculate** with which year's results you would be most pleased. **Justify** your answer.

10 **Distinguish** between 'sales analysis' and 'market share' analysis.

11 **Clarify** the importance of a marketing profitability analysis.

12 **Summarise** four changes that could be made to revise the marketing mix.

13 **Distinguish** between 'new product development' and 'product deletion'. Provide examples in your answer.

EXERCISE 7.6 EXTENSION

1 **Account** for why a business's marketing performance should be constantly evaluated. **Investigate** some methods that can be used to measure the effectiveness of a marketing plan.

2 You have just been appointed marketing manager for Apollo Tracksuits Pty Ltd. One of your first tasks is to analyse total industry sales and product line sales revenue breakdown, as shown in tables 7.3 and 7.4.

TABLE 7.3 Apollo Tracksuits Pty Ltd — company sales and total industry sales, 2013–2017

Year	Apollo sales ($ millions)	Industry sales ($ millions)	Apollo market share (%)
2013	5	38	
2014	7	44	
2015	10	81	
2016	9	70	
2017	12	89	

TABLE 7.4 Apollo Tracksuits Pty Ltd — product line sales, 2014

Product	Sales quota ($ millions)	Actual sales ($ millions)	Difference ($)	(%)
Techno Tracks	2	1		
Weekenders	3	1.5		
Sports Plus	2	2		
Image Track	2	2.5		
No Sweat Tops	3	3		

(a) **Calculate** a market share analysis by completing table 7.3. **Create** a report on your results.
(b) The actual sales and sales quota figures for each product are shown in table 7.4. Complete the table. **Deduce** what these figures indicate.
(c) **Determine** what suggestions you would make to improve the actual sales performance.

on Resources

Digital doc: Chapter summary (doc-24809)
Interactivity: Chapter crossword (int-7161)
Interactivity: Multiple choice quiz (int-7162)

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