CHAPTER 8

Marketing strategies

OVERVIEW

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8.1 Introduction

BizWORD

The **extended marketing mix** *refers to the combination of people, processes and physical evidence with the four main elements of the marketing mix.*

As mentioned in chapter 7, the marketing mix consists of four major elements: product, price, promotion and place. Reference was also made to the three Ps of marketing — which when combined with the original four Ps creates the **extended marketing mix**. The three Ps have become increasingly significant due to the expansion of service-based businesses within the economy. Together, these seven Ps (see figure 8.1) make up the strategies of marketing and become the centrepiece of the marketing plan.

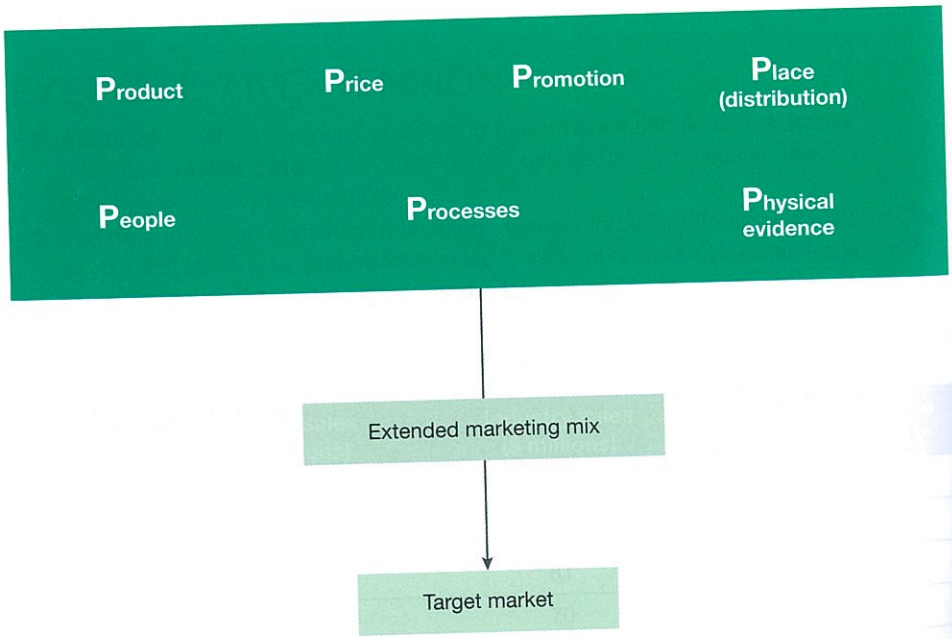


FIGURE 8.1 The seven Ps of the extended marketing mix. The marketing mix may be varied when a business wants to reach different target markets.

As figure 8.1 shows, there are many possible ways to satisfy the needs and wants of target customers. A product can have many different features and quality levels. The packaging can be of different colours or materials. Service levels can be altered. The brand name can be modified. Various promotional methods may be used. Different prices can be charged and price discounts offered. Various distribution channels can be used ranging from a single outlet to intensive coverage of the entire market.

The main goal of a marketing manager is to develop and maintain a marketing mix that precisely matches the needs of the customers in the target market.

8.2 Market segmentation

As was outlined in chapter 7, **market segmentation** involves dividing the total market into segments. Once the market has been segmented, the marketing manager selects one of these segments to become the target market (see figure 8.2). Often a business will implement a specific marketing mix to each target market that the business wants to sell to.

BizWORD

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

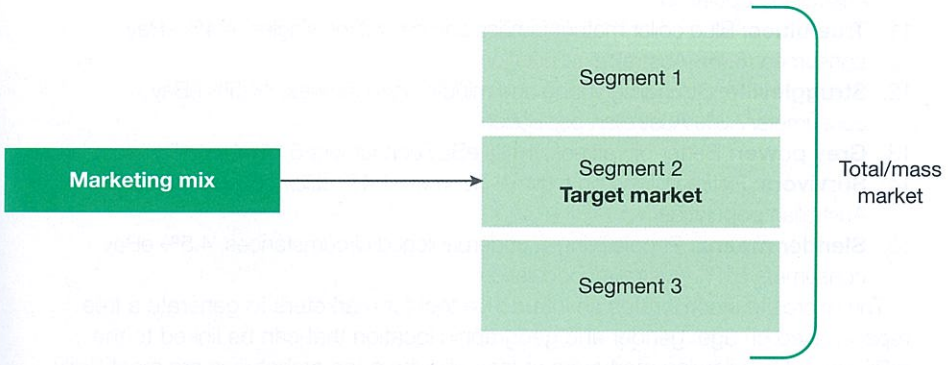


FIGURE 8.2 Selecting a market segment to be the target market

The ultimate aim of market segmentation is to increase sales, market share and profits by better understanding and responding to the desires of the different target customers (see the following Snapshot).

Case study: eBay — identifying 'geo-tribes'

eBay has employed a segmentation of its users to promote its behavioural targeting abilities using 15 'geo-tribes' or named consumer archetypes for advertisers to target.

With the assistance of RDA Research, the online auction site conducted a geo-demographic and needs-based segmentation so that marketers can target consumers based on characteristics such as socioeconomic status, lifestage and needs.

The rationale behind the segmentation was to bring commonly used offline segmentation approaches to the online world, according to eBay's head of advertising, JJ Eastwood, an initiative that hadn't been undertaken before.

'Marketers who are familiar with offline geo-demographical and needs-based segmentation, but have struggled to map them to digital campaigns, now have a tool that brings offline audience segmentation to online advertising', Eastwood says.

'Ecommerce is now a $30 billion industry here in Australia and marketers are looking for opportunities to connect with consumers while they shop online. Therefore it's important that as we bring new advertising partners on-board, we connect them with the right audience and in turn our customers receive advertising messages that are both relevant and meaningful to them.'

The initiative launched with an educational campaign and microsite to introduce marketers to the geo-tribes, which include the following.

1. **Rockafellas:** Affluent mature families, 7.0% eBay consumers/7.0% Australian population

SNAPSHOT



'. . . we connect them with the right audience and in turn our customers receive advertising messages that are both relevant and meaningful to them.'

2. **Achievers:** Ambitious younger and middle-aged families, 13.2% eBay consumers/10.1% Australian population
3. **Fortunats:** Financially secure retirees and pre-retirees, 3.5% eBay consumers/6.5% Australian population
4. **Crusaders:** Career oriented singles and couples, 7.3% eBay consumers/4.8% Australian population
5. **Preppies:** Mature children of affluent parents, 6.4% eBay consumers/3.7% Australian population
6. **Independents:** Young singles and couples, 6.6% eBay consumers/5.0% Australian population
7. **Suburban splendour:** Middle class mature families, 7.5% eBay consumers/8.3% Australian population
8. **Twixters:** Mature children living at home, 6.9% eBay consumers/4.2% Australian population
9. **DebtStars:** Financially extended younger families, 14.6% eBay consumers/10.6% Australian population
10. **Boomers:** White collar post-family pre-retirees, 4.8% eBay consumers/7.0% Australian population
11. **True blues:** Blue collar mature families and pre-retiree singles, 4.4% eBay consumers/6.4% Australian population
12. **Struggleville:** Struggling young and middle-aged families, 10.5% eBay consumers/7.3% Australian population
13. **Grey power:** Better-off retirees, 1.4% eBay consumers/5.1% Australian population
14. **Survivors:** Retirees living on minimal incomes, 1.4% eBay consumers/8.9% Australian population
15. **Slender meanz:** People living in underprivileged circumstances, 4.5% eBay consumers/5.1% Australian population

The microsite incorporates an interactive tool for marketers to generate a free report based on age, gender and geographic location that can be linked to the offline world by allowing marketers to look up where the archetypes are most likely to live.

During an introduction phase, eBay claims to have achieved a four-fold increase in click-through rates and reports from clients of a two-fold increase in return on investment as a result of the geo-tribes targeting.

SNAPSHOT QUESTIONS

1. **Identify** the variables eBay used to segment the market.
2. **Explain** why eBay decided to segment its users.
3. **Justify** which geo-tribe you would fall under.
4. **Assess** the marketing value of this new strategy.

8.2.1 Segmenting consumer markets

BizWORD

*A **segmentation variable** is the characteristics of individuals or groups that are used by marketing managers to divide a total market into segments.*

A **segmentation variable** is the characteristics of individuals or groups that are used by marketing managers to divide a total market into segments. The consumer market can be segmented according to four main variables: demographic, geographic, psychographic and behavioural (see table 8.1).

TABLE 8.1 Common variables for segmenting customer markets

Demographic	Geographic	Psychographic	Behavioural
• Age • Gender • Education • Occupation • Income • Social class • Religion • Ethnicity	• Region • Urban • Suburban • Rural • City size • Climate • Landforms	• Lifestyle • Personality • Motives • Socioeconomic group • Consumer opinions and interests	• Purchase occasion • Benefits sought • Loyalty • Usage rate • Price sensitivity

Demographic segmentation

Demographic segmentation is the process of dividing the total market according to particular features of a population, including the size, age, sex, income, cultural background and family size. Due to the ease with which these demographic variables can be measured, their use is widespread amongst marketers.

Age and gender are two of the most widely used demographic variables for segmentation purposes. The marketing of sparkling and still beverages is typical of this (see figure 8.3). Coca-Cola, for example, targets 18- to 24-year-old males with the energy drink *Mother*. The more health conscious adult market is served with *Diet Coke, Coca-Cola No Sugar, Deep Springs Natural Mineral Water* or *Nestea Iced Tea*. *Fanta* has as its primary target market 15- to 24-year-olds who want to enjoy life and have fun. *Mount Franklin* is aimed at younger females and families, whereas *Powerade* and *Pump* have as their core market 18- to 34-year-olds who are always on the go.



FIGURE 8.3 Coca-Cola offers a range of sparkling and still beverages for different target markets segmented primarily according to age and gender. In other markets, including clothing, magazines, books, alcoholic drinks and even motor vehicles, gender has also been a key demographic variable.

Geographic segmentation

Geographic segmentation is the process of dividing the total market according to geographic locations. Businesses may divide the consumer market into regions because consumers in different geographical locations have different needs, tastes and preferences. Consequently, the marketing mix may differ from one geographic region to another. The leading agribusiness company Landmark, for example, operates a national network offering rural supplies in around 400 rural locations. Although most of its marketing mix elements will be common across all locations, regional variations require modifications to suit the particular rural activities.

Sometimes the size of the city can be an important segmentation variable. One franchise fast-food business will not locate in cities of less than 25 000 people. Climate also has an impact on segmenting markets for businesses selling heating and cooling systems as well as clothing. Consumers in Jindabyne will need snow chains and heavy outdoor clothing, but consumers in Port Macquarie are more interested in lightweight clothing.

Psychographic segmentation

Psychographic segmentation is the process of dividing the total market according to personality characteristics, motives, opinions, socioeconomic group and lifestyles. When segmenting a market according to psychographic variables, a business would research a consumer's brand preferences, favourite music, radio and television programs, reading habits, personal interests and hobbies, and values.

BizWORD

Demographic segmentation *is the process of dividing the total market according to particular features of a population, including the size of the population, age, sex, income, cultural background and family size.*

BizFACT

Nike recently began targeting the Middle East female fitness market with the introduction of a performance hijab for Muslim women. The company adapted itself and its products to meet the consumer needs of this growing market. With 1.6 billion Muslims around the world, Nike's new range will appeal directly to this new segment.

BizWORD

Geographic segmentation *is the process of dividing the total market according to geographic locations.*

BizWORD

Psychographic segmentation *is the process of dividing the total market according to personality characteristics, motives, opinions, socioeconomic group and lifestyles.*

BizFACT

Personality and self-concept have been found to influence the clothes, hair styles, make-up, entertainment and motor vehicles that individuals will purchase.



FIGURE 8.4 Psychographic segmentation groups people according to how they spend their time, activities, interests, opinions and attitudes.

BizFACT

The shampoo industry uses psychographics to segment the market. The attitudes and values of customers are important when segmenting the market and many companies develop specific products to target certain lifestyles and values. For example, L'Oreal's purchase of the Body Shop in 2006 enabled them to appeal to a growing segment of customers wanting organic and animal-friendly products.

Psychographic variables focus on why people behave the way they do. An average Toyota Corolla owner compared with an average Porsche Cayman S owner, for example, will respond quite differently about the cost of vehicle maintenance, insurance and accessories.

Psychographic variables can be used by themselves to segment a market, or they can be combined with other types of segmentation variables. However, unlike demographic variables, psychographic variables can sometimes be difficult to accurately measure, especially personality characteristics and lifestyle.

Behavioural segmentation

BizWORD

Behavioural segmentation *is the process of dividing the total market according to the customers' relationship to the product.*

Behavioural segmentation is the process of dividing the total market according to the customers' relationship to the product. This includes customers' knowledge of, attitude towards, use of, or benefits sought from the product. A total market, for example, may be divided into users and nonusers. Users can then be classified as heavy, moderate or light. To encourage light and moderate users to purchase more of its products, a business may have to redesign the product, set special prices and implement special promotion activities.

BizFACT

Several products are aimed at providing the benefits sought by the customer. For instance, many shampoo brands create products to satisfy different needs, for example, anti-dandruff, detangler, volumising, moisturising.



FIGURE 8.5 The loyalty of the customer can also be used for behavioural segmentation. The best example of this is in the hospitality industry where hotels, restaurants and airlines provide their best service to their most loyal customers.

Identifying what the customers want from the product — the benefits sought — is an important aspect of behavioural segmentation. By determining the benefits desired, marketers can design products that directly satisfy these desires.

8.3 Product/service differentiation and positioning

Walk into any supermarket to buy a loaf of bread and you are faced with a wide selection from which to choose: white, wholemeal, sliced, unsliced, gluten-free, vitamin enriched, thick for toasting and so on. Providing so many different types of breads is a deliberate marketing strategy and is an example of **product/service differentiation**. This occurs when products that are the same or similar are made to appear different from and/or better than those of their competitors. By achieving this, the seller is able to gain a little more control in the marketplace, especially with price.

BizWORD

Product/service differentiation, *in its broadest sense, is the process of developing and promoting differences between the business's products or services and those of its competitors.*

8.3.1 Points of differentiation

The difference could be as simple as changes to the packaging or labelling; or more complex, such as offering top-quality service, greater convenience, more features and better **value for money**, or products or services that are environmentally friendly. These factors all play a part in persuading consumers to perceive the product or service as being superior to all similar products or services and, therefore, influencing them to buy it. Examples include jeans with designer labels, washing detergent with brightener additives and an exclusive restaurant that offers full-table service.

BizWORD

Value for money *is the desire to obtain the best quality, features and performance for a given price of a product.*

Four important points of differentiation are customer service, environmental concerns, convenience, and social and ethical issues.

Customer service

Market research shows that consumers:

- *desire 'personalised' service:* products that are tailored to their individual needs and wants. Customers may require many different services before, during and after the purchase
- *require 'caring' service:* to be treated honestly, courteously and efficiently
- *want high quality and value:* a business needs to establish favourable conditions for service by offering fair prices and high-quality products.

BizFACT

A continual flow of differentiated products such as Diet Coke, Coca-Cola Zero, Mother and Vanilla Coke has kept the Coca-Cola Company number one in the Australian soft-drink market in recent years.

Customer service can be a powerful marketing tool and a true point of differentiation in today's business environment.

Consumers expect a high level of customer service. Pre-sales and after-sales service are very important to consumers purchasing expensive items such as cars or electrical appliances.

Failing to provide excellent customer service will result in lost sales and damage the business's competitive position. Customer service should be the main feature to position a business head and shoulders above its competition. Simply meeting basic customer needs is not considered enough in today's marketplace. Businesses should always strive to exceed customer expectations.

Customer service may also include the presentation of the premises, the atmosphere, or the range of products that set a business apart and capture the consumer's interest.

Environmental concerns

People are becoming more concerned with 'quality of life' issues, especially the physical environment. Businesses that create pollution may risk losing customers; whereas businesses that adopt a 'green' philosophy and produce environmentally friendly products may see their sales increase.

THE ICONIC

THEICONIC.COM.AU

FIGURE 8.6 THE ICONIC has differentiated itself from other online retail sites by establishing a competitive advantage through convenience, broad product and brand assortment, and customer experience. It offers three-hour and same-day delivery to major cities across Australia and New Zealand, next-day delivery to metro areas in Australia and New Zealand, free returns, which has made them one of the most popular e-tailers in Australia and New Zealand.

Convenience

Because today's consumers are busy, they will often select products that are convenient to use. For example, many consumers do not have a lot of time for meal preparation. In response, food manufacturers have developed a range of convenience food products. The packaging and cooking requirements are designed to make the preparation as convenient as possible.

Social and ethical issues

A growing number of consumers are becoming more ethically minded and will actively purchase products or brands that they believe do not exploit workers, producers or the environment. These consumers want to know more about the way goods are made, including the conditions in the factories and where they come from.

Ethical consumerism provides businesses with opportunities to satisfy the demands of this growing number of consumers. For example:

- In response to the dislike of genetically modified (GM) foods by some consumers, various producers are labelling their products as GM-free.
- The **Fair Trade movement** is gaining in influence with consumers increasingly prepared to pay more for guarantees of fair labour practices and sustainable, organic products. The FAIRTRADE Mark (see figure 8.7), which represents an independent certification system, is one example of assuring fair labour practices.
- The cosmetic industry is delivering more natural products, not tested on animals.

BizWORD

Ethical consumerism *involves buying products that are not harmful to the environment, animals and society.*

Fair Trade movement *is an alternative method of international trade that promotes environmentalism, fair wages, alleviation of global poverty and a fair price for farmers and workers.*

FAIRTRADE

FIGURE 8.7 The FAIRTRADE Mark assures consumers that disadvantaged producers in the developing world receive a fair price for their commodities.

8.3.2 Product/service positioning

Closely tied to product/service differentiation is the practice of **product/service positioning**. This refers to the technique in which marketers try to create an image or identity for a product/service compared with the image of competing products or services.

Product/service positioning is something that is done in the minds of the target market: it is how potential buyers perceive the product. Some brand names, such as Rolex, Ferrari, No Frills and Supre, can immediately evoke an image of the product's quality. This image gives the product its position within the market.

In highly competitive markets, sales may be difficult to secure. For this reason, a business will attempt to create an image that differentiates its product/service from the others. Many businesses invest considerable resources in the positioning of their product/service. The business will decide on the image it wishes to create for a product/service and will use other elements of the marketing mix to shape and maintain this image.

Whenever a new product is launched, the marketing manager needs to have clearly determined the desired positioning of the product/service. This will be achieved through the product/service's name, price, packaging, styling, promotion and channels of distribution. Combined, these individual characteristics create the image of the product/service.

Many companies have made a strategic decision to reposition themselves in their market (see figure 8.8 and the following Snapshot). Repositioning focuses on changing what customers associate with the brand and sometimes competing brands. Some reasons companies reposition themselves include changing market conditions, decline in sales, desire to focus on a new target market, new competition and to overcome negative customer perceptions of the brand.

BizWORD

Product/service positioning *refers to the technique in which marketers try to create an image or identity for a product compared with the image of competing products.*



FIGURE 8.8 In an attempt to shake off its reputation as a maker of low-priced, low-quality pizzas, Domino's launched a new menu, reducing the size of their pizzas as well as increasing the prices of some pizzas. This was an attempt by the company to reposition its brand.

SNAPSHOT



'. . . hoping to realign the brand to appeal to a wider range of buyers . . .'

Case study: Holden repositioning itself in the automotive market

When you think of Holden, Bathurst and blokes come to mind.

From the early days of the iconic Torana and Gemini, to the more recent times of the Monaro and Commodore Ute — Holden has forever been a brand for the boys — or, dare I say it, the 'bogans' of Australia.

The roaring lion, the red and white flags and roaring V8 engines — the Holden brand has been exclusive to a select pool of fanatics since inception.

But bosses say that 'rev head' demographic is no longer part of their new age "modern Australia" strategy, with the car manufacturer hoping to realign the brand to appeal to a wider range of buyers — particularly women.

But, as Holden gears up to close its last car factory in Adelaide in October before opting for imported vehicles — the manufacturer is facing its biggest battle yet — changing a deep-rooted perception of the iconic Australian brand.

This year, Holden unveiled a new plan for winning over a new breed of buyer, and extinguishing public indifference to the brand.

"Research has shown that 64 per cent of Australians are indifferent about the Holden name and this proves that our brand image is our biggest hurdle," executive director of marketing at Holden, Mark Harland, told *Behind the Wheel*.

"We need to get Holden back on people's radars."

At the media launch of the new Holden Astra sedan this month, which is one of several new vehicles to be included in its 2017 portfolio, Holden's general manager of marketing, communications and digital, Natalie Davey, said breaking away from its former brand had been a big challenge.

"If you think about Holden ... we are iconic as an Australian brand," Mrs Davey told news.com.au.

"That icon from yesteryear was around meat pies, kangaroos and Holden. But if you think about modern Australia today, we haven't remained prominent to that, which is where we are catching up."

In 2015, Holden posted its lowest sales in 23 years. But with women influencing up to 70 per cent of all car purchases, it is hoping the rebrand will lure more females into dealerships.

Earlier this year, Holden released a targeted Facebook ad made especially to acknowledge how women felt when purchasing a vehicle.

"Going into a dealership can sometimes I feel, maybe, as a woman, be a little bit intimidating. It's a bit of a boy's club," a young blonde woman said to camera in the advert.

"I feel like the car industry portrays women quite unfairly. You always see a man driving the car in the adverts. I feel like it doesn't really represent who I am as a woman," another brunette added.

The commercial ended with the tagline 'Change is coming' alongside the Holden Spark.

Mrs Davey said the advertising and marketing rebrand, which included a change in logo and social media approach to the brand, has been a big step.

"We have a long and proud heritage in Australia, but there is a deep perception of the brand," she explained.

"I grew up with Holden — the V8 supercars, Bathurst, the utes and Commodores. We have all grown up with the Holden of yesterday, and it's not something we can brush off overnight.

"We know changing perception is a long term plan, but we want to evolve to include all audiences.

"This isn't about not wanting our loyal customers anymore. We want to build that appeal beyond the heartland.

"We want to show today's Australia we have vehicles for everybody."

Source: Vanessa Brown, 'Car manufacturer Holden reveals why it had to reposition itself in the automotive market', news.com.au, 6 July 2017

SNAPSHOT QUESTIONS

1. **Outline** Holden's previous positioning in the automotive market.
2. **Explain** why Holden wants to reposition itself.
3. **How** has Holden begun to appeal more to women?

SUMMARY

- The marketing mix consists of four major elements: product, price, promotion and place.
- Combined with these four Ps are people, processes and physical evidence to create the extended marketing mix.
- Together, these seven Ps make up the strategies of marketing and become the centrepiece of the marketing plan.
- The main goal of a marketing manager is to develop and maintain a marketing mix that precisely matches the needs of the customers in the target market.
- Marketing segmentation involves dividing the total market into segments.
- A business selects one of these segments to become the target market.
- The ultimate aim of market segmentation is to increase sales, market share and profits by better understanding and responding to the desires of the different target customers.
- The consumer market can be segmented according to four main variables:
  - demographic — features of a population
  - geographic — urban, regional and rural locations
  - psychographic — personality characteristics
  - behavioural — customers' relationship to the product.
- Product/service differentiation, in its broadest sense, is the process of developing and promoting differences between the business's products or services and those of its competitors.
- Product positioning refers to the technique in which marketers try to create an image or identity for a product/service compared with the image of competing products/services.

studyon

Syllabus area 2
Topic 4
Concept 1

Market segmentation and product/ service differentiation
Summary screen and practice questions

studyon

Syllabus area 2
Topic 4
Concept 2

Market segmentation: product service positioning
Summary screen and practice questions

EXERCISE 8.1 REVISION

1 **Identify** the seven marketing elements that make up the marketing mix.
2 **State** the link between market segmentation and target market.
3 **Recall** the ultimate aim of marketing segmentation.
4 **Summarise** the four main ways of segmenting consumer markets.
5 Here are five different market segments:
(a) young married couple, no children
(b) female teenager, part-time worker
(c) older single person, female, retired
(d) younger single person, male, working
(e) male teenager, full-time student.
Listed below are 10 products/services. Copy the list into your notebook and, beside each item, **determine** the most appropriate market segment letter (a–e) for that product/service. In some cases, you may want to write more than one letter. Compare your answers with those of the rest of the class.
(a) Financial advice _____
(b) Ballet tickets _____
(c) Bus tour _____
(d) Dolly magazine _____
(e) Health insurance _____
(f) Apple iPad _____
(g) Rover lawnmower _____
(h) School textbook _____
(i) Smartphone _____
(j) Furniture _____
6 **Outline** the purpose of product/services differentiation.
7 For two specific products/services with which you are familiar, **describe** how they are differentiated from their competitors.
8 **How** can a business use customer service as a point of differentiation?

on Resources

Weblink: Fair Trade

9 'Environmentally friendly products are just a clever promotional strategy to make purchasers feel good.' **Justify** whether you agree or disagree with this statement.

10 **Examine** the ways the Fair Trade movement is committed to selling and production practices that are ethically responsible.

11 In small groups, choose a product/service with which you are familiar and **demonstrate** the types of positioning strategies used to promote it. Share your answer with the rest of the class. You may wish to prepare this as a PowerPoint presentation.

EXERCISE 8.1 EXTENSION

1 **Determine** why the mass marketing approach has declined in recent years. **Discuss** whether this means there is no place for mass marketing. **Justify** your answer.

2 Once the total market is segmented, a business selects a target market. **Demonstrate** the different ways in which a market may be segmented. **Why** does having a clear understanding of the target market improve the efficiency of the marketing plan?

3 **Create** an A4 print advertisement for a new model mobile phone that highlights its 'exclusive' features. You may wish to use desktop publishing software to present the advertisement with text and graphics.

8.4 Products — goods and/or services

When you buy a book or new phone you are purchasing a good. They are real, physical objects that can be touched and owned; they are *tangible*. Financial advice, television programs and sporting events provide an *intangible* service for our use or enjoyment, not for our ownership. However, services are products just the same. **Products** are goods or services that can be offered in an exchange for the purpose of satisfying a need or want.

BizWORD

Products *are goods or services that can be offered in an exchange for the purpose of satisfying a need or want.*

8.4.1 Tangible and intangible products — total product concept

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

BizWORD

The **total product concept** *refers to the tangible and intangible benefits (attributes) a product possesses.*

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

Often, with mass-produced products, it is on the differences in the intangible benefits that product competition is based. For example, cars are basically a means of transportation used to get from one place to another. If this was all they were, then there would be only one model. But a car contains a vast array of intangibles that are used to differentiate each model, such as image, reputation, style and safety record. Viewing the car in terms of a total product concept clearly shows that no two cars are exactly the same (see figure 8.9). All products, then, are a combination of tangible and intangible attributes.

BizFACT

The relationship between a business and its customers is based mainly on the product — goods and/or services.



FIGURE 8.9 Australians have developed expensive taste in cars. Sales of luxury branded cars grew by 11 per cent in 2016. Many people are buying luxury cars because it not only satisfies their needs and wants, but also provides intangible benefits such as a feeling of prestige, importance or influence. Mercedes-Benz is currently the most popular luxury vehicle brand.

8.4.2 Branding

Read the list of brand names in figure 8.10 and test yourself: what products do you associate with each brand name? Your score was probably 20 out of 20. You have just experienced the power of *brand name recognition*. The 20 businesses that market these brands have spent a lot of money making sure customers instantly recognise their brand name and the products associated with them. A **brand** is a name, term, symbol, design or any combination of these that identifies a specific product and distinguishes it from its competition. A **brand name** is that part of the brand that can be spoken. It may include letters (BMW motor vehicles); numbers (4711 perfume); numbers and letters (3M tapes); or pronounceable symbols, such as the ampersand (&) in Johnson & Johnson.

Apple	Kellogg's	McDonald's	Coca-Cola	Vegemite
Uncle Tobys	Arnott's	Samsung	Google	Weet-Bix
Holden	Sorbent	Telstra	KFC	Speedo
Colgate	Cadbury	Qantas	Nike	Sony

FIGURE 8.10 Examples of brand names

Benefits of branding

Branding provides benefits for both buyers and sellers. Branding helps consumers:

- identify the specific products that they like. Without branding, a consumer selection would be quite random because buyers could have no guarantee that they were purchasing what they preferred

BizWORD

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

*A **brand name** is that part of the brand that can be spoken.*

BizFACT

According to BrandZ Top 100 Global Brands report for 2017, the top 5 most valuable brands in the world (in order) are Google, Apple, Microsoft, Amazon and Facebook.

BizFACT

If the brand name becomes well recognised, the business will also enjoy a carry-over effect when new products are introduced. This gives it a distinct competitive advantage

- evaluate the quality of products, especially when a consumer lacks the expertise to judge a product's features
- reduce their level of perceived risk of purchase. A respected and trusted brand will provide reassurance that the consumer is making the right choice
- gain a psychological reward that comes from purchasing a brand that symbolises status and prestige.

Branding helps businesses:

- gain repeat sales because consumers recognise the business's products
- introduce new products onto the market because consumers are already familiar with the business's existing brands
- with their promotional activities because the promotion of one product indirectly promotes all other similarly branded products
- encourage customer loyalty. This has the added benefit to the business of being able to charge a higher price for the product.

For these reasons, a brand name can be a powerful marketing tool. It is also why businesses spend a great deal of time, money and effort creating and protecting their brand name. McDonald's, for example, is one business that aggressively protects its brand name — which is a registered **trademark** — against infringement. It has brought legal proceedings against a number of businesses with 'Mc' names because it fears that the use of the 'Mc' will give consumers the impression that these businesses are owned or endorsed by McDonald's. The symbols, ©, TM or R at the end of a brand name signify that the name or symbol is copyright protected or a registered trademark.

BizWORD

*A **trademark** signifies that the brand name or symbol is registered and the business has exclusive right of use.*

Branding — symbols and logos

A **brand symbol** or **logo** is a graphic representation that identifies a business or product, as shown in figure 8.11.

BizWORD

*A **brand symbol** or **logo** is a graphic representation that identifies a business or product.*



FIGURE 8.11 Brand symbols or logos assist in the easy recognition of a product. Can you guess which brands these iconic logos belong to?

A brand symbol does not have to duplicate the words in the brand name. The three-pointed star of the Mercedes-Benz and Coca-Cola's distinctive narrow-waisted bottle are famous brand symbols. Some businesses encourage the instant recognition of their brand symbol rather than their brand name. Perhaps the most famous example of this technique is the 'golden arches' symbol used by McDonald's. Nike's 'swoosh' symbol has also become a brand symbol with a high recognition value. Notice how in some advertisements the brand name does not appear at all, only the brand symbol. This is a clever and subtle method used to reinforce the meaning of the symbol and associate it with a brand name.

BizFACT

Brand counterfeiting is especially detrimental because the usually inferior counterfeit product weakens the consumers' trust in the brand and their loyalty to it.

Branding strategies

Brands are usually classified according to who owns them. When a manufacturer owns a brand name it is referred to as a **manufacturer's brand** or **national brand**. Common examples of manufacturer's brands include Sunbeam appliances, Kraft

BizWORD

***Manufacturer's brand** or **national brands** are those owned by a manufacturer.*

foods and Billabong clothing. These brands have high appeal with customers because they are recognised across the country, are widely available and offer reliability with constant quality.

A **private** or **house brand** is one that is owned by a retailer or wholesaler. These products are often cheaper because the retailer or wholesaler can buy at lower costs. For example, Myer sells products from its own label, including Reserve, Basque, Urbane, Blaq, Bauhaus, Wild Rhino and Miss Shop.

Generic brands are products with no brand name at all. Carrying only the name of the product and in plain packaging; these generic brands have been available in supermarkets since the mid 1970s. Examples include Black and Gold (Metcash Trading Ltd), No Frills (Metcash Trading Ltd), Essentials and Select (Woolworths), Coles Smart Buy (Coles) and Just Organic (Aldi).

BizWORD

*A **private** or **house brand** is one that is owned by a retailer or wholesaler.*

BizWORD

***Generic brands** are products with no brand name at all.*



FIGURE 8.12 In 2016 Woolworths' new CEO replaced the labels on their Homebrand products with the name Essentials. This is due to increased competition from Coles and Aldi. To improve the quality and value of their generic brand they didn't change the products at all — just the labels — as analysts found that the red and white logo was perceived as too low quality. They also introduced a high-end home brand range called Woolworths Select.

8.4.3 Packaging

Packaging involves more than simply putting the product in a container or placing a wrapper around it. **Packaging** involves the development of a container and the graphic design for a product.

BizWORD

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

To assist sales, the packaging of a product is sometimes as important as the product itself. Well-designed packaging will give a positive impression of the product and encourage first-time customers. For example, tasteful packaging can create an image of luxury, sensuality and exclusiveness, helping to promote the product. In addition, packaging:

- preserves the product
- protects the product from damage or tampering
- attracts consumers' attention
- divides the product into convenient units
- assists with the display of the product
- makes transportation and storage easier.

Apart from performing these practical functions, packaging also acts as a form of communication. Consumers see certain colours and draw conclusions about the product even before they read the label. For example, a red soft-drink can means cola; green means lemon-lime. Dishwashing liquid in a yellow container is considered 'lemony' and a household cleaner in a green package is associated with an environmentally-friendly product. Many products packaged in black or gold portray an image of luxury and sophistication.

BizFACT

The Root Glass Company of Indiana created the famous Coca-Cola contoured bottle in 1915. It was designed to help Coca-Cola stand out from other drinks at the time, and the design brief was to ensure that the bottle was recognisable even in the dark.

Sometimes, the shape of the packaging can become part of the product itself. That is, consumers readily associate a unique shape with a specific product. For example, one of the most easily recognised shapes in the soft-drink market is the distinctive 'pinched in at the waist' Coke bottle. In 1977, Coca-Cola gained trademark protection by the United States Patent Office. Coca-Cola argued that the 'distinctively shaped contour' had become so well known it had taken on trademark status. Coca-Cola is also the registered owner of a number of Australian trademarks for its famous Contour Bottle. Due to the strong consumer association with the unique bottle design, Coca-Cola has aggressively protected its trademark shape.



FIGURE 8.13 The size of many popular items have decreased in the last five years, while prices have stayed the same. This trend has been called 'shrinkflation' since the price is, in effect, inflated as consumers pay the same amount for less. Higher prices are more noticeable than shrinking packages, which is why many companies have followed this trend.

SNAPSHOT



'. . . a lot of the sensation actually comes from the packet.'

The influence of packaging on customers

Woolworths has a new CEO and his big idea to save the struggling supermarket chain is . . . changing the labels on the Homebrand products.

Woolies is getting flayed by Coles and especially by Aldi. Shoppers and shareholders alike are more than ready for the big supermarket to start fighting back with fire.

The new CEO's plan is to ditch the Homebrand labelling, and give everything the name Essentials instead.

So to improve the quality and value, they're not planning on changing the products at all. Just the labels.

Analysts say Homebrand, with its plain red and white logo, was seen as too low quality. (Aldi's private label brands, by contrast, look anything but generic. If anything they look a lot like the major brands.)

And the funny thing is, this trick will almost certainly work on all of us. Because the way human brains work is totally suggestible. When we eat or drink a food, a lot of the sensation actually comes from the packet.

The best example is from Coca-Cola. This brand is super sensitive to consumer perception, (as you have to be when you've been selling brown sugar water at a high price for over a century).

But in 2011, they made a misstep. They ran a Christmas promotion in the US, changing their cans to white instead of the usual red. Consumers revolted. They complained to Coke the soda tasted different, and the company swiftly switched back to the safety of traditional red.

Packaging is the great magic trick performed for consumers. We think it's just to wrap up the contents. Instead it's a huge part of the experience.

Not just the buying experience or the unwrapping experience. Packaging can make us rate the product differently even after we've used it, and make us go back and buy again.

At Oxford University in the UK, a psychology professor called Charles Spence has done countless experiments on this phenomenon and made hundreds of discoveries. For example, if you serve strawberry mousse in a white container, it tastes 10 per cent sweeter than if it comes in a black container. Or, coffee tastes half as intense if you serve it glass instead of in a white cup.

Red makes things taste sweet, blue makes things taste saltier, round things taste sweeter than square, etc, etc. There is a huge catalogue of linkages between shape and colour and taste. (This explains why a company like Cadbury has trademarked their exact shade of the colour purple — they know how much their flavour depends on it.)

Professor Spence gets funding for research from big companies who want to change their packaging to make the experience better for consumers. He has already changed the sound a deodorant spray makes, so the men's Axe deodorant makes a much louder, tougher sound than a woman's spray.

And, according to one report, he's undertaking an experiment into whether changing the sound of a drink can when you open it affects the subjective experience of its flavour.

This is why Woolies simple plan to change their packaging can make such a big difference.

Packaging might not matter so much for a pineapple, say, or a baguette. But it matters enormously for things that have no real shape of their own, like beverages, canned food, and cereals and spreads — and those are the sort of things that are often home brand.

The fact packaging adds so much value is lost on some environmentalists — they rage against packaging as though it is purposeless.

They aren't necessarily wrong that it is wasteful, but the source of the problem is not evil corporations. It is our own brains mixing up flavour and texture and colour cues into an overall impression that means packaging will probably be a big part of product marketing, forever.

Is it smart to fight against the fact your brain gets a lot of flavour from the packaging? Only sometimes. Understanding how packaging works means you can let yourself be tricked when it helps you save money or eat less sugar, and fight against the effects if it is trying to rip you off.

As for Woolworths, we should probably hope their simple trick with the Essentials line works. To be honest, cheap generic brands have often been good products all along, but we've had bad experiences with them, because the packets looked terrible.

Studies show experts often prefer home brands — chefs tend to buy home brand flour and nurses prefer to buy home brand pain killers. They really are often just as good. If this is what it takes to make us buy more of it we would probably all be better off.

Source: Jason Murphy, 'Why Woolies had to kill Homebrand', news.com.au, 29 March 2016

SNAPSHOT QUESTIONS

1. **Why** have Woolworths changed the labels on their Homebrand products?
2. **State** where most of the sensation comes from when we eat or drink food.
3. **How** can packaging affect a customer's experience?
4. **Identify** the types of products that are most influenced by packaging.

BizWORD

Labelling *is the presentation of information on a product or its package.*

A **label** *is that part of the package that contains information.*

Labelling

Another important part of a product's package is labelling. **Labelling** is the presentation of information on a product or its package. A **label** is that part of the package that contains this information. Marketers can use labels to promote other products or to encourage proper use of products and therefore greater consumer satisfaction with products. Usually the label will provide information about ingredients, operating procedures, shelf life, package size or country of origin (see figure 8.14).



FIGURE 8.14 To help reduce confusion among consumers regarding country of origin labelling, the Australian Government introduced new food labelling requirements in 2016 to make it clearer where products are produced, grown, made or packed. The labels also tell consumers what percentage of the ingredients come from Australia.

BizFACT

Food labels must identify the:

- *name or description of the food*
- *batch number*
- *name and Australian address of the supplier*
- *list of ingredients*
- *date mark*
- *nutrition information panel*
- *country of origin*
- *warning and advisory statements.*

All labels must be truthful. In Australia, there are number of statutes (laws) and government regulations specifying information that *must* be included in the labelling for certain products (see the BizFact on the left).

These regulations are aimed at protecting the consumer from misleading or deceptive claims and the unsafe use of products. They also make it easier for consumers to compare products.

8.4.4 Why goods and/or services are central to both marketing and operations

The good or service is the central point on which both marketing and operations must focus. Operations managers need to determine how to make the product or provide the service and then marketing plays a key role in determining the appearance of the product and its functions, as well as communicating with the market.

The operations function is central to any business because it produces the goods and/or services; without a good or service, the business would not exist. Simply producing a product, however, doesn't necessarily result in sales. The operations department therefore relies on the marketing department to carry out market research so they can produce a product that will satisfy customer's needs. Operations also rely on marketing to inform the market, distribute products, determine a price and persuade people to purchase the products.

SUMMARY

- A product is a good or service that can be offered in an exchange for the purpose of satisfying a need or want.
- Most products are combinations of tangible and intangible benefits — the total product concept.
- With mass-produced products, competition is often based on the differences in the intangible benefits.

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Syllabus area 2
Topic 4
Concept 3

Product/service: branding and packaging
Summary screen and practice questions

- A brand is a name, term, symbol, design or any combination of these things that identifies a specific product and distinguishes it from its competition.
- A brand name is that part of the brand that can be spoken.
- A brand symbol or logo is a graphic representation that identifies a business or product.
- To guard against other businesses using its brand name or symbol, a business can apply to have the name registered.
- Manufacturer's or national brands are those owned by a manufacturer.
- A private or house brand is one that is owned by a retailer or wholesaler.
- Generic brands are products with no brand name at all.
- To assist sales, the packaging of a product is sometimes as important as the product itself.
- Marketers can use labels to promote other products or to encourage proper use of products and therefore greater consumer satisfaction with products.

EXERCISE 8.2 REVISION

1 Think of a product you have recently purchased. **Identify** the tangible and intangible benefits you gained from the product.

2 **Why** do marketing managers prefer to use the term 'total product concept' rather than simply 'product'?

3 **Explain** what is meant by imagining a product as a 'collection of satisfactions'.

4 **Why** do businesses spend so much money attempting to establish a brand name and brand symbol?

5 Create a 'T' table to **summarise** the benefits of branding for (a) consumers and (b) businesses. The 'T' table has been started for you.

Benefits of branding	
Consumers • Identify favourite products	Businesses

6 **Identify** which benefit of branding you consider to be the most important for the (a) consumer and (b) business. **Justify** your selection.

7 When deciding on a brand name and brand symbol, **outline** some of the considerations that a marketer must take into account.

8 **Evaluate** each of the following brand names. Indicate the strong points of each name.
(a) Nokia mobile phones
(b) Apple computers
(c) LG electronic products.

9 **Summarise** the different types of branding strategies a business can use. Provide an example of each.

10 **Explain** why packaging is critical to the success of a product.

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

12 **How** can packaging and labelling be used as marketing strategies?

13 Find examples of packaging awards winners. The **Packaging Council of Australia** website is a useful starting point. **Analyse** two of the designs and, for each one, write a 150-word paragraph on how these address a marketing plan.

14 Using an example, **explain** why goods and/or services are central to both marketing and operations.

on Resources

Weblink: Packaging Council of Australia

EXERCISE 8.2 EXTENSION

1 'With mass-produced products, it is often on the differences in the intangible benefits that product competition is based.' **Evaluate** the accuracy of this statement. Provide examples to support your answer.
2 **Distinguish** between Product of Australia, Australian Made and Grown in Australia.
3 'Branding, packaging and labelling combine to create a powerful set of marketing strategies.' Use examples to **evaluate** the accuracy of this statement.

on Resources

Weblink: Australian Made

8.5 Price and pricing methods

BizWORD

Price *refers to the amount of money a customer is prepared to offer in exchange for a product.*

Price refers to the amount of money a customer is prepared to offer in exchange for a product. Many businesses have difficulty selecting the 'correct' price for their products. A price set too high could mean lost sales unless superior benefits are offered. A price set too low may give customers the impression that the product is 'cheap and nasty'. Somewhere between these extremes is a correct price for a product.

In any market, businesses will attempt to gain some control over the price by differentiating their products. Once this happens, the business has more leverage over the price. For example, clothes with designer labels, such as Nike, Bardot, Roxy and Billabong, are the result of product differentiation strategies. These labels can set higher prices for their garments than clothing sold under the Target or Kmart brand labels.



FIGURE 8.15 Of all the marketing mix elements, price is probably the most flexible. Businesses can adjust prices much more easily than they can modify the product, redesign the promotional campaign or change the distribution system. Price can be adjusted quickly in response to competitors' actions or changes in the marketplace.

BizFACT

Woolworths plans to gradually move its entire range of products to round number pricing and has already begun progressively rounding some prices to numbers with a zero at the end. Round prices will make the shopping experience simpler for consumers as it will make it easier for them to remember and add up prices as well as compare prices of products.

8.5.1 Pricing methods

Overall, a business's pricing decisions are influenced by a variety of internal and external factors. As a starting point, the business's marketing objectives and costs of production provide an indication of what it should charge for its products. Then, the business must consider such factors as the amount of competition in the marketplace, government regulations, the location of the product on its life cycle and the level of economic activity.

There are three main pricing methods: cost-based, market-based and competition-based. These pricing methods provide a 'basic' price for each product. Pricing strategies are then used to adjust the basic price, depending on the marketing objectives and conditions within the marketplace.

BizWORD

Cost-based pricing *is a pricing method derived from the cost of producing or purchasing a product and then adding a mark-up.*

Mark-up *is a predetermined amount (usually expressed as a percentage) that a business adds to the cost of a product to determine its basic price.*

Cost-based pricing

Cost-based pricing is the simplest of the three methods. As a starting point, the business determines the total cost of producing (or purchasing) one unit of the product. The business then adds an amount to cover additional costs (overheads such as interest payments, insurance, transport) and to also provide an adequate profit margin. That amount is referred to as the **mark-up** and is usually expressed as a percentage. The total of the cost plus the mark-up is the selling price of the product. The formula is as follows.

Cost + Cost × Mark-up percentage = Price

For example, if a manager of a clothing store buys 100 blouses at $50 each and applies an 80 per cent mark-up on cost, the price to the consumer will be $90 per item. This same percentage mark-up might be applied to all products in the store.

Cost-based pricing is a very simple and straightforward pricing policy and is used mainly by wholesalers and retailers. However, it has two major drawbacks.

1. Difficulty in accurately determining an appropriate mark-up percentage. If the percentage is too high, the product will be overpriced and possibly not sell. If the mark-up is too low, the business is losing profit they could have easily obtained.
2. The product is priced after production and associated costs are incurred without taking into account the other elements of the marketing mix or the state of the market.

BizFACT

A breakeven analysis can assist a marketing manager to determine the appropriate mark-up percentage.

Market-based pricing

Instead of using costs to determine price, businesses sometimes set prices according to the level of **supply** and **demand** — whatever the market is prepared to pay. **Market-based pricing** is a method of setting prices according to the interaction between the levels of supply and demand. When demand for a product is greater than its supply, there will be a *shortage* in the market. This will force up the price of the good. For example, if 100 prospective buyers attend an art auction but there is only one particular type of painting (product) offered for sale, the price will rise. As the price rises, buyers will progressively drop out of bidding until the final buyer is successful. Conversely, when the supply of a product is greater than its demand, a *surplus* will exist in the market. The price of the product will consequently fall. This is why bananas are cheaper, for example, during the summer months.

The prices of products, therefore, are constantly changing in relation to fluctuations in the levels of supply and demand. Market-based pricing is critically important not only as a pricing method in itself, but also as a basis for the other pricing methods. However, this method can be difficult to apply because the levels of supply and demand will constantly change.

BizWORD

Supply *is the quantity of a product businesses are willing to offer for sale at a particular price.*

Demand *is the quantity of a product consumers are willing to purchase at a particular price.*

Market-based pricing *is a method of setting prices according to the interaction between the levels of supply and demand — whatever the market is prepared to pay.*



FIGURE 8.16 Levels of supply and demand for accommodation in the snow fields, for example, fluctuate dramatically between summer and winter seasons, and prices rise and fall accordingly.

Competition-based pricing

Most products are available from more than one business. When making a major purchase, many consumers compare prices. Businesses, therefore, need to consider the competition when making their pricing decisions. **Competition-based pricing** is where the price covers costs (cost of raw materials and the cost of operating the business) and is comparable to the competitor's price.

Competition-based pricing is often used when there is a high degree of competition from businesses producing similar products. Once a business has established a base price, it can then decide to choose a price either:

- below that of competitors. This policy of undercutting the competition is often used as a way of breaking into an established market.
- equal to that of competitors. Following the price established by a **price leader** is an easy option for a business because it avoids having to undertake market research to find out what the consumer would actually pay. As well, it also avoids the risks of price competition/war.
- above that of competitors. This is a favoured practice by businesses who wish consumers to perceive the product as superior, which appeals to the status-conscious buyer.

BizWORD

Competition-based pricing *is where the price covers costs (cost of raw materials and the cost of operating the business) and is comparable to the competitor's price.*

BizWORD

A **price leader** *is a major business in an industry whose pricing decisions heavily influence the pricing decisions of its competitors.*

8.5.2 Pricing strategies

Once the basic price has been set using the preferred pricing method(s), the business then fine-tunes this price in line with its pricing strategy. Various pricing strategies can be used, and it is common for a business to use several at once, even for the same product. The extent to which a business uses any of the following strategies depends primarily on:

- its marketing objectives
- the life cycle of the product
- the market for the product
- the degree of product differentiation
- the level of economic activity.

Of course, as with all areas of business, the pricing strategies used by marketers will have to be modified depending upon changes within the external business environment, especially the influence of technology. For example, the growing influence of the internet and the expansion of e-commerce have weakened some business's control over prices. Consequently, marketers have been forced to modify their traditional pricing strategies. One example is the widespread use of **bundle pricing** common with the telecommunications businesses, as evidenced by the advertisements from mobile phone companies, internet providers and cable television operators offering all kinds of packages.

BizWORD

Bundle pricing *is where customers gain a 'package' of goods and services in addition to the tangible good they purchased.*

Price skimming *occurs when a business charges the highest possible price for the product during the introduction stage of its life cycle.*

BizFACT

Whenever Sony launches a new and innovative product, they use the price skimming strategy. They set the price high when a product is first launched to make as much money as they can from those customers who will pay almost any price to get the latest gadget and then they decrease the price gradually over time.

Price skimming

Price skimming occurs when a business charges the highest possible price for the product during the introduction stage of its life cycle. Some consumers are willing to pay a high price for a product's novelty features because of the prestige or status that ownership gives. Early purchasers (adopters) of innovative electronic equipment fall into this category. The business essentially 'skims the cream' off the market. The objective is to recover the costs of research and development as quickly as possible, before competition enters the market.

Price skimming, as Apple discovered, can sometimes not go as planned. Within twelve weeks of its introduction, Apple dropped the price of its 8GB iPhone by $200. The situation resulted in a negative backlash from early adopters. Apple subsequently tried to make amends by offering a $100 Apple Store credit for those who paid the higher price.

Price penetration

At the opposite extreme to price skimming is price penetration. **Price penetration** occurs when a business charges the lowest price possible for a product. The strategy aims to quickly achieve a large market share for a product — sometimes called 'mass-market pricing'. The objective is to sell a large number of products during the early stages of the life cycle and thus discourage competitors from entering the market or from taking market share from existing businesses. The main disadvantage of this strategy is that it is more difficult to raise prices significantly than it is to lower them. Consequently, a business may be locked into a low sales revenue until it substantially modifies the product at a later stage.

BizWORD

Price penetration *occurs when a business charges the lowest price possible for a product or service so as to achieve a large market share.*

Loss leader

A **loss leader** is a product sold at or below cost price. For a special promotion, many businesses, especially retail stores, deliberately sell a product at a loss to attract customers to the shop. Although the business makes a loss on this product, it hopes that the extra customers will buy other products as well. The psychology behind this strategy is that once the consumers are in the store, they will usually buy other products and spend more than what attracted them into the store to begin with. The business can recover the loss on the low-price item from the sale of the other items or services that the consumer buys.

BizWORD

A **loss leader** *is a product sold at or below cost price.*



FIGURE 8.17 Supermarkets frequently use the loss leader pricing strategy as evidenced by the promotion of weekly specials. Often these heavily discounted items are located next to higher priced, more appealing products or at the end of the aisles with the lower prices clearly displayed.

This successful pricing strategy is often used when the business:

- is overstocked or a product is slow to sell
- wants to increase the traffic flow in the expectation of gaining new customers
- wants to build a reputation of having low prices.

However, the main danger of this practice is that if it is done incorrectly the business can actually lose money.

Price points

Price points (or price lining) is selling products only at certain predetermined prices. This pricing strategy is used mainly by retailers, especially clothing stores and boutiques. The business chooses a limited number of key prices or price points for selected product lines. For example, a jeweller may offer a line of watches priced at $55, $75 and $95 regardless of how much they cost at wholesale. In practice, this means the store would not apply a fixed mark-up to the products.

BizWORD

Price points *(or price lining) is selling products only at certain predetermined prices.*

Using this pricing strategy makes it easier for the customer to find the type of product they need. It also makes it easier for the business to encourage the customer to 'trade up' to a more expensive model.

8.5.3 Price and quality interaction

You have probably heard the expression 'You get what you pay for'. To marketing managers, this saying describes the price–quality relationship. Normally, products of superior quality are sold at higher prices. This is usually due to the higher manufacturing cost involved in producing them.

This perceived price–quality relationship helps determine the image customers have of products or brands. Therefore, if a business charges a low price for a product, customers may perceive the product as 'cheap'. Charge a high price and the product develops an aura of quality and status (see figure 8.18). This pricing strategy is referred to as **prestige** or **premium pricing** and is designed to encourage status-conscious consumers to buy the product. Premium or prestige pricing is based on the tendency for consumers to assume that expensive products are of superior quality and distinction. If a business that uses premium pricing lowered their prices dramatically, it would damage their reputation because it is inconsistent with the perceived images of such products.

BizWORD

Prestige *or* **premium pricing** *is a pricing strategy where a high price is charged to give the product an aura of quality and status.*

BizFACT

Premium pricing is common for service industries, where the consumer cannot see the product in advance and relies on price to indicate its quality.

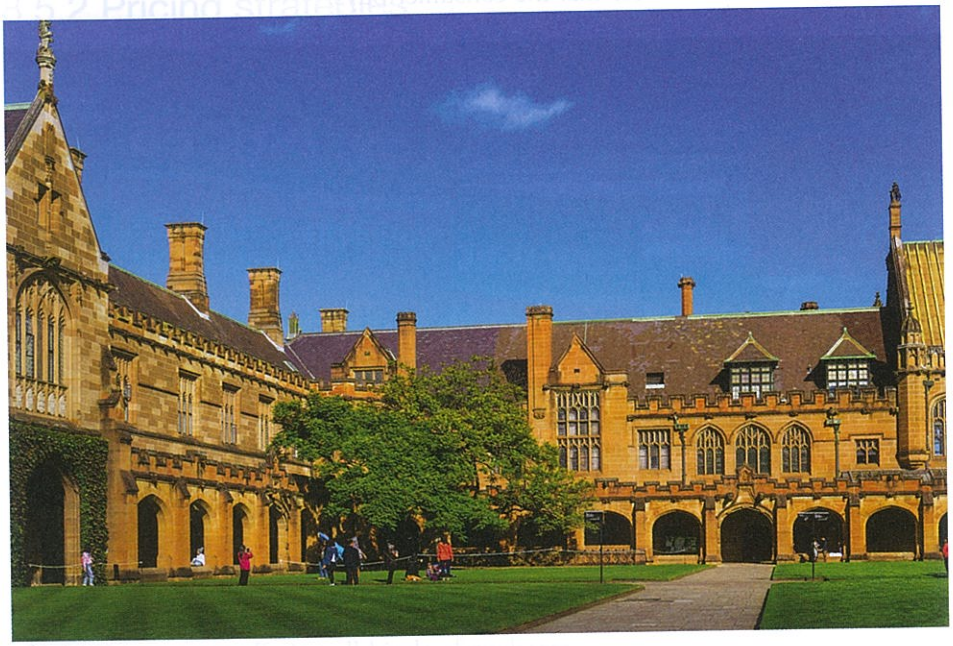


FIGURE 8.18 A Grattan Institute report in 2015 found that 'prestige' universities cost students up to twice as much in course fees. Their research showed that the elite Group of Eight (Go8) universities charge up to twice as much as regional universities in some disciplines, which illustrates how much more some students are willing to pay to attend a prestige institution.

This price–quality relationship does not apply to all products. Usually, high-priced and infrequently purchased items such as cars, homes and furniture display a stronger price–quality relationship than frequently purchased products such as grocery items. As well, consumers may believe that high prices reflect either expensive packaging or market exploitation. This may lead to a reduction in sales because the consumer perceives there to be little actual difference between the quality of a low- and high-priced item. Sometimes, a premium price is set artificially high to imply a prestigious or quality image when, in reality, the quality may not be much superior to cheaper alternatives.

SUMMARY

- Price refers to the amount of money a customer is prepared to offer in exchange for a product.
- There are three main pricing methods:
  - Cost-based (mark-up) pricing is a pricing method derived from the cost of producing or purchasing a product and then adding a mark-up.

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Syllabus area 2
Topic 4
Concept 4

Pricing methods
Summary screen and practice questions

  - Market-based pricing is a method of setting prices according to the interaction between the levels of supply and demand.
  - Competition-based pricing is where the price covers costs (cost of raw materials and the cost of operating the business) and is comparable to the competitor's price. A business can select a price that is below, equal to or above that of the competitors.
- Once the basic price has been set using the preferred pricing method, the business then fine-tunes this price in line with its pricing strategy.
- The four main pricing strategies include:
  - price skimming, which occurs when a business charges the highest possible price for the product during the introduction stage of its life cycle
  - price penetration, which occurs when a business charges the lowest price possible for a product or service to achieve a large market share
  - loss leader, which is a product sold at or below cost price. Although the business makes a loss on this product, it hopes that the extra customers will buy other products as well.
  - price points (or price lining), which is selling products only at certain predetermined prices.
- Normally, products of superior quality are sold at higher prices.
- Prestige or premium pricing is a pricing strategy where a high price is charged to give the product an aura of quality and status.

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Syllabus area 2 | Topic 4 | Concept 5 — **Pricing strategies** Summary screen and practice questions

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Syllabus area 2 | Topic 4 | Concept 6 — **Price and quality interaction** Summary screen and practice questions

EXERCISE 8.3 REVISION

1 Complete the following sentences by **recalling** the correct term from the list below. The answers can be found in the introduction to this section.

exchange	correct	high	low
money	customers	selecting	sales

Price refers to the amount of _____ a customer is prepared to offer in _____ for a product. Many businesses have difficulty _____ the 'correct' price for their products. A price set too _____ could mean low _____ unless superior benefits are offered. A price set too _____ may give _____ the impression that the product is 'cheap and nasty'. Somewhere between these extremes is a _____ price for a product.

2 **Identify** the three main pricing methods.

3 **Why** are retailers likely to adopt the cost-based method to pricing?

4 **State** the formula used to calculate the price using the cost-based method.

5 As the managers of a furniture store, you have just received a shipment of new media units. The units cost you $385 each and your usual mark-up is 75 per cent.
(a) **Calculate** the final selling price.
(b) **Explain** what you would do to the price if your business has exclusive distribution of this highly fashionable product.

6 **Outline** the two major drawbacks of cost-based pricing.

7 **How** is market-based pricing determined?

8 **Recall** the three alternatives that are available to businesses that adopt the competition-based method of pricing.

9 **Explain** why a business would use competition-based pricing.

10 **Why** do some businesses use bundle pricing?

11 **State** what motives might lead a business to adopt a price skimming strategy.

12 **Identify** a possible problem with using price skimming.

13 **Deduce** under what conditions a phone manufacturer would adopt (a) a price skimming approach and (b) a price penetration approach for a new product.

14 **Recall** the main disadvantage of price penetration.

15 **Account** for why a business would use the loss leader pricing strategy.

16 **How** might buyers' perceptions of price influence pricing decisions?

17 **Discuss** whether you agree with the statement 'You get what you pay for'. Provide examples to **justify** your answer.

18 Imagine you are a marketing consultant. A client has asked you to make recommendations regarding the price of five, as yet, unbranded new products. You are trying to decide whether to recommend price skimming, price penetration, loss leader or price points pricing strategies. Complete the following table and **justify** your recommendation.

Unbranded new product	Recommended pricing strategy	Justification for this strategy
1. Imported leather lounges		
2. A range of costume jewellery		
3. Bottled water		
4. Mobile phone		
5. T-shirts		

EXERCISE 8.3 EXTENSION

1 **Define** the term 'non-price competition'. **Compare** the characteristics of price and non-price competition. **Predict** under what conditions a business would be most likely to use non-price competition.

2 **Explain** why some customers are prepared to pay a high price for a product, although other customers would not buy the product even if the price was low. **Extrapolate** what this tells you about the relationship between price and customer tastes and preferences.

3 **Why** do many department stores use a mark-up of about 50 per cent, when some discount variety stores operate on a mark-up of 20 per cent?

4 Compare the prices of five identically branded electronic products in three competing stores.
(a) **State** whether the prices are the same or different.
(b) **Account** for the similarities and/or difference.

8.6 Promotion

BizWORD

Promotion *describes the methods used by a business to inform, persuade and remind a target market about its products.*

To sell more of its products, a business has to change customers' behaviour through information or persuasion. This is achieved through promotion. **Promotion** describes the methods used by a business to inform, persuade and remind a target market about its products.

Promotion attempts to:

- attract new customers by heightening awareness of a particular product
- increase brand loyalty by reinforcing the image of the product
- encourage existing customers to purchase more of the product
- provide information so customers can make informed decisions
- encourage new and existing customers to purchase new products.

8.6.1 Elements of the promotion mix

Many people confuse promotion with advertising because of its visibility and frequency. However, advertising is just one of the four elements of the promotion

mix. A **promotion mix** is the various promotion methods a business uses in its promotional campaign (see figure 8.19).

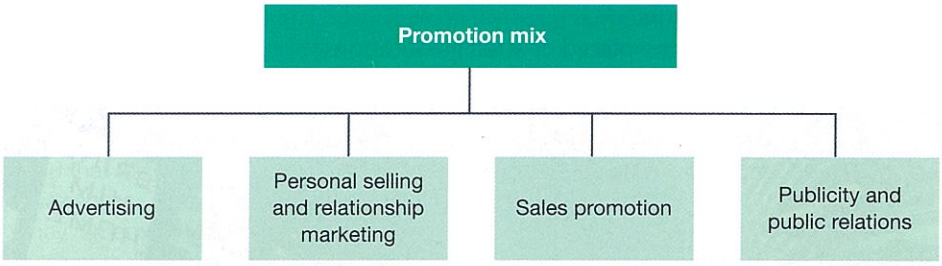


FIGURE 8.19 Depending on the type of product and target market involved, two or more of these elements are combined to form the promotion mix.

Advertising

Which current advertisement has most impressed you? What product is it advertising: soft drink, food, clothes, a car or something else? Why did it impress you? You can probably answer these questions without too much thought. This is because you have been influenced by advertising. Everywhere you look businesses are trying to sell consumers their products.

As previously explained, advertising is a paid, non-personal message communicated through a mass medium. Because of the myriad of products available, advertising is an essential tool for successful marketing. A successful advertising campaign can result in increased sales and profit for a business. The form and presentation of advertisements have changed over time (see figure 8.20), but the purpose of advertising — to inform, persuade and remind — has remained constant.

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



Advertising media

Advertising may take many forms, from buying time on national television, to inexpensive leaflets or posters, to internet banner advertisements. All businesses need to develop the most cost-effective means to advertise their products. **Advertising media** is a term for the many forms of electronic and print communication used to reach an audience. The six main advertising media are as follows.

- *Mass marketing* — television, radio, newspapers and magazines
- *Direct marketing catalogues* — catalogues mailed to individual households

BizWORD

Promotion mix *is the various promotion methods a business uses in its promotional campaign. Methods include:*

- *advertising*
- *personal selling and relationship marketing*
- *sales promotions*
- *publicity and public relations.*

BizFACT

In Australia, businesses spend approximately $13.5 billion a year on various forms of advertising. $6 billion is spent on internet advertising, which is the largest category.

FIGURE 8.20 Digital advertising expenditure has been significantly increasing at the expense of other mediums. For example, advertising expenditure on newspapers and magazines has been declining over the past few years. They fell 18 and 17.1 per cent respectively in 2016.

BizWORD

Advertising media *refers to the many forms of communication used to reach an audience.*

- *Telemarketing* — the use of the telephone to personally contact a customer
- *E-marketing* — the use of the internet to deliver advertising messages
- *Social media advertising* — online advertising using social media platforms such as Facebook and Twitter
- *Billboards* — large signs placed at strategic locations

BizFACT

Choosing the most appropriate advertising media for the message is critical.

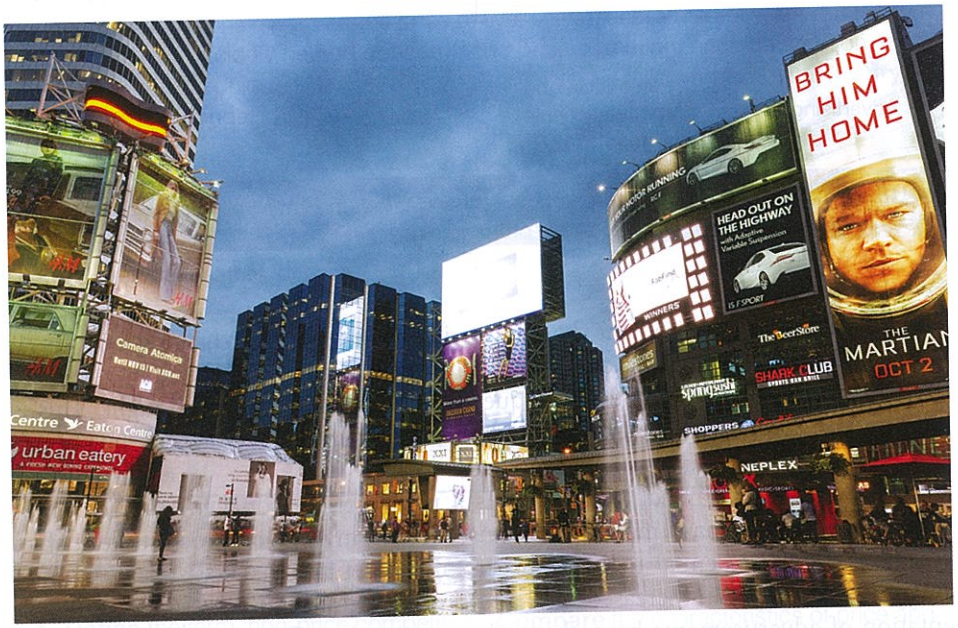


FIGURE 8.21 Digital billboard advertising is one of the fastest growing advertising mediums, while print, television and radio advertising mediums are declining. Digital billboards are an effective way of raising brand awareness with research showing that they reach more customers than videos on the internet or Facebook. Not only do they reach more customers, a recent study found that travellers who passed digital billboards could recall the specific message displayed 89 per cent of the time.

Which type of advertising media a business selects depends on a number of variables including the:

- type of product and its positioning
- size of the target market and its characteristics
- business's marketing budget
- cost of the advertising medium
- product's position on the product life cycle.

Sometimes a business will undertake an extensive advertising campaign that involves a number of advertising media in order to create a saturated coverage of a wide target market. This is the advertising strategy used, for example, when a new movie is released. There will be celebrity publicity events, electronic and print advertisements, billboards and e-marketing using pop-up banners and social media advertising.

SNAPSHOT



Traditional advertising in decline

As consumers continue to increase engagement with mobile devices for daily activities, there has been a huge switch in advertising behaviour. Companies are increasingly spending more money on online advertising as opposed to traditional media. Digital platforms are on the rise and in 2017 digital ad spending surpassed traditional advertising for the first time.

Currently, nearly two billion Australian advertising dollars go into online media. Digital is now the dominant player in terms of advertising dollars spent, which indicates a significant change in how people consume content. In Australia in

2016, digital advertising expenditure grew 15 per cent and is predicted to grow at an average rate of 20 per cent a year to 2019. Social media advertising is the fastest growing component of digital advertising. It grew 51 per cent in 2016 and is predicted to keep growing. Expenditure on television advertising, however, declined by 4 per cent in 2016 and print advertising declined by approximately 15 per cent.

The Magnum Opus Partners Awareness Survey, carried out by Think Global Research polled Australians on their ability to recall brands and advertising. Their findings revealed that Australian consumers are underwhelmed by advertising and that the move towards digital has resulted in a decline in product and brand awareness. They found 57 per cent of people surveyed could not recall a single ad they remember feeling positive about.

Over the next few years, it is predicted that marketers will increasingly migrate their advertising dollars away from traditional media and will continue to embrace digital media. There will be increasing pressure on companies to embrace digital marketing strategies as traditional advertising continues to be less effective.

SNAPSHOT QUESTIONS

1. **Outline** the factor that led to the switch in advertising behaviour.
2. **Explain** the latest trends in advertising spending.

'. . . digital ad spending will surpass traditional advertising . . .'



FIGURE 8.22 Coles spends over $53 million each year on advertising. They use a variety of advertising media in order to create a saturated coverage. For example, they advertise on television, radio, newspapers, magazines, billboards, social media and weekly catalogues.

Personal selling

Personal selling involves the activities of a sales consultant directed to a customer in an attempt to make a sale; it involves the human aspect of promotion. For some businesses — such as those offering expensive, complex or highly individual products — personal selling is *the* main promotional strategy. These products in particular require the personal contact of a sales representative to familiarise the customer with the product.

Although personal selling is an expensive promotional method, businesses are willing to spend the money on it because it offers three unique advantages. They are:

- The message can be modified to suit the individual customer's circumstances.
- The individualised assistance to a customer can create a long-term relationship resulting in repeat sales.
- The sales consultant can provide after-sales customer service in relation to product features, installation, warranties and servicing.

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

BizWORD

Personal selling *involves the activities of a sales representative directed to a customer in an attempt to make a sale.*

BizFACT

The sales consultant develops a relationship with the customer. By listening to the customer's needs and then offering informed recommendations, customer satisfaction is increased, resulting in repeat business and building a good reputation for the business.

Relationship marketing

Customers want more individualised treatment. In response, businesses are looking for ways to develop long-term, cost-effective and strong relationships with individual customers, a process known as **relationship marketing**. The ultimate aim is to create customer loyalty by meeting the needs of customers on an individual basis, thereby creating reasons to keep customers coming back.

A highly successful relationship marketing strategy is loyalty programs. A **loyalty program** is a rewards-based program offered by a business to customers who frequently make purchases. This was introduced during the early 1990s with the Fly Buys loyalty reward program operated by the Coles Group. In 2007 the Woolworths Everyday Rewards scheme was introduced. These schemes offer rewards to those loyal customers who spend specified amounts or make repeat purchases. Relationship marketing can provide a business with a competitive advantage.

BizWORD

Relationship marketing *is the development of long-term and cost-effective relationships with individual customers.*

A **loyalty program** *is a rewards-based program offered by a business to customers who frequently make purchases.*

BizFACT

A recent marketing industry survey found that four in five shoppers tend to buy more from businesses whose loyalty cards they hold, and 55 per cent say that when choosing between two similar companies they'll usually pick one with a loyalty program.



FIGURE 8.23 Loyalty programs, such as the IKEA FAMILY card, help maintain a customer relationship. IKEA FAMILY is IKEA's free loyalty program that provides cardholders with special offers and benefits, including discounts and entry into weekly draws.

SNAPSHOT



'. . . shoppers have grown tired of endlessly collecting points . . .'

Are customers tiring of loyalty programs?

Customers tiring of points loyalty programs

The larger issue facing Woolworths and others is there is no exclusivity when every supermarket, department store, dress shop and coffee cart offers you a membership card. As a result, shoppers have grown tired of endlessly collecting points to eventually redeem on gifts, discounts or possibly a flight. Studies show that a third of members never redeem points.

Retailers imbedded loyalty programs to encourage repeat shopping, protect themselves from price wars and most importantly collect valuable shopping data. The first retailer in Australia to offer a loyalty program was Fly Buys, a joint venture between Coles Myer (now Wesfarmers) and Loyalty Pacific, 20 years ago.

Then, shoppers were quick to sign up, with the promise of "free" flights in return for their loyalty and of course their valuable personal shopping data, which included brands purchased, location, frequency and demographics.

Back then, the only way retailers could accurately track and target shoppers was through loyalty card usage, and while this still happens today, retailers have other more efficient channels, such as linked credit cards, like Coles Credit Card (Mastercard) and Woolworths Money (Visa).

As shoppers are more frequently "tapping and going", retailers can now access a wider range of data, outside of simply their loyalty program members. Such programs also allowed retailers to distract shoppers from focusing on price by simply getting shoppers to focus on the 'prize' than the price.

Need for speed

Points fatigue occurs when shoppers are faced with months, if not years, of collecting points to ultimately redeem on a desired item or reach that elusive gold or platinum level. Today, shoppers are seeking immediacy and customisation.

Recently, [UK supermarket chain] Morrisons moved away from its complex "price match" loyalty scheme to a more simplified program where shoppers now earn five loyalty points for every £1 they spend.

Once a shopper earns 5,000 points they immediately to receive a £5 voucher. Other retailers are also moving away from long-term points accruing programs to deliver instant and non-monetary rewards to shoppers, such as free newspapers or coffee.

The UK's Waitrose recently re-launched their loyalty program of "pick your own offers", where shoppers can choose from a list of 1000 relevant products and immediately save 20%. Over time, the list changes, and shoppers get to select new products. The scheme has seen more than 850,000 shoppers sign up.

Non-monetary loyalty

The other problem with existing loyalty programs is that retailers have confused "loyalty" with "rewards". Loyal shoppers will always consider their favourite brands and stores first and frequent them consistently. True loyalty programs should also strengthen the relationship between the retailer and customer.

UK retailer Marks and Spencer [M&S] recently moved away from their strictly points-based shopping frequency scheme to reward shoppers for other positive behaviours, such as completing online surveys, writing online reviews or referring friends.

The program of "non-monetary" rewards — such as invitations to exclusive food and drink master-classes or fashion parades — demonstrates shoppers are seeking more than just generic deals and discounts. The program also allows M&S to demonstrate its corporate social responsibility credentials, with shoppers earning "sparks" points for donating unused clothing when purchasing new outfits, termed "shwopping".

Source: Extracts from Gary Mortimer, 'Woolies new loyalty program offers a glimpse into the future', *The Conversation*, 27 October 2015

SNAPSHOT QUESTIONS

1. **Why** have many consumers grown tired of loyalty programs?
2. **Define** 'points fatigue'.
3. **Recommend** strategies marketers could use to make their loyalty programs more effective.

Sales promotion

A business may decide to offer a direct inducement to customers in an attempt to sell more of its product. This type of promotion is referred to as **sales promotion** and aims to:

- entice new customers
- encourage trial purchase of a new product
- increase sales to existing customers and repeat purchases.

Sales promotion techniques are used primarily to increase the effectiveness of other promotion activities, especially advertising. Examples of special promotions include:

- *coupons*. These offer discounts of a stated amount on particular items at the time of purchase. Coupons work best for new or improved products.
- *premiums*. A **premium** is a gift that a business offers the customer in return for using the product. For example, a food producer may offer customers a cookbook as a premium.

BizWORD

Sales promotion *is the use of activities or materials as direct inducements to customers.*

BizWORD

A **premium** *is a gift that a business offers the customer in return for using the product.*

- *refunds*. Part of the purchase price is given back to those customers who send in a voucher with a specific proof of purchase. In recent years, refunds have become widely used on power tools and kitchen appliances (see figure 8.24).
- *samples*. A sample is a free item or container of a product. For example, when you visit a supermarket, you will often find a sales representative encouraging you to taste a product such as cheese, fruit, biscuits or cake.
- *point-of-purchase displays*. Special signs, displays and racks are supplied and installed by the manufacturer in retail outlets. They are usually located at the end of aisles in supermarkets to gain consumer attention and make more efficient use of floor space.

BizFACT

It is the role of public relations personnel to design, implement and manage the publicity events of the business.



FIGURE 8.24 Manufacturers of electrical equipment, computers and white goods sometimes offer cash back promotions to encourage customers to buy their products. These offers are usually limited in time and have special conditions that have to be met in order to get the money.

Publicity and public relations

What's worse than being talked about? Not being talked about! Businesses rely on being in the public eye. Most businesses use publicity and public relations as a means of increasing sales and, therefore, profits. **Publicity** is any free news story about a business's products. It differs from advertising in that it is free and its timing is not controlled by the business. The main aims of publicity are to:

- enhance the image of the product
- raise awareness of a product
- highlight the business's favourable features
- help reduce any negative image that may have been created.

Public relations (PR) are those activities aimed at creating and maintaining favourable relations between a business and its customers. PR exposes a business or idea to an audience by using often unpaid third parties as outlets. This can be done by working with the media, by making speeches on special occasions or by some attention-seeking gesture such as a donation or a give-away sale that is reported by others. This means that PR is often more effective than paid advertising. Sometimes PR can even work out to be cheaper.

BizWORD

Publicity *is any free news story about a business's products.*

BizWORD

Public relations (PR) *are those activities aimed at creating and maintaining favourable relations between a business and its customers.*



FIGURE 8.25 A 'spin doctor' is the name given to someone communicating their perspective of an issue to the public and trying to persuade the public that their perspective is correct. Some public relations practitioners have been criticised and labelled as 'spin doctors' for only presenting facts that are favourable to the business instead of 'telling it how it really is'.

There are four main ways in which public relations activities can assist a business in achieving its objective of increased sales.

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

True or false: all publicity is good publicity?

While publicity is all about trying to create a favourable image, the downside is that you can't control what is said about your business or your product or service. Therefore, businesses need to ensure that what they publicise can withstand public scrutiny.

The advent of social media has delivered a new army of critics and commentators, all of whom have the ability to disseminate their opinion about businesses. Is the saying 'there's no such thing as bad publicity' a myth? The following are two examples of companies that have attracted ongoing negative media coverage and publicity.

In 2011, following industrial disputes and the grounding of their entire fleet Qantas launched a Twitter campaign in an attempt to win back some positive publicity. The competition invited followers to win a first class gift pack by tweeting about their dream luxury experience and include the hashtag #QantasLuxury. Within minutes the #QantasLuxury was filled with angry customers who took the competition as an opportunity to share their gripes and spread their negative experiences. Qantas suffered a social media backlash when most of the 19000 responses were not what they were hoping for.

In 2017, MAC promoted a giveaway on Instagram offering customers a free full-sized lipstick to celebrate National Lipstick Day at selected David Jones and Myer stores. All fans had to do was show up; and thousands of them did, only to be left empty-handed when the giveaway ran out of stock within minutes of the stores opening. Hundreds of outraged social media users took to Instagram to vent their frustration about how the promotion was handled.

In the case of Kyle and Jackie O, however, the view that 'all publicity is good publicity' appears to hold true. The two radio hosts have often attracted negative publicity for saying something offensive. Each time this happens media outlets

SNAPSHOT



'. . . you can't control what is said about your business . . .'

are quick to report on their latest outrageous comments, then the next day they apologise, which again becomes a separate 'news' story with the cycle feeding itself for days on end. Is this part of their marketing strategy: to spark media coverage through their controversial comments? If so, then it's certainly working because the pair have been Sydney's top-rating FM breakfast show for many consecutive years.

SNAPSHOT QUESTIONS

1. **State** whether you agree with the saying 'all publicity is good publicity'. **Justify** your answer.
2. **Discuss** the use of publicity as a marketing strategy.

8.6.2 The communication process

Marketing managers must be able to communicate clearly, efficiently and succinctly to their target markets. If the communication process becomes distorted or inefficient, the message becomes distorted. The resulting miscommunication may mean lost sales. Without effective communication, promotion is wasted.

BizWORD

*A **channel** is any method used for carrying a message.*

Marketing managers can use a variety of channels to communicate a message. A **channel** is any method used for carrying a message. Two of the most common channels used for promotional communication include print and electronic media advertising. Any interference or distraction that affects any or all stages in the promotional communication process is referred to as **noise**. Examples of noise include faulty printing, competing messages, inappropriate language or images, jargon, misinterpretations or — perhaps one of the most common — people having conversations and fetching refreshments during commercial breaks.

BizWORD

***Noise** is any interference or distraction that affects any or all stages in the communication process.*

Often customers may be more willing to purchase a product if the message is communicated via a respected and trusted channel, such as an opinion leader, or by word of mouth.

Opinion leaders

BizWORD

*An **opinion leader** is a person who influences others.*

An **opinion leader** is a person who influences others. Their opinions are respected and they are often sought out for advice.

Marketing managers use opinion leaders as information outlets for new products or to endorse an existing one. Actors, athletes, musicians and models are regarded by some groups as opinion leaders and many businesses use celebrity endorsement as part of their marketing strategies (see figure 8.26).

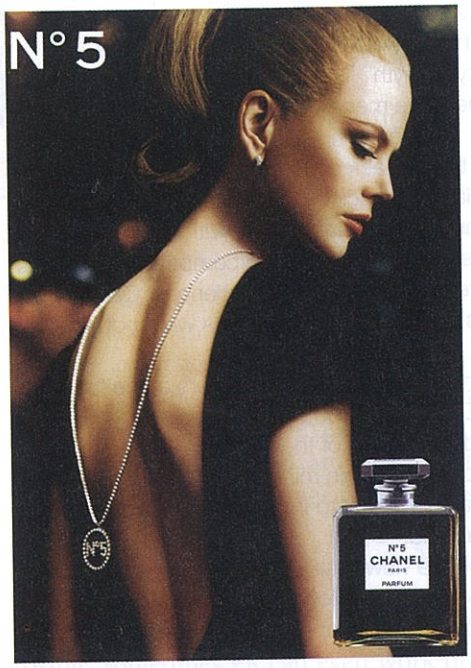


FIGURE 8.26 Celebrity branding or celebrity endorsement involves using a well-known person to use their wide appeal to become a brand ambassador to help market a product. They also act as promotional models in selected marketing campaigns. Nicole Kidman, for example, is a brand ambassador for products such as Swisse health supplements, Neutrogena, Etihad and Chanel No. 5 perfume.

Celebrity endorsement is a powerful marketing tool when the target audience align themselves with the ambassador chosen. Having that endorsement can open up a huge following. This is because ambassadors usually have a large social media following — a referral from them can be powerful and the company can gain instant followers and engagement. If businesses choose to use this strategy, however, they need to remember that their brand and image will be aligned to the ambassador; therefore, if that person's reputation becomes tarnished for whatever reason, this will affect the business's reputation.

In 2017, healthfood snack business Slim Secrets secured the services of Angelique Kerber, who won the previous

year's Australian Open and US Open titles, as their brand ambassador. Since the company philosophy is more about having a healthy and active lifestyle, as opposed to weight management, they thought someone in the sports industry would be a perfect fit. Kerber emerged as an ideal choice for the brand because they believe she is a great role model for the health and fitness industry and an inspiration for women portraying a healthy body image.

Slim Secrets' turnover was more than $2 million in 2016. They were hoping for at least a 50 per cent increase in 2017 due to the increased worldwide interest and brand recognition. Kerber has already posted about Slim Secrets to her more than 835 000 followers on Facebook, 274 000 on Twitter and 270 000 on Instagram. Traffic to the Slim Secrets website is up, the business's social reach has increased and their products are being noticed in overseas markets where they do not have a presence.

Word of mouth

Consumers tend to trust word-of-mouth communication more than business-sponsored commercials, especially if the message is being communicated by a friend or opinion leader. This is because the receiver places more trust in someone they know as opposed to a business advertising its products. When people influence each other during conversations it is called **word-of-mouth communication**.

Businesses are increasingly using social media platforms such as Facebook and Twitter to engage in a form of word-of-mouth communication. Friends' recommendations can be a powerful influence, especially when there are many competing products from which to choose.

BizWORD

Word-of-mouth communication
occurs when people influence each other during conversations.

Social influencers

Many companies are aware that word-of-mouth is one of the most valuable forms of marketing — studies have shown that it influences 20 to 50 per cent of all purchasing decisions — so it's no surprise that in the new world of digital relationships, many companies have been teaming up with social media influencers across multiple platforms to promote their goods.

A social media influencer is a user of social media who has established credibility in a specific field and can thus influence their audience. Lots of brands, particularly in the fashion and lifestyle fields, have ditched sponsorship deals with big-name celebrities in favour of regular people with powerfully engaged social media followers.

Research from Twitter has shown that 49 per cent of consumers seek advice regarding purchases from social media influencers and 20 per cent of the people surveyed stated that a tweet from an influencer encouraged them to share their own recommendation. What is even more significant is that almost 40 per cent of Twitter users said they had made a purchase based on an influencer's endorsement.

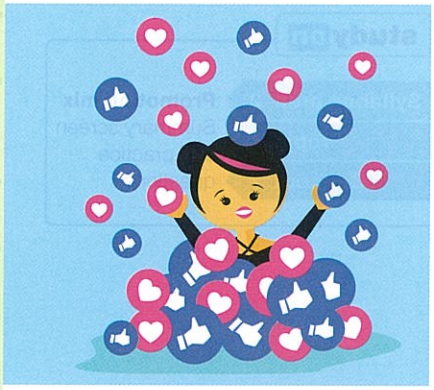
Many companies are spending millions of dollars each year on influencer marketing. On top of sending free products, some companies pay influencers per post so that they can try their products and then post about them. For many brands, this does not cost as much as celebrity endorsement.

Kmart is one of the latest brands to take advantage of social media influencers to help promote their products. To overcome the stigma about buying cheaper products, Kmart recruited an army of Instagram women to promote their homewares range. The company values the opinions of these influencers so highly that they've actually become unofficial, unpaid consultants. Although these women are not paid, they are often invited to exclusive events and receive free items. This new strategy has resulted in increased publicity and demand for certain products.

SNAPSHOT QUESTIONS

1. **Define** a social media influencer.
2. **Why** are companies using social media influencers to promote their business or products?

SNAPSHOT



'. . . many companies have been teaming up with social media influencers . . .'

8.6.3 Why a mix of promotional strategies is important in the marketing of goods and services

Since each element of the promotion mix has different benefits, it's important for businesses to use a mix of promotional strategies in order to cater to the needs of everyone in their target market. Businesses should not simply aim to satisfy one type of buyer; the aim of promotion is to attract as many potential customers as possible. Since different elements of the promotion mix will appeal to different types of customers, businesses need to use a combination.

Also, the different elements of the promotion mix may each play a part in influencing the same customer in different ways and assist them with their decision to purchase a product. For example, suppose you are interested in buying a mobile phone. Because of your interest, you may start paying attention to advertisements on the television or in magazines. You may search the internet to find out more about different phones, their features and prices. You may also contact sales people from different stores or post on Facebook asking your friends their opinion. Based on all this information, you may then decide to purchase a specific brand.

Which aspect of the promotional mix led you to decide on that particular brand? While some aspects may have been more influential than others, all the elements played a role in making your decision. Therefore, to get a better response from a target market, businesses need to adopt as many different components of the promotion mix as possible. These components should be coordinated and complement each other to help achieve the marketing objectives.

SUMMARY

- Promotion describes the methods used by a business to inform, persuade and remind a target market about its products.
- Promotion mix is the various promotion methods — advertising, personal selling and relationship marketing, sales promotions, and publicity and public relations — a business uses in its promotional campaign.
- Advertising is a paid, non-personal message communicated through a mass medium. The purpose of advertising is to inform, persuade and remind.
- Personal selling involves the activities of a sales representative directed to a customer in an attempt to make a sale.
- Relationship marketing is the development of long-term and cost-effective relationships with individual customers.
- Sales promotion is the use of activities or materials as direct inducements to customers.
- Publicity is any free news story about a business's products.
- Public relations (PR) are those activities aimed at creating and maintaining favourable relations between a business and its customers.
- Marketing managers can use a variety of channels to deliver a message including print and electronic media advertising.
- Often customers may be more willing to purchase a product if the message comes via a respected and trusted channel, such as an opinion leader, or by word of mouth.
- It's important for businesses to use a mix of the promotional strategies in order to meet the different needs of their target market.

studyon
Syllabus area 2
Topic 4
Concept 7
Promotion mix
Summary screen and practice questions

studyon
Syllabus area 2
Topic 4
Concept 8
Promotion: communication process
Summary screen and practice questions

EXERCISE 8.4 REVISION

1 **Define** the term 'promotion'.
2 **Recall** what promotion attempts to achieve.
3 **Identify** the four elements of the promotion mix.
4 **Recall** the main advantage of advertising.

5 **Identify** the five main types of advertising media.

6 Select which advertising media you consider to be the most effective if a business wants to communicate with (a) a mass market and (b) a niche market. **Justify** your selection.

7 **Why** is it important to identify the target market when designing an advertising program?

8 Find a recent Nerada Tea commercial online. **Assess** the advertisement in terms of communicating with its target market.

9 **Propose** which form of advertising media you would choose for the following products. **Justify** your choices.
(a) Nike sports shoes
(b) School textbooks
(c) A hairdressing salon
(d) Toys for children
(e) Dell computers

10 **Why** do some marketers prefer to use personal selling as a promotional strategy?

11 **How** can personal selling be more persuasive than advertising?

12 In small groups, use the brainstorm technique to:
(a) **account** for the recent popularity with consumers of loyalty reward programs.
(b) **determine** the benefits to a business of this type of relationship marketing.

13 **State** the aims of sales promotion.

14 In your opinion, select the two most effective sales promotion techniques for sales promotion. **Justify** your answer.

15 **Distinguish** between publicity and public relations.

16 'Advertising is what you pay for and publicity is what you pray for.' **Explain** what this statement means.

17 **Summarise** the four main ways in which public relations can assist a business to increase its sales.

18 'Public relations should be viewed as a two-way communication process.' **Explain** the meaning of this statement.

19 In small groups, **identify** the different public relations activities your school uses to communicate with parents. Choose a spokesperson to share the group's answers with the rest of the class. The first items on your list can be newsletters and formal assemblies.

20 **Explain** why efficient communication is important to marketing managers.

21 **Account** for the use of opinion leaders in the promotion of a product. Provide three examples from current promotional campaigns.

22 **Propose** what you think are the strengths and weaknesses of the following promotion strategies. Share your answer with the rest of the class.
(a) A manufacturer of a new type of disposable razor gives out thousands of free razors at a football grand final.
(b) A lifestyle magazine runs its own lottery-style promotion for five weeks in which first prize is $20 000 worth of furniture.
(c) To boost sales, a computer manufacturer relies on word-of-mouth communication.

23 Using an example, **assess** why a mix of promotional strategies is important in the marketing of goods and services.

on Resources

Weblink: Nerada Tea

EXERCISE 8.4 EXTENSION

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

2 In small groups, **create** a media release to advertise the opening of a new clothes store in your local area. Include the following details:
   - name, telephone number and address of the store
   - date of opening
   - hours of business
   - range of stock
   - any opening special
   - store logo.
3 Referring to a business you are familiar with, **analyse** and **evaluate** the promotion methods used for one of its products.

8.7 Place/distribution

BizWORD

Place *or* **distribution** *are activities that make the products available to customers when and where they want to purchase them.*

The fourth 'P' of the marketing mix is '**place**' or **distribution**. Once a business manufactures a product, it must see that the product gets into the customers' hands. For this to happen successfully, an efficient distribution system is required. Distribution is necessary because most products are not used by the same business that makes them. This textbook, for example, was transported and warehoused a number of times between the authors, publisher, printer, wholesalers and retailers before it reached you, the consumer.



FIGURE 8.27 The delivery of a product to a customer is the final stage in the distribution process. Every business must undertake some form of distribution.

BizWORD

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

8.7.1 Distribution channels

Distribution channels or **marketing channels** are the routes taken to get the product from the business to the customer. This process usually involves a number of intermediaries, such as the wholesaler, broker, agent or retailers. Apart from the retailer, the other intermediaries are often 'invisible', with the customer knowing very little about their role and operation.

Traditional distribution channels

The four most commonly used channels of distribution are described below.

1. *Producer to customer.* This is the simplest channel and involves no intermediaries. Virtually all services, from tax advice to car repairs, use this method.
2. *Producer to retailer to customer.* A retailer is an intermediary who buys from producers and resells to customers. This channel is often used for bulky or perishable products such as furniture or fruit.

3. *Producer to wholesaler to retailer to customer.* This is the most common method used for the distribution of consumer goods. A wholesaler is an intermediary who buys in bulk, from the producer, then resells in smaller quantities to retailers.
4. *Producer to agent to wholesaler to retailer to customer.* An agent distributes products to wholesalers but never owns the product. Agents are paid a commission by the producer. Usually agents are used for inexpensive, frequently used products. A business that does not have any sales representatives will often use an agent instead.

Innovative distribution methods — non-store retailing

Businesses are always looking for different ways to distribute their products. The purchasing of products from a store or a supplier is the oldest and most common form of distribution. **Non-store retailing** — that is, retailing activity conducted away from the traditional store — is gaining in popularity. Methods such as door-to-door selling, mail-order catalogues, party-plan merchandising and vending machines have been used for a number of years. However, with rapid changes in electronic communication, businesses are beginning to exploit types of electronic marketing (e-marketing) as alternative methods. Two of the most rapidly developing methods are e-commerce and m-commerce.

1. *E-commerce* refers to the buying and selling of goods and services via the internet. The web is revolutionising the way consumers shop. Consumers who are 'time poor' prefer the convenience of shopping online. Other consumers like being able to shop around for the cheapest price or have the opportunity to select from a wide range of products at a time that suits them. Back in 2000, less than 1 per cent of retail sales came from e-commerce. However, online sales have climbed each year since then, and by 2016 online sales made up about 8 per cent of total retail sales. This will be discussed in more detail in section 8.9.
2. *Mobile commerce (m-commerce)* refers to the buying and selling of goods and services through wireless handheld devices such as smartphones and tablets. While m-commerce is actually still only a small proportion of commerce generally, it is a very fast-growing proportion.

BizFACT

The Iconic does not have a traditional distribution channel. To cut delivery and distribution times, their suppliers list their products on The Iconic site but their stock is sent directly to consumers rather than to The Iconic's distribution centre. The Iconic's app, which has been downloaded on more than one million devices so far, is now the e-tailer's primary sales channel, and its growing marketplace.

BizWORD

Non-store retailing *is retailing activity conducted away from the traditional store*



FIGURE 8.28 The steady rise of online sales has led to the 'retail apocalypse' — a US term that refers to the closing of a large number of retail stores. Thousands of retail stores have closed and retail bankruptcies have been happening at a record pace. Could this be the end of bricks-and-mortar retailers?

As more people use the internet for shopping, the traditional distribution channels will be modified. Some retailers and wholesalers may be bypassed as customers deal directly with manufacturers. Electronic post and parcel delivery channels will be used more extensively to meet the increasing demand.

8.7.2 Channel choice — including intensive, selective and exclusive

BizWORD

Market coverage *refers to the number of outlets a firm chooses for its product.*

BizFACT

Different channels of distribution are used to get the 'right' product in the 'right' quantity to the 'right' location at the 'right' time

How a business chooses the channel of distribution best suited to its product depends largely on the location of the business's market or market coverage. **Market coverage** refers to the number of outlets a firm chooses for its product.

A business can decide to cover the market in one of three ways as follows, the difference being the intensity of coverage.

1. *Intensive distribution.* This occurs when the business wishes to saturate the market with its product. Customers can shop at local outlets and be able to purchase the product. Many convenience goods, such as milk, lollies and newspapers, are distributed this way.
2. *Selective distribution.* This involves using only a moderate proportion of all possible outlets. Clothing, furniture and electrical appliances are often distributed using this method. The customer is prepared to travel and seek out a specific retail outlet that stocks a certain brand.
3. *Exclusive distribution.* This is the use of only one retail outlet for a product in a large geographic area. This method of distribution is commonly used for exclusive, expensive products.

Figure 8.29 illustrates the three levels of market coverage.

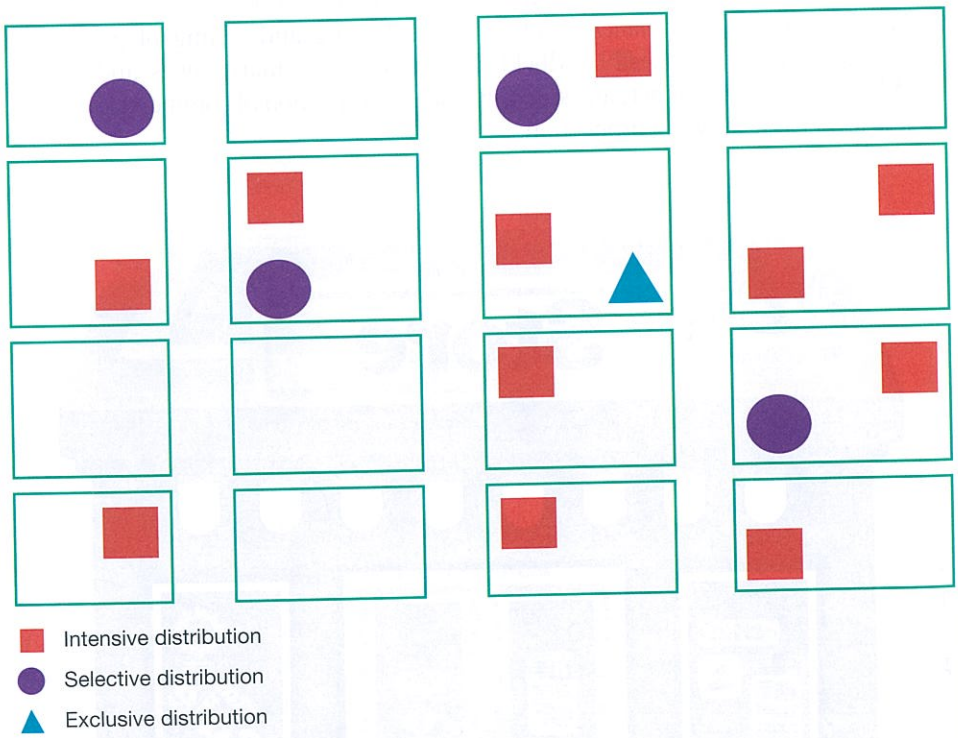


FIGURE 8.29 The boxes here represent the different customer groups that make up a market. The coloured shapes within the boxes represent the type of distribution method used to achieve market coverage. The square shape appears in many of the boxes because this distribution of product reaches a range of different customers.

8.7.3 Physical distribution issues

BizWORD

Physical distribution *is all those activities concerned with the efficient movement of the products from the producer to the customer.*

Physical distribution is all those activities concerned with the efficient movement of the products from the producer to the customer. Physical distribution is therefore the movement of the products themselves through their channels of distribution. It is a combination of several interrelated functions, including transportation, warehousing and inventory control.

Transport

An intricate network of transportation is required to deliver the vast array of products on supermarket shelves. Developments in packaging and transportation now permit Australian native flowers, for example, to be picked then sold in Tokyo within 24 hours.

The method of transportation a business uses will largely depend on the type of product and the degree of service the business wishes to provide. The four most common methods of transportation are rail, road, sea and air.

Warehousing

Warehousing is a set of activities involved in receiving, storing and dispatching goods. A warehouse acts as a central organising point for the efficient delivery of products.

Inventory

Customers find it frustrating when a product they wish to purchase is 'out of stock', and a business that repeatedly allows this to happen will lose sales and market share. To avoid this, businesses may implement an **inventory control** system. If a business carries too much stock on its inventory, it will experience high storage costs. However, too little stock results in lost sales or 'stock-out costs'. The goal of inventory is to find the correct balance between these two situations.

BizWORD

Inventory control *is a system that maintains quantities and varieties of products appropriate for the target market.*

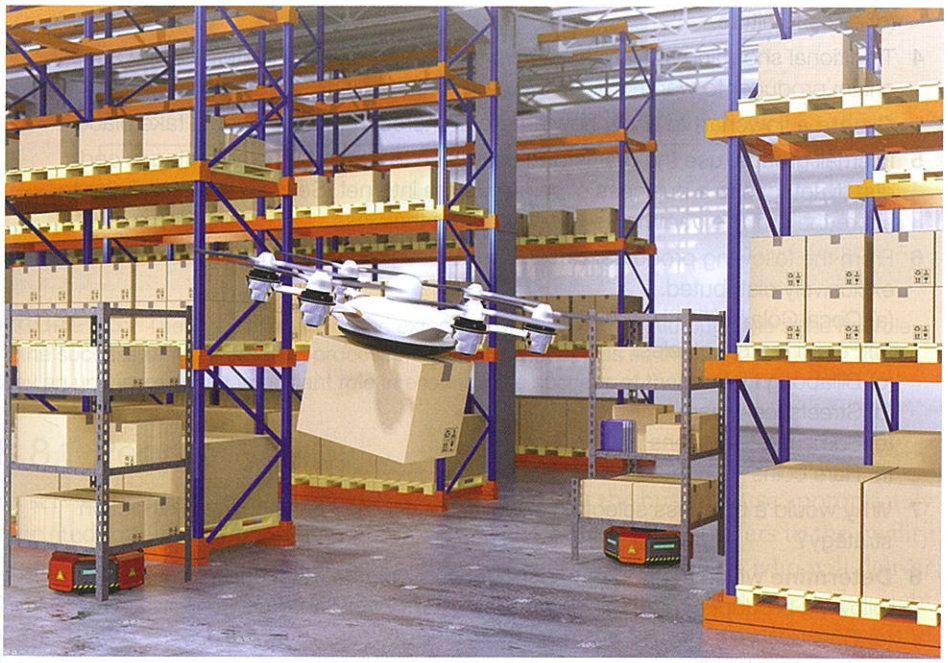


FIGURE 8.30 Due in large part to the huge growth in online sales, there has been an increasing demand for industrial warehouses. It is predicted that by 2018, industrial warehouses will be in excess of 200 000 square metres in size. To cope with the sheer size, centres will need sophisticated facilities, such as automated picking and sorting systems. Robots will be used extensively, requiring very little human interaction.

SUMMARY

- Place or distribution are activities that make the products available to customers when and where they want to purchase them.
- Channels of distribution or marketing channels are the routes taken to get the product from the factory to the customer.
- The four most commonly used channels of distribution are:
  - producer to customer
  - producer to retailer to customer
  - producer to wholesaler to retailer to customer
  - producer to agent to wholesaler to retailer to customer.
- Non-store retailing is retailing activity conducted away from the traditional store, including e-commerce and m-commerce.

studyon

Syllabus area 2
Topic 4
Concept 9

Place: distribution channels
Summary screen and practice questions

studyon

Syllabus area 2
Topic 4
Concept 10

Place: physical distribution
Summary screen and practice questions

- Market coverage refers to the number of outlets a firm chooses for its product.
- A business can decide to cover the market in one of three ways:
  - intensive distribution: when the business wishes to saturate the market with its product
  - selective distribution: using only a moderate proportion of all possible outlets
  - exclusive distribution: only one retail outlet for a product in a large geographic area.
- Physical distribution is all those activities concerned with the efficient movement of the products from the producer to the customer.
- Warehousing is a set of activities involved in receiving, storing and dispatching goods.
- Inventory control is a system that maintains quantities and varieties of products appropriate for the target market.

EXERCISE 8.5 REVISION

1 **Define** the term 'place'.

2 **Clarify** the importance of distribution in the marketing process.

3 **Propose** a distribution channel for the sale of:
(a) a daily newspaper
(b) a washing machine
(c) an imported motor vehicle
(d) office furniture.

4 Traditional shopping transactions involve a number of organisations in the supply chain: producer to warehouse to wholesaler to retailer to consumer.
Create a flowchart to show how an e-commerce transaction could take place.

5 In small groups, use the brainstorm technique to **identify** the advantages and disadvantages to a business of selling via the internet. Select a spokesperson to share the group's comments with the rest of the class.

6 From the following products, **determine** those that are intensively, selectively or exclusively distributed.
(a) Coca-Cola
(b) Ferrari motor vehicles
(c) Billabong clothing
(d) Streets ice-cream
(e) Samsung televisions
(f) Rare coins

7 **Why** would a business select an exclusive rather than an intensive distribution strategy?

8 **Determine** which method of transportation would be most appropriate for the following products: road, rail, air or boat. **Justify** your answer.
(a) Coal to Japan
(b) Wheat to the silo
(c) Sheep to the market
(d) Fresh fruit to Tokyo
(e) Iron ore from the mine to the port
(f) Pepsi to the supermarket

9 **Identify** the activities involved in warehousing.

EXERCISE 8.5 EXTENSION

1 Investigate the operation of an online retailer (e-tailer) such as The Iconic, Red Balloon or Amazon. **Evaluate** the three sites visited, reporting on:
(a) ease of navigation
(b) layout of the home page
(c) methods of payment
(d) ease of product selection

on Resources

- **Weblink:** The Iconic
- **Weblink:** Red Balloon
- **Weblink:** Amazon

(e) return and refund policy
(f) delivery charges and options.

2 (a) 'Holding either too little or too much stock is to be avoided.' **Discuss**.
(b) **Propose** a system a business can adopt to prevent either situation.

8.8 People, processes and physical evidence

So far we have discussed the four Ps of the marketing mix, which is considered the basic cornerstone of marketing. This traditional approach was developed in the age of marketing dominated by the rapid growth in manufacturing during the 1950s to 1960s. Consequently, these four Ps are considered appropriate for tangible products (goods) such as clothing, electronic appliances, perfumes and motor vehicles. However, as the service sector within the economy expanded, this traditional approach to marketing was viewed as somewhat outdated. Therefore, three more Ps have been added — people, processes and physical evidence (see figure 8.31) — which apply especially to intangible products (services) such as tourism, entertainment and hospitality. Extending the marketing mix by adding people, processes and physical evidence to the usual 4P's connects the marketing function much closer to both human resource management and operations, thus illustrating the interdependence between these functions.

BizWORD

It is important to acknowledge that even goods have a service component surrounding them such as after-sales service.

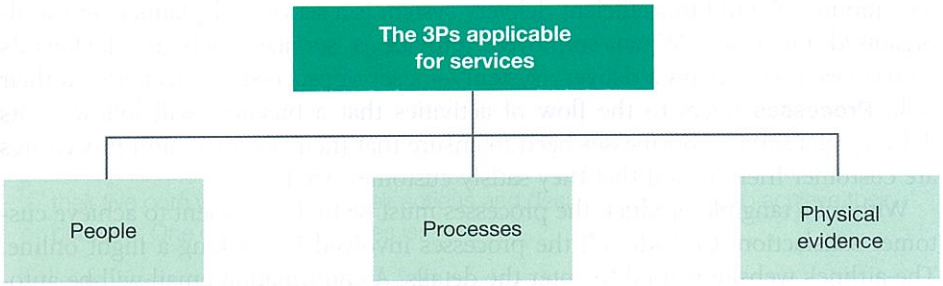


FIGURE 8.31 The three extra Ps of the extended marketing mix. Although the three Ps' role in the success of the marketing process may not be as obvious as the original four Ps, they play an unassuming yet important role in ensuring the success of the product.

8.8.1 People

As services are performed by people, it is essential that the business use appropriately recruited, qualified and trained employees. The **people** element refers to the quality of interaction between the customer and those within the business who will deliver the service. It is therefore important that businesses recruit and select the right workers and then train them appropriately on on how to perform the service and leave a good impression.

BizWORD

*The **people** element refers to the quality of interaction between the customer and those within the business who will deliver the service.*

Consumers base their perceptions and make judgements about a business based on how the employees treat them. For example, in a hotel or restaurant, the employees are actively involved in delivering the marketing message because they are the 'human face' of the business. How the staff speak to customers, deal with enquiries and handle complaints are all part of the marketing experience and of critical importance. Consequently, all businesses should develop a culture of customer focus and put it into practice. Of course, the customers' experience must match reality. A large telecommunications business, for example, which claims to be customer focused, will not succeed if the reality is that it takes 30 minutes to speak to a consultant at a call centre and the consultant then displays no interest.

People are the most important element in any service or experience. The interaction between the employees, especially frontline or customer service staff, and customers can determine the success of any marketing campaign.



FIGURE 8.32 First impressions count — research on consumer buying behaviour suggests that it takes approximately only 15 seconds for customers to make a judgement about a business, which will then influence whether or not they decide to purchase from them.

8.8.2 Processes

When you order a meal from a McDonald's restaurant it will be delivered within a few minutes. Behind this efficient delivery system is a set of well-planned and well-organised processes. When employees provide a service, such as McDonald's employees, they rely on a delivery system — a set of processes — to perform their task. **Processes** refers to the flow of activities that a business will follow in its delivery of a service. Businesses need to ensure that their processes and procedures are customer friendly and that they satisfy customer needs.

Without a tangible product, the processes must be highly efficient to achieve customer satisfaction. Consider all the processes involved in booking a flight online. The airline's website is used to enter the details. A confirmation email will be automatically generated providing a booking reference. An electronic boarding pass can be downloaded and printed. A day prior to the flight, a seating allocation can be done online. The delivery system that allows this to happen is part of the process element of marketing.

Any business that has inefficient processes will lose customers and damage its reputation. A pizza delivery business, for example, must not deliver cold pizza; a restaurant should not keep customers waiting for hours between courses; gas and electricity accounts should be sent on time; a bank statement must be accurate.

BizWORD

Processes *refers to the flow of activities that a business will follow in its delivery of a service.*

BizFACT

Convenient methods of payment, such as PayPass, PayWave or Afterpay provide an efficient process to assist in the marketing strategy.

8.8.3 Physical evidence

Imagine you go to a restaurant. You are very satisfied with the product, price, people and process, but the cutlery was dirty, the chairs were uncomfortable and the menu was difficult to read. You would probably not eat there again because of this physical evidence. **Physical evidence** refers to the environment in which the service will be delivered. It also includes the location of where the service is being provided and the materials needed to carry out the service such as signage, brochures, business cards, business logo and website. Customers make judgements about the business based on these features.

Unlike tangible goods, it is difficult for a business's marketing services to provide customers with a 'try before you buy' sample unless a free trial is offered. Customers initially buy services on trust and they make judgements about the business based on the physical evidence. Consequently, a business should provide high-quality physical evidence to create an image of value and excellence (see figure 8.33).

BizWORD

Physical evidence *refers to the environment in which the service will be delivered. It also includes the location of where the service is being provided and the materials needed to carry out the service such as signage, brochures, business cards, business logo and website.*



FIGURE 8.33 A luxury hotel uses material cues — physical evidence — so that the customer will form a good impression of the business.

Case study: PACK & SEND — people, processes and physical evidence

PACK & SEND is Australia's leading and most recognised parcel courier and freight delivery reseller.

CEO and founder Michael Paul established the company with his wife in 1993 after noticing that businesses and consumers were looking for one-stop-shop solutions for sending anything, anywhere —that also included a convenient packaging service. The three extra P's of the extended marketing mix have played a crucial role in the success of this business, so much so, that two of them have become part of their five core values guiding their actions and decisions in striving to achieve their purpose. One of their core values is:

People are the cornerstone of our success

We promote an environment of teamwork, mutual respect and growth in learning and personal development.

We recognise that the company's success depends upon the initiative taken individually and the ability to work as a team. Therefore, we believe in recruiting quality people, mentoring and training for performance, engaging them with the brand values, listening for feedback and leading with integrity.

Michael Paul considers internal factors, such as business culture and employees, to be the key difference between successful businesses. He believes it is important that the management team nurture a culture that truly values people, regardless of their position, because a supportive team culture can be one of the company's greatest strengths. This culture will help align all the stakeholders around the vision, mission and values of the brand.

Another one of PACK & SEND's core values, which relates to 'processes' is:

Systems are the foundation of great organisations

We believe the true product of our business is not what we sell but how we sell it. That is, the true product of our business is the business itself – the systems.

We recognise that the success of our organisation is dependent on all people in the business following a system. Therefore, we believe in the systemisation of all areas of our business for uniform application across our network – so that we can achieve higher productivity and customers can always experience a consistent superior service.

PACK & SEND operates an international franchise model. Systemisation is therefore very important because at the core of a franchise's success is a tried, tested, and

SNAPSHOT

PACK & SEND®

Anything. Anywhere.

'People are the cornerstone of our success.'

perfected system that can then be duplicated over and over again. 'Systemising helps a franchisor keep track of metrics and identify what works and what doesn't, enabling them to pinpoint the areas in which it makes strategic sense to invest more. Systemisation is also essential to create a business model that is a format for success which of course improves many processes such as employee training and allows new franchisees to easily pick up where their predecessors left off.'

The variety of processes PACK & SEND have established in the delivery of their services contribute to the aim to always satisfy customer's needs. PACK & SEND are the only couriering and logistics company where customers can engage with the brand via three channels: by visiting one of their 100+ retail service centres, phoning the company's call centre or online.

In relation to 'physical evidence', even though the company offers an online booking system, they still advocate physical points-of-presence with more than 100 retail service centres in Australia, New Zealand and the United Kingdom. The company feels that these service centres play a big part in improving delivery services for e-commerce customers. 'Important e-commerce solutions like convenient product returns, alternate delivery points and convenient parcel drop-off points are all logistics services that are reliant on a national retail footprint. While it's true that most people have been keen adopters of the Internet, there's nothing like being able to walk into a store and have a conversation with someone. Physical retail spaces offer convenience, multisensory consumer experiences (the desire to see, touch and feel products), personal consultancy and a friendly face on the other side of the counter.'

SNAPSHOT QUESTIONS

1. **How** do PACK & SEND look after their 'people'?
2. **Why** is systemisation so important to PACK & SEND?
3. To **what extent** are physical points-of-presence important for online businesses?

study on

Syllabus area 2
Topic 5
Concept 1

People, processes and physical evidence: e-marketing
Summary screen and practice questions

SUMMARY

- Three more Ps have been added that apply especially to intangible products (services): people, process and physical evidence.
- The people element refers to the quality of interaction between the customer and those within the business who will deliver the service.
- Consumers base their perceptions and make judgements about a business based on how the employees treat them.
- Processes refers to the flow of activities that a business will follow in its delivery of a service.
- Without a tangible product, the processes must be highly efficient to achieve customer satisfaction.
- Physical evidence refers to the environment in which the service will be delivered. It also includes materials needed to carry out the service such as signage, brochures, calling cards, letterheads, business logo and website.
- A business should provide high-quality physical evidence to create an image of value and excellence.

EXERCISE 8.6 REVISION

1 **Identify** the three extra Ps of the extended marketing mix.
2 **Why** is it important to extend the marketing mix in the current business environment?
3 **Deduce** whether the extension of the marketing mix means that some of the traditional Ps are less relevant today.
4 **Explain** why all businesses should develop a culture of customer focus and put it into practice.
5 Select which of the traditional Ps of the marketing mix you consider most likely associated with customer service. **Justify** your answer.

6 Think of a business where the 'people' element was outstanding. **Clarify** what made the interaction so positive.

7 **Define** the term 'processes'.

8 **Investigate** the main processes involved with the following businesses.
(a) M and S Davidson Accountant
(b) Billabong café
(c) Theatre Royal
(d) Excelsior Hotel

9 **Identify** six elements an airline could use as physical evidence to create a positive image.

10 **Why** is it important for a business to display favourable physical evidence?

EXERCISE 8.6 EXTENSION

1 In small groups, use the brainstorm technique to **determine** the (a) people and (b) processes involved in a business that offers inclusive tours of Europe.

2 **Recommend** a set of five processes a business would need to adopt to resolve issues when customers complain about a faulty product.

3 'Most goods have a service component surrounding them. Consequently, businesses selling goods such as motor vehicles or electrical appliances must take into consideration the extended marketing mix.' **Evaluate** the accuracy of this statement. Provide examples in your answer.

8.9 E-marketing

Technology has driven the push to market products to customers worldwide. Businesses now have access to global markets through setting up websites that can promote products and then dispatch them to the other side of the globe within 24 hours of ordering. With rapid changes in electronic communication and the development of the 'information superhighway', marketers are beginning to exploit all types of e-marketing. **E-marketing** (electronic marketing) is the practice of using the internet to perform marketing activities.

BizWORD

E-marketing *(electronic marketing) is the practice of using the internet to perform marketing activities.*



FIGURE 8.34 Australians spent an estimated $32 billion over the internet in 2017, with media and takeaway food dominating online sales growth. Around 4 in 10 people bought at least one product online during an average month.

Recent surveys have shown that Australian businesses, especially retailers, have been slow to adopt e-marketing, with many offering product information, but no opportunity for customers to actually purchase online. The big risk for Australian businesses is that consumers seeking the convenience of online shopping will purchase from overseas retailers and completely bypass local businesses. Australia is now the world's third biggest per capita online consuming nation, and customers are increasingly expecting businesses to have an online component. Technology not only provides a faster, more efficient way of doing business, it can also be a very effective way of attracting new customers.

BizFACT

Internet marketing, web marketing and online marketing are frequently interchanged and can often be considered synonymous.

SNAPSHOT



'... 79 per cent of Australians use social media compared with only 47 per cent of SMEs.'

E-marketing and SMEs

The Sensis Social Media Report is an annual survey of consumers, small and medium-sized enterprises (SMEs) and large businesses on how they use social networking sites. According to their 2017 report, 79 per cent of Australians use social media compared with only 47 per cent of SMEs. These figures illustrate that over half of Australian SMEs are not using e-marketing and that businesses in general have been very slow to adopt the platform.

Of those consumers surveyed who do use social media, 59 per cent accessed it every day. Facebook is the most popular platform, with 94 per cent of social media users, then Instagram (46 per cent), Snapchat (40 per cent) and Twitter (32 per cent).

Only 26 per cent of small businesses and 42 per cent of large businesses advertise on social media. Out of those businesses, Facebook was the most preferred channel with 90 per cent, then Twitter (24 per cent), Instagram (23 per cent) and LinkedIn (20 per cent).

Since 2010, the number of people that follow a business on a social media network has been growing exponentially. In addition, over 50 per cent of people surveyed recommended a business on these platforms and two thirds of consumers stated that they were more likely to trust a brand if it interacts with consumers in a positive way on social media. The moral of the story: in this new digital age, traditional marketing methods alone are no longer enough. Consumers are eager to connect with brands on social media. If a business wants to be successful, they need to be where the customer is; if not, they're missing the boat.

SNAPSHOT QUESTIONS

1. **Identify** how many consumers use social media in comparison to businesses.
2. **Justify** why SMEs are encouraged to use social media advertising.
3. **Why** you think businesses have been slow to adopt social media advertising?

8.9.1 E-marketing technologies

The main technologies presently available for e-marketing include web pages, podcasts, SMS, blogs, Web 2.0 and location marketing.

Web pages

A web page conveys information in the form of a combination of text, graphics, animation and video. A number of related web pages linked together form a website. When searching for the website of a particular business, the user will normally be directed first to that business's home page. This contains basic information about the business and a number of links to other web pages within the website that can provide detailed information about the location of the business premises (including maps and photographs), available products and online ordering facilities. A well-designed home page is a powerful marketing tool.

BizFACT

According to the ABS only 47.1 per cent of businesses have a website. Breaking this figure down, approximately 63 per cent of micro businesses, 41 per cent of small businesses and 19 per cent of medium businesses still don't have a web presence.

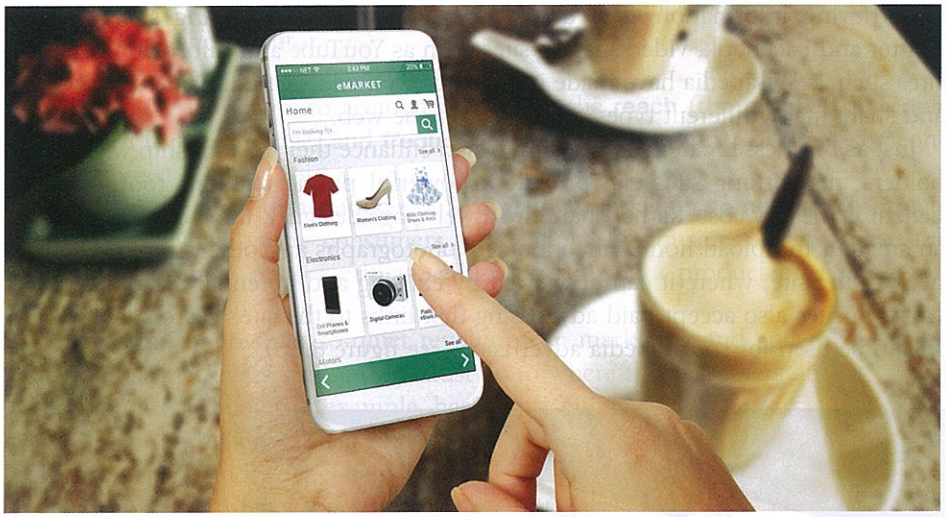


FIGURE 8.35 Since Australians are spending more and more time online through a number of difference devices, it is important that businesses tailor their online content for tablets and smartphones. With 67 per cent of mobile internet users stating they are put off if a business doesn't have a mobile website, it's crucial that companies ensure their sites and content will load properly or they may exclude a large segment of the market.

Podcasts

Podcasting involves the distribution of digital audio or video files over the internet. As a general rule, a podcast is directed to a number of users who subscribe to that particular podcasting service, and who receive regular updates.

Business's main use of podcasts is for marketing and advertising purposes. Many independent podcasters sell advertising time in the same way as commercial radio stations. If a particular podcast is aimed at the same audience as the target customers of a business, podcast advertising can be a very effective way of reaching those customers. For example, a sporting goods store may choose to advertise through a podcaster aiming at triathletes; a specialist food store owner could look at advertising on a podcast aimed at vegetarians and vegans.

BizWORD

Podcasting *involves the distribution of digital audio or video files over the internet.*

SMS

SMS has distinct advantages over email in that messages are delivered automatically to one or more recipients without the need for them to dial in or log on. Text messages can also be used to alert regular customers of any special deals on offer and notify suppliers of the arrival of a goods shipment.

Blogs

A **blog** is an online diary or journal. It is usually possible to add comments, ask questions, provide feedback or share opinions on a blog. A business can use blogs in a number of ways.

BizWORD

A **blog** *is an online journal that can be added to by readers.*

Many businesses set up external blogs, which allow for communication between the business and its existing and potential customers. A blog of this type can be used to announce new products or changes in trading hours, and to gather feedback and comments from a variety of stakeholders. As a public relations exercise, an external blog can have the following advantages for a business:

1. It allows the business owner and employees to establish a reputation for expertise, by providing detailed information on products and services.
2. New ideas for products and services can be put to the public to gain comment and feedback.
3. A blog by its nature is informal, so it can present a human face to the public and build trust with customers.

Web 2.0

The term 'Web 2.0' refers to the transformation of the world wide web into a more creative and interactive platform for information sharing, rather than just a means

of retrieving information. The development of social networking sites such as Twitter and Facebook, video sharing sites such as YouTube and information sharing sites such as Wikipedia have made it easier for individuals and businesses to create and share many different types of content on the web.

Just as businesses can make use of blogs to enhance their relationship with stakeholders, networking sites can provide a powerful public relations tool. The key benefit is the low cost. Rather than hire a web-page designer, the technology allows an amateur to upload home video footage, photographs and other graphics on to a networking site, where it can be viewed by existing and potential customers. Networking sites also accept paid advertising that links to the site's search engine, and so can be used for social media advertising (see figure 8.36).

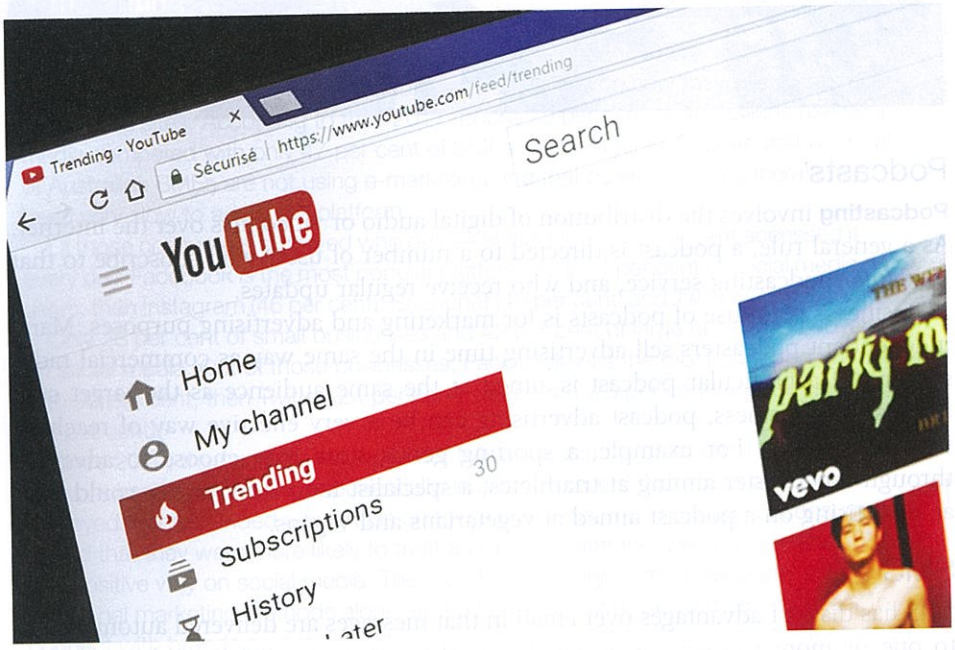


FIGURE 8.36 A growing number of companies have been using paid advertising on YouTube and Google's display ad network. However, in 2017 many brands suspended their spend with Google after an investigation found many ads were appearing alongside extremist or offensive content. The global Google boycott caused massive brand damage to the company as well as having an impact on their revenue.

BizFACT

Barneys luxury department store in New York's Chelsea neighbourhood, launched a mobile app to help customers navigate the store. When consumers open the app they see two prompts: the first is to permit push notifications and the second is to allow Barneys to use the customers' location. If a user grants access, they will receive notifications related to the store, for example, what's in stock. However, they will also receive recommendations for dining and sightseeing in the Chelsea neighbourhood.

BizWORD

Social media advertising (SMA) *is a form of online advertising using social media platforms such as Facebook, YouTube and Twitter to deliver targeted commercial messages to potential customers.*

Location-based marketing

The ability for mobile devices to track and report a person's location has enabled businesses to tailor marketing messages based on a person's location. Location-based marketing allows businesses to adapt and deliver targeted marketing messages to customers based on where they are located through mobile devices. By knowing where consumers are, brands are able to tap into daily habits and encourage consumers with relevant offers and messages based on their location. Customers receive these marketing messages by using their mobile to search for local businesses on the internet or 'check in' to a particular place through an online location-based service.

8.9.2 Social media advertising (SMA)

Over the past few years, businesses have been increasingly using social media to advertise their products. Businesses are becoming increasingly aware that **social media advertising (SMA)** can have positive results, especially when used in combination with traditional advertising methods. The main advantages of SMA are that it is:

- inexpensive in comparison to traditional advertising methods
- easy to use and monitor
- an effective method to gain exposure
- possible for marketers to accurately measure the **reach** (the number of people exposed to the message) and **frequency** (the average number of times someone is exposed) of SMA.

However, the main disadvantage of SMA is that marketers do not have complete control over what online consumers write about the business. Users have the freedom to discuss, review, criticise and even ridicule a product or a specific business.

The reason for this not-so-quiet revolution in marketing and advertising is that marketers realise they must go to where the customers are to be found. Facebook, for example, has over 2 billion monthly users.

In 2010, Twitter unveiled a new platform making Twitter.com more advertisement friendly. The new platform started carrying sponsored tweets from advertisers at the top of some of its pages, creating a richer media experience. In the first 24 hours after Coca-Cola sent out a sponsored tweet promoting a product, the tweet was seen 86 million times. This produced a frequency rate of approximately 6 per cent compared with the average of 0.02 per cent of users with a standard online advertisement.

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

BizWORD

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

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

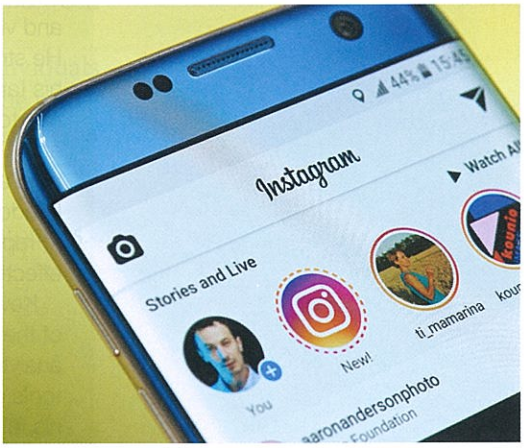


FIGURE 8.37 In 2016, Instagram launched a new feature called Instagram Stories, which allows users to share multiple photos and videos that appear together in a slideshow format. The content disappears after 24 hours and won't appear on your profile or in your feed. Many businesses are now incorporating Instagram Stories in their marketing to help boost customer engagement, deliver special offers and show their products in action.

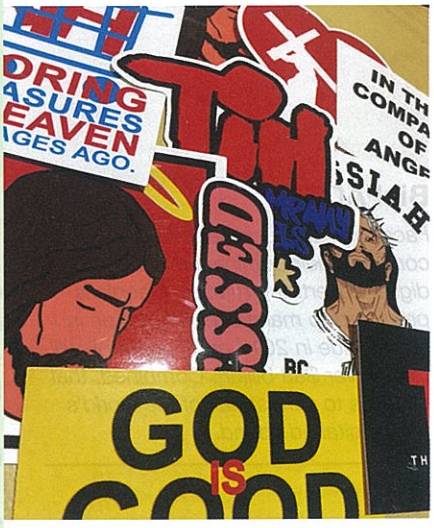
SNAPSHOT

Case study: Social media advertising — This is Heaven

Kevin Yumul is the owner and founder of This is Heaven, an online business specialising in streetwear and design. He started the business in 2017 because he identified a gap in the market for streetwear that expresses Christianity and positive messages about Jesus Christ.

He began the business with a single t-shirt design and over a six-month period he increased his product range to include nine different Christian t-shirt designs as well as hoodies, hats, stickers and tote bags. Facebook and Instagram are his main forms of promotion.

Kevin set up a business page on Facebook, which enables him to interact and engage with present and potential customers and generate awareness about his products and business. Many business owners simply use social media to post updates and alert followers about upcoming products. These kinds of posts tend to be top-down, one-way communication and fail to take advantage of the incredible marketing potential that social media offers by making customer communication a two-way street. The real value happens when social media communication turns into a dialogue — when businesses use social media to have a conversation with their customers. Some of the ways Kevin engages with consumers on social media are by posting photos of them wearing or using his products and by responding promptly to each post, comment and message. 'By directly engaging with customers, you can establish a real connection with them. It's a great way to improve customer satisfaction and for you to learn about what customers love about your business as well as gaining insights on how you can improve.'



'the analytics . . . give him meaningful statistics on his social media marketing.'

Another way consumers can interact with This is Heaven is through testimonials and reviews. These recommendations help generate publicity and trust due to the unbiased nature of the posts. Many consumers look at reviews before purchasing, so having customer-generated testimonials helps build credibility. Reviews also boost traffic to his site and have a huge influence on the page's visibility and internet search engine results. This is because the more times a business is mentioned, the higher they will appear in search results.

Kevin's preferred social media site, however, is Instagram, since statistics have shown that this is where his target market is most present. Kevin posts photos and videos of his new products and designs approximately 4–5 times a day. He strategically posts at certain times each day based on when the data has shown his target audience is more active. Kevin also uses Instagram Stories, which allows him to share unlimited photos, videos and promotions to an album that disappears after 24 hours (like Snapchat). The biggest benefit of Instagram Stories is that he can post as much content as he wants without the fear of over posting or overexposure. In addition, Kevin uses Instagram to run competitions where customers are required to repost a photo on their Instagram page with the hashtag #thisisheaven. This is an effective way to gain greater exposure and brand recognition.

Kevin also uses both platforms to undertake paid advertising for his business. One of the greatest benefits of Facebook and Instagram that Kevin has found are the analytics, which give him meaningful statistics on his social media marketing. These tools give him valuable data about each ad as well as other information such as who his followers are, when they're online, how many people viewed each post and their location. For example, Kevin discovered that his promotional video reached 20 000 people, was viewed by 5000 people and resulted in 124 people clicking the link to his website. The data also revealed details about the demographics of those who viewed the video. The analytics tools allow business owners to truly understand their audience and then create content that targets their market more effectively.

Based on the data generated, Kevin also pays for Instagram sponsored ads — a feature on Instagram that allows users to create an ad, select a target audience, set a budget and determine how long the adverts will run for. Kevin allocates a budget of between $600 and $700 and then Instagram directs the post to people that fit the target audience he has selected. The analytics revealed that these ads have reached approximately 40 000 people, which has generated even greater exposure for his business.

SNAPSHOT QUESTIONS

1. **Identify** the source of inspiration that led to Kevin's business idea.
2. **Why** is two-way communication important when using social media advertising?
3. **Discuss** the use of customer testimonials and reviews.
4. **Assess** the impact social media advertising has had on Kevin's business.

BizFACT

Facebook and Google are set to continue their dominance of the global digital advertising market. Google is predicted to make over $72 billion in ad revenue in 2017 and Facebook will make over $33 billion. Combined, that equates to almost half of the world's total digital ad spend.

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

It is expected that SMA will expand rapidly over the next few years as new, highly interactive mobile platforms and networks increasingly gain consumer acceptance.

SUMMARY

- With rapid changes in electronic communication, marketers are beginning to exploit all types of e-marketing.
- E-marketing is the practice of using the internet to perform marketing activities.
- Technology not only provides a faster, more efficient way of doing business, it can also be a very effective way of attracting new customers.

- The main technologies presently available for e-marketing include web pages, podcasts, SMS, blogs and Web 2.0.
- A web page is a powerful marketing tool.
- Podcasting involves the distribution of digital audio or video files over the internet.
- Business's main use of podcasts is for marketing and advertising purposes.
- Text messages can also be used to alert regular customers of any special deals on offer and notify suppliers of the arrival of a goods shipment.
- Many businesses set up external blogs, which allow for communication between the business and its existing and potential customers.
- The development of social networking sites has made it easier for individuals and businesses to create and share many different types of content on the web.
- Social media advertising (SMA) is a form of online advertising, using social media platforms such as Facebook, YouTube and Twitter to deliver targeted commercial messages to potential customers.
- SMA enables businesses to constantly build relationships with their customers.

EXERCISE 8.7 REVISION

1 **Define** the term 'e-marketing'.

2 As a class, use the brainstorm technique to **propose** reasons why (a) large Australian retailers have been slow to adopt e-marketing (b) online shopping is very popular with Australian customers.

3 **Recall** the most appropriate word from the list below to complete the following sentences.

SMS	Web 2.0	websites	podcast
blog	world wide web	home pages	

The _____ is the total of all publicly accessible _____ and _____. The use of the internet to distribute audio or digital files is known as a _____, while an online journal that can be accessed and added to by readers is called a _____. The transformation of the internet into a more interactive form has led to the use of the term _____. A business can easily communicate with customers about delivery of orders by the use of _____.

4 **Explain** how each of the following could be used in e-marketing.
(a) Web pages
(b) Podcasts
(c) SMS
(d) Blogs
(e) Web 2.0

5 Select one of the five technologies listed in question 4, and **examine** it in more detail using the internet. Prepare a short report (200–300 words) for presentation to the class. Your report should include:
- origins of the technology
- changes that have occurred in the availability and use of the technology
- examples of e-marketing use by at least two businesses.

6 **Define** the term 'social media advertising (SMA)'.

7 (a) **State** the main (i) advantages and (ii) disadvantages of SMA.
(b) **Justify** which you consider to be the more important: the advantages or disadvantages.

8 **How** does SMA enable businesses to constantly build relationships with their customers?

9 In small groups, use the brainstorm technique to **predict** the future of SMA.

10 Using the **Coca-Cola Facebook** and **Twitter** websites as sources, **investigate** the potential of SMA to achieve the marketing objective of increasing market share.

on Resources

Weblink: Coca-Cola Facebook
Weblink: Coca-Cola Twitter

on Resources

Weblink: Australian Communication and Media Authority

11 Using the **Australian Communication and Media Authority** website as a reference, answer the following questions about the e-marketing code of practice.
(a) **Clarify** what the code of practice aims to do.
(b) **Identify** who the code applies to.

EXERCISE 8.7 EXTENSION

1 It is clear that e-marketing is growing rapidly, and more and more businesses are embracing it. A successful online presence goes beyond simply setting up a website. Imagine you are a business consultant and a number of your clients want assistance with how to operate a successful online business. **Create** a booklet that could be used by a number of different types of businesses, and which includes advice on the following:
- setting up, maintaining and improving a website
- promoting the website
- improving online market share
- establishing online payment options.

2 **Demonstrate** why it is important to preserve confidentiality of customer information gathered through e-marketing strategies.

3 'Technology has opened up a whole new channel for marketers to market products to consumers that they don't really need.' **Evaluate** the accuracy of this statement.

8.10 Global marketing

A business's marketing plan must be modified and adapted to suit overseas markets. Within each foreign market, the business will be faced with a marketing environment and target markets that differ from the domestic scene. The extended marketing mix needs to be adapted accordingly.

8.10.1 How globalisation has affected marketing management

BizWORD

A **transnational corporation (TNC)** *is any business that has production facilities in two or more countries and that operates on a worldwide scale.*

BizFACT

General Electric once had a shipment of electrical goods refused entrance to Saudi Arabia because the electrical cords were six feet long instead of the required 6.6 feet (2 metres).

Many **transnational corporations (TNCs)** adopt a global marketing approach that involves developing marketing strategies as if the entire globe were one large market — a standardised approach. Alternatively, some businesses believe the marketing mix should be customised to take into account differences among countries' cultures, religion and tastes. Despite the process of globalisation, most businesses still view overseas markets as different in some way to domestic markets. This results in a degree of uncertainty and increased risk in developing global marketing strategies.

Irrespective of which approach is adopted, all businesses marketing on a global scale need to rely on market research to understand the complexities of the global marketing environment before they can design the marketing mix. It is essential to analyse overseas markets to an even greater depth than is necessary for domestic markets. Many businesses have failed because they entered global markets without first gathering adequate market intelligence.



FIGURE 8.38 In 2016, Coca-Cola made a decision to overhaul its global marketing strategy by unifying their four core brands (Coke Zero, Diet Coke, Coke Life and Coca-Cola) under one single strategy. Through this 'one brand' strategy, the company will be moving away from multiple brand campaigns, to one single iconic campaign and their global advertisements, which will use universal storytelling to connect with consumers around the world, will air in multiple countries.

What should a business know before it decides to engage in global marketing? First, it needs information to make specific marketing decisions, such as the price to charge, the type of packaging necessary, the distribution channel to use and any product characteristics needing modification. Second, information about the country's economic, political, social and cultural features should be gathered.

8.10.2 Global branding

We are surrounded by global products all carrying global brand names. **Global branding** is the worldwide use of a name, term, symbol or logo to identify the seller's products.

Businesses are increasingly using global branding for a number of reasons:

- It can be cost effective because one advertisement can be used in a number of locations.
- It provides a uniform worldwide image.
- The successful brand name can be linked to new products being introduced into the market.

A successful brand is one of the most valuable resources a company has. For example, the value of Nokia, Sony, McDonald's, Coca-Cola, Mercedes Benz, Kellogs and Nike is indisputable. Global branding equates to global recognition, irrespective of the language barrier (see figure 8.39).

Once a business has established its name, it will usually attempt to market the brand globally. Even if the business has to modify the product to suit local conditions, such as when Fuji Xerox changes the language keys on the control panel of their photocopiers or when Ford modifies the steering wheel from left- to right-hand drive, the companies will not alter the brand name on their products.

BizWORD

Global branding *is the worldwide use of a name, term, symbol or logo to identify the seller's products*



FIGURE 8.39 McDonald's golden arches are the most recognised symbol in the world; in fact they are more recognisable than the Christian cross. A survey of people across multiple countries showed that 88 per cent of people could identify the McDonald's logo as opposed to only 54 per cent who could name the Christian cross.

BizFACT

Apple's iPhone is available in over 100 countries and is the same design regardless of region. Apple does not customise their phones in terms of features and looks; they have a standardised design and the same range of products for all countries (except for the power source and carrier's specifics).

8.10.3 Standardisation

As global marketing increases, businesses are faced with a difficulty: should they use a standardised or customised marketing strategy, or a combination?

A **standardised approach** is a global marketing strategy that assumes the way the product is used and the needs it satisfies are the same the world over. Therefore, the marketing mix will be the same in all markets — a globalisation of the marketing mix. It is a case of 'one marketing plan fits all'. Examples of standardised products are electrical equipment, mobile phones, soft drinks, music, cosmetics, movies and fast foods.

BizWORD

A **standardised approach** *is a global marketing strategy that assumes the way the product is used and the needs it satisfies are the same the world over.*

This strategy has obvious cost savings for businesses. Production runs can be longer, thereby achieving economies of scale; research and development costs are reduced; spare parts and after-sales service are simplified; promotion strategies can be standardised; and any evaluation and modification of the plan is a much simpler task.

BizFACT

Sunbeam Corporation released a mist-producing hair curling wand called 'Mist-Stick' in the German market. After an expensive advertising campaign, Sunbeam discovered that 'mist' means 'excrement' in German.

8.10.4 Customisation

In spite of the advantages of a standardised approach, when entering an overseas market, many businesses find it necessary to either modify the existing marketing mix or develop a new one. In doing so, they are adopting a customised approach. A **customised approach** (also called a **local approach**) is a global marketing strategy that assumes the way the product is used and the needs it satisfies are different between countries.

BizWORD

*A **customised** or **local approach** is a global marketing strategy that assumes the way the product is used and the needs it satisfies are different between countries.*

Adopting this philosophy requires the marketing plan to be customised according to the economic, political and sociocultural characteristics of the target country (see the BizFact about PepsiCo.).

BizFACT

PepsiCo makes local soft drinks like Shani, a blackberry- and currant-flavoured soda, which is popular in the Middle East during Ramadan, the Muslim holy month.

Of course, it is possible for a business to adopt a middle path — that is, a combination of the two approaches. One company to successfully achieve this is McDonald's. Although it has standardised its name, logo, production methods and much of its menu, there are local variations. McDonald's has the McArabia in the Middle East (a flatbread sandwich), macaroons in France, the McSpaghetti in the Philippines, a green chilli cheeseburger in Mexico and bulgogi burgers in South Korea.

Over the last decade, as the scale of globalisation has intensified, it has become apparent that the standardisation approach is being used more frequently than the customised approach.

SNAPSHOT



'. . . the IKEA catalogue is customised to suit different countries . . .'

Case Study: IKEA — standardised versus customised marketing

IKEA adopts a partially standardised global marketing strategy by selling highly standardised products intended for the global market. While they adopt this approach toward their products, their main promotional tool, the IKEA catalogue, is customised to suit different countries around the world. This is because a kitchen in Australia, for instance, will look very different to a kitchen in Japan or Germany.

IKEA showrooms and catalogues display products by grouping them in actual room settings so that it's easy for customers to re-create what they see in their own home. When designing their catalogues, the furniture company uses a team of ethnographers to travel across the globe to see what life is like in each country. Based on this, IKEA drastically changes the room settings to suit different regions so that their catalogues appeal to the correct audience in each country. They therefore use lots of different layouts to localise the rooms in their brochures. For example, in the Chinese catalogues, the kitchens are a lot smaller. In Saudi Arabia, women and girls have been photoshopped out of many catalogues.

SNAPSHOT QUESTIONS

1. **Identify** those aspects of the marketing mix that IKEA standardises and customises.
2. **Why** does IKEA customise their catalogues?

8.10.5 Global pricing

BizWORD

***Global pricing** is how businesses coordinate their pricing policy across different countries.*

One of the major challenges facing transnational corporations is **global pricing**: how to coordinate their pricing policy across different countries. It is one of the most critical but complex issues that global businesses have to deal with because price is the only element of the marketing mix that generates revenue. All other elements involve costs. Therefore, a business's global pricing strategy is a major determinant of profits. Accurate pricing decisions must be made if the business's overseas expansion is to be successful.

A global business can implement one of three global pricing strategies.

Customised pricing

Customised pricing occurs whenever consumers in different countries are charged different prices for the same product. In determining the price for an overseas market, many global businesses practise the *cost-plus method* to cover the added costs of exportation. Such costs include transportation, taxes, warehousing and **tariffs**. A cost-plus method to pricing products for global markets is usually the most commonly used method because of the added expense associated with exporting.

BizWORD

Customised pricing *occurs whenever consumers in different countries are charged different prices for the same product.*

A **tariff** *is a tax on an imported product.*

Market-customised pricing

This strategy allows for even more flexibility than the customised pricing strategy. **Market-customised pricing** sets prices according to local market conditions. To avoid competition from a domestic business, the global business may need to adopt a market-customised pricing strategy that allows marketers to vary the price depending on the level of demand and competition within the overseas market. In a competitive market, for example, the price charged may have to be lower than in a market where the business has a monopoly.

Additionally, the price charged in other countries is also influenced by foreign currency exchange rates (see the BizFact on the right). Fluctuations in the exchange rate can change the prices charged across countries and is a major risk for global businesses.

BizWORD

Market-customised pricing *sets prices according to local market conditions*

BizFACT

The exchange rate tells us how much a unit of one currency is worth in terms of another. For example, if A$1 = US$0.70 that means one Australian dollar is worth 70 US cents. Conversely, one US dollar would be worth A$1.43.

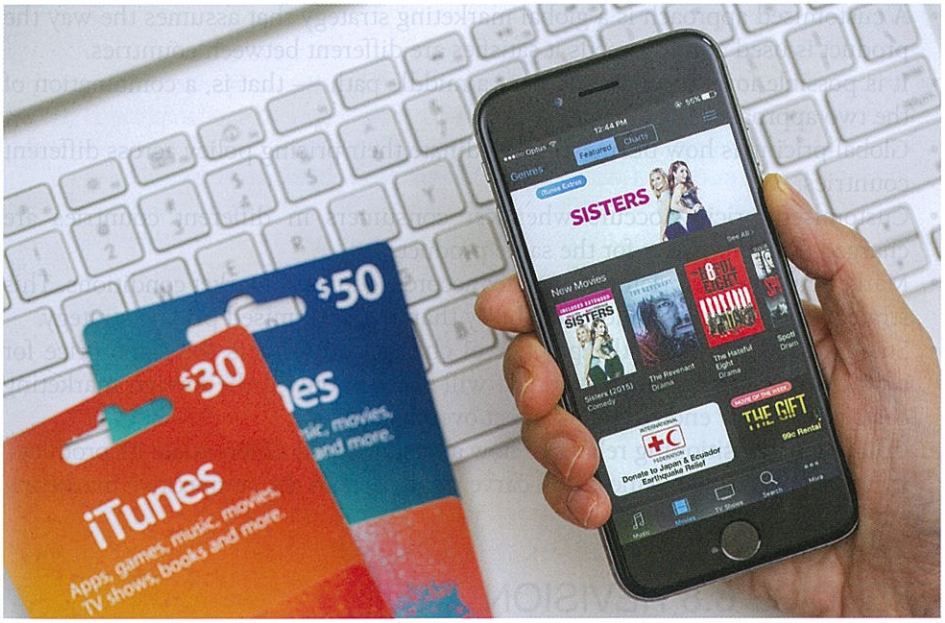


FIGURE 8.40 Apple, Microsoft and Adobe, who adopt market-customised pricing for their products, have faced strong criticism for charging Australians more for music, movies and TV shows. They defended these higher prices by claiming that every market is different and they have to take into account factors such as freight charges, local sales taxes, levies, import duties and competition as well as the fact that the entertainment industry in Australia charges a higher price for media delivered to Australia.

Standard worldwide price

Standardised pricing is the practice of charging customers the same price for a product anywhere in the world. It will succeed only if the foreign marketing costs remain low enough not to affect overall costs. Two major risks are associated with this strategy:

1. A domestic business may undercut the standardised price.
2. Changes in the exchange rate may negatively impact on the exported price.

BizWORD

Standardised pricing *is the practice of charging customers the same price for a product anywhere in the world.*

8.10.6 Competitive positioning

Competitive positioning relates to how a business will differentiate its products. It centres on how a business will carve out a place in the competitive marketing

BizWORD

Competitive positioning *relates to how a business will differentiate its products.*

environment. As in a domestic market, a global business must clearly show how its products are better than the competitors' products. Without differentiation, it takes more time, money and effort to encourage potential customers to purchase a business's products. To differentiate successfully, and avoid competing on price only — a difficult situation to sustain over the long term — the business should strive to develop product leadership, positive customer relationships and operational excellence.

Ultimately, to develop and maintain a competitive position in an increasingly challenging environment, businesses must gain a deep understanding of their dynamic environments in which they operate, and form their strategies according to evolving conditions.

SUMMARY

- A business's marketing plan must be modified and adapted to suit overseas markets.
- All businesses marketing on a global scale need to rely on market research to understand the complexities of the global marketing environment before they can design the marketing mix.
- Global branding is the worldwide use of a name, term, symbol or logo to identify the seller's products.
- A standardised approach is a global marketing strategy that assumes the way the product is used and the needs it satisfies are the same the world over.
- A customised approach is a global marketing strategy that assumes the way the product is used and the needs it satisfies are different between countries.
- It is possible for a business to adopt a middle path — that is, a combination of the two approaches.
- Global pricing is how businesses coordinate their pricing policy across different countries.
- Customised pricing occurs whenever consumers in different countries are charged different prices for the same product.
- Market-customised pricing sets prices according to local market conditions. This strategy allows for even more flexibility than the customised pricing strategy.
- Standardised pricing is the practice of charging customers the same price for a product anywhere in the world. It will succeed only if the foreign marketing costs remain low enough not to affect overall costs.
- Competitive positioning relates to how a business will differentiate its products. It centres on how a business will carve out a place in the competitive marketing environment.

study on

Syllabus area 2
Topic 5
Concept 2

Global marketing and branding
Summary screen and practice questions

study on

Syllabus area 2
Topic 5
Concept 3

Standardisation and customisation
Summary screen and practice questions

EXERCISE 8.8 REVISION

1 **Identify** the two approaches a business can take towards its global activities.
2 **Recall** what a business should know before it decides to engage in global marketing.
3 **Define** the term 'global branding'.
4 **State** the three main reasons why businesses use a global branding strategy.
5 **Distinguish** between a standardised and customised global marketing strategy. Provide examples in your answer.
6 **Account** for why McDonald's would use a combination of a standardised and a customised marketing strategy.
7 **Summarise** the three global pricing methods.
8 **Explain** which global pricing method you consider to be the most flexible.
9 **How** does competition in the overseas market affect global pricing?

10 'Consumers are not standardised globally; therefore, with global brands, you either get lowest common denominator advertising or you get advertising that's right somewhere, but wrong elsewhere.' **Discuss** this statement.

EXERCISE 8.8 EXTENSION

1 'Standardisation of production is of greater benefit to the producer than the consumer. It allows transnational conglomerates to treat the world as one single market, irrespective of social and cultural differences.' **Evaluate** the accuracy of this statement. Provide examples to support your answer.

2 Proctor & Gamble (P&G) is a large United States company that provides consumer products of more than 80 brands worldwide. Its main products include cleaning products, detergents, pet supplies, pharmaceutical and personal care products. Research online and **examine** its corporate structure. **Determine** the benefits to Proctor & Gamble of adopting global business units (GBUs) and market development organisations (MDOs).

3 A manufacturer of shoes has decided to export to China. The marketing manager assumes that with such a large population a lot of shoes can be sold. **Assess** whether China might be a good or bad market opportunity.

on Resources

- **Digital doc:** Chapter summary (doc-24810)
- **Interactivity:** Chapter crossword (int-7163)
- **Interactivity:** Multiple choice quiz (int-7164)
- **eLesson:** Innovation and Smiggle (eles-1053)
- **Weblink:** Proctor & Gamble

studyon

Sit HSC exam

Marketing

MULTIPLE CHOICE QUESTIONS

1. A business has developed a new tablet. Management has set a high price during the introduction stage.
   Which type of pricing strategy is this business using?
   (a) Skimming
   (b) Cost-based
   (c) Penetration
   (d) Market-based
2. A car manufacturer seeks a variety of component parts as inputs from different suppliers in order to produce their final product.
   This business would belong to which market?
   (a) Consumer
   (b) Industrial
   (c) Niche
   (d) Resource
3. A lounge manufacturer sells their products through large department stores.
   Which channel choice is the manufacturer using?
   (a) Competitive
   (b) Exclusive
   (c) Intensive
   (d) Selective
4. Techtronics Limited is a producer of computers and consumer electronics. Updating technology is the main business strategy at Techtronics, with most employees having an engineering orientation. Management spends a great deal of time on design and manufacturing processes rather than on researching customers' needs.
   Which of the following statements is true?
   (a) Techtronics is practising the selling approach.
   (b) Techtronics is practising the marketing approach.
   (c) Techtronics is practising the production approach.
   (d) Techtronics is practising the customer orientation approach.
5. A business has used a competition to try to increase sales for one of their products.
   Which element of the promotion mix is this an example of?
   (a) Advertising
   (b) Public relations
   (c) Sales promotion
   (d) Relationship marketing
6. Which of the following best describes a market niche?
   (a) A market niche is a broadly selected target market segment.
   (b) A market niche is a narrowly selected target market segment.
   (c) A market niche involves a business directing its marketing efforts to an international target market.
   (d) A market niche involves a business directing its marketing efforts to two or more target market segments.
7. What are the three new elements that have been added to the extended marketing mix?
   (a) Place, processes and physical evidence
   (b) Processes, physical evidence and people
   (c) Physical evidence, people and product
   (d) People, product and processes

8. What does the worldwide use of a name or logo to identify the seller's products refer to?
   (a) Customisation
   (b) Standardisation
   (c) Global branding
   (d) Competitive positioning
9. Which of the following is a legal influence on marketing?
   (a) Warranties
   (b) Truth and accuracy
   (c) Engaging in fair competition
   (d) Products that may damage health
10. At which stage of the marketing process is a SWOT analysis conducted?
   (a) Market research
   (b) Situational analysis
   (c) Establishing market objectives
   (d) Developing marketing strategies

SHORT RESPONSE QUESTIONS

1. (a) **Define** the term 'marketing'. *2 marks*
   (b) **Explain** why marketing needs to be an evolutionary process. *4 marks*
   (c) 'The marketing concept should be integrated into all key business functions.' **Evaluate** the accuracy of this statement. *10 marks*
2. (a) **Identify** the stages of the product life cycle. *2 marks*
   (b) **Demonstrate** why a business must be able to launch, modify and delete products in response to changes in the product life cycle. *6 marks*
3. (a) **Outline** how a marketing plan would reflect a business's socially responsible philosophy. *3 marks*
   (b) **Discuss** whether a marketing manager should take into account any social consequences of a marketing campaign. *5 marks*
   (c) 'Viral marketing is particularly insidious and open to unethical marketing practices.' **Critically evaluate** the accuracy of this statement. Provide examples in your answer. *10 marks*
4. (a) Briefly **describe** the three Ps of the extended marketing mix. *3 marks*
   (b) **Examine** why the extended marketing approach is important in the current business environment. *6 marks*

EXTENDED RESPONSE QUESTIONS

1. Recently, you were elected to serve as promotional organiser for a touch football tournament. The tournament will match several well-known celebrity teams from New South Wales against the best local players. Ticket sales will sell for $30 per person and your objective is to attract a large number of supporters. All proceeds will be given to a local charity. Develop a promotional plan by actioning the following:
   (a) **Identify** what market segmentation variables would be most important.
   (b) **Investigate** the buying motives to which you would appeal.
   (c) **Determine** how you would use each element of the promotion mix.
2. 'Once the basic price has been set using the preferred pricing method, the business then fine tunes this price in line with its pricing strategy. A business also uses a number of non-price competition strategies to achieve its marketing objectives.' **Explain**.
3. 'Through knowledge of consumer behaviour gained by in-depth market research, marketing managers can manipulate the consumer to buy their products.' **Critically evaluate** this statement.
4. 'Marketing is a system of business activities designed to plan, price, promote and distribute something of value for the benefit of the customer at a profit.' With reference to a business you have studied, **assess** the accuracy of this statement.

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