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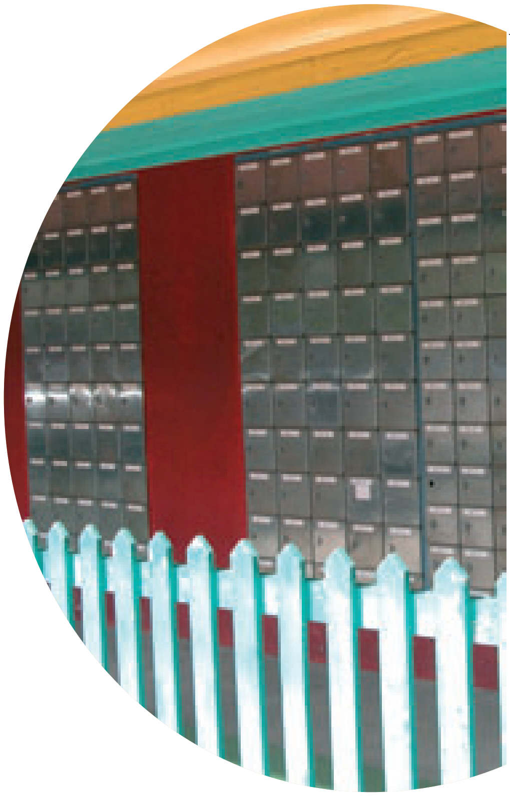

# Principles *of* Business

## for Caribbean Examinations

**4th Edition**

Ivan L. Waterman and Dave Ramsingh


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# Preface

This new edition of Principles of Business has been organised to follow more closely the new CXC Principles of Business Syllabus.

The book is divided into three sections: **Section A** relates to Profile I – **Organisational Principles**, **Section B** relates to Profile II – **Production and Marketing**, and **Section C** relates to Profile III – **Finance and Introduction to Economics.**

The authors have also tried to organise chapters so as to make it easy for teachers to follow the specific objectives for each topic in each section. Chapters have been included or upgraded to cover areas which were not previously covered or not fully covered. For example, there is a new more comprehensive introductory Chapter 1, and new chapters dealing with Elements of Economics, Management Information Systems, and Transportation.

It is never an easy task to put under one cover all the material required for the teaching of Business, especially so in an age where businesses practices and information are changing rapidly. However, we hope this book acts as a stimulus to further enquiry into the working of the business world and that both teachers and students will seek out examples relevant to their specific territory as practice may differ in different countries.

Ivan L. Waterman

Dave Ramsingh

# 10 Marketing

**Preview**

- ☑ What is marketing?
- ☑ The marketing mix
- ☑ Pricing
- ☑ Place and distribution
- ☑ Promotion and advertising
- ☑ The growth cycle of a product
- ☑ Market research
- ☑ Profit and related concepts

## What is marketing?

When you hear the word *marketing* you may form the impression that it has to do with selling. You are partly correct. Selling is however only one aspect of a range of activities that make up the marketing function.

definition

**Marketing** may be defined as all the business activity geared towards correctly identifying and anticipating people's wants and needs, including the group of people associated with these needs. The business should then concentrate on satisfying them in the most efficient and profitable manner possible. In other words the correct good or service must be anticipated, identified, produced, packaged, promoted and distributed to the targeted customers in the shortest time possible, at competitive prices and in a profitable manner as well. In fact, marketing starts from the product idea stage and does not really end at all, because after-sales service is an ongoing process.

### Sales related or customer related?

This is how a small business starts. At this point we must understand that some entrepreneurs take a risk and manufacture goods and services without finding out what people think. They have a particular insight or feeling that the product can be sold if people can be influenced to buy it. In other words the good or service is produced first then people are persuaded to buy it. This marketing approach is **sales-related**. When on the other hand, research in the market reveals a want or need to be satisfied and the firm proceeds to achieve this goal, this approach to marketing is said to be **customer-related**.

### Market segmentation

An important concept in marketing is market segmentation. Identifying different groups in a market and subdividing the market into those groups which can be attacked by specially designed marketing strategies explains the concept of segmentation. For example, in your country a paint company may identify as target groups:

a) industrial users;
b) domestic users;
c) autobody repairs;
d) lubricating; and
e) government (road painting).

## Market saturation

When all the consumers who wish to buy a product have bought it, or many competing goods have flooded the market, the demand for a product falls steeply. We call this situation **market saturation.** The market for the

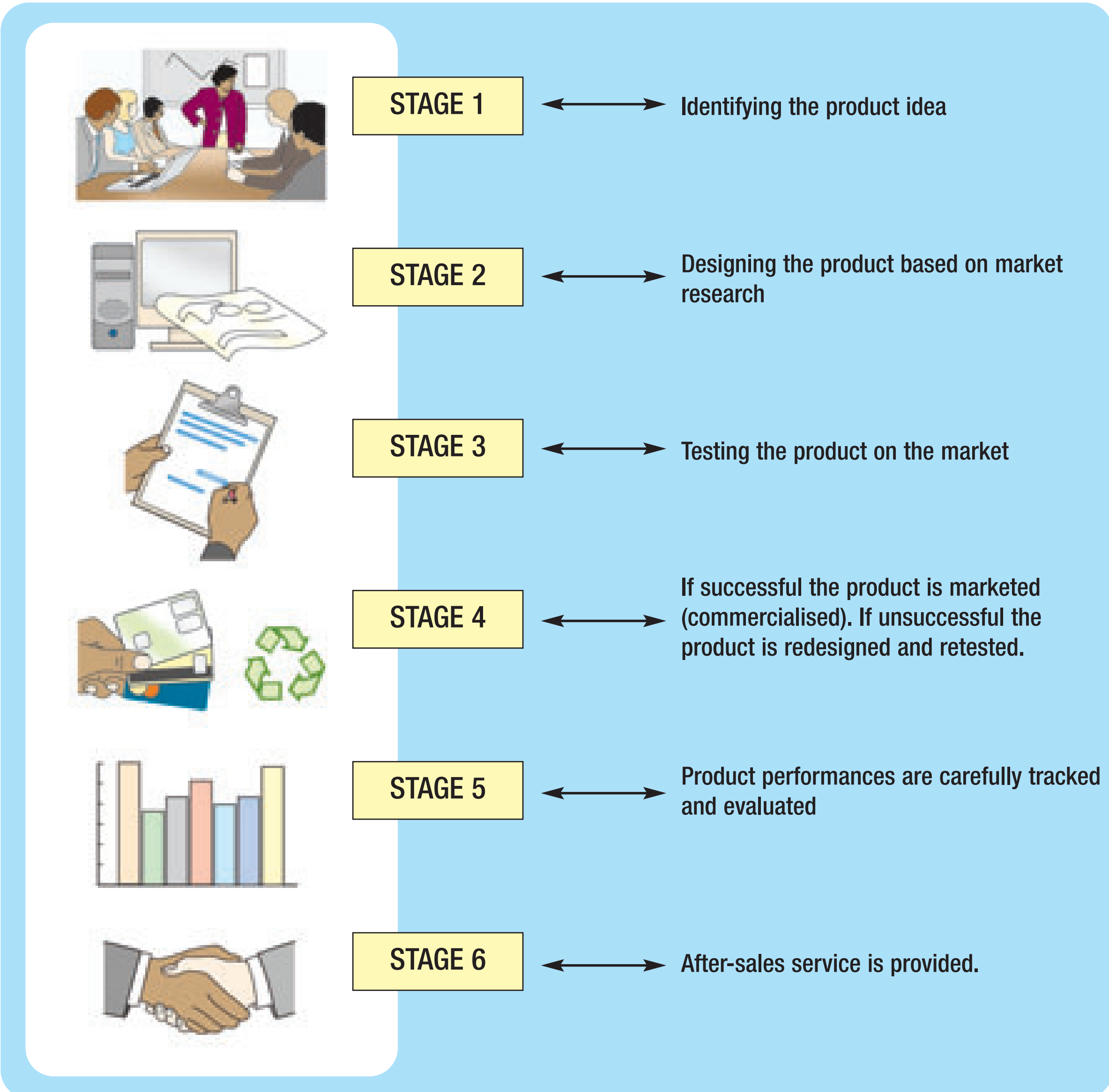



***Figure 10.1*** *The stages of marketing*

product is said to be saturated, i.e. supply has outstripped demand by a large margin. No amount of advertising or promotion will raise demand until the market recovers.


## Customer targets

When cricketer Brian Lara broke the world record for the highest test cricket score, there was a rush to write a book, produce caps, clothes, souvenir bats and posters. In other words, these needs were anticipated but the target customer had to be identified.

All of this had to be done quickly in order to take advantage of his instant popularity. If the timing of the distribution is wrong then no profit would be made because peoples' interest would diminish and entrepreneurs would incur a loss.

| **Item** | **Target** |
|---|---|
| Books | adult cricket enthusiasts |
| Souvenir bats | school children |
| Posters | school children, teenagers |
| Clothes, caps etc. | school children, teenagers |
| Video cassette | adult men and women, cricket clubs |

*Perhaps you can anticipate a need and market a product successfully.*

**Section summary**

| | |
|---|---|
| **1** | Marketing involves identifying wants and needs, the group of customers associated with these needs, and the satisfaction of these needs in an efficient and profitable manner. |
| **2** | The targeted market is the group of individuals the firm is aiming to satisfy. |
| **3** | A sales-related approach is undertaken when entrepreneurs manufacture goods or services without the benefit of customer research and then seek to influence the targeted customers to buy their product. |
| **4** | A customer-related approach involves the marketing of a product or service after studying the findings of consumer research. |
| **5** | The production concept holds that consumers would be attracted to products that are available and affordable and that management should concentrate on efficient production and distribution. |

**Important terms to remember**

- ☑ customer approach
- ☑ market segmenting
- ☑ marketing
- ☑ sales approach
- ☑ saturated market
- ☑ target market
- ☑ the marketing department
- ☑ the marketing environment

## The marketing mix

In our definition of marketing we mentioned correctly identifying a group of people associated with certain needs (for example, teenagers with brand-name footwear). For this particular product, teenagers are referred to as the **target market**. The same can be said for children and toys, women and cosmetics, or men and cars. As long as a target market has been identified for a product, the marketing department would formulate a marketing strategy to market the product successfully.

This marketing strategy involves the use of a **marketing mix** which, in essence, is the blend of different activities undertaken by the marketing department to market a good or service successfully These different activities are conveniently referred to as the four **Ps** of marketing or the variables of the marketing mix. They are:

a) **p**roduct;
b) **p**rice;
c) **p**lace;
d) **p**romotion.

### Product

definition

The term **product** refers to the good or service that is needed by the targeted group or the product, idea or service that the firm wishes the target group to buy, e.g. school books and students; toys and children, etc. A product may also be an idea, person, organisation or tourism destination.

One of the most important aspects of the product is the packaging, that is, the manner in which the good is presented to the customer.

example

*Soft drinks are presented in plastic/glass bottles, metal cans or cartons.*

### Packaging

The role of packaging should be:

- to attract the attention of the customer;
- to protect the product;
- to advertise or promote the product;
- to provide information about the product;
- to make the product 'user friendly' and convenient to use (e.g. aerosol can and dispensers).

Emphasis on packaging has increased in recent times because in instances where there is self-service, e.g. grocery, the package must assume the role of sales person, such as describing the products, or attracting attention to the product. In addition some customers like actually to see the product to assess its quality, hence the use of transparent packaging for vegetables, legumes, pasta, rice etc.

**Labelling**

The use of labelling is an integral part of packaging and its primary function is to describe the product and to provide details on its composition. Other important functions of the label are to indicate caution on harmful side effects (for medicines or other chemicals), expiry dates, directions for use, storage and value of the product in the package or container.

**Branding**

A brand is a name, term, sign, symbol, or design, or a combination of them, which is intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors.

The **brand name** is that part of a brand which can be *vocalised*, e.g. Eve, Pony, Avon.

The **brand mark** is that part of a brand which can be recognised visually, such as a symbol, design or distinctive colouring or lettering. Examples include the windmill of Windmill products, the horse on Pony products.

| Section summary | |
|---|---|
| **1** | The marketing mix is the blend of marketing activities that a firm uses to market a product to a target group. |
| **2** | The variables of the marketing mix are referred to as the four Ps – product, price, place, promotion. |
| **3** | The product should be attractively and functionally packaged. |
| **4** | Branding is a special strategy to assist customers to recognise a product like a good friend. |
| **5** | Labelling the product is crucial in the marketing of a product, since it provides information about the product. |

**Important terms to remember**

☑ the marketing mix ☑ the marketing variables ☑ packaging and labelling

## Pricing

In a later chapter, you will learn about the role of market forces – supply and demand – in determining the price of a good or service. In this section we examine briefly how firms set the price of their product.

### Ways of setting prices

**Cost-based pricing**

**Cost-based pricing** or cost-plus pricing is based on the cost of producing a product. This would involve: (a) fixed cost, and (b) variable cost. Fixed costs of production are the costs a company incurs whether there is production or not, e.g. rent or interest on bank loans. They are also called **overhead costs**. **Variable costs** are those costs associated with production itself, e.g. raw materials, salaries for employees, etc. The calculation is as follows:

Fixed cost (FC) + Variable (VC) = Total Cost (TC)

$$\frac{\text{TC}}{\text{Quantity produced}} = \text{Average cost}$$

example *If the total cost of 10 dresses is $500.00, then the average cost of one dress is $500 ÷ 10 = $50.00. The firm then adds a mark-up to the average cost, e.g. 20%: 120% of $50.00 = $10.00. So cost-based pricing is AC + mark-up i.e. $50.00 + $10.00 = $60.00.*

**Break-even analysis** Here the firm tries to determine the price that will produce the profit it is seeking. Target pricing uses the concept of a break-even chart that shows the total cost and total revenue expected at different sales-volume levels.

**Penetration pricing** This is a popular pricing method for a new product. The initial introductory price is lower than competing products, in the hope that consumers may respond to the low price. Eventually when the price is gradually raised, not all consumers may switch away to other competing products.

**Psychological pricing** Some products are highly priced in the hope that they may gain snob value, e.g. perfumes and works of art. The objective is to get consumers to think that 'good things are not cheap' while 'cheap things are not good'. Another example is pricing the product in an unusual manner such as $7.99 instead of $8.00.

**Predatory pricing** This pricing technique is designed to get rid of unwanted competition. Prices are lowered by one company (A) who can afford to make a temporary loss. A competitor (B) trying to match this low price may not be able to afford this loss and may have to leave the market. Company A now has the total market and quickly recovers lost profit by raising prices.

**Limit pricing** This pricing technique sets prices only low enough to discourage the entry of competitors into the market.

## Pricing objectives

For every product the company has to decide what the objectives are for that particular product. The following are some common objectives.

**Survival** Some companies set survival as their main objective if the market has too many producers, intense competition and changing consumer wants. To keep their plants going and their products selling, companies must set a low price, hoping that consumers will react to it.

**Current-profit maximisation** The aim here is to set a price that will maximise current profits. Companies estimate the demand and costs associated with alternative prices and choose the price that will produce the maximum current profit, cash flow or rate of return on investment.

**Market-share leadership** Some companies want to be the leaders in market share. The belief is that the company with the largest market share will enjoy the lowest costs and greatest long-run profit. To achieve market share leadership they set prices as low as possible.

**Product-quality leadership**

The aim of some companies is to have the highest-quality product on the market. The company will charge a high price to cover the high product quality and high cost of research and development.

| Section summary |
| --- |
| **1** Prices are determined in a free market by the forces of demand and supply. This is called the market equilibrium price. |
| **2** There are two main methods by which the price of a product or service is determined – cost-based pricing and market condition. |
| **3** There are other forms of pricing such as introductory, penetration, psychological, and price limiting. |

**Important terms to remember**

- ☑ average and total cost
- ☑ cost-based or cost-plus profit
- ☑ fixed and variable cost
- ☑ market condition
- ☑ penetration pricing
- ☑ predatory pricing
- ☑ price lining
- ☑ psychological pricing

## Place and distribution

Place as a market variable concerns the means through which the product reaches its targeted market, in other words the means of distribution and transportation internally and externally in a country. For a more detailed description of transportation refer to Chapter 11.

### Distribution

definition

There are two ways of defining distribution.

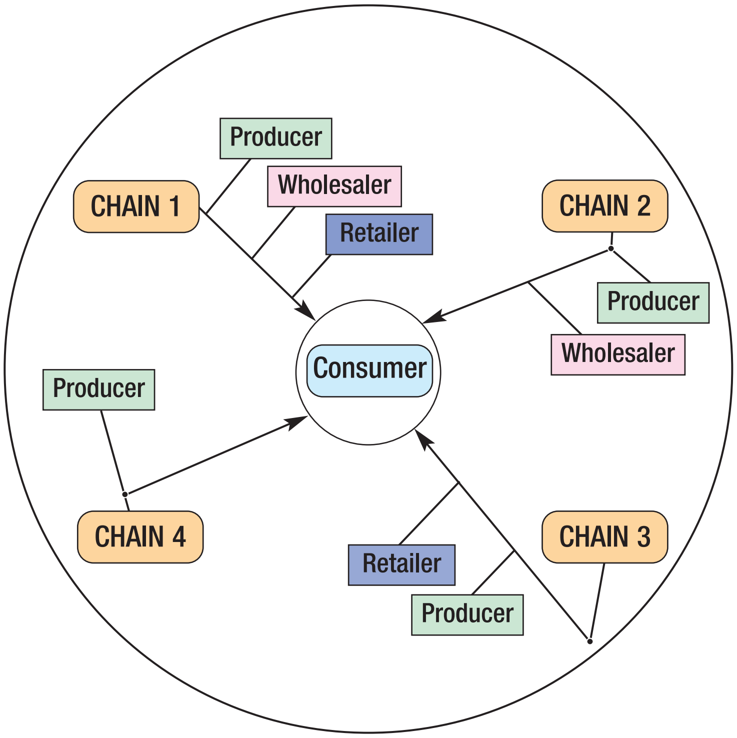
1. Put very simply, **distribution** is **the link between producer and consumer**.
2. More formally, distribution is **the process through which the firm or producer reaches the targeted market.**

**Chains of distribution**

How does the soft-drink manufacturer in your country reach you with his product? Probably through a series of different stages which we call the **chain of distribution.**

The chain of distribution applies to home or domestic trade and also to export or foreign trade. In the diagram below, four different chains of distribution are illustrated. A chain of distribution may be either direct or indirect. If there is an intermediary such as a wholesaler and a retailer, the chain is indirect. If there is no intermediary then the chain is direct. The function of a distribution chain is to move goods from producers to consumers; and to overcome major time, place and possession gaps that separate goods and services from those who would use them.

***Figure 10.2*** *Chains of distribution*




**Chain 1**

This shows the traditional method of distribution in home trade, i.e. from manufacturer (producer) to wholesaler to retailer and then to consumer. A producer will benefit from selling goods in large quantities to wholesalers who usually operate in large warehouses. The producer benefits because it allows him to mass produce and so use division of labour and low costs (economies of scale). Some electrical items are usually distributed this way The wholesaler breaks down the large quantities for redistribution to retailers who further break it down for sale to consumers. Presentation 10.1 and Presentation 10.2 (page 144) show the roles of the wholesaler and retailer.

**Chain 2**

In this chain the retailer is left out and consumers can buy goods directly from manufacturers, e.g. furniture. The wholesaler assumes the function of the retailer. Advantages of this chain of distribution are:

- There is no need for expensive outlets and rent.
- The wholesaler enjoys more profit because the retailer's profit is kept.
- There are lower transport costs.

**Chain 3**

Here the wholesaler is omitted and a retailer (presumably with a large warehouse) may assume the function of the wholesaler. The retailer enjoys discounts from bulk purchase.

**Chain 4**

Here both wholesaler and retailer are left out completely as the manufacturer assumes the function of both wholesaler and retailer and keeps all profits as a result.

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## Presentation 10.1 Role of the wholesaler

- **Breaking bulk:** This is buying in large quantities and sub-dividing for further distribution.
- **Holding stocks:** Most retailers do not have the storage capacity for large quantities.
- **Bearing risks:** The wholesaler takes a risk by buying in large quantities because prices could fall while goods are in his possession or fashion or taste may change suddenly.
- The wholesaler acts as **'go between'** connecting manufacturer to retailer and consumer.
- The wholesaler **reduces transport cost** to manufacturers.
- The wholesaler provides **information** on market trends to producers.
- The wholesaler **pre-packs, labels and grades** products for retailers.
- The wholesalers perform an **advertising** or promoting role for the manufacturer.
- The wholesaler assists retailers with regard to **price stability** because goods are released gradually over a period of time and not in a flood which may serve to create falling prices.
- The wholesaler offers **credit** by providing credit facilities to the retailers.


*What kind of goods would you expect to buy in this supermarket?*

## Presentation 10.2 Role of the retailer

- Retailers break bulk.
- The retailer provides a convenient outlet near to targeted markets.
- The retailer provides credit to customers.
- The retailer provides delivery to customers.
- The retailer gives advice to customers.
- The retailer provides after sale service.
- The retailer provides a wide variety of goods to consumers.
- The retailer provides feedback from customer to manufacturers.

Different types of retailers include:

- department stores;
- supermarkets;
- chain stores (multiples);
- vending machines;
- mail order catalogues;
- door-to-door sales persons;
- market vendors (vegetable producer);
- auctions;
- co-operatives.

It should be borne in mind that sometimes a large number of these retail outlets can be found in a mall or arcade-type structure, very popular in the last 25 years (see below).


*A shopping mall in Port of Spain, Trinidad*

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**Methods of distribution**

Transport is a vital part of marketing because efficient movement of goods along a distribution chain involves a fast, reliable and efficient transport system. (See Chapter 11 for more on transportation.) In the domestic market, transportation is needed to carry goods to the warehouse of wholesalers, and from the wholesalers to the retailers who sell to the consumers. Transportation is necessary in some cases to take goods from the retailer to the household of consumers, and some firms offer delivery service.

**Distribution problems**

Some of these problems may occur, either in the domestic or the external market:

- shipping delays;
- storage costs (at warehouse);
- misdirection of goods;
- industrial unrest;
- impaired communication in the distribution chain;
- spoilage;
- theft;
- red tape (unnecessary procedure);
- low warehouse productivity;
- safety standards;
- inconsistency in weights, measures and sizes;
- adverse weather conditions e.g. hurricane, flood.

Table 10.1 suggests some solutions to these problems.

***Table 10.1*** *Some solutions to problems of internal trade*

| Problem | Solution |
|---|---|
| Theft | Theft insurance |
| Low productivity | Incentive schemes, increased on-the-job training, better working conditions |
| Spoilage | Better packaging, refrigeration and storage |
| Red tape | Streamlining of operations |
| Inconsistency in measure | Standardisation |

## Recent trends in retailing

**Franchising agreement**

In this form of retail business an established company may permit an individual entrepreneur to sell the company's product and allow the entrepreneur certain rights and privileges. A well-known example is the McDonald Hamburger Company which has allowed franchises in the Caribbean (see page 146).

**Branding**

When a company uses a specific brand or logo to promote its product in order to make it exclusive and distinctive, it is using branding as a form of retailing, e.g. Pepsi Cola or Red Stripe Beer. Branding helps consumers to recognise a product instantly.


*McDonald's logo, the big M, is famous worldwide. This one is in Nassau, The Bahamas*

**One-stop-shopping** This form of retail shopping enjoys immense popularity in North America where sprawling shopping centres and malls exist. In Trinidad, Jamaica and Barbados it is also quite popular as it allows a customer to shop conveniently where all varieties of shopping and business are integrated into one giant centre, complete with security, parking, etc.

**Superstores** Superstores are larger and usually sell a greater range of goods than supermarkets. They are gradually replacing them, because superstores can benefit from economies of scale, e.g. bulk buying, and can therefore pass on the savings in cost to consumers via lower prices.

**Diversification** Retail centres are no longer specialising but are fast becoming variety stores so they can benefit from risk-bearing economies of scale. Some supermarkets have begun to sell hardware items as well as auto accessories.

**Loss-leader selling** This describes a strategy by the retailer where an established brand is sold at a discounted price to attract customers into the business place. Once inside it is hoped that the prospective customer may purchase other items as well.

**Credit arrangements** In this instance a store may offer excellent terms of credit to low-risk customers or may even provide a loan to make a purchase (e.g. of a car). Special credit cards are also popular with regular customers.

**Electronic transfer** In many retail outlets customers can pay by using an Automatic Banking Card which when fed into a special machine can link electronically with their bank account.

**Point of sale computer link** Retail outlets assign a special bar code to each item which a computer can recognise and provide a price. In addition, if a product has not been scanned by this computer it can trigger an alarm if carried out of the outlet.

**Section summary**

1. Distribution is the link between producer and consumer and it is the means by which the firm reaches the designated target market.
2. The chain of distribution for home trade and export trade involves four stages, i.e. producer, wholesaler, retailer and consumer.
3. Sometimes the 'middlemen' are eliminated and consumers and wholesalers or consumers and manufacturers are directly linked.
4. The roles of the wholesaler are breaking bulk, holding stock and taking risks.
5. There are numerous retail outlets such as shopping centres, malls, superstore, street vendors, door-to-door sales persons, auctions, etc.
6. Some problems of distribution are shipping delays, theft, spoilage, unreliable transport, adverse weather conditions and industrial unrest.
7. Recent trends in retailing have seen the emergence of large integrated one-stop shopping and franchising.
8. Innovations such as branding, logos, credit facilities, computerised billing and credit cards are now the established trends in marketing.

**Important terms to remember**

- ☑ computerised check-out
- ☑ convenience store
- ☑ credit card purchase
- ☑ diversification
- ☑ economies of scale
- ☑ franchising
- ☑ loss leader
- ☑ middlemen
- ☑ self-service

## Promotion and advertising

definition

The last 'P' of the marketing mix is **promotion**, which means the promoting or the act of attracting the attention and interest of the target market to the product or service offered for sale.

The most effective and acclaimed method of product promotion is advertising. The functions of advertising are as follows:

- to introduce new products on the market;
- to increase demand for a good or service so that market share can be increased by persuading the target market;
- to inform and remind customers about a product so that a personal bond or loyalty can develop;
- to underscore particular strong points of a good or service in order to maintain a competitive edge;
- to bring to the attention of the target market new trends, imported products, sales, promotional events, discounts, changed business hours, special days, etc.

## The different types of advertising

**Informative advertising**

This form of advertising provides factual information about a product or service and can be viewed as beneficial to consumers in that it assists the prospective buyer to make an informed decision whether to purchase a good or service.

example

*In advertising a particular cooking appliance, e.g. microwave cooker, information such as the correct method of operation, the dangers associated with the use of the appliance, safety devices that are built in, or how to maintain the device, is helpful to consumers in making up their minds.*

**Persuasive advertising**

This type of advertising is clearly designed to entice a potential customer (target market) to purchase a good or service using a variety of psychological devices. We made mention of the sales-oriented approach to marketing and this type of advertising is an integral part of this approach. Here are some examples of persuasive advertising:

- the appeal to fear, using a picture of an overturned vehicle to advertise the dangers of worn tyres;
- the appeal to statistics: 'nine out of ten doctors recommend this product';
- the appeal to vanity: 'if you wish to become the most popular in class, then carry your books in a Tuff bag';
- the appeal to sex, using a scantily clad female to advertise sport cars so that the attention of men (both young and old) is attracted to the model;
- the appeal to fame, using popular and famous people to endorse a product, e.g. sprinter Linford Christie advertising lucozade drink or popular soccer player Ronaldo promoting a particular brand of soccer boots.

**Competitive advertising**

This form of advertising promotes one product over a competitor, e.g. 'Drink a first class cola for a change'. It is related to **defensive advertising** (see below).

**Defensive advertising**

This form of advertising reacts to competitive advertising to maintain its market share (number of customers) and to deflect criticism of a popular brand.

**Reminder advertising**

This is used when an advertising campaign has peaked and instead of running the full advertisement, only a small recognisable part of it is played or shown to 'remind' customers. In addition, this form of advertisement is used when a product has reached the stage of *maturity*; reminder advertisements are also used when interest for the product falls.

## The vehicles of advertising

The main vehicles of advertising are:

- **The electronic media:** These include advertising on the radio and television and are usually expensive. Telemarketing may also be included in this category. This involves advertising via the telephone or a loudspeaker in some cases. In rural villages a vehicle may pass around announcing information for consumers.

- **The print media:** Newspapers and magazines are the most common media of advertising, and because of the many advertisers it is fairly cheap.
- **Handbills** are used mostly for advertising upcoming events, usually in entertainment, and often slipped under the windshield wiper of your car.
- **Billboard advertising** is becoming increasing popular along strategic locations, e.g. busy freeways and sporting arenas. In the past more a feature of metropolitan countries, this type of advertising has taken hold in the Caribbean.



*Advertising hoardings in St Lucia (above) and Grenada (right). How effective do you think these adverts would be?*

Other vehicles include:

- skywriting where aircraft jet trails are used as a kind of flying advert;
- transport advertising (i.e. on moving vehicles such as buses, trains or transport vehicles);
- advertising on clothing, e.g. on T-shirts;
- point-of-sale advertising, which means advertising on the spot, where the goods are on sale.

## Presentation 10.3 Advantages and disadvantages of advertising

**Advantages**

Advertising

- helps to increase market share of a company.
- increases demand for product or service.
- increases market share and provides a spur to further employment in the product industry.
- plays a positive role in supplying information to prospective buyers.
- promotes competition between firms and can assist in reducing prices.
- helps to create a new industry and provides linkage to other related industries e.g. advertising/ entertainment/music/actors guild.
- generates increased revenue and profits from which the costs of advertising are met.
- increased profits may mean increased taxation revenue which may be spent on the provision of more public and merit goods.
- increased profits from advertising provide funds for research and development of new products.

**Disadvantages**

Advertising

- is seen as manipulating demand so much that consumers lose their power (sovereignty) of choice.
- has such power that many people buy goods and services they do not really need because of it.
- is not always in the public interest, e.g. in the case of alcohol and tobacco advertising.
- can raise costs which are passed on as higher prices.
- may use media such as billboards that can spoil natural landscape and add to clutter on highways.
- has high costs, which can constitute a barrier to the entry of competing firms.
- costs are risky for the producer as there are no guarantees they will be recouped from profits.
- are often misleading e.g. 'prominent experts recommend this product'.

### Sales promotions

As well as advertising, the promoting of a product is undertaken by other means. These promotions are usually timed to coincide with special events like Mother's or Father's Day, Independence Day, Easter, Carnival or Christmas.

definition — Sales promotions are short-term incentives to encourage purchases of a good or service.

Sales promotions also seek to introduce a new product, or when a firm is cash-starved and needs a quick injection of cash, maybe to service debt.

### Selling techniques

There are two related aspects to selling goods and services.

1. **Selling concept:** This is the idea that consumers will not buy enough of a firm's products unless the firm undertakes a large selling and promotion effort.

2. **Selling process:** This covers the steps a salesman follows when selling. It includes prospecting and qualifying, pre-approach, presentation, demonstration, handling objections, closing and follow-up.

Salesmen and firms employ several selling techniques. Among the techniques used are:

- **Sales presentation approach**: The salesman makes a presentation to a group.
- **Conference selling**: The salesman brings resource people from the company to meet a group.
- **Seminar selling**: A sales team conducts an educational seminar.
- **Telemarketing:** Sales persons contact customers by phone.
- **Price cutting and adjustment techniques**: By taking customers' concerns and complaints into consideration and offering effective after-sales services, salesmen maintain good customer relations.
- **Personal selling:** The oral presentation with one or more prospective purchasers for the purpose of making a sale: the person-to-person approach.

## Merchandising

Merchandising is a promotional device designed to present the product in such a way that customers could be attracted to it and drawn towards purchasing it. Packaging and branding of goods are the most popular methods of merchandising.

### Self-service

In addition product displays are used to the same effect, e.g. a canned food pyramid. Self-service is a unique way to promote merchandising, in so far as the physical layout of goods are concerned. For example if flour, sugar or rice – commonly purchased items – are placed near to a new product it helps to promote awareness of such new products. Similarly, displaying goods at eye level or decorating the business place attracts attention. Many products are pre-packaged in convenient sizes to facilitate sales and most if not all are displayed in transparent packaging for closer scrutiny of quality, e.g. kidney beans, potatoes, onions, garlic, etc.

The following are some common forms of merchandising:

- **Promotions**: Frequently a sale is advertised to clear out slow moving or 'dead' stock by reducing prices at the end of the month; appropriately called a 'Month-end Sale'.
- **Contests**: This form of promotion is quite common and is designed to increase the sale of the product through offering lavish prizes e.g. with 100 bottle caps and $25 you can win a trip to World Cup 2006.
- **Coupons** can be cut out of newspapers or magazines in exchange for gifts or discounts.
- **Multi-buys:** for example, 'Buy one get one free'.
- **Loss leaders** involve significantly reducing the price of a popular brand in order to attract customers into a business place so that other products can get exposure.

- **Trading stamps** reward regular customers and those who buy large quantities of goods.
- **Trade Fairs, exhibitions, and expositions** are usually sponsored by the government or Chamber of Commerce to allow the opportunity for displaying products to the public or prospective buyers.
- **Free samples** are usually small packets or jars of a product for the consumer to try, e.g. shampoo.

It should be noted that all businesses in the distribution chain engage in product or sale promotion in addition to special events.

## Consumer protection

The Latin phrase *caveat emptor* means 'let the buyer beware'. It was thought that an individual had to be vigilant in the pursuit of satisfying his wants and needs and the legal systems in the Caribbean emphasised awareness on the part of the consumer, so that there would not be exploitation of the buyer by the seller. Since the advertising industry has grown immensely, economic commentators representing consumers have remarked that the buyer is becoming more and more programmed by advertisers. In other words consumers' sovereignty is undermined.

Do you agree with this point of view?

Nevertheless there are mechanisms in place to protect the consumer. These are initiated by government via the Consumer Affairs Ministry which administers weights and measures, or via health inspectors for meat quality. Each Ministry provides advice to consumers. You can learn more about consumer affairs in Chapter 12.

**Section summary**

1. Sales promotion and product promotion are short-term incentives designed to persuade and encourage a target market to purchase a good or service.
2. It is effectively supported by an advertising campaign.
3. Some promotional activities include:
   - competitions
   - trading stamps
   - free samples
   - discounts
   - coupons
   - trade exhibitions.
4. Merchandising is also a subtle form of promotion. It involves making a purchase convenient but at the same time promotes the product by the way the product is presented or physically laid out. Examples of merchandising are packaging and branding, i.e. different sizes, large, medium small, or displays or music being played.
5. One of the major forms of merchandising is self-service which reduces labour costs and brings the good in close contact with buyers.

**Important terms to remember**

- ☑ advertising and promotional blitz
- ☑ branding
- ☑ eye-level presentation
- ☑ loss leader
- ☑ packaging
- ☑ self-service
- ☑ window display

## The growth cycle of a product

Many products progress through different stages before they mature and eventually decline in much the same way that human beings progress from birth to death.

A marketing manager's understanding of this life cycle of a product is crucial to an effective marketing plan in addition to the marketing mix. The following stages describe the cycle.

**Stage 1:** Pre-introduction – market research.

**Stage 2:** Introduction of product – during this time the product seeks to establish itself on the market and it may well be one to two years before it becomes established.

**Stage 3:** Product is established and begins to earn sales revenue and increasing market share.

**Stage 4:** Peak growth – the product matures to peak growth with the push from aggressive advertising. At this time demand for the product is at its highest point.

**Stage 5:** Demand for the product starts to fall.

**Stage 6:** The demand for the product declines to its lowest level and will only rise in demand if it is given a new face, i.e. becomes 'new and improved' or modified in some way.

### Marketing research

definition

**Marketing research** may be defined as the systematic gathering, recording and analysing of data about problems relating to a specific marketing situation facing the firm. The main objective of marketing research is to reduce decision risk by providing management with relevant, timely and accurate information. To understand its customers, competitors, dealers, etc. every firm needs to carry out marketing research. Managers who use marketing research need to know enough about it so that they can get the right information at a reasonable cost.

The marketing concept incorporates the idea of finding out the needs and wants of target markets and satisfying these more efficiently and effectively than a competitor.

**Types of market research**

There are many different types of market research done on different aspects of a firm's market.

#### Consumer research

Research done on consumers may take different forms but commonly focuses on the size of a market, i.e. how many people are actually buying the product and whether or not they are satisfied with the product or need to see an improvement in quality, or a different size of product. In addition, the research seeks to find out if there are changes in peoples' incomes, tastes or brand loyalty.

### Consumer behaviour

The consumer market consists of individuals/households who buy goods/services for personal consumption. Consumers do not make the purchase decision in a vacuum, but are influenced by culture, social, personal and psychological characteristics. The buyer decision process involves:

1. **Recognition of a problem or need:** The consumer realises he needs a particular good or service.
2. **Information search:** As a result of (1) the consumer may or may not search for information about the product.
3. **Evaluation of information:** The consumer then evaluates the alternatives found in the information search.
4. **Decision:** He or she then makes the purchase decision.
5. **Evaluation of purchase:** The consumer evaluates his/her purchase choice depending on whether he/she was satisfied or dissatisfied.

The consumer's purchase choice is influenced by taste, income, the price of similar products, tradition, and trend loyalties which are a part of purchase behaviour.

### Product research

This is done to determine how people will react to changes in an already established product or a completely new product.

### Packaging research

This type of research is undertaken to assess people's reaction to colour, design of package and other features such as storage after use or to determine how 'user friendly' the packaging is.

### Sales research

This type of research looks for information relating to:

a) the size of the target market;
b) the age, sex, income and geographic variables relating to the target market;
c) the potential of the target market itself.

### Advertising research

This research in advertising focuses on how effective an advertising campaign was in terms of increasing the firm's market share.

### Economic research

This is a very vital piece of research for the firm from the point of view of keeping a finger on the pulse of the changing economic conditions, such as:

- economic growth or recession;
- balance of payments – deficits or surpluses;
- unemployment statistics;
- the rate of inflation;
- exchange-rate fluctuations.

All of these can either be a threat or opportunity to business activity in general.

### Distribution research

This is also an important aspect of a firm's research designed to gauge the effectiveness of its distribution channels. In addition one of the main concerns of business is after-sales service and firms are very alert to customers' complaints about service from distributions and formulate strategies to counteract negative feedback.

## Market research methods

### By questionnaire

The most popular method of collecting information for research is the questionnaire. This is a set of carefully worded questions on a sheet to be filled out by someone called a respondent. It may be mailed or delivered via mail boxes. There is an example of a questionnaire in Appendix 2. This means of collecting formation has not enjoyed a marked degree of success because of consumer indifference.

### By personal interview

Face-to-face interviews are a more reliable form of research but the interviewer has to be careful not to influence the respondent in any way. It may prove to be a costly exercise in terms of hiring reliable labour.

### By telephone

This method is sometimes included under telemarketing which is using the telephone to market a product. Consumers are mostly interviewed at home after working hours but are usually uncooperative and impatient.

## The sample

Owing to the fact that surveying all consumers in a target market may prove impractical and time-consuming only a few people may be sampled from a geographical area. Much attention is paid to ensuring that the sample cuts across all boundaries such as class, race, sex, income group or age. This is called a **representative sample** because it represents the real composition of a market if everyone uses the product or likely to use it.

## Sources of information

### Primary and secondary data

There are two broad categories of data and information that a researcher can collect. These are **primary** and **secondary data**.

1. **Primary data** is data that has not been collected by anyone before, in other words, it is original. This type of information is obtained by surveys, interviews or observation.
2. **Secondary data** on the other hand describes information compiled by others which can be accessed at any time or by any interested party: for example:
   - financial statements in the newspapers by competitors in a market;
   - data produced by a government office such as a statistical department, Central Bank, Ministry of Trade and Industry or any government information source;
   - business journals and magazines are also popular sources of information that may be regarded as secondary data.

| Section summary | |
|---|---|
| **1** | Market research is the systematic collecting, recording and analysing of data collected in an area. |
| **2** | Marketing research is directly related to finding out people's needs. |
| **3** | The main forms of research are: consumer; producer; advertising; product; economic; distribution; packaging; sales. |
| **4** | Market research methods include:<br>■ surveys – which can take the form of questionnaires, mail or telephone (telemarketing)<br>■ experiments<br>■ observation of human patterns<br>■ interviews. |
| **5** | A representative sample is a typical group of consumers in any region and should cut across boundaries, age, sex, class, location and income group. |
| **6** | Sources of information are primary or secondary. Primary data is collected first hand while secondary data is already in existence e.g. in periodicals, library journals and magazines. |
| **7** | Consumer buying decisions go through a process consisting of problem recognition, information search, evaluation of alternatives, purchase decision and post-purchase behaviour. |
| **8** | Consumer purchase choice is influenced by taste, income, the price of similar products, tradition and brand loyalties. |

**Important terms to remember**

- ☑ economic forecasting
- ☑ marketing concept
- ☑ primary data
- ☑ respondent
- ☑ secondary data
- ☑ survey questionnaires
- ☑ threats and opportunities

## Profit and related concepts

example

Mr Jones converts the lower floor of his house into a grocery shop. He stocks it with $5,000.00 worth of goods, and runs it himself. At the end of the year Mr Jones finds that total sales or turnover amount to $8,000.00, which means that he earned a return of $3,000.00 in profit. However, an economist would ask, how much of the $3,000.00 should be regarded as the return due to labour (what Mr Jones would have earned if he had been employed by someone else); and how much should be imputed for rent (the amount of money which Mr Jones would have earned from letting his premises to someone else)? Only after these imputed charges have been considered can one speak of profit in the economic sense: pure profit, which is actual profit minus personal wages, interest and rent.

From the above example we see that profit is the reward for entrepreneurial services, i.e. for risk bearing. It is a residue of what is left over after certain charges have been taken out. Profits can be expressed either as a sum of money, e.g. $3,000.00, or as a profit rate as a *percentage* on the capital employed in the business, as it is the turning-over of the capital which accounts for the sales of the firm and thus for the profits.

e.g. $\dfrac{\text{Gross profit}}{\text{Capital}} \times 100 = \text{percentage profit rate.}$

In our example, $\dfrac{\$3000}{\$5000} \times \dfrac{100}{1} = 60\%$

Gross profit may also be expressed as a percentage of turnover.

i.e. $\dfrac{\text{Gross profit}}{\text{Turnover}} \times \dfrac{100\%}{1}$

## Net profit

definition **Net profit** is the profit a firm earns after the expenses of the company have been deducted; i.e. net profit = gross profit minus company expenses.

Gross profit can be calculated by deducting cost of goods sold e.g. $50,000 from sales revenue of $100,000: therefore gross profit = $50,000.

Usually gross profit is expressed as a percentage of the cost of goods or the selling price of the good e.g. if a good is sold for $10.00 and the cost price is $5.00 then the gross profit is $5.00, therefore profit expressed as a percentage of cost price:

$$\frac{\$5.00\ (\text{cost price})}{\$5.00\ (\text{gross profit})} = 100\%$$

The percentage of profit on selling price is easily found e.g.

$$\frac{\$5.00\ (\text{profit})}{\$10.00\ (\text{selling price})} = 50\%$$

Most of the time the profit of firms is declared in the newspapers so that shareholders can keep track of the companies' performances. You may have noticed that the document profits are declared in tabular form. This is called a **balance sheet** which consists of assets and liabilities, an asset being the money value of anything the company owns legally. Liabilities are the debts of the firm.

## Turnover

definition **Turnover** simply means the gross revenue of the company in a particular year and is usually a reliable gauge of business activity.

**Net turnover** This is found by deducting the money value of all returns, or refunds from the gross revenue, e.g.

| | | |
|---|---|---|
| Gross revenue | = | **$100,000** |
| Returns | = | **$20,000** |
| Net turnover | = | $80,000 |

**Turnover and stock turn**

Where turnover is the total value of sales, stock turn refers to the speed or rate of transactions or sales. In simple terms it is the number of times the stock is turned over in the course of a week, month or year. The stock turn or rate of stock turnover is measured by dividing net sales by the average stock value at selling price, or by dividing the cost price of goods sold by the average stock value at cost price, e.g.

$$\text{Stock turn} = \frac{\text{Net sales}}{\text{Average stock at selling price}}$$

$$\text{or} \quad \frac{\text{Cost of sales}}{\text{Average stock at cost price}}$$

$$\text{Average} = \frac{\text{Value of stock at beginning of period + value of stock at end of period}}{2}$$

**Break-even analysis**

This is the amount of sales revenue that is equal to the cost of production. At this point no profits are made but the firm would not operate below this point. Figure 9.3 shows a break-even chart.

In the diagram OM represents the total sales revenue of the firm. VX represents the total costs of the firm, and XY represents the fixed costs of the firm.

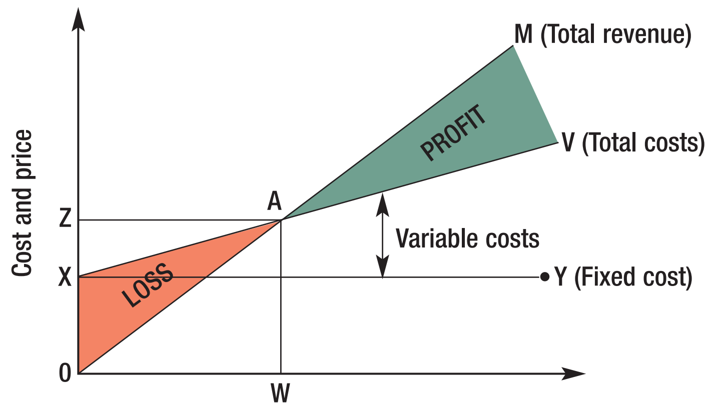


***Figure 10.3*** *A break-even chart*

Remember that total cost (TC) is made up of fixed cost (FC) + variable costs (VC), i.e. TC = FC + VC. If the total cost and the total revenue is the same (at point A) then the firm is not making a profit. If total revenue is greater than total cost then a profit is being made. Similarly if total cost is greater than total revenue then the firm is making a loss.

| Section summary | |
|---|---|
| 1 | Profit is the payment for taking risks. |
| 2 | It may be expressed as a percentage return on employed capital. |
| 3 | It may also be expressed as net profit when net expenses are deducted from gross profit. |
| 4 | Turnover is the gross revenue of a company in a given fiscal year. |
| 5 | Stock turn is the rate of sales. |
| 6 | Break even is when total revenue is equal to total cost of the firm. |

# Questions

## Multiple choice

**1** Marketing involves

**a** researching the product
**b** packaging the product
**c** advertising the product
**d** all of the above.

**2** Marketing activities begin and end with

**a** consumers
**b** retailers
**c** merchandisers
**d** wholesalers.

**3** A target market consists of

**a** those customers who buy from a competitor
**b** those customers specially identified for price hikes
**c** customers who refuse to buy a company's products
**d** the group of consumers a firm is trying to satisfy.

**4** Introducing a product into a market without customer research is called

**a** the all-or-none principle
**b** risk-related approach
**c** sales-related approach
**d** the intuitive approach.

**5** A customer-related approach to marketing involves

**a** giving discounts to customers
**b** advertising
**c** conducting consumer research
**d** door-to-door sales technique.

**6** The production concept is so called because

**a** consumers are consulted before production
**b** consumers would be attracted to goods that are available, affordable and of good quality
**c** firms aim to increase their volume of production
**d** much attention is paid to production schedules.

**7** The marketing mix refers to

**a** the variety of goods on the market
**b** the ability of salesman to become intimate with their customers
**c** how well the marketing department uses the finances that the firm provides
**d** the blend of different marketing activities aimed at a target market.

**8** All of the following are pricing techniques except

**a** cost plus profit
**b** market condition
**c** predatory pricing
**d** scientific pricing.

**9** Both wholesalers and retailers

- **a** hold stocks for long periods
- **b** bear risk
- **c** provide no credit at all
- **d** assist in manufacturing of goods for sale.

**10** Auctions, co-operatives and mail order catalogues are examples of

- **a** wholesalers
- **b** intermediaries
- **c** retailers
- **d** secondary production.

**11** Telemarketing is another name for:

- **a** selling by telephone contact
- **b** selling on the Internet
- **c** selling on television
- **d** e-commerce.

## Structured questions

**1** An entrepreneur finds it necessary from time to time to carry out market research.

- **a** What is market research?
- **b** Why is it undertaken?
- **c** What are the main areas of market research?
- **d** How is market research carried out?

**2**
- **a** Define the term marketing.
- **b** Identify four marketing activities;
- **c** Select one of those identified in (b) and show its importance in setting up a new business.
- **d** Advise your neighbour on the feasibility of marketing produce from his backyard.Your plan should include references to presentation packaging promotion and selling.

**3**
- **a** List four steps for establishing and improving a marketing department.
- **b** Identify three causes for the high cost of marketing in the Caribbean and show how these costs could be lowered.

**4**
- **a** Briefly explain the meaning of the term 'retailing'.
- **b** List five methods which are used to retail goods.
- **c** Describe how one of these methods can be used to retail ice cream in your country.
- **d** Evaluate the effectiveness of the means of transport used in your operation.

**5**
- **a** State three reasons why a firm may wish to advertise its products.
- **b** Briefly state how you plan to advise a firm who wishes to advertise:
  - **i** a new product for which there is not much competition;
  - **ii** a new product with many similar brands already established on the market.

**6** 'The success of the self-service type shop can be attributed to branding, specialisation, prepackaging and promotion.' Comment on this observation.

**7**
- **a** Differentiate between informative and persuasive advertising.
- **b** Provide two examples of each type of advertising in your country and say how effective each has been in promoting demand for the product in question.