Essential Business Studies
for Cambridge IGCSE® & O Level
Third Edition

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This student book is fully aligned to the Cambridge International Examinations (Cambridge) IGCSE® (0450) & O Level (7115) Business Studies syllabuses, as well as the Cambridge IGCSE® (9–1) Business Studies syllabus (0986).

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3 Marketing

3.1 Marketing, competition and the customer

3.1.1 The role of marketing

The role of marketing
Marketing makes it possible to identify what a customer needs in terms of what can be memorised as the four Ps:
- **product**: the right goods and services
- **price**: at the right price
- **place**: where or how customers want to be able to buy
- **promotion**: by providing the right sort of encouragement.

The four Ps summarise the role of marketing and the marketing department in a company: anticipating and identifying consumer wants and needs and then planning how to meet these requirements, so that a profit or surplus can be made and customers are satisfied.

Customers look for particular benefits in products (i.e. what a product will do for them). Benefits of a particular mobile phone may be that as well as making and receiving calls and messages, it has a good camera, GPS system and internet access. Customers may be interested in features (such as what a product looks like) but benefits will persuade them to purchase.

CASE STUDY | Etisalat Misr mobile phone user benefits in Egypt
--- | ---
A mobile phone’s obvious benefits to customers are:
- they can carry the phone around with them
- the mobile phone’s radio link may provide more reliable communication than landlines
- mobile phones give access to a range of features such as access to the internet; a camera text messaging; and face-to-face contact between users.

In Egypt, there were 107 phones for every 100 people in 2015 and the three main providers of mobile services were Etisalat Misr, Mobinil and Vodafone. Etisalat Misr was set up in 2007 after carrying out market research into customer needs. Different Etisalat customers will seek different services. Some customers will buy a pay-as-you-go service – a fixed-price card they usually buy from a small retail outlet. Other customers prefer to buy a fixed-term contract (e.g. for two years, bought online or from a provider’s store) which allows them a certain number of phone calls or minutes’ usage each month. A fixed-term contract tends to cost less per minute of usage compared with pay-as-you-go cards. However, fixed-term contracts tie the customer to a particular provider for a longer period of time.

Etisalat Misr provides subscribers with services for 99 per cent of the inhabited land area in Egypt. Key benefits include access to the internet and television.

**Questions**
1. In terms of benefits, why might an Egyptian customer choose Etisalat Misr, rather than one of its two competitors?
2. Why is marketing important to a company like Etisalat?

Customer loyalty
A loyal customer is someone who continues to buy products from a company over a period of time and also believes that its products are better than its rivals. Loyal Etisalat customers will renew their contract and may tell others why the company is the best provider. Loyal customers often generate a large percentage of a company’s revenue. They will make repeat purchases. Finding out what customers require involves careful research and analysis of information. Every company that produces a successful product has a very good marketing department.

Customer relationships
Customer relationships are the interaction a business has with current and future customers. Customer relationship management (CRM) includes all ways of managing these relationships. A business can find out what customers want and expect using feedback on websites, social media and other direct feedback. This can reveal the best way of interacting with customers and meeting their needs in a sustained way (e.g. by regularly talking to them; providing the product where they want it, in the way they want it; and making special offers).

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**TOPIC GUIDANCE**
Students should be able to:
- understand marketing aims to identify and satisfy customer needs
- appreciate the importance of maintaining customer loyalty and building customer relationships.

**STUDY TIP**
The features of a product are different from the benefits. For example, features might be a two-year contract with a telecommunication service provider. A benefit to the customer might be that phone communications are reliable and provide good value for money.

**SUMMARY QUESTIONS**
1. Marketing involves anticipating, identifying and satisfying customer requirements. How might information about the benefits that customers are looking for now and in the future help a mobile phone service provider to identify what sorts of services to provide?
2. Etisalat Misr is one of the three main mobile services providers in Egypt. How might Etisalat Misr secure loyal customers through marketing activities?
3. Think of a product you use where the benefits you require have changed as you have grown older. How might a company find out about your changing requirements?

**ACTIVITY**
Write down five questions that could be used to find out what benefits people look for in a skin moisturising cream or shampoo.

**ACTIVITY**
Choose three of the products listed below. State what sorts of benefits customers would look for from each product.
- BIC biros
- Etihad Airways air flights
- A bar of soap
- A drink that is popular in your country
- An iPad

**KEY POINTS**
1. Consumers look for particular benefits when purchasing products.
2. Marketing involves finding out what customers want and expect in order to provide appropriate goods and services.
3. Businesses are most likely to make a profit when they meet customer requirements and secure customer loyalty. Managing customer relationships is a key way to securing loyalty.
3.1.2 Market changes

Market changes

Markets are made up of consumers and suppliers of goods and services. The market changes when: consumers want more or less of different products; or suppliers are able to supply more or different products, or provide products in new ways (e.g. by applying new technologies to production).

Changing consumer spending patterns

Consumer spending patterns are the typical goods and services bought by individuals and groups. Spending patterns are heavily dependent on income. The more income individuals have, the greater the proportion they are likely to save or spend on luxuries.

As incomes rise, patterns of spending change. Increasing numbers of consumers are earning more, giving rise to what is referred to as the ‘new middle class’. This is particularly true in Brazil, Russia, India and China (the BRIC group of countries); in other newly industrialised countries (NICs) such as Indonesia, Malaysia and Vietnam; and in rich oil states such as Kuwait and Dubai. Consumers here are spending more on internationally branded products.

Spending patterns are also affected by lifestyles of groups of consumers. A lifestyle is a way of living and a pattern of buying associated with individuals. In terms of lifestyle, it is possible to be unique, but most people can be grouped with others. ‘American lifestyles’ or ‘Western lifestyles’ are associated with high levels of consumption and energy use. However, within these there are a number of separate groups. In the United States, lifestyle groups include ‘affluent consumers’, ‘middle-income consumers’ and ‘young families’. Each has its own distinct spending patterns. More consumers are moving into the affluent lifestyle groups: they are more likely to consume a wider range of products, use more energy and create more waste.

Why international markets are more competitive

World markets have become more competitive for several reasons.

1. The shrinking globe. Goods can now be transported from Sydney, Australia to Nairobi, Kenya in hours rather than days. Services such as banking and insurance contracts can be swiftly supplied online to many countries. The telecommunications and transport revolution has made this high level of competition possible.

2. Access to overseas markets. Over the last 40 years, international governments have made agreements to reduce taxes and other barriers that previously prevented imports from entering the home market; examples are in the trading of grain, steel and cars.

3. Low cost of setting up new businesses. Many small and medium-sized enterprises can be set up at relatively low cost. Examples are businesses selling goods and services, tickets, banking, insurance and other services.

4. Privatisation of industries. Since the 1980s, governments across the world have sold industries to private businesses. Instead of a single government-owned business, there are now several competitors in a range of industries, including water supply, telecommunications and transport networks.

CASE STUDY

Competing coffee shops in Mumbai

Coffee shops provide an excellent example of a highly competitive market. They particularly target college students and young adults looking for a place to meet between home and work. In India, coffee shops are found predominantly in city centre locations. Fifty-five per cent of Indians are under 25 and this group has rising incomes and a desire to spend. For example, in Lokhandwala, Mumbai the Indian coffee shop chains Café Coffee Day and Barista are very closely located alongside US coffee shop chains Starbucks and Dunkin’ Donuts, Alto Coffee (France), Costa Coffee (UK) and Gloria Jean’s (Australia). Each chain has its own distinct look and range of products (e.g. Café Coffee Day offers exotic coffees and pastries, and focuses on a high standard of customer service).

Questions

1. Why is there so much competition between coffee shops in big cities?
2. How do consumers benefit from high levels of competition in the coffee shop market?

Impact of competitive markets

With more intense competition, consumers can benefit from:

- wider choice with more producers and sellers
- access to new markets and products (e.g. goods from overseas)
- potentially lower prices.

However, if competition drives out smaller and particularly local companies, choice may become restricted and prices may increase. Producers and sellers benefit from the opportunity to sell in wider markets enabling higher sales and profits, as well as access to new groups of consumers.
3.1.3 Market segmentation

**Segmentation**

Groups of customers with similar characteristics can be divided into separate groups known as segments. It is useful for marketers to identify groups with similar buying patterns. Companies can then target their products, promotions and advertising. The different ways of segmenting markets are summarised in the following diagram.

- **Location** (Customers who live in a particular country or area)
- **Age or gender** (Customers in a particular age group or gender)
- **Income** (Customers who have similar incomes)
- **Behaviour** (Customers who behave in similar ways)

**Location**

People in certain countries and regions have common characteristics which influence buying attitudes. In marketing to different countries, it is important to look at aspects such as income per person and the culture and tastes of people. For example, in Egypt, green beans are very popular in many food dishes; in the north of France, butter is widely used in cooking. Electrical products sometimes require different technical specifications for sale in different countries (e.g. they may be required to be fitted with a different plug). As different languages are spoken in different parts of the world, companies have to use different labelling and product instructions to meet local consumer requirements. Cars need to be modified according to the side of the road that they are driven on in different countries (e.g. drivers in the United States sit on the left side of the car; in India, they sit on the right).

**Age and gender segmentation**

Customers may be divided into discrete segments either by age (e.g. for clothes retailing) or by gender (e.g. for the sale of cosmetics and magazines). It is very important to understand how population patterns can create groups of similar customers. Consumers in similar age groups often have broadly similar interests. Marketers therefore identify groups of consumers with similar buying patterns, such as the teen market (13–17 years old); the college and/or university market (18–24 years old), and young professionals (25–34 years old). Many of these young people have broadly similar tastes, although there is a significant difference between the products that young males and young females purchase. Marketers therefore target these groups by finding out, for example, what sorts of magazines and books appeal to the teen market and the types of clothes and music favoured by young people in the college market.

**Income and social class segmentation**

Income is a major factor influencing purchasing decisions. Rising incomes across the world over the last 20 years, particularly among younger people, have led to a boom in demand for branded products, including many high-status clothing items (e.g. expensive trainers and designer-label clothes). Products such as cars, jewellery and perfume are targeted at particular income groups. For example, some perfume is sold at very low prices, while other perfume is much more expensive and is designed to appeal to more sophisticated tastes and richer consumers. Many societies are also divided by occupations (e.g. manual workers, who work with their hands, and professional workers, who work in offices or in a profession such as doctors or lawyers). The types of occupations people have influence their income and so their likely buying patterns. Richer people will be able to afford to buy cars, washing machines and televisions, whereas poorer people may only be able to afford a bicycle and radio.

**Behavioural segmentation**

It is also possible to classify customers by behavioural segmentation (e.g. how often they buy a product and how loyal they are). Some people may buy a newspaper every day, others only when they want to read about an interesting event. Some people will always buy the same brand of washing powder, while others will compare prices and other aspects before making a choice. Items that people are loyal to include a particular newspaper (because of the quality of the way it presents the news, e.g. the Times of India, or the Daily Gleaner, Jamaica) or a type of soap.

**SUMMARY QUESTIONS**

1. Visit a local bicycle shop and identify the bicycles that are targeted at:
   - Older people (over 65)
   - Younger people (under 14)
   - Professional (or enthusiast) cyclists
   - High-income individuals
   - Low-income individuals

2. Procter and Gamble is a global company that produces soap powders and other detergents. It has developed washing powders specifically for the Nigerian market because of the higher levels of dust in rural areas. What type of segmentation is this? How does this segmentation help Procter and Gamble?

3. What is the difference between segmentation by age and segmentation by income? What products can you think of where it would be helpful to use these types of segmentation? Explain your answer.

4. In many countries in Africa, the Middle East, South East Asia and South America, a very high percentage of the population is under 21. Identify products that will typically be bought by this age group in these countries. How can producers make sure that these products are targeted at this age group?

**KEY POINTS**

1. Market segmentation is the process of dividing up a market into different groups of customers by identifying common characteristics of these groups.
2. Segmentation involves identifying customers in the same location, the same age group, of the same gender or with the same behaviour patterns.
3. Knowledge of these segments enables a business to target its products and marketing activities accurately and cost-effectively at distinct segments.

**DID YOU KNOW?**

Australia has one of the largest student populations in the world and furniture manufacturers like IKEA (a Swedish company) target this group. For example, by offering a 10 per cent reduction in prices to students in Australia and stocking items suitable for student accommodation (e.g. study units, kettles, posters).
**3.1.4 Mass markets and niche markets**

**Mass marketing**

Most markets can be divided into a number of separate segments. For example, the tea market is divided into a cheap, low-cost segment, a speciality tea segment, a high-quality premium segment, and other segments such as fruit and herbal teas. A mass marketing strategy ignores this segmentation and seeks to appeal to all of the customers within different segments. Advertising and promotional messages are designed to appeal to a broad audience. The marketers hope this will lead to a large number of sales. Products are designed to appeal to the whole market.

**Niche marketing**

Niche marketing is the opposite of mass marketing. A niche market is a relatively small segment of a larger market. Marketers will focus their marketing activity on the characteristics of small specific groups of consumers that make up a particular niche (these individuals are a subset of the total market). The marketing activity is therefore more targeted. The nature of the niche determines the type of product required. Sensodyne produces some toothpaste products that are specifically targeted at people with particular types of sensitive teeth. Disabled athletes will have specific needs for product modifications which are different from the needs of the wider group of athletes in a specific sport.

**Benefits and drawbacks of each method**

From a sales perspective, mass marketing seeks to secure a wider range of customers and hence aims to capture sales from large groups of customers who are not identical or broadly similar (e.g. fans of blockbuster Bollywood films). Mass marketing techniques, such as advertising on television during peak viewing times or poster advertising in city centre locations, may reach this broad audience although this scattergun approach can be costly. Niche marketing reaches fewer people (e.g. those with a specific specialist interest such as that for film posters made by fans, which can be bought online from specific websites). Sales are very low and there are not many customers interested in each post. Niche market customers may be willing to pay higher prices due to their very specific needs, so demand may not be as high.

**ACTIVITY**

Working in a small group, identify products and services that you enjoy that are targeted at:

- the mass market
- a niche market.

In each case, try to work out how the marketing mix is organised to meet the requirements of the mass or niche market that you have identified.

**CASE STUDY**

Niche marketing of tourism in Jordan

Tourism is the largest productive sector of the economy in Jordan. Jordan has four main tourist sites – Petra Nabatean City, which is set in rocks; the Dead Sea; the River Jordan; and the Wadi Rum desert. Tourists visit Jordan for a number of reasons, including:

- health and wellness tourism – for their health
- cultural and religious tourism – to visit historical and religious sites
- ecotourism – to see deserts
- sports tourism – such as outward bound activities.

Rather than targeting marketing activity at the mass market of all tourists, the Jordanian tourist board is focusing on market niches. This involves identifying groups of tourists who are very similar in what they are looking for. For example, in the health and wellness niche, tourists want to relax and get well. They want to visit spas where there are waters with healing properties and stay in quality hotels. In the ecotourism sector, tourists are looking for wilderness and desert adventures, and to meet local people.

The tourist board in Jordan is therefore targeting its marketing mix (including advertising) and its products (e.g. types of hotel facility) at specific customers who fit into these niches. At the same time, it is developing its main tourist sites to appeal to these customers.

**Questions**

1. What is the mass market and what are the niche markets described in the case study?
2. How can identifying the niche markets help the Jordanian tourist board to attract visitors to Jordan? Why is this likely to be more effective than mass marketing?

**SUMMARY QUESTIONS**

1. What is the difference between a niche and a mass market? Illustrate your answer by reference to specific products (e.g. cars, cosmetics).
2. Who are the customers that make up a mass market that you are familiar with? How do they differ from customers in specific niches of the overall market that you identified?
3. In what ways does a business have to modify the marketing mix for niche markets? Give examples to illustrate your answer.

**TOPIC GUIDANCE**

Students should be able to:

- appreciate the difference between mass marketing and niche marketing
- understand the difference between and significance of mass and niche markets in terms of size and customer needs
- understand the benefits and limitations of each approach to marketing.

**DID YOU KNOW?**

Mass marketing seeks to win the custom of a broad range of people. For example, the giant US and international supermarket retailer Wal-Mart Stores, Inc. provides goods that appeal to large numbers of customers (selling everything from concrete mixers to cheese). It is estimated that a Wal-Mart supermarket receives 10,000 car visits a day. In contrast, a niche retailer such as a health food store will have far fewer customers. Mass marketing targets a broader range of customers looking for more general product benefits. In contrast, niche marketing targets more specific sub-groups of individuals seeking more specialised benefits.

**DID YOU KNOW?**

Another product that is mass marketed is standard family toothpaste such as Colgate. Colgate was the first type of toothpaste to appear in a tube, over 100 years ago. It is still one of the best-selling around the world. It is often advertised on television, with the hope of attracting buyers of all ages, genders, ethnic backgrounds and income groups.

**KEY POINTS**

1. In a mass marketing strategy, a business ignores differences between customers and aims to cover the whole market.
2. Niche marketing involves creating marketing activities designed for a small specific segment of a larger market.
3. A niche market consists of a relatively small selection of customers with specific needs.
Market research

3.2 Primary and secondary market research

TOPIC GUIDANCE

Students should be able to:
• appreciate the need for market research
• understand the concept of a market-oriented business
• show awareness of the use of market research information to a business
• understand how a business carries out market research; and the limitations of market research
• know the difference between primary and secondary research, and the advantages and disadvantages of each
• know and understand how market research can be carried out
• understand the factors that influence the accuracy of market research
• appreciate the reasons why market research data might be inaccurate or of limited use.

Market orientation

Without customers, a business would not exist. Businesses need to ask themselves: “What would I, as my own customer, expect from my firm?” This focus on customer needs is market orientation. To orientate means to find your direction. A market-oriented company takes its direction from what customers want. For example, Kenyan flower growers provide 30 per cent of all fresh-cut flower imports in Europe. The Kenya Flower Council carries out marketing on behalf of all flower growers to find out what the market wants (which varieties of flowers, in what condition), when flowers are required and how to price the flowers competitively.

Market-oriented firms succeed because they listen to customers and give them what they want. For example, some sportswear manufacturers talk to top athletes to find out what sort of clothing they would like to enable them to perform better. In contrast, product-oriented firms concentrate on providing a good product, but without finding out first whether customers want to buy it. Product-oriented companies might include hi-tech businesses experimenting with very new technologies of which customers are not yet aware.

Market research

Market research means carefully gathering, making a record of and then analysing data about the market for goods and services. Some typical market research questions are set out below. Answers to these questions provide market information.

- Who are our customers?
- What do they want?
- When do they buy/use?

Market research methods involve the collection of primary and secondary data. Primary data is new data collected by the company (or by researchers acting on its behalf). Secondary data has already been gathered and been published by someone else. Primary research can be focused on the types of questions that are specific to the business carrying out the research. However, it can be costly.

Primary data is obtained by interviewing a sample of the targeted market (expected customers). A sample is a group that is representative of the overall market. Primary data may be collected through a questionnaire, consisting of a sequence of questions. The questions should be clear and simple, and wherever possible tested on a few people in a pilot survey. It is often easier to analyse results if you ask closed, not open questions. Closed questions ask for an answer to be chosen from alternatives, for example:

How often do you shop here?
- a Every day
- b Once a week
- c Once a fortnight
- d Hardly ever

Questions can be asked in person (often best because it involves face-to-face interaction and the interviewee is likely to elaborate on the answer), through the post (can be slow and produce a poor response), by telephone (quick and easy, but not always very reliable – some people do not like being called for this purpose) or via a website. Another approach is to use email marketing, but this may give a low response rate. To increase rates, it can be helpful to offer a reward for completing a questionnaire (e.g. a $10 gift voucher for an ‘on-the-spot’ street interview, or a discount on online purchases).

Observation involves looking at how customers behave when shopping. For example, supermarket planners may observe the route that customers take round a store.

A group of customers may be brought together to talk about a product and the choices they make. This consumer panel might also be asked to discuss a list of topics, or test products and give their reactions.

Secondary research

Secondary research, as noted earlier, is carried out by someone else. It can be in the form of published research on set topics by market research organisations. It may appear in government statistics, or in books and magazines. It may indicate, for example, what households spend their money on, or numbers of women in part-time work.

Published reports can be expensive, but secondary research is often cheaper to conduct – the research is already published. However, it may be out of date and may not be closely related to a particular organisation and its targeted customers.

Both primary and secondary data may be inaccurate because:
• only a small percentage of the target market is researched
• a consumer panel may not be representative of typical consumers
• a survey may not be given to (or answered by) enough people, or may be given to the wrong people
• the data may go out of date quickly
• questions may be badly worded and misunderstood.

Summary questions

1. Which of the following are primary and which are secondary market research sources?
   a Conducting a survey of every fifth person in the street.
   b Asking each of your classmates 20 questions.
   c Copying out information from a magazine article.
   d Interviewing people through a phone survey.
   e Sending a questionnaire through the post.

2. A national radio station has carried out research to find out what types of programmes its listeners are interested in. It interviewed 1,000 people in the south of the country and held a consumer panel of 10 listeners in the north. Why might the results be inaccurate?

3. Do you want to find out whether there is demand for a new type of ice-cold drink? What types of primary research and secondary research could you carry out? What would be the benefits of using primary rather than secondary research?

DID YOU KNOW?

Observation has revealed that shoppers in supermarkets and other stores usually like to start in the fresh produce department.

Key points

1. Market research is a systematic process designed to find out about customer needs.
2. A market-oriented company uses market research to find out about customer wants and expectations.
3. Primary research involves finding out data first-hand; secondary research is the use of data generated by others for research purposes.

Study tip

Market research results are not always accurate; there may be weaknesses in the way the data was collected. Researchers need to make sure, for example, that there is no bias in the samples used.

Kenya provides 30 per cent of all flowers imported in Europe. Kenyan flower growers have carried out market research to identify which types of flowers are most popular in which European countries, and at what times of the year.
3.2.2 Quantitative and qualitative research

Students should be able to:
- understand why businesses carry out market research
- understand the difference between quantitative and qualitative research
- compare and contrast the benefits of quantitative and qualitative research.

**DID YOU KNOW?**

To gain insight into what customers want, firms will typically use a combination of quantitative market research methods (e.g. questionnaires) and qualitative methods (e.g. small focus groups).

**TOPIC GUIDANCE**

Quantitative surveys are used by businesses to gain insight.

**DID YOU KNOW?**

A sample is a small part or quantity intended to give a feel for what the whole is like.

Open-ended questions are ones to which there are no set answers or options – the people being questioned are free to express their own answers.

**Why carry out market research?**

Carrying out market research will enable a business to identify new market opportunities. Potential customers might indicate when they thought their preference for a new product or service (e.g. the opportunity to develop a vegetarian or vegan café in a town that does not already have one).

Customer research will also provide insight into customers – who are they, what are they looking for, how much are they prepared to spend, what specific aspect of a product or service makes it attractive to them, and other useful insights.

Competitor research also helps a business to gain an advantage over rivals. Finding out what other companies are doing enables a business to keep ahead by offering better value for money, more varied service and other advantages.

**Quantitative and qualitative research**

There are two main approaches to market research, as outlined below.

**Quantitative research**

This approach seeks to expose customers’ views and opinions. Typically this will involve a relatively small sample. For example, a market researcher may interview an individual consumer using open-ended questions to find out the person’s views and opinions. Qualitative research makes it possible to answer such questions as ‘Why do you like (a particular good or service)?’ The interviewee’s answer might be quite long and detailed but will provide a useful insight to the person’s thoughts and feelings. More commonly, qualitative research is carried out with groups (e.g. focus groups). A focus group is a small group that is seen as being relevant to a particular market research topic (e.g. a group of new mothers talking about their use of particular baby products). In a focus group the market researcher may sit with the group and ask questions to prompt discussion. However, it is more common for the researcher to sit outside the group and simply provide a set of cue cards to prompt discussion. The researcher will then record the answers provided using note taking, tape recording, video recording or some other method of recording. Questionnaires consisting of open-ended questions are another commonly used method of gathering qualitative research data.

**Quantitative research**

Quantitative research is research that can be measured in numbers – asking questions such as: How much? How many? How often? Questions will be closed (they can only be answered with set responses). Quantitative research often uses a questionnaire to gather information. A questionnaire has questions that can be answered:
- by a market researcher directly interviewing a data subject and filling in the subject’s answers
- by asking a data subject to answer questions sent to the subject by post, or online or by some other means.

Questions should be short, clear and easy to understand. Responses should be possible to measure (e.g. by simple counting methods).

**ACTIVITY**

Set out three questions that could be used as part of a quantitative research study to find out what type of mobile phones your friends and family use. Then set out two qualitative questions that would help to find out why they choose to use particular phones.

**SUMMARY QUESTIONS**

1. In which of the following situations would quantitative research be more suitable and in which would qualitative research be applied and in which situations qualitative research? The researcher:
   - uses focus group research
   - delivers a questionnaire with closed questions
   - carries out a detailed interview with individual respondents to find out their views on a topic.

2. List three benefits and three disadvantages of using quantitative research when compared with qualitative research.
3.2.3 Presentation and use of results

Graphs and charts

Presenting information in a visual way makes it easy to understand and helps to break up text. Graphs and charts are a useful way of presenting key points of market research information. The following table shows the sales of different types of women’s clothing from clothes shops in the United States in 2013. The charts that follow the table show ways of presenting this information in a more visual way.

<table>
<thead>
<tr>
<th>Type of clothes item</th>
<th>Sales of these items as a % of all sales in clothes shops</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tops (e.g. T-shirts, shirts, blouses, sweaters)</td>
<td>30</td>
</tr>
<tr>
<td>Trousers, jeans, shorts and skirts</td>
<td>23</td>
</tr>
<tr>
<td>Dresses</td>
<td>20</td>
</tr>
<tr>
<td>Coats and jackets</td>
<td>15</td>
</tr>
<tr>
<td>Sportswear</td>
<td>7</td>
</tr>
<tr>
<td>Other clothes</td>
<td>5</td>
</tr>
</tbody>
</table>

A pictogram

A pictogram is a type of bar chart that uses pictures of the items it is connected with. Figure 3.2.3.1 presents the data in the table as a pictogram and it shows that tops are the best-selling items.

The advantage of pictograms is that they are easy to understand because the picture represents the actual items. However, they take time to draw to scale.

Pie charts

Pie charts show a total figure split into various categories. Figure 3.2.3.2 presents the clothes sales data in the form of a pie chart. Advantages of pie charts are that they immediately show the relative size of items (by the size of the slices of the pie). However, they are not very clear when showing the size of items which only take up a small part of the pie.

Bar charts

In a bar chart, a series of horizontal or vertical bars represent the values of particular items. The reader can quickly make comparisons.

Figure 3.2.3.3 sets out the sales of different types of women’s clothes in the form of a bar chart.

The height of the bar makes it easy to compare one item with another – for example, figures for different years. They are less useful, however, if figures vary considerably from year to year.

Line graphs

A line graph can be used to illustrate how particular figures change over time. They show the size and speed of an increase, so that comparisons can be made. Figure 3.2.3.4 shows the number of women’s clothes stores in the United States compared with the number of enterprises selling women’s clothes. (A particular business enterprise may own just one store, two stores or a chain of stores.) The vertical axis of the chart shows the number of stores and enterprises. The horizontal axis shows the dates from 1995 to 2010.

The figure shows that the number of stores is rising at a faster rate than the number of enterprises. For example, in 2010 there were twice as many stores as enterprises. On average, each enterprise owned two stores. If we go back to 1995, we can see that there were 40 000 stores and 21 500 enterprises – roughly 1.8 stores per enterprise.
3.3

The marketing mix

3.3.1 The four Ps

Product, price, place and promotion

As we saw in 3.1, the ingredients of the marketing mix are often referred to as the four Ps: product, price, place and promotion.

A mix is made up of ingredients that are blended together for a purpose. Think of the ingredients used to make a cake: no ingredient will work on its own. They have to be blended together to make a successful cake. In the same way that there are many cakes to suit all tastes, a marketing mix can be designed to suit the precise requirements of the market.

To create the right marketing mix, businesses have to meet the following conditions:

- The product has to have the right features (e.g. it must look good and work well).
- The price must be right. Consumers will need to buy in sufficient numbers to cover costs.
- The goods must be in the right place at the right time. Making sure that the goods arrive when and where they are wanted is an important operation. The method of selling must be suitable for the customers (e.g. through a small corner shop or a large supermarket or online).
- The target group needs to be made aware of the existence and availability of the product through promotion. Successful promotion helps a firm to spread costs over a larger output.

Activity

Think of a product that you spend money on regularly – perhaps a type of sweet or a visit to the cinema. How effective is the marketing mix for this product? Before you start, make sure you know, with your teacher's advice, who the product is supposed to sell to (the target market). Is the product aimed at young people? Male or female? Choose a sample of 30 people to interview from the appropriate group (e.g. females in the age range 14–18). Ask your sample to compare the marketing mix of your selected product with three other rival products. Compare their views of the marketing mix of these products.

Did you know?

An up-market product is one with a high price and of high quality: it tends to be sold from exclusive locations with expensive advertising and promotion. A down-market product is a cheap product with little or no advertising, sold from down-market locations. Can you identify some up-market and down-market products in the same product category?

Study tip

The correct marketing mix is all about getting the right balance between the factors that influence sales. Think about the consequences of getting this balance “wrong”.

TopiC guidance

Students should be able to:
- show knowledge and awareness of the four main elements of the marketing mix (product, price, place and promotion).

Case study

The Tata Nano

The Tata Nano provides an excellent case study of the marketing mix in action. The car is designed to meet the mass market in India and other similar markets. It is the smallest and cheapest new car in the world. The captions in the diagram show how the product has been designed for simplicity. The car can be ordered direct from dealers in India, although it is hoped to launch a more expensive version in the European and US markets (place). The car has been promoted through a worldwide press launch and a lottery in India (which is the main market): the first million customers drawn in the lottery were to be first in line for the new car. The car was launched at a price of 100,000 rupees (about US$2,000). This made it the world’s most affordable new car.

Questions

1. Do you think that the marketing mix for the Nano is likely to lead to high sales? Explain your answer.

2. How would you expect the marketing mix for the Nano to compare with the mix for an expensive car?

3. Is it going to be possible to sell this car in other markets (e.g. in the United States and Europe)?

Summary questions

1. Match the following terms with the definitions below.

- Product / promotion / place / price / marketing mix
- Advertising and other means of enticing customers to buy a product.
- Getting the product to where customers want to buy it.
- A combination of the four Ps.
- The amount charged for a good or service.
- The good or service that is being sold.

2. Choose a product that you have recently bought. What aspects of the marketing mix encouraged you to buy that product?

3. How is the marketing mix different for an exclusive type of tea such as Earl Grey tea when compared with a standard, cheap variety of tea?

Key points

1. A well-chosen marketing mix is required to attract the targeted customers to make purchases.

2. The marketing mix consists of getting the right product in the right place at the right price and supported by appropriate promotions.

3. The four Ps need to be blended together in the most appropriate way.
3.3.2 The product

**TOPIC GUIDANCE**

Students should be able to:
- Understand the importance of packaging
- Show awareness of the concept of a brand name in influencing sales
- Understand the importance of building and maintaining customer relations and loyalty
- Draw and interpret a product life cycle diagram
- Understand the four main stages of the product life cycle
- Show awareness of extension strategies.

**ACTIVITY**

Look at the items shown in Figure 3.3.2.2. In your country, where is each of these in the product life cycle?

Identify products that your classmates purchase that are at different stages of the product life cycle.

![Figure 3.3.2.2 Items in the product life cycle](image)

**Products**

The most important part of the marketing mix is the product. It must meet an identified consumer need.

We like products because they provide us with benefits. A bicycle is not just something that sits outside our house; it provides the benefit of transporting us to school or to the sports club, or to meet friends.

Products have a number of features. For example, your bicycle has:
- Shape
- Design
- Colour
- Size
- Packaging (when first bought)

In addition, there may be other benefits associated with your bicycle, like after-sales service (repairs to the chain, replacement of the tyres by the seller) such as a guarantee (in some cases).

**Starting with the packaging**

The first time a customer sees many modern products is in the packaging. Figure 3.3.2.1 gives some of the many reasons that products are packaged.

Packaging adds value to products for all of the reasons shown in the diagram. However, there are some negative aspects: packaging can raise the cost and, as a result, the price of a product. It also creates pollution and waste.

![Figure 3.3.2.1 The purposes of packaging](image)

**Branding**

A brand is a product or group of products with a unique, consistent and easily recognisable character. For example, we all recognise the Coca-Cola brand, not only by its logo, but by the shape of the bottle, the colour of the can, the taste of the product and other features.

**The product life cycle**

The life of a product is the period over which it appeals to customers. At the introduction stage, sales growth is slow. Only a small number of people know about a product or realise its benefits. Profits start to rise in the growth phase. More and more people find out about the product and want to purchase it. Competitors are coming into the market. In the maturity phase, most of the potential customers have been reached. However, there may be lots of repeat purchases. Competition from rival producers is strong. In the decline stage, the product becomes ‘old’ and sales start to fall. An updated or replacement product may have entered the market.

**Gaining new life**

To prolong the life cycle, new life needs to be injected into the marketing mix. There are various ways of doing this.

1. **Modify the product.** In the 19th century, Lifebuoy soap was introduced to India with the promise of ‘health and hygiene’ to millions of rural customers. The product was sold as a basic red bar of soap. The brand went through a period of steady growth and eventual maturity in the 20th century. At the start of the 21st century, sales were falling by 15 per cent a year. The company then relaunched the soap in 2002, in a new shape, with a new, high-lather formula and attractive advertising. This has won back customer loyalty. Sales of Lifebuoy increased by 10 per cent per year in India. (Today, over 3 billion bars of Lifebuoy are sold per year in Asia and Africa.)

2. **Altering distribution patterns** to create more attractive retail outlets for consumers. For example, Hindustan Unilever, the makers of Lifebuoy, has created networks of women with business skills in rural villages to sell their products. There are over 25,000 of these women, selling in 100,000 villages and reaching 1 billion customers. Many other businesses have injected new life into their products by creating new channels, such as attractive websites, where customers can buy products online.

3. **Changing prices.** Prices can be lowered or raised to become more attractive to customers. Lower prices make goods more affordable, while higher ones make them appear more exclusive.

4. **Promotional campaigns**. Advertising, ‘buy one get one free’ offers and other promotions encourage new customers to try out a product and reward existing customers for their loyalty.

**SUMMARY QUESTIONS**

1. **Draw a product life cycle for each of the following products.**
   - A new product that has recently become popular in your country.
   - A product that has been available in your country for a long time, but has now become less popular.

   Explain your answer in each case.

2. **List four products that are well-known brands.** In each case, explain how packaging helps, or fails, to make the product more attractive.

3. **How can a product’s life cycle be extended?**

**STUDY TIP**

In the long term, many products become outdated. The life cycle for the product category goes into decline (e.g. cassette tapes were replaced by CDs and, more recently, by mp3s).

**Figure 3.3.2.3 The product life cycle**

![Figure 3.3.2.4 Periodic injections of new life](image)

**KEY POINTS**

1. Products have life cycles that can extend from just a few weeks to hundreds of years.

2. Sales and profits increase during the growth and maturity phases of the cycle.

3. Businesses employ a range of extension strategies to inject new life into the product life cycle.
### The price

The price a business charges will depend on the percentage of the market that the business is trying to attract. The main decision is whether to charge:

- a low price in order to attract sales by undercutting the competition.
- an average price. If you charge an average price, you will need to compete with your rivals by other means (e.g. better packaging, advertising and promotion).
- a higher price. Firms can charge a high or premium price if they are seen as being better than their rivals in meeting the needs of customers.

### Price elasticity of demand – a measure of responsiveness of demand to a change in price

It is useful to find out how customers will react to a change in price. Price elasticity is used to measure this: it measures how much the quantity demanded changes following a change in price.

\[
\text{Price elasticity of demand (PED)} = \frac{\% \text{ change in quantity demanded}}{\% \text{ change in price}}
\]

Demand is elastic when the change in the number of goods demanded is high when compared with the change in price. For example, Ramesh sells fruit and vegetables from a cart. One week he lowered the price of his mangoes by 5 per cent (undercutting his competitors) and demand increased by 20 per cent. Demand for his mangoes in this case was elastic.

However, when the change in numbers of goods demanded is lower than the change in price, demand is said to be inelastic. For example, Ramesh sells oranges that are sweeter and contain fewer pips than those of his competitors. He decided to raise his price by 5 per cent. When he did so, sales of his oranges only dropped by 2 per cent. Demand for his oranges was inelastic. Knowledge of how elastic demand is helps sellers decide how much to charge for a product, and whether they will increase sales revenue from lowering or raising prices.

### The main methods of pricing

#### Cost-plus pricing

A common way to make pricing decisions is to calculate how much it costs to do a particular job or activity, and then add on a given percentage as a profit for the job or activity. For example, a business may calculate that it will cost $100 to do a small repair job on a car, including parts, labour and equipment. The business also wants to make a profit, so may decide to add on another 20 per cent as profit, so charges $120.

#### Competitive pricing

A business may price its products lower than those of rivals. Businesses may make a loss in the short term by doing this, perhaps to force a competitor out of business.

#### Penetration pricing

When a firm brings out a new single-use product into a new or existing market (e.g. a new snack or drink), it may feel that it needs to make a lot of sales very quickly in order to establish itself and to make it possible to produce larger quantities. It may therefore start off by offering the product at quite a low price. A loss may be made until the new product has penetrated the market. When market penetration has been achieved, prices can be raised.

#### Skimming

When you bring out a new product, you may be able to start off by charging quite a high price. Some customers may want to be the first to buy your product because of the prestige of being seen with it. The word skimming comes from the idea of skimming off the top layer of cream from a quantity of milk. For example, you could sell an exclusive dress at an exclusive price to wealthier customers. The next season, you could lower the price, making it accessible to a less wealthy group of customers.

#### Promotional

This is a way of promoting the product by making the price more attractive, often when the product is first introduced. For example, a promotion might offer a new chocolate bar at half price to encourage new customers to try it.

### Study Tip

Charging a lower price might not increase the sales revenue of a business. This is because customers might not really be that influenced by the price. If they don’t like the product it still won’t sell, even if it is cheap.

### Summary Questions

1. A local clothing business is considering lowering its prices (to increase sales and profits). An adviser carries out some research and reports back that there is elastic demand for the type of clothes being offered by the shop and that local consumers are highly influenced by competitive pricing. How might this affect the pricing decisions made by the business?

2. A sign-writing business that produces shop signs uses a cost-plus pricing method. It marks up prices by 20 per cent on the costs of painting shop signs. The owner has calculated that it will cost $50 to produce a sign for a restaurant. What price should the business charge for the job?

3. A new book has just been published by a best-selling author. Initially, the book is to be produced in hardback and will cost $100. Next year, it will be relaunched in paperback form and sell for $50. What pricing technique is being used, and why?
3.3.4 Place – distribution channels

TOPIC GUIDANCE
Students should be able to:
• appreciate the importance of distribution channels and the factors that determine the selection of them
• show knowledge and understanding of a distribution channel
• recommend and justify an appropriate channel in a given situation.

Distribution
Supply, or distribution as it is commonly called, makes products available to customers where and when they want them. This is an aspect of place, a very important part of the marketing mix. Something like 20 per cent of the total production cost of a product is taken up with freight charges. These are the costs of moving raw materials to the producer and then transporting finished products to the end-user.

Channels of distribution
A distribution channel is the means by which an organisation and its customers are brought together at a particular place and time to buy and sell goods. This may be in a shop, via the internet or by television shopping.

The organisations that are involved in the distribution chain are:
• Manufacturers: firms that make the products.
• Wholesalers: firms that store goods in bulk which they purchase from manufacturers and then sell on to retailers.
• Retailers: the firms that sell goods to the final consumers.

In Channel A, the manufacturer sells direct to the customer by mail order. The customer selects goods from a catalogue and purchases through the post.

In Channel B, the manufacturer distributes direct to its own warehouses and company shops, which supply customers. Examples are products that are produced directly by large supermarket chains in their own factories. The manufacturer is responsible for distribution.

In Channel C, sometimes referred to as the ‘traditional channel’, a manufacturer makes goods; a wholesaler buys lots of different products from manufacturers and then sell on to retailers. The manufacturer, wholesaler and retailer are all independent.

In Channel D, retailers buy directly from manufacturers. This is easiest when the retailers have a very large storage area, or when goods can be bought in bulk.

Channel E has become particularly important as more and more households become linked to the internet through computers and mobile phones. The e-tailer is the organisation that deals with customers through an interactive website, which enables customers to buy goods online.

The more people involved the longer the distribution channel, and the more people taking a share of the profits. If the distribution channel is shorter there will be more profit for the manufacturer and the price to the customer can be lowered.

CASE STUDY Coca-Cola in China

Distribution can become more expensive when it takes place internationally: the longer the supply chain, the greater the cost. The US company Coca-Cola’s fourth biggest market is China. Eventually it could become the largest market.

In the 1970s, China had only one brand of soft drink, distributed nationally. It was difficult for foreign companies to enter the market. Coca-Cola started out by exporting Coca-Cola to China and selling it to retail outlets such as hotels. Over time, the company developed a relationship with the Chinese government. Bottling plants were set up that were owned by the Chinese government. The next stage was to set up a joint venture bottling plant owned jointly by Coca-Cola and the government. Eventually, Coca-Cola was allowed to set up its own bottling plants. In this way, the company was able to produce cheaply using local supplies of raw materials. By 2013, Coca-Cola had 42 bottling factories in the country. It now produces tea, coffee and bottled water, as well as Coca-Cola itself and many other soda drinks.

Questions
1 Why would Coca-Cola want to set up bottling plants in China rather than exporting bottles of Coca-Cola to China?
2 Illustrate how the supply chain was shortened when Coca-Cola set up its own bottling plants in China.

KEY POINTS
1 Distribution is the process through which goods are made available to consumers.
2 Channels of distribution are the series of stages involved in bringing goods to the end-consumer.
3 There are many different channels of distribution, depending on the type of product and the market. Increasingly, goods are distributed through shortened channels, often involving electronic selling.
4 The purpose of simplifying distribution channels is to reduce costs.

SUMMARY QUESTIONS
1 What is a distribution channel? How is a product that you are familiar with distributed? What are the various stages of distribution?
2 In what ways does e-tailing help to shorten the distribution channel?
3 Define the following terms.
Distribution / manufacturer / wholesaler / retailer / e-tailer
3.3.5 Promotion

Promotion refers to ways of spreading information about a product, brand or company. Promotion can be carried out in many different ways (e.g. advertising on television, radio, cinema, newspapers, using the internet and mobile phones to get messages across).

Other forms of promotion include the sponsorship of events, sales promotion, merchandising (making products look attractive, e.g. in a shop window), trade shows and public relations. It is important to carry out promotions in the most cost-effective way possible, as the return on marketing is not easy to determine. The greatest possible return must be made.

The combination of different types of promotion is referred to as the promotional mix.

A distinction is made between promotions ‘into the pipeline’ and ‘promotions out of the pipeline’ (see Figure 3.3.5.1).

**Key Points**

1. Promotion is the process of making consumers aware (i.e. communicating information about a product or company).
2. There are four main types of promotion: advertising, sales promotion, direct selling and PR.
3. The ultimate purpose of promotion is to increase awareness, and therefore sales, of products and brands.

**Advertising**

Advertising is a widely used form of above-the-line promotion. For example, in Kenya, advertising includes outdoor billboard advertising along major traffic routes, and advertising on the side of buses. In addition, there are around 90 radio stations, and nearly all Kenyans listen to radio broadcasts regularly. Adverts can be placed in English and Swahili, as well as 17 other languages. There are eight television broadcast stations. Television covers the main centres of population. Television ownership tends to be among wealthier people, but there are televisions in most community and village centres. Leading newspapers are the Daily Nation, East African Standard, the People and Kenya Times. Stills and film clips are used extensively to advertise products in Kenya, including in mobile cinemas touring rural areas.

Advertising can increase sales by making consumers aware of new products, demonstrating how good products are and reminding consumers about products. Cinema and television advertising is highly visual and can build an image. However, due to the costs involved, in most countries television advertising is normally only used by large companies that have big marketing budgets and are looking for mass market distribution.

**Sales promotions**

Sales promotions take place through media and non-media promotion for a limited time to increase consumer demand. Examples include:

- competitions
- point-of-purchase displays
- special price offers for a limited period
- free gifts

**Personal selling**

Personal selling is oral communication with potential buyers of a product in the hope of making a sale. Initially, the seller will try to build a relationship with the buyer before going on to try to ‘close’ the sale.

**Public relations**

Public relations involves managing the flow of information from an organisation to its ‘publics’ in order to build the reputation of a company and its brands. Any form of activity which does this is termed PR. PR might involve publicising a charity, informing consumers about a brand or producing advertisements that show the company and its products in a positive light.

The purpose of each of the promotion methods described above is to increase the sales of the business.

**Promotions into the pipeline** are methods that are used to sell more products into the distribution system (i.e. they are aimed at wholesalers and retailers rather than final consumers). Examples are ‘dealer loaders’, such as 20 for the price of 10, display units, dealer competitions, extended credit to dealers, sale-or-return, and so on.

**Promotions out of the pipeline** help in promoting and selling products to the final consumer. These include free samples, trial packs, coupon offers, price reductions, competitions, demonstrations and point-of-sale materials.

**TOPIC GUIDANCE**

Students should be able to:

- understand the aims of promotion
- identify, explain and give examples of different forms of promotion
- understand how promotions influence sales
- explain the need for cost-effectiveness in spending on promotion.

**Activity**

Identify elements of the promotional mix for a product that you consume regularly. Explain why each of these elements is being used by the promoter.

**DID YOU KNOW?**

Promotion needs to be cost-effective if the marketing budget is to be used well. For example, a high spend on television advertising should only be carried out if it leads to substantial increases in sales. Sales promotions need to generate increases in revenue over time rather than falls in revenue.

**SUMMARY QUESTIONS**

1. What type of promotion is involved in the following?
   - Giving out free samples of a new type of shampoo.
   - Publicity surrounding a major charity event.
   - Publicising a product on television or in a newspaper.

2. What is the difference between promotions into the pipeline and promotions out of the pipeline?

3. What is the purpose of promotion? Illustrate your answer by reference to a promotion that you are familiar with.
3.3.6 Technology and the marketing mix

What is e-commerce?

E-commerce is buying or selling that involves the use of the internet, and where information is exchanged between buyers and sellers. Businesses create websites that typically include information about the firm and its goods and services, and a means of ordering and paying for these goods and services. A commercial website will be made up of a number of pages split into categories and headed sections.

The internet has made possible the rapid expansion of buying and selling. Sellers create attractive websites that are easy to use to enable them win a greater share of the market. All the customers have to do is to type a web address into the address bar of their browser. For example, customers interested in purchasing a computer might enter http://www.apple.com. They would press ‘enter’ or ‘return’ to access the site.

It is essential that a commercial website is easy for users to use. The site should come up quickly onto their screen. The opening page should be clear so that users can quickly navigate to the pages that are relevant to them. For example, a customer entering a clothes e-tailer’s site should quickly be able to find a product category (e.g. shoes), then quickly browse through various pairs of shoes. If they choose to buy, they should be able to make a safe payment quickly.

E-commerce and global reach

E-commerce enables businesses to reach international markets. Businesses are able to engage in B2C (business to consumers) and B2B (business to business) exchanges across the globe. Most large businesses today have developed websites targeted at international consumers across the globe. To make this possible, websites may be created using a number of key languages (e.g. English, Mandarin Chinese, Hindi and Spanish) to improve use. Sites may be differentiated to take account of different tastes and preferences in different countries (e.g. offering different size and colours of garments on a clothes retailing site).

The following table shows the number of internet users by country in 2016 (source: Internet Live Stats):

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of users</th>
<th>percentage of population</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>721,434,547</td>
<td>52</td>
</tr>
<tr>
<td>India</td>
<td>462,124,988</td>
<td>34</td>
</tr>
<tr>
<td>United States</td>
<td>286,942,362</td>
<td>88.5</td>
</tr>
<tr>
<td>Brazil</td>
<td>139,111,185</td>
<td>64</td>
</tr>
<tr>
<td>Japan</td>
<td>115,111,595</td>
<td>91</td>
</tr>
</tbody>
</table>

These numbers contrast with those for many other countries. For example, in Haiti only 12 per cent of the population has access to the internet.

Benefits and drawbacks of using e-commerce

These are the key benefits of e-commerce:

- It increases the markets and customers a business can reach.
- It offers potential for increased sales and profits.
- It can increase market share (percentage of the market).
- Businesses are able to spread costs of production over more sales, enabling reduction in their average cost of sales.

The key drawbacks of e-commerce

- The cost of creating and maintaining a website may be high. For example, a business may need to bring in outside experts to create the website.
- Exposure to internet fraud is a danger. Internet fraud, referred to as cyber crime, is the most rapidly growing area of crime.
- The cost of distributing goods to consumers is a drawback. In traditional bricks-and-mortar commerce a customer comes to the shop to buy goods. In e-commerce the seller needs to get the goods delivered to the customer. There are a number of issues here (e.g. making sure the customers are at home to receive the goods).

DID YOU KNOW?

The internet and social media sites provide good ways of generating discussion about, and interest in, products. Companies build discussion forums such as wikis and blogs into their commercial websites encouraging customers to talk about their products. Customers spread the message to friends through links to social media sites such as Facebook. Companies can encourage consumers to provide online feedback to them in discussion forums.

SUMMARY QUESTIONS

1. Why is e-commerce growing in importance?
2. How can e-commerce expand the global reach of businesses?
3. How might the benefits of e-commerce outweigh the costs for an international fashion retailer?
3.4 Elements of a marketing strategy

What is a marketing strategy?

A marketing strategy is a plan of the marketing activities for a range of products, or for a single product. In effect, this means choosing the right combination of marketing mix elements to support the product(s).

The best possible mix will depend on the stage of the product life cycle.

The elements of a marketing strategy

The table shows the four key elements of the marketing strategy. The case study that follows gives an example of a marketing strategy used by Ford and Mahindra & Mahindra to enter a new market in India.

<table>
<thead>
<tr>
<th>Product</th>
<th>Price</th>
<th>Place</th>
<th>Promotion</th>
</tr>
</thead>
<tbody>
<tr>
<td>What product are we selling to our target customers?</td>
<td>What is an appropriate price for our product and the relevant target audience?</td>
<td>Where should we sell it?</td>
<td>How do we promote the product in a way that fits with the product image and the type of customers?</td>
</tr>
<tr>
<td>What does the product look like?</td>
<td>What benefits does it provide?</td>
<td>What are the most suitable channels of distribution?</td>
<td></td>
</tr>
</tbody>
</table>

CASE STUDY  The Ford Figo in the Indian market

A joint venture between Ford and Indian company Mahindra & Mahindra is developing products designed for the Indian consumer. They have developed a new car designed specifically as a result of market research in India. The car is called the Ford Figo and it is designed specifically for a target customer – named ‘Sandeep’.

Sandeep is defined by Ford India’s markets as an individual with his head in the clouds but his feet on the ground. Sandeep is young, just married and lives at home with his parents. He is aspirational and reasonably well educated. He is looking to move from a motorbike to an affordable car. The Ford Figo is targeted at the small cars segment of the car market (which accounts for 70 per cent of all car sales in India).

The car was promoted through a lottery system that rapidly captured public imagination. Names drawn from the lottery dictated who would be eligible to purchase the first cars from Ford’s network of dealers in India. There was a great deal of media and customer attention. In the first month that the car came on the market 10000 were ordered, and sales have gone from strength to strength with 100000 being produced within the first 15 months. The Ford Figo is now exported to a number of other countries.

The changing marketing mix

Over time, it may be necessary to change a marketing strategy. This involves changing the marketing mix. For example, with the growth of the internet and e-commerce, many companies now use e-marketing (e.g. advertising and selling goods and services online).

At the start of a product life cycle, the emphasis is on gaining a hold in the market. This may involve promotional activity and promotional pricing. Distribution may be through a small number of outlets. Over time, the business will adopt new promotional activities, alter its product and employ different distribution channels.

SUMMARY QUESTIONS

1. What is meant by the term ‘marketing strategy’? Illustrate your answer by using the example of a product or brand that you are familiar with.
2. How is the marketing strategy different for a low-price, low-specification product, compared with one for a high-price, high-specification product? Use examples of products from the same market segment to illustrate your answer.
3. Why is the marketing strategy for a product likely to change over the course of its life cycle? Explain with reference to a specific product.

CASE STUDY  Unilever washing powder in Brazil

In the mid 1990s, Unilever had captured 81 per cent of the Brazilian washing powder market. The only sector it had not captured was that of the very lowest income households. The company therefore set out an ‘Everyman’ campaign to win even this sector of the market. Market research showed that washing in the poorer areas was typically carried out by hand, using washboards and bars of laundry soap. Washing was a major social event, with people coming together to talk at the river and taking pride in their work. Though many people owned television sets, many could not read or write, so it would be difficult to convince them to change washing habits with a 30-second television commercial. Typically, this group of consumers shopped at local, family-owned stores, which manufacturers find difficult to reach through large wholesalers.

Questions

1. What marketing strategy would you suggest to reach the low-income sector of the Brazilian market for soap powders?
2. How would this involve blending each of the elements of marketing into a consistent mix?
Controlling commercial and marketing activity
In creating a marketing strategy, businesses need to understand what they can and cannot do. There are standards governing what constitutes appropriate marketing activity.

Some of these standards are laid down in law (legislation) so they are mandatory, some are voluntary codes or practices within an industry, while others are set by individual businesses. The legal system will set out a fair framework for trading, for marketing activities and to settle disputes that may arise.

Misleading promotion
This relates to advertising in particular. Most countries have advertising standards bodies that are set up by advertisers on a voluntary basis to prevent and discourage misleading advertising. Advertisers will be prevented from making false claims, e.g. relating to ‘hair restorers’, ‘miracle weight-loss cures’, etc. Typically, voluntary codes are backed up by consumer protection laws relating to how goods and services are sold and to the sale of dangerous products. Misleading offers which unfairly distort the offer being made are illegal and can lead to fines for dishonest companies and other punishments through the courts.

Faulty or dangerous products and services
The law of a country typically states that goods should be ‘fit for the purpose’ for which they are sold. For example, when you buy a bicycle you expect to be able to ride it. The buyer would have a justifiable complaint if, for example, some spokes were broken or a wheel was bent.

Goods should also match the description of them given in promotions and sales literature. This is particularly important for goods sold in packets. The pictures or descriptions on the packet should accurately match the products inside. Goods should also match the description of their quality. In addition, buyers should be given the correct weight or quantity of goods that they have paid for.

Consumers are usually protected by law against dangerous or harmful products. For example, children’s toys should not have sharp edges. Electrical goods should be safe to use. Food products should contain edible and safe ingredients.

Similarly services should be carried out with reasonable care and skill. They should also be provided within a reasonable time. For example, if a consumer has asked a repair business to repair a radio, it would be unreasonable to wait for months for the repair to be completed. The service should also be provided at a reasonable cost.

Pricing controls
Legislation relating to pricing also impacts on marketing strategy. While producers and sellers have considerable leeway over what prices they can charge there are some aspects of pricing that are illegal. These include:

- Colluding with other providers of goods and services to jointly set prices. This practice is regarded as uncompetitive and can be seen as ‘ganging up’ on consumers. Fines and even prison sentences for directors may be the penalty for collusion on pricing.
- Charging prices that are different from those that have been agreed. When a supplier agrees to sell goods at a certain price this is typically seen as being contractually binding. Should the supplier seek to then increase the price after supplying the good the supplier would be deemed to have acted in an illegal manner.
- Hidden pricing. This often relates to purchasers who buy goods on credit terms. They believe they have entered into a credit transaction with a given set of terms only to find that there are additional (hidden) extras that they have to pay.

Controls on place of sale
There are also legal restrictions on where certain goods and services can be sold from (e.g. cigarettes, alcohol and pharmaceutical products may only be allowed to be sold from licensed premises).

Aligning strategy with expectations
The marketing and legal departments of companies must make sure that the marketing strategy being employed is legal, decent and honest. They must make sure that:

- the way that the good is promoted is honest and fair
- pricing is clear and free from collusion with other suppliers
- goods are sold through appropriate licensed locations
- the product meets the required legal standards and specifications.

Reputable companies will do more than meet legal requirements. In addition they will meet voluntary industry standards and set their own standards for excellence.

SUMMARY QUESTIONS
1. A cigarette manufacturer wants to sell its products through a chain of supermarkets and would like the supermarket to place the cigarettes near to the checkout counters where people pay for their goods. It wants to advertise these products on national television saying that they are good for people who want to live a healthy lifestyle. It has made an agreement with a rival cigarette company to charge the same price for a packet of 20 cigarettes as that charged by the rival. What laws is the cigarette manufacturer contravening with this marketing strategy?
2. What is likely to happen if a company ignores the laws and customs of a particular country when establishing a marketing strategy to market its products in that country?
Overseas markets provide a range of new opportunities for businesses, such as:

- Access to large numbers of new customers in huge economies. For example, a company targeting African customers for the first time will have a potential reach of 1.2 billion people, with its largest markets in Nigeria (with a population of 183 million) and Ethiopia (nearly 100 million).
- The opportunity to sell products that are at a different stage in their life cycle in new markets. For example, products in decline in the home market may be at a growth stage in another country.
- The chance to sell new products as a result of new opportunities in overseas markets.

Merchants have traded goods for thousands of years. Traders selling goods such as nutmeg, pepper and silks were using the route known as The Silk Road between China, India and the Arabian peninsula over 2,000 years ago. They travelled vast distances in the hope of selling at a profit in new markets. In recent years, we have seen different markets around the world increase at very different rates. Countries such as China, Brazil and Russia are experiencing rapid growth, with income per head increasing. This creates opportunities for marketing. However, it is not easy to enter a new market. There are a number of obstacles that create difficulty. A first major difficulty is that consumers in the market that you want to sell into may not be familiar with your brand or product.

This can be illustrated by the example of Heinz baked beans. The Hi Heinz company is a large US multinational producing many food products. One of its products is tinned beans. They are produced to different recipes in different countries, in different sized and shaped tins. Most commonly they are produced with a tomato sauce base. The variety of bean typically used is the haricot bean.

In the late 1990s the company started selling their beans in Eastern Europe, where beans are very popular. However, because customers were not sure what was inside the tin, they were wary of buying the product. As a result the company changed its labelling to include a picture of the beans. This resulted in a large increase in sales. The company has also changed ‘beans’ to ‘beanz’ on the tin to support its advertising slogan of ‘Beanz meanz Heinz’.

Other problems of entering new overseas markets include the following:

- Lack of local knowledge: businesses particularly want to find out about consumer tastes and preferences. They also need to know about rules and laws about what can be produced. For example, in Thailand a very popular drink for people working long hours was called ‘Krating Daeng’, which translates as ‘Red Bull’. The drink helps to keep people awake because it contains substances called caffeine and taurine. It was sold in a brown bottle. Before it could be introduced to other markets, some of the ingredients needed to be changed because of health and safety laws in other countries. The drink has now been reformulated under the name Red Bull, and it sells across the globe.
- Contacts: it is very important to have contacts in overseas markets. These contacts may be with people who can help you to sell your product. They may be with government officials who can explain details of local laws.

Dealing with problems in overseas markets

One way of selling to overseas customers is to make sales visits to their countries. This could be supported by telephone links and the creation of a sales website (although unreliable web connections in some countries may make this unsuitable). This is a low-cost method, but the exporter only builds limited overseas contacts.

Another approach therefore could be to use an overseas sales agent or partner. The partner would share the profits from the sales.

On a larger scale, a business can open up an overseas production or sales operation. This is much more costly. Building an overseas operation helps a company to plan for the long-term. Customers will take the company much more seriously if it has a local base. For example, in South Africa, Volkswagen makes a range of cars for the African market from its base there. The company is sourcing an increasing number of components from local manufacturers. Another example is Oxford University Press, which has its own publication department in Africa – producing books for the East African market.

Another good way to enter an overseas market is to form a joint venture with a local partner (as you saw in the Ford Figo case study in 3.4.1). A joint business is set up between the two companies. Many Western companies have set up joint ventures in China and India. The local partner will have a lot of local contacts with government officials and business people in the home market. The local partner will also have a good knowledge of local tastes and preferences.

The table below gives examples of joint ventures in India.

<table>
<thead>
<tr>
<th>Company 1</th>
<th>Company 2</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tata and Fiat</td>
<td>The joint venture manufactures cars from Tata and Fiat. Fiat motors buys diesel engines for its cars from Fiat. Fiat distributes Tata cars in Europe.</td>
<td></td>
</tr>
<tr>
<td>Mahindra and Renault</td>
<td>The venture will manufacture Renault’s Logan cars in India. Renault gains access to the Indian market. Mahindra gains technical knowledge about car production.</td>
<td></td>
</tr>
<tr>
<td>Bharthi-</td>
<td>The Indian government restricted the growth of foreign retailers in India. The joint venture therefore gave Wal-Mart access to the Indian market.</td>
<td></td>
</tr>
</tbody>
</table>

DID YOU KNOW?

- McDonald’s, the fast food restaurant, has introduced several spicy and vegetarian dishes in India to suit local tastes.

SUMMARY QUESTIONS

1. A Japanese company sells cameras in Europe through agents who deal directly with camera retailers. However, with the development of new digital camera technologies sales have started to increase substantially in Europe. The company wants to increase business in Europe. What methods would you recommend for increasing its presence in the European market?

2. What would be the main advantages to a Western company from creating a joint venture when seeking to increase sales in China?

3. In 2009 Tata Motors of India launched the Tata Nano – the world’s smallest mass-market car. The car is designed to solve car-parking problems in cities and to have very low petrol consumption. Tata hopes to sell variations of the car in Western markets. What problems might Tata have in selling to these markets? How might Tata deal with these problems?

KEY POINTS

1. When entering a new overseas market companies are faced by a number of problems. These include language differences, lack of local contacts, lack of knowledge of the local market, and different rules and regulations.

2. There are cultural differences between different markets. As a result, customers in different countries have different tastes and preferences.

3. There are a number of ways of entering new markets that reduce the risk. These include working with local partners such as sales agents or setting up a joint venture.

4. It is possible to set up a new operation in an overseas market.
SECTION 1: Short-answer questions

1 Identify and explain TWO objectives of the marketing department within a business. [4]
2 Using a mobile phone or laptop computer as an example, explain the difference between ‘features’ and ‘benefits’ of a product. [3]
3 Identify and explain TWO reasons why a business might carry out market research. [4]
4 Explain the statement: ‘The consumer is king in a market economy’. [4]
5 Explain, with examples, why primary research may be known as ‘field’ research and secondary research may be known as ‘desk’ research. [4]
6 Consider TWO reasons why secondary market research results may be less useful to a company than primary research. [6]
7 Explain, with examples, the difference between a consumer survey and a focus group. [4]
8 State and explain ONE example of data that would be best presented using a pie chart and ONE example of data that would be best presented as a line graph. [4]
9 Explain the following approaches to market segmentation:
   • geographical
   • gender
   • socio-economic group. [6]
10 For each of the methods in Question 9, explain a market for which this method of segmentation would be appropriate. [6]
11 Identify and explain a niche market within the market for food snack products in your country. [4]
12 Identify and explain TWO benefits to a small business of aiming its product at a niche market. [4]
13 Consider why it is important for a business to get all the elements of the marketing mix right. [4]
14 Explain why an established supermarket business may aim to sell a range of products at different stages of their life cycle. [4]
15 Explain ONE example of a product for which a skimming pricing strategy may be appropriate and ONE example where penetration pricing may be more successful. [4]

SECTION 2: Longer-answer questions

The pizza delivery company
Prakesh has managed to borrow the money to relaunch his traditional fast food business, The Tikka Takeaway, in Bangalore, India, as a pizza restaurant and takeaway, including a home-delivery service. He has put together a menu, including 12 different pizza recipes in three different sizes, and he now needs to make as many people as possible aware of his new products and service. Due to overspending on the redecoration of his shop, however, Prakesh has had to set a low marketing budget.

1 Identify and explain TWO changes in Prakesh’s marketing mix, as he relaunches his business. [4]
2 Identify and explain TWO ways in which Prakesh’s target market may change due to the switch from traditional food to pizzas. [4]
3 Explain TWO possible pricing methods you would recommend Prakesh to consider for his pizzas when he launches the new business idea. [4]
4 Consider THREE marketing methods you would recommend to Prakesh for the launch. Justify your choices. [6]
5 Due to his local reputation and loyal customers, Prakesh does not want to change the name of his business. Do you agree with him? Justify your answer. [6]

The Maldives Reef holiday company
The Maldives Reef holiday company operates in a niche market. The target customers are high-income, young professionals, mainly from Europe, who are interested in combining taking a holiday with obtaining an advanced diving qualification. Guests are accommodated on one of the smallest, most exclusive resort islands, where all the chalets have their own private beach areas. The diving instructors are highly qualified and the company has good knowledge of the best underwater locations. The company spends very little on marketing, as most guests are regular
travellers and recommendations come through word of mouth. Fiona, the marketing director, is keen to seek out new markets, due to a worldwide economic downturn. ‘Maybe,’ she says, ‘we should explore a new market segment of more budget-conscious travellers, who still want to dive but are quite happy with basic accommodation and therefore a lower price’.

1 Explain, with examples, the term ‘niche market’ in this case.
2 Using the concept of price elasticity of demand, explain how the unique selling point of the Maldives Reef holiday company enables high prices to be charged to current customers.
3 Consider ONE advantage and ONE disadvantage to the Maldives Reef holiday company of relying on the business from their loyal customers.
4 Do you agree with Fiona that the company should be looking for new markets? Justify your decision.
5 Consider a market research strategy for Fiona to find out what budget-conscious customers want from a diving holiday. Justify your choice.

Zigzag: the school enterprise company

The Zigzag enterprise company at Good Start School in Livingstone, Zambia, has decided on two events to launch its enterprise this year: a school talent show and a doughnut sale during lunchtimes. The company has carried out primary market research on pupils in school and found out the following information about predicted sales.

• Talent show: at $5 it will sell 250 tickets, but if it drops the price to $3, it will sell 275 tickets.
• Doughnuts: at 50 cents it will sell 300 doughnuts, but if it drops the price to 30 cents, it will sell 500.

1 Identify and explain TWO possible reasons why Zigzag’s market research may be inaccurate.
2 Identify and explain TWO reasons why Zigzag’s current target market may limit the company’s success.
3 Calculate the price elasticity of demand (PED) for each product, when the price is reduced, using the formula:

\[
\text{PED} = \frac{\% \text{ change in quantity demanded}}{\% \text{ change in price}}
\]

4 Using the information on price elasticity and the figures, recommend what price should be charged for each product. Justify your answer.
5 The members of Zigzag have decided to try to extend their market to include selling wooden souvenirs to tourists in a local craft market. Explain TWO ways in which their marketing strategy will need to change for these customers.

6 The craft market is very competitive, with many stalls selling similar products. Consider the extent to which personal selling in the craft market may lead to high sales of souvenirs for the Zigzag company.