



CHAPTER 28

Effective marketing

This chapter examines the purposes of marketing, particularly from the perspective of the organisation. It contrasts consumer marketing and business-to-business marketing. The concepts of niche marketing and mass marketing are introduced, and their benefits and drawbacks are studied and contrasted.

KEY TERM

marketing: the anticipating and satisfying of customers' wants in a way that delights the consumer and also meets the needs of the organisation.

KEY TERM

marketing objectives: the goals of the marketing function in an organisation.

e EXAMINER'S VOICE

Define your terms at the beginning of your answer. At AS, marks are awarded for correct definitions of the terms used in the questions. Defining terms also helps to make your answer relevant.

Purposes of marketing

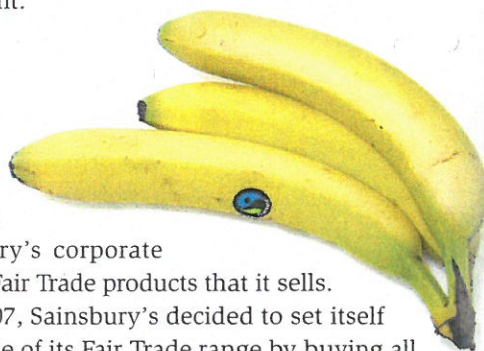
This definition provides an introduction to the purposes of marketing:

- **Anticipating customers' wants.** The first stage of marketing is to conduct market research in order to discover the wants of customers and the factors that influence those wants. Detailed analysis of market research and the need for a business to understand its markets is provided in Chapters 5 and 6.
- **Satisfying customers' wants in a way that delights customers.** An organisation will decide on suitable marketing techniques in order to ensure that customers are delighted. The approach used by organisations to achieve this aim is known as the **marketing mix** (the 'four Ps'). An organisation will plan a suitable **product**, charge an attractive **price**, put the product into the right location or **place**, and use **promotion** to make customers aware of the product. The marketing mix is examined in detail in Chapters 29–33.
- **Meeting the needs of the organisation.** Ultimately, marketing is intended to enable a business to satisfy its own wants. A business will have **corporate aims and objectives** (the goals and specific targets of the organisation as a whole). Having decided on its corporate aims and objectives, the organisation will then decide on suitable aims and objectives for its marketing activities or the marketing department.

Marketing objectives

A business's **marketing objectives** are the goals of the marketing department. These goals must be consistent with the goals of the organisation as a whole. For example, one of Sainsbury's corporate objectives is to increase the amount of Fair Trade products that it sells. In order to achieve this objective in 2007, Sainsbury's decided to set itself a marketing objective to raise the profile of its Fair Trade range by buying all of its bananas from Fair Trade sources.

Organisations can use the marketing mix in order to achieve their marketing objectives.



Types of marketing objective

Marketing objectives depend on the aims and priorities of an organisation. They can be categorised as follows.

Size

Size can be measured by sales or market share. The objective may be expressed in terms of:

- a specific level of sales volume (e.g. Nestlé trying to maintain KitKat's sales volume of over 4 million bars every day)
- a percentage rise in sales revenue (e.g. Nokia trying to achieve a 10% rise in sales income in 2008)
- a target percentage market share (e.g. Ford targeting a 15% share of the UK car market)
- market leadership or a certain position in the market (e.g. ASDA and Sainsbury's fighting to be the second largest supermarket in the UK)

Market positioning

This is concerned with a company's appeal to particular market segments. Examples include:

- rugby league trying to appeal to more women
- Starbucks targeting younger age groups
- Setanta bidding for Premiership football in order to increase its appeal to sports fans who would otherwise mainly watch Sky

Innovation/increase in product range

Examples are:

- Ben & Jerry's introducing unusual flavours and names of ice cream in order to maintain its reputation for individuality
- Apple introducing the iPhone both to penetrate a new market and to enhance its reputation for innovation and design

Creation of brand loyalty/goodwill

Examples are:

- O₂ negotiating an exclusive agreement with Apple that allowed O₂ to be the only network provider to offer the new iPhone
- McDonald's aiming to maintain the golden arches as the most widely recognised corporate logo in the world
- Specsavers aiming for a set percentage of 'repeat' customers
- Lush being able to set a premium price in comparison with other soap retailers

Security/survival

Examples include:

- Woolworths trying to maintain a presence in the high street
- Lotto trying to make sure that its overall sales, which fell by 5.5% in 2007, do not fall further

e EXAMINER'S VOICE

Marketing objectives are not static. They change as a business develops. They also change in response to external circumstances.





Effective marketing

Conclusion

Although many customers perceive marketing to be linked to their needs, the most fundamental reason for marketing is to meet the needs of the organisation. However, this is not an easy task. The wide range of marketing objectives shows how complicated they can be to achieve.

This process is further complicated by the existence of competitors, whose marketing will aim to prevent rivals from achieving their marketing objectives.

KEY TERMS

business-to-consumer (B2C) marketing: where a firm targets individual consumers with its product.

business-to-business (B2B) marketing: where a firm sells its product to another business.

Consumer marketing vs business-to-business marketing

There is a tendency to regard marketing as an interaction between a business and individual consumers. All of the examples cited in the previous section would fit into the category of consumer marketing. However, if we take the product back one stage, we can see that this is not the only type of marketing. Retailers such as Woolworths and ASDA will be involved in business-to-business transactions when deciding which products to stock. Business-to-business marketing of this type is very different from consumer marketing.

The main features of business-to-business marketing are as follows:

- **Larger transactions.** Transactions are much larger, with perhaps millions of pounds worth of products being bought and sold in one transaction.
- **Specialist buyers and sellers.** Buyers and sellers will be specialist employees of organisations, and will therefore have much greater knowledge and understanding of the products being exchanged.
- **Quality.** The buyer's reputation will often depend on the quality of the product being sold by the seller, so there is much greater emphasis on quality and related factors, such as after-sales servicing and maintenance.
- **Informative advertising.** Promotions and advertisements tend to be much more informative rather than persuasive, as buyers will base their decisions on factual information.
- **Pricing.** The importance of pricing depends very much on the nature of the market. If there is a wide choice of suppliers, low prices may be critical in securing the deal. However, if there is only one supplier, the seller can set a much higher price.
- **Buyer-seller relationships.** Relationships between buyers and sellers are much more critical. In some cases, an organisation's systems will depend on replacements and additions being compatible with earlier purchases, such as in a computer or security system. There is often a delicate balance between the need for profit and the need to maintain goodwill and good relationships with a customer. News of poor customer service will tend to be publicised and become well known more quickly in business-to-business transactions than in consumer marketing.

Niche and mass marketing

A critical decision for many businesses is whether to aim for a narrow range of customers or a broad range. Both niche and mass marketing strategies can meet most of a business's marketing objectives.

Niche marketing

One example of a business aiming its product at a particular market segment is Build-A-Bear Workshop, a shop that offers custom-made, personalised teddy bears, complete with birth certificates, personal taped messages and customised clothing.



Niche marketing is an attractive proposition for small firms, as there may be little competition in their segment. However, many firms involved in niche marketing are owned by, or are divisions of, larger organisations. EMAP, one of the UK's largest magazine publishers, produces mass-market publications but even its top sellers, such as *FHM* and *The Garden*, are aimed at specific segments. Niche markets are served more obviously by *Kerrang!*, *Pregnancy & Birth* and *Period Living & Traditional Homes*.

Some niche markets are based on exclusive or high-quality products (e.g. Ferrari) or are located in remote areas, where higher prices can be charged because of the inconvenience for consumers of finding a substitute. But many niche markets focus on lower-priced goods (e.g. Poundstretcher), possibly because larger firms are put off by the low profit margins.

Advantages of niche marketing

Niche marketing offers many advantages:

- **Less competition.** There may be fewer competitors, as large companies are not attracted to a relatively small market. For example, there is only one magazine about orienteering, a minority sport, because the potential readership is too low to interest large businesses with high overheads. The lack of competition enables firms to gain enough customers to earn a decent profit. In some niche markets, the lack of competition may help firms to charge a much higher price for their products. Selling relatively few products at high profit margins may enable these firms to achieve good profits.
- **Costs.** The lack of scope for cost reduction by producing on a large scale may mean that small firms can compete more effectively in a niche market. Usually, large, mass-market firms can produce goods at low unit cost because they can afford more efficient machinery or can buy in bulk at a discount. In a niche market, there may be too few customers for a large business to gain these advantages. Therefore, a small firm may be able to match the costs of larger rivals in a niche market.
- **Small-scale production.** The limited demand may suit a small business that would lack the resources to produce on a large scale. A sole trader, for example, would only be able to produce enough products for a small market niche.

KEY TERMS

niche marketing: targeting a product or service at a small segment of a larger market.

mass marketing: aiming a product at all (or most) of the market.

Product differentiation in the mass market

In order to compete in a mass market, a business needs to make sure that its product is different from competitors' products. If consumers value this difference, it will benefit the firm in two ways:

- increased sales volume
- greater scope for charging a higher price

In a mass market, product differentiation will usually be achieved by employing elements of the marketing mix (see Chapters 30–33). Examples include:

- Design, branding and packaging to improve the attractiveness of a product.
- Clever promotional and advertising campaigns to boost image and sales. Are Nike sportswear and trainers of better quality than their competitors' products, or are they just marketed more effectively?
- Different distribution methods. Avon cosmetics differentiated itself by selling cosmetics directly to the customer; Amazon differentiated itself through internet selling, without the use of a traditional shop outlet.

KEY TERM

product differentiation: the degree to which consumers see a particular brand as being different from other brands.

FACT FILE

Product differentiation in radio broadcasting

Radio is adapting to the needs of niche markets. In Easter 2007, thejazz started to broadcast a mix of pre-bebop, swing and Latin music, attracting 334,000 listeners in its first week. BBC 6 Music caters for rock fans and BBC 7 concentrates on drama and comedy classics. *Smash Hits* could no longer survive in magazine form but has reinvented itself as a radio station with 1 million listeners.

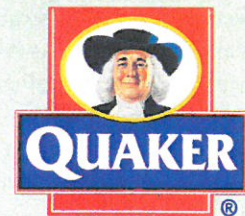
However, the mass market still exists in radio, with Radio 2 attracting over 13 million listeners a week to the broad range of programmes offered.

Source: article by Adam Sherwin in *The Times*, 17 August 2007.

FACT FILE

Product differentiation through branding

At one time, Quaker Oats manufactured all of the porridge for UK supermarket own labels. Although the contents were identical, consumers still felt more secure buying the Quaker Oats brand, which sold at a higher price. Similarly, General Motors used the Vauxhall brand name in the UK and the Opel name in Germany to sell identical cars because these brand names were preferred by UK and German customers respectively.



Many mass-market firms achieve product differentiation through **product proliferation**. This occurs when a variety of products are produced to serve different tastes. In some cases, this can mean significantly different products, such as IPC magazines producing *Woman's Own*, *Loaded*, *Ideal Home*, *Uncut* and *NME*. However, the need for mass production in order to cut costs will limit the number of different products that can be offered.

FACT FILE

What's in a name?

Over many years, 'blind taste tests' suggested that consumers preferred Pepsi to Coca-Cola (when they could not see the brand name), but Coca-Cola always sold in higher quantities because people preferred the brand.



Effective marketing

- **Barriers to entry.** Mass marketing allows businesses to use the most expensive (and usually the most effective) marketing. Not only does this help to eliminate smaller rivals, but it can also act as a barrier to entry for new firms. For over 50 years, the soap powder industry has been dominated by two large companies with huge marketing budgets. This has limited the opportunities for new firms to break into the market, as they cannot afford the advertising budgets required.
- **Research and development.** In industries such as pharmaceuticals, it is necessary to appeal to large, profitable mass markets in order to be able to fund the research and development costs needed to introduce new products. It is estimated that discovering a major new pharmaceutical product and bringing it to the market costs a business about £400 million.
- **Brand awareness.** Mass marketing increases brand awareness. This not only assists sales of the branded product but can also help to break down consumer resistance to new products. Firms such as Cadbury's and Coca-Cola can use their high level of brand awareness to encourage customers, who are often reluctant to try new products if they do not recognise the name.

Disadvantages of mass marketing

The disadvantages of mass marketing are as follows:

- **Fixed capital.** High fixed capital costs are incurred, such as the purchase of large factories, extensive and expensive machinery, and other assets such as delivery lorries. This will prevent many businesses from ever operating in the mass market.
- **Changes in demand.** Businesses in mass markets are vulnerable to changes in demand. A fall in demand will lead to unused spare capacity, increasing unit costs. As the pace of change accelerates, this is becoming a much greater problem because customers want the latest products. Small, niche market firms will be less affected as they will not have spent so much on their factories.
- **Effects of standardisation.** It can be difficult to appeal directly to individual customers because mass-market products must be designed to suit all customers. As a result, prices tend to be lower, reducing the opportunities for high profits.
- **Competition.** Mass-market organisations are much more vulnerable to low-cost competition from abroad, as the UK cannot match wage levels and other costs in these countries.
- **Adding value.** In mass markets there is less scope for adding value. As customers' incomes increase, there is a growing tendency for them to want high-priced, unique products. This trend is helping niche marketing but making it harder for businesses that concentrate on the mass market.

Through careful market research, businesses in mass markets can reduce these risks, but there is always a danger that demand for their products will fall. Consequently, such firms must regularly examine their products in order to ensure that their goods continue to suit the market.

PRACTICE EXERCISE

Total: 40 marks (35 minutes)

- 1 What are the three purposes of marketing? (6 marks)
- 2 Identify four marketing objectives. (4 marks)
- 3 Distinguish between consumer marketing and business-to-business marketing. (4 marks)
- 4 State four examples of niche markets. (4 marks)
- 5 Why might a magazine publisher target a niche market? (4 marks)
- 6 Is it inevitable that businesses in a niche market will be unable to break into a mass market? (6 marks)
- 7 Explain three benefits of mass marketing. (9 marks)
- 8 What is meant by 'product differentiation'? (3 marks)

CASE STUDY Lush Cosmetics

Lush Cosmetics was originally set up in 1978, supplying cosmetics to The Body Shop. However, an ill-fated venture into mail order led to its collapse.

Lush recommenced trading in 1994, producing soaps, shampoos, cosmetics and related products. This time it decided to open its own retail outlets, selling directly to consumers rather than doing business-to-business marketing, as it had with The Body Shop. It has been so successful that, in addition to manufacturing all of its own products, it has set up almost 100 stores in the UK alone. Overseas, there are over 270 franchises in more than 40 different countries.

Lush focuses on its range of products. Each bar of soap, shampoo etc. contains fresh (not synthetic) ingredients, ranging from the predictable (aloe vera, lemon and tea tree oil) to the peculiar (Belgian chocolate, almond shells and marigold petals). In this way, Lush sees itself as operating in a niche market rather than in a mass market. Products are not tested on animals. For its overseas franchises, the products are manufactured locally to guarantee freshness.

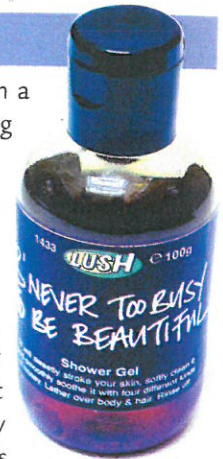
Marketing is mostly by word of mouth and through an in-house magazine, which has also been used to re-establish a mail-order service. The nature of the ingredients means that the location of a Lush shop can

usually be detected by smell from a considerable distance (depending on the wind direction). This can also help to encourage consumers to visit the shops.

Over 200 products are made, with the range changing constantly according to demand. Unsuccessful products are quickly eliminated and there is constant research aimed at producing new products. The product range is updated every 3 months. Consumers and press reports are used to provide marketing slogans, such as 'Lush is like the AA, pretty vital in a crisis' and 'It's better to bathe in sweets than to eat them'. Interest is also aroused through unusual product names such as 'Honey I Washed the Kids' and 'Sex Bomb'. Staff are encouraged to spot celebrities, and a list of famous names, and their Lush purchases, is regularly updated on the company website.

With typical product prices at about £2.10 for a 100 gram bar of soap, Lush achieves high profit margins. The ingredients of a bar of soap can cost as little as 50p.

Source: www.lush.co.uk.

**Questions**

Total: 55 marks (65 minutes)

- 1 What is meant by the term 'business-to-business marketing' (lines 7–8)? (3 marks)
- 2 Distinguish between a 'niche market' and a 'mass market' (lines 18–19). (6 marks)
- 3 Analyse two reasons why Lush introduces new products every 3 months. (8 marks)
- 4 Analyse two reasons why Lush might have decided to open its own shops when it relaunched in 1994. (8 marks)
- 5 Lush changed from business-to-business marketing to marketing directly to consumers. Evaluate the main differences between business-to-business marketing and consumer marketing for Lush. (10 marks)
- 6 Discuss the difficulties faced by Lush as a result of its decision to produce a range of 200 different products. (10 marks)
- 7 Evaluate the benefits for Lush from operating in a niche market. (10 marks)