Impact of market conditions on the marketing mix

Market conditions can be linked with most marketing activities. The marketing mix may need to be adapted to the market situation (e.g. non-price competition for oligopolies), and the length of the product life cycle may depend on the level of competition. Similarly, links can be made with operational issues. For example, bulk-buying discounts are more accessible for monopolists than for firms in competitive situations, but are less possible if there is spare capacity.

Monopoly and the marketing mix

Product

With only one organisation in the market, there is little need for new product development. Consequently, most monopolists spend relatively little on the product aspect of the marketing mix, unless they operate in a competitive international market. An illustration of this situation is BT — when it had a monopoly of telephone services in the UK, only one style of telephone handset was available to its subscribers.


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Price

Monopolies are price leaders/setters and can take advantage of the lack of competition in the market to set high prices. This is particularly true if the product is a necessity with inelastic demand. However, a lower price would need to be charged if a monopolist was producing a good with price-elastic demand.

Promotion

There are high barriers to entry in monopoly, so it is unlikely that new competition can emerge. Therefore, promotion will mainly be informative — geared towards ensuring that customers are aware of the product and its benefits — rather than persuasive. Once a customer recognises the need for the product, it is guaranteed that they will buy it from the monopolist as there is no alternative supplier.

Place

This is a relatively important element of the marketing mix under monopoly because customers are less likely to purchase products or services that are not conveniently located. Traditional monopolies, such as telecommunications, gas and water supply, put considerable effort into making sure that their products and services reached as many houses as possible. Once access had been gained, little effort was then required to persuade customers to use their products and services.

Oligopoly and the marketing mix

Product

The product is crucial to success in an oligopolistic market because product differentiation is the way in which a unique selling point can be achieved. Therefore, oligopolists are some of the businesses that spend the most money on research and development and market research in order to modify continually their goods and services to suit the needs of the customer.

Price

Although price wars are a feature of oligopolistic markets, particularly when firms are using penetration pricing in order to increase market share, price does not tend to be the main element of the marketing mix for an oligopolist. Ultimately, price wars cause all oligopolists to suffer from a fall in profit, so most of the emphasis is on product differentiation. Price-fixing agreements are technically illegal, but there is a suspicion that in some oligopoly markets, firms are reluctant to cut prices and so they tend to remain relatively high.

Promotion

Promotion is important in oligopolistic markets because it is one of the major ways in which product differentiation and unique selling points can be achieved. In some oligopolistic markets, such as soap powders, as much as 30% of costs can take the form of promotional expenditure. The level of promotional expenditure may be inversely related to the uniqueness of the product. For example, bottled waters may need considerably more promotional expenditure in order to differentiate brands than motor vehicles, where the differences between products may be more apparent.

Place

Place is also important in oligopolistic markets, as there will be many competing brands. Consumers will prefer easy access to the product. For a specific oligopolist's version of the product, this is most easily achieved by making it widely available in as many different outlets as possible.

FACT FILE

Marketing in the electronic media industry

As competition has become tougher in the electronic media industry, firms have responded in different ways. BT has launched 'video on demand', Carphone Warehouse has offered integrated telephone and internet services, and Virgin Media believes it has achieved a USP by offering four services on one bill.

Monopolistic competition and the marketing mix

Product

Product is vital in monopolistic competition, as it is the critical way in which a business can make its marketing mix different from the competition. However, the vast number of competitors in this market makes it difficult to achieve a completely distinctive product.

Price

With many small firms competing together, there is limited opportunity for cost savings, for example through bulk buying. Therefore, firms usually accept that prices tend to be similar and use other mechanisms to compete.

Promotion

The need to be price-competitive is likely to limit promotional budgets in monopolistic competition. Therefore, promotion is less significant in monopolistic competition than in markets such as oligopoly.

Place

Place can be important under monopolistic competition because transport and distribution costs may form a significant element of total costs. In farming, for example, many products are distributed locally in order to reduce costs.

Perfect competition and the marketing mix

To a large extent, perfect competition is a theoretical model rather than one that exists in the real world. Since all products are identical and firms are price takers, there can be no distinction between products and prices among different firms competing in a perfect market. Consequently, there is no point in promoting a product that cannot be distinguished from its competitors. Place therefore appears to be the vital element. Customers will tend to purchase from the nearest supplier, rather than spend time and effort locating a product that is less conveniently sited. However, in theory, there are no barriers to access for any firm in perfect competition.

Competitiveness

The success of a firm depends greatly on its ability to match or surpass the products/services offered by its competitors. The UK government has set up a special Competitiveness Unit to examine ways in which UK firms can improve their performance both domestically and in overseas markets. One of the key conclusions of the Competitiveness Unit was that the government should increase competition within markets, to ensure that businesses become more efficient.

KEY TERM

competitiveness: the ability of businesses to sell their products successfully in the market in which they are based.

Determinants of competitiveness

The main determinants of competitiveness for a particular firm, according to the Competitiveness Unit, are:

- **Investment in new equipment and technology.** Machinery and computers can improve the speed, reliability and quality of products, and still provide flexibility. Labour and other costs can be reduced.
- **Staff skills, education and training.** A skilled and educated staff will be more adaptable and flexible, able to cope with change more readily, and possess more creativity and innovative talents.
- **Innovation through investment in research and development.** The pace of change requires companies to update and broaden their product range constantly. Product life cycles are becoming shorter, and new ideas must be incorporated into products.
- **Enterprise.** The entrepreneurial skills of the owners and their desire to become their own bosses create a culture of independence, hard


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