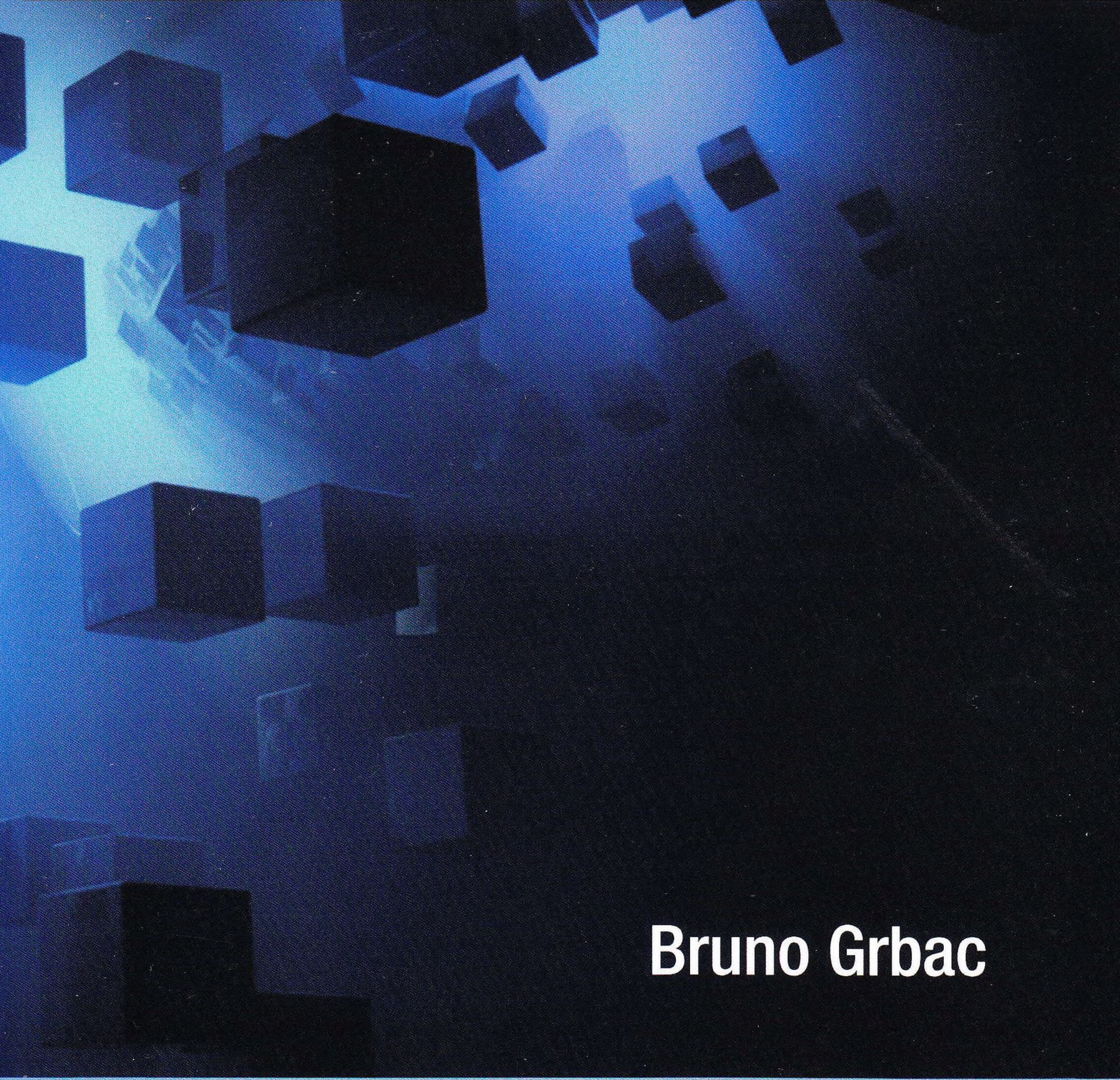

Bruno Grbac

MARKETING DYNAMICS

How to Create Value for Customers

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How to Create Value for Customers

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Preface

The scientific study of marketing is a challenging task because of the way marketing is capable of adapting to new challenges that emerge in the dynamic environment. It should be kept in mind, however, that, as a business philosophy, marketing has always focused on consumers and on meeting consumers' needs and wants, and will continue to do so in the future. Yet market relations are changing, and technological development has made it possible to understand and interact with consumers to the extent that their individual needs can be satisfied. To be successful, businesses are shifting away from an approach that centres on selling products towards an approach that fosters the building of long-term, loyal relationships with consumers and from an approach in which success depends upon competition to an approach that is driving the creation of networks of common-interest businesses. Business is being transformed by a shift from product profitability management towards customer profitability management. To bring about this shift requires new knowledge and new employees in the position of customer officer or customer manager. To this end, this book, *Marketing Dynamics*, aimed at the scientific, professional and general public, provides insight into marketing as the process of creating and exchanging value between organisations and consumers.

In my approach to marketing philosophy, I have incorporated new marketing trends and new marketing thinking into the conventional presentation of marketing issues. The text is written in a straight-forward way, making it acceptable and easy-to-understand for students of marketing, people embarking upon a career in marketing, and employees needing to adjust to the new rules of responding to, and behaving in, the market that the dynamic environment has imposed. The book begins by looking at the evolution of marketing and how organisations adjust to the dynamic environment. It goes on to analyse market regularities, examine operators in the B2B and B2C markets, and explore target market selection and positioning. Based on considerations discussed in my previous books, *Marketing Dynamics* examines the bases for value creation and exchange by focusing on the policies of marketing mix elements. The last sections of the book deal with the new fields of marketing, ranging from marketing metrics to neuromarketing, and then discuss the implementation of marketing knowledge and skills at the strategic and tactical levels.

The book comprises nine parts. Part I is entitled THE EVOLUTION OF MARKETING – CAUSES AND EFFECTS. This part discusses the business concept by taking the reader through the evolution of market relations. It describes the dynamics of the business environment by analysing the macro and micro environment and factors that exert a direct or indirect influence.

Part II, entitled ADJUSTING TO CHANGE, deals with value exchange, market discrepancies and the functions used in resolving market discrepancies. It addresses the issue of managing marketing activities and looks at how marketing activities are planned, organized, and controlled. It highlights new market paradigms by exploring the interaction of marketing and quality, the development of loyalty, and the networking of market operators.

IDENTIFYING AND ANALYSING MARKETS is the title of Part III, which seeks to identify market opportunities by considering the characteristics of the market and market segmentation and by understanding segment validation, target market selection and positioning. In discussing market research, Part III focuses on information sources and the market research process. It goes on to analyse the B2C market by presenting the attributes of end consumers, the influences that affect the behaviour of end consumers, and the decision-making process of end consumers. In analysing the B2B market, this part deals with the attributes and types of consumers operating in the B2B market, the buying process in the B2B market, the types of buying situations, and the roles of buying centres members.

Part IV deals with CREATING CONSUMER VALUE. It begins by examining the concept of value and product utility, and goes on to highlight general product characteristics, product classification, and the product programme's specific features. The chapter dealing with product elements discusses product attributes, product brands and other elements of a product. The next chapter concerns the development and diffusion of new products; it examines the processes of product innovation, new product development and new product diffusion on the market. Part IV ends with an exploration of the product life cycle, focusing on the special features of the product life cycle, responses to the various stages of the product life cycle, and the types of product life cycles.

Price is at the centre of Part V, entitled THE PILLAR OF PRODUCT VALUE - PRICE. In looking at price attributes, Part V argues that price is a measure of value, and goes on to discuss the interrelation of price and other elements of the marketing mix, and how price levels are set. It continues by presenting the internal and external factors that influence prices, and by examining pricing strategies for existing products and consumer-oriented pricing strategies. Part V ends with a discussion about cost-based, demand-based and competitor-based pricing methods.

DELIVERING CONSUMER VALUE -DISTRIBUTION is the title of Part VI. Dealing with distribution activities and operators, Part VI analyses the purpose of distribution activities, the intermediaries involved in distribution channels, and the structure of distribution channels. The next chapter of Part VI discusses wholesalers and retailers. It examines the features and functions of wholesalers and the types of wholesalers on the market. It then focuses on the nature of retailing and explains the classification and dynamics of retailing. The remaining chapters deal with physical distribution, its concept and processes, as well as discuss the distribution trends in distribution channels and in physical distribution.

INTEGRATED MARKETING COMMUNICATIONS is the title of part VII. The first chapter of Part VII discusses integrated marketing communications and the promotional mix. It looks at how organisations communicate with the market and how they combine promotional activities. Setting objectives of promotional activities and how they can be achieved are the topic of the next chapter of Part VII. Part VII then goes on to explain the special features of the promotional mix elements, including advertising, personal selling, sales promotion, public relations and publicity. The following chapter on new trends in promotional activities analyses the characteristics of Web pages, email and other forms of market communications, as well as discusses the use of mobile devices in promotion.

Part VIII, entitled DIFFERENT PERSPECTIVES IN MARKETING, explores the widespread implementation of the marketing concept in the service market, B2B market, in environmental marketing, and in the international market. The chapters in this part provide the background and characteristics of each of these markets. They analyse how to succeed on the service market with seven marketing elements (7Ps) how to improve business operations in the B2B market, how to adapt to changes involving environmental issues and how to manage business activities in international markets.

SPECIFIC FIELDS OF MARKETING is the title of Part IX which discusses the characteristics of non-profit marketing, Internet marketing and internal marketing. Background for each of these fields is provided, together with an analysis of how to design a non-profit marketing offering and an Internet marketing offering. The last chapter of Part IX examines the concept of internal marketing as well as the marketing programme for internal marketing.

Marketing metrics and neuromarketing are the topics of Part X part entitled APPLIED MARKETING. This part explains what marketing metrics is about and how it affects business decisions. Part X discusses neuromarketing, a new field in marketing, and its contribution to value creation and exchange.

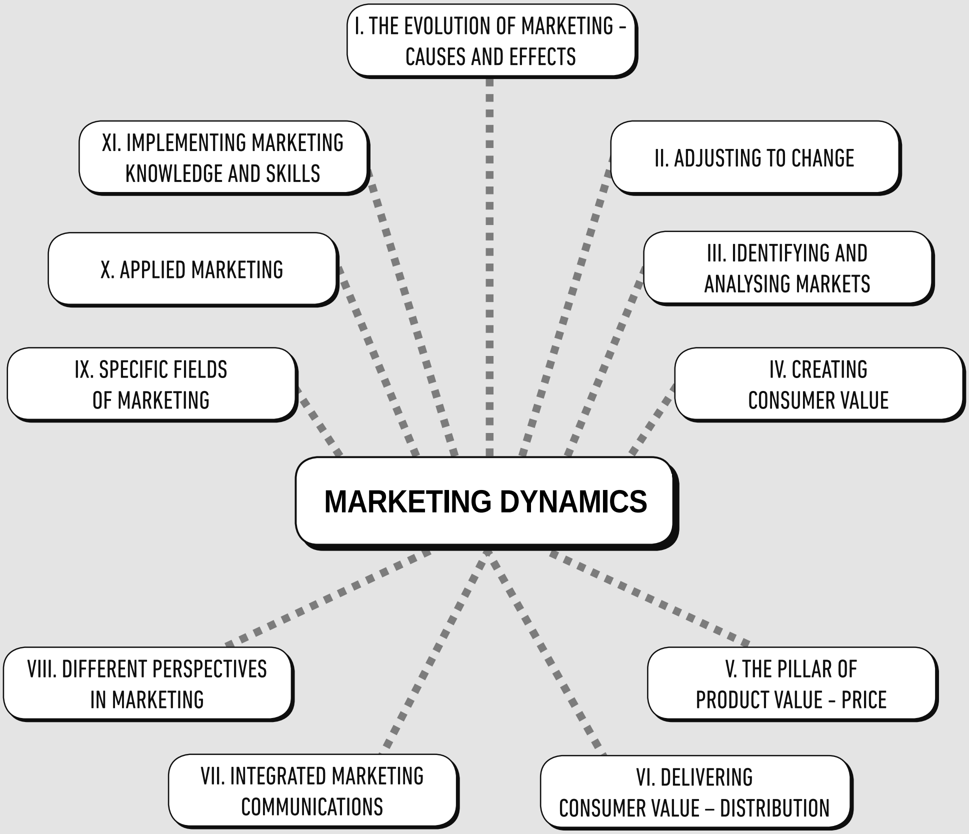
Part XI which is the last part of the book is entitled IMPLEMENTING MARKETING KNOWLEDGE AND SKILLS. It discusses the special knowledge and skills required in successful business practices and the levels of marketing knowledge and skills needed at the strategic level, as well as the tactical level, of decision making.

This book is primarily intended for students studying marketing at faculties of economics or other faculties whose programmes have been aligned with the Bologna Process. This book is also meant for marketers who are directly engaged in carrying out any of the functions of marketing.

Many scholars and successful managers have contributed to the creation of this book, and their ideas are interlaced in the text. I would like to express special gratitude to Prof. Gábor Rekettye, PhD and Prof. Marko Grünhagen, PhD, who reviewed the book and whose comments and suggestions have contributed greatly to the book's quality.

Bruno Grbac

Rijeka, May 2013.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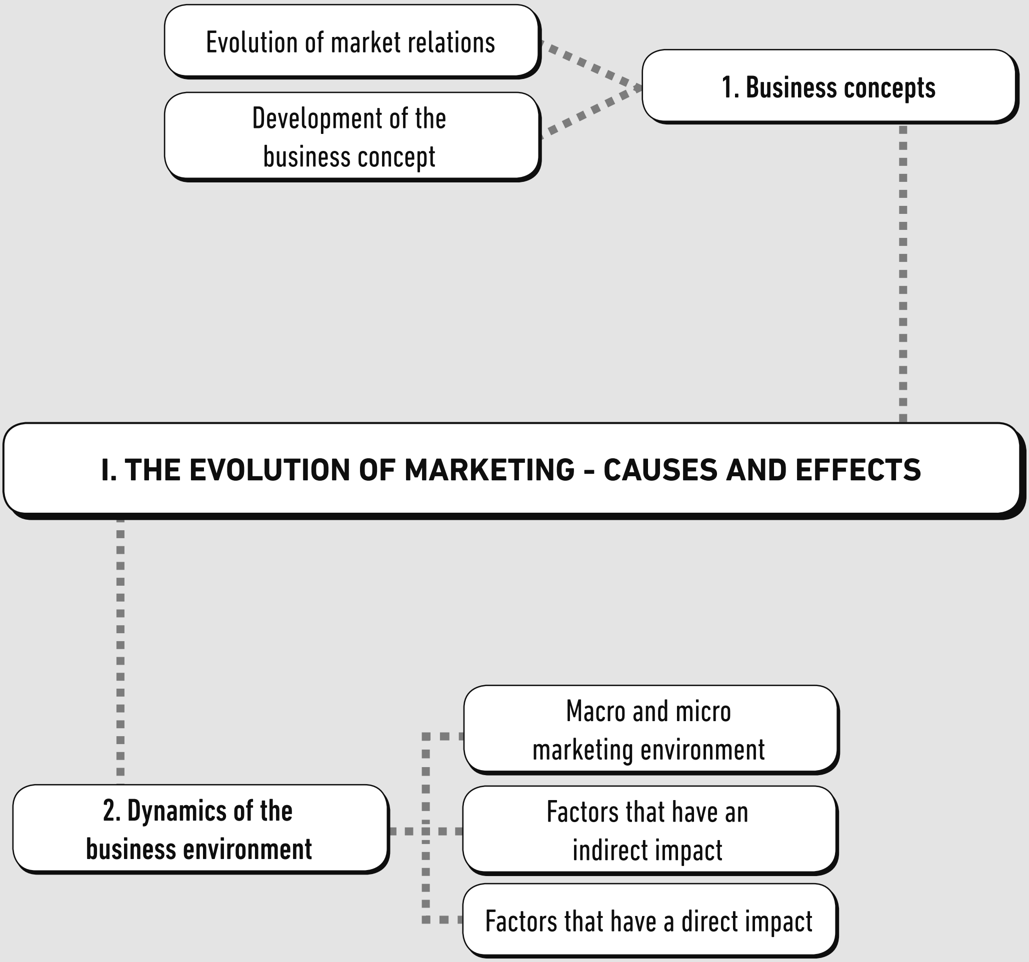
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I. THE EVOLUTION OF MARKETING – CAUSES AND EFFECTS

The way organisations operate is determined by their business concepts. By applying specific business concepts, organisations ensure the advancement and development of the economy and society as a whole. A business concept is a way of thinking and acting. Up until now, organisations have based their growth on various types of business concepts. Marketing is but one of the evolutionary stages of business concepts, and marketing itself has evolved through a number of stages. To provide a better understanding of marketing's evolution and its causes and effects, Chapter 1 discusses business concepts, while Chapter 2 explores the dynamics of the business environment.

Objectives

After you have studied Part One, you should be able to:

- Comprehend the past, present and future of market relations
- Discuss the theoretical basis of marketing
- Understand the specific characteristics of business orientations
- Explain the impact of factors in the business environment
- Understand the purpose of PEST analysis
- Identify factors that have an indirect impact on organisations
- Identify factors that have a direct impact on organisations

1. BUSINESS CONCEPTS

Generally speaking, everyone knows a lot about marketing, because marketing is all around us as we carry out our daily work-related and personal obligations. For example, as a consumer[1], you make decisions about buying a specific product[2] that you need in doing your job or for your personal consumption. However, as a person who is learning about marketing, you also take on the role of the responsible person in an organisation[3], and on this basis you will explore what an organization must do to achieve greater consumer satisfaction and higher profits. In other words, by studying marketing at this level, you will be shifting away from the perception you had of marketing as a consumer towards understanding marketing from the perspective of the responsible person in an organization. Through the entire reading of this book, you will be in the role of a marketing manager – that is, the person in charge of preparing and making marketing decisions.

Before we can begin to fully understand the concept and evolution of marketing, we need to take a brief look at the origins of marketing – that is, consider the evolution of market relations and examine the development of business concepts.

1.1. Evolution of market relations

In the pre-industrial era of handicraft production, products were created for a specific consumer or were tailor-made according to the tastes of familiar consumers. Products were made according to the needs and wants of each individual consumer, and each product differed in quality.

In the industrial era, industrial production made it possible to produce almost any product in large quantities. While the quality of products may not have improved greatly in comparison with the pre-industrial period, products were much cheaper per unit because of the economy-of-scale effect. The individual needs and interests of consumers, however, were not taken into consideration. At that time, Henry Ford is quoted as saying that his customers could have a car in any colour they wanted, as long as it was black. Today, 100 years later, the Ford Company delivers a variety of models in dozens of colours to the automobile market.[4]

Today, consumers are free to choose products not only from the local or national market, but from international markets as well. Owing to technological development, particularly where the Internet and logistics are concerned, consumers are able to purchase products from around the world – that is, from the world market. Because of technological development, manufacturers are capable of producing and delivering products that take into consideration the needs and wants of small numbers of consumers from different parts of the world who make up a specific market segment.

Although the future is difficult to predict, we can expect that one of its characteristics will be the complexity of relations on the market. Consumers will be well informed about the offering at the global level and competitors will be highly sophisticated, while resources will become increasingly scarce. To succeed in the market in such conditions, it will be imperative for organisations to focus on the world market, because success will depend upon the ability to understand and satisfy consumer's needs outside of the national market. Organisations in the future are also expected to focus more heavily on complying with ethical, environmental and social codes of behaviour in their operations.

Broadly speaking, the beginnings of marketing can be seen as linked with the earliest human activities and the struggle for survival through which people sought to satisfy their basic needs. Over time, people increasingly began to meet their needs by exchanging products with others who possessed specific products in excess of their needs. In this process of exchanging products, each side had something to offer that was both interesting and valuable to the other party. Initially, products were exchanged for products, but when money appeared, it became the medium of exchange. Although we could say that it already existed in the distant past, marketing as we know it today is tied to the period following the Second World War. In 1948, James Cullition described marketing managers as being "mixers of ingredients". Based on this, Neil Borden coined the phrase *marketing mix* in his 1953 American Marketing Association (AMA) presidential address[5], while Jerome McCarthy[6] later went on to develop the 4Ps concept, which is about the four marketing elements: product, price, place and promotion.

The following section looks at how market relations have developed across the decades following WWII and it identifies the foundations and leverages for the development of organisations on a marketing basis.

The 1950s were characterised by the powerful economy of the U.S.A., who had emerged from WWII as a victor and had suffered very little destruction, unlike most of the European countries and Japan. Having sustained enormous material damage, the latter countries underwent a reconstruction period. However, most importantly, following the war, the U.S.A. redirected its developed industrial basis from production in wartime conditions to production in peacetime conditions. Distribution and communication systems flourished. The Baby Boom in the post-war period brought about new needs and new demand. Because of growing needs and new production opportunities, everything produced in that period was easily sold. Although the product often lacked any consistent quality, it was available on all local markets due to developed transportation infrastructure. This resulted in product uniformity that, in turn, led to the rise of a hegemonic consumer culture.

The 1960s witnessed the rapid recovery of Europe and Asia on new industrial bases, while little had been done to modernize the American industry in more than two decades following the war. Faced with a new generation of competitors from Europe and Asia that made cheaper products of better quality, the American economy began to lose its supremacy on the world market because of its inability to compete with the prices and quality of foreign products.

The decade that followed was characterised by a new trend: globalisation. Globalisation emerged as a result of insufficient demand on national markets. Organisations were compelled to seek new consumers, and so they turned to foreign markets. The presence of international competition caused markets to be supplied with increasingly newer and cheaper products, giving rise to price-based conflicts between organisations.

These conflicts brought about another trend in the 1980s – the trend of enhancing business efficiency. While in the previous decades, marketers sought to identify and meet the needs of as great a number of consumers as possible, this new trend emphasized the need for cutting back on operating costs. Efforts were made to cut operating costs across all levels and in all business functions, ranging from production costs to sales costs, in order to increase business efficiency.

The period that followed focused on continuous product modification. Product modification became the norm, and its primary aim was to make each innovated product cheaper, most often at the expense of its quality. When consumers failed to respond to changes made to a product, a new or innovated product would be created. Product quality declined as a result of innovation processes based on technical and functional improvements made to existing products, rather than on improvements that consumers considered relevant.

The role of commerce as an intermediary between manufacturers and consumers gained in strength during the 1990s. Technological development and the introduction of information technology in business enabled wholesalers and retailers to monitor and analyse the products that were being sold and that were in demand. They gradually ceased to be mere intermediaries between manufacturers and consumers, becoming instead active agents in initiating and ordering products. Wholesalers and retailers possessed the information needed, they knew what was wanted on the market, and they knew the price at which a product could be sold on the market. Unmarketable products were removed from the product ranges of shops and only those products in which consumers showed an interest remained on the shelves. However, only the larger wholesalers and retailers have managed to keep abreast of, and implement, new technological solutions that are based on knowledge about consumer behaviour and building consumer loyalty.

Characteristic of the beginning of the new century was the development and widespread acceptance of the Internet as a global network that made direct communication and service provisions possible throughout most of the world. Continuous technological development enabled the use of the Internet to spread from military and academic networks into commercial networks. Together with the Internet, a new virtual market emerged and new relations were formed between actors on the conventional and virtual markets. The marketplace is very dynamic, with global competition making it even more so. Today, prior to making a purchase, especially of a costly product, consumers gather information, compare data, and analyse the characteristics of offerings from a variety of globally accessible sources. Thanks to social networks, they can do this 24 hours a day, seven days a week.

While competitive advantage was once based on low costs, differentiation and focus, today it is linked to quality, speed and innovation. In the past, the key drivers of growth and development were cheap labour and capital, whereas today they are knowledge, ideas, innovation and technological advancement. Where the Internet is concerned, technological trends involve digital communication and virtualisation. Mechanization and automation are now considered trends belonging to the old economy. While organisations had a bureaucratic and hierarchical structure in the old economy, in the new economy they are organised and networked. The tendency is to move away from mass production towards flexible production that enables manufactures to more readily adjust to the specific needs of consumers. Now relationships with other organisations in the marketplace are based on partnerships rather than on competition. Special attention is given to knowledge and research, which are seen as key sources of progress.

1.2. Development of the business concepts

Marketing theories have developed parallel with, or proactively to, successful business practices. The first and so-called Classical School is linked to the period from the beginning to the middle of the last century. It was based on the comprehensive observation of the behaviour of actors in the market, and its teachings relied on classical economics and sociology to explain and understand market regularities.

A newer way of looking at the marketing phenomenon was linked to studying market regularities from the perspective of marketing effort. This approach was connected with the Managerial School, which focused the behaviour of individuals by applying knowledge and techniques from the social sciences.

The next school, the Consumer Behaviour School, focused on the behaviour of individuals regardless of whether consumers were physical or legal persons. It also applied knowledge from other sciences – psychology, in particular – to obtain comprehensive insight into the behaviour of individuals or organisations on the market. Market regularities continue to be studied on this basis even today.

In the early 1980s, a new dimension in studying market regularities appeared. This was the strategic dimension. Porter's Five Competitive Forces Model, used in gaining competitive advantage, had the greatest influence on the Strategic Marketing School.[7]

A new approach to marketing emerged in the late 20th century and early 21st century. Called Relationship Marketing, it takes into consideration partner relationships and cooperation among actors in the marketplace. The role of marketing is broadened and, in addition to consumers, marketing now involves other market operators, such as suppliers, distributors, intermediaries and competitors. The term *consumer* also takes on a new, more comprehensive meaning, and consumers are classified as external consumers (the classical approach) and internal consumers (consumers who "buy on the internal market" within an organisation).[8]

Many organisations have performed successfully on these theoretical bases and, over time, have given preference to one of three key business orientations: production, sales and marketing. While each of these three orientations is still present today, it is a fact that those organisations that evolved towards a marketing orientation have been more successful than others.

In the past, most organisations were **production oriented**; they developed new products and then looked for a market in which to sell them. This was the foundation of their success. The primary concern of these organisations was how to increase production efficiency in order to cut product costs and, in turn, to reduce product prices. Organisations produced those products that they believed they were good at making and hoped that demand for their products would emerge automatically. Taking consumers into consideration or trying to understand them was of secondary importance, while sales and physical distribution were seen as "necessary evils" or incidental functions.

While many organisations held on to the production concept, many others began to practice the **sales concept**. They focused on maximizing their sales over the long term, because they were over-capacitated and needed to sell their products. Their reasoning was along the lines that they needed to sell what they produced, rather than produce what the market wanted. The sales concept involves engaging specially trained sales personnel whose efforts are paralleled by considerable investment in proactive activities aimed at providing information to consumers and encouraging them to buy products.

Varying degrees of success and market dynamics encouraged a new way of thinking and helped to introduce the **marketing concept**. Products were no longer seen as the result of production capacities, but rather as the outcome of market needs. More and more organisations began to focus on researching the needs of the market and take these needs into consideration. Unlike the early market that was predominantly a seller's market, the market was now becoming a buyer's market. Relations on the market were becoming more complex, and competition was growing. In such conditions, demand on the market – that is, consumer needs and wants – became a vital reference point. The objective was no longer to ensure increasingly greater production and sales, but rather to meet consumer needs to the largest extent possible. This led to the marketing concept.

The marketing concept in business is about identifying and satisfying the needs and wants of consumers on a selected target market and doing so more efficiently than the competition. The purpose is to generate income for an organisation. Business operations are based on developing long-term cooperation with consumers, delivering value to consumers, and meeting the needs and wants of consumers beyond their expectations. Hence, organisations began focusing their interest on consumer needs and wants, and on making their offerings different from those of their competitors. To achieve this, all activities, including production and finance, needed to be integrated within each organisation.

This historical review of the development and characteristics of business orientations gives rise to the question: Which concept is the most suitable in business operations? While many argue that the marketing concept, based on consumer needs and wants, can be the only "winning combination", the fact is that this does not necessarily have to be so. There are many cases in which organisations practicing the classical production concept have been shown to be very successful. For example, Nokia did not base its mobile phone innovation on consumer needs and wants, because at that time consumers knew nothing about mobile telephony. The same applies to Apple in creating the iPad. In other words, the market is so complex that it can ensure success for organisations that practise any of the three concepts. Organisations, however, are not exclusively production oriented, sales oriented or marketing oriented. Instead, they tend to combine the product concept, sales concept and marketing concept. While some organisations may focus more heavily on the product concept, others will prefer the sales concept or the marketing concept. Which concept they practise largely depends upon the characteristics of the business environment, which are discussed in the following section.

2. DYNAMICS OF THE BUSINESS ENVIRONMENT

2.1. Macro and micro marketing environment

Organisations are affected by an entire array of factors from the environment in which they operate. While some factors have an indirect effect on organisations, others have a direct effect. Many influences coming from the business environment exert an enabling effect on business practice and help create new opportunities for development, while others have a constraining effect and often impede further development. Rekettye and Rekettye Jr. argue that several trends will characterise the business environment during the coming years and will have an important impact on businesses activity and performance. The most important are a global warming and the emergence of social and societal marketing, the after-effects of the global recession and changes in buying behaviour, a power-shift in the world economy with the rise of the cultural dimension of international marketing, demographic trends affecting marketing in the coming years, the trend towards proliferation and the increasing rate of technological development and its effects on marketing.[9]

As an employee of an organisation, the marketing manager is in a position to analyse these effects and use the results obtained to make adjustments to business operations. Basically, factors can be classified as factors that exert an indirect effect and factors that exert a direct effect. The former can be found in the macro marketing environment and the latter in the micro marketing environment.

Factors that have an indirect effect come from an organisation's **macro environment** and are linked to the special features of the culture of a given environment, the level of technological development, the power of economic forces, the importance and role of ecology, the influence of political factors, demographic trends, the legal framework of operations, the characteristics of the natural environment and other factors. Four factors in the macro environment are considered as having the greatest impact on organisations. These are politics, economics, social factors and technology, and they are analysed using PEST (political, economic, social and technological) analysis.[10] Section 2.2 looks at the individual features of factors in the macro environment and examines PEST analysis.

Factors that have a direct effect on how organisations operate can act as constraints to development and/or provide opportunities for faster development. There is an array of factors in the **micro environment**, such as employees, shareholders, consumers, creditors, intermediaries, suppliers, residents, distributors, competitors and others. Section 2.3 discusses four of these factors that exert the greatest influence: consumers, suppliers, distributors and competitors.

Figure 1 Factors of the environment and adaptation by organisations

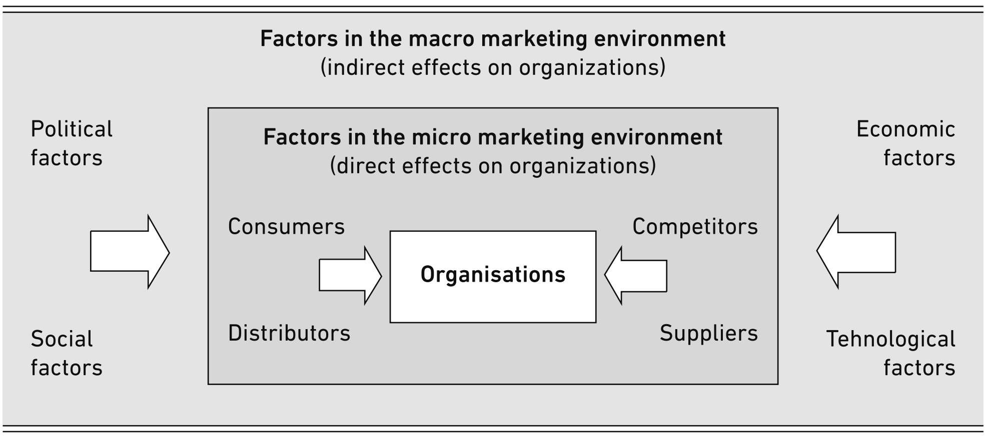

Figure 1 illustrates the factors that have an indirect and direct impact on organisations. These factors can open up new opportunities for development, but they also can be a threat to development. Organisations react to these impacts by creating and exchanging value. Key elements in creating and exchanging value are the product, its price, the manner in which the product will be distributed to consumers (distribution), and how the market will learn about the product (promotion). Finding the right combination of marketing elements in response to emerging situations is this book's focus of interest. Further discussion concerning this can be found in Part IV: Creating consumer value - Product, Part V: Estimating consumer value - Price, Part VI: Delivering consumer value - Distribution and Part VII: Communicating consumer value - Promotion.

2.2. Factors that have an indirect impact on organisations

The purpose of analysing macro environment factors is to identify the threats and opportunities that these factors present to organisations.[11] By applying the PEST analysis, organisations study the circumstances that political, economic, social and technological factors create.

By processing **political factors**, organisations can learn in which way and to which extent the governments of individual countries are involved in economic life. For example, certain political decisions or events might put a stop to a well-prepared plan for competing in the marketplace or render the plan inapplicable. In other cases, political decisions and events might help to create new opportunities in the market for some organisations. Some governments seek to create the most favourable conditions possible for economic development and the development of international commercial relations. When analysing political factors that are connected with the legal framework, marketing managers are, in particular, interested in examining a government's economic policies, legislative solutions, trade policies, the influence of lobbies at the national and international level, the importance of diplomatic missions, accepted international standards, funding through international funds, legislation concerning ecology, proposals of future legislative solutions and so on.

However, there are governments that, despite a clear commitment to a market economy, tend to make decisions for reasons known only to them that obstruct trade with other countries to a smaller or larger extent. The most common measures in this respect are tied to decisions concerning tariffs, import quotas and standards. Organisations analyse these measures and assess their impact to see whether they can help to create new opportunities or are a threat and constraint to further development.

In order to perform well, organisations must consider and adjust to trends and changes in the economic environment. In other words, they must analyse **economic factors**[12]. Keeping abreast of trends and change in the economic environment is important because of the interaction that exists between the condition of the economy and consumption. By consuming more, consumers help to improve the condition of the economy and, vice versa, if an economy is in good condition, it encourages consumption to grow. The dimensions that are examined to identify the conditions, trends and changes in the economic environment include market fluctuations, the unemployment rate, inflation, and the income of households and individuals.

Market fluctuations are analysed to determine any deviation of economic activities from the long-term growth trend. All economic activities are not equally vulnerable to market fluctuations. Organisations are interested in learning the intensity and direction of deviations. A cyclical downturn is linked to recession, inflation and unemployment, and its direct effect is seen in lower household and individual income, diminishing purchasing power and shrinking demand.

The **social environment** is made up of consumer attitudes, value systems and lifestyles. These dimensions determine which products will be purchased, the prices at which the products will be accepted on the market, the promotional activities to which consumers will respond favourably, and the venues at which they will shop. Consumer attitudes, value systems and lifestyles are dimensions of the social environment that constantly interact – that is, they affect one another. Together they generate a synergistic effect and help to create new opportunities as well as new threats for organisations.[13]

Over time, consumers have developed attitudes that clearly define what they think about the quality of a product, the availability of information, and prices. Consumers are looking for high quality and suitable prices; they want to feel that they have gained value through the exchange process. Consumers also expect to be informed about products, and that information should be clear and concise. Consumers have value systems by which they prefer products that are of good quality, reliable, easy to use and maintain; products that are multifunctional; and products that belong to a brand but have reasonable prices. Consumers want a product that will always be available or delivered on time.

Today's consumers' lifestyles are not as uniform as they were in the recent past. Today, lifestyles are actually a combination of a number of lifestyles, the primary features of which are concern for a healthy and active life, and respect for time as a resource that helps to ensure good quality of life.

Technological factors affect the improvement of production processes. Together with creating new products or improving existing ones, these factors help to create new economic activities or bring radical changes to existing ones. In this respect, technology and the technological environment have an important effect on the development of organisations. As a rule, the application of new technological solutions enables competitive advantages to be gained, especially in reference to cutting back operating costs and enhancing product quality.[14]

Technological innovation is closely linked to technological factors. Innovations may be made to products or to the process of creating products. The greatest constraint where technological innovation is concerned comes from funding, which is always insufficient, and from the fact that many new products fail in the market.

2.3. Factors that have a direct impact on organisations

In addition to the factors from the macro environment discussed above, organisations are also influenced by factors from their immediate business environment – that is, their micro environment. The most important factors from the micro environment include consumers, competitors, distributors and suppliers.

Consumers are physical and legal persons who buy products in order to satisfy their needs and wants. They are considered to be the most significant factor of the business environment, because by purchasing products they generate the income that is of crucial importance to organisations.[15] On the business-to-consumer (B2C) market, consumers are physical persons who buy products for their needs and the needs of their families, while on the business-to-business market (B2B), they are production organisations (producers) buying products to be used in production, and trade organisations (resellers) purchasing products for resale.

Marketing managers seek to understand the characteristics and behaviour of end consumers or business buyers. To this end, they conduct research to obtain answers to questions, such as who are the consumers; by which characteristics does one group of consumers differ from another; what do consumers buy, how much and when; how satisfied are they; are they loyal; has the number of consumers grown or shrunk, etc. This research provides information that is the basis for making business decisions concerning the selection of consumers for which a product is intended, or concerning product modification, change in the place where a product can be purchased, change in prices and other issues. A detailed discussion on the characteristics of consumers is given in Part III: Identifying and analysing markets.

Competitors are factors in the micro environment that affect, to a smaller or greater extent, the performance of organisations, and as such they need to be studied carefully. Competitors are actually other organisations that operate in the same market – that is, they market products that satisfy the same needs or wants of consumers.[16] It should be kept in mind that in globalized markets, competitors are not only organisations that are part of the national economy but also organisations from other countries.

Competitive research can be conducted to identify the basic shortcomings of competitors, such as smaller market share, minor increase in market share, slow development of new products, an obsolete technological basis, etc. A competitive assessment may also show the opposite, that competitors have a large share of the market, are continuously increasing their market share, are developing new products at a rapid pace, or are working with the latest technologies, all of which individually and/or together constitute considerable advantages for competitors. Hence, competitive research is conducted to identify both the shortcomings and advantages of competitors.

Competitive research represents an analysis of the strengths and weaknesses of competitors that make it possible to understand one's own competitive strengths and weaknesses. It helps organisations to fully understand and anticipate the strategies of competitors and to select their own strategies. This analysis is based on secondary and primary information sources. The most important information is considered to be information coming from a competitor itself (how it talks about itself) and information coming from other organisations in the marketplace (what others say about the competitor), as well as the internal information within an organisation (how its employees see the competitor). The benefits of knowing the competition are multiple, because competitive research provides a platform on which an organisation can gauge its own positions, make a comparison with its most important competitors, identify the opportunities and constraints within its field of operations, and assess its own strengths and weaknesses.

Distributors are organisations engaged in ensuring that the product of a given manufacturer is sold on the market and that products reach consumers – hence, the important influence of distributors on manufacturers.[17] This influence can either facilitate the development of a given manufacturer or it can be indifferent to the manufacturer's development. On the one hand, cooperation between distributor and manufacturer can reach such a level that common interests in satisfying consumers are agreed upon and vertical marketing systems are created. On the other hand, the manufacturer-distributor relationship can be based on commercial relations when one and/or the other party has only a one-off interest in satisfying consumers.

Organisations can directly sell their products on the market by developing their own commercial networks through which consumers can buy their products. In most cases, however, they choose to use intermediaries – that is, distributors – to market their product.

Distribution is not a static process. Instead, it is subject to change, just like all other factors in the business environment. There can be situations in which a distributor loses its importance over time or changes the way it operates. While such changes may not be sudden or drastic, they still need to be monitored and analysed to ensure that manufacturers will be able to make a timely adjustment to the new situation. Distribution and the role of individual actors in the distribution process are discussed in more detail in Part VI: Delivering consumer value - Promotion.

Suppliers are organisations that have a direct impact on performance. By studying suppliers, companies seek to learn about their special features, their strengths and weaknesses in order to reinforce cooperation, and to adjust their supplier relationship strategies.

Namely, producers procure products for further production or for immediate consumption, while resellers procure them for reselling. In procuring raw materials, production materials, finished products, auxiliary products, services and other necessities, organisations cooperate with many suppliers and, in many ways, their success is linked to the relationship they have with these suppliers.

Many organisations dedicate too little or insufficient attention to supplier relations. While most companies have a well-established supplier network, they fail to develop business relations with their suppliers despite the fact that many studies show that organisations that develop partnership relations with their suppliers and have a supplier relationship strategy do, indeed, perform better than others.[18] The most common issues arising from supplier-manufacturer relations are linked to delivery times and concern for the delivery of the quality requested. These two demands have generated the concept of just-in-time (JIT) manufacturing[19] and the concept of total quality management (TQM)[20]. According to the first concept, products are produced and delivered when they are needed in order to keep stock levels at a minimum and to ensure that pressure is not put on the production process. In TQM, suppliers rely on a long-term orientation towards continuous quality improvement that will meet and exceed the expectations of organisations as consumers.

Supplier relations are particularly important when developing a new product and trying to win a new market. Collaboration and partnerships with suppliers are exceptionally important in these processes because suppliers indirectly participate in creating new value for consumers. Adjusting to newly emerging conditions is the topic of this book's next part, which discusses issues concerning value exchange and the resolution of market discrepancies, and then goes on to examine marketing activities management and to explore new paradigms for the market oriented business concept.

SUMMARY

To be able to understand today's marketing, as well as the marketing of the future, we need to understand its origin. Successful marketing practice and the development of marketing theory are joined by a cause-effect link and are directly tied to the evolution of market relations, the development of marketing concepts and an understanding of the influences emerging from the macro and micro marketing environment.

In a very simplified way of looking at marketing, certain marketing forms can be linked to human activities through which people sought to satisfy their basic human needs. With time, people began to satisfy more and more of their needs by exchanging with other people the products they had in surplus. Bartering emerged, in which each side offered the other something that was interesting and of value. Initially, one product was exchanged for another in this process. With the appearance of money, however, exchange became based on money as a medium. Although we could speak of marketing even in those long-ago times, marketing as we know it today is linked to the second half of the last century. That was when the first theoretical postulates concerning marketing emerged. Those theories were based on successful business practice, and economic reality was the result of studying and implementing marketing knowledge. Marketing thought has evolved through the so-called classical school, the managerial school, the school focused on consumer behaviour, the strategic marketing school and the school that views marketing within the context of developing relationships with other actors in the market (relationship marketing). Many organisations have built their success focusing primarily on one of three business concepts: the production concept, the sales concept and the marketing concept. While each of these

concepts is still used today, it is a fact that organisations that have evolved towards the marketing concept are in general more successful than those that have not. The present and future development of organisations is affected by factors in their environment. In analysing these factors, we see that some have an indirect influence on development, and others, a direct influence. Factors in the macro marketing environment that exert an indirect influence are political, economic, social and technological factors. Direct influences are linked to factors in the micro marketing environment, the most important of which are consumers, competitors, distributors and suppliers.

CRITICAL THINKING QUESTIONS

1. Give some concrete examples of your experiences as a consumer in the market.
2. Explain the features of the pre-industrial, industrial and post-industrial periods.
3. Point out the scientific basis and levers of marketing development in the period after the Second World War up to the present.
4. Marketing theories have developed parallel to or proactively with successful business practices. Explain the features of each theoretical school.
5. The key business orientations of organisations are linked to the production concept, the sales concept and the marketing concept. What are the characteristics of each concept?
6. Which factors have a direct effect on organisations, and what are their characteristics?
7. What does PEST analysis do? Explain using an example.
8. There are four key factors that have a direct impact on the operations of organisations. Point out the features of each factor.

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NOTES

[1] The term *consumer* shall be used to refer to legal and physical persons who purchase products for the purpose of consumption and who satisfy their needs through consumption. A distinction must be made between the terms *consumer* and *customer*. Although the consumer and the customer may be the same person, in most cases they are not and do not necessarily need to be. A customer is an individual who buys a certain product, thus directly carrying out a market transaction or market exchange, regardless of what the object of exchange might be. A customer's needs are derived from consumer needs. In other words, it is the consumer who has the need for a specific product or service.

[2] The use of the term *product* is based on the concept of a total product that includes physical products, services and ideas that are sold in the mass consumption market as well as in the business market.

[3] The term *organisation* shall be used to refer to any entity operating in the market regardless of whether or not its primary motivation is to make a profit.

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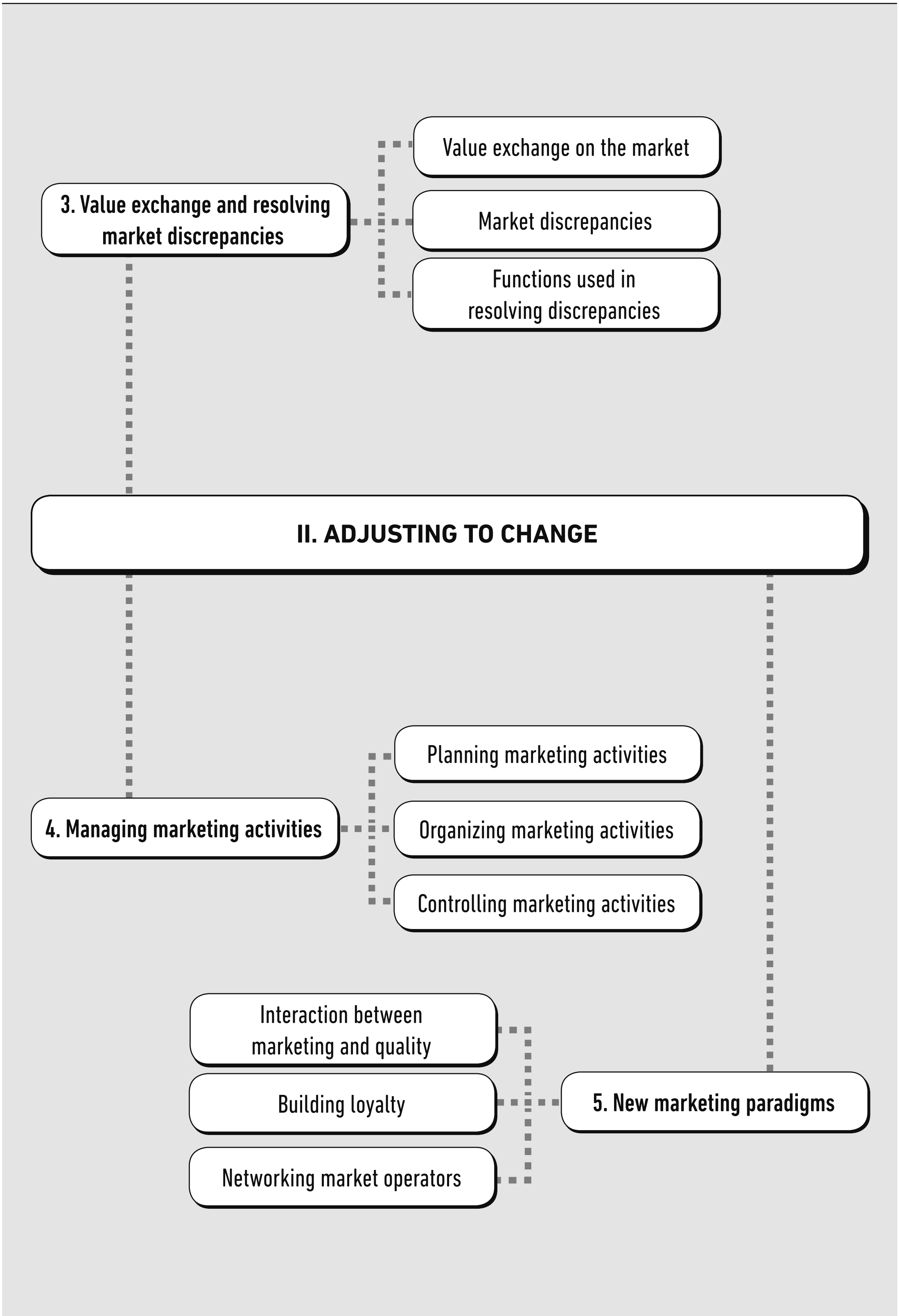


3. Value exchange and resolving market discrepancies
Value exchange on the market
Market discrepancies
Functions used in resolving discrepancies
II. ADJUSTING TO CHANGE
4. Managing marketing activities
Planning marketing activities
Organizing marketing activities
Controlling marketing activities
Interaction between marketing and quality
Building loyalty
Networking market operators
5. New marketing paradigms

II. ADJUSTING TO CHANGE

The business environment is constantly changing. As discussed in previous chapters, an array of forces impact on the business environment and modify it. The dynamics of the environment are imposing new rules about the way organisations should behave and operate. To survive in the market, organisations must adapt to change. With regard to this, Chapter 3 looks at value exchange. It explains how organisations can resolve market discrepancies using marketing functions through which consumers receive utility. Chapter 4 focuses on managing marketing activities to facilitate adjustment to change, and Chapter 5 explores the interaction of marketing and quality, the development of loyalty and the networking of organisations as new marketing paradigms.

Objectives

After you have studied Part Two, you should be able to:

- Understand the concept of exchange on the market
- Recognize market discrepancies
- Discuss marketing functions in resolving market discrepancies
- Identify the types of utility delivered to consumers
- Understand how marketing effort is managed
- Understand the purpose of SWOT analysis and how it is carried out
- Discuss Ansoff's matrix of strategic options
- See how marketing activities are organised
- Discuss the process of controlling marketing activities
- Explain the interaction of marketing and quality
- Understand how consumer loyalty is developed
- Analyse the development of partner relationships and networking among organisations

3. VALUE EXCHANGE AND RESOLVING MARKET DISCREPANCIES

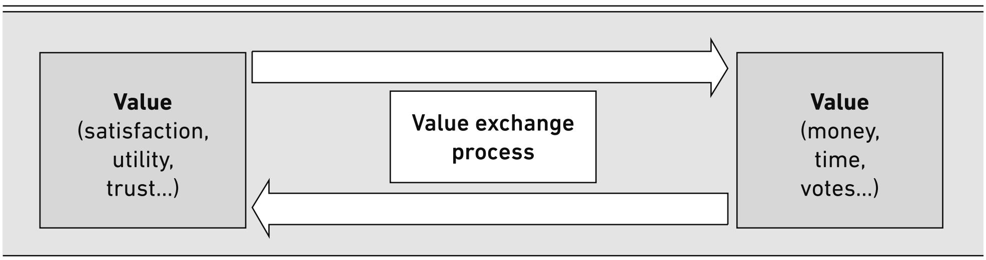
3.1. Value exchange on the market

Value exchange occurs in a market influenced by the environmental factors discussed in the previous sections. Exchange is a process in which organisations offer to consumers the products they need and that represent value to them, and in return for which they are willing to pay an equivalent value that is expressed in money in the modern economy.[1] Organisations use the money they have received to invest in new business ventures and, to them, money is value. The exchange process is completed: organisations sell products that represent value to consumers and, in return, they receive value (in money, most often) for the products delivered.

The exchange process takes place when exchangeable items exist, when communication exists between organisations and consumers, and when both actors on the market accept the exchange according to the value criterion. In other words, exchange refers to obtaining something of value in return for giving something else of value. Exchange is linked to the concept of benefits – benefits for one side or the other, or as is most often the case, for both sides. This can be an economic benefit, but also a benefit that is manifested in some other way, such as the psychological benefit of owning a sports car.

Figure 2 illustrates a simple exchange model in which two sides exist, each of which according to its own criteria, exchanges "something" that represents value to the other side.

Figure 2 The exchange process



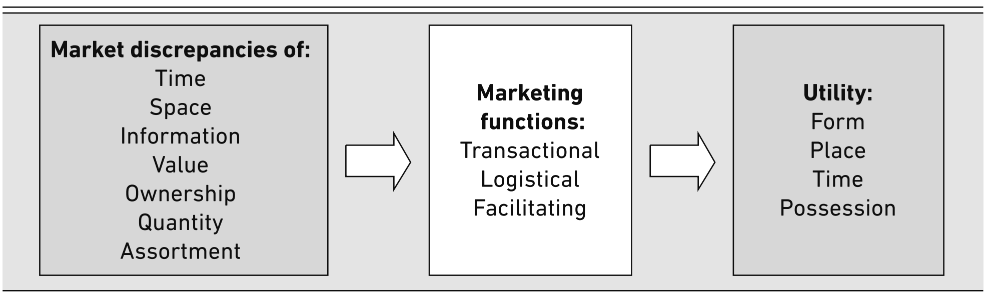
Value exchange on the market is based on market-oriented business operations – in other words, business operations based on marketing principles. Value exchange is an engine of business life, because everything revolves around a value that one person has and the other person does not have but is prepared to pay for or give something else in return for it. In the modern economy, consumers, together with their wants and needs that are defined as demand, are drivers in the creation of products and value. The exchange process, from beginning to end, is affected by market discrepancies. These discrepancies are resolved through the application of marketing principles

3.2. Market discrepancies

Discrepancies occur in the process of satisfying needs. Consumers, as the creators of demand, have one set of limitations and opportunities, while organisations, as manufacturers and providers of supply, have a different set. The most evident discrepancies are the following: spatial discrepancy, temporal discrepancy, discrepancy of information, discrepancy of value, discrepancy of ownership, discrepancy of quantity and discrepancy of assortment.

Discrepancies emerge on the market because the offering of an organisation is not consistent with the needs of the consumer. To resolve market discrepancies, the business may employ a number of marketing functions, resulting in utility for actors on the market.[2] The relationship of market discrepancies, marketing functions and utility is illustrated in Figure 3 and discussed below.

Figure 3 Relationship of market discrepancies, marketing functions and utility



Spatial discrepancy between the manufacturer and consumer is caused by spatial separation. While manufacturers may operate in one or more locations, consumers can be found in a great number of locations.

Temporal discrepancy occurs when a consumer is not able to or not interested in consuming a product immediately upon production. This gives rise to the need for warehousing the product and then transporting it at such a time when demand is present.

Discrepancy of information is the result of an organisation not knowing the consumer's needs, as well as the result of consumers being poorly informed about the production possibilities and production/sales programme of an organisation.

Discrepancy of perceived value occurs because manufacturers evaluate products based on costs and competitive prices, while consumers evaluate products based on economic benefits and purchasing power.

Discrepancy of ownership emerges as the result of the ownership of products by organisations, which are not meant to be consumed but to be sold. On the other hand, consumers aspire to the ownership of products that they need but do not possess until the act of buying has been completed.

Discrepancy of quantity occurs because manufacturers seek to produce large quantities to achieve the effect of economies of scale, while consumers buy and use only one piece of product, or perhaps a small number of products, at a time.

Discrepancy linked to asymmetry in the sales programme (discrepancy of assortment) results from the fact that organisations are focused on specialisation and on producing a limited production programme, while consumers want a broad offering and are not interested in the offering's source. They do not care whether the offering is from one source or manufacturer or from a number of them. What matters to consumers is that they can select from a broad sales programme.

Market-oriented organisations that operate according to marketing principles and implement the marketing concept[3] are capable of successfully overcoming these and other discrepancies. By implementing the marketing concept, organisations ensure they have an active relationship with consumers. Such a relationship takes into consideration market demands and helps to adjust the offering to consumer needs. Manufacturers begin to react in a new way that places consumers, and their needs and wants, in the focus of interest. In meeting these needs and wants, manufacturers undertake an array of activities to adjust their offering to demand in the market. In this way, the objective of organisations shifts from maximising sales to satisfying consumers while generating a profit.

By operating on marketing principles, manufacturers ensure that through exchange with consumers, both sides receive the value they expected. The consumers get the product at a location that suits them, at the time needed and at the price they expected, while organisations receive value in the form of money or profit generated by selling the product. In this context, exchange is seen as a process of generating benefits. Through exchange, both sides find themselves in a more favourable position compared with the position they had prior to the exchange. To resolve market discrepancies, organisations can use three marketing functions.

3.3. Functions used in resolving discrepancies

To resolve market discrepancies, organisations operating on marketing principles may use the transactional function, the logistical function and the facilitating function.

The **transactional function** is, in fact, the act of selling and buying a product that takes place between two market actors: the manufacturer and the consumer. Selling involves promoting the product through advertising, personal selling, PR/publicity and sales promotion. Selling is an activity that helps to resolve discrepancy of perceived value and discrepancy of ownership, because it enables consumers to see that a product exists and that it has value. That is why products are put on display so consumers may examine them. Buying involves seeking and assessing alternative offerings. The issue of ownership is resolved through sales. By paying, consumers become the owners of the product and can perceive the value they have purchased.

The **logistical function** involves warehousing and transporting the product. This function helps to overcome discrepancies of space and time, thus ensuring the product is at the right place and available at the time when consumers need and/or want it.

The **facilitating function** involves financing product development, holding the product and carrying the risk of storage, ensuring information from the market, and defining standards for product valuation and then using these standards to price products. The facilitating function helps to overcome spatial discrepancy, temporal discrepancy, discrepancy of perceived value, as well as discrepancies of ownership and value.

When the marketing concept is implemented and market discrepancies are resolved using the marketing functions mentioned above, utility is created for both kinds of market actors – sellers and buyers. Utility has a subjective dimension, which means that a specific product will have a different value for different physical or legal entities. It is also possible that at different times the same product can yield a different utility to the same person.

A distinction should be made between four types of utility: form utility, place utility, time utility and possession utility.

Form utility is achieved by making a product that ensures the offering matches the needs and wants of consumers.

Place utility is achieved by marketing the offering in the place where consumers need the product.

Time utility is achieved by supplying a product exactly when consumers want it.

Possession utility is achieved by transferring ownership of products to consumers so that they can consume or use them. It is achieved by ensuring conditions that will facilitate consumers in coming into possession of the products purchased. These conditions include enabling payments to be made in cash at the cash desk, by credit card, through loans or in other ways.

Marketing's role in creating utility is indispensable. By providing information relating to the required design of a product, marketing contributes to the creation of form utility. Marketing has an important role in creating place utility by ensuring conditions that enable products to be marketed where consumers want them. It further facilitates the achievement of time utility by ensuring that products are marketed at the right time and possession utility by enabling the transfer of ownership from seller to consumer.

The role and importance of marketing, however, is much greater than this. Marketing can be viewed from the macro perspective and the micro perspective. From the macro perspective, marketing is seen as a social process in an economy that directs the flow of products from manufacturers to consumers by efficiently bringing together supply and demand, thus accomplishing the goals of society.

Viewed from the micro perspective, marketing is about carrying out activities aimed at accomplishing the goals of organisations by anticipating the consumers' needs and leading products from the manufacturer to the consumer. Marketing is seen as a process that organises and focuses all those business activities that are involved in assessing the consumers' purchasing power and transforming it into effective demand for a specific product, and then delivering the product to the consumer or user while ensuring that the targeted profit is gained.

Marketing can also be seen as a process that ensures the distribution system, which, in turn, supports transactions and consumption in a democratic society and a market-oriented economy. Marketing is also looked upon as an organisational function and a set of processes aimed at creating, communicating and delivering value to consumers, and managing consumer relations in a way that benefits organisations. Marketing is a business philosophy – a process responsible for anticipating, identifying, and satisfying present and future needs.

From the above, we can conclude that marketing is *the process of creating and exchanging value between organisations and consumers*. This definition of marketing implies that consumer needs and wants are the starting point in the value creation process and that consumers are, and will be, the focus of interest for marketing theory and successful marketing practice.

4. MANAGING MARKETING ACTIVITIES

4.1. Planning marketing activities

For the market-oriented business, marketing is a keynote in defining and meeting business objectives in regard to consumers. To successfully carry out marketing, it is necessary to manage marketing effort. In other words, it is necessary to successfully unite all the strengths of an organisation and focus them on opportunities that the market offers. Knowledge and effort must also be invested in order to avoid threats that arise from factors within the business environment.

By managing marketing effort, organisations define the way in which they adjust to changes within the environment. Not only can they respond to change but they can also anticipate change. Marketing effort provides a basis for proactive rather than reactive activities to market changes.[4]

The situation analysis of an organisation is the starting point for managing marketing effort. Organisations use the results of situation analysis to determine the marketing objectives they wish to achieve and formulate marketing strategies for accomplishing these objectives. Next, they implement and carry out their marketing strategies – that is, they organise implementation by precisely defining the duties and responsibilities of employees. Finally, these planned and organised activities need to be monitored. This involves putting into place a system for evaluating outcome. When individual marketing efforts do not yield expected results, it is necessary to determine the reasons for these deviations in order to correct them before they become destructive. Regardless of whether corrections are needed or not, by evaluating results new information is secured for a new situation analysis. If required, marketing objectives and strategies are redefined, new organisational structures are created, and results are again evaluated in continuity. All this is performed for the purpose of continuously adjusting business operations to market dynamics. Therefore, marketing effort is not a single act but a process, the characteristics of which are discussed below.

How an organisation will manage its marketing effort depends upon the results of situation analysis. The business situation is a result of factors from within the environment that can create new opportunities or/and constrain development. These influences come from the macro level (political, economic, social and technological factors discussed earlier) and the micro level (competitors, suppliers, distributors and consumers). Organisations react to these influences based on their competencies determined by their internal strengths and weaknesses.

Situation analysis is carried out by analysing external opportunities and threats, as well as internal strengths and weaknesses. This analysis is called a SWOT analysis, the acronym for strengths, weaknesses, opportunities and threats.[5] It is a multidimensional process that implies an inductive and deductive, intuitive and networked approach.

SWOT analysis enables and facilitates the planning of measures for overcoming an organisation's weaknesses, as well as measures to ensure the early diagnosis of threats coming from the business environment. SWOT analysis results also provide information about opportunities emerging in the market and about the internal strengths of the business. It is usually depicted as a matrix in which quantitative and qualitative dimensions are represented, as shown in Figure 4.

Figure 4 SWOT analysis

Internal factors

Strenghts:
- Innovated products,
- Highly-educated employees
- …….

Weaknesses:
- Undeveloped channels of distribution,
- Prices
- …….

External factors

Opportunities:
- The opening of new markets in the EU,
- New consumer needs
- …….

Threats:
- The emergence of new competition on the market,
- Expensive new technology
- …….

SWOT analysis is based on separately identifying internal factors and external factors. These factors are selected by their importance for, and influence on, an organisation. Upon selection, each factor is assessed to determine its intensity (strong or weak) and its nature (enabling or constraining). It is advantageous to carry out SWOT analysis several times a year because of the high dynamics of the business environment.

An evaluation of internal weaknesses and strengths and external opportunities and threats secures a critical level of information. This level of information is necessary for formulating business objectives and devising strategies to achieve them. The overarching objective is to neutralize or minimize internal weaknesses and threats from the environment so that their constraining influence on business is reduced, while at the same time taking full advantage of internal strengths and external opportunities to facilitate further and faster development.

An analysis of the current and anticipated internal and external situation is useful to determine how and when an organisation can combine its own internal strengths with external opportunities by using one or more marketing strategies. Steps can also be taken to turn internal weaknesses into strengths and external threats into opportunities. Ultimately, the results of situation analysis will reveal an organisation's position. This position is the basis for defining the future – that is, formulating business objectives and devising marketing strategies to achieve them.

Within the context of marketing effort, situation analysis is followed by **defining objectives**. Because the realization of objectives is directly tied to employees, objectives should be written in a clear and unambiguous way; they should neither be too long nor hard to understand. Objectives are usually quantitatively expressed in absolute or relative values, and sometimes qualitative formulations are used. For objectives to be motivating they must be unambiguous, precise and written in a manner acceptable to the majority of employees. This is very important in ensuring that all employees are involved in accomplishing objectives and achieving success.

Objectives are the desired or needed result to be achieved within a specific timeframe and accordingly they may have a very wide scope. According to Ansoff, such objectives can be linked to market penetration, to market and product development, or to diversification.[6] They should necessarily be SMART (specific, measureable, aligned, realistic and time scaled).[7]

The specific features of these objectives derive from the precise formulation of what the business wants to or can accomplish. Objectives must be clearly defined and unambiguous, for only such objectives will be acceptable to those who must accomplish them. When these objectives are specific, they contain precise information about who should carry out which tasks when, where and how.

The measurability of objectives is linked to establishing clear criteria for measuring results in a certain time period. Clearly defined objectives are those that are quantitatively defined and answer the question: *How much?* Measurability, as a distinct feature of objectives, enables organisations to see whether they have reached their objectives or tells them how much additional effort will be needed to fulfil them.

Objectives must be aligned and consistent so that when lower-ranking objectives are accomplished, they can contribute towards realizing higher-ranking ones, while all together they help towards fulfilling the main objective. The consistency of objectives is ensured by their coherence and their non-exclusivity. Namely, if organisations have multiple objectives, these should be connected and must not be mutually exclusive in achieving the main objective.

Objectives must be realistic. Basing the future on the wishes and unrealistic objectives of managers, owners or shareholders could cause an organisation to find itself in an adverse situation. Also, objectives that are set too high or too low are meaningless and may have a constraining effect. Therefore, it is necessary to plan objectives that are stimulating yet realistic.

Every well-set objective has a temporal dimension within which it is to be accomplished. Defining a time scale is necessary to enable organisations, their employees and management to invest additional efforts into carrying out set tasks within the time available. The time scale can be long term, most often from a year to three years; medium term, up to a year; and short term, from several days to several months. Because of the dynamics of the environment, long-term objectives most often must be modified. Such objectives, therefore, lack consistency, which is an essential component of any well-defined objective.

To accomplish the objectives it has set, an organisation must formulate **marketing strategies**. When formulating a marketing strategy, the main focus is on how to achieve and maintain a competitive advantage. Special attention is placed on how to take advantage of market opportunities and the organisation’s strengths.

Choosing the right strategy is based on knowledge of the market, intuitive reasoning, trials and learning from mistakes. When developing strategic approaches, organisations have many kinds of strategies at their disposal. The most important will be analysed below:

penetration strategy, market development strategy, product development strategy and diversification strategy. According to Ansoff, these strategic approaches are the result of observing the dual dimensions of the product/market and their combinations: new/old product and new/old market[8] (Figure 5).

Figure 5 Strategic options of organisations

		Market: Existing market	Market: New market
Product	Existing product	Penetration	Market development
Product	New product	Product development	Diversification

When implementing marketing strategies, an organisation usually starts by taking advantage of the opportunities provided by existing markets and existing products. This is the market penetration strategy. Once it has exhausted this option it begins to expand to new markets by implementing the market development strategy. The next strategic option is strategic product development by which the business offers new products on an existing market to foster its further development. The most complex strategic approach deals with developing a new product for a new market. This kind of development strategy is called diversification strategy.

The least risky and most often used is the **market penetration strategy**. This strategy enables greater sales of existing products on a market on which an organisation is already present. Existing business capacities and resources are used to achieve this strategy. The objective is to maintain or increase the market share for existing products. Organisations can achieve this by encouraging their consumers to buy more of their products.

When a need for expanding business arises, then the **market development strategy** is the most acceptable. Here organisations seek new markets for existing products by finding new market segments, by using other sales channels and by using various pricing strategies for various consumers. It also is possible to extend sales to new geographic markets.

Another strategic development option that organisations have is the **development of a new product** intended for an existing market and for existing consumers. Developing a new product refers not only to making a completely new product but also to improving an existing one. This strategy is applied when a decline in demand for an existing product has occurred. It involves altering and redesigning the existing product, improving post-sale services and the like, or developing a completely new product. This serves to retain old customers and attract new ones.

The **diversification strategy** is the most risky of development strategies because it involves both market development and product development, and it may exceed the competencies of an organisation. To implement this strategy, an organisation must possess the financial and technological resources as well as human resources required. The diversification strategy can be very risky, especially when an organisation moves into a new market that it does not know well. Diversification can also prove to be very profitable if there is no strong competition in that market. However, the success of this strategy is questionable for many. Therefore, organisations are recommended to focus any free resources they might have primarily on developing new products or on building a competitive advantage in a specific market.

4.2. Organizing marketing activities

Once the marketing strategy needed to achieve an organisation's marketing objectives has been determined, marketing effort is focused on coordinating marketing activities. Duties and tasks that need to be accomplished are determined and a coordinating mechanism is defined. By coordinating marketing activities, the unity of the objective is achieved – namely, all employees are synchronized in achieving the marketing objectives. For this purpose, a suitable organisational structure is defined, one that can be represented by a two-dimensional matrix: product/market. The first dimension pertains to a large/small number of products of an offering on the market, while the second dimension pertains to a large/small number of markets that are supplied with products. A combination of these dimensions will lead to various approaches for organizing marketing activities. These approaches are function based, product based, market based and matrix organisation (Figure 6).

Figure 6 Organizing marketing activities

		Market	
		Few markets	Many markets
Product	Few products	By function	By market
	Many products	By product	By matrix organization

Marketing activities are organised by function when an organisation is present in a small number of markets and with a small number of products. These marketing activities include market research, new product development, distribution, promotion, pricing, providing pre-sale and post-sale services, and so on. The responsibility for carrying out tasks in a functional organisation is delegated to employees expert in specific marketing functions. Certain functions may be brought together to form a group.

Marketing activities are organised by market when an organisation is present in many markets with few products. This approach in organizing marketing activities is especially beneficial when the specific attributes of consumers vary from market to market and when a certain level of specialization is required according to market criteria.

An organisation will organise its **marketing activities by product** when it has many products in a small number of markets. Organisations that lean towards innovation and/or new product creation prefer this type of organisation. A professional is placed in charge of products or groups of products; this is the product manager who is in charge of the product from the development stage to the selling stage.

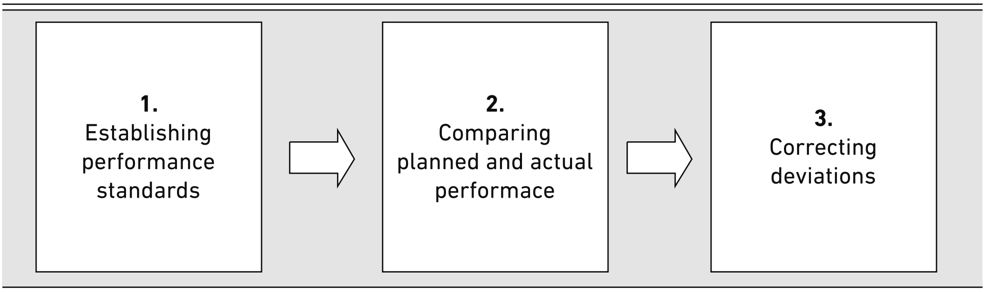
The **matrix organisation of marketing activities** builds a team consisting of specialists in various functional areas together with specialists in charge of developing individual products. Though very simple in theory, the matrix organisation is more the exception than the rule in practice. Namely, the matrix organisation of marketing activities is suitable for organisations that are present in several markets with a large number of products. There are many advantages to this organisational form, and they range from being able to involve a larger number of experts for individual areas of decision making to being able to respond more rapidly to changes in the market.

4.3. Controlling marketing activities

Marketing effort will be ineffective if its outcome – that is, the results of marketing performance – is not measured and controlled. The basis for controlling marketing activities is linked to marketing objectives, to the strategies by which these objectives are achieved, and to the way implementation is organised. In other words, marketing control focuses on the components of the process of planning and organizing marketing activities.

The practice that has reduced the role of controlling to correcting needs to be changed. This practice exercises learning from mistakes as a way of becoming better at assessing future business operations. Successful practice, however, shows that it is more effective for organisations to control their marketing activities by constantly measuring how well their planned objectives are being accomplished and detecting any deviations *before* they become destructive. The marketing control process should therefore involve establishing performance standards, comparing planned and actual performance, and finally, taking steps to correct deviations (Figure 7).

Figure 7 Marketing control process



In the first stage, **marketing performance standards** are established – that is, the parameters to marketing control are defined. The most common performance standards are profit, sales, marketing costs, product positioning and consumer loyalty.

In the second stage, **planned performance and actual performance are compared**. The analysis method is used to compare planned and actual profit, sales, costs and similar parameters. The results of each parameter analysis are then compared with the results achieved by an organisation's most important competitors. In this way, organisations can evaluate their position and assess trends relative to change in the market. In addition to these primary parameters, organisations may also use others, such as market share, new product development and distribution channel development.

In the third stage, the marketing control process focuses on taking **corrective action** in the area of objectives and performance standards, as well as in the area of the marketing mix, marketing strategies and the organisation of marketing activities. Marketing control is carried out on a regular basis, most often quarterly and annually.

Marketing control is not seen as the end of the process of managing marketing activities, but rather as one of the steps in improving business operations. Namely, information gathered by controlling marketing activities provides a sound basis for a new situation analysis, as well as for setting new marketing objectives, devising new strategies, reorganizing marketing, and again, controlling marketing activities to enable organisations to adapt as best as they can to the dynamics of the market.

5. NEW MARKETING PARADIGMS

Organisations operate in an environment that is constantly changing. The dynamics of the environment impose new rules of behaviour at the root of which is adjustment to change. This drives organisations to embrace new paradigms of action that focus on improving quality (5.1), creating loyal consumers (5.2), and reinforcing cooperation among market actors (5.3). The following sections discuss change, which challenges marketers and encourages the development of new marketing paradigms.

5.1. Interaction between marketing and quality

In new market conditions, creating well-designed products is a precondition to matching the increasingly differentiated expectations of consumers. Hence, successful organisations focus their attention on understanding consumers and delivering to them high quality products which satisfy their needs.

An important feature of any product, quality has a broad meaning. Depending on our viewpoint, we can refer to the quality of a product's material, the quality of its components, colour, safety, etc. From the marketer's perspective, it is all about how consumers experience and accept quality. Today consumers are increasingly looking to buy quality products, and they are willing to pay more for a product of greater quality. While this is a trend that marketers need to be aware of, they must also understand that product quality in itself is not the objective. The basis for determining quality depends upon consumers' attitudes and their expectation for more or less quality. Research in this area is essential, because quality is no longer viewed only from a technical perspective.

Quality management is seen as a source of strength for gaining competitive advantage. Quality management has an important influence in modifying the marketing concept. According to Bathie and Sarkar, as well as Zineldin, understanding quality management as an approach to performing successfully in the long run based on consumers' needs and wants and on matching consumer expectations has brought about a change in the marketing concept. Ensuring consumer satisfaction through quality management is based on the participation of all employees in improving processes, products and the business culture.[9]

In the recent past, understanding quality was linked to fulfilling technical and statistical criteria and to comparing a product with other similar products. Today, however, quality is judged by taking into consideration the consumers' attitudes concerning product quality. Now and in the future, quality will be defined by consumers, rather than by engineers and statisticians. This new approach takes into account consumer expectation and uses it as a benchmark. Only a well-designed product can be exceptional and superior in the opinion of consumers. Quality improvement is achieved by improving the physical as well as non-physical features of an offering. This is a process, not a one-off event. The results of quality improvement can be measured in a number of ways. Although various methods may be used, the ultimate evaluator is the consumer. Consumers express their favourable opinion of quality through repeat purchase and/or by positive word of mouth.

This has turned quality into a dynamic dimension. Recent decades have seen the rise of systematic quality improvement based on Total Quality Management (TQM)[10]. TQM is not only about eliminating errors in the design of a product; it is also about improving value delivered to consumers. TQM is based on the assumption that every employee should seek to improve the quality of his/her part of the business process, as well as the quality of the preceding and subsequent part of the business process.

Quality that consumers appreciate is also achieved through products that differ from those of competitors. This is primarily achieved by providing additional services to a product or by providing a product that is new to consumers. Organisations sometimes seek to meet consumer needs and wants that have not been clearly defined. They try to measure up to consumer expectations but many fail, because they find there is no demand on the market for their products. It is not enough for an organisation to design a product that is different from the products of its competitors; it is important that consumers are aware of this difference. Otherwise, the outcome is certain – there will be no market for the product. If consumers are unable to distinguish between the differences and advantages of one product over another, it is the same as if these differences and advantages did not even exist. Consumers then tend to make a choice based on price. In the long run, such solutions do not work for either the manufacturer or the consumer. A product's quality is not expressed only in technical terms, such as durability or reliability, but also in the product's ability to fulfil or even exceed consumer expectations. The true measure of quality is tied to ensuring consumer satisfaction.

To this end, many organisations have developed consumer satisfaction programmes that they use to measure results by comparing deviations in the planned and achieved levels of consumer satisfaction. When consumers buy a product, they expect the product to match their expectations. When this does not happen, consumers become dissatisfied and the next time they shop they will look for new sources to meet their needs. However, when consumers are satisfied with the purchased product and, in particular, when their satisfaction exceeds their expectations, they will become loyal to a product brand and product manufacturer. Consumer satisfaction will be achieved when a purchased product has something more to offer that just quality and the right price. That "something more" is a product's added value.

Organisations seek to provide added value to consumers – that is, to deliver a product the value of which exceeds consumer expectations. To understand how consumers will respond, organisations should constantly monitor the attitudes of consumers concerning the purchased products. Most organisations, however, use a reactive approach – that is, they address consumers' oral or written responses. Only a small number of organisations apply a proactive approach, which may involve surveying consumer responses using questionnaires sent to home addresses, telephone interviews, or visiting and talking directly with consumers. This proactive approach can be used to collect an array of valuable information about consumer satisfaction and the level of added value consumers gain by purchasing a product.

The purpose of analysing consumer responses is to establish which product attributes need to be improved so that consumer needs can be fulfilled beyond consumer expectations. In this way, a product can match the criteria according to which consumers measure quality.

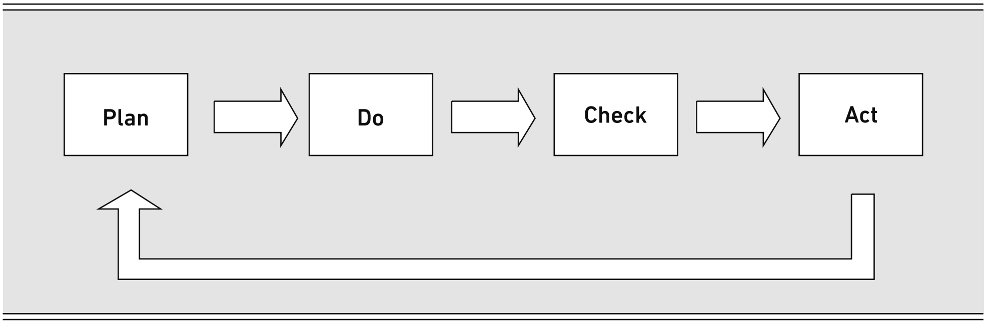
There may be a difference between the expected and actual quality of a product. This difference may be positive or negative. When consumers assess that the quality of a product and their satisfaction with the product exceed their expectations, the difference is positive. Conversely, when the purchased product fails to match consumer expectations, the difference is negative. In this case, organisations need to modify their consumer satisfaction programmes.

Quality improvement processes. There are two basic processes that focus on quality improvement. The first is the process of continuous improvement, and the second is benchmarking.

1. A **continuous improvement process** is a technique used to improve upon the quality, deadlines, effectiveness and efficiency of work activities. Continuous improvement helps to create product added value capable of satisfying consumer needs and wishes beyond their expectations. The implementation of continuous improvement is carried out through a process known as the PDCA (planning, doing, checking, acting) cycle or the Deming cycle[11] (Figure 8).

The first stage of this process relates to planning. In this stage, employees analyse the tasks they perform and plan changes that are required to improve these tasks. Changes are carried out in the second stage, while the effects of the changes made are checked in stage three. Finally, in the fourth stage, the improved activities are carried out.

Figure 8 PDCA cycle



Quality is at the centre of the continuous improvement process. Quality improvement is carried out by reducing the time needed to perform an operation that is part of a production process, by reducing the number of deviations from the established standards of performance, and by reducing waste.

- **Reducing the time** needed to perform an operation linked to consumers is seen as new quality. This can mean reducing the time needed to receive and process orders, or responding rapidly to product installation or defect elimination.
- **Reducing deviations** from established standards of performance can help to improve quality. Deviations may occur during the making and marketing of a product, such as a deviation in the work process or a deviation from product design. The aim is to reduce deviations to a minimum or to eliminate them before a product has been completed – that is, during its production. In this way, quality is enhanced through continuous improvement.
- **Reducing waste** refers to cutting unnecessary costs or losses caused by a failure to do something. Costs that need to be cut may result from wasted time, time unrationally spent, scrap from the production process, the need for additional training for employees, the need to redesign a product, etc.

2. Benchmarking or comparison with the best is a process by which organisations compare themselves with leading organisations in the industries in which they operate and, in doing so, they gather information needed to improve their practices. This involves learning from the best organisations with regard to both creating and marketing products. The aim is to learn those practices that can ensure an organisation will gain competitive advantages. According to the results of *Bain & Co*[12], benchmarking is ranked third among management tools, immediately behind strategic planning (76%) and mission and vision statement (70%). It was used by 69% of the survey respondents.[13]

The benchmarking process consists of several stages. According to the methodology used by the European Forum for Quality Management (EFQM),[14] benchmarking consists of the following stages:

- Identifying processes that need to be improved and identifying the best organisations in those areas
- Analysing internal processes in comparison to the best competitor's processes
- Implementation of the necessary changes

In the **first stage**, the processes that need to be improved are identified, and organisations that are the best in these processes are selected. The processes can, for example, refer to new product development, the resolution of logistics issues, pre-sales and post-sales service, etc. In benchmarking, organisations focus on the most important factors that influence how a process is carried out. This is done to create the conditions required to gain competitive advantages and success in the long run. For example, if an organisation identifies the need to improve a process relating to post-sales service, marketers have the task of singling out the factors that have the greatest impact on post-sales service. Then they must look for a competitor that is a leader in post-sales service, in particular with regard to providing services and responding to consumer remarks.

The **second stage** involves internal as well as external analysis. Once the area or process that requires improvement has been identified, the business carries out an internal analysis – that is, it analyses the strengths and weaknesses of its process. The aim is to create a baseline for comparison. Having completed the internal analysis, the business performs an external analysis. It analyses the selected (best) competitor to determine what the competitor is doing to achieve exceptionally good results in a particular process that sets it apart from other competitors.

In the **third stage** of benchmarking, the business implements the results obtained through analysis. First, the business defines the objectives it wishes to accomplish with the new approach, then it makes improvements to a part of a process or to the entire process, and finally, it determines the standards it will use to measure the effectiveness of changes made.

The benchmarking process, however, does not end here. It is a continuous process as the business continually identifies new processes that need improvement and new competitors that are the best in a particular area.

5.2. Building loyalty

To win consumers, an organisation must meet the criteria involved in generating consumer satisfaction. In the long run, consumer acquisition has to be combined with consumer retention.

In the process of generating satisfaction, an organisation should strive to increase consumer satisfaction with each new interaction with consumers. When consumers see that an organisation has adjusted its offering by taking into consideration their suggestions for product improvement, their satisfaction is even greater, approaching the level at which loyalty is created. Hence, by developing consumer satisfaction an organisation can gain loyal consumers.

To ensure repeat purchases, an organisation needs to get close and stay close to its consumers by adjusting its offering and constantly providing new value, thus generating satisfaction. Repeat buyers do not buy only certain items; they also tend to buy other products from an organisation’s production programme. Over time, this results in the organisation’s enhanced financial performance. As long as loyal consumers are satisfied with a product, they will be more tolerant of higher product prices. The outcome is lower price elasticity, which means that price increase will not cause any great change in demand as long as consumers feel they are getting value through interaction.

Organisations first need to generate consumer satisfaction as a precondition to building consumer loyalty. In addition to satisfaction, switching barriers also affect loyalty. Although the effects of switching barriers may vary, they all work in the same way by increasing the costs consumers incur in switching to the product of another business. According to research carried out by Fornell, switching costs include search costs, transactional costs, learning costs, loyal consumer discounts, consumers' habits, emotional costs, and cognitive effort relating to financial, social and psychological risk on the part of consumers.[15]

For example, when looking for a substitute for a certain product, consumers incur search costs, such as the time needed to find information about a substitute or the money spent to obtain information. Once consumers have gathered the information needed to make a decision, they are faced with transactional switching costs that include (non)financial costs linked to the start of using a new product. Learning costs are also incurred, such as the costs involved in self-training in the use of a product. The use of a substitute product means changing consumer habits and involves risks linked to using a new product.

There are several levels of consumer satisfaction that lead to different levels of loyalty. According to loyalty levels, consumers are classified as suspects, prospects, disqualified prospects, first-time consumers, repeat consumers, clients, advocates and partners. Building and developing loyal consumers is a process that passes through all the above levels. It is almost impossible to turn a consumer into a partner or make him/her a loyal consumer after only an initial contact. Each level of consumer loyalty has its special features, as outlined below.

Suspect – Suspects include all individuals who might buy an organisation's products. The task of the marketer in this stage is to recognize which of these individuals have the best chances of becoming loyal consumers. The greatest probability is attached to individuals whose habits and needs are similar to those of an organisation's existing consumers.

Prospect – A prospect is someone who needs an organisation's products and is able to buy them. Prospects have either heard or read about an offering that could satisfy their needs or the offering has been recommended to them. Prospects are familiar with an organisation's offering and know where they can find it, but they have not yet bought the business's products.

First-time consumer – This is a consumer who has bought an organisation's products one time. While first-time consumers are the business's consumers, they are also the consumers of the business's competitors. A consumer's first purchase is very important because it can leave the consumer either satisfied or dissatisfied, influencing his/her decision concerning repeat buying.

Repeat consumer – This is a consumer who has bought an organisation's products two or more times. The consumer may buy the same product several times or may purchase several different products. Once an organisation has identified its repeat consumers, it can focus its effort on these consumers, offering them products, services and information especially adjusted to their needs.

Client – A client is a consumer who buys an organisation's entire product range or the part of the product range that satisfies his/her needs. The client feels close to the business and this makes him/her resistant to the pull of the competition.

Advocate – Advocates buy everything an organisation has to offer, providing they need it. Unlike clients, advocates influence other consumers and encourage them to buy. Advocates do this by talking favourably about the business, doing promotion instead of the business, and by encouraging other consumers to buy from the business. At this level, a relationship of mutual trust exists between the consumer and the business.

Partner – An advocate becomes a partner when both sides – the consumer and the business – see partnership as a mutually beneficial relationship. Organisations develop partners by consistently delivering greater value and generating satisfaction in each and every interaction with consumers. A level of mutual loyalty is reached from which both the business and the partner benefit.

Depending on a consumer's level of attachment (low/high) to a certain product and the frequency of repeat purchasing (low/high), four types of loyalty can be developed: no loyalty, inertia loyalty, latent loyalty and premium loyalty.[16] The first dimension, the level of attachment to a product, indicates consumers' preferences for a specific product and lets us know how well consumers can distinguish substitutes. The second dimension, the frequency of repeat purchasing, represents the period of time in which a consumer repurchases a certain product (Figure 9).

Figure 9 Types of loyalty

		Frequency of repeat buying	
		High	Low
Level of attachment	High	Premium loyalty	Latent loyalty
	Low	Internia loyalty	No loyalty

No loyalty is characterised by a low level of attachment and low repeat purchase. There are a variety of reasons why some consumers do not develop loyalty.

Inertia loyalty is characterised by a low level of attachment and high repeat purchase. This type of loyalty is displayed by consumers who buy out of habit.
Latent loyalty is characterised by a high level of attachment and low repeat purchase. In this type of loyalty, situational effects determine repeat purchase. This is evident when a

situation prevents the consumer from buying the product he/she prefers, so he/she buys an alternative product instead.

Premium loyalty is characterised by a high level of attachment and high repeat purchase. This is the type of loyalty every business seeks to develop. At this level of loyalty, consumers are proud of using the product and they share their satisfaction with others. In this way, they become advocates and constantly relay their positive experience to everyone they come in contact with.

To develop loyalty and deliver added value to consumers, organisations create various loyalty programmes that can be classified into three groups:

- Relationship programmes, which aim to strengthen the bond between consumers and organisations by providing additional services. The additional services provided must represent value to consumers.
- Frequency programmes, which aim to encourage more frequent contacts between consumers and an organisation. These programmes reward consumers for their cumulative purchases and provide various incentives for additional buying.
- Membership programmes, which involve organizing consumers into groups or clubs and providing offerings especially prepared for the members of a club.

The decision of which type of loyalty programme to implement is made based on an organisation's assessment of which one of the three programmes is likely to yield the most benefits in developing loyalty in a target group of consumers. Some organisations are more successful than others in developing loyalty and growing loyal consumers. Such organisations become leaders in creating loyalty, and other organisations follow their lead. In conclusion, by developing consumer loyalty an organisation can ensure its steady development and competitive advantage.

5.3. Networking market actors

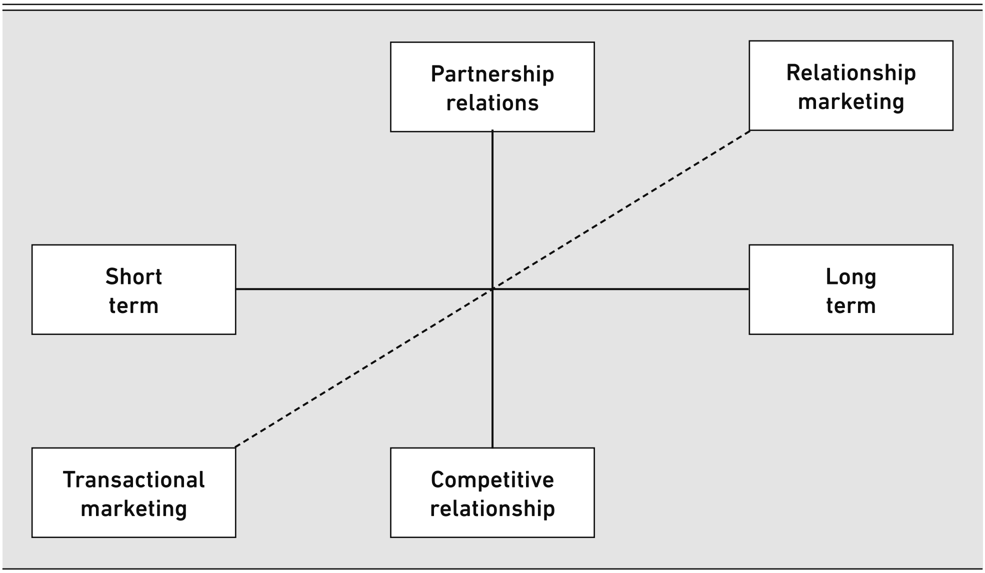
New relations in marketing have emerged in response to challenges that confront organisations. These new relations are based on partner relationships among market actors and on networking among organisations. Networking enables an organisation's marketing to develop in cooperation with other network members. Networking is about bringing together the activities of various organisations into a coordinated and integrated marketing whole. This marketing approach encourages cooperation between several organisations and focuses their efforts on jointly accomplishing – in an effective and efficient way – something they could not otherwise have accomplished on their own.

In addition to benefits that are foremost linked to more efficiently satisfying consumers and building consumer loyalty, networking also leads to lower operating costs for the entire business system. Lower costs help to reduce the prices of the offerings of those organisations included in the system, making them more competitive in terms of price. This motivates suppliers and consumers to bond even more closely, and it encourages the integration and coordination of marketing with other business activities into an integrated business system. Emphasis is placed on monitoring the total costs of the system, rather than the cost of individual activities. This calls for new methods of organizing, communicating, and controlling not only parts of the system but the entire system itself. Here, information about network members/partners plays a key role. This is why databases are created and a system for analysis is set up.

Networking to build an integrated business system is based on building partner relationships between individual organisations that are motivated by common goals. As a rule, these goals are about ensuring consumer satisfaction more effectively and about streamlining business operations. Conventional methods of carrying out marketing activities are no longer applied in these new relations.

Marketing has always been linked to the exchange process. In the past, however, the exchange process was mostly of a one term nature and this type of marketing was called transaction-based marketing. Because of changes within the environment, this concept has been replaced with a new long-term approach focused on building and maintaining mutually beneficial relationships with consumers and suppliers, as well as competitors. Additionally, this new marketing approach also takes into account relationships within organisations – that is, the relationships among employees and among departments. The traditional marketing approach was linked to attracting consumers, and its goal was to identify needs, offer a product to satisfy needs, and carry out a transaction. Although much emphasis is still placed on attracting consumers, the new marketing approach attaches great importance to suppliers and employees. It focuses on creating long-term relationships that ultimately lead to networking for the purpose of achieving mutual benefits.[17] The transformation of marketing from transaction-based marketing to relationship-based marketing can be demonstrated through two dimensions – the dimension of time and the dimension of relationships among organisations (Figure 10).

Figure 10 Transformation of marketing



The time dimension consists of short-term and long-term relationships among organisations, while the relationship dimension involves competitive relationships and partnership relations among organisations.

Therefore, the features of transaction-based marketing are short-term relationships and relationships built on competition. The features of relationship marketing are linked to partnership relations among organisations that are developed in the long term. Under the influence of the dynamics of the business environment, organisations are increasingly focusing their efforts towards developing partnerships and towards networking. Mentzer, Min and Zacaharia state five reasons for this:[18]

- The shorter life cycle of products
- Growing insistence on post-sales service for consumers
- Global competition
- International sources of supply
- Cost-based supplier relationship strategies and consumer-driven strategies

Relationship marketing facilitates the networking of market actors. As Boone and Kurtz are correct to point out, relationship marketing is focused on developing and maintaining long-term relationships, as well as on building cost-effective relationships with consumers and partnership relations with suppliers, employees and other organisations for the purpose of gaining mutual benefits.[19] For relationships between consumers and organisations (as sellers and suppliers) to work and develop successfully, it is necessary for both sides to be ready to make adjustments.

Developing new relationships is based on delivering value that consumers expect. To do so organisations must be knowledgeable of their consumers. When consumers buy a product, they buy it for the utility it provides. Hence, many organisations focus on providing additional services because physical objects are just a part of the value delivered to consumers. Consumers expect additional services that give the product greater value.

In the modern business environment, consumers will remain loyal to the offering that totally satisfies their needs and wants. Loyal consumers are prepared to pay more for the additional services they receive. Organisations should focus on loyal consumers instead of trying to retain non-loyal consumers or consumers who have no interest in long-term relationships.

Organisations create long-term relationships with consumers by consistently offering them value and satisfying their needs. Organisations benefit from these relationships through repeat purchases, which lead to an increase in market share and profit. Costs drop because serving existing consumers is less expensive than trying to acquire new ones.

Organisations demonstrate their loyalty to consumers by providing them with detailed information about the offering and by promptly fulfilling consumer demands. Consumers respond by becoming loyal to the organisation rather than to the product brand as before. An organisation wishing to create such relationships views consumers as individuals, and not as statistical figures or averages. It provides personalized offerings and consumers respond by developing closer relationships with the business.

Organisations strive to create value for end consumers and business buyers. To reinforce consumer/buyer satisfaction on a permanent basis, marketers can apply one of the 3Bs strategies:

- **Being Better** – By using this strategy, an organisation can provide and ensure a better offering, for example, a product of enhanced quality according to the criteria deemed important by consumers/buyers. The enhanced quality of the product represents consumer/buyer value and has a positive effect on creating satisfaction.
- **Being Faster** – By applying this strategy, an organisation can deliver an offering to consumers/buyers faster than its rivals can. This generates new satisfaction in consumers/buyers and presents a platform for further developing cooperation.
- **Being Closer** –This strategy enables an organisation to create long-term cooperative relationships with all actors involved in value creation. An organisation will not be capable of providing satisfaction to consumers/buyers if it lacks the support of others, such as its suppliers, distributors and financial institutions.

Whether an organisation employs a single 3B strategy or a combination of strategies will depend upon its capabilities. In other words, an organisation will apply the value creation strategy for which it has the resources required, such as knowledge, capital, employees, space and equipment, and with which it reckons it can create the greatest value and, in turn, have the greatest influence on consumer/buyer satisfaction.

By embracing consumers/buyers as a source of value and by generating satisfaction, an organisation creates the preconditions needed to retain consumers/buyers. The objective is to retain end consumers/buyers, because consumer/buyer retention requires much less money than trying to win new consumers/buyers. However, organisations should not neglect trying to attract and win new consumers/buyers, because consumer/buyer retention is never 100% efficient.

For relationships to develop between consumers and organisations, efforts must be made by both sides. From the consumers' perspective, relationships are developed with suppliers. This is very important for consumers who operate in the B2B market. Consumers strive to cultivate long-term relationships with suppliers because long-term supplier relationships help consumers to develop and to satisfy their needs more easily. Setting up good supplier relationships is crucial in creating high-quality products or reducing operating costs.[20] Consumers remain loyal to the business that delivers satisfaction exceeding their expectations and exceeding the satisfaction delivered by the business's competitors. These values and satisfaction can be derived in various ways, ranging from financial benefits to a sense of trust.[21]

Consumers show their loyalty to a certain supplier by cooperating with the supplier in defining their needs in a given period. This period may be short term, mid term or long term. Because needs are jointly defined, the supplier is able to carry out preparations and accurately identify consumer demands. A consumer wishing to develop such a relationship with suppliers links its development to one, or only a few, suppliers and provides these organisations with all necessary information about market trends. In this way, the supplier will learn about the demands of the consumer – its consumer – and together they can create new, higher-quality products.

The dynamics of the environment impose new rules for doing business. Organisations that fail to analyse market trends and market actors find it difficult to survive and develop. The next chapters look at how to identify market opportunities, conduct market research, and analyse actors on the B2C and the B2B markets.

SUMMARY

Changes are constantly occurring in the environment. Organisations seek to adjust to change through value exchange, by resolving market discrepancies and by managing their marketing effort, which ultimately leads to the rise of new market paradigms.

Value exchange is a driving force in the business world in which consumers – that is, consumer needs and wants – are the engine behind value creation. In seeking to close the circle that begins with knowing consumer needs and wants and ends with satisfying these needs and wants, organisations encounter several discrepancies, such as spatial discrepancy, temporal discrepancy, discrepancy of information, discrepancy of value, discrepancy of ownership, discrepancy of quantities and discrepancy of assortment. To resolve these discrepancies, organisations operating on marketing principles may use the transactional function, the logistical function and the facilitating function. By managing their marketing effort, organisations can more fully adjust to changes within the environment, because they are able to anticipate change, instead of merely responding to change. Managed marketing effort provides the processes of planning, organizing, and controlling marketing activities with a basis for a proactive rather than reactive response to changes on the market. New conditions on the market have given rise to new paradigms of action that focus on improving quality, creating loyal consumers, and reinforcing cooperation among market actors. Successful organisations seek to improve quality based on two processes: continuous improvement and benchmarking. Creating loyal consumers is linked to ensuring consumer satisfaction, as well as to setting up switching barriers. In this context, we can distinguish several levels of loyalty: suspect, prospect, disqualified prospects, first-time consumers, repeat consumers, clients, advocates and partners. If we view consumers with regard to their level of attachment to a product (low/high) and frequency of repeat buying (low/high), we can distinguish four types of loyalty: no loyalty, inertia loyalty, latent loyalty and premium loyalty.

CRITICAL THINKING QUESTIONS

1. Discuss the concept of value exchange. Provide an example.
2. Analyse market discrepancies and the functions used to resolve them, and explain utility created for consumers.
3. How is *marketing* defined? What are the different features of marketing when viewed from a macro perspective and a micro perspective?
4. What are the specific features of SWOT analysis? What is SWOT used for?
5. What does it mean that business objectives must be SMART?
6. Explain the strategic options of organisations taking into consideration the product/market dimension (Ansoff's Matrix).
7. Which organisational solutions are available to organisations with regard to the product/market dimension and what are the features of each organisational approach?
8. Controlling marketing activities is a process that evolves through three stages. Name these stages and discuss their features.
9. Do marketing and quality interact? Explain.
10. Outline the characteristics of programmes used in building consumer loyalty.
11. Partnerships and networking are seen as new marketing paradigms. Elaborate.

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INTERNET SOURCES

1. http://rapidbi.com/created/SWOT analysis
2. http://www.efqm.com
3. http://www.bain.com
4. http://www.bookbon.com
5. http://tutor2u.net/business/strategy/ansoff_matrix.htm
6. http://asq.org/learn-about-quality/project-planning-tools/overview/pdca-cycle.html

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[1] Sullivan, P. H.: *Value-Driven Intellectual Capital: How to Convert Intangible Corporate Assets Into Market Value*, John Wiley & Sons, Inc., New York, 2000, p. 85

[2] Grbac, B.: *Identitet marketinga [Marketing identity]*, Ekonomski fakultet Rijeka, Rijeka, 2006, p. 20- 24

[3] Hereinafter, the terms *marketing* or *marketing-based operations* will be used to refer to market-oriented business operations, operations based on marketed principles and the implementation of the marketing concept.

[4] Pride, W. M., Ferrell, O. C.: *Marketing*, South Western, Mason, 2010, p. 30-59

[5] http://rapidbi.com/created/SWOTanalysis/

[6] Objectives can also be set that have a much narrower scope and are more operational, and can include formulations that state, for example, *to increase sales on the Istrian market by 12 per cent in the coming year*.

[7] McPheat, S.: *Thinking Strategically*, MTD Training &Ventus Publishing ApS, 2010; http://www.bookbon.com

[8] http://tutor2u.net/business/strategy/ansoff_matrix.htm, according to paper published in HBR: Ansoff, H.I.: *Strategies for Diversification*, Harvard Business Review, 1957, 35(5), p.113-124

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[10] TQM is an abbreviation of Total Quality Management.

[11] http://asq.org/learn-about-quality/project-planning-tools/overview/pdca-cycle.html

[12] http://www.bain.com

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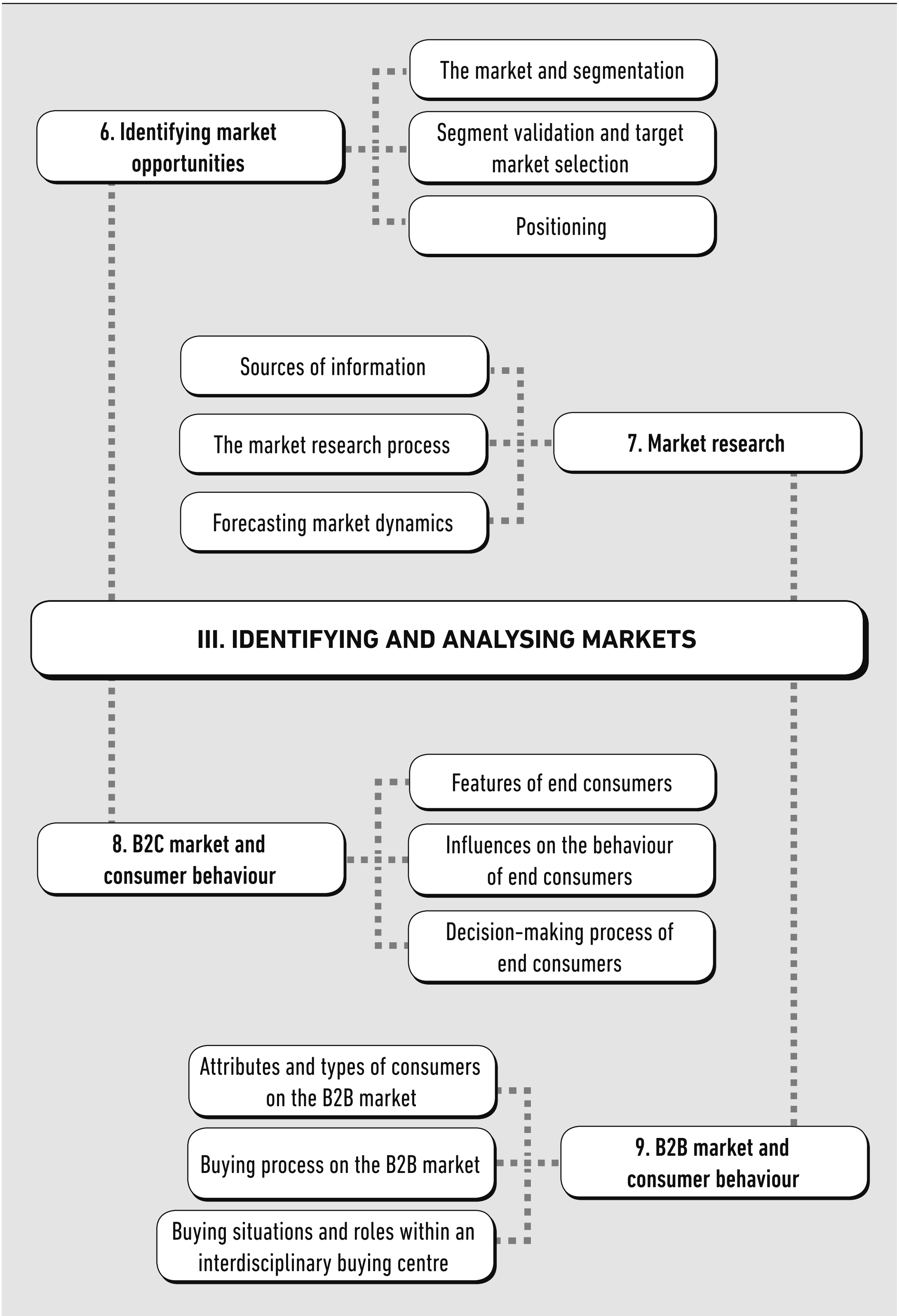

The market and segmentation
6. Identifying market opportunities
Segment validation and target market selection
Positioning
Sources of information
The market research process
7. Market research
Forecasting market dynamics
III. IDENTIFYING AND ANALYSING MARKETS
Features of end consumers
8. B2C market and consumer behaviour
Influences on the behaviour of end consumers
Decision-making process of end consumers
Attributes and types of consumers on the B2B market
Buying process on the B2B market
9. B2B market and consumer behaviour
Buying situations and roles within an interdisciplinary buying centre

III. IDENTIFYING AND ANALYSING MARKETS

Marketers help an organisation perform well in the marketplace by identifying the market in which it should operate and by analysing the characteristics of that market. To this end, marketers explore the organisation's market opportunities (Chapter 6), carry out market research (Chapter 7), and analyse the attributes of consumers on the B2C market (Chapter 8) and the B2B market (Chapter 9).

Objectives:

After studying Part Three, you should be able to:

- Understand the market selection process and the segmentation process
- Discuss the variables in B2C and B2B market segmentation
- Identify the criteria used in segment evaluation
- Describe the basis of positioning and the options available
- Understand the information needed in making marketing decisions
- Explain the stages of the market research process
- Analyse research methods and explain the types of samples
- Recognize sales forecasting methods
- Identify the attributes of consumers on the B2C market
- Understand the impact of external and internal factors on end consumer behaviour
- Understand the decision-making process of end consumers
- Analyse the characteristics of the B2B market
- Identify the participants and objects of exchange on the B2B market
- Analyse the stages of and roles in the buying process
- Discuss buying situations
- Understand the roles involved in interdisciplinary buying centres

6. IDENTIFYING MARKET OPPORTUNITIES

To develop in the competitive environment, organisations focus on identifying and analysing the markets in which they operate or plan to operate. They seek to understand the characteristics of the market, i.e., to segment the market, select the target market and position their offering.

6.1. The market and segmentation

Basically, marketers tend to understand the term *market* as meaning a group of consumers who have the same or similar needs and wants, regardless of whether they are in the B2C or B2B market. The market is also considered that part of the market that an organisation successfully services, thereby defining its competitive position. To understand the market, some authors proceed by identifying the competitors in a given market and the potential substitutes that exist for a certain product. On the one hand, if the market is too narrowly defined, the product will have a small number of competitors and a large market share. In this case, an organisation might be inclined to disregard threats and substitutes and neglect opportunities that emerge on the market. On the other hand, a too broadly defined market will result in identifying too many rivals and substitute products.[1]

Regardless of the approach it takes in understanding the market, it is important for an organisation to create an offering that will be accepted to the greatest extent possible. Unfortunately, the possibility of creating a “universal” offering – that is, such a combination of marketing mix elements that will satisfy the diverse interests of consumers on the B2C market as well as on the B2B market – is shrinking. This makes it necessary to divide the heterogeneous market, in which individuals or organisations have diverse attributes, behaviour, needs and wants, into one or more homogenous markets that have the same or similar attributes, behaviour, needs and wants. In effect, it is necessary to select groups of consumers who have similar needs, attributes and behaviour and who will respond in the same or similar way to the marketing activities of organisations. This process is called market segmentation, the result of which is (one or more) market segments.

Market segmentation is the process of breaking down the market into smaller parts or segments. This is a process in which potential consumers are brought together in compact groups that have common needs and wants and that respond to the marketing effort of an organisation in the same way. Market segments must satisfy an array of criteria that can be grouped into four basic and nine additional criteria:[2]

Typifying the segments:

- Identification. Differentiation of segment from other segments.
- Measurability. Identification of segments in terms of differences in individual and household characteristics or other "measurable" characteristics should be possible.

Homogeneity:

- Variation. Heterogeneity between segments in terms of behavioural response.
- Stability. This criterion suggests that segments should be relatively stable over time and that switching of consumers from one segment to another should not be frequent.
- Congruity. Homogeneity within segments in terms of behavioural responses.

Usefulness:

- Accessibility. Segments should be accessible in terms of communications media and distribution outlets.
- Substantiality. Segments should be of sufficient size to enable specific marketing actions. This does not mean that segments need to be especiallly large, but profitable enough to have distinct marketing mixes aimed at them.

Strategic criteria:

- Potential. The segments should have enough potential for marketing objectives, e.g., profitability.
- Attractiveness. Segments should be structurally attractive to the manufacturer, e.g., create a competitive advantage for the company.

Basically, a market segment is considered attractive if it is homogeneous and differs from other segments, and is large enough for its demand to possess the purchasing power needed to enable an organisation to perform successfully. To ensure successful market segmentation, organisations use an array of variables. In effect, segmentation variables are the attributes of individuals and organisations as consumers that are used for breaking down the market into several segments. Considering the specific features of individual markets, segmentation variables can be divided into variables for B2C market segmentation and variables for B2B market segmentation.

Variables for B2C market segmentation. Some authors suggest many different types of variables; others much less. For example, Meler[3] underlines socio-economic variables, while others such as Kotler[4] incorporate these elements into the demographic variable. Most authors centre their attention only on specific variables that fall into four categories:

- Demographic variables
- Geographic variables
- Psychographic variables
- Behavioural variables

Market segmentation based on demographic variables, such as age, gender, profession, education, income, nationality, religion, family size, family life cycle and social stratum, is most often used for two reasons. The first reason is that these variables are closely linked to consumer needs and wants and to consumer behaviour in the purchasing process, and the second, that data for these variables are easily obtained from various publications.[5]

Market segmentation based on geographic variables, such as location (urban or rural setting), size (countries, counties, towns and municipalities), population density (per km^2), climate and type of terrain, is also very widespread because data are readily available in statistical yearbooks and reports.

Market segmentation based on psychographic variables, such as personality, motivations and consumer lifestyle, is a complicated task because these variables are the result of the consumer's mindset. Collecting information about these variables requires a survey be prepared to research consumer interests, activities and opinions, and then, based on the gathered responses, the psychographic characteristics of certain groups of consumers can be defined. **Personality** is a collection of character traits and consumer responses that ultimately define consumer behaviour in specific situations. Knowledge about the distinctive features of consumers is used for segmentation when an organisation's products are similar to that of the competition, and when no other segmentation variables influence consumer needs. **Motivations** also appear as segmentation variables. Different consumers have different motivations for buying certain products. The marketer must find a way to recognize and capitalize on individual motivations for market segmentation, such as a sense of security, belonging to a certain group or status. **Consumer lifestyle** is a psychographic variable that defines groups of consumers depending on the way they spend their leisure time – for example, whether they prefer active or passive holidays. This variable also evaluates the importance to consumers of individual activities within the environment, such as the attitude of consumers towards higher education, work and self-esteem.

The market can also be segmented using behavioural variables, such as the level of product usage, brand loyalty and the benefits consumers are looking for. The first criterion, the level of product usage, distinguishes between consumers who buy and use the product on a regular basis, consumers who buy the product occasionally and use it moderately, and consumers who neither buy nor use the product. The second criterion is the level of loyalty to a specific brand, because different consumers display different levels of loyalty towards a certain brand. The third criterion is the benefits that consumers expect to receive from a certain product. These benefits may be based on product functionality, product durability, product quality, etc.

In conclusion, it is necessary to point out that all variables analysed above are useful in market segmentation. There are no superior or inferior variables, because each variable is best applied in a specific situation. Organisations must recognize in which situations would the application of a certain variable be the most suitable. In most cases, market segmentation is carried out based on a combination of two or more variables. When carrying out segmentation, an organisation must create a market segment for which it can successfully develop a special marketing mix.

Variables for B2B market segmentation. B2B market segmentation is carried out using a variety of variables and approaches.[6] There are several variables for B2B market segmentation. The key ones are:

- The location of the business buyer
- The activities of the business buyer
- The size of the business buyer
- Product usage

Because the location of an organisation is seen as affecting demand, it is a key variable in the geographic segmentation of the B2B market. Namely, demand for a specific product sold on the B2B market is generally concentrated in certain geographical areas. A large number of organisations operating in these areas are business buyers, and they contribute towards the concentration of economic activity in a single place. This concentration of economic activity is the result of several reasons, ranging from natural, historical and technological reasons to economic policy measures and the like. Organisations selling their products on these markets and in these branches of industry take into consideration the location of their business partners, a useful variable in segmenting the B2B market. Location and geographic segmentation are important for a number of reasons, the primary one being the need to efficiently meet the needs of business buyers and formulate an appropriate distribution strategy. The role of geographic segmentation is all the more important when we take into consideration the fact that most business deals are concluded through personal selling, which is complex and involves high costs.

Business buyers operating in the B2B market vary in size. This makes the size of a business buyer a crucial variable in segmentation. Different sizes imply different needs, which are expressed as the volume of products purchased. The size of an organisation may be determined by its annual turnover, its operating costs, the number of its employees, its equipment, etc. Depending on the characteristics of individual segments, organisations seek to adjust their marketing mix and satisfy the needs of their business buyers.

The ways in which consumers use the products they purchase is another variable that is useful to consider in segmenting business buyers. Namely, many products – raw materials and manufacturing materials, in particular – can be used for various purposes. This makes it important for organisations selling these products to group their business buyers according to the purpose for which they purchase a specific product. The way a business buyer uses a product affects the quantities an organisation procures and the frequency of procurement, which are vital criteria in the buying process, and it can also affect the way in which a business buyer selects its suppliers.

By using the market-segmentation variables described above, an organisation can identify the attributes and needs of its business buyers more effectively, and it can prepare an appropriate response in the form of a combination of marketing mix elements.

6.2. Segment validation and target market selection

Once it has segmented the market, an organisation goes on to identify several of the most interesting segments that it will subject to the validation process. In other words, it will assess the segments' attractiveness. Segment validation is carried out by assessing:

- The sales potential of a segment
- The presence and impact of competitors
- The costs of operating in the selected segment

The sales potential of each selected segment is assessed against three dimensions: space, product and time. Having in mind these dimensions, an organisation first determines market potential. Market potential is the total sales of all manufacturers of a specific product in a given period of time and space providing a specific level of marketing activities. Market potential is determined in terms of quantity and value. Based on total market potential an organisation estimates its sales potential. The sales potential of an organisation is the highest percentage of total market potential that the organisation can expect to achieve for a given product within a given area.

Once the organisation has determined the market potential and sales potential for each individual segment, it then goes on to assess the impact of competitors. Although a certain segment may seem attractive after its market potential and sales potential have been established, the situation can change completely when other market operators are taken into consideration. An organisation assesses its competitors by estimating their potential. The organisation seeks to learn how many competitors it can expect in a segment, how many existing ones there are and how many new ones, what their strengths and weaknesses are, and whether it is possible to develop a marketing mix that can be effective against the competition.

A segment may still look attractive after market potential and sales potential have been estimated and competitors have been assessed. However, by operating in the segment, the organisation will incur certain costs relating to product creation and sales. To be able to compete in the segment, the organisation needs to create attractive products with the right packaging and design, well-organised distribution, competitive prices and intensive promotion. All this involves high costs that especially need to be taken into consideration when evaluating the attractiveness of a segment. The costs of winning a segment or continuing to operate in a segment might be so high that they could cause the organisation to evaluate the segment as being unattractive, despite the favourable results of other assessments.

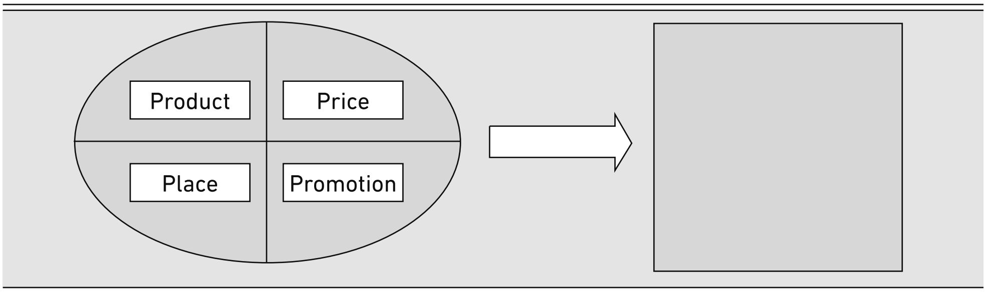
Winning target markets. Once the various segments have been evaluated, an organisation must decide in which segments to launch its offering. In other words, it needs to select a target market. A target market is a segment or a number of segments comprising groups of consumers or business buyers who have the same needs or characteristics and who can be expected to respond in the same or similar way to marketing activities. In competing and operating in a target market, an organisation can apply three approaches:

- The undifferentiated marketing approach
- The concentrated marketing approach
- The differentiated marketing approach

When the target market comprises the entire market, an organisation uses the undifferentiated marketing approach and competes with an offering that is unique for the entire market. This approach is used when an organisation assesses it will achieve the best results with a single marketing mix combination (one offering) in supplying the entire market. In this way, it can satisfy the greatest number of consumers and achieve the effect of economies of scale. The organisation competes with one product or a small number of products and product distribution and promotion are geared to the mass marketing approach, which reduces operating costs. This approach also involves lower R&D costs ultimately helping to achieve operational savings.

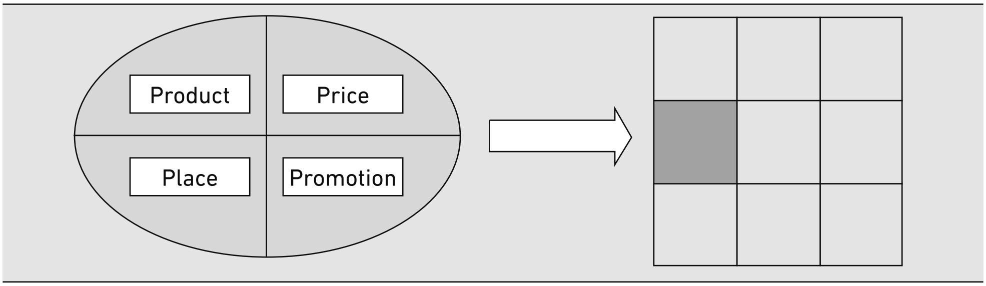
The presence of several organisations with such an approach in the target market, which is in fact the entire market, gives rise to fierce competition. While competition drives organisations to become more efficient and reduce the cost of their products, it also impedes the emergence of new products, making it impossible for some consumers to satisfy their needs. As a result, some markets become unprofitable, and for a part of the market, there is no offering. In such a situation many organisations turn to other target market approaches – that is, concentrated and/or differentiated marketing approaches. Figure 11 illustrates the undifferentiated marketing approach. The dark square represents the single market and the ellipse symbolizes the marketing mix made up of product, price, distribution and promotion.

Figure 11 Undifferentiated marketing approach



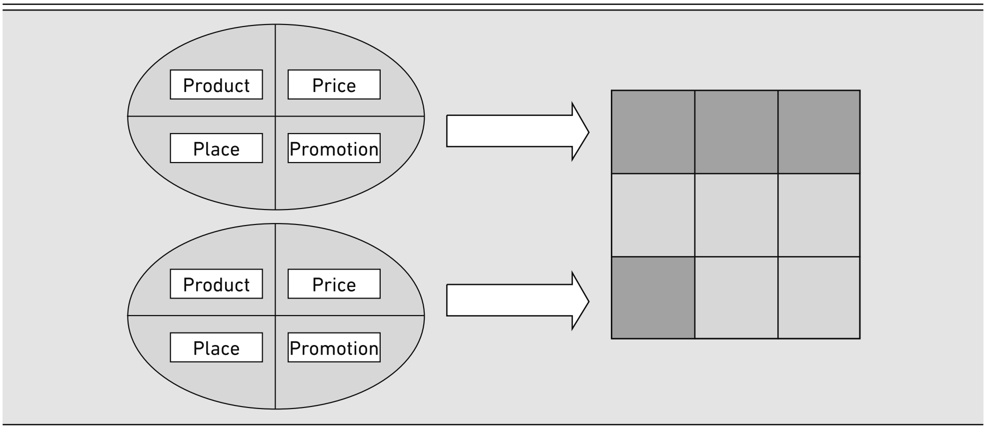
Unlike in the undifferentiated approach, in the concentrated marketing approach an organisation competes with only one marketing mix combination (one offering) and only in one segment, which is that organisation's target market (Figure 12). When targeting a single segment, it is believed that the best performance can be achieved by the concentrated approach. The concentrated marketing approach is widespread in organisations that have limited resources, in particular in terms of staff, finances, technology, equipment or space. As a rule, such organisations are small sized and they prefer to dominate with a larger share of a small market than to have a small share of a large market. In the former case, an organisation can, to some extent, control and guide the situation in the market, while in the latter case it can only be a passive observer of events in the market dictated by large organisations.

Figure 12 Concentrated marketing approach



The differentiated marketing approach is characterized by competing in two or more segments with a marketing mix (offering) that is unique for each segment. Figure 13 illustrates an example of an organisation competing with two offerings/marketing mixes – one offering targets the first segment (three small squares) and the other targets the second segment (one small square). More and more organisations are developing the differentiated approach to competing in target markets. The differentiated approach avoids the drawbacks of the undifferentiated approach that organisations use to compete in the entire market with only one marketing mix, as well as the shortcomings of the concentrated approach in which organisations also compete with one marketing mix combination (one offering) but in a single, target market. Although the differentiated approach to a target market does have a number of advantages, its disadvantages are not negligible. Namely, creating a marketing mix for each segment is linked to an increase in operating costs. Organisations have to invest more in developing a number of products, and thus, their distribution and promotion costs are higher. Despite this, however, many organisations consider the differentiated marketing approach to the target markets as being the best response to the conditions in which they operate.

Figure 13 Differentiated marketing approach



6.3. Positioning

Positioning is the final stage of the market selection process. Once an organisation has identified the segments and target markets it wishes to operate in, it must determine how it wishes to position itself using its offering for the selected group of consumers or business buyers. The offering consists of a marketing mix combination that should satisfy the needs and wants of its target consumers. Positioning is defined by consumers on the basis of important attributes. It is the place a product occupies in the minds of consumers relative to competitor products. The positioning process requires organisations to understand the criteria consumers on the target market use to assess alternative solutions and how they position an offering in their minds.

Positioning is tied to a product or brand, although consumers tend to position a product based on the overall "image" of the offering, which involves not only the product but also distribution channels, prices and promotional activities. Positioning is seen as being much more than just creating an image that will distinguish one product from another, although the general public tends to view these two processes as one and the same. Positioning is a process that takes into account how a product is accepted and perceived by consumers relative to competitor products that have the same functionality.

Relative to competitor products, the products of a given organisation may be positioned similar to the competition, different from the competition or irrespective of the competition. In the competitive market, there may be many organisations, offering identical benefits, seeking to win the same group of consumers. In this case, an organisation will position its offering similar to its competitors. It will try to provide greater utility to consumers and will invest additional efforts in enhancing product quality, selecting better distribution channels and reinforcing promotional activities. In the second option, an organisation will position itself contrary to its competitors. Instead of providing the same benefits as its competitors, as in the first option, the organisation seeks to emphasis the differences that make its offering stand out from the competitors' offering. In the third option, positioning is not tied to competition – that is, it is defined not taking into account the position of the competition. This approach is suited to organisations choosing to use a concentrated approach to the market. The organisation sees its target market as a target niche, and it concentrates and directs all its activities in meeting the wants and needs of consumers in that niche. To this end, the organisation creates a unique product for the selected market segment that other organisations have failed to recognize or have even avoided.

Perceptual mapping helps an organisation to understand how its offering, product or brand is positioned in the mind of its consumers.

Perceptual mapping. Perceptual mapping is a technique used to identify how an organisation's product and the products of its direct competitors are positioned in the minds of consumers. It also seeks to identify the ideal position for the organisation's product. A perceptual map has two dimensions used to define product attributes. To understand how its product is positioned in the minds of consumers, an organisation charts its products and the products of competition in the perceptual map according to selected attributes.

In perceptual mapping research, consumers are asked to provide information about the attributes they consider essential in a given product, to evaluate products in the market with regard to selected attributes, and to determine the ideal position of a product.

First, information is gathered concerning the attributes important in evaluating a given product. Second, the existing products on the market are evaluated with regard to the attributes selected. Products are evaluated by consumers, who are the main judges. Third, consumers are asked to determine the ideal position of a product taking into consideration the selected product attributes.

A positioning approach is valid for as long as it ensures results that are measured by successful positioning in the minds of consumers. However, no product positioning can last forever, making it necessary to regularly reposition the product. There are a number of reasons for repositioning – some are internal and others are external in nature. In the former case, an organisation may position two or more of the products from its sales programme too close to each other. This may lead to "cannibalism", in which an organisation's own products steal consumers from one another – that is, they "eat each other". In the latter case, repositioning is required when there are several competitors in the market offering products of the same attributes and the same utility to consumers, or when the initial market has simply ceased to exist.

7. MARKET RESEARCH

7.1. Sources of information

To make the right business decisions, marketers need to have adequate information at their disposal. *Information* is the generally accepted term for data concerning a certain occurrence, event or fact. It comes from the Latin word i*nformare*.[7] In the literature, this term is used more and more often to mean the knowledge necessary to foresee what will happen if certain activities are carried out. Information is the knowledge upon which business decisions are based. Knowledge is widely perceived as a resource of the future to be used without fear of depletion.

To be successful in a dynamic market, organisations have to adjust to change and to be able to do so they must possess information. More often than not, marketers find themselves in a situation where they must make decisions quickly and, in many cases, without enough information available. To avoid having to improvise in the decision process, marketers need to systematically gather and process information about market operators and then distribute this information among the organisation's departments and employees. It is essential to learn about market operators – consumers and suppliers, as well as distributors – because in the new circumstances in the market, these operators are becoming an organisation's partners; together, they take part in creating and exchanging value. Market operators also include the competition, and an organisation needs to research its competitors so that it can learn about their characteristics and how they respond to change. This becomes imperative, because market dynamics make marketing activities increasingly more complex.

Regardless of whether they operate on the B2C market or the B2B market, organisations endeavour to learn about the features and behaviour of market operators. Knowledge about consumers, suppliers and distributors is based foremost on information gathered in day-to-day business operations and recorded in an organisation's internal files. Knowledge about competitors is primarily the result of information gathered from activities in the market. It is derived from information gathered from market operators about competitor's characteristics. This continuous information gathering represents the first group of information organisations use to analyse market operators.

Besides gathering information in this way, organisations and their marketers also carry out targeted market research to obtain the information they need for making certain business decisions. This comprises the second group of information.

The first group of information is derived from regular daily activities and from records kept in the sales, purchasing, financial and other organisational departments. These departments accumulate information about product sales, product procurement, the names of consumers, suppliers and distributors, the types and quantities of products sold, the amounts paid and other data.

Information derived from sales activities enables organisations to analyse market trends and consumer characteristics. Information coming from the sales department is a good basis for evaluating the market situation, the spatial dimension of the market (local, regional or broader), the absorption capacity of the market, higher or lower sales in certain locations and so on. The sales department also possesses data that may be used to analyse consumer preferences, as well as sales quantities and values by individual product, by market segment, etc.

Information recorded by the purchasing department is useful for analysing suppliers. Particularly useful is information that can help evaluate the continuity of shipments, the quality of the product delivered, the method of payment, quality consistency, responses to complaints and so on. Information concerning the characteristics of suppliers enables an organisation to build a picture of them and strengthen its own negotiating position.

To gain knowledge about its competition, an organisation gathers information by observing and recording the business activities and characteristics of its competitors. This information is also gathered through regular activities in the market, but with special attention being given to bringing together and analysing information collected by observation and in meetings with business partners, representatives of business associations, banks and government administration. In this way, by comparing itself to its competitors, an organisation can identify its own strengths and weaknesses and define its future responses and strategies for competing in the market.

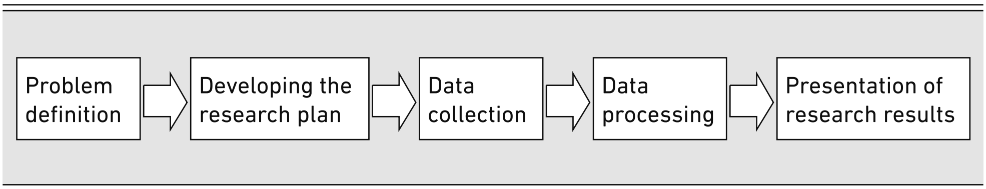
The second group of information has its source in specially organised activities, namely, in market research. Market research is carried out when specific information is needed that cannot be secured through internal files or by observing change in the environment (in particular, change relating to competitors). Market research is carried out to resolve a specific problem. The results of market research provide information that is useful in resolving a defined problem. Market research provides qualitative and quantitative information concerning an individual phenomenon or a subject of research. It can be carried out on a very simple basis by asking questions about certain problems or phenomena, or it can be conducted using a much more complex and scientifically based approach. The simpler approach, which takes less time to carry out and is not such a great financial burden, is used for gathering and processing information through the application of simpler methods and for solving simpler problems or phenomena.[8] A more complex and scientifically based approach is most often used to gather information needed to make important business decisions, such as decisions regarding investment in new equipment, winning a new market or developing a new product. In this case, gathering information is more extensive and complex and to process this information, more-complex statistical methods are used, such as ANOVA[9], factor analysis[10] and cluster analysis.[11]

Regardless of the level of complexity of the business problem or phenomenon that needs to be studied, the market research process is carried out in five stages. Information needed to resolve problems or phenomena of greater complexity is gathered using a statistically significant sample and processed using complex statistical methods.

7.2. The market research process

Market research is a systematic approach to selecting, gathering and processing information from the market and presenting research results. Market research is not a spontaneous process, meaning that it has to be planned and organised. Marketers must select, gather, process and present information objectively and must refrain from making subjective comments about results. An organisation can conduct market research by using its own resources or by hiring specialized research agencies.[12] Information from the market is considered pivotal for the success of an organisation and the basis for acquiring new knowledge about market operators.[13] Overall, market research is a process comprising five stages: problem definition, developing the research plan, data collection, data processing and presentation of research results (Figure 14).

Figure 14 The market research process



Problem definition is the first stage of the market research process. This stage is considered pivotal for market research because an incorrectly formulated problem may lead to incorrect conclusions and information and result in making the wrong business decisions. To properly define the problem that needs to be researched, it is necessary to carefully gather information that will help diagnose the situation that brought on the problem. The following questions need to be answered: What is to be achieved by the research? What obstacles can be expected in carrying out market research? What limitations must be accepted in order to resolve the problem? Typically, the researchers – regardless of whether they are a specialized research agency or an organisation's employees – put forward their perception of the problem to the client, which is most often the organisation's management. The problem that needs to be researched is then defined in cooperation with the client. In this preliminary work, the client presents the researchers with its need for information; the researchers interpret the problem as they see it and propose a research design. Together, the client and the researchers then define the final research design.

The second stage of the research project involves **developing the research plan**. The research plan is conceived in such a way as to provide answers to the questions of who, when, where and how research will be carried out. Will a specialized research agency be engaged or will the organisation conduct the market research by itself? It is essential to determine the timing of the research. In which part of the year should research be conducted? During the season or in the off-season? During the busiest month/week or during the month/week when performance is the lowest? A time schedule for the individual stages of the research process is developed. The research plan determines the location of market research. Will market research be conducted throughout the entire country or only in specific regions, or perhaps only in a single town? In the research plan, the researcher must also estimate the costs involved in carrying out research. Apart from showing how much research will cost, a cost estimate is essential for cost control. Keeping the cost efficiency of market research in mind, organisations should take care to not spend too excessively in gathering information. Where the question of how to conduct market research is concerned, researchers can choose from a number of research methods. While many classifications of research methods exist, a distinction can be made between three basic groups: the survey method, the observation method and the experimental method.

Data collection is the third stage. An organisation can carry out data collection independently or it can engage the services of specialized research agencies. The research assignment ends with a report that presents research results and provides an overall review of how the assigned task was carried out with a variety of suggestions for future action. Care is taken to ensure that research results point the way towards resolving the problem at hand, because the benefits from research are proportional to the certainty with which a manager chooses a way to resolve a problem.

The most important part of market research process is the information that is needed, collected, processed, and finally presented to the management. Given the exceptional importance informati0n has in the research process, it is analysed according to its source of origin.

Market research is based on secondary and primary information. Secondary information has its source within and outside an organisation. It is based on data that have already been made public and are stored. These data are gathered, analysed and processed for further use. Secondary information has its advantages and disadvantages. The most significant advantages of secondary information are that it is readily available, it can be quickly collected, it is an inexpensive way of obtaining information, and it is objective. However, very rarely can a problem be completely resolved using only secondary information, and herein lies its main disadvantage.

To gain deeper insight into certain phenomena and problems, research based on primary information is carried out. Primary information is collected by using various research methods in the field. This procedure is called field research. Field research can be conducted using the survey method, the observation method, and the experimental method, all of which are discussed below.

The survey method is a widespread way of gathering primary information. By using this method, information is obtained about the facts, opinions, attitudes, intentions and behavioural motivation of consumers and other market operators. Depending on the purpose of the research, quantitative and qualitative information about an occurrence or problem is collected. When the research subject deals with consumer-related problems (which can be numerous depending on the type of product), a sample needs to be selected prior to research.

Sample selection refers to the selection of consumers according to defined criteria.[14] A sample is a small portion of a basic set; it can be selected with or without the probability criterion. In the first case, the sample is representative, and in the second case, non-representative. Representative samples are selected when it is necessary to make decisions that are significant for the future of an organisation, regardless of whether these decisions are about investing in new plants and technology, winning a new market, or developing a new product. A sample is representative when the probability criterion is applied. This means that part of the population is selected randomly from the entire population. In this way, each individual in the population has an equal likelihood of selection. The selection of a non-representative sample, however, is based on the researcher's judgment. The researcher selects the sample based on convenience criteria linked to venue, time and selection of respondents, or by selecting those respondents, who the researcher sees as being qualified to give suitable answers to the research problem.

The survey method is most often carried out through one-on-one interviews and group interviews and by telephone survey and mail survey.[15] One-on-one and group interviews may have a general nature or may be focused on researching a specific phenomenon. Telephone surveys are quick, inexpensive and can cover a wide geographical region. However, they are time-limited and lack physical contact with respondents. Nevertheless, respondents may feel more comfortable when there is no contact with the researcher, and may be more likely to give honest answers. Constraints are linked to the necessity of keeping the telephone conversation with the respondent short; the questions must be concise and clear, and limited to seven or eight. While questionnaire-based surveys are not burdened by the subjective judgement of the researcher, such surveys incur greater costs, are longer lasting, and their response rate is modest. Written surveys sent by mail are based on a pre-defined group of questions with which the researcher plans to collect information for making business decisions. Depending on the technology used, the questionnaire can be sent through the post to the respondent's address, by fax or over the Internet (by e-mail or posted on a server).[16]

In addition to survey methods, observation methods are also used in field research.[17] These methods are used to determine the frequency and/or incidence of specific phenomena. The subjects of observation are most often consumers and consumer behaviour, but they can also be various phenomena on the market, either on the supply side or the demand side. To ensure spontaneous behaviour and responses to specific settings, individuals under observation should not be aware they are being observed. Typically, research is conducted in natural settings. However, if required by the research task, contrived settings may be created. Several observational techniques can be distinguished, the most important being human observation and mechanical observation. Human observation requires that a researcher/server monitors and records the phenomenon under research. Mechanical observation requires the use of modern equipment, such as video cameras, closed circuit television systems, audiometers, voice recorders and other devices.

The third and least-used group of market research methods includes experimental methods. Instead of surveying and observing, these methods involve simulating specific situations on the market.[18] Controlled variables are introduced into the experiment, and results are evaluated according to changes within the variables. Change in the attitudes of consumers is measured with regard to change in one or more variables. Market testing is an experimental method that can be useful particularly when introducing a new product in the market. However, it is not widely used because of the risk that the market, competitors included, could learn about a new product sooner than an organisation would want them to.

In conclusion, it should be noted that the choice of research methods will depend on the individual advantages and disadvantages of each method, as well as on the potential and competencies of the organisation that needs to conduct market research. When an organisation carries out market research independently – that is, using its own resources – the capabilities and the knowledge of marketers, managers and/or owners will, first and foremost, influence the selection of a research method. When carried out by professionals, the choice of survey method will predominantly be influenced by the financial ability of the client and by the characteristics of the market under research.

The fourth stage is **data processing,** which entails sorting, organizing and analysing data, and transforming it into useful information for making marketing decisions. There are many ways to process data, ranging from simple to more complex statistical processes. The simplest processes involve reviewing and analysing the data collected and rapidly preparing information to facilitate marketing decisions. More complex methods of processing data and preparing information for making marketing decisions are based on a variety of statistics packages available to researchers, as mentioned earlier.

The **presentation of research results** is the last stage of the research process. The research results must be processed and presented in such a way that marketing decision makers may understand them and easily put them to use. Care should be taken to ensure there are no disagreements or misunderstandings between the market-research client and the researcher concerning the research results. To achieve this, data presentation must match the level of knowledge and experience of both sides. The basic rule for the researcher is to prepare a presentation that will spur marketing decision making. New marketing decisions affect market dynamics and bring about new change that, by reason of logic, must be researched and so *in continuo*.

7.3. Forecasting market dynamics

To be able to make the right business decisions, an organisation must analyse future trends in the market. An analysis of future market trends has a number of aspects, such as evaluating future developments in the macro environment and studying the parameters linked to possible responses from operators in the micro environment. However, most often this centres on processing information concerning trends in sales – that is, on forecasting sales. Sales forecasting is the process of estimating what an organisation's sales are going to be like in the short term/long term. A sales forecast is a prediction of the expected sales of a product to a group of consumers in a given period of time using a specific marketing mix programme.

By accurately forecasting sales, organisations are able to employ assets for procuring materials and other products needed for production, as well as equipment and other technologies. In this way, organisations ensure effectiveness in their decision making and procedures and timeliness in correcting any inconsistencies or inaccuracies that may arise. Sales forecasting is particularly important when an organisation is developing new products and seeking to win new markets. It is also important in determining sales potential, as well as in financial planning and human resource planning, and it is central to controlling. By forecasting sales, an organisation establishes the figures it plans to achieve, and it uses these figures as a reference point against which it can compare the figures it will actually achieve. Without these standards, an organisation would not be able to make a comparison and, in turn, it would not be able to assess whether its performance was good or poor. The following section takes a closer look at sales forecasting methods. These methods fall into two categories: qualitative sales forecasting methods and quantitative sales forecasting methods.

Qualitative sales forecasting methods provide subjective sales assessments from experts, sales staff and consumers – that is, they are based on the opinions of these groups of people. These methods include the expert opinion method, the Delphi method, the sales force estimation method and the consumer intention survey method.

Predicting sales using the **expert opinion method** is based on the estimates of possible sales by an organisation’s key people in a variety of areas, such as sales, procurement, marketing, finance and production. This simple and fairly inexpensive method is particularly useful in making short-term sales forecasts, and it can be conducted on a regular basis. The best way to implement this method is by bringing the organisation’s key people together in either a formal or informal setting. However, this method also has it shortcomings, the most important being that experts in a specific field, such as the key person in production or in the finance department, may not have enough knowledge about market trends.

The Delphi method is similar to the expert opinion method, except that in addition to experts within an organisation, it also involves experts outside the business. External experts are usually people working at faculties, institutions, professional associations, chambers of economy and other institutions. In this method, experts are asked to answer a questionnaire that is sent to them. Questions in the questionnaire refer to trends and events of interest to the organisation and its future sales. The Delphi method is organised in a number of rounds. In the first round, experts are asked to answer questions. The answers are analysed and based on this analysis, another questionnaire is designed for the second round. This is repeated until a consensus is reached on opinions concerning key questions relating to sales.

Sales force is the general name for employees engaged in sales, regardless of whether they come into direct contact with consumers or not. The **sales force estimation method**, as a sales forecasting method, is based on the ability of the sales force to detect certain phenomena in the market that affect sales. Sales persons are knowledgeable in consumer attributes, consumer behaviour and the responses of competitors. Short-term forecasts are also useful for organisations that have a well-developed sales network, and especially for organisations engaged in direct selling. This method is rarely used alone. The reason for this is that sales persons are not motivated to take a real or optimistic look at sales increase, because this ultimately means larger sales quota for them and greater obligations. Furthermore, sales persons are usually knowledgeable only in the area in which they operate and do not have a comprehensive picture of the market situation.

The **consumer intention survey method** is easy to use and very helpful when an organisation has a small number of consumers. When an organisation has a large number of consumers, things become very complicated, making it better to select a representative sample on which the survey will be conducted. The survey is carried out by a questionnaire sent through the mail, by telephone or in one-on-one interviews. The drawback of this method is that it provides answers concerning intentions to buy, which may but do not necessarily have to be carried out. This is an expensive and time-consuming method. Responses may be of a quantitative or qualitative nature. The consumer intention survey method is useful in short-term and mid-term sales forecasting.

Quantitative sales forecasting methods are based on past data that are statistically processed. Quantitative sales forecasting methods include market testing, trend extrapolation, trend correlation, regression analysis and time series analysis.

Market testing is a quantitative sales forecasting method that is most often used when introducing a new product. However, this method is avoided if there is a possibility that its implementation might jeopardize the confidentiality of data concerning the new product or market, thus enabling competitors to learn about the product's advantages that they can then easily copy.

Trend extrapolation is widely used in sales forecasting. The sales forecast is based on an analysis of the ratio of sales and the time period in which sales were realized. This method is based on the assumption that the trend of sales realized in a given period will continue unchanged into the future.

Trend correlation is a method that takes change in the market into consideration. This method determines factors that influence future changes in sales, but does not provide an understanding of the reasons for such a state. It only indicates that a correlation does exist and, more importantly, it determines how strong the correlation is.

Regression analysis is another method that takes market change into consideration. This method identifies the relationship between future sales as a dependent variable and one or more influencing factors as independent variables, which are assumed to affect sales. Regression analysis is a statistical procedure used to obtain a mathematical expression of the relationship existing between variables that are of interest to an organisation. This method of sales forecasting is based on understanding the variables affecting sales.

Time series analysis is a method based on information about past sales and on the assumption that a given trend will continue into the future. The aim is to identify a sales pattern in the past and project it onto the future. Time series analysis comprises four types of analysis: trend analysis, cycle analysis, season analysis and random factor analysis.

In conclusion, while all the methods mentioned above are useful, it is not recommended to forecast sales based on the results of only one method. Instead, sales forecasting should be based on the results of a combination of methods, as well as on a forecaster's intuition.

8. B2C MARKET AND CONSUMER BEHAVIOUR

8.1. Features of end consumers

The business-to-consumer (B2C) market provides a wide variety of products for personal consumption or household consumption.[19] On this market, consumers are physical persons who procure products of ultimate consumption for their personal use and/or the use of their families and households.

End consumers tend to frequently and suddenly change their tastes and preferences, thus dynamizing the market and market relations, and creating a situation in which businesses are compelled to continuously study and check consumer needs and wants. However, it is not enough for an organisation to learn what consumers need and want and then make a product capable of satisfying these needs and wants. What is vital is that the organisation is faster than its competitors in creating and providing such a product and that its product is of greater quality than that of competitors. Today the key is gaining a competitive advantage in the long run. Competitive advantage is a precondition to achieving good performance, and it largely depends upon the knowledge about end consumers that businesses have at their disposal.

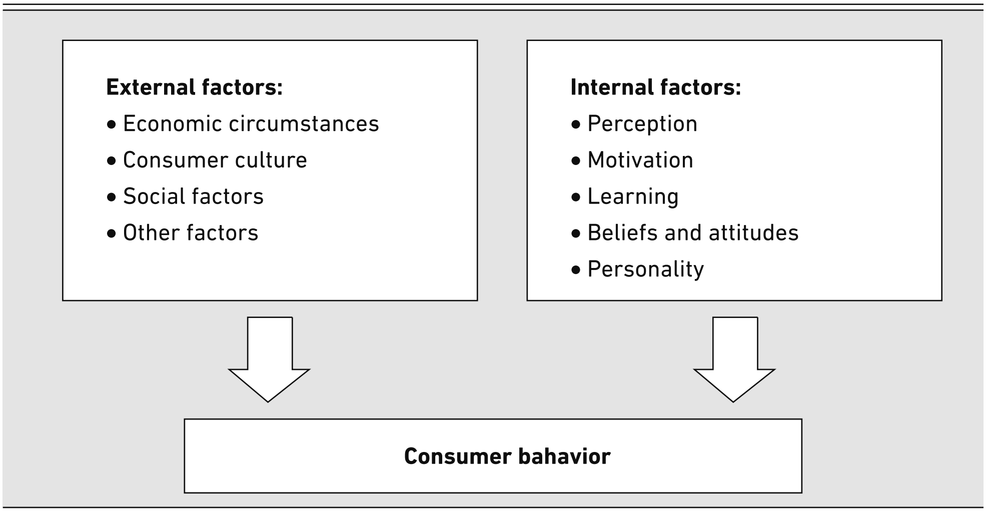
To accomplish the above, businesses must learn the specific features of end consumers and they must study consumer behaviour in the buying process. This means identifying the influencing factors that make end consumers choose one offering over another.[20]

Understanding consumers' means identifying the way they respond – in particular, in the buying process. In other words, answers are needed to questions such as, Why do certain end consumers respond immediately when a new product is launched on the market, while others wait until most consumers have already tested the product? How do end consumers behave when buying a product? Are end consumers loyal to a specific brand or do they often switch brands? To whom do end consumers turn for information prior to purchase?

The reactions of consumers on the B2C market are the result of the opinions that consumers maintain during the buying process, opinions that are affected by external and internal factors. While external factors determine the **social profile of consumers**, internal factors define their **psychological profile**. The buying process is also affected by the combination of factors that make up an organisation's offering: product, price, distribution and promotion. This combination of elements is called the marketing mix, and it encourages a specific response from consumers that will result in a decision either to buy or not to buy a certain product. The marketing mix is discussed in more detail in Parts IV, V, VI and VII of this book.

The most important influences exerted by external factors are those linked to economic circumstances, the cultural frameworks of consumers, factors within the social environment and other external factors. Consumers are influenced by internal factors as well. The major internal factors include the way consumers perceive and experience an offering, the motivations that prompt consumers to take action, learning as a result of past experiences and new information about a product, consumer attitudes, and the personality of consumers. In analysing the factors that affect how consumers respond, first external factors and then internal factors will be presented.[21] (Figure 15)

Figure 15 Impact of external and internal factors on consumer behaviour



8.2. Influences on the behaviour of end consumers

Economic circumstances have a considerable impact on consumer behaviour on the B2C market. This is one of the most important external factors, because a favourable economic climate will encourage consumption to grow and vice versa. Namely, a favourable economic situation helps to generate greater consumer purchasing power. Greater purchasing power, in turn, helps consumption to grow because consumers can buy more. The behaviour and purchasing power of end consumers and their willingness to enter into the exchange process is affected by a number of factors that belong to the domain of economic climate, such as the rate of inflation, interest rates, unemployment trends, credit and saving terms. For example, low inflation rates, low unemployment rates and growing economic activities provide a sound basis for strengthening the purchasing power of end consumers and reinforcing their willingness to participate in the exchange process.[22]

Consumer culture determines the way in which consumers think, respond and, in general, create attitudes and beliefs. Culture is a way of life that distinguishes one group of people from another. Every social group has its own status, which is defined by a series of elements – for example, disposable income, lifestyle, education, background and others.

Culture – that is, the cultural environment in which certain consumers live – is typically defined as the totality of symbols and achievements in a given society handed down from generation to generation as the constraints and regulators of the behaviour of social beings.[23] Consumer culture determines value dimensions that differ in individual cultures and have a direct impact on the way consumers behave and respond.[24]

The influence of **social factors** is tied to the role that individuals have in society, their status and their class affiliation, as well as the influence of reference groups, of which family influence is particularly important. Consumers belong to various groups and as individuals within a specific group, they all have certain roles. Each individual plays a number of roles in society. The first role may be that of a parent; the second, of an employee; the third, of a hobby enthusiast and so on. Each of these roles involves a group of activities related to some type of product. The social status of an individual is linked to the role he or she plays in society. Status is a measure of the success and position gained in society in comparison with others. The major factors determining status are education, profession, income and property. Because social status is closely linked to lifestyle and consumption, marketers need to study it carefully.

A consumer belongs to a specific social class – a homogenous group of people sharing the same interests, values and behaviour. Furthermore, people are affiliated with and ranked within a specific social class according to a variety of criteria. The most common criteria are the income level to which they belong and the property they own, although there are also other criteria, such as background, educational level, etc. The most obvious difference can be seen between social classes based on the income criterion. A high-income social class has certain needs, while people of lower income have different types of needs. Marketers must take into consideration all the factors that influence the behaviour and reactions of people belonging to social classes.

Reference groups also have a considerable influence on the behaviour of individuals, because consumers tend to identify with a specific group and embrace the values of that group as their own, which in turn affects consumer characteristics. The influence of family as a key reference group is deemed the most important. Consumers are also influenced by the reference group to which they aspire to belong, as well as by reference groups that have formal memberships, such as various non-profit organisations. Characteristically, each reference group has its opinion leader, a person whose opinion is appreciated and valued. Opinion leaders are people with credibility that has been built up over time. These are people whose opinions are sought by others and to whom others turn for information. It is very important for marketers to recognize who these opinion leaders are and to accordingly devise a way to market an offering to them – in particular, when a new product is concerned.

In addition to the above factors, the behaviour and responses of end consumers are affected by **other factors**. This group includes factors connected with the personal characteristics of consumers, such as gender, age, profession and lifestyle. These and other personal characteristics have a great impact on consumer behaviour in the decision-making process, and they determine the way a consumer will respond. Namely, people of opposite sexes, people belonging to different age groups and people of different professions and lifestyles will all behave differently in the buying process. Other factors also include information from the market concerning competitors' offerings that modify the behaviour of end consumers. Such information can come from friends and acquaintances, whose advice is based on their experiences and on opinions formed during the consumption of a product or service. Information also can come from advertisements published in electronic and print media, as well as catalogues, flyers, etc. All this indicates the necessity of carefully studying the personal characteristics of consumers and taking into consideration the information available to consumers concerning competitors' offerings.

Internal factors also influence consumer behaviour. The impact internal factors have is unique for each individual consumer; no two people respond and behave in the same way.[25] A number of internal factors exert an influence on the behaviour of end consumers, the most important being perception, motivation, learning, beliefs, attitudes and personality. Marketers seek to understand the impact of each of these factors in order to be able to predict consumer behaviour with greater certainty, as well as foresee the influences affecting the decision-making process and consumer reactions.

Perception is an internal factor that defines how end consumers experience an offering. Perception is a process that helps end consumers choose, organise, and interpret stimuli to purchase that they are exposed to every day. The market is swamped with products seeking to find a way to consumers. On a daily basis, consumers are exposed to a multitude of information and stimuli to purchase, and it is important for any business that consumers are aware of *its* information and stimuli and that this information and stimuli bring about a favourable response from consumers. Stimuli may have an impact on one or more of the senses: sight, smell, taste, sound and touch. The process that enables consumers to select, organise, and interpret these stimuli is called perception. In this process, end consumers receive stimuli from the environment and select and interpret them in accordance with their own understanding of a given issue. Hence, consumers receive, interpret, and respond to stimuli in the environment in which they work and live. It is vital that marketers recognize the importance of perception; from this, they must identify the attributes of a product that are important to consumers and then promote those attributes. These attributes can relate to prices, quality, packaging, tastes, etc. By choosing and promoting the right attribute or combination of attributes of a product, marketers provide consumers with a basis upon which they can build a good perception of a given product.

By identifying consumer **motivations**, businesses seek to understand why people choose to respond in a specific way in specific circumstances.[26] Consumers tend to behave differently when buying, using, or rejecting products. Some consumers choose to buy a specific product category or brand, while others prefer a different product. Learning why consumers respond the way they do is linked to the study of motivation. Motivation is essentially the drive that end consumers have to meet their needs and wants; it compels consumers to take action to satisfy their needs and wants. By studying consumer motivation, businesses can understand the drives that influence end users to buy or not to buy a product. Marketers are interested in those drives that motivate end consumers to buy a product because motives have their origin in needs. Many agree with the motivation theory of Abraham Maslow based on the hierarchy of needs. Maslow argued that there is a hierarchy of needs and people will strive to fulfil higher-level needs only after they have satisfied their lower-level needs. Maslow's hierarchy of needs distinguishes five levels: level one – physiological needs, level two – safety needs, level three – social needs, level four – self-esteem needs and level five – self-actualization needs.

Learning, a process that affects how end consumers respond and behave, is the result of new knowledge and experience. End consumers evolve through the learning process based on previous experience in using a product or based on information received from other product users or consumers. Through learning, consumers modify their behaviour. For businesses, the learning process is important in situations in which the response of end consumers after an initial stimulus is repeated in a second stimulus similar to the first. Namely, end consumers tend to extend the good experience they derived from the first case onto a second, similar case. Businesses can use such a situation to their advantage by tying to a successful brand other, similar products or new products on the market.

There are two basic types of learning: experiential and conceptual. In experimental learning, behaviour changes under the influence of experience. Conceptual learning, on the other hand, is not based on one's own experiences but rather on the opinions of others or on the basis of information obtained in some other way.

Beliefs and attitudes are yet other internal factors that affect the decision-making process and the behaviour of consumers. A belief is a thought about a thing, idea or behaviour, and it is not always supported by arguments and facts. Beliefs are subject to change and, thus, do not have consistency. An attitude is a relationship between an individual and object or situation that is embraced and/or learned about through experience or in some other way. Attitudes are formed throughout the life cycle of consumers, and they are influenced by reference groups, personal experience and information. Attitudes are not easy to change and, unlike beliefs, do have consistency.

The learning process plays a vital role in forming attitudes. Attitudes can be formed through classical conditioning or instrumental conditioning. Classical conditioning is evident when an organisation launches a new product on the market under a brand name that consumers are familiar with; the brand name triggers consumers to form a favourable attitude towards the new product based on past attitudes about the brand name. Attitude formation is influenced by previous experience and knowledge – that is, by the information that consumers have about a product, as explained by the cognitive learning theory. When consumers have no attitude towards a certain product but experience satisfaction after buying and using the product, there is a great likelihood they will continue to purchase the same product in the future and will form a favourable attitude towards it.

Personality refers to the observable character traits that distinguish people from one another and make them special, likeable and interesting.[27] As a set of consumer characteristics, personality refers to the consistent and enduring way in which consumers respond and behave. There are two reasons why businesses need to take personality into consideration. The first is that consumers want to buy and own products that reinforce their personality. The second is based on the need to understand and distinguish between the actual and desired personality of consumers. The broader the gap between actual and desired personality, the greater the consumer dissatisfaction that marketers can make use of. Hence, when formulating market communications, marketers seek to reinforce the feeling of personality in consumers.

To understand end consumers, marketers must learn how they respond in the purchasing process and what decisions consumers make prior to, during and after the act of buying. This is necessary to adjust the offering to conditions arising from the activities of end consumers in the purchasing process. The decision-making process of end consumers is discussed in the following section.

8.3. Decision-making process of end consumers

The decision-making process of end consumers is based on the accumulated knowledge of factors that affect consumer behaviour. The buying decision can be the result of spontaneous reactions – in particular, where the purchase of simple products or products that are regularly purchased is concerned – or the result of reasoning and a rational approach where more expensive and complex products are involved.[28]

The decision-making process begins with problem recognition (the problem can be resolved by buying a product), followed by information search (looking for information about a product best suited to resolve the need or want), an evaluation of alternatives (or values that are gained by buying a product), the purchase decision and post-purchase evaluation.

The decision-making process starts with **problem recognition**. Consumers identify a problem that needs to be resolved or a specific want or need that needs to be satisfied. This first stage is important because no consumer will begin an information search or proceed to the next stage if a problem or unsatisfied need has not been identified. This presents a great challenge to businesses because they must work hard to identify the problems or unsatisfied needs of their consumers and then offer them solutions in the form of products.

Once consumers have recognized a problem that needs to be resolved or a need that must be satisfied, they proceed to **information search**, the second stage of the decision-making process. They usually begin this stage by trying to recall past experiences concerning similar problems. If this level of information is sufficient, the information search stage ends here. If not, consumers begin to collect information from other sources, such as their friends, advertisements in professional journals, or visits to specialized shops. Consumers look for information about the existence and availability of product offerings, product attributes, product prices and any other information that could be useful in forming criteria for evaluating options. When consumers are less familiar with the product they intend to buy and when a greater risk in buying the wrong product is involved, they try to gather as much information as possible and vice versa. When consumers know all about a product's features, the purchase is made based on a lower level of information collected. These facts are of vital importance to businesses, because it follows that information must be readily available to potential buyers and the amount of information should be such that it does not result in information overload but encourages consumers to enter the third stage of the process, the evaluation of options.

The information collected provides consumers with an idea of the various options available to them in satisfying their needs. Once a certain number of possible solutions to the problem have been identified, consumers need to select one of the alternatives– that is, they must make an **evaluation of alternatives**. Consumers evaluate their options by selecting a number of products available on the market and determining the attributes that they deem crucial in satisfying their needs or resolving the problem they are faced with. Based on the product attributes they have chosen, consumers evaluate each product and, in doing so, give preference to some attributes over others. Evaluation may also be based on the attributes the product should not possess. For businesses, these facts are a sound basis for choosing the right approach to creating and exchanging products/value with consumers. In creating products, businesses begin with the identified needs of consumers and accordingly adjust the attributes of their products. Businesses must take care to ensure that consumers receive timely information and that their sales people are capable of helping consumers evaluate alternatives. The development of good consumer relations can contribute substantially to ensuring a purchase decision, which is the next stage in the decision-making process.

The **purchase decision** is the fourth stage of the decision-making process. After they have evaluated alternatives, consumers choose the option that best satisfies their needs or resolves their problem. In this stage, consumers must also make several additional decisions, such as where to buy a product, when to buy it, and how to pay for it. The purchase decision is followed by the act of buying, which involves the exchange of an organisation's product for the money of an end consumer. In this act, the organisation and the consumer exchange values; the end consumer gains benefit from product ownership, while the organisation acquires the money it needs for its further development.

After the act of buying, the consumer enters the final stage of the process, which is **post-purchase behaviour**. Post-purchase behaviour is a result of the consumption experience. In this stage consumers assess whether they are satisfied or dissatisfied with the product purchased. Consumer satisfaction or dissatisfaction depends on the relationship of the product attributes expected and the product attributes received. The satisfaction or dissatisfaction of consumers with the product purchased will affect their future responses to the product. A satisfied consumer will make repeat purchases and is likely to become loyal to the product brand. A satisfied consumer will also spread positive word of mouth about the product and influence the decisions of friends and acquaintances.

Conversely, a dissatisfied consumer is not likely to buy the same product again and will spread negative word of mouth. Most consumers, however, are somewhere in between these two extremes. There will always be a discrepancy between the attributes of the purchased product and the attributes expected. To perform well in the market, businesses must strive to eliminate or minimize this discrepancy.

To conclude, the decision-making process of end consumers comprises five stages, but this does not necessarily mean that each end consumer passes through all five stages or that every purchase involves all stages. Consumers often skip certain buying stages – in particular, the second and third stages in which consumers search for information and evaluate options. In cases such as these, consumers tend to go from the problem recognition stage directly to the purchase stage. Whether consumers will skip certain stages primarily depends upon the complexity of the buying decision, which correlates to the value of the product they intend to buy and the frequency with which they buy the product. The buying decision is much more complex and requires more time when expensive products are concerned or products that are not frequently purchased. Such an approach to the buying process requires a higher level of involvement from consumers. Conversely, products that are less complex, less expensive and are purchased on a regular basis require a lower level of involvement and entail a routine approach to the buying process. In between the routine approach and the extensive approach, there is the moderate approach. The moderate approach to the buying process is linked to products that are purchased occasionally or products of which the consumer has little knowledge. Hence, a consumer can choose one of three approaches to buying: routine buying, a moderate approach to buying or an extensive approach to buying.

9. B2B MARKET AND CONSUMER BEHAVIOUR

9.1. Attributes and types of consumers on the B2B market

The B2B market differs significantly from the B2C market in which, as we have seen in the previous sections, consumers are physical persons (that is, individuals or family members). Unlike the B2C market, the B2B market is made up of legal persons – that is, profit and non-profit businesses.

Businesses that are engaged in production procure products needed to manufacture other products, or they purchase products intended for their regular operations, while businesses engaged in commerce purchase products for reselling. These businesses are consumers in the B2B market and to distinguish them more clearly from end consumers, we shall refer to them as **business buyers**. In addition to profit-oriented business buyers, the B2B market also includes non-profit businesses, such as children's day care centres, sports associations, faculties and others.

Business buyers enter the buying process motivated by economic reasons, unlike end consumers whose motivations are linked to satisfying personal needs and wants. The transactions of business buyers involve greater risk in comparison with those of end consumers. The level of risk is tied to the fact that large quantities of products, ranging from raw materials to auxiliary materials, are procured on the B2B market, requiring business buyers to set aside substantial funds. The level of risk is also linked to possible errors regarding the specification of attributes of the product to be procured. Errors in judging the quantities needed may lead to purchasing too much, in which case the surplus must be warehoused (which will, in turn, tie up funds) or purchasing too little (which could lead to production stoppage).[29]

A huge number of profit-oriented and non-profit oriented business buyers operate in the B2B market. They all seek consistency in the quality of products purchased, evaluate the utility of the product being purchased, and expect adequate prices and terms of purchase. They also endeavour to develop partner relationships with suppliers to ensure timely deliveries.[30]

Demand of business buyers for specific products derives from demand on the B2C market.[31] Typically, business buyers are affected by the acceleration factor by which even a minor change on the B2C market may bring about major changes on the B2B market. Such changes may refer to either growing or shrinking demand on the market.[32]

Business buyers operating in the B2B market fall into four categories: production and service businesses; resellers; government administration, regional and local administration as business buyers; and institutions and associations as business buyers. Each of these business buyers possesses an array of special traits that marketers must understand if they are to target them as best as possible.

Production and service businesses (producers) are business buyers that purchase products to manufacture other products, to incorporate purchased products into their own products, or to ensure and facilitate daily business operations.[33]

Resellers are business buyers that buy and resell products to other businesses. Resellers can be wholesalers or retailers. Wholesalers purchase products in large quantities from manufacturers or other resellers with the intention of reselling the products to other producers and retailers. They warehouse, process, sort, or repack the products purchased, or transform them in some other way that is meaningful for reselling. Retailers purchase products from producers or wholesalers and other retailers through their own sales network.[34]

Government administration and local and regional self-government are major buyers, both in terms of the number of entities that have legal personality and in terms of the volume of goods purchased. Government administration and local and regional self-government include offices and departments not only at the national level, but at the county, town and municipal levels as well. The unit value of products purchased can be exceptionally large[35] or relatively small.[36]

Every country has a number of **institutions and associations** that were not founded for the purpose of generating profit; they are non-profit entities. A variety of institutions are established to ensure and provide a certain standard to a country's citizens. These institutions include universities, faculties, hospitals, community health centres, churches and other institutions. To operate, these institutions need many products of greater or lesser value, ranging from equipment to daily supplies. In addition to institutions, countries also establish associations through which their citizens can express and fulfil their non-profit oriented interests. Such interests include sports, heritage conservation, charities, etc. Institutions and associations appear as buyers on the business market and their behaviour in the purchasing process is specific with regard to the purpose for which they were established and with regard to financial limitations.[37]

Business buyers need a variety of products. An entire array of products is the object of exchange on the business market because business buyers – regardless of whether they are for-profit or non-profit business buyers – need them to be able to operate. Basically, the products that are the object of exchange on the B2B market can be categorized as raw materials and components, capital equipment, supplies and business services.[38]

9.2. Buying process on the B2B market

Purchasing on the B2B market is a dynamic process because it involves the interaction of a number of a buyer's employees engaged in the buying process and their relationships with a supplier's employees. While the buying process of business buyers is never uniform – in one case, it may be more complex; in another, simpler – it basically consists of five stages.

The buying process on the B2B market begins with **problem recognition** – that is, a need for a specific product is recognized. The need to buy raw materials and production materials arises as the result of anticipated increased production in which these materials will be used.[39] The need for buying can also arise as the result of greater consumption in the previous period and a low stock of materials required for regular business.

The need for procuring equipment is most often related to the obsolescence of existing equipment or to buying a technologically newer generation of equipment that will make it possible to achieve better results. Some business buyers recognize the need for business services, such as financial services or market research services.[40] The need for buying in the business market also emerges in cases when defects occur and spare parts are required. In addition, business buyers have a need for buying to ensure the daily supplies required for their everyday operations.

Problem recognition, the first stage, is considered the most crucial and most important stage because the results of this stage indicate whether a business buyer will continue with the buying process and proceed through its other stages or whether the buyer will desist from purchasing.

Information search is the second stage in the buying process on the business market. Because information search is a costly and time-consuming stage of the buying process, it is of special importance to the business buyer. The buyer searches for and systemizes information concerning product attributes and information concerning potential suppliers. Information search helps to reduce risk, and searching for alternative solutions to products or suppliers is the most extensive, when the perceived risk is high.

Information concerning product attributes refers to information about a product's size, weight, quality, availability and so on. This information makes it possible to develop a specification of the product attributes required. Information concerning potential suppliers helps business buyers to select the most favourable supplier. In seeking potential suppliers, preference is given to suppliers with which business relations already exist. Where new suppliers are concerned, business buyers look for information – such as previous experience, network extent, level of service development and a willingness to respond promptly to buyer demands – that will enable them to select the most favourable supplier. Information sources include various professional journals; advertisements in business newspapers and other weekly publications; visits to trade shows, professional gatherings and conferences; seller presentations; personal selling; word-of-mouth; the Internet and other sources.[41]

Once needs have been identified, a specification of the required product has been compiled, and offers have been requested and received from potential suppliers, business buyers enter the third stage of the buying process in which **alternative offerings and suppliers** are evaluated. The criteria by which products and suppliers are evaluated include quality, after-sale services and price. Sometimes criteria such as terms of payment, delivery time and repair costs are also taken into consideration.

The delivery of quality products is seen as a key criterion. Namely, good quality raw materials and production materials are vital input in creating a superior product. Well-designed equipment also ensures that production will result in quality products. The same applies to business services and spare parts.

Business buyers are particularly interested in after-sales services. When buying expensive equipment, business buyers expect the seller to provide additional services, such as equipment installation, training for workers in using the equipment, maintenance, repairs and regular servicing.

Price is another key criterion, because each business buyer wants to buy a product that is the least expensive yet of the best quality. For this reason, a product's quality/price ratio is of crucial importance in evaluating the offerings of suppliers. Other key dimensions which business buyers use to evaluate offerings include timely delivery, the knowledge and competencies of the supplier and business references.

Product and supplier selection, the fourth stage of the process, is based on the offerings collected and takes into consideration the above-mentioned criteria of quality, post-purchase services and price. In this stage, business buyers whose operations are based on total quality management (TQM) and ISO standards pay special attention to the quality of the product they are buying and to cooperation with a supplier whose operation is also TQM based.

Furthermore, business buyers that have implemented an inventory management system are particularly appreciative of suppliers capable of making just-in-time (JIT) deliveries. In this way, buyers can ensure they hold only minimum stock while procuring products on a permanent and regular basis.

Post-purchase evaluation is the final stage in the buying process on the B2B market. In this stage, buyers seek answers to the question: Do the products meet the criteria listed in the specification? Post-purchase evaluation assesses the buyer's satisfaction with the products purchased, from raw materials and production materials to equipment, business services and spare parts.

To this end, instruments have been developed that monitor and analyse product attributes. These assessments are not carried out by business buyers alone, but also by suppliers in an effort to meet the requirements of their partners. They measure the satisfaction of business buyers with the product delivered and determine any deviations from the goals set. Such data serve as a good indicator and motivation for making corrections in the supplier-business buyer relationship.[42]

The results of the post-purchase stage are used in correcting behaviour and actions. The data are recorded and used when the need for a repeat purchase emerges. When buyers make routine or repeat purchases, the results of post-purchase evaluation enable them to go immediately to the information search stage. However, when new buys are involved – that is, when a new problem needs to be resolved – the buying process begins with the first stage, problem recognition, followed by information search, the evaluation of alternatives, product and supplier selection and, finally, post-purchase evaluation.

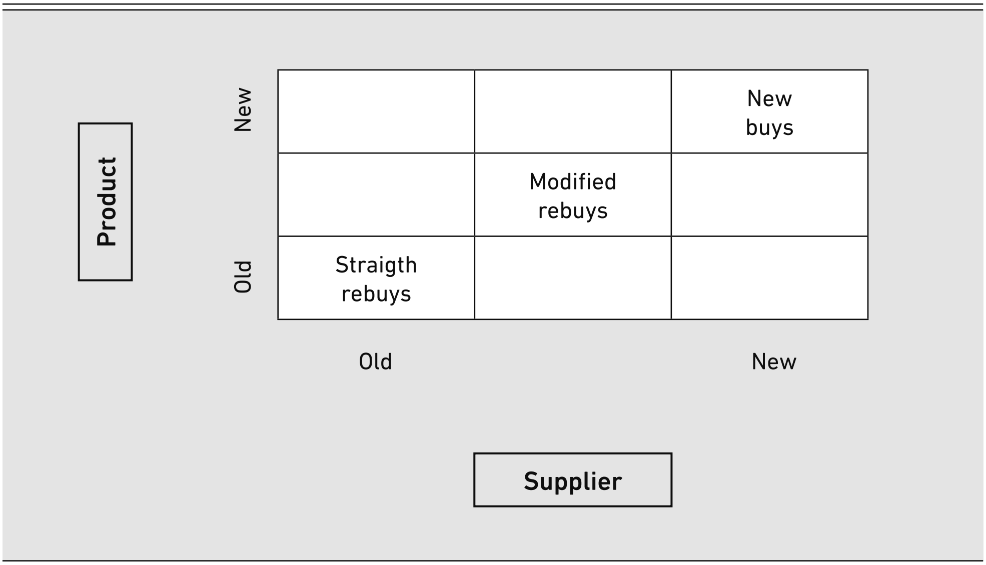
9.3. Buying situations and roles within an interdisciplinary buying centre

Not all buying processes in the business market have the same level of complexity. Some are more complex than others; some require greater efforts than others. Buyers in the B2B market undertake buying processes that differ in importance, in the energy needed to follow through, and in the number of employees involved in preparing and finalizing the process.

A major portion of time in the buying process is spent on searching for information and evaluating alternatives relating to products and suppliers. When purchasing a product that is more expensive, more complex or more important for business operations, buyers concentrate more attention on searching for information about product attributes and suppliers, which is time consuming. Often, they crosscheck information gathered from multiple sources.

In addition to searching for information, buyers must also diligently process and evaluate alternative solutions. All this requires time and money, two dimensions that business buyers always lack. This is the reason why best practices have defined specific buying frameworks according to the efforts required in gathering information and evaluating alternatives. Hence, we can distinguish three buying situations that business buyers may come across: straight rebuys, modified rebuys and new buys.[43] The following section analyses the characteristics of each buying situation (Figure 16).

Figure 16 Buying situations



A straight rebuy is a buying situation in which a business buyer purchases a standardized product on a routine basis. Most often, this is a situation in which the buyer purchases the same product as before from the same supplier. This implies that the business buyer has prior experience with and is knowledgeable of both the product and the supplier. Rebuying the same product from the same supplier does not involve any additional efforts. This type of buying situation is not time consuming and requires little effort. Straight rebuys in the B2B market largely refer to less costly equipment, spare parts and supplies needed in daily operations.

A **modified rebuy** is a buying situation in which a change has occurred in procuring a product that was previously purchased on a routine basis. Change can come about as the result of a business buyer learning about new quality, prices and delivery opportunities. This means, the buyer has analysed the situation on the procurement market and realised that more suitable solutions and better suppliers exist. Change can also be brought about by new requirements – that is, by business buyers opting for new production or the innovation of old production to meet the requirements of their business buyers or end consumers. To do this, they need new materials and new equipment. Compared with straight rebuys, modified rebuys require business buyers to invest more time and focus greater effort on a few details.

A **new buy** is a buying situation in which new products are purchased from new suppliers. It exposes business buyers to numerous risks and uncertainties and requires great efforts in gathering relevant information about the attributes of products to be purchased. Based on the information collected concerning product attributes and suppliers, business buyers evaluate alternatives. The depth and breadth of the analysis will depend upon the importance of the new procurement, the value of the new products and the anticipated consequences for making the wrong decision.

For most business buyers, the buying process is very demanding and complex. Hence, to carry out the buying process, an organisation brings together a number of its employees within the framework of an interdisciplinary buying centre. Depending on what is being procured, these employees may have different professional profiles. For example, they can be operatives directly involved in production, economists, engineers, designers, financial experts, programmers or computer professionals. This gives the buying centre its interdisciplinary nature. As a rule, there is no fixed group of persons who make up an interdisciplinary buying centre. Instead, the buying centre has a flexible structure in terms of both the number of its members and their professions.

The size of the buying centre depends upon the buying situation – that is, whether a straight rebuy, modified rebuy or new buy is involved. In a straight rebuy, which is the routine purchase of the same product from the same supplier, the buying centre usually consists of one person, typically a procurement officer. The procurement officer makes decisions without consulting others because all details concerning the purchase are known and have been verified through previous work. In a modified rebuy and, in particular, a new buy, which is a much more complex buying situation, the number of employees involved grows proportionally with the complexity of the buying situation. The higher the business risk, the greater the number of members in the buying centre, because the input of multiple professionals is required.

The members of the **interdisciplinary buying group** will interact properly when guided by a single objective. All the important people involved in purchasing (procurement) are members of the buying centre, and they take on different roles in carrying out their tasks and duties. Certain roles may be concentrated with one person or dispersed over several people. It is in the interest of marketers to understand how the buying centres of their business buyers respond and function and, if required, marketers need to adjust their actions to the business situation.[44]

Six roles can be distinguished within a buying centre: initiator, user, gatekeeper, influencer, decision maker and buyer. One person may be the initiator and decision maker or the user. The combinations are manifold, and there are no rules. The authority that persons yield based on their experience and knowledge enables them to perform a number of roles in the procurement group, contrary to other people who have less experience.

The initiator is the person in the buying centre who is the first to detect the need for a certain product. This person then informs the other members of the organisation of this need, thus initiating the buying process.

In the buying centre, users are those people who will, in fact, be using the newly purchased product. Because users are usually the first to detect a problem or identify a need for procuring new products, the roles of initiator and user are often performed by a single person.

The gatekeeper is the member of a buying group who controls the flow of information towards other group members. Most often, the gatekeeper is a procurement officer responsible for contacting suppliers, acquiring brochures and other material from suppliers, organizing supplier presentations, and undertaking other tasks that enable him/her to control and direct information towards the members of the buying group.

The influencer in a buying group has the role of modifying the attitudes of buying group members towards product attributes and suppliers. This may involve making a case either for or against the level of buying consensus reached. The role of the influencer is particularly useful where making high-risk decisions is concerned. In such cases, external consultants and specialists are often engaged.

The decision makers are members of a buying group who have the authority to select a solution from among the alternatives offered. Their authority may be formal or informal. In straight rebuys, authority is usually linked to the procurement officer and lower-ranked persons, while decisions that carry greater risk are tied to higher-ranked persons or even owners or key managers. In more complex purchases, it is advisable to involve such persons in the buying process as early as possible to ensure that any quandaries that may exist are solved in as little time and with as little effort as possible.

The buyer is a member of the buying group who has formal buying authority and whose obligation it is to carry out the purchase. The buyer has the task of carrying out the decision of the buying group and managing all the details related to the purchase and its realization. Buyers are often persons with the formal authority to select suppliers and negotiate logistics details with them.

SUMMARY

Businesses seek to identify and analyse markets by exploring market opportunities, carrying out market research, analysing market features, and analysing the behaviour of consumers in the B2C and B2B markets.

To develop successfully, an organisation must understand market regularities. To this end, it applies the segmentation process to divide a heterogeneous market into one or more homogeneous markets. Based on segment validation or attractiveness, it selects the segment that will become its target market. The organisation then applies the positioning process to the target market in order to position its offering in the minds of consumers. To fully understand the market, an organisation needs to ensure market information. This information may be derived from regular daily tasks; it may be information recorded by the competent agencies and bodies; or it may be the result of market research. To analyse future trends in the market – that is, to forecast sales – an organisation can use qualitative and quantitative sales forecasting methods.

An organisation may operate in the B2C and/or B2B market, which differ according to their special attributes and to the way consumers behave in the buying process. B2C consumer behaviour is affected by internal factors that make up a consumer's psychological profile and by a number of external factors that shape the consumer's social profile. Influenced by these factors, end consumers enter the buying process that begins with problem recognition and ends with post-purchase response. The B2B market comprises a number of business buyers ranging from production and service businesses and resellers to government administration, regional and local administration, and institutions and associations. The buying process of business buyers starts with recognizing the need for procurement and finishes with post-purchase evaluation. Although buying processes differ with regard to importance, investments, the number of employees involved and other characteristics, the basic buying situations are a straight rebuy, a modified rebuy and a new buy. The B2B buying process is carried out by a buying group, the members of which perform one or more roles.

CRITICAL THINKING QUESTIONS

1. What are the basic assumptions for identifying market segments? Explain using an example.
2. Explain the market segmentation process using an example.
3. List the key variables in B2C market segmentation. Discuss this using the soft drink market as an example.
4. Which variables for B2B market segmentation would you suggest to an organisation in the ship-building industry?
5. Which criteria for segment evaluation do you know? Elaborate.
6. There are three basic approaches to winning a target market. Explain one of them.
7. What does positioning refer to and what are its characteristics?
8. Several methods are used in forecasting the dynamics of market events. Which sales forecasting method seems the most acceptable to you and why?
9. Discuss the differences between primary and secondary information.
10. Explain the market research process and each of its five stages.
11. Elaborate on the characteristics of research methods and sample selection.
12. List and explain consumer types and describe their specific traits.
13. Discuss external influences on the behaviour of end consumers.
14. Explain the internal factors that impact the behaviour of end consumers.
15. The decision-making process evolves through five stages. In your opinion, which of these stages is the most crucial in winning or losing an end consumer?
16. Analyse the types of buying processes of end consumers.
17. What are the attributes of consumers of the B2B market (business buyers) and how are B2B consumers classified?
18. Identify and explain the special features of products that are the object of exchange on the B2B market.
19. The buying process on the B2B market begins with problem recognition. What are the other stages and what are their characteristics?
20. The members of an interdisciplinary buying centre may perform a number of roles. What are these roles?

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[5] For example, in the Statistical Yearbooks of the Croatian Bureau of Statistics, http://www.dzs.hr

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[30] Brennan, R, Canning, L., McDowell, R.: *Business to Business Marketing*, Sage, London, 2007, p. 5-21

[31] This is easy to see and understand for certain products. For example, growing demand for roof tiles is the result of increased demand for this product in the construction industry due to increased demand for housing space by end consumers.

[32] Namely, in some circumstances, there may be a growing demand for a specific product on the B2C market – for example, kitchen cupboards. This implies that to meet growing demand for kitchen cupboards, manufacturers must make investments to purchase the machinery and equipment needed for their production. In the reverse situation, demand may shrink, leaving production capacities idle.

[33] For example, the firm *Nexe Group*, a manufacturer of roof tiles, http://www.nexe.hr/

[34] For example, *Tifon,* a company engaged in selling solid, liquid and gas fuel and related products, http://tifon-zagreb.bonitet.hr/

[35] For example, when the Croatian government purchases firefighting aircraft or helicopters, http://www.vlada.hr/

[36] For example, when the municipality of Motovun purchases office supplies, http://www.motovun.hr/

[37] For example, the Kvarner Tennis Club is a nonprofit association that purchases Tenisit, a tennis court surface cover, http://www.tkk.hr/

[38] Kotler, Ph., Keller, K.L.: *Upravljanje marketingom [Marketing Management]*, Mate, Zagreb, 2008, p. 374-376

[39] Coe, J. M.: *Fundamentals of Business to Business, Sales and Marketing*, McGraw-Hill, New York, 2004, p. 8-11

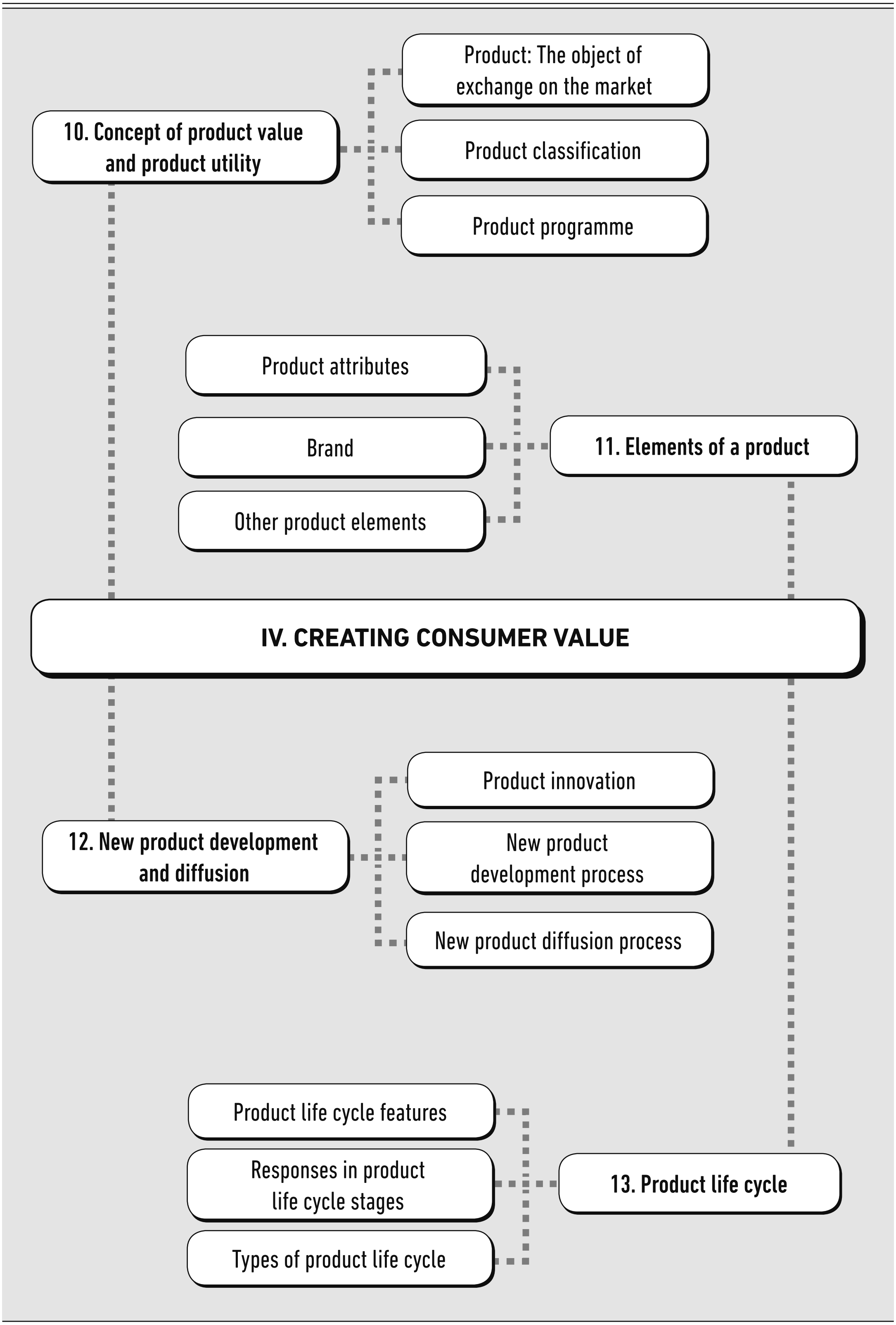
[40] For example, the firm *Poslovni forum* provides an entire array of business services, http://www.poslovniforum.hr/

[41] For organisations operating in the power-supply market, the Energy Efficiency Fair held at the Zagreb Fair is a good source of information, http://www.zv.hr/

[42] For example, *Sila*, a manufacturer of steel constructions and heat exchangers, focuses heavily on testing the production material it uses with the aim of ensuring maximum customer satisfaction, http://www.sila.hr/

[43] Hutt, M. D., Spech, T. W.: *Business Marketing Management – B2B*, South-Western, Mason, 2010, p. 65-70

[44] Anderson, J. C., Narus, J. A., Narayandas, D.: *Business Marketing Management, Understanding and Delivering Value*, Pearson, London, 2009, p. 188-189


Product: The object of exchange on the market
10. Concept of product value and product utility
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IV. CREATING CONSUMER VALUE

Creating consumer value is directly linked to gaining competitive advantage. When designing an offering, the starting point should be creating an appropriate product – that is, a product that has consumer value. Part Four discusses the basic postulates of a product: the concept of product value and product utility (Chapter 10), the elements of a product (Chapter 11), the development and diffusion of a new product (Chapter 12) and the life cycle of a product (Chapter 13).

Objectives

After studying Part Four, you should be able to:

- Understand product attributes
- Explain the classification of B2C products
- Explain the classification of B2B products
- Discuss product attributes
- Analyse the importance of product brand
- Identify the characteristics of other elements of a product
- Define what a new product is
- Describe the stages of the new-product development process
- Discuss the process of new-product adoption and diffusion
- Understand the product life cycle concept
- Identify responses to individual stages of the product life cycle
- Describe the alternative life cycles of a product

10. CONCEPT OF PRODUCT VALUE AND PRODUCT UTILITY

10.1. Product: The object of exchange on the market

The term *concept* implies the process of understanding a specific problem and/or deriving a general idea from specific occurrences.[1] The concept of value in terms of product delivery is based on the fact that value is relative. What represents great value to one consumer may represent little or no value to another and vice versa. Product value means much more than just the cost of making a product or the price at which it is sold on the market. Value is intrinsically linked to product utility – that is, to a product's usability.[2] Seen from the consumer perspective, the concept of value suggests a strong association with consumer satisfaction.

An organisation gains a competitive advantage – one of its key objectives – when it is better than its competitors in understanding consumer needs and creating a product that has consumer value, or to be more precise, when consumers take notice of an organisation's product and accept it as valuable. In other words, exchange will take place only when consumers perceive the difference in important attributes between the product of an organisation and the product of its competitors.[3]

Over time, consumer expectations change, and each generation of consumers has its own value. Today's trends are associated with healthy lifestyles, environmental conservation, the fair treatment of animals, etc., all of which influence value modification, because these trends may be incorporated into delivering value and generating consumer satisfaction. New consumer expectations are emerging, together with new aspects of value, such as accessibility to information, a broader selection of products, contentment resulting from the use of a product, and the sense of having a positive experience.[4] On these bases, increasingly greater attention is centred on the intangible value of a product relative to its tangible value.

This is why, in creating products, organisations focus on satisfying consumer needs so as to make their product an object of exchange in the market. Together with its tangible and intangible attributes, a product must possess utility for consumers; only then is consumer value created. For a product to succeed on the market, it must meet these conditions.

When creating a product, marketers begin with the utility the product possesses for consumers, because consumers are not buying a product, they are buying utility. To **derive utility from a product**, consumers must have possession of it and use it; thus, they fulfil their needs and wants and this, ultimately, leads to consumer value.

To have a clearer idea of the essence of product value and its characteristics, it is essential to understand product attributes and product classification, how to design an offering for the market and other special issues.

A **product** is an object of exchange that is procured for the purpose of using it to resolve a certain problem – that is, meet a specific need and want. Consumers do not buy products because of the product itself but because of the utility they derive from the product by possessing and using it. In creating a product, marketers begin with the primary utility a product must possess and that consumers will ultimately recognize and take into consideration.

A product is anything offered in the market with the aim of satisfying consumer wants and needs in the exchange process. A product is a broad bundle of tangible and intangible benefits that a consumer derives from the product by buying it. The complexity of a product is not only the result of its physical features, but also the result of its intangible features that are directly associated with consumer needs and wants. A product is a primary element of the marketing mix and the platform upon which the other elements of the marketing mix are built. The concept that sees a product as the totality of tangible and intangible attributes that a consumer gains by buying the product is called the **total product concept**. According to the total product concept, a product may be a physical product[5], a service[6] or an idea.[7]

When buying a product, consumers tend not to make a distinction between its physical and non-physical features. To consumers, a product is the totality of its features, and at the heart of the matter is the benefit to be derived by possessing the product. However, marketing managers need to understand that product value is based on two **product dimensions** – the primary product dimension and auxiliary product dimension. The former is based on the utility a product must possess to be able to satisfy a certain need or want. This is the intangible level of a product, the reason why the consumer is actually buying the product.[8] The latter dimension is product design, product quality, product brand, and product packaging, and enriching the product with services that give the product added value, such as credit terms, product repair, warranty and product delivery.[9] Knowing how products are classified helps towards fully understanding what a product is all about.

10.2. Product classification

Product classification is the systematic categorisation of products according to specific criteria, particularly with regard to product attributes that relate in a meaningful way. By classifying products according to a variety of criteria, it is easier to determine the approach to take on meeting consumer needs and wants.

Basically, as mentioned earlier, products may be classified as physical products, services and ideas. Product classification may also take into consideration the period in which a product is to be used; some are bought for long-term use and others for short-term use. However, the most important approach to product classification is linked to the distinction between B2C products and B2B products.[10]

B2C product classification. B2C or consumer products are purchased for personal use, household use or family use. B2C products can be classified as convenience products, shopping products and specialty products.

Typically, **convenience products** are purchased frequently and with little effort involved. The level of effort is low because consumers are familiar with the specific features of a convenience product. They do not need to search for a great deal of information, and their willingness to substitute one product for another is great. There are three types of convenience products:

- Staple products, which are bought repeatedly and routinely and usually have lower prices[11]
- Impulse products, which are bought by impulse buying – that is, without any planning and from case to case. Such products are purchased when the need for their procurement is recognized, which is generally not on a regular basis[12]
- Emergency products[13]

Shopping products are purchased occasionally or from case to case. Typically, these are products of greater value and are sold in specialized shops. As a rule, consumers do not have all the information they need prior to purchase. Because of this, consumers need to obtain a certain quantity of information about a product before they buy it. Consumers examine and study product attributes, compare prices with similar products, and only when they are satisfied with the features, design, price, quality and other characteristics, will they buy the product.[14]

Specialty products can be products that possess certain special characteristics or they can be brand products. Because of these special characteristics or brand, consumers purchase these products regardless of the price they have to pay and they are unwilling to accept substitutes.[15]

B2B product classification. B2B products or productive consumption products are also called industrial products. They are procured for further processing or for the production of other products. The turnover of B2B products is much greater than that of B2C products. This makes it all the more important to understand the different types of B2B products and define their features. Organisations are the consumers of B2B products.

B2B products may be classified in different ways with regard to their value, usage and level at which buying decisions are made. Typically B2B products are classified as raw materials, manufacturing materials and parts, installations, accessory equipment, consumable supplies and services.

Raw materials are B2B products with characteristics similar to the state in which they are found in nature. Prior to use, raw materials undergo minor processing or are not processed at all.[16]

Manufacturing materials and parts are B2B products that are incorporated into the finished product. Manufacturing materials and parts undergo a higher level of processing than raw materials, and by their nature they are considered end products. The unit value of these products is low, while the speed at which they are consumed in production processes is high. Typically, the decision to procure these products is made by lower-ranking persons based on cooperation between the business and the supplier of manufacturing materials.[17]

As a rule, **installations** have a greater value and, while not being a part of the end product, they are vital to its production. Found in every organisation, these products include production halls, machinery and other capital equipment needed in production. Most often, installations are made-to-order and, accordingly, the buying decision process on the side of both the supplier and the client involves highly educated employees.[18]

Accessory equipment refers to B2B products that do not belong to the installations category because of their lower value. The lifetime of accessory equipment is also shorter than that of installations. These types of products do not become part of the finished product, but are essential for its production. In procuring accessory equipment, consideration is given to quality, delivery times, prices and after-sales services. The promotion of this type of B2B products is linked to personal selling.[19]

Consumable supplies are products used daily and in large quantities. Their unit prices are low and they are not a constituent part of the finished product. Consumable supplies are generally procured from a known supplier and procurement is a regular, routine and simple process. The buying decision is made by lower-level management.[20]

Services are intangible products that an organisation commissions from so-called third persons. Services usually include leasing services, space and equipment rental services, maintenance and repair services, and intellectual and other services. The prices of individual services differ, and organisations are often in a dilemma whether to buy specific services from others or organise these services in-house using their own employees. What they decide to do will primarily depend upon the type of service in question, how badly they need the service, the price of the service, the ability of the business to organise the service in-house and other factors.[21]

10.3. Product programme

Knowing product attributes is vital in making many marketing decisions, and it is particularly important in defining the product line with which an organisation intends to compete on the market. Organisations compete on the market with an offering that includes more than one product. To a greater or lesser extent, these products have certain attributes in common and together they make up a product line. A **product programme** or marketing mix is a combination of all products with which an organisation competes on the market. Product programmes are characterized by their breadth, depth, length and consistency.

Product programme **width** is based on the number of product lines an organisation has.[22] Product programme **depth** refers to the number of products within each product line.[23] Product programme **length**[24] pertains to the total number of individual products within all product lines. Product programme c**onsistency** pertains to how closely related different product lines are in terms of end consumption, distribution channels, similar buyer groups, similar price ranges, etc.[25]

11. ELEMENTS OF A PRODUCT

The value that consumers gain in the exchange process depends upon a number of product elements. The most important elements present in any product are product attributes, product brand, packaging, product labels and product support. Marketers can use these elements or a combination of elements to ensure that consumers perceive the product as having value. In this context, by using a variety of combinations of product elements, organisations create products that differ from those of their competitors. In one case, they may focus on product attributes; in another, on product brand or packaging or even on product support. Most often, an organisation seeks to differentiate its product by using a combination of all product elements.[26] The following section discusses each product element.

11.1. Product attributes

Product attributes are the characteristics by which products are identified and differentiated. Each product possesses a number of attributes, which can be difficult to rank in terms of their importance. Namely, product attributes act as a cluster and together they give a product its value, because a product is more than just an object of exchange. It is a bundle of tangible and intangible attributes capable of satisfying customer needs and wants.

Tangible or physical product attributes include a product's weight, size, durability, quality, design and usability. **Intangible or non-physical product attributes** comprise all associated attributes such as repair services, credit terms, warranty, image, delivery and instructions for use.

When consumers evaluate a product, taking into consideration its tangible and intangible attributes, they focus foremost on product benefits – that is, they centre on what the product means to them. Motivation to buy is derived from product benefit. Consumers expect the product to be unique and unlike similar products on the market. While product quality, as mentioned earlier, plays a vital role in product evaluation, the criteria that consumers deem essential in judging quality are not necessarily the criteria of quality that manufacturers advocate. Product design is also important in product evaluation, because the right design provides a product with functional, aesthetical and technological characteristics that consumers can experience by using their sense of sight, as well as their other senses. By ensuring product quality and design, together with other product attributes, the right image of a product can be created.

11.2. Brand

Another element of a product is its brand. Organisations use a brand to communicate with consumers and differentiate their product from that of competitors, while offering a product consisting of the attributes required. A brand is a name, phrase, symbol and design, or their combination, used to make a product distinctive.[27]

When speaking of a brand, it is necessary to distinguish between a brand name, a brand mark and a trademark. A **brand name** is the part of the brand that can be pronounced, and it consists of words, numbers or letters. The part of the brand that cannot be expressed in words but rather as a graphic presentation or symbol is called the **brand mark**. A **trade mark** is a brand or part of a brand that is registered and has legal protection to prevent its use by others. A trade mark may be used only by its owner.[28]

By branding a product, an organisation can gain an advantage for itself and its consumers. The advantage for an organisation is that branding helps it to differentiate its product, thus facilitating promotion, ensuring greater control in distribution channels, and extending successful performance onto its other products. The advantage that a brand has for consumers is that it makes it easy for consumers to identify the product, and a brand provides a warranty of the product's quality.

Brands come in three categories: manufacturer brands, private brands and generic brands. A **manufacturer brand** is a brand created and owned by the manufacturer of a product. The manufacturer uses its brand to promote and sell the product on the market and drive demand with consumers, which indirectly encourages distributors to procure greater quantities in order to meet growing demand for the product. A **private brand** is a brand created and owned by a wholesaler or a retailer. Private brand products do not provide information about the manufacturer, only about the reseller. Thus, resellers use private brands to develop their own promotion and achieve greater profits. They make greater profits by procuring large quantities of a product at lower prices and then pricing the product without any influence from the manufacturer. A **generic brand** refers to brandless products – namely, products that have no manufacturer brand or private brand. Such products are identified only as belonging to a specific category of products.

11.3. Other product elements

Packaging is an element of a product that helps to promote sales, although it has other functions as well. Packaging also refers to the process of designing and producing packaging for a specific product. This is a process that involves making packaging for products of a solid, liquid or gassified state that will ensure the products are protected during transport and handling and will make using the products as simple as possible. Although the fundamental function of packaging is to protect a product, packaging can also be used as a way of differentiating the product, drawing attention to the product and communicating a message to consumers. Packaging is closely linked to the process of packaging design, which aims to ensure visual effects in addition to product protection.

Packaging provides a product with protection during shipping, storage and handling in general. The protective function of packaging seeks to increase the durability or usability of a product by protecting it from weather conditions. Packaging also serves to provide information, because it can be used to communicate with the potential market by featuring images, symbols, words or numbers on the packaging that provide vital information about the product.

This information usually refers to a product's "best before" date, instructions for use, product ingredients, as well as any other information that might be useful to consumers. Packaging also has a sales function – that is, it can be a means of promotion. Hence, packaging must be of the right shape, design and colour, and should have markings intended to catch the attention of consumers. As a means of promotion, packaging is managed together with the other elements of the promotional mix to support product promotion in terms of appearance and contents.

Product labelling is carried out for a number of reasons – to promote the product, to provide information to consumers, and to comply with regulations that require manufacturers to display vital information about a product. This includes information such as nutritional data in tables that show the product's energy value or data showing the ingredients of medicine or other products.

Product support is provided through pre-sales and post-sales services, which, while not being directly linked to a product, impact the creation of a favourable image for a product. To create satisfied and loyal consumers, organisations seek to ensure credit payment services, maintenance services and technical services for their consumers; to enable consumers to make complaints and claims; and to provide them with information. More often than not, organisations are not in a position to organise or provide all these services. However, depending on their product or product line, they must at least provide repair services and warranty.

Product support is also about consulting consumers; providing instructions for product installation and use; organizing product demonstrations, training and education; and providing other services. By providing product support, organisations give their consumers a greater sense of certainty, which is often a deciding factor in product purchasing.

12. NEW PRODUCT DEVELOPMENT AND DIFFUSION

12.1. Product innovation

A new product is any product introduced in the market that has features that distinguish it from other products, thus causing consumers to see it as a new product. An organisation may develop a new product internally or it can buy it from another organisation. In some cases, an organisation may commission the creation of a new product or simply purchase a patented product.

New product development is based on knowledge about the known market, knowledge about the response of competitors, and information from known distribution channels. New product development does not necessarily always mean the development of an entirely new product; it can refer to the modification and adaptation of an existing product, carried out through continuous innovation and continuous improvement.

One approach to **product innovation** is based on researching, developing, and designing new products through contemporary technological trends. The other approach studies consumer needs and creates a product to satisfy these needs. Best practice favours neither the former nor the latter approach, but rather a combination of both approaches. Hence, to develop new products, organisations should constantly keep abreast of technological advancements and maximize their R&D activities while exploiting information acquired by market research.[29]

Regardless of whether the first approach or second approach or combination of the two is used, there is a growing risk linked to new product creation because of a lack of meaningful ideas for new products, the reign of global brands, the high costs involved in developing new technologically more challenging products, the lack of funds and the shorter life cycle of products.

Less innovative organisations are more prone to **buying licenses** than developing new products. The purchase of a license has its advantages. It eliminates R&D costs, substantially shortens the time needed for product commercialization, and reduces risk linked to market entry, probably because the product belongs to a known brand and any issues regarding know-how in product production and marketing have already been resolved. Licenses, however, also have drawbacks that often are not fully obvious at first glance. Licensed products are usually products that have largely become obsolete abroad, and their success on the home market in this case is also not secure. In addition, when organisations buy a licence they usually tend to neglect doing market research because they expect that the product will sell of its own accord.[30]

A product holds a specific position on the product life cycle curve. When a product begins to lose its position on the product life cycle curve, it can be revitalised by enhancing or improving the product’s features or by seeking new uses and new markets for the product.

In business practice, the most common approach is making **improvements to existing products**. In essence, product revitalisation is nothing more than making changes to specific features of existing products, in particular with regard to their quality, the materials used, how they are made, their design, colour and other features. It is all about developing new versions of a product that can be seen as a kind of product revitalization, but that must meet consumer needs more fully.

Product revitalisation is necessary for at least two interrelated reasons – first of all, to anticipate the endeavours of competitors in this respect, and then to make existing consumers loyal and, if possible, win over the consumers of competitors and possibly even acquire actual consumers from the circle of relative non-consumers.[31]

Product improvement may be the result of change in the environment and the need for improving a product so that it can keep abreast of this change. Some organisations have a reactive orientation, meaning that they respond to change when they observe it. Other organisations seek to improve their product as a result of action within the business itself to make the product better. These organisations are proactive, meaning they take action before any change has occurred. Of course, there are also organisations that take no action whatsoever and make no efforts to improve their product, and sooner or later this inaction will cause them to drastically lose their market position.

To ensure that product improvement is heading in the right direction, organisations should continuously collect market information – in particular, information from competitor studies, research on changes in consumer habits, and results from monitoring a product's life cycle curve.[32]

When a product begins to lose its position on the product life cycle curve, it may be revitalised by seeking new consumers and/or finding a new use for the product. This can be done by cutting prices to win over consumers of lower purchasing power or by intervening in distribution channels to make the product more accessible, particularly in areas where it has not been previously marketed. Also, an organisation can intensify its promotional activities to ensure that information about the product reaches a greater number of consumers and prompts them to buy.

Organisations are faced with a dilemma of whether to invest in new product development or not. With the first option, investing in new product development and adjusting to consumer needs and change in the environment, there is a real risk that the new product will fail. If an organisation chooses the second option – that is, not to develop a new product – it remains impassive and does not adjust to change. The outcome of the second option is certain – loss of consumers in the long run, ultimately ending in failure of the organisation. Hence, new product development is a matter of survival for any organisation, making it right to say, "Innovate or die".[33]

12.2. New product development process

New product development is most often based on experience in dealing with existing products and on knowing the needs and wants of existing consumers. The process begins only after market research has shown that the volume of demand on the market is such that it justifies investment in new product development.

The process evolves gradually through a number of stages and lasts for a considerable period of time. The number of stages of the new product development process differs from author to author. In the following section, this process is analysed through seven stages – idea generation, idea screening, product concept development, business analysis, product development, test marketing and commercialisation.

Idea generation is the first stage in which an organisation looks for and generates ideas for a new product. Although ideas for new products may emerge spontaneously and at random, an organisation should not leave its prosperity to chance. Instead, it should undertake systematic research in looking for new product ideas. Very few ideas from this initial stage ever reach the commercialisation stage.

Idea generation involves identifying idea sources, which may be internal and external. Internal idea sources include marketers, R&D professionals, engineers, managers, researchers, salespeople and other staff. External sources of ideas include consumers, competitors, operators in distribution channels, development agencies, entrepreneurial incubators, entrepreneurial development centres, state development agencies, people with innovation skills and others.

The next stage is **idea screening**. Of the many ideas generated, it is necessary to select those that have the highest chance of being successful. New product ideas are selected to match an organisation's mission and goals. Constraints that organisations have to contend with are also factors that affect idea screening. Often, a good idea that has market potential and is compatible with an organisation's mission and goals must be rejected because of the organisation's limited resources. Limited resources generally refer to insufficient funds, lack of human resources or constraints relating to production infrastructure.

Idea screening must be carried out systematically and on the basis of research results. One approach to idea screening involves evaluating ideas and pondering the values obtained, while taking into consideration the constraints that may impede the realization of the idea.

Product concept development relates to the ideas shortlisted in the idea screening stage and it is based on research conducted by marketers. Marketers describe the new product idea in terms that average consumers can easily understand, and then they gauge consumer responses to the product concept. Product concept testing is a form of market research in which consumers are asked to evaluate the concept of the new product, which can be presented in written form, as an oral presentation or as a graphic presentation, or a combination of all three forms. Focus groups, interviews or other forms of research are used to gather information concerning consumer responses. Testing consumer responses to real innovations that are completely new to the market is not considered viable, because consumers might have trouble forming an attitude about the new product or they might not be able to understand the new product's concept.

Business analysis is the fourth stage of the new-product development process. In this stage marketers assess the feasibility of the new-product development project. The feasibility of the project is assessed by determining the compatibility of the new product with existing resources and by projecting financial indicators. In addition, it is necessary to check whether the new product is compatible with the existing marketing mix and, if not, to determine which financial, intellectual and other efforts will be needed. Business analysis also involves studying the effects of forces in the macro marketing environment on the delivery of the new-product development project. It is essential that marketers know the impact that legislation, economic policies, technological conditions of operation, ecology and competitors might have on sales and performance. Namely, not only could certain measures cause operating costs to grow, but they could also substantially limit the success of new product development.

A vital part of the business analysis stage is concerned with the projection and processing of financial indicators. As a rule, total sales, costs and profit are estimated in this stage based on the data collected. It is important to estimate the ROI rate, particularly if product development is tied to the construction of new facilities and the procurement of new equipment.

Next is the **product development** stage in which the product idea is transformed into a product model. The product model has the physical and non-physical features that make up the new product. This stage gauges whether the new product idea can actually be realized in terms of technology and cost efficiency.

The product concept is the basis for designing a product in such a way that consumers will easily recognize the essential features of the new product. Generally, this stage is more time consuming, lasting several weeks or months, and it involves high costs. That is why many good ideas for new products are terminated in this stage.

In addition to determining the new product's tangible and intangible attributes in the product development stage, marketers are also faced with the challenge of defining the other elements of the marketing mix. The purpose is to efficiently and effectively align all the marketing mix elements of the new product, ranging from product packaging and labelling to defining promotional elements and distribution channels.

Test marketing is the sixth stage in the process of developing a new product. Once all the vital attributes of a product have been defined, it is ready to be tested on a suitable, smaller-scale market that has been chosen as the target market. The purpose of test marketing is to determine how consumers in the target market will respond to the product. Test marketing is carried out after all the previous stages of development have been successfully completed and after all the other marketing mix elements have been determined. Test marketing serves to help organisations to observe, monitor and record consumer responses and remarks to product attributes.

Test marketing is not without its negative aspects. The main drawback in this stage is the high risk to organisations when they launch a new product on the market. Competitors may become aware of the attributes of the new product and the features of the product's marketing mix. They will respond by seeking to protect their positions through intensified promotional activities and/or by reducing the prices of their products. Competitors may also respond by copying a part of the product, or even the entire product, and selling it faster on the market.

Commercialisation is the final stage of the process. Providing that test marketing confirms the product has been accepted by consumers, that an adequate demand for the product exists, and that there are good chances for the product to be successfully launched, the process enters the commercialisation stage. In this stage, organisations plan the construction or renting of business premises and the purchase or renting of equipment for production. This is a very difficult stage for organisations in terms of financing, because heavy investment is required while the product has not yet started to bring in revenue. In addition to high costs linked to business space and equipment, organisations are also faced with the necessity of investing money in marketing activities, ranging from designing a promotional campaign to developing distribution channels.

Certain factors need to be taken into account when launching a new product, such as the timing of the launch, the place where the product will be launched, choosing the right way of launching the product, and selecting the target market of the launch. If a launch is properly timed, it will provide an organisation with a competitive advantage and ensure profits. However, if the timing is off, regardless of whether the business was too early or too late in launching the product, this could lead to a loss of sales. By launching the new product at the right time, an organisation can gain an advantage over its competitors, it can meet unsatisfied demand, and it can win new consumers.

Where to launch the new product involves deciding whether to launch it on the local, regional, national or international market. Most organisations tend to enter the marketplace gradually; first they seek to win the local market and then the regional market, and only after they have been successful in these markets do they prepare to enter the national and international markets.

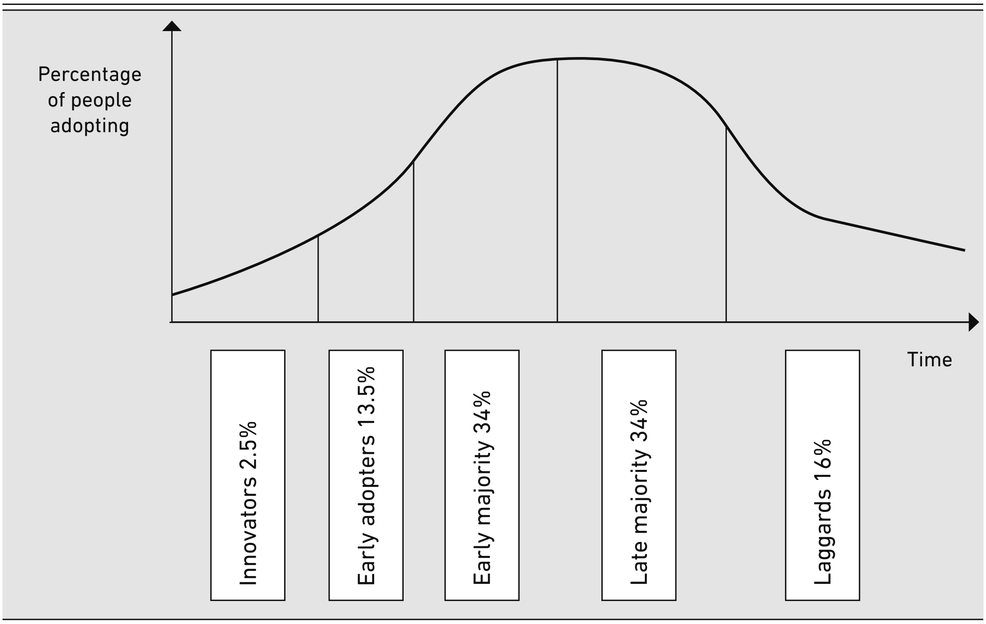
The target market is selected based on the results of market research and test marketing. Initially, organisations seek to market the new product to consumers whose attributes show them to be people who are early adopters (the first to buy a new product) or opinion leaders.

12.3. New product diffusion process

By introducing a new product on the market, organisations enter into a new process, the **process of new product diffusion**. A product is said to have value if it can satisfy consumer needs and wants – that is, if it serves its purpose – and to serve its purpose, it must be adopted by consumers.

Based on research conducted by Rogers, consumers fall into five categories based on the relative time of new product adoption and diffusion on the market: innovators, early adopters, early majority, late majority and laggards.[34] (see Figure 17)

Figure 17 Product adoption categories



Innovators are consumers who are the first to buy a new product as soon as it is launched on the market. Only 2.5% of consumers fall into this category. Innovators are people who are constantly seeking new solutions and looking for new ideas. Typically, innovators are people who are younger, better educated and financially better off than the average consumer.

Early adopters tend to buy a new product shortly after innovators have bought it. Similar to innovators, they have advanced education and are well off, and they like to read magazines that feature new products. This category accounts for 13.5% of consumers.

The **early majority** accounts for 34% of consumers. Consumers in this category are middle-class people who are careful about their expenses. They tend to buy a new product once it has already been accepted by early adopters, and they rely on the positive experiences of others regarding the new product.

The **late majority** is a category characterised by more mature and more conservative consumers. The late majority represents 34% of consumers. These consumers tend to buy a new product only after it has become widely accepted and indispensable in their daily lives and work.

Laggards account for 16% of consumers. The consumers in this category are the last to purchase a new product. They are characterised by traditionalism and find it difficult to accept innovation. Typically, they are socially sensitive and of low financial means.

13. PRODUCT LIFE CYCLE

13.1. Product life cycle features

After launching a new product on the market, an organisation expects its product to sell successfully on the market for a long time. Not only does it expect to get a good return on its investments, it also expects to make a profit for future development and investment into new research and new product development.

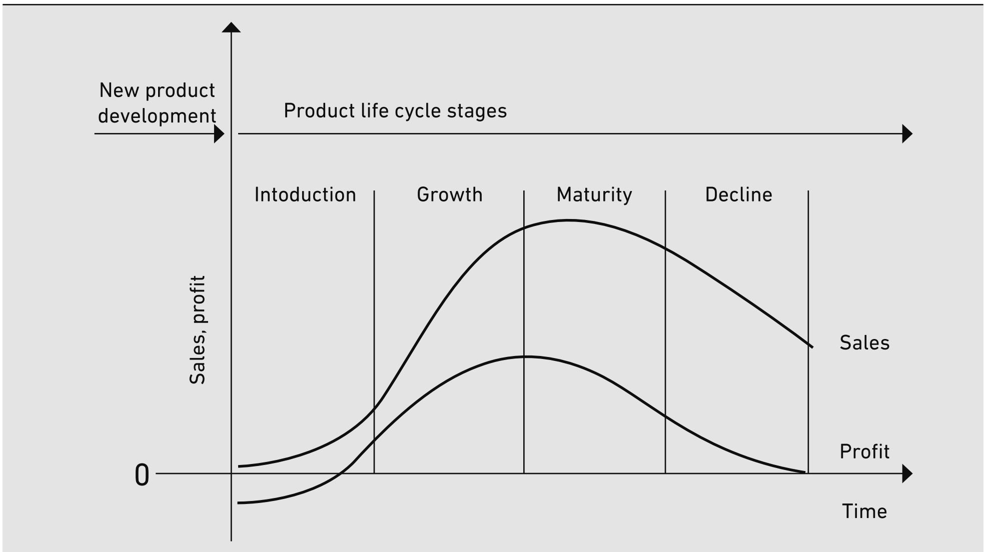
Similar to a human, a product also undergoes a biological cycle from creation to decline. A product follows the logics of biology – that is, it is created, it grows, it matures, and it declines. A product's *life* begins when it is launched on the market. This is preceded by the product development process discussed in the previous chapter, and followed by the diffusion of the product on the market. Successful product diffusion on the market is the result of choosing the appropriate strategies in each individual stage of the product life cycle.[35]

The product life cycle concept enables an organisation to analyse the diffusion of its product on the market and to identify the strategies needed in each individual stage of the product life cycle. This concept refers to product categories (for example, laptops that are in the growth stage) rather than to a product brand, such as HP, which is in the introduction stage on the market.

It is imperative for an organisation to know and understand the product life cycle if it is to make the right product decisions. Decisions concerning a product are made according to the position of the product in its life cycle. Consumers, competitors and other actors on the market behave in a certain way when the product is in the introduction stage on the market, and in a different way when the product is in the growth, maturity or decline stage. Different behaviour in individual stages is the result of conditions on the market, and it may vary in intensity. Therefore, marketers must take into consideration the features of each individual stage and define the appropriate strategies for each stage of the product life cycle.

Figure 18 illustrates the stages of a product life cycle and the progression of the curve of total sales and profit for a certain category of products.

Figure 18 Product life cycle



Consumer needs and wants as well as attitudes and behaviour largely determine the speed of **new product adoption**. In some cases, consumers will adopt a new product quickly[36], while in other cases, this may take a longer time.[37] Technological change determines a product's life span. For example, in products containing microchips, technological change is exceptionally rapid. Such products quickly become obsolete and they have short life cycle curves.[38] As a result, faster and more powerful computers are launched on the market every two to three years.

Competitor activity also influences the shape and length of a product's life cycle curve. An organisation can anticipate its competitors' activities, the influence of which can be encouraged or discouraged by economic policies. Furthermore, an organisation can isolate a new product from the influence of the competition through author's rights and patents.[39] An organisation's marketing activities also contribute to shaping the product life cycle curve and its length. Each organisation wants its product to leave the introduction stage as quickly as possible and move on to the growth stage, and then to stay for as long as possible in the transition between the growth stage and the maturity stage, in which the best business results are achieved.

For these reasons, it is necessary to manage products in such a way that the best results are achieved in each individual stage. It is essential to point out that no single stage can be skipped. However, action can be taken to ensure that certain stages last for a shorter or longer time.

13.2. Responses in product life cycle stages

Organisations respond differently in different stages of a product's life cycle. **Introducing a product on the market** is coupled with great efforts and costs. Organisations are burdened with the R&D costs incurred in the preceding new-product development stage, and also with costs related to stimulating demand for the new product.

As a rule, the costs of market entry are considerable. An organisation must overcome entry barriers and inform the market about its new product. It must also use much of its resources to organise distribution – physical distribution and distribution channels. In addition to the cost of organising product sales, the cost of getting information to consumers is also substantial. On the other hand, because of small demand in the introduction stage, the volume of sales is low.

Low demand is the result of poor communication with consumers regarding a new product. To ensure that the market is well-informed about the new product, an organisation must do more than just invest in promotional activities. It takes a certain amount of time for the information to reach consumers and be accepted. Because of this, losses can occur in the first stage of the product life cycle, making financial losses a common occurrence in this stage.

Typically, the sales curve starts at zero because there are no sales until the product is launched in the market. The costs of introducing a product in the market are high, and in this first stage, an organisation may incur losses. With time, sales will grow as a result of marketing activities and, at a certain point, revenue from sales will begin to exceed costs, resulting in a profit for the organisation. An organisation does everything it can to ensure that this stage is as short as possible and that growth evolves as quickly as possible.

The aim of marketing objectives in the introduction stage is to make this stage as short as possible. This can be achieved by making the product known and recognizable on the target market – that is, by using promotional activities to provide information to and educate consumers. Because distribution is still underdeveloped, organisations invest great efforts in its development, and they seek to persuade distributors to adopt and include the new product in their channels of distribution. In the introduction stage of a product's life cycle, two options are available: a high-price strategy or a low-price strategy. The former is known as the skimming strategy and the latter is the penetration strategy.

After it is launched on the market, the product enters the second stage, the **growth stage**. In this stage of the life cycle, attention is focused on cutting costs and beginning to make a profit. Sales grow quickly, as a result of increasingly greater numbers of consumers and repeat buys by earlier consumers. Information about the new product is disseminated among consumers. Together with mass advertising, this helps to generate more interest for the new product. In this stage, the business makes the greatest profit. However, due to the introduction of similar products by competitors, profit also begins to decline. Namely, as soon as competitors become aware of marketing opportunities, they will seek to copy the new product, or will engage in battle for the same consumers with a similar new product. In the growth stage, the competitors show increased activity.

Also in this stage, many organisations respond to market challenges either by innovating products before their competitors do or by fighting the competition. Organisations strive to innovate a product by adding new features, eliminating weaknesses revealed during product usage, and creating different versions of the same product for specific market segments. Prices are stable, providing the influence of the competition is not too strong. Otherwise, prices will drop if costs allow this or prices will rise if demand grows. While promotional costs remain high to keep the consumer's attention, messages are now different. Promotional activities are no longer directed at informing the consumer, but on strengthening sales and consumer loyalty. In the existing distribution channels, organisations seek to form partnerships with other organisations engaged in distribution. Furthermore, because of the growing interest for its new product, an organisation will begin to look for new partners through which distribution can be carried out. Distribution channels provide consumers with additional services such as repair services, spare parts and maintenance.

Organisations that fail to understand the features of the growth stage and do not adjust their activities to new conditions become engaged in conflicts with competitors in which they are most often defeated.

The third stage in the product life cycle is the **maturity stage**. Typically, sales continue to increase in the first part of this stage. The sources of this increase remain the same as in the previous stage and are linked to new consumers and repeat purchases by existing consumers. However, in the second part of the maturity stage, sales begin to drop as a result of market saturation. Profit in the maturity stage continues to drop. Namely, new competitors continue to enter the market, making it even more saturated. More and more new competitors copy the leading product and use lower prices to win a part of the market. Now the products all begin to look alike, and consumers can no longer see any difference.

Because of this, organisations modify the objectives of their marketing activities. In the maturity stage, they focus their marketing activities on developing the loyalty of existing consumers and on attracting new consumers.[40] The first group of marketing activities aims to retain existing consumers and the second group works to win new consumers. To this end, an organisation must modify its product and/or find a new way of using the product, as well as continue to develop its product line. Product modification includes quality modification, functional modification or aesthetic modification. Quality modification focuses on giving a product new value through new materials and/or by making improvements to the product. Functional modification focuses on adapting the product to new consumer needs that are most often linked to redesigning the product. Aesthetic modification focuses on changing a product's visual features, taste, scent or sound.

In operationalizing price-related strategies, organisations take a flexible approach with the primary aim of retaining market share and profit. Distribution becomes a key factor in this stage of the product life cycle because as distribution strengthens, it ensures the widespread presence of the product on the market. Support to this effect also comes from promotional activities that help to ensure the business will retain its market share. In this stage, marketing activities shift away from advertising and focus instead on personal selling and sales promotion.

The decline stage is the last stage in the product life cycle. Typically in this stage, sales and profit continue to drop. A drop in sales is the result of a decline in interest because of new products that are emerging with greater frequency on the market. Due to a great number of competitors, all products begin to look alike, making it difficult for consumers to distinguish one product from another. In such circumstances, consumers tend to choose cheaper products. Consequently, the profits of organisations show a downward trend.

In the decline stage, price competition is strong, and only products that have built themselves a strong brand name can survive and achieve profit. Many consumers turn to the new products that have emerged on the market, so only loyal consumers or consumers who are slow in responding to change still accept the old product. Organisations leave the product to its decline, which, as a rule, is a slow and gradual process. Only those products that cause an organisation to incur losses or are damaging to an organisation in some other way are pulled off the market.

When a product no longer generates the profit expected, many organisations decide to eliminate it. Product elimination is not a spontaneous process, but rather a planned process through which organisations try to extract what profit there is left. This procedure is carefully carried out to avoid any adverse responses and to make the most of the product that is being withdrawn from the market. In this stage, no changes are made to the product and it keeps its existing features. Product prices are not lowered because organisations wish to squeeze as much profit out of the product as they can by maintaining prices. Distribution is streamlined as much as possible to cut back on costs, and only those points of sale that still achieve profit are kept. Organisations also tend to reduce their promotional activities to a minimum to further cut costs, providing support only to sales promotion.

There is no set rule on how long a product's life cycle can be. Some products have a shorter life cycle; others, a longer one. While knowing the length of a life cycle may be advantageous for an organisation, it is not essential. What is important is that the business takes into consideration the different features a product has in the various stages of its life cycle and makes the right decisions in managing the product throughout its life cycle.

13.3. Types of product life cycles

The product life cycle discussed in the previous section represents the traditional or general approach to product life cycle. In addition to the traditional product life cycle, which typically has a bell-shaped curve, we can distinguish **four more types of life cycles**. These cycles differ according to the type of product they refer to.[41] Products may be high learning products (products that require a greater amount of knowledge for use), low learning products (products that require a smaller amount of knowledge), fashion products and fads.

The life cycle of a **high learning product** differs from the classic life cycle. Some products, such as computers and digital cameras, may require a higher level of education or training on how to use the product to provide for maximum usage of the new product's features.

These product features determine the shape of the life cycle curve. Namely, the first stage of a high learning product's life cycle – the introduction stage – lasts longer because consumers need more time to learn about all the advantages the new product provides. The other stages – growth, maturity and decline – have the same characteristics as the stages in the traditional product life cycle.

The life cycle of a **low learning product** also differs from the traditional life cycle. The volume of sales of low learning products begins to grow immediately because no special knowledge is needed to use them or to understand how they work.

Because these products may easily be copied, competitors are quick to enter the market. That is why an organisation's marketing strategies must ensure the rapid expansion of distribution in order to dampen the sales growth of its competitors' products.

The life cycle of a **fashion product** has the same stages as the traditional life cycle – introduction, growth, maturity and decline. However, the individual stages differ in length for different fashion products. Some fashion products, such as denim jackets, may remain popular for a long time, while others, such as parachute pants from the 80s were only a fling of a quick trend. Characteristically, some fashion products may reappear on the market after a certain time and go through the product life cycle again. Fashion products typically include apparel for young people, shoes, cosmetics and so on.

Fads have an extraordinary life cycle. Fads are products whose sales grow rapidly, quickly reach their climax, and just as quickly begin to decline. All this takes place in a relatively short time. As a rule, consumers of fads are people who wish to stand out among others and who are adventurous.

SUMMARY

To know how consumer value is created, we need to understand the concept of product value and product utility, the elements of a product, the process of new product development and diffusion, and the life cycle of a product.

According to the total product concept, a product may be a physical product, a service or an idea that consumers procure or use for the purpose of resolving a specific problem – that is, meeting a need or want. Product value is intrinsically linked to product utility – that is, to a product's usability. B2C products differ from B2B products. A product programme or marketing mix is a combination of all products with which an organisation competes in the market. Product programmes are characterized by their breadth, depth, length and consistency. A product consists of a number of elements. In creating consumer value, marketers use combinations of these elements to gain competitive advantage. The most important elements of a product are product attributes, brand, packaging, product labelling and product support. A new product may be the result of adjustments and modifications to an existing product stemming from technological changes and changes in consumer needs, or it may be an entirely new product that is the outcome of a process that encompasses idea generation, idea screening, product concept development, business analysis, product development, test marketing and product commercialisation. Once a new product has been created and launched in the market, it is gradually adopted by consumers. The first to adopt a product are innovators. They are followed by early adopters, the early majority, the late majority and laggards. Similar to a human, a product undergoes a cycle, from creation to decline. The product life cycle stages are introduction, growth, maturity and decline. Each stage is linked to specific types of decisions.

CRITICAL THINKING QUESTIONS

1. Discuss the hypothesis that an organisation may gain competitive advantage providing it is better than its competitors at identifying consumer needs and creating a product that has consumer value.
2. Analyse the concept of product utility and product value and provide examples.
3. Explain what is meant by product classification and state some of the criteria of product classification.
4. Discuss the special features of the classification of B2C products.
5. Analyse B2B products and point out their key characteristics.
6. Every product possesses a number of elements that organisations use and combine in order to adjust to consumers. Discuss.
7. One of a product's elements is its attributes. A product is a bundle of tangible and intangible attributes capable of satisfying consumer needs and wants. Choose a product and analyse its attributes.
8. Explain the difference between a manufacturer brand, a private brand and a generic brand using examples.
9. Packaging has three basic functions: to provide protection, to communicate information, and to facilitate promotion and sales. Provide an example of a product whose packaging has the primary function of protecting the product, a product whose packaging has the primary function of communicating information, and a product whose packaging has the primary function of facilitating promotion and sales. Also, give an example of a product in which all three functions of packaging are equally important.
10. Product support is provided through pre-sales and after-sales services, which while not being directly linked to a product, nevertheless impact the favourable image of the product. Do you see pre-sales and after-sales services as being equally important or do you consider one more important than the other? Explain.
11. A product may be new to both an organisation and consumers, it may be new to an organisation but not to consumers, or it may be new to consumers but not to an organisation. Give an example of a product for each of these categories.

12. The new product development process evolves through a number of stages. Imagine that you are a yacht manufacturer and try to develop a new product by going through each individual stage.
13. If you worked in a bank and were engaged in developing a new banking product, which criteria would you choose in helping you select the best idea?
14. Business analysis helps marketers to assess the feasibility of a new product development project. How is project feasibility determined? Which do you think is more important in assessing project feasibility: the compatibility of the new product with existing resources or the projection of financial indicators? Explain!
15. Test marketing means experimenting with the elements of the marketing mix in order to observe the behaviour and responses of consumers, distributors and other actors in real market conditions. Although the advantages of and need for test marketing are obvious, certain risks are involved. Comment on these risks. How would you go about reducing these risks?
16. Do you see yourself as being an innovator, an early adopter, the early majority, the late majority or a laggard? Can you give a general reply to this question or does your answer differ when the new product in question is a piece of clothing, a technical device, a new diet or a new life philosophy?
17. Product life cycle management involves four stages. These are the introduction, growth, maturity and decline stages. Let us say that you are focused on short-term objectives; that is, you are interested in profit only. In which stage would you prefer your product to be? Explain.
18. Think of three products. Can you determine the life cycle stage in which each of these products is currently in? Depending on the life cycle stages of these products, can you say, in general terms, whether you are an innovator, early adopter, early majority, late majority or a laggard?
19. Which stage of a product's life cycle would you want to prolong and which would you prefer to shorten? Explain your answer taking into consideration the competition, marketing objectives and marketing mix elements for each individual life cycle stage.
20. Once a product enters the decline stage, do you think it can be returned to the maturity stage or to an even earlier stage? If yes, explain how this could be done.

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INTERNET SOURCES

1. http://www.koncar-ka.hr/
2. http://www.generalturist.com/
3. http://www.cro-rss.com/
4. http://www.fructal.si/
5. http://www.saponia.hr
6. http:www.kras.hr
7. http://www.vis.hr
8. http://www.geli.hr/
9. http://www.rio.hr
10. http://www.croata.hr/
11. http://www.drvenjaca.hr/
12. http://www.3maj.hr
13. http://www.betonrad.hr/
14. http://www.ri-ing.hr/
15. http://stelladecoro.hr/
16. http://www.protect.hr/
17. http://www.badel.hr
18. http://www.ilocki-podrumi.hr/
19. http://www.innovate-or-die.com
20. http://www.zaba.hr/
21. http://www.xella.hr/
22. http://www.plivazdravlje.hr/

NOTES

[1] From the Latin *conceptio* – idea, rough design, understanding something in one way or another... Klaić, B.: *Riječnik stranih riječi [Dictionary of foreign words]*, Nakladni zavod matice Hrvatske, Zagreb, 1990, p. 719

[2] Sullivan, P. H.: *Value-Driven Intellectual Capital: How to Convert Intangible Corporate Assets Into Market Value*, John Wiley & Sons, Inc., New York, 2000, p. 85

[3] Storbacka and Nenonen argue that "….value is measured based on exchange that takes place when a supplier sells a product, and a buyer buys it" (p. 241). Storbacka, K., Nenonen, S.: *Markets as configurations*, European Journal of Marketing, 2011, 45(1-2), p. 241-258

[4] Walters, D., Buchanan, J.: *The new economy, new opportunities and new structures*, Management Decision, 2001, 39(10), p. 818-833

[5] For example, a physical product is a refrigerator made by the company *Rade Končar* of Zagreb, http://www.koncar-ka.hr/

[6] For example, a service is a travel package for vacationing in Hvar offered by *Generalturist* Travel Agency, http://www.generalturist.com/

[7] For example, an idea is the no-smoking campaign organized by CroMSIC, a medical student organization, on the occasion of World No Smoking Day, http://www.cro-rss.com/

[8] For example, a consumer buys *Fructal* orange juice to satisfy her need for something to drink, http://www.fructal.si/

[9] For example, a consumer buys *Fructal* orange juice because the product is suitably packaged, is affordable, and is good quality, http://www.fructal.si/

[10] Grbac, B.: *Marketinške paradigme [Marketing paradigm]*, Ekonomski fakultet Rijeka, Rijeka, 2010, p. 141-144

[11] For example, *Zirodent* toothpaste made by *Saponia* is a staple product. It is needed for maintaining regular hygiene, and is chosen repeatedly and routinely, http://www.saponia.hr

[12] For example, an impulse product is a *Dorina* chocolate bar made by *Kraš,* http://www.kras.hr

[13] For example, when it suddenly begins to rain, to avoid getting wet we buy an umbrella. In other words, bad weather motivated us to buy an umbrella made by *VIS*, http://www.vis.hr

[14] Kitchen furniture made by *Geli* of Đakova is an example of a shopping product. Prior to purchase, the consumer takes a look at other similar products and compares prices, quality and other product features, http://www.geli.hr/

[15] For example, specialty products include top-quality *Croata* ties that are purchased because of their excellent design and quality of the materials they are made from, or they are purchased because of the value that this brand of tie possesses, http://www.croata.hr/

[16] For example, raw materials include the beech logs that the company *Drvenjača* prepares for transport to Italy where they are processed into material for making furniture, http://www.drvenjaca.hr/

[17] For example, manufacturing materials include the metal sheets purchased by the *Shipbuilding Industry 3.Maj* for use in the construction of ships, http://www.3maj.hr

[18] For example, installations include the reinforced concrete halls of the company *Beton-rad,* http://www.betonrad.hr/

[19] Accessory equipment includes tools, vehicles, office furniture, computers, printers, etc. For example, the computers sold by *Ri-ing* belong to a category of accessory equipment called computer equipment, http://www.ri-ing.hr/

[20] These include cleaning agents, printer paper, pencils, envelopes, etc. For example, consumable supplies include toner cartridges sold by *Stelladecoro,* http://stelladecoro.hr/

[21] For example, services include the security services provided by *Protect,* http://www.protect.hr/

[22] *Badel* is a producer of wine, spirits and soft drinks. These are its three product lines. This is what is meant by product programme width, http://www.badel.hr

[23] Each product line of *Badel* consists of a number of products. The wine product line comprises 55 types of wine. This is what is meant by product programme depth, http://www.badel.hr

[24] *Bade*l has a product programme length of 99 products (55 types of wine + 33 types of spirits + 11 types of soft drinks), http://www.badel.hr

[25] *Badel*'s product programme is characterised by consistency because its products meet similar consumer needs and wants and are marketed through the same distribution channels.

[26] For example, in its product programme, the wine producer *Iločki Podrum* combines wine attributes, packaging, labelling, product support and brand building in a way that differs from its competitors in the same or different wine-growing region, http://www.ilocki-podrumi.hr/

[27] Rocco, F., (Ed.): *Rječnik marketinga [Dictionary of marketing]*, Masmedia, Zagreb, 1993, p. 245

[28] Bennett, P. D. (Ed.): *Dictionary of Marketing Terms*, NTC Pub. Group, Lincolnwood, 1998, p. 27

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[32] Akira Ishikawa, A., Tsujimoto, A.: *Creative marketing for new product and new business development*, World Scientific, Singapore, 2008, p. 128 -133

[33] http://www.innovate-or-die.com

[34] Rogers, E.M.: *Diffusion of Innovations*, 5rd Ed., Free Press, New York, 2003.

[35] Stark, J.: *Product Lifecycle Management: 21st Century Paradigm for Product Realisation*, Springer – Verlag, London, 2005, p. 15 -36

[36] For example, the e-banking services of *Zagrebačka Banka,* http://www.zaba.hr/, or other banks in Croatia.

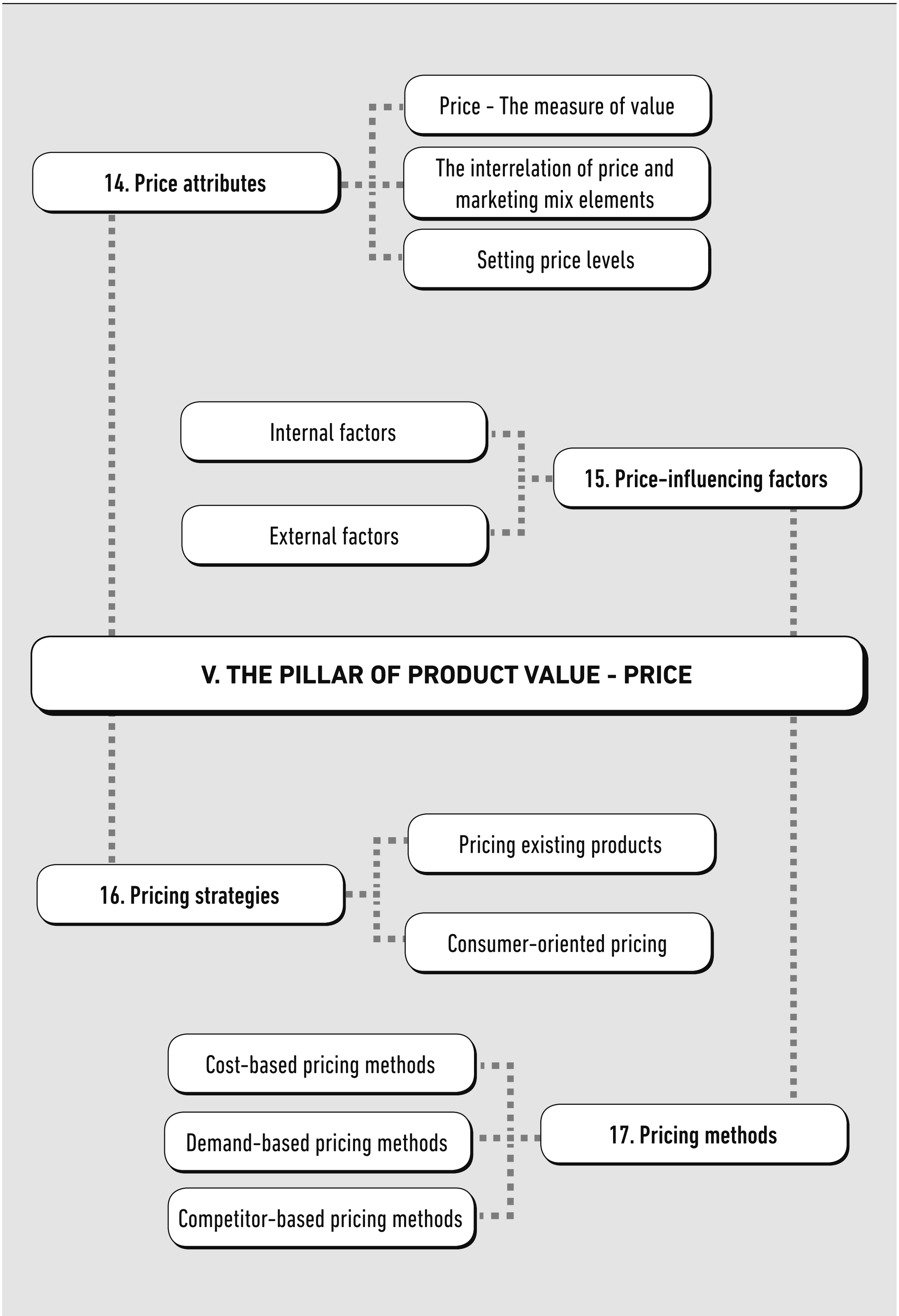
[37] For example, the *Ytong* low energy house of *Xella International,* http://www.xella.hr/html/cro/hr/obiteljske_ytong_kuce.php

[38] For example, the *Compaq* laptop, model Evo N600C was one of the best in its class in late 2001, with the following features: Pentium III, 1.2 GHz, 256 MB RAM, 30 GB HDD, 14.1" TFT, DVD, FDD, modem, network, sound, infrared, BT.TV out. In late 2010, HP EliteBook 2740p was on the Croatian market with substantially more appealing features, such as Intel Core i5-540M, 2,53 GHz, 2x 2048 MB, 12,1", 1280x800 (WXGA) touch LED AG, SSD 160 GB, Windows® 7 Professional, Intel® HD, Gbit LAN, 56k modem, 802.11a/b/g/n, Bluetooth, WWAN, FireWire, 3x USB 2.0, 1.

[39] For example, in the pharmaceutical industry, a new drug will be protected for a certain period of time. When this time lapses, the composition of the drug becomes public and other pharmaceutical companies, such as *Pliva,* can begin to produce it, http://www.plivazdravlje.hr/

[40] Harvard Business Review, *Increasing Customer Loyalty*, The Harvard Business School Press, 2011; Harvard business school - Pocket mentor series, *Focusing on Your Customer*, Harvard Business School Press, 2010, p. 15-24.

[41] Berkowitz, E. N., Kerin, R. A., Hartley, S. W., Rudelius, W.: *Marketing*, Mc Graw Hill, Burr Ridge, 2005, p. 324.


14. Price attributes
Price - The measure of value
The interrelation of price and marketing mix elements
Setting price levels
Internal factors
External factors
15. Price-influencing factors
V. THE PILLAR OF PRODUCT VALUE - PRICE
16. Pricing strategies
Pricing existing products
Consumer-oriented pricing
Cost-based pricing methods
Demand-based pricing methods
Competitor-based pricing methods
17. Pricing methods

V. THE PILLAR OF PRODUCT VALUE — PRICE

Price is a measure of value. An entire array of factors influences product value. These factors range from the cost of materials and labour and the influence of economic policy measures to the responses of competitors and a business's objectives and strategies. On the other hand, consumers are very price-sensitive and tend to compare prices, and this makes pricing all the more complex. This is why learning about prices is especially important to marketers. The chapters that follow deal with the attributes of prices (Chapter 14), the factors that influence prices (Chapter 15), pricing strategies (Chapter 16) and the types of pricing methods that a business can use (Chapter 17).

Objectives

After you have studied Part Five, you should be able to:

- Identify the attributes of prices
- Understand the interaction between product price and other elements of the marketing mix
- Discuss price levels
- Analyse the impact of internal factors on pricing
- Understand the impact of external factors on pricing
- Describe the pricing process for existing products
- Understand consumer-based pricing
- Recognise the key pricing methods
- Analyse cost-based pricing methods
- Discuss demand-based pricing methods
- Discuss competitor-based pricing methods

14. PRICE ATTRIBUTES

14.1. Price – the measure of value

Value is exchanged in the market. The value of a product is the power it possesses to attract exchange for another product – in most cases, money. The price of a product is the measure of its value. Price can be defined in various ways. A very unambiguous and short definition of *price* states that a price is the monetary amount a consumer pays for a product.[1]

A price can be called different names in different situations depending upon the product in question. In one situation, a price can be interest on the value of money in the bank; in another, rent is the price for renting an apartment. A price can be a fee for municipal services, it can be payment for work carried out, or it can be school fees covering the costs of studying at a university. The bottom line is that a price is the monetary expression that consumers pay for a certain product. The price of a product is the only element of the marketing mix that generates revenue.[2]

From the consumer perspective, price is but one of the factors that influence the buying decision.[3] Consumers are sensitive to this element of the marketing mix and are always able to detect differences in prices, which is not the case where other elements of the marketing mix are concerned. Namely, consumers cannot detect the difference between distribution channels or the media used in promotional activities, but they are quick to spot differences in prices and can respond immediately. This underlies the fact that the price of a product cannot be considered in isolation, but rather in conjunction with other elements of the marketing mix.

Consumers link the price of a product to the benefits they believe will be gained by using or consuming the product, and by doing so, they define product value.[4] Hence, product value is the relationship between perceived value and price. Value is not the price of a product. Product value will drop if the benefit to be gained declines, regardless of price. Price affects consumer expectations. A product's price may affect perceived product quality and, ultimately, value.[5]

Price is important not only to consumers. It is also of vital importance for businesses and the economy at large. Pricing is considered a key activity in an entrepreneurial economy – that is, an economy that is market-oriented. The prices of products in the market influence the level of salaries, rental fees, interest rates and profit. The prices of products also have an indirect impact on the prices of production factors – that is, on the price of labour, assets and capital. It follows that prices are the primary regulator of an economic system, as they affect the allocation of production factors. In practice, this means that high interest rates will attract investment capital, high salaries will attract competent workers and so on.

The influence of prices is felt not only at the macro level but at the micro level as well by businesses. Because price is the only generator of revenue, pricing must ensure that operating costs are covered and that a profit, which is essential for further development, will be made. In the new millennium, as Rekettye argue, in defining prices the imperative for businesses is to move from the cost-oriented formula to the market-driven formula.[6]

A business can employ different elements to increase its profitability. They are sales, fixed costs, variable costs and prices. However, most businesses tend to unreasonably neglect price. The results of research by Raju and Zhang confirm the outcome of previous studies showing that if a business were to:[7]

- reduce its fixed costs by 1% (without affecting regular operations), profitability would increase by 2.45%
- increase sales by 1% (without changing the structure of costs or price), profitability would increase by 3.28%
- reduce variable costs by 1%, profitability would increase by 6.52%
- increase its price by 1%, profitability would increase by 10.29%.

From the micro-level perspective, price is a factor that determines demand. As a rule, lower price is linked to higher demand and vice versa. Moreover, price determines the competitive position of a business and its share on the market, which will ultimately result in lower or higher profit.

When pricing a product, businesses can choose an approach that seeks to maximize profit and ensures a rapid return on investment or an approach that seeks to maintain or increase market share. In the former case, businesses opt for higher prices and for developing high quality products and/or product exclusivity. In the latter case, development is based on lower prices and a mass market. Many businesses link success to non-price factors, such as product differentiation through different product attributes, in which product brand building is especially important, together with pre-sales and post-sales services, such as warranty, repair service, etc. This, however, does not diminish the importance of price.

14.2. The interrelation of price and marketing mix elements

Price exerts an influence on decisions concerning the other elements of the marketing mix because prices send a signal to consumers about product value. For this reason, pricing decisions must be coordinated with other decisions including those concerning the overall marketing activities of a business. Marketers are responsible for pricing, although this process also involves experts from other departments, such as the design department, production department, development department and sales department.[89]

It is generally known that consumers tend to associate high product prices with high product quality and low prices with low product quality. Practice shows that this should not be accepted as a general rule because many businesses are successful in lowering their prices without affecting product quality and, vice versa, many businesses manage to increase the quality of their products without having to increase prices. High prices are set for those products that a business wants to position as an especially valuable product or when it wishes to gain higher profits.

The pricing of a single product is considered a simple process. Pricing, however, is not a simple matter when the entire products of a product line are concerned or the products that make up the totality of a production program. Typically, a competitive price is set for a basic product, while additional income is generated through products that belong to spare parts or accessories. The same pricing logic does not have to apply to all products in a product line. When pricing is based on costs, then the prices of all products do not necessarily need to follow this logic. The same applies to products belonging to a production programme.

Price is affected by distribution channels, the intensity of distribution and the configuration of distribution channels used to market a product. In the pricing process, marketers must take into account the interest of distributors and the need to create conditions that will generate revenue capable of not only covering costs but yielding profit as well. Distributors, that is, businesses engaged in distribution channels, must be motivated to cooperate and market a business's product.

Price is also influenced by the conditions in which a business independently organizes distribution. Independently organized distribution can contribute significantly to a business's success or it can be a constraining factor of development. Arguments for the former and latter case will be presented in the chapter dealing with distribution. At this point, we only need to be aware that distribution affects pricing.

The power and role of each individual member of a distribution channel affects the interaction of product price and product distribution. Some distribution channel members play a more active role and have a stronger influence, while others have a less active role and weaker influence. Obviously, businesses that are more powerful in the distribution channel will also play a more important role in the pricing of products in distribution channels. This leads to the conclusion that product price has a powerful influence on distribution and vice versa.

The price of a product also has a direct influence on promotion. High quality products and highly priced products are usually promoted through highly specialized media, rather than mass media. Using the wrong type of media may result in creating a poor image of a product and in sending a promotional message to the wrong target market. By way of contrast, lower priced products of mass consumption are promoted using mass press and electronic media. The selection of media largely depends upon a product's target market.[10]

14.3. Setting price levels

The objectives a business wishes to achieve are the starting point of product pricing. There is no doubt that pricing is essentially determined by the primary objective of any business, and that is to make a profit. By making a profit, a business ensures it has the funds it needs for its development.[11]

In today's conditions, this primary objective can be accomplished by winning new markets and by developing new products. In this context, price management is an indispensable task. In the former case, price management ensures that by setting acceptable prices a business can win as great a number of new consumers as possible and expand its market. In the latter case, when a business is competing with a new product, price management seeks to set a price that will attract consumers to buy the new product. Over time, the price of the product is decreased, thus making it available to the segment of price-sensitive consumers. Although rarely seen in practice, a business may choose to increase the price of its product so as to position it as a product of a superior value.

Pricing is a complex task and it is influenced by an array of constraints. Marketers are faced with the challenge of trying not to set a price too high while trying not to fail to set a price high enough. If marketers set a price too high, there is a great likelihood they will lose consumers, but if they fail to set a price high enough, they will not be able to gain the revenue they would otherwise have generated. In this context, we can distinguish between minimum and maximum prices. Minimum prices are prices that cover operating costs. Namely, it is not realistic, at least not in the longer term, for the price of a product not to cover the cost of product creation, because if a business does not cover its operating costs, it will incur losses. Taking this into account, marketers may set low, moderate or high prices.

Low prices are set when a business seeks to penetrate a specific market. This is known as penetration pricing.[12]

A business will set high prices in cases when its offering differs from that of competitors that consumers know and value.[13]

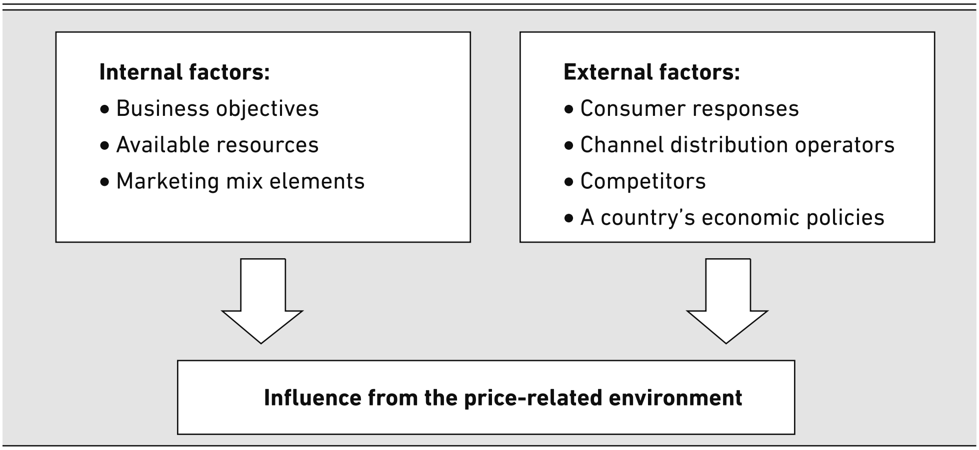
Because businesses operate in a dynamic environment, pricing is affected by an array of factors. For example, operating costs may increase, sales may decline, or a new competitor may appear in the market. These are but some of the possible situations that may emerge, and each of these situations calls for monitoring and for a rapid response. Waiting for a situation to resolve itself is a very hazardous option. This is why marketers need to constantly keep abreast of what is happening in their environment; they must analyse the situation and put forward solutions that are linked to price correction. A price is not a fixed value that must remain unchanged once set.

Demand and competitors influence pricing. Price is constrained by demand and generally, if prices are low, demand will be high. Growing prices, however, will lead to a drop in demand. When prices reach a certain price level, consumers will look for other, less expensive solutions. These are the key constraints that should be taken into account in pricing. Also, if a competitor cuts the price of its product, this will trigger other market actors to lower their prices as well.

15. PRICE-INFLUENCING FACTORS

An entire range of factors influence product pricing. Basically, they can be divided into internal and external factors. The most important internal factors are linked to the objectives a business wants to accomplish, the resources it has at its disposal, and the other elements of its marketing mix. The most significant external factors include consumer responses, channel distribution operators, the competition and a country's economic policy (see Figure 19).

Figure 19 Price influences from the environment



15.1. Internal factors

Internal factors that influence the pricing of a business's products are tied to the **business's objectives**, **available resources** and **decisions made regarding other elements of the marketing mix**.

The influence of objectives on prices needs to be viewed within the context of three types of business objectives: sales-oriented objectives, product-oriented objectives and market-oriented objectives. The specific features of these objectives have a special influence on pricing.

Sales-oriented objectives imply that prices need to be at a level that will maximize sales. When product-oriented objectives are concerned, there is less pressure on prices because businesses strive to differentiate their products through non-price-related attributes. Market-oriented objectives suggest that businesses are competing with a new product on the market or are focused on new consumers. In both cases, the price of the product is of key importance, and it may be set by using the penetration pricing strategy or the price skimming strategy.

The resources that a business has at its disposal exert a very significant, if not the most significant, influence on product prices. By resources, in a broader sense, we mean everything from production plants to equipment, from financial resources to distribution channel control. Clearly, resource management is tied to costs, and costs affect a product's price. In order to make and market a product, a business must invest certain financial resources that represent operating costs, and it must take into consideration the fixed and variable costs that determine the price of its product. Fixed costs are costs that remain the same regardless of the volume of production. Variable costs also influence product pricing. These costs are directly tied to the volume of production and proportionally increase the production cost of the product.

Other **elements of the marketing mix** also influence a product's price, such as product attributes, distribution costs, promotion and other marketing activities.[14] High quality and a brand's image are most often tied to superior input materials and higher production costs, which ultimately influence product price. Product transience, due to fashion or other reasons, motivates the manufacturer to include the risk of transience into the price of its product. When a product category has greater homogeneity, it is possible for consumers to find a substitute for the product, which also affects product prices. A business may counter the influence of its competitors by patenting its product, but this protection comes at a cost that must also be incorporated into the product price. Distribution and promotion costs also help to complete the picture of a product; these costs are high and influence product pricing.

15.2. External factors

The most significant influencing factors include consumer responses, channel distribution members, the competition and a country's economic policies.

Existing and potential consumers are the most influential group when it comes to pricing. Businesses must study and understand the way in which consumers value a product, and the role that prices play. Each business must learn the price of its product that consumers deem acceptable. To do so, the business has to carry out research and come to conclusions based on research results and prior experience.

Understanding the concept of demand elasticity is essential in understanding how consumers perceive prices. Namely, marketers must understand the extent that consumers are sensitive to changes in prices.[1516]

Based on the understanding that demand is the amount or value of products that will presumably be sold in a certain period of time, we can say that demand is actually the result of a consumer's willingness to buy and a business's ability to sell a product on the market. It is in this context that prices and their variations emerge relative to larger or smaller demand and relative to the influences exerted on that demand.[17]

When determining demand, two basic kinds of consumers must be taken into consideration. On the one hand, we have consumers with short-term objectives and low income prone to make quick buying decisions. On the other hand, we have consumers who set their goals and primarily care about product quality. Businesses cannot successfully serve both sides of the same market because it is impossible to bring together low prices and high quality.

It is necessary to understand the demand elasticity of individual products before appropriate pricing policies can be determined. Demand elasticity is actually a way of measuring the sensitivity of demand to changes in price. It is expressed by a change in the number of products sold and revenue earned in relation to price changes. Consumers respond by buying more when a price is low, in which case demand grows. When a price is high, consumers respond by buying less, in which case demand declines. In such situations, demand is considered elastic, meaning that consumers are sensitive to price changes and tend to buy more when prices are low and less when prices are high. However, not all products have demand elasticity. In cases when consumers do not respond to price changes or these changes are too small to notice, we speak of demand inelasticity. Demand inelasticity is present in those products that are necessary for fulfilling certain needs and wants, and for which no suitable substitute exists. In these cases, a price increase will not influence a drop in demand.

Businesses strive to have a product that is highly valued by consumers, thus making it demand inelastic. Demand inelasticity on the market is tied to a successful product, brands and consumer loyalty. Once a consumer becomes loyal to a product or brand, neither higher prices nor lower competitor prices will affect the consumers' decision to buy "their" brand. Creating consumer loyalty has been shown to be a very successful strategy, and it needs to be applied in distribution channels as well.

Channel distribution members, regardless of whether they are wholesalers or retailers, play a significant part in product pricing. Wholesalers and retailers provide a wide range of services for consumers and producers. In carrying out these services, a certain rapport is created with consumers, regardless of whether they are businesses or physical persons. However, in carrying out their operations, wholesalers and retailers incur certain costs, and it is only normal for them to expect to be able to generate revenue from their services. This revenue covers operating costs but also ensures the funds needed for further development. Channel distribution members play a large part in product pricing because they mark up the price of a product to realize their revenue. A price can be marked up only to the level that consumers are willing to accept. This mark-up – that is, the difference between the acquisition cost of a product and its selling price – must provide enough money for a reseller to be able to cover its operating costs and ensure its development. This is why a manufacturer must negotiate prices with wholesalers and retailers to ensure that its products are available to consumers in places where consumers expect them and at prices that consumers consider acceptable. Manufacturers and wholesalers/retailers also negotiate concerning the type and level of services provided to consumers in distribution channels. For example, will repair services be ensured, will broken parts be replaced, and will expert information be provided?

In this context, marketers estimate the costs that occur in distribution channels in order to gain insight into the end price paid by the consumer. A very rough estimate shows that manufacturers add 10% to 15% to the cost of production, while wholesalers add 20% to 40% and retailers add 40% to 100%.[18]

As distribution channel operators, wholesalers and retailers have yet another important role that results from their proximity to the consumer. Namely, because wholesalers and retailers develop relationships with consumers, they are capable of assessing consumers' price sensitivity. Furthermore, they are able to estimate the costs that consumers have when purchasing a product, their storage costs, maintenance costs and other costs, the sum of which fiscally burdens the purchased product. This information is essential not only to their success but also to the success of the manufacturer.

The **competition** is an external factor that influences how a business will price its product. That is why a business needs to analyse the pricing policies of its competitors. By doing so, a business prepares itself to respond to the competition's actions and behaviour.[19]

Competitor analysis involves studying the number of producers and sellers with which the competition cooperates, their size, whether the products they offer are differentiated or homogenous, and which barriers exist to entering a specific branch of economy. The prices and pricing strategies of a business's direct and indirect competitors are analysed. By processing the information it has collected concerning its competitors, a business can set the price of its product, which can be higher, lower or the same as that of its more important competitors.[20]

The influence of the competition on pricing is determined by the structure of the market. Besides being perfectly competitive, a market may be an oligopoly, a monopoly or a restricted competitive market. A perfectly competitive market is characterized by a large number of businesses that offer a non-differentiated product and there are no barriers to market entry. In these conditions, businesses have no control over prices and are compelled to accept prices offered by the market.

An oligopoly is a market structure in which a small number of businesses operate offering differentiated products and substitutes. Here, market entry is more difficult. Prices in such a market are most often the result of negotiation and agreement.

A monopoly is characterized by one dominant business that creates high barriers to market entry, and its products usually have no substitutes. The dominant business has great control over pricing and it is a price maker.

A limited competitive market is the most common example in today’s economic reality. It is characterized by of a large number of actors who sell differentiated products. Market entry, as a rule, is simple but depends on the technological level of development and size of the business. Pricing control in this market depends foremost on the level of product differentiation.

When dealing with the competition, it is better to use non-price instruments because a price war, as a rule, can do more harm than good. A business is advised to lower its prices only in exceptional cases in response to price cuts by its competitors. If it keeps its prices, its sales may drop but product profitability will remain unchanged, while the product profitability of its competitors will drop due to price cuts.

The influence of competitors on pricing also results from the way competitors respond to the product pricing decisions of a particular business. If a business lowers its prices, competitors may respond by lowering the prices of their products even more in order to gain an advantage with the consumer. The influence of the competition is strong, especially when dealing with a non-differentiated product. For this reason, it is better for a business to compete with differentiated products that can tolerate higher prices. These prices, however, should not be too high because this could encourage new competitors to enter the market. That is why competitive analysis is a must for successful price management.

The **economic policy of a country** is carried out through legislation and by-laws that, among other things, influence the pricing of a business’s product. These influences most often have to do with regulating relationships in the market and among the actors in the market. For some businesses, these influences pose a threat, while for others, they are an opportunity. Many businesses see laws and by-laws as being constraints and restrictions to development, while others see them as a challenge for development on new bases.

Constraints come from various sources, such as international trade agreements that a country may sign with other countries. These documents regulate fundamental relationships. They are followed up by various protocols and agreements that influence the pricing of individual products or groups of products.

In most countries, there are laws that restrict monopolies and non-market behaviour. The government and its ministries pass legislation that has an effect on the increase or decrease of prices. Some prices are under direct control and are tied to the increase of prices in the world market, as is the case with petroleum products such as gasoline, diesel fuels or heating oil. Other prices are determined on regional or local levels, such as the prices of public utilities or day care centres.

Some prices are of special interest and are under special measures of control by state institutions, such as the price of foodstuffs or the prices of products for children. The government and its competent ministries levy more taxes on some products and less on other products, thus directly influencing their prices. For example, scholarly books are exempt of value added tax, while cigarettes are burdened with VAT as well as excise tax. Cars are burdened with VAT, excise tax, custom duty and other taxes, making the same model of car more expensive in Croatia than in the country where it is manufactured.

16. PRICING STRATEGIES

Once a business has defined its objectives and analysed the factors that affect pricing, it is faced with the problem of determining product-oriented pricing strategies and consumer-oriented pricing strategies.

16.1. Pricing existing products

Businesses prosper by selling their products, which already have a certain price, to known consumers. In other words, they sell their products on an existing market. In this case, the pricing strategy for existing products is linked to two options: the first is maintaining existing price levels and the second is modifying existing prices.

The first option, **maintaining existing price levels**, takes into consideration two extreme cases. Accordingly, price levels can be set as below-average low or as above-average high. In this way, a business can position a product and target a market segment.

The low price option is used by businesses whose offerings are focused on price-sensitive consumers – that is, on the price-elastic segment. By way of contrast, many businesses are oriented towards the price-inelastic market segment, on which price increase does not cause demand to drop to any significant extent. The reasons that many businesses select these segments are most often linked to the fact that competition is too great in other markets or that other markets do not yield enough profit. Many businesses do not want to enter or operate in markets in which consumers are price sensitive, because by doing so they could lose the reputation they had previously earned.

Taking into consideration the demand curve theory, lower prices generate greater demand, except in the case of products that belong to the category of prestige products. A reduction in the prices of such products tends to make demand decrease rather than increase. Consumers respond in this way because the price has dropped below their expected price level. Namely, consumers want a product that can help them build or maintain their status in society.

The second option involves **modifying existing prices** and this implies a change in the current prices of a product on an existing market. This change is linked to either a price-reduction strategy or a price-increase strategy.

Businesses choose to reduce their prices in the following situations: when competitors are cutting their prices, when the general economic situation is forcing businesses to reduce price levels, when a business seeks to gain a competitive advantage through price reduction, and when capacity utilisation begins to drop.

The general economic situation in a society can also motivate businesses to cut prices as a result of a general drop in standard and because demand is plummeting. By reducing its prices, a business seeks to maintain demand at the expected level.

Many businesses see a price cut as a source of gaining competitive advantage. While consumers gladly embrace such market situations, a business is more likely to be successful if its competitive advantage is built on other bases, such as quality instead of prices.

When a business owns very valuable assets that are not being utilised to a sufficient extent because of price level, it can opt to increase capacity utilisation and cover fixed costs by cutting its prices.

A business can also modify its prices through price increase. A price rise is most often the result of changing market conditions or changes made to a product.[21]

A substantial change in the price of labour can bring about a change in the conditions of competing in the market. This leads to increased operating costs that can be covered by raising prices. Similarly, when there is a change in the price of capital, the higher costs relating to interest rates can be covered by increasing the price of products.

16.2. Consumer-oriented pricing

In winning new consumers and new markets, there are several approaches available to businesses. The two most widely used approaches are the penetration pricing strategy and the price skimming strategy, although the psychological pricing strategy and the value-based pricing strategy are also used.

When implementing the **penetration pricing strategy**, a business enters a market with a relatively lower product price with the aim of generating greater demand for its product. The price of the product is below its value with regard to quality, which may make those consumers who associate low price with low product quality reluctant to buy. However, this strategy is not about cheaper products, but rather about products that are priced fairly low and deemed by consumers as having quality and greater value.

The key to the successful implementation of the penetration pricing strategy is the existence of a large enough market share that is willing and ready to try a new product.[22] It is wrong to think that every market will respond favourably to penetration pricing. Low prices will not attract consumers of prestige products or certain exclusivity products.

This strategy is suited to non-patented products, because such products can be easily copied and competitors soon enter the market with their copies. Most often, they enter the market with an imitation of the product rather than with a pure copy. The imitation, however, usually has considerable improvements over the original product and often provides better solutions for meeting the needs and wants of consumers.

In the short term the penetration pricing strategy may jeopardize a business's ability to make a profit, while in the long run it can produce an array of favourable effects. These effects are primarily seen in the rapid adoption of a new product, a boost in sales and, ultimately, in the acquisition of the market share needed to ensure business efficiency.

The application of this strategy stands to reason when a business is capable of producing/distributing sufficient quantities of a product so that the effects of economies of scale are manifested.

The penetration pricing strategy will be effective if there is no response from competitors. However, competitors will not respond only when the business that is implementing the penetration pricing strategy possesses a substantial advantage in terms of costs or production capacities. Such an advantage will discourage competitors from responding with a price cut and entering into a price war. The strategy will also be effective in situations in which a business is competing with a product line and chooses to sacrifice one particular product, losing money on it in order for its other products to make a profit.

When a business implements the **price skimming strategy**, it competes on the market with a product that has a high price. The aim of this strategy is to take advantage of the relative price-insensitivity of a part of the consumers. This strategy is effective, providing that the volume of sales on the price-insensitive market segment is larger than the volume of sales that could have been made on a larger market but with lower prices.[23]

By using this strategy, a business seeks to cover the costs incurred in the new product development stage more quickly, and in doing so it focuses primarily on early adopters – that is, those consumers who are among the first to buy a product. There is a possibility, however, that demand might outgrow a business's ability to meet consumer needs and wants. In this case, in order to skim as much profit as possible, a business will try to satisfy increased demand at all costs, even at the expense of product quality. While this may be effective in the short run, in the long run it can have adverse consequences for the image of both the product and the manufacturer.[24]

In the growth and maturity stages of a product, its price drops under the influence of competition and because of a business's desire to expand onto a larger market that does not accept high prices.

The price skimming strategy is effective when a business possesses a unique product. The uniqueness of a product is linked to one of its attributes – for example, its quality, its ease of use or its packaging. This strategy is most often linked to products that are completely new and for which there is great but poorly elastic demand. Essentially, we are talking about a monopoly.

The time in which a business will put the price skimming strategy into action depends on the attributes of the product, the speed with which the product can be copied and on market entry barriers. Market entry barriers are linked to patents, intellectual property, control over distribution channels, control over key sources of raw material, the power of a product's brand and the budget available for advertising.[25]

When a business is competing in the market with products that are new to it but not to the market, it must pay special attention to product positioning. The business must seek to select a suitable position that has not been taken by the leader in the market. In this way, the business can avoid any conflict with the leading businesses in the market while providing consumers with a second option in fulfilling their needs and wants.

The **psychological pricing strategy** is used to trigger purchasing on an emotional rather than rational basis. Mostly used by retailers, this strategy includes reference pricing, unit-based pricing, prestige or premium pricing, odd pricing, conventional pricing and price lining.[26] [27]

When a retail shop applies the **reference pricing strategy**, it places two products of the same intended use side by side. One product has a lower price; the other, a higher price. By buying the first product, consumers have the impression they are getting greater value because they are paying less for the same intended use. This makes the first product more appealing.

The **unit-based pricing strategy** is grounded on the assumption that consumers will accept a price more readily if it is expressed in unit measures that are easy to understand, such as litres of milk, kilograms of fish, metres of fabric, cubic metres of gas, kilowatt hours of electricity and pieces of roofing tiles. Unit measures provide consumers with certainty, especially when comparing similar prices during the buying decision process.

The **prestige pricing strategy** is based on setting high prices that suggest to consumers that they are dealing with top quality products and/or exclusive products. This strategy can be applied to a small set of prestige products.

Odd pricing is a pricing strategy that is widely used for consumer goods, such as food, clothing and footwear. Instead of rounding the price, retailers intentionally set the price at an odd number.

The **conventional pricing strategy** is applied to simpler products whose prices traditionally do not change, such as daily and weekly newspapers, professional journals, membership fees and chewing gum. Because the prices of such products remain unchanged for a long time, consumers become used to a certain price level. Any change in price could have an adverse effect on sales. That is why, if necessary, the volume of the product is modified rather than its price. For example, rather than increasing the price of a daily newspaper, the publisher will reduce the number of pages in the newspaper.

Price lining or **product line pricing** is a strategy used by businesses to set several price categories for a selected line or group of products. This strategy is based on the assumption that prices are inelastic in certain categories. When offered a number of price categories, consumers will opt for one price category and purchase a product within that category.

Businesses may choose to apply a **pricing strategy based on the expected value of a product**. The value of a product grows when new tangible and intangible attributes are added to it.[28] The pricing strategy of some businesses involves setting an end price for consumers, and all actors in the sales chain must be content with the margin between the selling price and production price. This represents value to end consumers, because there is no need for them to compare the prices of various distributors.

Consumer value is also created by **price bundling**. By applying this pricing strategy, a business sets a single price for a bundle or group of products, which can consist of two products to several dozen products. Price bundling is well accepted by consumers, because by paying a single price they get a number of different products. If they were to buy each product individually, they would have to spend more money.[29]

17. PRICING METHODS

A pricing method is a way in which a business systematically sets the prices of its products. Pricing methods fall into three groups: cost-based pricing methods, demand-based pricing methods and competitor-based pricing methods.

17.1. Cost-based pricing methods

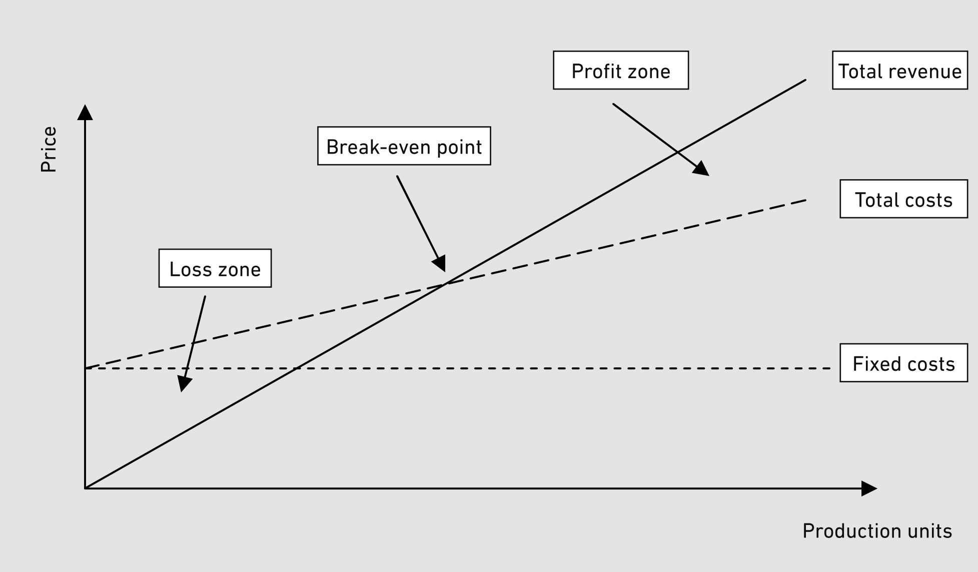
Cost-based pricing methods are the most widespread group of methods because they are easy to use. In choosing which method to apply, a business assumes there is a demand on the market for its product regardless of the product's price. The starting point of a cost-based pricing method is a product's production cost, to which a certain amount is added in absolute or relative terms. There are several different types of cost-based pricing methods, each of which has its specific traits and characteristics. The most commonly used cost-based pricing methods are average-cost pricing, mark-up and break-even point.

The **average-cost pricing method** is used to set prices based on forecasted average total costs per unit of product manufactured. A price is set that will, given the volume of sales, generate enough revenue for a business to cover its costs and make the profit it expects. Average total cost is the sum of average variable costs and average fixed costs in a specific period of time. To these average costs is added a certain amount, and the sum is the price with which a business should be able to make the profit expected. When using this method, a business should establish the ratio between fixed and variable costs, and it should break down the costs of each product in its production programme.

The **mark-up method** is widely used in businesses engaged in distribution, but also by manufacturers. It consists of adding to average total cost a certain amount expressed as a percentage of the selling price or cost. The mark-up method is commonly used for setting retail prices. The disadvantage of this method is that it fails to take into consideration consumer demand and competitor behaviour. Its great advantage is that it is simple to use.

The **break-even point method** considers total cost/revenue and the volume of production. It lets a business set a price that will enable it to make a certain profit, and it is useful when introducing new products. Total revenue is obtained by multiplying the number of products manufactured by the unit price per product. Total cost is the sum of fixed and variable costs. The point at which total revenue and total cost meet is called the break-even point. This is the point at which revenue equals cost. To the left of this point is the loss zone and to the right, the profit zone. Using this method, a business can determine its break-even point. The break-even point is calculated for a number of prices, enabling businesses to analyse profit and loss at various product prices. This allows a business to set the price that contributes the most to accomplishing its objectives (see Figure 20).

Figure 20 Break-even point



17.2. Demand-based pricing methods

Unlike the cost-based pricing methods in which planned product cost is the starting point, the demand-based pricing method focuses on setting market prices. When demand for a product is high, then **prices are high** and, conversely, when demand is low, **prices are low**.

A business must evaluate demand with regard to various price levels. The price accepted is the one that generates the greatest financial effect when multiplied by the quantity of products sold. Although the lowest price generally has the lowest demand, there is an array of exceptions that make research essential, because every product has a point of demand corresponding to a specific price.

The demand-based price method is most often used for setting prices in distant markets. In these markets, prices vary because of the different influences from the macro marketing environment. These prices are referred to as differential prices for individual markets or market segments. The reasons for which businesses apply differential prices are primarily linked to the situation in these distant markets, which is the result of various social influences, economic situations and the impact of political, legal, technological, demographic and other forces. The need for differential prices is also influenced by the conditions in the micro marketing environment, which include the business conditions in different distribution channels, the type of consumers, the impact of the season/off-season and other factors.

17.3. Competitor-based pricing methods

Many businesses apply a pricing method that takes into consideration the prices of competitors. Such a method is useful in market situations in which price is the key factor of a business's marketing strategy and products in the market do not differ significantly. This method is suited to businesses whose aim it is to boost sales and increase their market share. To ensure that competitor-based pricing is properly carried out, a business must carefully study the prices of its competitors. To this end, it may engage a special research agency or conduct research internally using its own resources.[30]

A business can set its price at the same level as its competitors' prices or it can set its price above or below its competitors. It will set its price above its competitors if it believes its product possesses certain competitive advantages that consumers readily accept and value. If its aim is to attract new consumers, win a part of the market, or squeeze its competitors out of the market, a business will set its prices below those of its competitors.

When there are several businesses in the market with similar products, a business will most often set a price that is in line with the prices charged by its competitors. In such cases, a business will monitor the price of its greatest competitor – the market leader – or it will keep an eye on the price set by a group of businesses that have production programmes similar to its own.

To recap, pricing methods are a group of procedures that businesses use to set prices. There is no universal method that can be applied to every situation or every type of product. There is no preferred method, although it can be noted that the average-cost pricing method is the method most often used by manufacturers, while businesses belonging to the service sector tend to use the mark-up method. When capacity utilisation is low, it is best to use the pricing method that takes into consideration variable costs, although prices can also be set using the break-even point method, the competitor-based method and other methods as well. Finally, it should be noted that in pricing it is best to apply a number of different methods and to use one's intuition.

SUMMARY

Consumers are very price-sensitive and tend to compare prices, and this makes pricing all the more complex. Consumers see the price of a product as being the measure of its value. Pricing is affected by a number of internal and external factors that determine which pricing strategies and methods a business will use.

Consumers link the price of a product to the benefits they believe will be gained by using or consuming a certain product, and by doing so, they define product value. On the other hand, when pricing a product, a business may choose an approach that seeks to maximize profit and ensure a rapid return on investment or an approach that seeks to maintain or increase market share. In either case, pricing decisions must be coordinated with decisions concerning other elements of the marketing mix. Internal factors that influence the pricing of a business's products are tied to the business's objectives, to available resources, as well as to decisions made regarding other elements of the marketing mix. The most significant external factors include consumer responses, channel distribution members, the competition and a country's economic policies. Once a business has defined its objectives and analysed the factors that affect pricing, it is faced with the problem of determining product-oriented pricing strategies and consumer-oriented pricing strategies. The pricing strategy for existing products is linked to two options; the first is maintaining existing price levels and the second is modifying existing prices. Pricing strategies aimed at winning new consumers include the penetration pricing strategy, the price skimming strategy, the psychological pricing strategy and the value-based pricing strategy. Having selected a pricing strategy, a business must decide upon a pricing method. There are a number of pricing methods a business can use, the most important of which are cost-based, demand-based and competitor-based pricing.

CRITICAL THINKING QUESTIONS

1. It is common knowledge that consumers tend to associate high product price with high product quality and low price with low quality. Practice, however, indicates that this should not be accepted as a rule. Try to generalize in which conditions a low price is not indicative of low quality and vice versa.
2. Price is affected by distribution channels, the intensity of distribution and the configuration of distribution channels used to market a product. Can you explain why, on average, products are cheaper in large points of sale than in small ones?
3. A product's price has a direct impact on promotion strategy. Explain this fact. Does promotion affect product price?
4. A business's prices can be lower, moderate or higher than the prices of its competitors. Describe situations in which each of these prices is applied. In your opinion, which of these prices is the most sustainable in the long run?
5. To price a product correctly, a business must take into account the influence of consumers, distribution channel members, competitors, the government and other businesses and actors. Do you think these five factors really do exert the most influence on pricing? Is there a factor that has been intentionally neglected?
6. Existing and potential consumers are the group that has the greatest influence on pricing. Explain this.
7. Demand elasticity is a measure of the sensitivity of demand to change in prices. Explain the way in which different degrees of elasticity affect the buyer's bargaining power and the manufacturer's bargaining power.
8. A country's policy is carried out through legislation and by-laws that, among other things, influence how businesses and other actors on the market set their prices. For some businesses, this influence poses a threat; for others, it is an opportunity. Try to think of a specific law that had a direct impact on a certain product in the European Union and another one that had an indirect effect on another product.

9. Pricing is influenced by factors resulting from a business's objectives and resources, as well as from its decisions regarding the other elements of its marketing mix. Provide several different examples that confirm this statement.
10. The aim of the strategy to maintain existing price levels is to accomplish a business's price-related objectives. The existing price can be set as above-average high or below-average low. Which conditions must a product fulfil in order for its price to be set above average or below average?
11. Many businesses and other actors in the market see price reduction as a way of gaining competitive advantage, and consumers always gladly embrace such market situations. In your opinion, what are a business's chances of performing well with this strategy? Explain.
12. When implementing the penetration pricing strategy, a business enters a market with a relatively lower product price with the aim of generating greater demand for its product. However, businesses using penetration pricing have been known to incur a loss. What would you recommend to manufacturers? What is the lowest possible price they could set with regard to costs?
13. The skimming strategy gets its name from the procedure of processing nonhomogenized milk in which a creamy layer of milk fat forms on the surface of milk after boiling. This fatty layer – cream – is then skimmed. Explain this pricing strategy metaphor.
14. Are you one of those people who will buy a product only if its price is below a certain level? Are you one of those people who would rather buy a product whose price is 299 € than if its price were 300 €. What is the name of the pricing method that takes into consideration the two types of consumer behaviour described above?
15. Cost-based pricing methods are the most widespread group of methods because they are easy to use. There are several different types of cost-based pricing methods, each of which has its specific features and characteristics. Which of these methods would be best suited to a manufacturer of audio equipment, a consultant and a photocopy shop?
16. The break-even point method considers total cost/revenue and the volume of production. It lets a business set a price that will enable it to make a certain profit. If fixed costs equal 10 €, variable costs equal 2 € per product unit, and you want to sell

the product at a price of 3 €, how many product units would you need to manufacture to reach the break-even point?

17. The demand-based price method is most often used for setting prices in distant markets. Explain the reasoning behind this strategy.
18. Many businesses and other market operators apply a pricing method that takes into consideration the prices of competitors. As a consumer, do you prefer a large gap in the prices of competitive products or a small gap? Does your answer depend upon the type of product in question?

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[12] For example, the mobile operator *Tele2* seeks to win a larger share of the Croatian mobile market by offering lower prices, http://www.tele2.hr/

[13] For example, the fountain pen and ballpoint pen set of the firm TOZ *Penkala* has a high price that is justified by the product's exclusivity. The price of the *Penkala Jubilej T* set is $549. Namely, the fountain pen has an original design, based on the shape used by Slavoljub Eduard Penkala at the beginning of the 20th century and it is made of 14- and 18-carat gold, http://www.penkala.hr/

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[22]For example, when *Lacoste* tried to increase its maket share by reducing the prices of its sweaters, many distributors of prestige products refused to work with them, while consumers turned to more exclusive brands.; Nagle, T. T., Holden, R. K.: T*he Strategy and Tactics of Pricing, A Guide to Profitable Decision Making*, Prentice Hall, New York, 2002, p. 170

[23] The term *skimming* comes from the procedure of processing nonhomogenized milk in which a creamy layer of milk fat forms on the surface of milk after boiling. Skimming this layer, which is the richest part of milk, symbolises the skimming strategy based on high prices.

[24] Baker, J. R.: *Implementing Value Pricing: A Radical Business Model for Professional Firms*, John Wiley & Sons, New Jersey, 2011, p. 66-67

[25] For example, the pharmaceutical company *Belupo* invests heavily in R&D and patents its pharmaceutical products. During the time its products are patented, it implements the skimming strategy. It also invests in building its brand, so that when the patent expires it will still be able to use the skimming strategy. This time, the strategy will be based on a strong brand rather than on patent rights, http://www.belupo.hr/

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[27] Solomon, M. R., Marshall, G. W., Stuart, W. E., Mitchell, V., Barnes, B.: *Marketing: Real People, Real Choices*, Prentice Hall, Harlow, 2011, p. 379 -380

[28] For example, new *Panasonic* air conditioners/heaters can have higher prices because they consume less electrical energy when working. Saving on electricity represents consumer value and influences pricing, http://www.panasonic.hr

[29] Bundled products are generally put together based on their use, as is the case with paint protection sets. A paint protection set consists of four parts: plastic sheets (approx. 100 m²), three duct tapes (50 mm x 50 m), a pair of scissors and a cutting device (18 mm) with three spare blades, http://www.neckermann.hr

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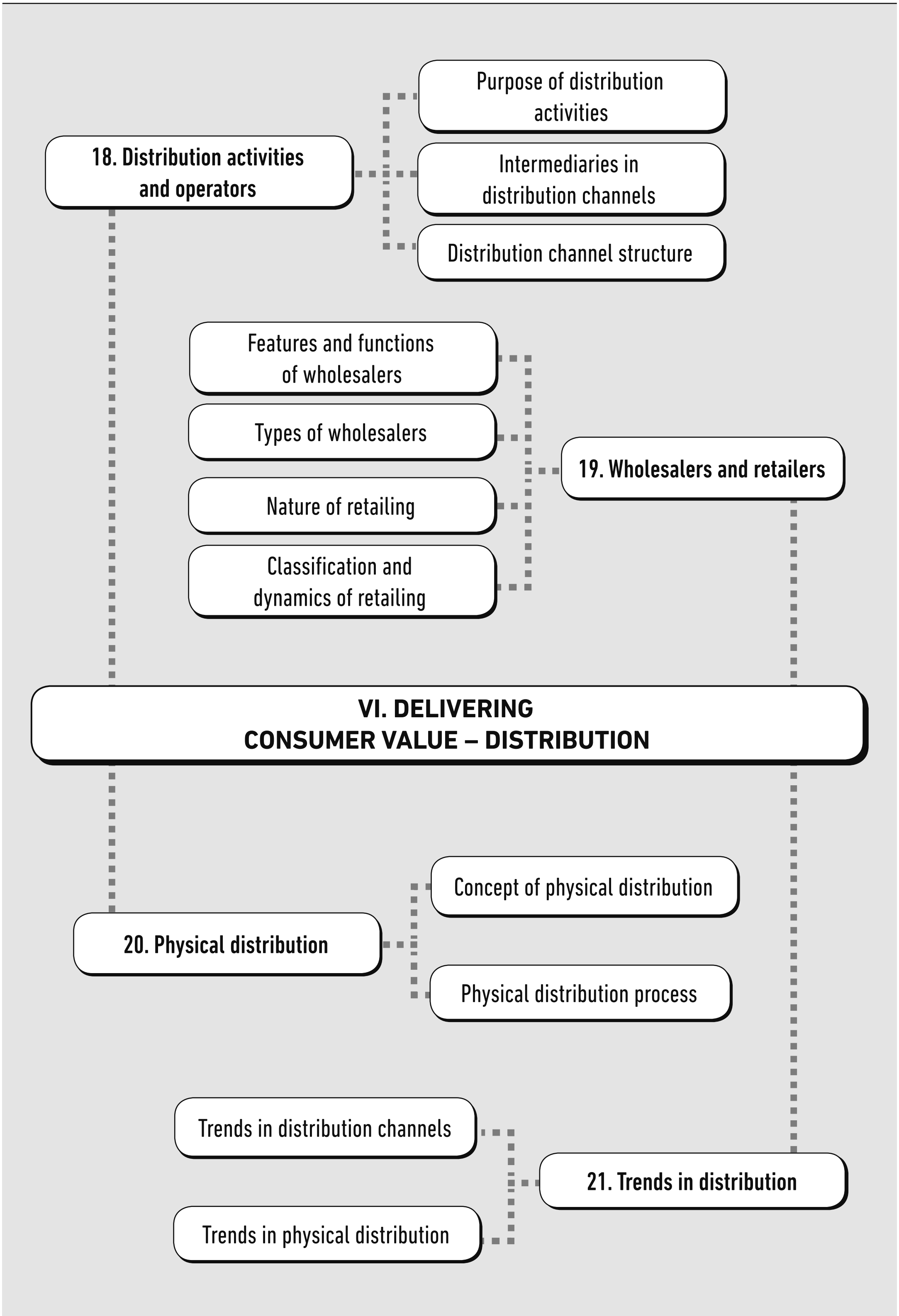
18. Distribution activities and operators
Purpose of distribution activities
Intermediaries in distribution channels
Distribution channel structure
Features and functions of wholesalers
Types of wholesalers
Nature of retailing
Classification and dynamics of retailing
19. Wholesalers and retailers
VI. DELIVERING CONSUMER VALUE – DISTRIBUTION
Concept of physical distribution
20. Physical distribution
Physical distribution process
Trends in distribution channels
21. Trends in distribution
Trends in physical distribution

VI. DELIVERING CONSUMER VALUE — DISTRIBUTION

Once a product has been created and its price has been set, an organisation (that is, an organisation's marketing manager) is faced with the dilemma of how to make the product as widely available as possible to consumers in the right quantities and at the right time while making sure that all activities required to make this happen are carried out rationally. This leads us to distribution, the third element of the marketing mix. Distribution is an activity that ensures the delivery of value to consumers. In other words, distribution is about delivering a product to the place where, and at the time when, consumers want to buy it. Distribution comprises two elements: distribution channels and physical distribution. The following chapters discuss the activities of operators in distribution (Chapter 18), the specific traits of wholesaling (Chapter 19), the characteristics of the retail trade (Chapter 20), the features of physical distribution and the trends in distribution (Chapter 21).

Objectives

After studying Part Six, you should be able to:

- Explain the functions of a distribution channel
- Understand the role and importance of intermediaries
- Discuss the structure of distribution channels
- Understand the nature and level of development of wholesaling
- Identify operators in wholesaling with regard to ownership
- Identify trends in wholesaling
- Discuss the role and importance of the retail trade

- Analyse the classification of retailers
- Understand the dynamics of the retail trade
- Discuss the nature of physical distribution
- Understand how to manage the physical distribution process
- Recognize new trends in physical distribution

18. DISTRIBUTION ACTIVITIES AND OPERATORS

Distribution activities are often seen as being the same as sales activities. This, however, is incorrect. Before we begin, it is essential to understand that the concept of sales is linked to a change of ownership of products, while the concept of distribution is linked to changing the location of a product as a result of sales activities. Distribution activities bring together all those activities that are necessary for a product to change its location – that is, for it to be delivered from a manufacturer to a consumer.

Distribution activities involve three actors: manufacturers, intermediaries and consumers. Sometimes distribution activities take place between just two actors – the manufacturer and the consumer without the involvement of an intermediary. This is a direct distribution channel. However, much more widespread are indirect distribution channels with one or more intermediaries positioned between manufacturers and consumers.

18.1. Purpose of distribution activities

Manufacturers and consumers – usually with the help of intermediaries (indirect channel) but also without their help (direct channel) – exchange information concerning what consumers need, what manufactures have to offer, which products consumers intend to buy or order, how these products will be delivered and, finally, how they will be paid for. Manufacturers can gather information about consumer wants and needs indirectly through intermediaries or directly without any intermediaries involved. In response to this information flow, manufacturers provide information to consumers concerning their offering either indirectly through intermediaries or directly without the help of intermediaries. This is followed by demand-related activities through which consumers convey their needs to manufacturers, again either indirectly or directly, with or without intermediaries involved. Manufacturers respond to this by distributing their products. The process ends with payment, which is affected by the consumer. In this way, value exchange takes place between a manufacturer that makes a product and a consumer who adopts this product as value, in return for which the consumer pays a certain amount that is accepted by the manufacturer as value.[1]

An entire array of distribution activities needed in transferring product ownership and delivering products to consumers from the point of production to the point of consumption are carried out in distribution channels that involve a number of actors.[2] A number of distribution channel levels can be distinguished, ranging from the zero level involving only manufacturers and consumers to higher levels involving several actors. Direct distribution channels and indirect distribution channels each have their advantages and drawbacks regardless of whether they are in the B2C market or the B2B market.

The positive effects of the **direct channels of distribution** are seen in a decrease in sales-related risks due to greater control over the market. Other positive effects include the possibility of enhancing profits through greater, direct efforts in marketing a product, as well as the possibility of saving money by reducing costs relating to sales, storage/transport and other intermediary functions. Direct distribution channels, however, also have a number of disadvantages. The greatest disadvantages include the need for organising sales networks, transportation, warehousing and other functions that would otherwise be carried out by intermediaries.

Building a direct channel of distribution is not, in itself, a guarantee of success. A direct distribution channel is a path to the market that may be more or less successful, depending upon the products being exchanged, the consumers involved, an organisation's level of development and the circumstances in the business environment.

The second option open to organisations involves **indirect channels of distribution**. Indirect distribution channels are used when the difficulties that an organisation encounters in creating and operating direct distribution channels compel and motivate it to find other, new ways of reaching its consumers. These new ways involve cooperating with institutionalised merchants – that is, creating indirect channels of distribution. Indirect distribution channels have a number of advantages. These advantages are reflected in the savings an organisation realizes by not having to employ its own assets in creating a direct distribution channel. This lets an organisation focus all its attention and efforts on production and development, rather than on distribution and consumers. The organisation leaves the selling of its products to merchants that are widely spread across the market (in terms of space), have greater abilities in providing a consummate offering, have a higher degree of specialization, and are better equipped in terms of human and material resources. The basic disadvantages of an indirect distribution channel are seen in reduced control over the market and higher costs relating to the amount of profit that each intermediary wishes to make.

Generally, a **short distribution channel** is needed when the number of consumers is small and a **long distribution channel** when the number of consumers is large. Also, a short distribution channel is more suitable when consumers are concentrated in one location, while a long distribution channel should be used when consumers are dispersed over a broad area.

Short distribution channels are also recommended for complex products that require producer support, and long distribution channels are recommended for simpler products that do not need producer support. Short distribution channels are more suited for moving made-to-order products and long distribution channels are more suited for standardized products. A short distribution channel is also more appropriate where large quantities of products are involved, and a long distribution channel for small quantities.

Whether an organisation will prefer to use a short distribution channel or a long one will also depend on the characteristics of the intermediaries involved. For example, a short distribution channel is more suitable in cases in which an intermediary provides low quality, has low accessibility, and can perform only a few functions. However, when an intermediary provides high quality, has high accessibility, and performs many functions, a long distribution channel is recommended.

The purpose of a distribution channel is to deliver a product to consumers, regardless of whether the product is a B2C or B2B product – that is, regardless of whether consumers are B2C or B2B consumers. This purpose is achieved through a number of functions performed by distribution channels. The number of functions needed to deliver a product to a consumer varies from author to author.[3] In the following section, we examine how the purpose of a distribution channel is achieved through three fundamental functions: the transactional function, the logistical function and the facilitating function.

The **transactional function** involves buying products, selling products, and risk bearing where the stocking of products is concerned. Paying for the products purchased puts a financial burden on distribution channel members. Payment terms may be prompt or stretched over a number of months. Distribution channel members play a specific role in pricing. Most often, the price that consumers see is the price that was independently set by one of the members of a distribution channel.

The **logistical function** involves bringing together a number of products in larger quantities, storing them, and making them available to consumers. Often an offering is designed in smaller units and placed on retail shelves in this form. Basically, the logistical function is about transportation, warehousing and contacting consumers.

The **facilitating function** involves ensuring market information needed by manufacturers, promoting products, and performing other activities that facilitate the flow of products from manufacturers to consumers. The members of a distribution channel also affect product planning by providing information to manufacturers concerning demand for and sales of an existing product; by taking part in decision-making with regard to product elimination; and by cooperating in product positioning. Ensuring market information by conducting market research is one of the most important activities performed within the facilitating function. Information vital to manufacturers is gathered from direct contact with consumers. The participation in product promotion of wholesalers and retailers, together with other members of a distribution channel, is indispensable. They may be directly involved in product promotion or may act in an advisory capacity. Providing customer service is another function of distribution channels. This function involves providing conventional repair service during and after the warranty period, providing credit terms of payment, insurance and so on.

18.2. Intermediaries in distribution channels

By performing the three main functions of distribution channels, intermediaries develop relationships with manufacturers as well as with consumers. Intermediaries ensure that the flow of products from the manufacturer to the consumer, albeit a complex process, is accomplished to the satisfaction of all channel distribution members. This includes the manufacturers that have handed over a part of their functions to intermediaries; the intermediaries that have a business interest in taking over and organizing distribution channel functions; and the consumers who get the sales programmes they need or want in the place and at the time that suits them best.[4]

The importance of intermediaries is seen in the fact that if distribution channel functions are not performed by an intermediary, then they obviously have to be performed by the manufacturer. In this case, not only does the manufacturer inevitably have to carry out these functions, but it must do so separately for every single consumer. Without an intermediary, the distribution channel is reduced from three to two members: the manufacturer and the consumer.

When dealing directly with either B2B consumers or B2C consumers, the manufacturer needs to create a sufficient stock of its products and sort them according to consumer needs. The increased costs incurred by having to warehouse and sort its products cause the manufacturer's operating costs to rise. Also, because it has to make separate deliveries to each individual consumer, the manufacturer's transportation costs are substantially higher. To be able to perform all these functions, the manufacturer must organize and train its staff, which ultimately results in higher operating costs.

Intermediaries are organisations that bring together distribution activities in distribution channels. We can distinguish between intermediaries that take ownership of products and intermediaries that do not. Wholesalers and retailers belong to the former category of intermediaries, while agents and brokers fall into the latter category. Wholesalers, retailers, agents and brokers are discussed in the chapters that follow. Here, we will only list their basic characteristics.

Wholesalers are organisations engaged in wholesaling – that is, in buying products for the purpose of reselling them to other wholesalers and/or retailers. The products they buy and resell are B2C products and B2B products. Very often, wholesaling intermediaries specialize in selling a specific product line.

Retailers are organisations engaged in retail – that is, in selling to the ultimate consumers. Because ultimate consumers require B2C products, B2C manufacturers typically use this channel of distribution.

The third type of intermediary includes **agents and brokers** that, unlike wholesalers and retailers, do not take ownership of products. The function of agents and brokers is to bring together consumers and sellers. Unlike brokers, agents are in direct contact with sellers.

Hence, intermediaries are very useful to both manufacturers and consumers in the distribution channel. Intermediaries are more efficient than manufacturers in performing distribution channel functions.[5]

The number of intermediaries involved in a distribution channel is also important when it comes to performing distribution activities. To ensure that their target market is covered to the greatest extent possible, organisations must determine how many intermediaries are needed in their channels of distribution. The number of intermediaries at each level of a distribution channel represents the intensity of distribution, or market coverage. Some products require high market coverage, while others require low market coverage. The former type of distribution coverage is known as **intensive distribution**, and the latter, as **exclusive distribution**.[6] Exclusive distribution is linked to a small number of sales points within a specific area. **Selective distribution** is a moderate type of distribution coverage located between the two extreme approaches of intensive and exclusive distribution.

Intensive distribution is about making a product available to consumers in the greatest number of sales points possible. The product marketed in this way needs to be located as close as possible to consumers. In most cases, these are consumer products. The advantage of intensive distribution is that it ensures the product is widely available in places that suit consumers. The disadvantage of this type of distribution coverage is that it makes it difficult to control pricing and oversee the way the product is displayed to consumers.[7]

Selective distribution involves a limited number of carefully selected sales points. Selective distribution allows marketers to set higher prices and gives them greater control over the channel of distribution. Intermediaries are selected that are capable of supporting sales and can dedicate special attention to a manufacturer's products. Intermediaries generally sell the products of several organisations that compete with each other. Selective distribution is common for longer lasting products, such as video cameras, as well as for B2B products that are not sold on an intensive or exclusive distribution basis, such as office furniture.

Exclusive distribution implies a relationship between a manufacturer and a distributor that is given the exclusive right to sell all the manufacturer's products. Exclusive distribution provides the manufacturer with greater control and, as a rule, the distributor is more highly specialized. This makes it possible to cover the market more efficiently and meet the needs and wants of consumers more fully. Products that are more expensive and/or products produced in small series are marketed in this way. Such products typically include single value items, such as jewellery, or items that require servicing, such as automobiles or expensive equipment. Exclusive distribution can also be used in marketing B2B products. Such products are produced in small series or are special-purpose products, such as security systems.

When choosing a distribution channel, marketers must take into account the channel's efficiency, effectiveness and adaptability. **Distribution channel efficiency** is linked to the costs of using the channel and the capacities engaged in marketing a product on the target market, be it the B2C market or B2B market. The aim is to make the channel of distribution as efficient as possible – that is, to carry out distribution using as little resources as possible.

On the other hand, **distribution channel effectiveness** is reflected in the ability of a distribution channel to accomplish objectives – that is, satisfy the needs of a target market. A channel of distribution is considered effective if it is capable of meeting consumer needs and wants while accomplishing the qualitative goals of an organisation.

Distribution channel adaptability is seen as the ability of a distribution channel to adapt to emerging situations and to initiate new solutions. Some channels have this ability, while others encounter obstacles to adapting to emerging conditions in the business environment.

Organisations are faced with the challenge of substituting inefficient and/or ineffective distribution channels with new ones. Such change is never simple, as it requires substantial investments in terms of time, resources and intellectual efforts. However, the alternative – keeping existing channels that give poor results – is definitely the inferior solution.

18.3. Distribution channel structure

Distribution channel structure refers to the number and type of members in a distribution channel. The structure of a distribution channel for B2B products differs from that of a distribution channel for B2C products.

In selling its products, an organisation can make use of one or more channels of distribution. When an organisation uses only one channel, it may be either a direct or indirect channel. When an organisation uses a combination of several channels, this combination is referred to as a multiple channel distribution system. Although a multiple distribution system may seem appealing at first glance, it should be said that marketing through multiple channels is linked to an entire array of shortcomings. The most important disadvantages refer to the always present limitation and scarcity of resources needed to organize and maintain multiple channels, as well as to the rivalry that exists between the individual channels. Namely, some members of a multiple distribution channel selling a product through a specific channel may find it discouraging when they come across the same product being sold through other channels.

Channels for B2C products differ from channels for B2B products in length and in the opportunities they provide. When a **manufacturer of B2C products** uses a direct channel of distribution, it sells its products directly to consumers without the involvement of any intermediaries. The B2C product manufacturer may also choose to use an indirect channel of distribution. The manufacturer may choose a distribution channel that consists only of retailers; it may use a channel that in addition to retailers also has wholesaling intermediaries; or it may prefer to use a channel in which agents are engaged in addition to retailers and wholesalers. The length of the distribution channel – that is, whether the direct channel will be made up of one, two or three intermediaries or no intermediaries at all – will depend upon the special features of the product being sold. Most consumer products are sold through a combination of wholesaling intermediaries and retailers.

The **manufacturers of B2B products** often opt for direct distribution channels through which they sell their products directly to consumers on the B2B market. Namely, B2B consumers frequently require products that are not standardized and that must possess specific features. This calls for a regular exchange of information that begins in the product development process. If multiple actors were involved, they would profoundly complicate this process – hence, the preference for a direct channel of distribution.

However, manufacturers that produce standardized products tend to use wholesaling intermediaries, agents or a wholesaler/agent combination to sell their products. In this type of distribution channel, the wholesaler buys various products for the B2B market, keeps stock, and has a diverse sales programme of B2B products. As a rule, agents do not take ownership of products. Instead, they provide intermediary services that facilitate product distribution.

19. WHOLESALERS AND RETAILERS

19.1. Features and functions of wholesalers

Features. Wholesalers bring together the course of production and the consumption of a product. This role of wholesaling is carried out by wholesale intermediaries as an organisation. Wholesalers monitor the flow of products from the manufacturer to the consumer, who may be another manufacturer, a retail outlet, the government or an institution. In distribution channels, wholesalers help to facilitate the course of products towards consumers.[8]

Wholesaling involves selling products to organisations that either use them in their operations or resell them. Most authors see wholesaling in this way.[9] The importance of wholesaling is linked to its role in ensuring place utility, time utility and possession utility for organisations engaged in production, as well as organisations engaged in commerce. Organisations receive time utility, place utility and possession utility when products are sold in the place and the time that are most convenient to them.

Time utility in wholesaling is ensured through two activities: warehousing and regrouping. This means that retailers and other organisations that procure products from wholesalers do not need to invest their resources or spend their time on warehousing and regrouping.

Place utility in wholesaling is ensured by warehousing and transporting products to retailers and other organisations. In this way, retailers and other organisations have at their disposal specific quantities of products in stock at the wholesalers' warehouses that can be delivered as required.

Through wholesaling activities, the ownership of products is transferred from the wholesaler to another organisation. This represents **possession utility**. To this end, wholesalers may provide credit financing or deferred payment terms.

Other members of a distribution channel would find it much more difficult to carry out their operations were it not for wholesaling and wholesalers. Without wholesalers, manufacturers would have to sell their products directly to retailers or ultimate consumers. On the other hand, organisations, retailers and B2C consumers would be compelled to purchase products directly from manufacturers. In the majority of cases, this would hardly be a reasonable solution, because most distribution channel members do not have the strength, in terms of money, space and human resources, to organize these functions by themselves. These activities would only be an additional burden on organisations, causing them to shift the focus of their attention away from their primary activity.

Wholesalers provide many services to manufacturers, retailers and other organisations. For example, where manufacturers are concerned, these services are linked to the purchasing of a part of or all their products and then reselling them to other organisations. Where retailers are concerned, wholesalers serve to bring together the offerings of several manufacturers. Upon these primary services are based an array of auxiliary services, such as holding goods in stock and delivering goods to a specific location at a specific time. It is this diversity and proliferation of services provided by wholesaling that has reinforced the role of wholesaling intermediaries as distribution channel members. Many wholesalers have become the key members of certain distribution channels and even leaders in these channels.

In the late 20th century, wholesalers began to reorganize their business operations, making them more efficient and acceptable to other channel members. This transformation process is known as **value-added wholesaling**. In this process, wholesalers have improved their operations by introducing automation that has made it possible for them to cut costs while enhancing the diversity and quality of the services provided.

Functions of wholesaling. The role of wholesaling is performed through a number of functions. While some wholesalers carry out most of these functions, others have become specialized in only a few functions. Basically, the functions of wholesaling involve assembling the offerings of several manufacturers, warehousing products, regrouping products for resale, and transporting products to consumers.[10]

Wholesalers **assemble** or bring together the products of different manufacturers. They do this for their consumers, who are, as mentioned earlier, retailers and other organisations. Assembling the products of several manufacturers for a larger number of consumers helps wholesalers reduce the number of transactions required, thus streamlining the time they need in carrying out these transactions. For example, by selling the products of a manufacturer to a large number of retailers, the wholesaler relieves the manufacturer of the need to contact each individual retailer. On the other hand, by selling the products of several manufacturers to a retailer, the wholesaler relieves the retailer of the need to contact each individual manufacturer. The assembly function basically involves bringing together the products of numerous manufacturers in one location, the location in which the wholesaler operates. Carrying out this function means employing financial resources for buying and warehousing the products, keeping the necessary quantities of products in stock, and providing credit financing to retailers and other organisations.

Warehousing is the second function of the wholesaler. Warehousing is about keeping products in stock. By doing so, the wholesaler helps retailers and other organisations cut their own warehousing costs, because they only need to keep a small quantity of products in stock. This leads to other savings as well, because the premises owned by retailers are usually located in city centres in which the price of a square meter of space is much higher than the price paid by wholesalers whose warehouses are located in industrial zones or in the outskirts of cities. Also, it would be a very uneconomical for manufacturers to organize storage and warehousing for their consumers – that is, for retailers and other organisations. All this leads to the conclusion that the best solution is to leave the warehousing function to wholesalers, who bring together in one place the products of many manufacturers.

Product **regrouping** is a process in which the wholesaler regroups the products purchased from various manufacturers according to the requirements of the consumers (that is, retailers and other organisations). According to their requirements, the wholesaler creates individual offerings for each individual consumer. This helps to further streamline operations because, for example, if a retailer were to sell several thousand products from several hundred manufacturers without the involvement of a wholesaler, it would have to make enormous efforts to coordinate orders and contacts with manufacturers. It is, therefore, reasonable for a retailer to use the services of the wholesaler to help streamline operations and make business essentially simpler by grouping and regrouping products for a large number of retailers.

The fourth function of wholesaling involves the **transportation** of products from wholesaler warehouses to the warehouses of retailers and other organisations. Wholesalers may make transportation arrangements by themselves or they may leave transportation to specialized carriers. In this way, products can be delivered quickly in large quantities to multiple addresses. If transportation was left for the retailer to organize, the retailer would need to make arrangements for transporting products from each individual manufacturer to its warehouse, which is a much less rational solution than letting the wholesaler take care of transportation. A similar situation would arise if the manufacturer were responsible for transportation. The manufacturer would have to organize transportation from its warehouse to that of each individual retailer, which is again a much less rational solution. Hence, the rational solution is having the wholesaler organize transportation, as this reduces costs while enhancing the efficiency of manufacturers, retailers and other organisations.

In addition to the four basic functions described above, wholesalers also carry out **many other functions**. For example, an important function is the financing function by which wholesalers grant credit financing terms to retailers and other organisations, as well as to manufacturers through partial or full payment in advance.

Wholesalers ensure information that is important to manufacturers, retailers and other organisations. For example, manufacturers need information about competitors, price trends on the market, trends in demand and other information that the wholesaler can provide. The wholesaler is also an important source of information for retailers and other organisations, providing them with information about new products on the market, the possibility of procuring specific products, prices, etc.

Product promotion is also a function that wholesalers perform very successfully to the advantage of manufacturers, retailers and other organisations. Promotion is carried out through the wholesaler's sales staff, as well as through advertising, sales promotion and PR/publicity.

19.2. Types of wholesalers

Wholesaling involves several types of wholesaling intermediaries. The classification of wholesalers can be carried out based on two dimensions. The key dimension is linked to ownership – that is, whether wholesaling is carried out by an independent wholesaler or whether it is a component part of the activities of a manufacturer, retailer or another organisation. Based on this dimension, we can distinguish between two basic groups of wholesalers: **wholesalers that operate independently** and **wholesalers that are not independent** but operate as a component part of a manufacturer, retailer or another organisation.

This book examines independent wholesaling intermediaries, excluding those whose business policies are determined by their owner, namely another business entity.

Most independent wholesaling intermediaries usually take ownership of the products in which they are dealing. Some wholesalers, however, do not. Agents and brokers are wholesaling intermediaries that do not take ownership of products.

Wholesalers that take ownership of products can be classified as full-service merchant wholesalers (that provide a complete assortment of services) and limited-service merchant wholesalers (that provide fewer services). The former are general merchandise wholesalers and the latter are single-line (or general-line) wholesalers and specialty wholesalers.

General merchandise wholesalers deal in a variety of products, ranging from hardware and cosmetics to car tires and food products. General-line wholesalers carry several product lines, such as beer, mineral water and so on. Specialty wholesalers are wholesalers specialized in one particular area (for example, pharmaceutical products).

Limited-service merchant wholesalers are cash-and-carry wholesalers, drop-shippers and mail-order wholesalers. Cash-and-carry wholesalers are wholesalers that carry a limited number of product lines but whose turnover in these products is very high. Consumers, who are typically tradespeople, small organisations and households, pay in cash and transport the products by themselves. Although drop-shippers carry out a number of wholesaling functions, they never come into physical contact with products. Their basic task is to collect orders from retailers and other organisations and pass them on to manufacturers. Mail-order wholesalers sell products by sending catalogs and brochures to retailers and other organisations that are consumers. These products are largely linked to sports and recreation, automobiles, clothing, food, cosmetics and office furniture.

Agents and brokers are wholesaling intermediaries that do not take ownership of products. They charge a commission for their intermediary services. Agents are legal entities that represent consumers and manufacturers on a regular basis, while brokers are legal entities that are occasionally engaged by manufacturers and consumers to carry out a precisely defined job. There are different types of agents, the most important being manufacturers' agents, sales agents and commission agents. Manufacturers' agents typically represent two or more manufacturers, and they provide consumers with a larger number of product lines. They deal in products and product lines that do not compete with one another. The relationship between a manufacturer's agent and a manufacturer is contractual. Sales agents sell a part of, or the entire quantity of, products produced by one or more manufacturers. They sell noncompeting products. Commission agents are wholesalers that specialize in getting the best prices, depending on the conditions in the market. The services of commission agents are largely used by small organisations lacking sales staff, agricultural producers and fishermen to sell their products on the market.

The role of brokers is to find consumers or manufacturers and facilitate transactions between the two parties. As brokers are specialized in particular types of products, we can distinguish between food brokers, real estate brokers and other brokers.

19.3. Nature of retailing

Retailing or the retail trade comprises activities involved in selling products to ultimate consumers, and it is an integral part of a distribution channel. Ultimate consumers are physical persons who purchase products for personal use or for household use (i.e., not for business purposes). The retail trade is carried out by retailers. In some rare cases, manufacturers and wholesalers may also choose to engage in retailing by selling directly to the ultimate consumer, but this is more the exception than the rule.

Retailers perform **several functions** of which the most significant are linked to the procurement of products from wholesalers and manufacturers. Other significant functions include providing information to ultimate consumers about products, as well as to wholesalers and manufacturers about consumer needs and wants; effecting payment for products; ensuring product storage and price marking; carrying out final transactions with ultimate consumers; and providing additional services. These functions are performed with the aim of increasing ultimate consumer satisfaction and developing relationships that will lead to consumer loyalty.

Retailers procure products for reselling to end consumers. As a rule, products are purchased from wholesalers. Products are also purchased from those manufacturers who wish to market their production programme through specialized retailers. Retailers are actively involved in procuring a wide range of products from various sources in order to create a sales programme suitable for their own target market. The width and depth of the sales programme is the result of the retailer’s choice of strategies for competing in the target market.

Providing information to end consumers about products, their attributes, prices, quality, functions and ways to use them is one of the activities carried out by the retailer for the ultimate consumer. This is achieved by advertising in printed and electronic media, by putting up posters containing promotional messages within the retail store itself and – perhaps most importantly – by the activities of the sales staff carried out through direct contact with end consumers. Retailers also provide information to wholesalers and/or manufacturers. Because they are in regular contact with ultimate consumers, retailers acquire information important to other operators in the distribution channel as well. Sometimes this is done in a formal way by carrying out or supporting field research, while in other situations information is gathered through regular contact with end consumers.

Another function of the retailer is to stock products in retailing storage facilities and look after them during storage. Other activities involve price marking (placing price tags on products) and product placement (placing products on the shelves of a sales outlet). These are work-intensive activities and, in most cases, retailers need to organize employees and provide special training in price marking or product placement.

Typically, retailers that procure goods to be sold on the B2C market most often pay for these products before they are sold, which represents a significant financial burden for retailers.

The function of the retailer is of significant importance as it allows and/or facilitates transactions with the ultimate consumer. For this purpose, retailers carry out their activities in selling space that is acceptable to ultimate consumers with regard to size, location and opening hours that may range from a single shift to nonstop or 24 hours a day.

To attract as many ultimate consumers as possible, retailers perform other functions as well, such as the financing function, by providing credit financing and accepting cheques with deferred payment and credit cards. Retailers also perform an advisory function by providing information about product attributes and giving advice on how to install or use a product. Other services provided and organized by retailers also are valuable to the ultimate consumer, such as parking spaces, play areas for children, catering services within the point of sale and services for the altering and additional processing of products.

19.4. Classification and dynamics of retailing

Classifying retailers. Retailers can be classified according to various criteria.[11] One classification distinguishes between store and non-store retailers. The former carry out their activities in points of sale selling foodstuffs and various products for personal use and household use, while the latter do not have a point of sale.[12]

Food retailers carry out their activities in convenience stores, self-service stores, supermarkets, superstores and hypermarkets.

Typically, a convenience store is a store in which there is direct contact between the sales staff and end consumers. These stores are mostly small-sized and located near or within larger residential areas. They are open all day, including the weekend. Their sales programme comprises a limited range of everyday products for which they charge a higher price to cover their higher operating costs. Convenience stores fulfil certain needs of consumers who want a small quantity of a specific product immediately and are willing to pay a higher price for it.

Self-service stores are retail stores in which direct contact with ultimate consumers does not take place. Ultimate consumers choose by themselves from the products displayed on the shelves. Without the assistance of the staff, they find products, compare them to other displayed products, and then choose the most favourable offering. Self-service stores are also located in residential areas or in busy locations that ensure a large enough demand. They cover a larger area than convenience stores and offer a wider range of products at prices lower than those of convenience stores.

Supermarkets are basically larger self-service stores with foodstuff sales programmes of much greater width and depth. The lower prices of products and the wide and relatively deep sales programmes attract a large number of ultimate consumers to supermarkets. Supermarkets have a large sales area and a range of accompanying facilities. These facilities make the buying process easier and more pleasant for ultimate consumers, and their aim is to additionally motivate end consumers to specifically choose these retail stores. As a rule, supermarkets have parking areas. Advertising and other promotional activities within the supermarket itself are widespread, aiming at encouraging ultimate consumers to buy specific products.

Superstores are retail stores that have twice the area of an average supermarket. This kind of retailer has not developed in Croatia. Superstores offer a wide range of food products as well as non-food products that are routinely purchased. Furthermore, superstores offer ultimate consumers other services, such as dry cleaning, postal services, photo centres and automatic teller machines.

Hypermarkets or mega stores are retail stores that cover a huge area, ranging from 24,000 to 60,000 m², and are usually called shopping centres. Products in these stores include perishable and non-perishable foodstuff, as well as fresh products, canned food, and other household products such as furniture or small household appliances. The large turnover achieved in these retail stores allows for low prices that regularly attract new end consumers. A number of retail stores operating in Croatia have the characteristics of hypermarkets – for example, *Kaufland*[13], *Billa*,[14] *Konzum*[15] and *Plodine*[16] – which have a wide range of fresh and frozen food products, household necessities, electrical appliances, glass products, cosmetics, shoes, clothes and so on.

Retailers of products for personal and household use operate in specialty stores, department stores, big stores and discount stores. Specialty stores are small stores whose sales programme is based on several product lines, with each product line offering a large number of products. Specialty stores also provide auxiliary services such as advisory services and finishing/altering services for bought products. These stores offer product lines such as those linked to clothing, footwear, household furniture or electrical appliances. Prices in specialty stores are higher but are justified by a higher level of service and a limited range of products on sale. People shopping for a specific product for personal use or household use go to specialty stores.

A department store is a retail store that has a wide range of product lines ranging from toys, clothes, footwear, sporting apparel and equipment to household products and necessities. Product lines are situated within separate departments that are physically divided from one another and are managed by experts specializing in individual products or consumer needs. While the size of a department store is not especially large, it is nevertheless larger than a specialty shop.

Big stores offer a broad sales programme of products at prices that are lower than those in department stores or specialty stores. Within the broad sales programme, only several types of products are sold. Because the main aim of these stores is to offer products at lower prices, products sometimes do not have the quality expected. On the one hand, low prices attract new ultimate consumers, but on the other hand, lower quality does not encourage a repeat buy by a part of the ultimate consumers.[17]

A large number of consumers in search of low prices prefer discount stores. Low prices are the main attribute of such stores. These stores offer a large number of product lines but with a limited range of products within individual product lines. Usually, in these stores, an entire logistics package must be purchased. This means a consumer cannot buy one or two bars of soap but must buy an entire package of 10 bars of soap. A feature of discount stores is that they always have low prices, not just occasionally, as is the case with other types of retail stores. While the difference between the procurement price and selling price is very small, a large turnover ensures that the discount store will perform successfully.

The third group of retailers comprises non-store retailers – that is, retailers that do not operate through a point of sale. Non-store retailing includes retailers that sell via catalogs, the television, vending machines, by mail and door to door.

Catalog selling involves sending catalogs to the home addresses of potential ultimate consumers. Catalogs can be printed or they can be in electronic form on a website or sent via email. Ultimate consumers can order the products displayed in these media either by mail, telephone or online. [18]

When retailers sell via the television, they demonstrate their products in a TV spot. If ultimate consumers are interested in the product, they can purchase it by calling the phone number displayed during the spot.[19]

The use of vending machines is a method of retailing that has several advantages for the end consumer, specifically, the product is on sale every day, 24 hours a day, and in suitable locations. Disadvantages include the limited number of products that can be sold in vending machines, and the somewhat higher prices resulting from the cost of upkeep and hiring workers to ensure the machines are always stocked.

Door-to-door selling is a developed form of retailing in many countries. Products sold door to door range from cosmetics and home décor to vacuum cleaners and so on.

Mail-order selling involves posting letters and/or pamphlets to the home addresses of potential end consumers. Motivated end consumers respond by calling a certain phone number or by expressing their interest in the form of a return letter. Insurance policies, books, journals and tourist trips are usually sold in this way.

Dynamics of retailing. Due to influencing forces in the macro and micro marketing environment, the retail business is constantly and rapidly changing. New retailers that build their competitive advantages on new bases are entering the retail trade, while old retailers incapable of adjusting to changes in the retail environment are forced to leave.

As a rule, new retailers enter the market with lower prices, the same competitive advantage that their predecessors had. These lower prices result from a lower level of services provided and, accordingly, from lower operating costs. Over time, however, as these retailers begin to raise the level and number of services provided, their performance begins to drop. This, in turn, opens up opportunities for other new retailers to enter the market with lower prices and gain a competitive advantage.

The late 20th and early 21st century brought about changes within the retail trade. These changes can be summarized in three events. The first is linked to the expansion of large exclusive stores selling prestigious clothing and other products by well-known producers, such as *Nike*, *Louis Vuitton*, *Gucci*, *Lego* and others. The second event is the expansion of chain stores selling products at lower prices, such as *Mercator*, *Mercatone*, *WalMart* and *Sears*, which have branched out all over the world. The third event is related to the development of retailer brands that are capable of winning ultimate consumers in two opposite market segments – the market segment of high-priced products and the market segment of low-priced products.

20. PHYSICAL DISTRIBUTION

20.1. Concept of physical distribution

Physical distribution is directly linked to distribution channels. It consists of the planned movement of raw materials and manufacturing materials from one organisation to another, as well as of finished products to consumers.

Being a component part of any distribution system, physical distribution is present in the operations of manufacturers, wholesalers and retailers. The purpose of physical distribution is to deliver a product at the right time and to the right place without damage. In addition to delivering products to consumers, physical distribution also involves ensuring the flow of information needed for making business decisions relating to distribution.

Physical distribution is particularly important in the B2B market where consumers are organisations. In this case, the timely delivery of raw materials, manufacturing materials or certain auxiliary materials in the right quantities is vital to the production processes of B2B consumers and to their overall operations.[20] This is why many manufacturers choose to develop their own physical distribution system. Such manufacturers have the knowledge and equipment needed to avoid situations that could lead to stoppages in their production processes.

Physical distribution is especially important to the wholesaler because the wholesaler is located in the middle of the distribution channel, between the manufacturer and the retailer, as the consumer. To this end, wholesalers build physical distribution systems that enable them to monitor and manage the flow of products from the manufacturer to the consumer.

Retailers may also choose to develop their own physical distribution systems because they need to ensure sufficient quantities of goods in stock and see to the warehousing of products and transportation of products to ultimate consumers.

Physical distribution is actually a process by which a product is moved from the place of its production to the place of its consumption. This movement of products from place of production to place of consumption has its starting point in the goals an organisation seeks to achieve, the knowledge it must master, and the resources it must secure. Physical distribution has two primary aims: **to cut the cost of delivering products to consumers and to enhance the level of consumer satisfaction**. Physical distribution achieves these aims by performing a number of functions, the most important being warehousing, inventory management (inventory control) and transportation. To be able to successfully accomplish the goals of physical distribution and enhance consumer satisfaction in the distribution channel, an organisation must be knowledgeable in order processing, product handling, warehousing, inventory management and transport.

20.2. Physical distribution process

Successful physical distribution is linked to a management process based on **defining goals** to be accomplished, developing the ordering process, managing inventory, organizing transportation, and controlling and evaluating the results achieved.

The primary goals of physical distribution (cutting the cost of physical distribution and enhancing consumer satisfaction) are conflicting goals. Typically, a cutback in distribution costs means the level of consumer services (and hence, satisfaction) will also drop and, vice versa, a higher level of services in physical distribution entails an increase in distribution costs. This presents a challenge in being able to strike the right balance between these two goals.

Consumers will be more satisfied if a product is delivered on time, if a system is provided that can help them monitor the movement of the product at any given moment and see where the shipment is located, if the promises of the distributor are fulfilled, and if the product reaches its destination undamaged.

The second stage in the physical distribution process is **order processing,** which involves receiving orders, passing on information about orders, and delivering the products required. Order processing begins with the receipt of an order from a client. The order is passed on to be fulfilled either by having the required product manufactured and/or products in stock prepared for delivery. The order processing stage ends by preparing the documents that will accompany the products and by organizing the storage of the product or its delivery to consumers.

Product warehousing serves to compensate for the time gap between production and demand in the market. A number of functions are performed in the warehouse with products, including products being entered into stock, identified, labelled, sorted according to specific criteria, held in stock to ensure they are available when the need arises, retrieved from stock, arranged and prepared for delivery, and delivered.

Products are prepared for delivery to consumers based on orders received. The products ordered are retrieved from stock, packed, and prepared for delivery to consumers. Today, sophisticated means are used for transportation, such as pallets and containers. The products are picked and then packed in appropriate packaging and loaded on pallets or into containers.

The next stage is **inventory control or inventory management**. Inventory management is necessary because storage costs put considerable pressure on an organisation’s operations. Inventory management ensures the regular flow of products according to the requirements of consumers. The aim is to reduce storage costs while ensuring a rapid response to consumer needs. It is also important to know when and in what quantity to reorder a product. The optimum level of quantities in stock needs to be determined. Just-in-time (JIT) is an alternative to holding and managing stock. JIT is a process by which products are produced only in the quantities needed. In this way, storage costs are kept at a minimum. The JIT system is suitable in situations where demand is stable and predictable.

The final stage of the physical distribution process involves **transportation**. Transportation is particularly important because of its impact on the total cost of physical distribution. The means of transportation required must be carefully selected. Selecting the right means of transportation helps to raise the level of physical distribution services and, in turn, to enhance consumer satisfaction. There are three basic forms of transportation – land, water or air. The modes of transportation by land include railways, motor vehicles and pipelines. Air freight is organized in aircrafts, and water transportation (on the sea, lakes and rivers) is handled in water vessels. Each of these modes of transportation has its advantages and its shortcomings.

The final stage of the physical distribution process is about evaluating and controlling the decisions made and activities undertaken in processing orders, handling and storing products, managing inventory and organizing transportation. In the **evaluation and control stage**, the results achieved are compared with the objectives set for physical distribution. The most common indicator that measures whether objectives have been accomplished refers to the time needed to carry out a specific activity within the framework of physical distribution. Any deviations should be rectified, regardless of whether this pertains to making corrections to activities to improve poor results or making corrections to goals that were overambitious.

21. TRENDS IN DISTRIBUTION

21.1. Trends in distribution channels

Sudden and rapid changes affecting distribution may occur in an organisation's environment. Organisations are exposed to turbulent changes caused by a scientific and technological revolution focused on reindustrialisation and the introduction of IT in operations, overall resulting in radical changes in wholesaling. Processes of economic and political integration and regionalisation are also present. This implies the existence of new, influencing environments that impact the economy and how relationships within distribution are regulated. Many new organisations are entering the marketplace, international competition is growing, markets are shrinking, and consumers are becoming increasingly discerning. These and other changes have a powerful impact on distribution and on the need to modify distribution channels.

Distribution is also affected by changes in the seller-consumer relationship as a result of new consumer attributes and consumer behaviour. This implies new relationships in distribution both in the B2C market and in the B2B market. In these new conditions, consumers remain loyal only to the offering that fully satisfies their needs and wants. This is where distribution takes over a key role. Loyal consumers are willing to pay more for the added value they receive in wholesaling as a distribution channel, such as repair services, consulting services, the availability of spare parts and new-for-old replacement.

Where B2C products are concerned, the seller, regardless of whether it is a manufacturer, a wholesaler or a retailer, seeks to demonstrate its dedication to consumers by providing them with detailed information about the offering, promptly fulfilling their demands, and delivering the product at the time and place most convenient to consumers. Consumers respond by becoming loyal to the seller, rather than to the brand, as was the case until recently.

Delivering value and developing consumer loyalty gives rise to the need for developing consumer knowledge. It is imperative to understand how consumers behave and respond; to recognize their expectations, needs and wants; and to know their other attributes. A systematic approach is required and the opportunities provided by information technology today make it easier to collate and use consumer knowledge. Indeed, modern information technology and its broad application have made it possible to treat consumers as individuals, rather than as part of a formless whole.

On the business market, seller-consumer relationships are based on partnerships.[21] **Partnerships** are built on common goals of members in the chain – from manufacturers to merchants and consumers in the B2B market. Partnerships enable organisations to forge closer contacts and to share the future together. Hence, where their goals are concerned, organisations are shifting from a short-term perspective focused on increasing sales to generating profit in the long term. In building partnerships, it is essential to know and monitor the progress of partners, particularly in wholesaling. One way to do this is by creating databases and systems for analysing partners.

The changes confronting wholesalers motivate them to seek solutions that involve reducing the number of members in a distribution channel and cutting distribution costs. In this, the development of computer technology, software programmes and the Internet have a crucial role. To a large degree, new technologies used in distribution systems are changing relations within wholesaling that were predominantly under the control of manufacturers. New technologies help to create consumer databases, analyse demand, manage the process of entering and warehousing raw materials and manufacturing materials, and monitoring the movement of products from manufacturers to consumers using bar codes and sophisticated electronic solutions.

Distribution is becoming increasingly **sophisticated** with the use of new solutions ranging from electronic data interchange (EDI) and e-information across e-transaction and e-commerce to e-business.

EDI is the automatic exchange of standardized data between regular business partners. EDI helps to save time, cut the cost of data processing, and minimize the possibility of human error.

The development of Web technology has made it possible for organisations to use e-information. The e-information concept has led to the development of business operations in which products can be procured (purchased) directly from the Web pages of sellers (e-transactions). This has opened up a new distribution channel and paved the way for e-commerce. Following in the steps of e-commerce is e-business, which integrates consumer demands into a manufacturer's internal (production) operations in real time.

The above is a clear indication of the prevailing influence of technology on change and the need to adapt distribution channels. Consumer expectations are growing parallel with the development of technology, resulting in new behaviour matrices linked to extranets, portals and the digital marketplace.

Extranet is a behaviour matrix on the business market in which one consumer is connected with a small number of suppliers. Extranet emerged in the late 20th century with the purpose of reducing procurement costs and accelerating and improving the procurement process. This involves additional efforts on the part of the supplier to ensure just-in-time stock replenishment and improve the procurement system. In this way, extranet encourages the integration of an internal management system of sellers and consumers.[22]

Portals are developed in situations in which a consumer has many suppliers and, vice versa, when a seller has many consumers. There are two types of portals. The first type of portal integrates the input side of an organisation, thus integrating the catalogs of several suppliers in one so-called universal catalog.[23] The second type integrates the output side of an organisation, thus integrating the relationship with partners buying its products.[24]

Setting up a portal requires considerable resources and experience, which many organisations lack – in particular, small organisations. In response to this limitation, a third behaviour matrix has emerged that brings together suppliers and consumers in real time in the same online market, thus setting up a virtual or digital marketplace. The digital marketplace is characterised by the transparency of operations and rich databases of the procurement market and sales market.[25]

What is special about the digital marketplace is that it brings together several business activities, such as steelworks, the paper industry, the chemical industry, advertising, civil engineering, medical equipment and several more thousands of such markets.[26]

21.2. Trends in physical distribution

Physical distribution should be approached as a whole, rather than as the realization of individual physical distribution operations. Through physical distribution, organisations seek to enhance their performance by combining various modes of transportation on land, sea and in the air. The combination of two or more modes of transportation helps to minimize the drawbacks of one mode and to capitalize on the advantages of the other mode. The most frequent combinations include railway and road transportation, road transportation and water carriage, and road transportation and air freight.

The development of technology has a powerful impact on physical distribution – in particular, product-tracking technologies and communication technologies.[27] In addition to the flow of products, physical distribution is also concerned with the flow of information. Most types of communication involve paperwork and sending documents in paper form, which considerably hinders and holds back the flow of information. For this reason, a system known as the International Forwarding and Transportation Message Framework (IFTM) has been developed at the international level to enable electronic communication between sellers and consumers.[28]

As physical distribution continues to develop, the relationships between consumers and organisations providing physical distribution services will increasingly be based on partnerships. To improve relations between partners, organisations engaged in physical distribution seek to continuously innovate their activities and compare their performance to competitors.

SUMMARY

Distribution comprises distribution channels and physical distribution and ensures the delivery of value to consumers. Distribution activities are carried out by many operators within the framework of wholesaling, retailing and physical distribution, and the way these operators work has undergone considerable modifications brought about by technological development – in particular, the Internet and mobile telephony.

An entire array of distribution activities are needed in transferring the ownership of products and delivering them to consumers. These activities are carried out through direct or indirect distribution channels, which involve a number of members. The purpose of a distribution channel is achieved through the transactional function, the logistical function and the facilitating function performed by intermediaries. Wholesalers and retailers are intermediaries that take ownership of products, while agents and brokers are intermediaries that do not. The importance of wholesaling is linked to its role in ensuring place utility, time utility and possession utility. The functions of wholesaling involve assembling the offerings of several manufacturers, warehousing products, regrouping products and transporting products to consumers. In selling to end consumers, retailers perform several functions, the most important of which are tied to procuring products, providing information to end consumers, warehousing, carrying out final transactions, and providing additional services for the purpose of enhancing consumer satisfaction and developing loyal end consumers. The purpose of physical distribution is to deliver products to the market and ensure feedback from the market. Physical distribution is linked to a process based on defining goals to be accomplished, developing the ordering process, managing inventory, organizing transportation, and controlling and evaluating the results achieved. The distribution system is becoming increasingly sophisticated with the use of new solutions ranging from electronic data interchange (EDI) and e-information across e-transaction and e-commerce to e-business, which help organisations create consumer databases, analyse demand, manage the process of entering and warehousing raw materials and manufacturing materials, and monitor the movement of products from manufacturers to consumers. All of this is bringing far-reaching change to the market, which was up till now predominantly controlled by manufacturers.

CRITICAL THINKING QUESTIONS

1. Explain the flow of information in a distribution channel.
2. A distribution channel has three primary functions. Discuss each function and provide examples.
3. What is the basic difference between a distribution channel for B2C products and a distribution channel for B2B products? Explain this difference.

4. The importance of wholesaling is linked to its role in ensuring place utility, time utility and possession utility. On the example of a specific wholesaler, explain how the wholesaler goes about ensuring each type of utility.
5. The role of wholesaling is performed through a number of functions. While some wholesalers carry out most of the functions, others have become specialized in only a few functions. Which are the most common functions of wholesaling? In your opinion, what functions are performed by almost every wholesaler and what are performed by only a few?
6. We can distinguish between two basic groups of wholesalers: wholesalers that operate independently and wholesalers that operate as a component part of a manufacturer or a retailer. In your opinion, from the manufacturer's perspective, what are the advantages of the first group and what are the advantages of the second group?
7. The dynamics of change in the environment determine the performance of organisations. Change is the result of the impact of many forces in the macro and micro marketing environment. Explain how certain trends in recent years have affected the way wholesalers operate.
8. Retailing is about selling products to ultimate consumers. Why is retailing important and what functions does it perform?
9. The basic functions of a retailer involve procuring products from manufacturers to sell to ultimate consumers, ensuring information, effecting payment for products, ensuring product storage and price marking, and carrying out final transactions with ultimate consumers. Which of these functions would you say are the least important? Why?
10. Providing information to ultimate consumers about the attributes of a product, its price, quality, function and mode of use are some of the activities that retailers perform for ultimate consumers. How important is this function to you, as an ultimate consumer, depending upon the life cycle stage of the product?
11. Analyse the differences between food retailers, retailers of personal and household use products and non-store retailers.
12. Physical distribution is particularly important on the B2B market in which organisations are the consumers. Elaborate.

13. The two primary goals of physical distribution involve cutting the costs of physical distribution and enhancing consumer satisfaction. These, however, are conflicting goals. How would you go about striking a balance between the two goals?
14. The process of physical distribution is carried out through several stages. Describe these stages. Do you think it could be possible to change the order in which certain stages are carried out?
15. Certain trends are present in physical distribution, just like in every other area. State several trends. Can you predict some future trends?

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3. http://www. sciquest.com
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5. http://www. bidcom.com
6. http://www.neoforma.com
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11. http://www.konzum.hr/
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NOTES

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[6] Wilson, R.M.S., Gilligan, C.: *Strategic Marketing Management*, Elsevier Butterworth-Heinemann, Burlington, 2005, p. 530-532

[7]For example, daily newspapers, such as *Novi list* (http://novine.novilist.hr), and other products, such as *Kraš* chocolates (http://kras.hr), for which there is mass demand need to be distributed to a huge number of sales points, ranging from vending machines, newsstands and petrol stations to supermarkets and hypermarkets.

[8] Christ, P.: *Know This: Marketing Basics*, Knowthis Media, Blue Bell, 2009, p. 163 -182

[9] For example, Assael sees wholesaling as the main link in the chain along which products and services move from manufacturers to consumers, Assael, H.: op. cit., p. 520.

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[17] For example, *Metro* is a firm that sells products for the household at affordable prices, which attracts many ultimate consumers, http://www.metro.hr

[18]*Quelle* is a firm that mails its catalog to numerous addresses throughout Croatia, and the consumer response is quite large, http://www.links.hr/

[19] The firm Bestseller TV performs very well on these bases, http://www.bestsellertv.com/

[20] For example, if the company supplying metal sheets to *Shipyard 3. Maj* fails to deliver the metal sheets on time or in the quantities required, this could cause a substantial delay in the shipbuilding process. Any delay in delivering the vessel to the ship owners could result in the payment of penalties, which are exceptionally high, http://www.3maj.hr/

[21] Drummond, G., Ensor, J.: *Marketing, Planning and Control*, Butterworth-Heinemann, Oxford, 2001, p. 223-233

[22] According to the Forrester Research Institute, the number of firms that have extranet and procure products through the Internet is constantly growing http://www.ism.ws/ISMReport/Forrester/FROB042003PR.cfm. Since 2000, the Forrester Research Institute has been studying the development of e-business on a regular three-month basis.

[23] For example, *Ford* communicates with about a million suppliers each year. To make business simpler, it has introduced the so-called FSN system (Ford Supplier Network), http://www.fsn.ford.com

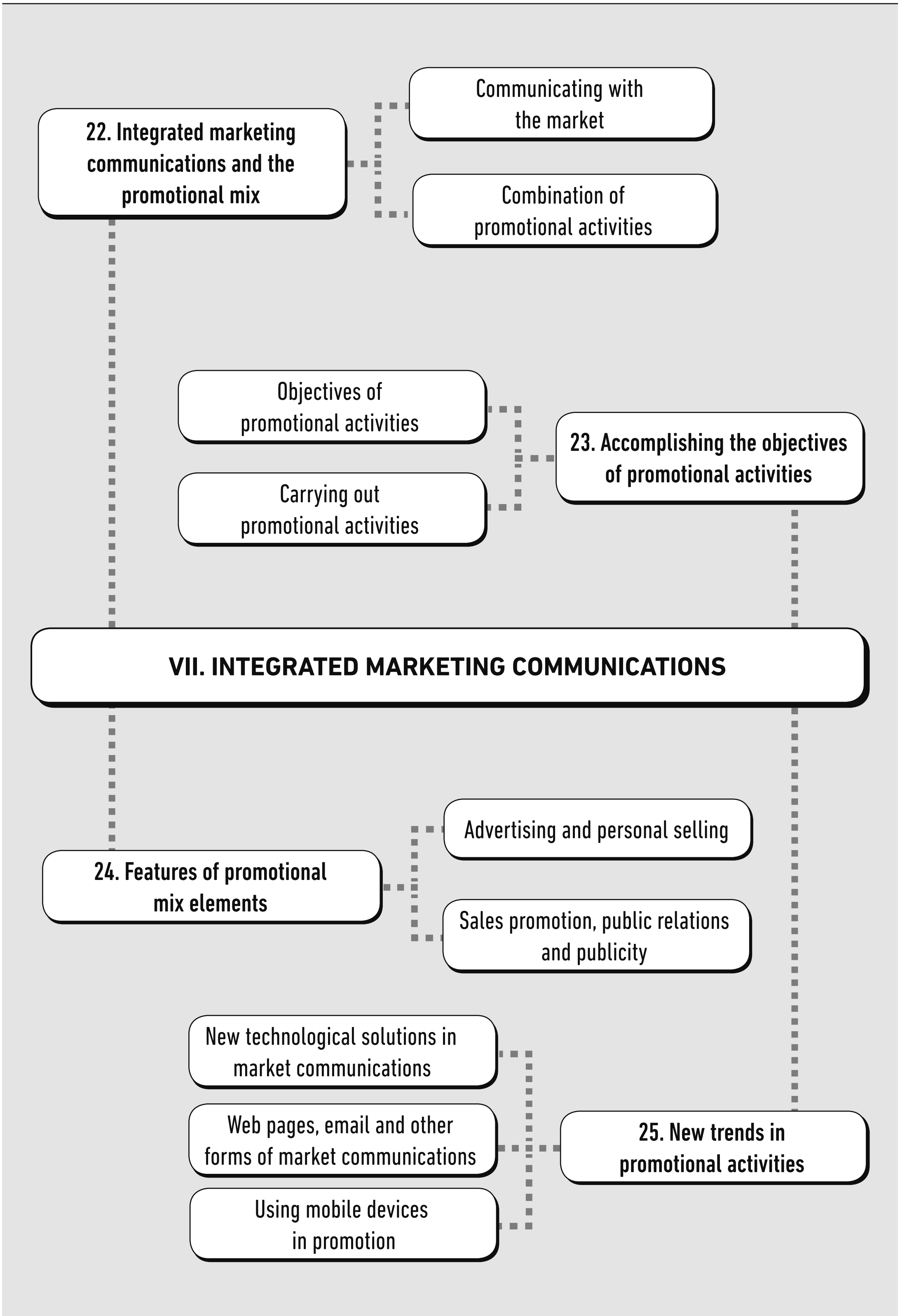
[24]For example, *Dell* has managed to cut sales costs by automating procurement and the stock replenishment process for consumers based on online shops that are open 24/7, http://www.dell.com

[25] For example, *Choice Hotels International Inc.* is a franchiser. It recommends that its franchisees managing individual hotels buy from tested and preferred suppliers. The company has developed a digital marketplace known as *ChoiceBuys.com* that brings franchisees in touch with select suppliers of a variety of products and services, http://www.hotelchoice.com

[26] Steelworks (http://www.e-steel.com), the paper industry (http://www.paperexchange.com), the chemical industry (http://www. sciquest.com), advertising (http://www.adoutlet.com), civil engineering (http://www. bidcom.com), medical equipment (http://www.neoforma.com) and several more thousands of such markets.

[27] For example, physical distribution can be carried out with the help of satellite-based tracking systems that monitor the movement of products from one destination to another in several ways, including EDI (electronic data interchange), which uses laser scanners to read bar codes and stores data in computers to be used in managing physical distribution; with the help of voice recognition systems; and with the help of electronic data exchange in which computers automatically receive orders and pass them on, http://www.edibasics.co.uk/what-is-edi/

[28] The IFTM system is continuously updated and improved. Essentially, it replaces conventional paper documents with electronic documents relating to orders, delivery and payment. Seideman, T., Worldwide Messaging Standards Inch Closer, Journal of Commerce, 17 February 1989, 1A.2A.


22. Integrated marketing communications and the promotional mix
Communicating with the market
Combination of promotional activities
Objectives of promotional activities
Carrying out promotional activities
23. Accomplishing the objectives of promotional activities
VII. INTEGRATED MARKETING COMMUNICATIONS
Advertising and personal selling
24. Features of promotional mix elements
Sales promotion, public relations and publicity
New technological solutions in market communications
Web pages, email and other forms of market communications
25. New trends in promotional activities
Using mobile devices in promotion

VII. INTEGRATED MARKETING COMMUNICATIONS

Without market communication, that is, the transfer of messages between manufacturers, sellers, and consumers, organisations cannot expect to perform well. Market communication is a process that should be adjusted to meet the expectations of consumers. To this end, integrated marketing communications (IMC) was developed to coordinate all promotional activities aimed at developing unique messages based on consumer wants.

Promotional activities are those activities carried out by supply providers to inform, persuade, and remind consumers about an organisation, its offerings, and its activities. Communication between supply providers and consumers (B2B or B2C) happens via promotional activities such as advertising, personal selling, sales promotion, publicity, and PR. The following chapters examine the features of promotional activities usually combined to produce a promotional mix (Chapter 22), explore the objectives of such promotional activities and how they are realized (Chapter 23), describe the features of marketing mix elements (Chapter 24), and discuss new trends in promotional activities (Chapter 25).

Objectives

After you have studied Part Seven, you should be able to:

- Analyse the market communication process
- Discuss integrated marketing communications
- Identify the basic features of an effective promotional mix
- Understand the functions of promotional activities

- Understand how marketing activities happen
- Analyse the characteristics of advertising
- Recognize the difference between advertising a product and an organisation
- Understand the role of personal selling
- Describe the types of personal selling
- Understand the basics of sales promotion
- Describe the types of sales promotions
- Describe the characteristics of public relations (PR) and publicity
- Identify different PR instruments

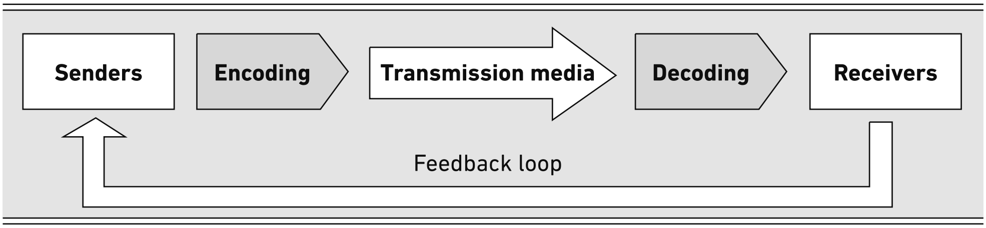
22. INTEGRATED MARKETING COMMUNICATION AND THE PROMOTIONAL MIX

22.1. Communicating with the market

Communicating with a market involves a sender (the manufacturer), a message (encoding), and a variety of media used to transmit a message to a receiver (the consumer) who then decodes that message and responds to it.[1] Feedback indicates that the circle of communication is completed when the receiver/consumer acts on the received message and begins the buying process. It is, however, possible that the consumer fails to act on the message because it was not understood or the message failed to trigger a response even though the receiver got and understood the message. A message is effective when it gains the receiver's attention, achieves understanding by both parts in the communication process and stimulates the receiver's positive reactions (Figure 21).

Communication between a sender and a receiver is possible only when the message is clear and understandable to those who will receive it. That is why the sender must translate the message into a series of signs, images, words, and sounds. In other words, the sender must encode the message. Encoding uses symbols that are acceptable and clear to the target audience or the receiver, regardless of whether that audience is either B2C consumers or B2B consumers.

Figure 21 The communication process in the market



These encoded messages are then transmitted via diverse media to target groups, that is, to receivers of the intended message. The most commonly used media for this purpose are the radio, television, daily newspapers, flyers, jumbo posters, and City-Light posters and columns.

Receivers may be individuals, groups of people, or organisations that the sender's message wishes to target. Each receiver decodes the message and interprets it individually.

For a message to be successful, it must catch the attention of the receiver, be understood, and trigger the receiver to act, that is, buy the product. These key moments are incorporated into what is called the AIDA model (Attention, Interest, Desire, Action).[2]

Ultimately, the communication process ends in some kind of feedback, that is, a response by the receiver. This response can be an interest shown in a product, a growing desire to buy a product, or actual purchasing of a product. The receiver can also respond by not acting on the message at all, that is, by showing no interest or desire to buy the product that was promoted. In this case, new activities are needed to modify the message or change the media or even change the product target group or in some cases the product itself.[3]

Integrated marketing communication (IMC) sees promotional activities as a single entity that is used to inform consumers and potential consumers about products, a brand or an organisation as its seller. Regardless of the type of media, IMC helps send a unified and consistent message. A non-integrated approach to communication will leave consumers confused and thus disinterested.[4] [5]

As the name suggests, integrated marketing communication integrates several promotional activities necessary to communicate with consumers.[6] These promotional activities make up the promotional mix that is explained in the following section.

22.2. A combination of promotional activities

For IMC to be successful, marketers must be knowledgeable about consumers and their needs, preferences, and behaviours during the buying process. Without that knowledge, it is impossible to design a good message or achieve the results expected. A lack of knowledge about one’s consumers will result in “noise” (interference) and also confused consumers. Not only is IMC based on precise knowledge about consumers; it also sees as imperative clear coordination of promotional activities and the need to send messages through one promotional activity and media that can support messages sent via other promotional activities and media.

Deciding on a promotional mix – a combination of promotional activities – is a complex process because of the interdependency that exists between promotional activities, the **synergistic effect** of various forms of promotion, the complexity of the relationship between the promotional mix and the marketing mix, the impact of the macro marketing environment, and the impact of the micro marketing environment.[7] There are several factors from the macro environment, such as politics, economics, social factors and technology, and some from the micro environment, such as employees, shareholders, consumers, creditors, intermediaries, suppliers, residents, distributors, competitors and others, that have impact on promotional mix decisions.

Choosing and combining promotional activities is neither a simple nor an easy task. Selecting such activities is made all the more difficult because only a winning combination will result in the right synergistic effect. How we choose and combine promotional activities also depends on the type of product (a B2B or B2C product) and specific consumer characteristics, current business conditions, and other influences such as the transition trend from customer services to customer relations, the explosion of online communications, as well as information source credibility.[8]

A promotional mix is a combination of two or more promotional activities. The following section examines promotional mix as a combination of four promotional activities used to persuade loyal and potential consumers to buy a product being promoted or cooperate with a specific business. The activities of this promotional mix are advertising, personal selling, sales promotion, and public relations/publicity.

Advertising is a paid form of communication delivered to the general public. It is carried out on a non-personal basis through a variety of electronic and printed media. In personal selling, the sales staff communicate with potential consumers and promote products. Sales promotion involves communication activities to stimulate sellers, intermediaries, and consumers to increase product demand. Public relations (PR) is a promotional activity not directly focused on consumers but rather on the public outside and within an organisation, while publicity is a form of unpaid communication to the public from a variety of media that focuses on the activity of a specific business or the attributes of a particular product.

23. ACCOMPLISHING THE OBJECTIVES OF PROMOTIONAL ACTIVITIES

23.1. Objectives of promotional activities

Although the objectives of promotional activities can be many, the most important are providing information, differentiating the product, increasing product demand, stabilizing sales, and accentuating the value of the product.

Potential consumers are given the **information** about the attributes, advantages, quality and other values of the product being promoted. Information is offered when entering a new market where consumers are not familiar with an offering or when an organisation is competing in a market with new products.[9]

In the contemporary environment, organisations gain competitive advantage primarily through **product differentiation**. This differentiation is based on either a physical or a psychological characteristic unique to the product concept. Product differentiation on a psychological basis is also achieved through promotional activities.

Any **increase in demand** can be seen as either an increase in primary demand or an increase in secondary demand. The promotion of primary demand is done by taking a broader approach that involves the general category of that product. The promotion for selective demand, the more common instance, refers to promotion of a very specific product brand.

Sales volumes are not distributed evenly over a year, thus often interfering with cash flow and causing other disruptions in business operations. Promotional activities will seek to **stabilize sales** and mitigate any cyclical and seasonal sales asymmetry.

Promotion helps accentuate the value received when a consumer buys the promoted product by highlighting that product’s attributes that contribute to enhancing consumer satisfaction. In some cases, this enhancement is product quality, while in others, certain post-sales services, such as repair services, warranty, and the availability of spare parts can be significant.

23.2. Carrying out promotional activities

To achieve the objectives of promotional activities, organisations have three approaches they can use. The first is linked to the push strategy; the second, to the pull strategy; while the third and most commonly used is a combination of both strategies.

The **push strategy** is used to carry out promotional activities where a product is promoted only to the next member of the distribution channel. In a distribution channel consisting of a manufacturer, wholesaler, and retailer, the manufacturer will use the push strategy to promote its product only as far as the wholesaler. The wholesaler then promotes the offering to the retailer and, in turn, the retailer promotes the same offering to the consumer. The movement of the product and the push strategy will have the same direction, i.e., from manufacturer to wholesaler, from wholesaler to retailer, and from retailer to consumer.

Unlike the push strategy, the **pull strategy** promotes a product directly to the consumer. The purpose here is to generate demand in the market. Triggered by a manufacturer's promotional activities, the consumer then requests the product from the retailer. To satisfy the consumer, the retailer requests the product from the wholesaler; and the wholesaler then from the manufacturer. The movement of the product – from manufacturer to wholesaler, from wholesaler to retailer, and from retailer to consumer – goes in the opposite direction of the pull strategy. The pull strategy generates demand transferred backwards in the distribution channel, from the retailer across the wholesaler to the manufacturer. With this approach, manufacturers largely use advertising and sales promotion tools.

A combination of both approaches is commonly used in business practice and combined in different ways. A number of factors, such as type of product, type of consumer, and type of competition, influence whether the first approach, the second approach or a combination of both approaches is chosen. Promotional activities are carried out via advertising, personal selling, sales promotion, and PR/publicity. These are discussed in the following sections.

24. PROMOTIONAL MIX ELEMENTS

The elements of a promotional mix are advertising, personal selling, sales promotion, public relations, and publicity. Each has it special features that when taken together inform, persuade and remind consumers about the offerings available to them.

24.1. Advertising and personal selling

Advertising is a paid, non-personal presentation of information to a large number of consumers using the mass media. Similar to other activities within the promotional mix, advertising increases demand by presenting a product or an organisation to potential consumers. Advertising has three basic functions: to **inform**, to **persuade**, and to **remind**.[10] However, advertising to provide information is not suitable for every business or for every product.

Advertising with an informative function is mostly used when introducing a product to the market. Once that product is introduced, another kind of advertising is needed, one that encourages consumers to choose this specific product over similar products from rivals. Advertising designed to persuade is most often used during the mature stage of a product's life cycle. This advertising is also called *brand advertising*. In addition to informing and persuading consumers, brand advertising reminds consumers of a product's existence in the market and reassures them that they have made the right choice by buying this specific product.

In addition to informing, persuading and reminding consumers, advertising also has another very important task that is linked to adding value to a product via image creation and ensuring psychological and emotional satisfaction by owning or using that product. In this way, advertising helps to enhance the positive perception of product quality and position the product by making it appear different and better than rival products. It is in this way that advertising enables and/or supports the efforts of an organisation to gain and sustain competitive advantage.[11]

Advertising helps build loyalty toward a product, a seller, or a manufacturer because it encourages the consumer to purchase the same product or products again from the same manufacturer or the same seller. This is how loyalty to a product, manufacturer, or seller is built.

Advertising provides support to personal selling because consumers will decide to buy a product sooner once they have heard or seen details about the product somewhere before. This aspect is especially evident in the B2B market where familiarity with a product and/or an organisation opens doors to new/further business negotiations and the beginning of the actual purchasing process to obtain B2B products.

Advertising falls into two categories: **product advertising** and **business advertising**.

Product advertising focuses on promoting a product. Taking into consideration a total product concept, this advertising means promoting a physical product, as well as a service, place, person or idea. Through advertising, organisations strive to attract new consumers and retain former customers to increase demand.

Advertising an organisation means promoting that business using messages that build consumer perception. One should distinguish between advertising that encourages consumers to bond to a certain organisation, advertising that builds an organisation's image, as well as advertising that facilitates a favourable public opinion.

Advertising is based on a **message**. To create a good message, the persons who decide on its content must be creative. It is this dimension that separates advertising from other kinds of promotion. When designing a message, we should carefully apply certain rules for the usage of text, illustrations, sound and colour.

A message can be designed to attract attention to a specific product, be easy to remember, provide product information, deliver emotional content, be humorous, eliminate fear, use comparison with competitors, show a representative of the market target as the central person in the message, contain product testimonials, display animated films, and be similar in size and content to other texts featured in newspapers or magazines or on television.

With printed messages, both text and design of the message are key. The headline of a message, however, is the most important part of the message because it is most often the only part of the advertising that the consumer reads.

When electronic media, such as radio and television, are used for advertising, the message will have certain specific features. A radio message is short and simple and can have greater effect when repeated a number of times. A TV message, on the other hand, has an audio and visual effect, with greater emphasis placed on its visual effect.

The chosen message will reach the consumer in the target market when the media used is selected using three criteria: range (the number of different people exposed to the message), frequency (the number of times exposed to the message), and influence (the power of the media to present the message).

The most important **media** are print media, including daily, weekly, monthly, and other printed material; and electronic media, i.e., radio and television.[12] Mail advertising is also important, although technological advancement has produced new media, such as the Internet and mobile telephony. The main characteristics of newspapers are large numbers of readers, flexibility, and inexpensiveness, as well as a high level of selectivity, the ability to specialize, and a longer "life-span" of the advertising because it can be reread. Newspapers can be either dailies or weeklies. The radio is a very old form of communication, and although it has lost its battle to television, it still remains one of the most significant of all media. One type of advertising that is gaining in popularity is outdoor advertising that uses large posters and City Light posters and columns.

The most recently evolved media – the Internet and mobile telephony – are quickly developing. It is expected that in the near future, advertising, as we know it today, will disappear to be replaced with these new forms.[13] This change will be the result of technological advancement and more market fragmentation. The market is becoming ever smaller, and mass advertising is losing the significance it once had. The future of advertising will be linked to the market niche, rather than to the mass market. Under these different conditions, new media have appeared, for example, cable television, video texting, teletexting, and advertising that appears on personal computers and mobile devices as pop-ups.

Personal selling is direct communication between a salesperson and a potential consumer, and it is one of the activities found in the promotional mix. Personal selling creates relationships with consumers, identifies consumer needs and wants, finds products to satisfy these needs and wants, and conveys precise information about the advantages of possessing that designated product.

The **basic features** of personal selling are the personal contacts that develop with consumers and the flexibility of those relationships. Personal selling is most widely utilized when selling B2B products, where organisations as consumers are the main focus of sales attention.[14]

Similar to other promotional activities, personal selling provides pre-purchase information and seeks to motivate buyers. Unlike other promotional activities, however, personal selling involves actual direct contact with the buyer. Once the transaction is carried out, the relationship between the person selling the product and the consumer does not end. Instead, the relationship continues to develop and deepen. It is this feature of personal selling that distinguishes it from other promotional activities, because during the post-purchase period, it is necessary to remain at the consumers' disposal with new information and reassure customers of the value they received by buying that product.

The other significant feature of personal selling is flexibility, which in this context means the ability of the sales staff to adapt the presentation of a product to their specific situation. This scenario becomes possible because the sales staff is in direct contact with consumers and thus able to respond to their demands promptly.

The advantage of personal selling is the possibility of negotiating during consumer contact, and even when finalizing a contract. The basic shortcoming of personal selling, however, is tied to its high cost. The general view is that personal selling is more successful when supported by other promotional activities. For example, personal selling will be more effective if supported by adequate advertising campaign and/or sales promotion, public relations, and publicity.

Personal selling takes place in the B2C market and the B2B market. In the B2C market, personal selling becomes selling to ultimate consumers. The ultimate consumer comes to a point of sale and is in direct contact with the salesperson when deciding whether to buy or not.

In the B2B market, it is the salesperson who goes to the business buyer. The buying process takes place in the consumer's business office. Other forms of personal selling have also developed in the B2B market, including telemarketing and inside selling. A special feature of telemarketing is the use of the telephone for communication, while inside selling has the same characteristics as selling to the end consumer, the only difference being that the items purchased are used for internal productive consumption.

When carrying out personal selling, the sale staff realizes that not all activities require special attention. These sales activities are **order getting**, **order taking** and **providing support to personal selling**. Most often, the sales staff carries out a combination of these activities, with one activity usually prevailing over the others. For example, the sales staff can carry out certain of the more creative activities, such as order-getting, but also some of the non-creative tasks, such as order taking. To facilitate personal selling, it can be necessary to carry out activities that also fall under the category of support for personal selling.

Order taking falls within what is called non-creative sales activities. The sales staff task is to record consumer demands and bring the purchasing process to a close. The sales staff role is passive; they wait for response from consumers. Most often, order taking is a routine process that consists of taking orders for products whose sales are routine and already known. In some situations, an alternative offering is required, which can involve elements of creativity. The aim of the sales staff is to receive the requests of the consumer and see that these requests are carried out appropriately. Order taking is carried out by the sales staff who are in direct contact with consumers or using the telephone. For example, order taking and order fulfilment are carried out in the sales departments of wholesalers or retailers. Many organisations, especially mid-sized and large ones, have automated the process of order taking and the preparation of products for delivery. Special software and suitable hardware are used for such automated order taking and responding to customers regarding orders.

Order getting is a creative activity of a sales staff that requires finding consumers, analysing their needs and wants, and finding solutions to meet these requests. The sales staff that solicits orders does so through field work or by calling on consumers. A sales staff responsible for soliciting orders is proactively dedicated to resolving consumer needs and wants, which distinguishes them from a reactive sales staff whose job it is to receive orders. The sales staff involved in order getting will be engaged in increasing sales to existing consumers, finding new consumers, and launching new products in the market. Increasing sales to existing consumers, finding new consumers, and launching new products in the market requires a sales staff to have creative skills and invest considerable additional effort in their job.

The activities that support personal selling pertain to those activities that also contribute to increasing sales and involve support that a sales staff receives from various professionals and experts organized into special teams. The structure of these teams differs from case to case and can include persons with technical, financial, technological, and other related knowledge. For example, when an information company is selling a system that includes a central computer and several dozen peripheral computers, along with the software needed to resolve management issues, then that company's sales staff will find the advice and opinions of experts from various fields very helpful. These can ranges from the IT professional who will install the system to the financial expert who will reach an agreement with the consumer about price and extended payment terms.[15]

All the activities linked to personal selling are undergoing changes. Personal selling is no longer considered a separate and independent activity but rather is now a part of a complete sales system. In the future, in many cases already here, the sales staff will not be left to work independently, but will become part of a team that works on increasing sales of products in which new technological solutions will play a vital role, in particular those solutions dealing with the Internet and mobile telephony.[16] The aim of personal selling is still to convince consumers that they will get a quality product at the right price or, in other words, buying the product will deliver to those consumers the value they are looking for. To achieve this goal, personal selling places consumer needs and wants in the centre of attention and focuses on success built on partnership relations. It implies developing consumers as loyal partners, as well as trying to sell products.

24.2. Sales promotion, public relations, and publicity

Sales promotion is a promotional activity that, when properly applied, has significant effects on increasing sales. Sales promotion includes various activities that can range from issuing free samples and prize coupons to selling three items for the price of two (the so-called three-for-two bargain), to organizing special events and other perks. These activities are carried out to stimulate and encourage consumers to buy more products.[17]

Sales promotion actually involves using a variety of techniques over a short period to encourage consumers to respond positively. It is used to **stimulate consumers to buy** products in the B2C market and the B2B market.

As a rule, sales promotion is used with other activities from the promotional mix, and very rarely alone. Sales promotion has but short-term significance, which distinguishes it from other promotional activities, in particular, from advertising and personal selling that try to build a long-lasting image of an organisation or a product. The effects of sales promotion last for a short time, and the results are immediate. A criticism of sales promotion is that it does not develop a brand or brand loyalty because free samples or coupons, for example, represent a certain value that must be used immediately while the sales campaign lasts.

Once the sales campaign has ended, free samples and prize coupons are no longer issued and thus have no value.

In certain situations, sales promotion does have long-term effects, especially when an organisation seeks to attract new consumers with whom it wishes to build longer partnership relations and product loyalty.

Sales promotion is mostly used to promote convenience products, for which consumers usually have no pronounced brand loyalty and thus are willing to easily switch.

Sales promotion is used to promote a product throughout its entire lifecycle, from its creation to its elimination from the market. During the introductory stage of the product to the market, organisations hand out free samples of the product to motivate consumers to try it. Organisations also use sales promotion to encourage consumers to purchase a product already in the mature stage of its life cycle. During this stage of the cycle, organisations will offer discounts.

The significance of sales promotion is seen in the fact that sales campaigns, carried out at the same time as sales promotion, provide retailers with additional vitality in sales outlets. Consumers are attracted by the sales promotion of a certain organisation, and their presence is likely to result in the purchase of other products due to the sales programme.

There are various types of sales promotions. They can target ultimate consumers (**consumer-oriented sales promotion**), they can be directed toward a store as the consumer (**trade-oriented sales promotion**), or they can be **sales promotions directed at other actors in the market**.

When a sales promotion targets ultimate consumers, then its aim is to inform consumers about the product and remind them that it can be found at a certain point of sale. In this way, it increases the interest of consumers in a specific product and diverts attention away from the competitor's product. The bottom line is to stimulate consumers to buy the product that is the subject of the sales promotion.

There are a **variety of tools** used in consumer-oriented sales promotions. The best known are coupons, free gifts, prizes, free samples, rebates, as well as sponsorship of sports and other events.[18]

The use of coupons is widespread for products for which consumers do not develop loyalty. Coupons are placed in printed media and on product packaging, and the consumer is stimulated to buy the product that is the focus of that sales promotion.

The free gift method is also often used. When consumers buy a certain product, they receive a free gift. As a rule, these gifts do not have great value and most often accompany the product as a gift pack or as a part of the packaging.

Contests and prizes are a sales promotion through which consumers who buy certain products can compete in games for prizes. Contests and such games give consumers a chance to win a prize – money, products, or a trip – through chance or additional effort. Contests and prize games are carried out according to previously defined rules. Consumers are motivated to buy a product that offers them an opportunity of receiving a prize. Often these prizes are of a higher value, such as flats, cars, or trips to distant destinations.

Giving away free samples is also used as a sales promotion method when a product is in its introductory stage in the market. This method allows the consumer to get to know the product, inspires curiosity, and motivates the consumer to try the product. The method is considered very effective, but also expensive, because it includes the costs of producing and distributing specially designed samples. Usually, these samples are sent by mail or distributed at sales outlets.

The rebate method ensures that when consumers buy a product at its normal price, they will receive a cash refund. The amount of money refunded is previously defined and known to the consumer in advance. The refund encourages the consumer to buy a specific product. Rebates tend to be used as a sales promotion method to increase sales, because consumers usually have to buy the product before they can get their cash refund.

In recent years, sponsoring sports and similar events has become an often used sales promotion method. By sponsoring events, organisations can reach out to their target market. Organisations will usually sponsor sports events or cultural events.

Trade-oriented sales promotion includes in-store displays, rewards to retailers, and various types of customer payment.

In-store displays seek to attract the attention of consumers. For this purpose, various marketing aids are used, i.e., billboards, neon signs, video-walls, and different types of printed matter. These aids are placed at a point of sale to create a stronger impression on the consumer. By continuously innovating its in-store displays, a manufacturer seeks to persuade retailers to use its promotional material rather than the material of its competitors. At the same time, the manufacturer seeks to stimulate consumers to purchase the product being promoted.

Rewards to retailers are various bonuses that manufacturers use to reward retailers for carrying their products. Retailers are rewarded for ordering additional quantities, for advertising the manufacturer's products, and for the way they handle those products in their sales outlets.

In return for certain services received from retailers and wholesalers, manufacturers deliver payment. These services most often involve cooperative advertising, warehousing services, and price reductions. Cooperative advertising is undertaken by retailers and wholesalers, while manufacturers cover the greater share of these advertising costs. This process is called cooperative advertising, because in addition to drawing attention to a product, it provides precise information about the seller.

Manufacturers are keen on retailers and wholesalers' having sufficient quantities of their products in stock, in particular for a new product. For this service, they will earmark funds to stimulate retailers and wholesalers to stock their products.

Manufacturers also seek to persuade wholesalers and retailers to reduce the end price of their products, and in return be compensated by getting products they do not have to pay for up front.

Sales promotion directed at other operators in the B2B market has an array of distinctive features. The methods appropriate for ultimate consumers and stores cannot be used in the B2B market. Because of the special characteristics of business buyers, trade shows are the most important sales promotion method for B2B products. The basic purpose of sales promotions at trade shows is to provide information; encourage the closing of deals; remind consumers of a product; introduce new products more quickly; provide advice and training in product preparation, usage, and maintenance; help visitors see products; boost an organisation's image; help build public relations; and help create an appealing socio-cultural atmosphere for business to succeed. At trade shows, old contacts are renewed and new ones are created, making this type of sales promotion most important.

Public relations (PR) involves activities that an organisation undertakes to help build and maintain a good relationship with the public. The activities include communication activities by which an organisation informs the public about its operations, performance, environmental awareness, customer protection policies and efforts to enhance its product quality. PR is an organisation's planned promotional activity aimed at building a positive image or downplaying or reversing a poor image.[19]

Many organisations fail to recognize the power of PR activities. As often as not, their PR efforts are not focused, resulting in a poor image of the organisation or its product. There are a number of PR instruments that organisations can use to ensure good PR, however. The most commonly used instruments include organizing press conferences, providing printed matter or publishing in journals, organizing events, creating news, and making donations.[20]

Organizing press conferences is the most widespread form of PR used. Any planned approach to the media entails keeping track, on a regular and systematic basis, of what is happening in the world of business. An organisation will then always be able to present new and interesting information to the public. Information released in press conferences may address new products, new employees or new equipment or be about an organisation's efforts to improve its operations and services in its local and sometimes extended community.

Organisations also seek to ensure good PR with printed matter wherein they can inform the public about their products and the activities they are undertaking to enhance their business operations.

Many organisations have their own PR departments that are responsible, among other things, for writing articles and publishing them in various media. It is also common practice for organisations to print yearly reports or make them available on their Web pages. Some organisations also provide the public with video recordings of their business events and performance.

In some cases, organisations will organize different events to attract the attention of the public, and during these events they will provide information concerning their offerings. Such events include workshops where new knowledge about products is conveyed, and annual get-togethers of an organisation's key personnel at which information about market trends is exchanged and new deals are concluded. Some organisations also choose to become involved in specific sports events or certain well-known cultural events.

Creating news is often the PR instrument least used by organisations. Using a variety of media, business marketers responsible for PR want to constantly keep the public informed of what is going on in an organisation. Even when there is no news, their task is to create news. The stories they develop and present to the media can be about the business, its products, or about its people, namely, its employees. Indeed, employees are an inexhaustible source for generating news that can range from news about the recipients of an innovation award to news about voluntary blood donors. The public is highly susceptible and enjoys these stories into which the attributes of a product or an organisation are often cunningly incorporated.

Donations are becoming an increasingly important PR instrument. Many organisations are becoming more aware that donations do grab the public's attention, and in addition to helping the donee, donations contribute to creating or strengthening a company's positive image with the public. Notably, some organisations, in particular, large-scale ones, annually invite requests for donations. Applications can be sent by all organisations or associations that have project proposals needing funding.

To enjoy good PR, an organisation must not only be capable of using these PR instruments; it must also know how to incorporate them into a PR management process. PR will yield the results expected only when it is viewed as a process that needs to be guided, planned, implemented, and at the end, evaluated well.

Publicity, an unpaid form of public information, is another way that an organisation can inform the public about its performance and its achievements. The key difference between PR and publicity is that an organisation directly manages its PR while it only has an indirect impact on publicity, normally in the domain of the media.

Publicity is publishing information about an organisation and its products in public information media. Such messages are not paid for by the business, making publicity a type of unpaid advertising. This process does not mean, however, that organisations take a passive stance towards the media and publicity, but rather it implies that organisations should take an active, or even proactive, approach to publicity. There are many ways that organisations can prepare and disseminate information about events related to them, including word of mouth, letters addressed to the editorial boards of various media, contacting journalists, doing interviews, etc.

25. NEW TRENDS IN PROMOTIONAL ACTIVITIES

25.1. New technological solutions for market communications

The degree of force with which **technology** today can influence and **modify relations** in the marketplace has never before been seen in practice, although technology has, throughout history, helped shape the culture of societies and impacted social change. Market relationships are today especially under the powerful influence of new technological solutions, however, among which are those related to communication, that is, the Internet and Internet applications and mobile communication. Technological development in these areas has exerted a direct influence on new trends in promotional activities, the most visible the trends in advertising and in PR.

Advertising is a paid form of information provision, the primary purpose of which is to inform, persuade, and remind the market about a product and/or an organisation, and thereby trigger and increase demand. Both the Internet and Internet applications have advanced a long way and made advertising widely accessible. Internet-based advertising, in particular, has a broad array of special features.

The aim of Internet-based PR is not to encourage buying, but rather to build trust in a product and/or organisation and create a positive mindset. The task of PR is to foster understanding, harmony, and positive thinking among the different groups with which an organisation may interact, including consumers, employees and stakeholders and also the media, financial institutions, and others. New technological solutions in marketing communication open up new conditions and relationships for generating and transmitting information, as well as for the feedback between those producing a product and those buying a product for either personal or industrial consumption.

Nowadays, the most important change in market communications is linked to the Internet. As a global network of interconnected computer networks, the Internet ensures instantaneous and decentralized communication between organisations and other actors in the market worldwide. The Internet incorporates and connects the computers of all interested parties, i.e., the government bodies of countries and organisations, that range from large multinationals to small organisations operating in local markets. It also connects the computers of persons to organisations and other persons. The Internet is spreading at an incredible pace, such that by 2014 it is expected there will be more than 3 billion people using the Internet.[21]

The Internet provides two important services: the World Wide Web (WWW or the Web) and e-mail. The Web is a powerful and very flexible Internet navigation system. To use the Web, software support for reading Web presentations needs to be installed on a computer, generally provided free of charge.

E-mail is a way of communicating electronically with Internet users who have an e-mail address with an Internet provider, for example, an ISP known as an Internet Service Provider that provides very efficient services.[22]

The Internet is useful for communicating with potential and real consumers, and there is a minimum cost for its use. The Internet is used to send and receive messages, images, video, and audio recordings, which makes it exceptionally important as a media tool for market communications, that is, for advertising and developing effective PR. It is necessary, however, to distinguish between the possibilities the Internet provides for communication among members of a specific setting (an organisation) and communication outside an organisation. The former is called the Intranet and the latter, the Extranet.

The Intranet makes it possible for persons within an organisation to communicate using the same standards as the Internet; further, the same language is used in creating Web-pages with graphics, links and text (Hyper Text Mark-up Language – HTML)[23] and/or the same browsers[24], that is, graphic interfaces that will enable easy access to documents. The Intranet is also a private computer network because it is used only within a specific organisation. It enables all employees to exchange information on work tasks. The same concepts and technologies used by the Internet are used to build an Intranet, including clients and servers using IP (Internet Protocol)[25], HTTP (Hypertext Transfer Protocol)[26], FTP (File Transfer Protocol)[27] and e-mail[28].

The Extranet is a computer network that organisations in their value chain use to connect with one another for strategic business purposes. Via the Extranet, information is made available to consumers, as well as to suppliers, distributors, and other actors in the marketplace or other authorized parties. The Extranet is, therefore, an extended Intranet network that uses Internet protocols and public telecommunication systems to share business information, tasks, or operations with external actors in the market.[29] The Extranet ensures there is controlled accessibility to an organisation's information to foster business development and/or provide education.

25.2. Web-pages, e-mail, and other market communications

The use of the Internet for market communications and promotional activities has been quickly embraced and is spreading rapidly today. The reason can be found in the advantages this form of communication provides compared to conventional market communications, such as print or media advertising, personal selling, sales promotion, and PR/publicity. Consumers are increasingly losing interest in mass forms of market communications and are focusing instead on communicating with one another to check the quality of information sources and receive knowledge.[30] Regardless of the market in which they operate, real and potential consumers today have easy and rapid access to information on a specific product, ranging from its technical characteristics, prices and format, to pre-sales and post-sales services provided by the manufacturer.

The Internet is exceptionally useful in market communications because it is inexpensive and available to a massive number of people. On the other hand, such broad access is also a drawback in communication via the Internet, because it can lead to Internet congestion which slows communication. In such circumstances, it is also difficult to measure the actual effects of Internet-based promotional activities in concrete terms.

Internet-based promotional activities (in particular, advertising and PR) involve using Web-pages, e-mail, and mobile communication. It is suggested that promotional activities be carried out simultaneously so as to ensure the effects of integrated marketing communication. Internet-based promotion especially requires that a target market is precisely defined, and reference groups and opinion leaders are clearly identified.

Using Web-pages. The use of Web-pages in promotional activities has been widely and usually positively received. A Web-page is a part of the Internet, although most people think of the Web and the Internet (which enables the graphics and text search of displayed content using specially designed browsers) as being one and the same.

Survey results show that people reading a Web-page on their computer screens tend to analyse messages and page contents in an F format, rather than in the Z format used in viewing conventional printed messages. In other words, the Web-page designer needs to place key information in a message using the F format.[31] When reading printed matter, the human eye analyses the content in the heading (Is this important to me?), then it scans the text diagonally (Is there more information here for me?), and finally it views the ending of the message (Who sent me this, and are they important to me?). On the other hand, the experts of *Communication Excellence Institute*[32] and the *Nielsen-Noram Group*[33] claim that when reading content on a computer screen, the human eye follows a different logic progression – the F format. The reader, to read faster first reads the content in the heading and then views the middle and, finally, scans down the left-hand side of the message. These results indicate that the contents of messages on Web-pages should be adjusted to deliver the F format.

The most commonly used tools for Web-based promotion are banner ads, sponsorships, interstitial ads, editorial mentions, search engine listings, and revenue earning links.[34] Designing messages for Web-pages is a much broader source of information and provides greater opportunities for enriching content, in particular, compared with e-mail text.

Banner ads are the most widespread form of advertising. In addition to text, they often contain audio and video animation. Their primary aim is to attract consumers to the content of the Web-page message. Because the content and design of banner ads can rapidly become outdated, frequent innovation is required. Recently, efforts have been made to improve the effectiveness of banner ads by introducing new technologies to enhance the appeal of each ad and also repeating the message to ensure that it is more easily remembered.[35] However, being aware that too much repetion may turn people off, it is essential to find the right proportion of promotianal activities.

In addition to conventional banners, modified banner ads are used, such as the sponsorship banner ad where the Web-page is the link to the sponsor's Web-site. A similar approach involves placing links on other Web-pages for a fee. The rapid development of online coupons has encouraged advertisers to embrace this new trend in advertising that is connected to sales promotion. For instance, an online advertisement can be linked to a coupon, and the effects of sales promotion are then achieved through obtaining the printed version of that coupon.

A considerable increase in the interest in using search engines in advertising has been noted. Search engines can be based on static Web-pages or dynamic Web-pages. The former are called Web-catalogues, and the latter, true search engines. Web-catalogues are popular when searching for Web-pages dealing with a specific topic. On the other hand, true search engines provide links to other Web-pages, portals and searches, which make advertising on dynamic Web-pages more intensive compared to other types of Internet-based advertising.[36]

Using e-mail. In addition to Web-technologies, e-mail has greatly risen the energy level of market communications in advertising and PR. The messages sent to market actors by e-mail generally contain only text, and in some cases they are different sizes, in colour, or even embossed with images, sound, and voice messages.

In terms of content, e-mail-based market communications are considerably less pretentious than the Web-approach. Although e-mail has similar technical possibilities, consumers are reluctant to accept e-mail as an advertising medium. Many are not interested in e-mail with a promotional character and tend to install computer programmes that filter out that undesirable e-mail.

However, regardless of these limitations, e-mail does help build closer relations between employees within an organisation and, indirectly, between organisations, and also between organisations and consumers. In essence, it is a one-to-one, interactive approach. Market (consumer) responses are quickly noted, providing organisations a sound basis for meeting the demands of the marketplace. E-mail is not limited to relationships between organisations and consumers or vice versa, but rather, it extends to other actors in the business environment that are not direct consumers. In responses sent by e-mail, recipients share their knowledge and experience with friends, colleagues, neighbours and others. In this way, they do create good (or poor) images, and indirectly promote a certain product and/or organisation. Marketers need to take all this information into consideration when using the Internet for market communication.

One of the ways to disseminate information about an organisation and its products or other special business features is to create a discussion list and send information to e-mail addresses on that list. Discussion lists are topic-oriented, and the topic can, for example, be about product usage and product attributes. Further, subscribers to a discussion list can send their comments concerning product usage.

E-mail based with Web-mail servers is increasingly being used in communication. To use this service, the e-mail user needs to open a Web-page which may then contain promotional messages. E-mail users like to use Web-mail services because there is less control over sending and receiving messages, and they can access their e-mail from any computer that connects to the Internet without needing to reconfigure any data.

To be successful using e-mail as a tool in advertising and PR, marketers need to create a message that is original, unambiguous, accurate, interesting, and short. Once that message has been designed, it can be sent to a select, initial group of consumers interested in disseminating the message to other e-mail users, such as business partners, friends, and neighbours or their personal discussion groups using social networks.

In addition to using Web-pages and e-mail, organisations can communicate with the market through blogs, newsletters, Webinars and social networks such as LinkedIn, Facebook, Twitter or Google+.

A **blog** is a Web-page where physical or legal persons (an individual or an organisation) post texts of importance to them that target a specific audience. The term *blog* is a portmanteau of the words *Web* and *log*, and is universally accepted in communication (no equivalent term exists in the Croatian language). Texts posted on blogs can have a general character and can also be used in advertising and for PR. Blog posts are organised, so the most recent posts are placed at the top of the Web-page, and all other posts are displayed in reverse order. To be more appealing, some blogs use images and video and audio recording as well as text. The main characteristic of blogs is that they are interactive, thus enabling direct contact with potential and real consumers. Blogs, especially those that the public finds appealing in terms of content, are becoming increasingly important and can spread positive information among bloggers. The authors of blogs can also be individuals with private motivations for designing and communicating through blogs. Special tools, such as *World Press*, can be used to design blogs, and blogs can be launched through such blog services as *www.blog.hr*.

Newsletters are electronic publications with text that usually relates to a specific topic, special information, advice, opinions and predictions. They generally are distributed to subscribers on a regular basis.[37] The spread of Web-pages and e-mail has made this form of market communications widely accepted in place of conventional printed messages sent by mail. Newsletters are usually linked to a Web-page where the information from the newsletter is expanded on with a detailed account of the special features of the organisation and/or the product/s being promoted. Receiving a newsletter requires a subscription, which is usually free of charge. The sender, however, needs to maintain the interest and attention of existing subscribers and attract new readers by continuously providing new and interesting content.

When an organisation authors a newsletter, its real and potential consumers are its most important subscribers. Newsletters are also often used to communicate with employees within an organisation to provide them information about what is new in their work environment. Tools like PDF[38] and HTML[39] are used for writing conventional newsletters, while the more up-to-date newsletters (with audio and video recordings) require WEB 2.0[40].

Webinar is an online seminar carried out over the Internet on Web-pages. Short for Web-based seminar[41], organisations use Webinars to communicate with their market by transmitting previously recorded lectures, workshops, and/or presentations through Web-pages. The importance of Webinars for promotional activities is based on the fact that they remove the need of having to transmit information directly in conferences or seminars. Instead they can provide information to real and/or potential consumers through presentations that are based on a combination of text, images, and sound. This information can be transmitted in real time or downloaded from the Web-page and distributed at a place and time arranged by the organizer of a Webinar. The receivers of Webinars can individuals or groups, that is, private persons or business representatives.

It is likely that Webinars will become an increasingly important form of communication and product and/or business promotion. Unlike conventional seminars, Webinars have a more acceptable cost, because the presentation takes place on a computer and eliminates costs related to travelling, organising and renting space, gathering and housing lecturers, and other costs.

Webinars with a promotional character help increase the interest of potential consumers to buy a product, while reinforcing the interest of existing consumers to make repeat purchases. What makes Webinars especially important is that they enable two-way communication. By using video and audio links, people in an audience can actively participate in a Webinar, ask questions, and discuss certain topics.

In technical terms, Webinars are made possible by further advancements in Internet technology, in particular, in TCP/IP[42] connections. TCP/IP enables communication through various interconnected networks and today, it is the most widespread protocol on local networks. It is also the basis for the global network, the Internet. Technologies used in

Webinars make audio communication possible by using VoIP (Voice over Internet Protocol).[43]

Social networks are a widespread means of communicating with a large number of people. Internet- based, social networks are a new and important form of advertising and PR. Social networks make it possible to exchange and analyse a huge amount of multimedia contents and reach people with similar interests, for example, in sports, entertainment, culture or some other area of cultural or social life. The people communicate with one another, exchanging information, knowledge, and experiences.

The spreading of Internet-based communication that is focused on intercommunication is constantly opening up new opportunities for disseminating information about products and/or organisations. The appropriate solutions are placed or offered through the network and by interacting with consumers can broaden the interest in a specific product or organisation. By responding to a specific topic (product/organisation), consumers disseminate information, and according to Baker and Green, can use this form of communication (blog) to comment on trends in the economy, communicate with other consumers about a product's values and uses, discuss the role of the product and values offered in distribution channels, and exchange an entire array of useful information.[44]

Social networks, like *Facebook*[45], *MySpace*[46] and *LinkedIn*[47], provide organisations with new media for promotional activities. These media, however, are still not being used to their full extent. Video recordings featuring a product or an organisation can be posted on social networks, however, thus helping to promote the value of a specific organisation or a specific product.

Facebook is believed to be the key framework for networking social networks and socializing Web-pages. Facebook is likely to take over the key role of developing and ensuring interoperability among social networks. Indeed, interoperability will become the crucial dimension for developing other social networks that will specialize in communication and content.[48]

25.3. Using mobile devices in promotions

As a means of communicating with the marketplace, mobile devices are spreading at an exceptional pace. The most important forms of communication on these mobile devices include receiving e-mail on mobile phones (WAP)[49] and receiving and sending MMS messages with text, photographs, tones, and audio and video recordings[50]. Gartner, an international research and consulting firm, predicts that by 2013, mobile devices will overtake personal computers as the most common device to use for accessing the Internet.[51]

Mobile market communication uses mobile devices like laptops, mobile phones, and smartphones, to communicate with consumers through mobile technologies, namely, the Internet and mobile telephony. Because of the enormous presence of mobile devices and the rapid expansion of mobile technology, mobile marketing as a promotional activity (aimed at B2B and B2C consumers alike) is becoming increasingly more important.

Because mobile devices can easily access the Internet, they are suitable for advertising and developing PR. In addition to providing telephone communication, mobile devices can be used for sending messages and recordings as SMS[52] and MMS[53] messages by connecting to the Internet.

Mobile devices are experiencing rapid development today, and the ways in which they can be used are constantly increasing. It can be expected that, in combination with digital cameras, regular cameras, MP players[54] and GPS devices[55], this development will continue to foster communication among people, thus further enabling promotional activities (advertising and PR). The expectations of mobile device users do differ from those of PC users. Mobile device users prefer touch screens, and they are more involved in adopting the novelties regularly offered for mobile devices. It does not seem likely that it will be possible to simply apply computer knowledge and platforms to mobile devices. Instead, organisations will need to adjust to applying the techniques of mobile devices to their operations. Research, however, shows that only 30 per cent of organisations have adjusted to using mobile devices in the workplace. To optimize the mobile approach, it will be essential for organisations to understand the advantages provided by each mobile platform, which can range from sending text messages to doing wireless roaming and positing applications on smartphones and tablets.[56]

Interactivity is a pronounced feature of mobile device use. The message recipient can choose whether or not he/she wishes to receive and respond to a message. The sender can target a specific public and determine the time when the message will be sent, the location at which it will become available and the number of times it will be repeated. This advantage makes it easy to clearly identify and measure the scope and accessibility of messages sent, which is an additional use for advertising and developing PR on mobile devices.

SUMMARY

Integrated marketing communications (IMC) sees promotional activities as a whole entity. The objectives of IMC are to provide information, differentiate a product, increase demand, stabilize sales, and accentuate the value of a product. These objectives are accomplished using the push strategy or the pull strategy, or sometimes a combination of both.

Promotional activities when communicating with consumers are carried out through advertising, personal selling, sales promotion, public relations, and publicity. Advertising is the paid, non-personal presentation of information to a large number of consumers via mass media with the aim of increasing demand. Advertising has the function of informing, persuading, and reminding consumers of product value. Personal selling, that is, communication between a salesperson and a potential consumer, is directly linked to advertising. Personal selling consists of creating relationships with consumers, identifying consumer needs and wants, finding products that will satisfy these needs and wants, and conveying information about the advantages of possessing such a product. Another element of promotional activities is sales promotion, which involves a variety of techniques that encourages consumers to respond and stimulates them to buy. Public relations involves activities that an organisation will undertake to build and maintain a good relationship with the public. Publicity is also an important promotional activity. A type of unpaid advertising, publicity is publishing information concerning an organisation and its products in public information media. Although the authors of such publicity articles and messages are journalists, organisations do not take a passive stance toward the media and publicity, but rather take an active, or even proactive, approach to the creation and delivery of such publicity.

Technological development has given rise to new approaches and new media to use when communicating with consumers. Technological development has had a direct effect on such new approaches to promotional activities, the most visible being new trends in advertising and public relations. The most important changes in market communications are linked to the Internet and the services it now provides, namely, the World Wide Web (www) and e-mail. Mobile market communication is also experiencing similar rapid development. Because of the enormous presence and widespread diffusion of mobile devices today, the use of mobile technologies for promotional activities is a growing challenge and opportunity.

CRITICAL THINKING QUESTIONS

1. Communicating with the market evolves through a number of steps. Name these steps and explain how the process does develop.
2. Integrated marketing communications (IMC) sees promotional activities as a whole that is used to inform consumers and potential consumers about products, product brand, or an organisation. Why is IMC important and what advantages does it offer over non-integrated marketing communications?
3. A promotional mix combines two or more promotional activities. Briefly explain the four basic promotional activities, and specify to which type of business each promotional activity is best suited.
4. The primary objectives of promotion are to provide information, differentiate a product, increase demand, accentuate the value of a product and stabilize its sales. Try to determine which of these objectives prevails during each individual stage of a product's lifecycle. How are these objectives accomplished?

5. Similar to other activities of the promotional mix, advertising aims to increase demand by presenting a product or an organisation to potential consumers. Advertising has three basic functions, namely, inform, persuade, and remind. Although all three functions are often present in advertisements, some advertisements have only one function. Try to think of an example.
6. Advertising falls into two categories: product advertising and business advertising. Which do you think provides greater benefits for an organisation?
7. Organisations can advertise in a variety of media, and each has its own characteristics. Discuss the basic advantages and drawback of advertising in each individual media. How would you choose the right medium if you were advertising a product? What criteria would you take into consideration?
8. It is expected that in the near future, advertising and media, as we know both today, will disappear and be replaced by new forms as a result of changes, in particular, technological changes, as well as market fragmentation. Discuss which media are most likely to disappear in the new future, and what others will take their place.
9. Similar to other promotional activities, personal selling provides pre-purchase information and seeks to motivate buyers. Unlike other promotional activities, however, personal selling involves direct contact with the buyer. Based on this fact, what activities do you see as particularly suited to personal selling as a primary form of promotion?
10. The sales activities involved in personal selling are order getting, order taking, and providing support for personal selling. Which of these activities would you personally prefer to perform? Is your answer based on what you wish to do or on your predispositions to the activity?
11. Sales promotions can target ultimate consumers (consumer-oriented sales promotion), or they can be directed toward a store as the consumer (trade-oriented sales promotion), or other actors in the marketplace. Describe all three types of sales promotions.
12. The best known tools used for consumer-oriented sales promotion are coupons, free gifts, prizes, free samples, rebates, and sponsorship of sports and other events. In your opinion, which form of sales promotion is the favourite of consumers? Which form

stimulates you the most to buy more products? Are your answers to both questions identical? Comment.

13. The difference between PR and publicity is that an organisation directly manages its PR while it only has an indirect impact on publicity, which rests in the media domain. Find an article in the newspaper that can be attributed to PR and another article that you believe can be attributed to publicity.
14. Marketers have at their disposal several instruments for developing good PR. They can organize press conferences, provide printed matter, organise events, create news, and make donations. Do you think all these instruments are being used in Croatia? Comment.
15. New technological solutions are linked to greater use of the Internet, and mobile devices are now revolutionizing the way we see promotional activities. Discuss the key features of Internet expansion into the field of market communication and the special promotion features that are now using mobile technology.

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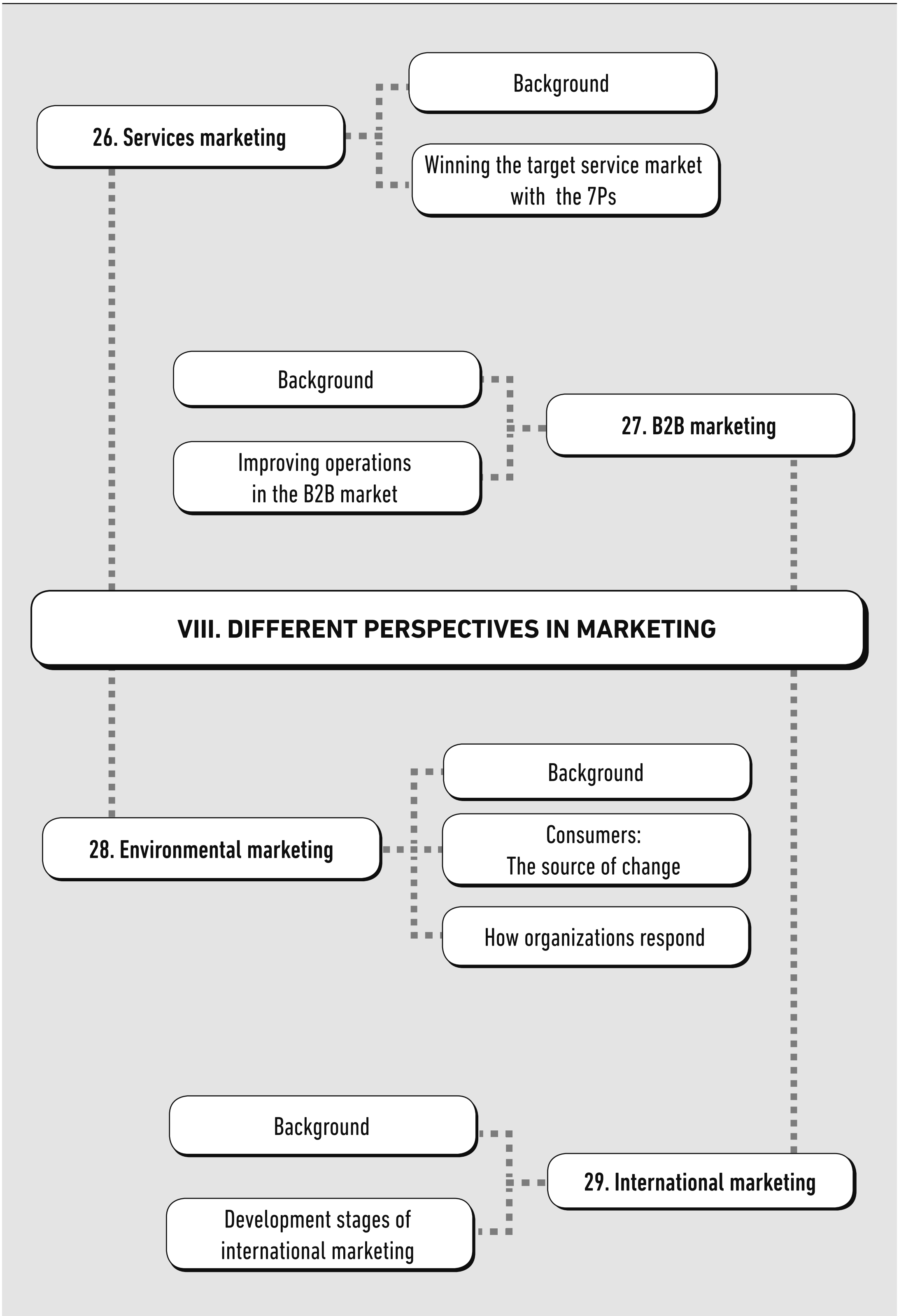
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VIII. DIFFERENT PERSPECTIVES IN MARKETING

Until recently marketing was primarily used by organisations engaged in actual production. Although this is still present today, the implementation of the marketing concept has nowadays spread to other business areas, in particular, to the service sector as services marketing (Chapter 26). B2B marketing (Chapter 27) takes places in the B2B market where organisations sell their products, services, and ideas to other organisations for use in their production processes or for reselling.

Growing concern for the environment is driving the need for a new area of marketing activities known as environmental or Green marketing (Chapter 28). Constraints in national markets and opportunities provided by international markets have encouraged the development of international marketing (Chapter 29).

Objectives

After you have studied Part Eight, you should be able to:

- Identify the features of services.
- Analyse the 7Ps, the elements of the service sector's marketing mix.
- Understand the special features of the B2B market.
- Examine the forces influencing the behaviour of business buyers.
- Explain the reasons for improving operations in the B2B market.
- Understand more about the sustainable development paradigm.
- Identify the attributes of "green" consumers.
- Understand how environmental marketing helps organisations to adjust.
- Discuss the features of international marketing.
- Analyse the development stages of international marketing.

26. SERVICES MARKETING

26.1. Background[1]

In the context of the total product concept, a service is also a product, albeit with an array of its own special features. These include the following characteristics: A service is intangible, variations do exist in the quality of the services provided, a service is inseparable from its service provider, consumers participate in service creation and a service cannot be stored.[2]

Intangibility - Unlike a physical product, a service cannot be touched, tested, held, or seen prior to purchase or while it is being used or even after it has been used. Because of these unique characteristics, a service provider must provide the user with a sense of benefit that arises from the purchase and the use of each service. To achieve this goal, service providers use a variety of approaches. For example, when providing property insurance, *Croatia osiguranje* also provides special terms for new-value insurance coverage, annual adjustment of the insurance amount that conforms with the rise or the fall of the cost-of-living index (indexation), and payment of premiums and compensation in domestic currency based on a currency (exchange) clause.[3]

Variability - Service quality is not constant, however. It can vary. Because the quality of a service changes over time, it can be difficult to standardize services. The reasons behind the shifting quality of services are found in service staff and service procedures that cannot be fully foreseen, planned, or unified. In one situation, a service staff may respond in a certain way, while in another very similar situation, they may react differently. The quality of services is thus changeable, so making it homogenous is difficult. For example, *Jadrolinija*[4] runs a ship line between Rijeka and Split. The transportation services it offers are, for the most part, homogenous, although variations are possible. For example, passengers may choose to travel in a cabin or on deck; they may also choose a cabin that is below deck or above deck, etc.

Inseparability - A service is inseparable from the service provider. So, consumers perceive the service provider through the level and quality of provided service. For example, the perception of the specialist in the medical centre *Medico*[5] is, in fact, the same as the perception of the level and quality of service in this medical institution as a whole. The inseparability of a service from a service provider is also based on the fact that many services are consumed instantly when they are created or shortly after. For example, a medical examination at *Medico* is a service that is created the moment the patient and doctor meet and lasts until the end of that specific examination. In other words, the medical service was consumed during the medical examination.

Consumers involved in service creation - In many situations, service consumers are also involved in service creation. An example is when drivers, using the services of an *INA trgovina*[6] petrol station, fill their car tanks by themselves and then go into the station to pay. In this case, the consumer participation is completed, because not only do consumers fill their tanks by themselves; they also go to the cash desk where they pay the *INA trgovina* employee individually for fuel. However, when the petrol station attendant puts fuel into a consumer's car, consumer participation in the creation of this service is only partial.

Perishability - Services cannot be stored, nor can their consumption be usually postponed to another time. In some service industries, the loss of profit arising from idle capacity can be large. An example of this is unsold airline seats. In other service industries, the loss of profit caused by idle capacity is less, such as in a photographer's shop when there are fewer customers than expected. However, organisations in both industries will take action to enhance the utilization of any unused capacity. For example, *Croatia Airlines*[7] is undertaking a series of activities, either directly or through travel agencies, to ensure that every airline seat to a specific destination is sold. *Foto Kurti*[8], a photographic studio, is also engaged in a number of activities aimed at attracting new customers. This action can involve promotional campaigns and/or cutting prices for special occasions.

26.2. Winning the target service market with the 7Ps

Service organisations select the markets where they will operate using the process of segmentation. Service market segmentation is identical or similar to the segmentation process that occurs in other markets. A variety of variables can be used, such as demographics, geographic, socio-economic, and psychographic aspects. Once the target market is selected, the service business designs an offer (a marketing mix) for that particular market.

The principles used when creating and developing physical products are not possible to be applied to service creation and development. Because of the special features of services discussed above, the marketing logic that is applied to physical products does not apply to services. Services are intangible; hence, approaches that work with physical products have no effect or are not feasible for services. In new product development, an organisation can use patents to protect its innovations. Conversely, it is not possible for services to be protected by patents, and many examples are available that illustrate the ease with which a newly developed service can be copied. For example new medical service that measures and records the activity of the brain in one private clinic using EEG[9] is easily copied by a competitor clinic.

Services can, however, be branded. Service branding is important particularly because service users usually show much more restraint when asked to evaluate a service. Services are invisible, and the only way a service user can experience that service is by trying it. Service organisations need to focus special attention on their service branding because a well-known brand can dissipate much of a user's doubts and uncertainties. Many organisations in the service sector, ranging from international service companies to local organisations, have recognized the advantages of service branding. For example, the international company *DHL*[10] was successful in building its brand with the help of branch offices in countries throughout the world, Croatia included.

Service pricing takes into consideration the demand for a service, costs incurred in creating that service, and the competition's activities. The impact of competitors on the prices of certain types of services may be limited, especially when these services are monopolistic in nature, as is the case with utility services. Two methods are most often used when service pricing: cost-plus pricing and target return pricing.

Cost-plus pricing is commonly used when setting the prices of intellectual services, such as the services of consultants, solicitors, doctors, etc. This method adds a profit percentage to the total cost of carrying out that service. For example, a research centre formulates the price of its consulting services by taking into account fees charged by researchers, as well as material costs, and then adding a fee for its services.

The second method, target return pricing is mostly used when setting the price of capital-intensive services. Target return pricing is used, for example, for pricing in the hotel industry. With this approach the owner of small family hotel that plans to invest in 2013 an amount of 50,000 € can decide to have a 10% return on investment, i.e. 5,000 €. This amount has to be added to the total cost in setting prices for the current year. This approach also can be applied using the absolute value. For example, a hotel owner can decide to have return of 10,000 € for 2013. Consequently, this amount has to be added to other costs that are used for setting a price in that year.

Taking into account the characteristics of services, service distribution channels are relatively simple. Most often there is a direct relationship between the service provider and service user. Although intermediaries are rarely used, in some services they are required. For example, companies selling life insurance and property insurance use agents, and brokerage firms have stockbrokers that deal with stocks. Many airlines sell their tickets through specialized travel agencies that buy seats in bulk from an airline and then resell them to other agencies or directly to travellers.

When services are concerned, physical distribution is not required, because services can neither be stored nor transported.

Promoting something that cannot be seen or felt is a difficult task. Service promotion, however, can be successful if a service organisation focuses its promotional activities on making its service more tangible or creating a positive and unique image for itself. For example, *Hypo banka*[11] uses pictures of its mascot, a hippopotamus, to give the impression of strength and size, while other banks use different approaches to highlight their own efficiency, experience, and status. Some service organisations use promotional activities to draw attention to the “visible” benefits that can be gained by using their specific service. Through promotion, specialized medical centres, such as *Terme Selce,*[12] seek to highlight their location (…*our facilities are located in the Crikvenica Riviera, a region experienced in climate therapy*…); their knowledge, expertise, and experience (…*our professional teams and long years of experience ensure exceptional results in the prevention and treatment of many diseases*…); and even their facilities (…*interior decorating after the fashion of world-famous centres*…).

Personal selling is a form of promotion that is exceptionally important in the service sector. Although personal selling is used for selling and promoting many services, it is most widely used when selling the services of insurance companies. The services pertaining to life insurance and property insurance are complex, and the person selling that service must have the ability to develop relationships with insurance users and must be knowledgeable enough to answer questions and give precise advice to potential clients. The view now is that in the future the sales of services will largely depend upon the ability to develop relationships with clients, because good client relationships ensure greater trust and satisfaction.

Booms and Bitner[13] indicate the need for extending the traditional 4Ps marketing mix into a 7Ps mix for services marketing. The three additional elements for the services marketing mix are people, processes, and physical evidence. Each of these elements contributes to satisfying service users to a lesser or greater extent. Because of the characteristics of services, the quality of the people who provide that service comes to the forefront when creating and delivering services. Namely, in services where these two processes – creating and delivering – are joined together, because a service is created the moment it is delivered, that is, rendered to the consumer. In other words, the personnel of a service organisation will influence the consumption of its service. The more educated, trained, friendly, motivated, etc., those service personnel are, the more satisfied consumers will be with that service. It follows then that employees are incorporated into service quality, meaning that service quality can vary depending on the quality of employees. Because of their important impact on service consumption, employees need to improve their knowledge and skills to be able to adjust to changes in the service environment.

Process is the next marketing mix variable of service marketing. Process refers to the procedures, mechanisms, and flow of activities through which a service is delivered to a consumer. Each service is specific in its content, and/or in its target market. Hence, the procedures, mechanisms, and flow of activities are not universal, but rather can differ from service to service. For example, there is a crucial difference in process between the hotel services provided in *Milenij hoteli* of Opatija[14] and the fast-food services provided at *McDonald's*[15] in Rijeka. Consumers are also sensitive to service quality which they experience through several dimensions, the most important of which is maintaining and ensuring the consistency of high services standards. All these can be achieved by properly managing the process, a variable of marketing mix in services marketing.

Physical evidence is the seventh element of a service organisation marketing mix. Since a service is intangible, the service organisation strives to offer it in a way that will make it stand out from similar services provided by competitors. The organisation invests effort and knowledge to make its service more tangible and thus enhance consumer interest and consumer familiarity. Making a service more tangible is accomplished by providing physical evidence of service quality. An organisation can draw attention to the physical characteristics of the location where the service is provided, such as the size of, and amenities in, a hotel room, or to the equipment by which a service is created, such as, the line of kitchen stations used in fast food restaurants.

It can be concluded that the service economy is growing at a fast rate. For this reason, service marketing as a research and business area is increasingly gaining in importance. Therefore, more applied research and faster acceptance of service marketing knowledge is needed in organisations.

27. B2B MARKETING

27.1. Background[16]

The business-to-business (B2B) market is a market in which organisations operate on the demand side as well as on the supply side. The demand side of the B2B market are those organisations looking to procure products, services, and ideas needed either for their own production processes (the production of other products) or for reselling those products. On the supply side of the B2B market are organisations/resellers who offer their own products, services, and ideas. The objects of such exchange in the B2B market are physical products, services, and ideas. The primary objective of manufacturers and service organisations in the B2B market is to make a profit. There are, however, organizations in the B2B market whose purpose is not to make a profit. Such organizations work on a non-profit basis and include government administration, local and regional government, and various institutions and associations.

The B2B market has a number of specific traits. The most important traits are linked to buying motives, the development of partnership relations, and the source of demand.

Buyers in the B2B market enter the buying process because they are motivated by economic reasons, while the motives of consumers entering the B2C market are linked to personal or family needs and wants. Compared to buying by B2C consumers, transactions in the B2B market carry an element of risk. That risk derives from the large quantities of products – ranging from raw materials and manufacturing materials to installations, services and accessory equipment – that are procured in the B2B market and for which an organisation must set aside considerable funds. Risk is also related to possible errors when specifying the features of the product needed.

In the B2B market, sellers and buyers generally build long-term relationships that are grounded more in trust than on contractual relations. Relationships built in this way tend to be stable and long term, often leading to partnerships and loyalty.

Demand in the B2B market is derived from demand in the B2C market. Increased demand for a specific product in the B2C market is likely to trigger greater demand for a product in the B2B market that is needed for producing the B2C product or that is its component part.

Successful organisations will explore different influences that impact the behaviour of business buyers. According to Robinson, Faris, and Wind[17], the behaviour of business buyers is influenced by forces in the environment that can impact organizational forces, which consequently influence the buying centre. Made up of employees responsible for procurement, the buying centre is also influenced by the individual characteristics of these employees.

The behaviour of business buyers is influenced by different forces found in an organisation's environment. Technological, economic, political and legal, and social and cultural forces exert the greatest influence. For example, to create conditions that foster the rapid development of organisations, various regulations, laws and legal provision must be adopted to ensure that organisations operate on the principles of a market economy. These influences are in the domain of specific political and legal forces.

Forces emerging from the business environment affect the activities of organisational forces closely linked to the purpose and objectives of business operations, the organisational structure, action policies and the resources available to the business buyer. For example, forces in the environment will also impact whether an organisation will choose a more centralized or more decentralized type of organisational structure to adjust most efficiently to changes in that environment.

Organisational forces affect the way that buying centres operate. A buying centre consists of business buyer employees who are responsible for purchasing raw materials, manufacturing materials, equipment, spare parts, maintenance supplies, and other related products. Relationships among members of a buying centre are based on cooperation and a common objective, while the decisions made are the results of the members' interactions. The buying centre is also affected by the members' roles in the centre (for example, who is the initiator, and who is the decider) and by the personal characteristics of each member of the buying centre (for example, a person's educational background, demographic characteristics, etc.).

By understanding the forces that affect the behaviour and responses of business buyers, resellers can create or modify their marketing activities to adjust their offering, that is, their marketing mix combination. Hence, satisfying business buyers as a target market is all about finding the right combination of marketing mix elements. This marketing mix is dynamic rather than static, because it changes depending on the influence of the forces mentioned already. Therefore, to design an appropriate offering, an organisation must understand, select, and implement the key strategies that are linked to the individual elements of the marketing mix. These strategies are the product strategy, the price strategy, the distribution strategy, and the promotion strategy.

In looking for the best marketing mix combination, an organisation must be aware not only of the interrelationship of various marketing mix elements but also of the influence exerted on the marketing mix by other business functions, such as production, financing, and R&D.

27.2. Improving operations in the B2B market

Today, organisations in the B2B market seek to channel their development by taking a proactive approach that implies anticipating changes and adjusting to them, instead of taking a reactive approach, i.e. waiting and reacting to changes only when they happen.

To develop successfully, an organisation needs to strategically manage its marketing activities. In these turbulent times, organisations are faced with many problems that can result from a lack of available resources (financial resources, time, quality workers), a lack of strategic thinking, lack of knowledge about the target market, etc. This is the result of a survey conducted in 2011 on a sample of 1,754 marketers in organisations in the B2B market. The respondents stated that their greatest drawbacks were linked to resources (62% of respondents), their inability to stop executing and start thinking strategically (39%), limited ability to develop content (35%) and not being knowledgeable of their target market (32%) etc.[18] The results are presented in Figure 22.

Figure 22 Barriers to B2B marketing success

1.	Lack of resources in staffing, budgeting or time	62%
2.	Lack of ability to stop executing and think strategically	39%
3.	Limited ability to develop content	35%
4.	Lack of sufficient insight on target audience	32%
5.	Lack of alignment between sales and marketing	32%
6.	Lack of reliable data to drive decision	31%
7.	The economic climate	30%
8.	Lack of clarity on goals and objectives	27%
9.	Not enough education of marketing staff on best practices	26%
10.	Lack of a clear value proposition	25%
11.	Lack of insight in competitive research	25%
12.	Lack of support from IT	19%

By defining its strategic orientations, an organisation in the B2B market can more easily identify and/or gain its competitive advantage. An organisation can gain competitive advantage when it possesses a special feature that business buyers want and that makes the organisation stand out from its competitors. The organisation will then strive to sustain this special feature for as long as possible and make it a difficult for competitors to copy.

To this end, an organisation needs to anticipate future events in its market (opportunities and threats) and formulate an action strategy that will let it accomplish its business objectives. With regard to business objectives and the time horizon in which they will be accomplished, there are three levels of action: strategic, tactical, and operational.[19]

The general direction in which an organisation wants to develop is established at the strategic level. Typically, decisions are made for longer periods (three or more years) where the resources of the organisation and its capabilities are used to take advantage of market opportunities for long-term development. At this level, the organisation creates a vision statement and identifies its strategic objectives for development, and both are adjusted to operating in one or more markets with one or more products.

Decisions made at the tactical level pertain to shorter periods (up to three years). These decisions define how the organisation intends to gain competitive advantage for its business units and/or specific products. Tactical-level decisions are made by middle management in order to foster long-term development and ensure that the long-term strategic decisions are carried out. Tactical decisions provide specific answers to the question of how to gain competitive advantage.

The third and lowest level of decision-making refers to operational decisions. These operational decisions are made by front-line employees and pertain to short periods (less than a year). Operational decisions seek answers to the question: What is the most effective way of ensuring and sustaining competitive advantage? Most often this question is linked to setting new prices, modifying distribution channels, and selecting suppliers, as well as to ensuring market communications. Operational decision-making is concerned with daily operational tasks, and its aim is to learn how to accomplish tactical objectives.

In reality, the performance of many organisations in the B2B market does not match the efforts and financial investment they have made. This outcome is the consequence of inefficiency in managing marketing activities. Discrepancies are especially evident in connecting and coordinating a strategic approach to development and operational execution.

Organisations often make mistakes when adjusting their strategic orientation. They tend to rely too heavily on tactical decisions and on accomplishing short-term objectives instead of focusing more on coordinating strategic orientations to reach their major objectives, mission, and vision. The success of an organisation is linked to how effectively it can coordinate and connect a strategic approach to development (strategic decisions) and operational execution (tactical decisions). The failure to do so will lead to discrepancies in the way the organisation operates today and the way it will operate in the future. Hamel and Prahalad argue that managers do not take into consideration that long-term plans and decisions are made today for the future.[20]

To be successful and accomplish its planned long-term objectives, an organisation must align an array of tactical decisions that need to be made to meet set objectives. All too often, this dimension of business, the coordination of short-term objectives and decisions with long-term plans, is the source of poor performance. The mistakes organisations make often occur when they seek to change the situation they are in to the situation they would like to be in. Many organisations let the market dictate these conditions, instead of taking a pro-active stance and thus anticipate change and make timely adjustments to that change. In other words, organisations fail to implement strategic marketing management, or further, strategic marketing management never gets beyond the thinking stage or beyond documents with any applicable value that can be used as a platform for action. Failure in this case is not linked to poorly defined strategic marketing management, but primarily to the inadequate way in which those defined plans and processes have been implemented and their action carried out. This inadequate way leads to a major discrepancy between strategic thinking and tactical execution.

The research by Coveney, Ganster, Hartlen and King indicated that the main causes of this discrepancy, also known as a **strategic gap**, fall into three areas based on the source of the gap:[21]

- the way in which an organisation's management acts when implementing strategic initiatives (for example, how it executes its strategic marketing plan)
- the traditional processes used to implement those strategies (for example, financial processes, forecasting, reporting)
- the information system that supports the traditional processes.

The reasons for the strategic gap between the planned path of development and its accomplishment can be traced in several failures; the failure to ensure support for the strategic plan, the failure to communicate the devised strategy properly, the failure to update the strategic plan, and the failure to adjust to major changes that occur in the environment.

Traditional processes that organisations implement are the second group of causes for the gap between strategy and tactics. Namely, many organisations focus heavily on executing their financial plans, on reporting financial performance, and on forecasting operations. In doing so, they centre their attention on short-term financial objectives, which are usually tied to a single business year instead of focusing on long-term objectives and strategies over several years.

The third group of causes pertains to the use (or failure to use) information systems to support the traditional processes. In recent decades, computer programmes have appeared and succeeded, to a greater or lesser extent, in bringing together strategic processes. These include the ERP (Enterprise Resource Planning) system[22] and CPM (Corporate Performance Measurement).[23] The systems have also undergone further development. Although different authors give them different names, such as MPC (Management Planning and Control),[24] BPM (Business Performance Management)[25] and EVA (Economic Value Added)[26], all the systems are basically about measuring business performance. These and other systems seek precise answers to vital questions, such as: Where is the organisation now? Where does it want to be in the foreseeable future? What action should it take? What should be its objectives? Which resources should it use to accomplish them?

Kaplan and Norton provide two new ways of thinking when bridging the strategic gap. The first is the Balanced Scorecard (BSC)[27] and the second, the Strategic Map.[28] They propose a system capable of eliminating, to the fullest extent possible, the gap between strategic orientation and tactical decision-making. This system offers a set of processes and tools to use to develop strategies and execute them through different operations. The system controls execution and helps improve the effectiveness of strategies and tactics.[29] It has five stages. In the first stage, the organisation seeks to formulate a strategy by identifying its vision and analysing the situation in which it currently finds itself. In the second stage, that strategy is translated into objectives and measures that can easily be communicated to the organisation's marketers and other employees.

The third stage focuses on developing operational plans that will help accomplish the organisation's strategic objectives. Monitoring and supervising execution, together with learning from results achieved regardless of whether positive or negative, is carried out in the fourth stage. Finally, in the fifth stage, a strategy check is carried out, and adjustments are made to the entire strategy. The organisation conducts a cost-benefit analysis, and analyses correlations that are important to modify the strategy or propose a completely new strategic approach. This outcome leads the organisation to begin a new cycle of aligning strategy and operational action, and so on *in continuo.*

It can be concluded then that the execution of strategic, tactical, and operational decisions is a complex process in which it is imperative to measure results.

28. ENVIRONMENTAL MARKETING

28.1. Background[30]

The turn of the new millennium was marked by advancement using the concept of sustainable development (SD). The concept emerged from addressing the issues of unconstrained development and the need to raise environmental awareness. The pervasiveness of environmental issues triggered the search for solutions that will enable rapid development based on finding a balance between environmental pollution and economic growth. Organisations as agents of these changes play a special role in environmental issues, while consumers are drivers of these changes.

The environmental situation, however, also calls for change in the behavioural patterns of the entire community, including interstate institutions, government bodies, organisations and consumers. This is where the new role of marketing comes in. The SD concept drives the process of continuously creating, absorbing, and applying valuable marketing knowledge. There is a growing awareness that by jeopardizing the human environment through unconstrained economic development, we are tipping the balance and jeopardizing Nature. This issue has reached such a scale that it has become a global threat to the complex processes of life on Earth. Hence, a new paradigm has emerged, the SD paradigm, which calls on marketers to adapt once again to ongoing changes in the environment and implement environmental or Green marketing.[31]

According to the American Marketing Association (AMA), Green marketing is the marketing of products presumed to be environmentally safe. It incorporates several activities, including product modification and changes to production processes, packaging and advertising strategies, and has increased the awareness of compliance marketing among many industries.[32]

Implementing the SD concept, together with new marketing knowledge, is vital to Croatia's economy for two reasons. First, the globalization process is bringing to the Croatian market foreign companies that are motivated by a desire to reduce operating costs. This reduction, however, must not be at the expense of SD principles. Second, for Croatian organisations to develop, it is imperative that they compete in foreign markets while still adhering to the economic and ecological criteria of globalization. Marketers will have an indispensable role and responsibility for addressing these issues.

The success of SD is based on eco-friendly development, which means that organisations need to change the way they view development. The SD change is driven by factors in the micro- and macro- marketing environment, and helps organisations to evolve from a reactive attitude toward nature to a proactive attitude. Survey results show that the evolution of the new attitude toward environmental protection from a reactive stage to a proactive stage is identical or similar in different countries and cultures.[33] The survey confirms that, regardless of the level of development achieved, more and more organisations are striving to gain competitive advantage and build success by taking environmental dimensions into full consideration. In joining their corporate interests with the interests of society, organisations can apply a variety of action models. The dominating influence in adjusting to change, however, is exerted by environmental marketing as a process of continuous improvement for generating, absorbing, and applying marketing knowledge and the ability to adapt to and anticipate more beneficial environmental standards.

Environmental marketing takes into consideration the change in the environment, in particular, change related to ecology. Furthermore, the approach toward evaluating consumer satisfaction is also modified. In SD terms, consumer satisfaction is assessed not only during the product exploitation process, but also in the period preceding and following this process. Namely, a consumer may have a negative or positive attitude toward a product, depending on the conditions and ways that product was made. This attitude may form while the product is being consumed or after it is consumed. A consumer's negative or positive attitude toward a product can be formed depending directly on issues concerning the disposal of post-consumer waste and/or environmental pollution. For example, the trend in using returnable packaging or packaging made from recycled materials is becoming increasingly widespread. Consumers are also stimulated to return packaging that has small value, such as glass, plastic or tin packaging that is used for milk, beer, fruit juice, water, etc.

Environmental marketing requires organisations to meet consumer satisfaction while taking into full consideration all ecological dimensions. To this end, it is useful to build databases to ensure there is better information about consumer needs and wants and to let the market know what a product supplier can do to satisfy those needs and wants. It is also imperative for an organisation to provide consumers with post-sales services, as well as the information and services needed for product procurement and exploitation. This is where marketing is truly indispensable.

The time dimension in marketing is a key determinant in the process of continuously improving, absorbing, and applying knowledge. Consumers also tend to evaluate a product by the impact it has when its economic life cycle has ended. For example, a certain type of detergent may satisfy the conventional criteria regarding that product's function and other benefits during use, but in the long run, it may be harmful to the environment as wastewater. Such a product is not suited to sustainable development. Many manufacturers now seek to adjust their products accordingly, such as *P&G*[34] and its detergent *TIX Bio Citron*.[35]

Basically, consumers are increasingly accepting environmentally related change, and they increasingly prefer to buy eco-products. Because these viewpoints compel organisations to adjust to their needs, consumers are becoming drivers of change. Organisations that are quick to realize this truth and are capable of adjusting their offering will be successful, while those that find this view to be an obstacle will experience difficulties.

28.2. Consumers: The source of change

Consumers are seen as having a high level of involvement in environmental issues as a consequence of growing environmental consciousness.[36] Studies have shown a significant influence of environmental knowledge and consciousness on consumer environmental attitudes.[37] Consequently, organisations that communicate their 'Green product' in their packaging, advertisement or manufacturing process will create satisfied consumers. Because of the Green trend, companies that fail to 'Go Green' tend to fail in their industry. Consumers today want to associate with organisations and products that are eco-friendly and environmentally responsible.

Consumers tend to change their habits and their preferences. Accordingly, they adjust their views about products, and during the buying process they take into account the ecological dimension of the product in general and its packaging in particular. Consumers prefer products that are longer lasting, products that can be re-used, and products whose consumption has a smaller effect on the environment, and they expect that product's packaging to be recyclable. In this way, consumers are moving away from a short-term perspective toward a long-term perspective regarding the effects of products and "product leftovers" that will affect the environment. Many firms, such as *JGL,*[38] have established that their consumers prefer packaging made from recycled cardboard. Hence, the firm has made considerable investment in producing packaging from recycled cardboard imported from Italy for its Holyplant products.

Unlike in the past, when individualism and the special traits of each consumer were highlighted, today more and more consumers are demonstrating social responsibility and a sense of belonging. For example, the main concern of consumers in the past was whether the product they were buying was capable of immediately meeting their needs and wants. Today, consumers are increasingly concerned with the broader meaning of a product. This view is evident in the growing interest in brand products of manufacturers whose image speaks of their environmental awareness.

Environmentally-aware or "Green" consumers are those buyers who while satisfying their needs and wants also will look for a product that delivers the least adverse effects on the human environment. They are educated consumers and are very interesting as a target market. Still, the bulk of the market consists of consumers who take a passive stance toward environmental protection.

A survey conducted on consumers in the developed countries identified five consumer segments that differ according to attitude toward environmental protection. With a share of about 20%, the first group was consumers that play an active role in environmental protection. These consumers are great advocates of environmental protection and demonstrate this viewpoint through their behaviour. The second group represented only 5% of consumers who are moderately engaged in environmental protection.

The first and second group together (25%) are active participants in caring for the environment. The third group was consumers (31%) who are neither "for" nor "against" environmental protection. They behave according to the situation, product, or manufacturer. When buying one product they may show environmental concern, but when buying another, they may not. Consumers belonging to the fourth and fifth groups were passive about environmental protection. While the fourth group (9%) tended to show some environmental concern in certain situations, the fifth group (35%) displayed a passive attitude toward environmental protection.[39] The same survey also shows that the average "Green" consumer is an educated woman, who is influential and holds liberal political views. On average, she is between 30 and 49 and has a six-year-old child. She became sensitive to environmental issues during her youth and schooling. She embraces eco-products, because she wants to look after her health and help protect the environment for her child.

It can be concluded that we are confronted with change where consumers are becoming more sensitive to environmental protection issues. The buying decisions of these consumers are driving organisations to be increasingly engaged in operationalizing the concepts of sustainable development and Green marketing.

To attract more consumers who actively do take part in protecting the environment by buying eco-products and products with recycled packaging, organisations must be aware of the basic characteristics of these consumers. For example, these consumers expect to be properly informed about a product or the packaging of that product. These are consumers who read the instructions that accompany a product and/or are printed on its label. Environmentally-aware consumers feel the need to take control over environmental protection, and they seek to take action, believing they are working for the common good. Knowing this profile can greatly help organisations to build this same “value” into their products. Environmentally-aware consumers, however, are not willing to give up their lifestyles and standard of living, which means that, when designing a product, organisations must ensure that it has both high quality and a clearly apparent ecological dimension.

28.3. How organisations respond

Conventional marketing involves promoting those products that meet consumer needs and wants at acceptable prices. It also involves communicating to consumers the value they will receive by buying that product. The following section looks at two key elements of the environmental marketing mix – product and promotion – and discusses how these elements differ from the conventional marketing mix. Two other elements – distribution and price – will not be discussed here due to the fact that there is little difference between these two elements in the conventional marketing mix and the environmental marketing mix.

The ISO 14000[40] standard (International Standards Organization) is important to organisations, because its implementation helps to resolve environmental protection issues. ISO 14000 is an environmental management system for organisations, and conceptually it is identical to ISO 9000, a product quality improvement system. By implementing ISO 14000, organisations can manage environmental protection more effectively, create conditions to improve their performance, and incorporate the interests of the general public concerning environmental protection. ISO 14000 is actually a series of documents, with

ISO 14001 being the key standard and listing the requirements that need to be fulfilled. By seeking to meet these requirements, an organisation regulates its behaviour in terms of environmental protection.

The introduction of ISO 14001 has been a considerable help to organisations when developing environmental marketing. Organisations whose environmental marketing is already developed find it easier to meet the ISO 14001 standard. More and more organisations in Croatia are striving to meet the criteria of ISO 14001 so as to minimize harmful environmental effects and ensure continuous improvement in environmental protection systems. In Croatia, organisations that have succeeded are awarded the "Friend of the Environment" label. That label is awarded to manufacturers of consumer goods, and it means that a product respects high environmental standards.[41]

With the growing interest in environmental protection and the growing number of "Green" consumers, marketing management is becoming more and more complex. Marketers are faced with new challenges. One challenge is to develop a product that is eco-friendly and yet consumers consider truly worthy of buying. Another challenge is how to communicate the value consumers will receive by buying an eco-friendly product. The type of marketing needed to address these challenges is often called environmental or Green marketing.

An eco-friendly product is a product that strikes a balance between three dimensions: the product's technical features, affordable price, and compatibility with environmental protection. In other words, organisations must rise to the challenge of designing a product that can meet consumer needs and wants and also environmental protection by ensuring that this product, its use, and the waste created after its use cause either no pollution, or only minimum pollution, in the environment.

Designing an eco-friendly product is as complex as designing a "conventional" new product. Consumers, however, expect an eco-friendly product to possess additional, environmental values. In practice, there are no completely pure eco-friendly products, only products that are more or less eco-friendly. It follows then that eco-friendly products are products that possess specific ecological characteristics, but the level to which these characteristics are present varies from product to product. However, there are as yet no clear differences or measurable factors that can be used to unambiguously distinguish a less eco-friendly product from a more eco-friendly product.

Marketers are, therefore, faced with the challenge of how to communicate to consumers the information about the attributes and quality of eco-friendly products, as well as the information about an organisation's success in dealing with environmental issues. As mentioned, products can be more or less eco-friendly, but there are no rules for ranking products based on their contribution to environmental protection, and this aspect makes market communications even more difficult. There is always the danger that consumers will fail to recognize a product's eco-friendliness and, ultimately, refrain from buying that product, despite an organisation's effort to communicate the eco-friendliness of its products to the market. For example, an organisation that is making eco-friendly products may promote these products as being made from recycled material, as being recyclable, or as being reusable. All three characteristics indicate that business's environmental concern, but the question is whether consumers will clearly recognize and acknowledge this concern.

Organisations that incorporate environmental protection into their operations may also encounter obstacles in their marketing communications on building consumer trust and credibility. Consumers are known to be very critical of the activities of certain organisations, and they can also be very critical of, and have reservations about, an organisation's environmental performance or plans.

Armed with this knowledge, marketers must carefully build credibility, using all elements of the promotional mix, ranging from advertising and personal selling to PR and publicity. PR and publicity are particularly important when building credibility. All efforts focus on persuading consumers that the organisation's environmental orientation is real, and that it is not simply "greenwashing" consumers (trying to mislead regarding the organisation's environmental practices).

Environmental marketing is not a spontaneous process. Instead, it is a management process, and each stage has its special features. Organisations base environmental marketing management on situation analysis, that is, studying internal strengths and external threats. Organisations are advised to consider future change and the forces driving this change, meaning they should be proactive in understanding the conditions in which they operate. Once the strengths that determine an organisation's position are identified, it is necessary to define the purposes and objectives that the organisation plans to accomplish to assist ecology. It is imperative that an organisation's management plays an active role and that all that organisation's employees are involved in accomplishing these focused tasks. The management must motivate and encourage employees to build the foundation of such a business environment that stimulates creating attractive and eco-friendly products.

29. INTERNATIONAL MARKETING

29.1. Background[42]

Success in the international market depends on knowledge and a willingness to adapt because business in the international market is affected by rapid and wide-reaching change. Organisations' operating in or planning to operate in the international market seek to resolve the complexity of such relationships and adapt to change through careful analysis and an integrated approach, followed by constant performance monitoring.

Change is the result of new political solutions that range from the formation of economic communities of interest in North America, the unification of European countries, and the dynamics in countries in the Far East, to cultural, social, demographic and other trends occurring worldwide. A special influence is exerted by technological changes that have enabled flexibility in creating, as well as identifying, the differences in the offerings of organisations in the international marketplace. Change is also the result of new responses from end consumers and business buyers, together with growing competition at the international level. In competing in the international market, an organisation must be faster than its rivals in understanding what the market needs and how to add value to its products and services, if it is to be more attractive to potential end consumers and business buyers and remain that way and thus match or even exceed their own strategic expectations.

International marketing differs from the domestic or national marketing perspective that is used throughout this book. International marketing takes place in an international environment that is much more complex than the national environment where domestic or national marketing is practised. International marketing operates under the influence of keen competition and a multitude of international competitors, while domestic marketing is influenced by competition on the scale of a national market. Operating in one or more foreign markets implies the need to develop and implement a variety and range of different marketing programmes, which makes international marketing the more complex relative to domestic marketing. Success in the international market requires unique knowledge and a willingness to adjust quickly.

The literature defines and deals with international marketing in different ways. For example, according to Terpstra and Sarathy[43], international marketing consists of finding and satisfying global consumer needs better than the competition does, both domestic and international, and coordinating marketing activities within the constraints of the global environment. However, Czinkota and Ronkainen[44] point out that international marketing is a strategy developed to achieve certain goals in foreign markets, based on the capabilities of organisations, the conditions present in the environment, and international competition.

For the purpose of this book, international marketing is defined as the process by which organisations create and exchange value with consumers in the international market. This definition of international marketing is based on the author's understanding of marketing where value creation begins with the needs and wants of consumers who purchase to satisfy their own needs and/or the needs of their families, and consumers who purchase for the purpose of productive consumption. These consumers are the focal point of the international market, yesterday, today, and most likely, tomorrow.

In explaining this definition of international marketing, the use of the term *value* should be noted, because not every product that is created represents value. A manufactured product becomes a value only when it is accepted by the consumer for whom it was intended. Organisations must take this definition of value into account during product creation.

A component of international marketing is the exchange process that takes place between the seller, that is, the organisation making a product, and the consumer abroad who is buying that product. The exchange process also occurs when products are bought in foreign countries to meet the needs of a domestic market. The object of exchange can only be something that has value for both markets. For the seller, this ‘something’ is the money it receives for a product delivered to the consumer, and for the consumer it is the product that has been paid a certain price.

The definition of international marketing suggests that the products that are the object of these exchanges are marketed in the markets of other countries. Hence, the issues prevailing in international marketing can refer to:

- the selection of international markets to market an organisation offering, and
- the way in which the organisation will handle these selected foreign markets.

29.2. Development stages of international marketing

With business development an organization applies different marketing activities. These marketing activities are graded as the developmental stages of international marketing in terms of the level of development the organisation has reached and the level of the foreign market it has entered. International marketing thus has five development stages: export marketing, plurinational marketing, multinational marketing, multiregional marketing, and global marketing.

Stage One: Export marketing – Initially, an organisation expands its operations in the home market by applying domestic marketing. At a certain level of development, an organisation’s management assesses that there are no prospects for further development in that home market, and to continue to be successful the organisation must turn to winning new, foreign markets. However, the primary objective of the organisation in doing so is not to win new, foreign markets *per se*. Winning new, foreign markets is an incidental, yet essential, activity that allows the organisation to get rid of its surplus of manufactured products which its domestic market, for a variety of reasons, can no longer absorb.

A specific feature of export marketing is linked to winning new, foreign markets using the same marketing programme as for the domestic market. The organisation does not need to make additional efforts to improve the offering it will use to compete in new, foreign markets. In other words, to win new, foreign markets, the organisation uses the same marketing mix combination – product, price, distribution, and promotion – that it otherwise would use in its domestic market. In this approach, the organisation focuses heavily on international distribution channels that differ, to a certain extent, from domestic distribution channels, and in this respect, some adjustments are required. In rare cases, minor and easy adjustments are made to the product, for example, to its packaging, labelling, etc.

It may be concluded as well that in this stage of development of international marketing, there is no obvious planned approach to winning foreign markets, and the exportation focuses primarily on a single foreign market. For example, according to one survey, small and mid-sized Croatian enterprises mostly compete in one of the markets of the former Yugoslavia – Bosnia and Herzegovina, Slovenia, Serbia, or Macedonia.[45]

Stage Two: Plurinational marketing - This plurinational marketing stage is a more-developed stage of international marketing where an organisation takes a planned approach to competing in a number of foreign markets. Characteristic of this stage is that the national market continues to be at the centre of the organisation's interests. The organisation sees the domestic market as the most convenient for its development, and it seeks to primarily adjust its offering to the needs of its domestic consumers. Despite this orientation, however, the organisation also plans measures and activities that will help it adjust to the needs of foreign markets as well as improve its competitiveness at home and abroad. The adjustments the organisation makes are more comprehensive and complex, unlike the adjustments to export marketing which are mostly linked to distribution channels and only to the smallest extent to the products.

Comprehensive adjustments in plurinational marketing refer to wide-ranging adjustments to product, distribution channel, price, and also promotion. Taking into consideration the demands of foreign markets, the organisation seeks to adjust its overall operations. The activities carried out when competing in both domestic and foreign markets are synergistically related. This means that the success an organisation has in the national market will help it perform well in new foreign markets, while its performance in, and adjustments to, foreign markets will help it to become even more successful in the national market.

Plurinational marketing involves new costs and is more expensive relative to export marketing. While this aspect may be discouraging in the short term, in the long run it is definitely a much more promising approach to such development. Once an organisation is successful in plurinational marketing, it has a sound foundation to develop multinational marketing, the next stage in the development of international marketing.

Stage Three: Multinational marketing - As its name indicates, multinational marketing is international marketing applied by those organisations who are competing in a number of foreign markets with offerings (marketing programmes) specifically designed for each individual foreign market. In this stage of development, an organisation competes on several foreign markets by designing an offering that is fully adjusted to one market; for another market, it designs a completely different offering; for a third market, it adjusts its offering specifically to that market; and so on.

In this approach to foreign markets, the products an organisation uses to compete in different markets may be similar, or the distribution channels it uses in these markets may have similar characteristics, or the prices may not differ substantially, or market communications to each foreign market may have certain similarities. Nevertheless, what distinguishes multinational marketing from the previous two development stages is the diversity of the offering in its totality. In other words, the offering is different for each individual foreign market. Although the organisation does not neglect its home market, the home market is no longer the main focus of its attention. The organisation instead is focused on developing each individual foreign market. To accomplish its objectives in these foreign markets, the organisation can use different strategies. Basically, however, there is no standardized way to compete, and any strategy used is primarily aimed at making adjustments to meet the demands of each individual foreign market.

Stage Four: Multiregional marketing – This multiregional marketing stage is the result of an interest-based integration of several countries into a regional association, such as the EU, NAFTA,[46] ASEAN,[47] APEC,[48] MERCOSUR[49] and ANCOM[50]. All these organizations comprise countries that are similar based on very specific characteristics: They are closely connected in terms of geography; more often than not, their political forces have the same political orientation; their cultures and languages are identical or very similar; and they are on the similar level of development.

Organisations recognize these similarities and seek to capitalize on them through multiregional marketing, that is, by integrating their markets and meeting market demand with the identical marketing programme. In this way, organisations can compete in the common market of the integrated entity, unlike with multinational marketing where they compete in markets of specific countries. This identical marketing programme or multiregional marketing allows organisations to exploit the effects of economies of scale, enhance their effectiveness in foreign markets, and ensure a certain level of standardization where both the offering and the marketing effort are concerned. For example, after signing a contract with a distributor in Saudi Arabia in early 2008, the firm *Improm*[51] from Križevci planned to market its beef-based, smoked, and cured meat products in Saudi Arabia and other neighbouring Islamic countries. The firm was successful in finding a market niche that had high criteria, but high purchasing power as well. As Ljatifi, the firm's director, stated, "…when someone orders 10,000 tons of our products after tasting them, we know we are looking at a future client".[52] From such multiregional marketing, international marketing can move to the final stage of its evolution – global marketing.

Stage Five: Global marketing – A key feature of global marketing is that it sees the world market as a single market, that is, a market with a single demand. Accordingly, winning this global market is based on a single marketing programme. The starting point for winning the world market is a strategy that sees that market as one, rather than the sum of individual foreign markets. The needs and wants of its consumers are also seen as being similar enough to be satisfied with the same marketing programme applied to the entire global market.

For example, the mobile phone is a product that satisfies that kind of same need, and that need of course is good wireless communication with the whole world. Most mobile phone manufacturers, such as *Nokia*[53], have designed new models that they then can sell on the world market. These models have the same characteristics, use the same or similar channels of distribution, have the same or similar prices, and the same or similar way of communicating with the market.

Today on the world market there are many organisations that successfully engage not only in global marketing, but also in multiregional marketing, multinational marketing, plurinational marketing, and export marketing. All these organisations, each in their own way, strive to succeed by adjusting to the different dynamics of the international market. Some organisations have evolved from export marketing across plurinational, multinational, and multiregional marketing to global marketing, while others have remained at the first level, that is, export marketing, or one of the other stages of international marketing.

SUMMARY

Services marketing. The special features of services marketing are the result of the characteristics of a service as an object of exchange. A service is intangible; variations exist in the quality of the service rendered; a service is inseparable from the service provider; consumers participate in service creation; and a service cannot be stored. A service business will design its offering based on the 7Ps, seven marketing mix elements. Apart from the more conventional elements, the 7Ps also comprises three additional elements: people, process, and physical evidence.

B2B marketing. The business-to-business (B2B) market is a market where organisations are present both on the supply and on the demand side. This market has many specific features, which derive both from influences that exist in the B2B market and from activities of organizations that are present in that market. Research results indicate the presence of different obstacles that constrain the faster development of organisations. The most important obstacles are related to the lack of resources (personnel, finance and time) and the inability to shift from tactical performance to strategic thinking. Also, different approaches such as balance score cards and strategic maps are suggested and discussed.

Environmental marketing. Business buyer behaviour is influenced by an array of forces in the environment. Forces emerging from the environment affect organisational forces, which, in turn, affect buying centres made up of employees, who have their own individual traits. Environmental marketing has emerged with the awareness that, by disrupting the natural equilibrium and jeopardizing Nature, unchecked economic growth is a threat to the human environment. Consumers are becoming more and more sensitive to environmental issues. Driven by these changes, organisations seek to design offerings that attach special attention to environmentally-friendly products and communicate this view to consumers.

International marketing is under the influence of a series of forces in the macro and micro international environment. The evolution of international marketing begins with export marketing, followed by plurinational marketing, multinational marketing, multiregional marketing and global marketing. Organisations operating in the international market seek to adjust their marketing mix to the specific features of each of these stages, thus developing successfully, regardless of the level of international activity they reach.

CRITICAL THINKING QUESTIONS

1. A service is intangible; a service cannot be stored; a service is consumed as soon as it is created; consumers participate in service creation; variations exist in the quality of the services rendered; and purchasing a service involves a sense of heightened risk. These are the most important features of services. Each is present in a service in varying degrees. Try to think of two services for each feature. The first should be less intangible, less perishable, etc. and the second more intangible, more perishable, etc.
2. In addition to service, price, distribution and promotion, the marketing mix of service organisations has three more elements. What are these elements and what are their characteristics?
3. Use examples to explain the primary features of the B2B market.

4. A number of forces impact the behaviour of business buyers. Which are these forces? Explain the forces using the example of an organisation in the shipbuilding industry.
5. In defining and implementing environmental marketing, marketers are faced with how to design an eco-friendly product and how to communicate that product to a market sensitive to environmental issues. Explain how that is done.
6. What are the specific features of environmental marketing management? Describe some of the attributes of "green" consumers.
7. Business in the international market is affected by sudden and wide-reaching changes. These changes come from new political solutions, cultural diversity, demographic trends, trends in technology, etc. To cope with these changes, organisations implement international marketing. What are the main features of international marketing?
8. International marketing is not static; it evolves through a number of stages. List the stages of international marketing and explain each stage.

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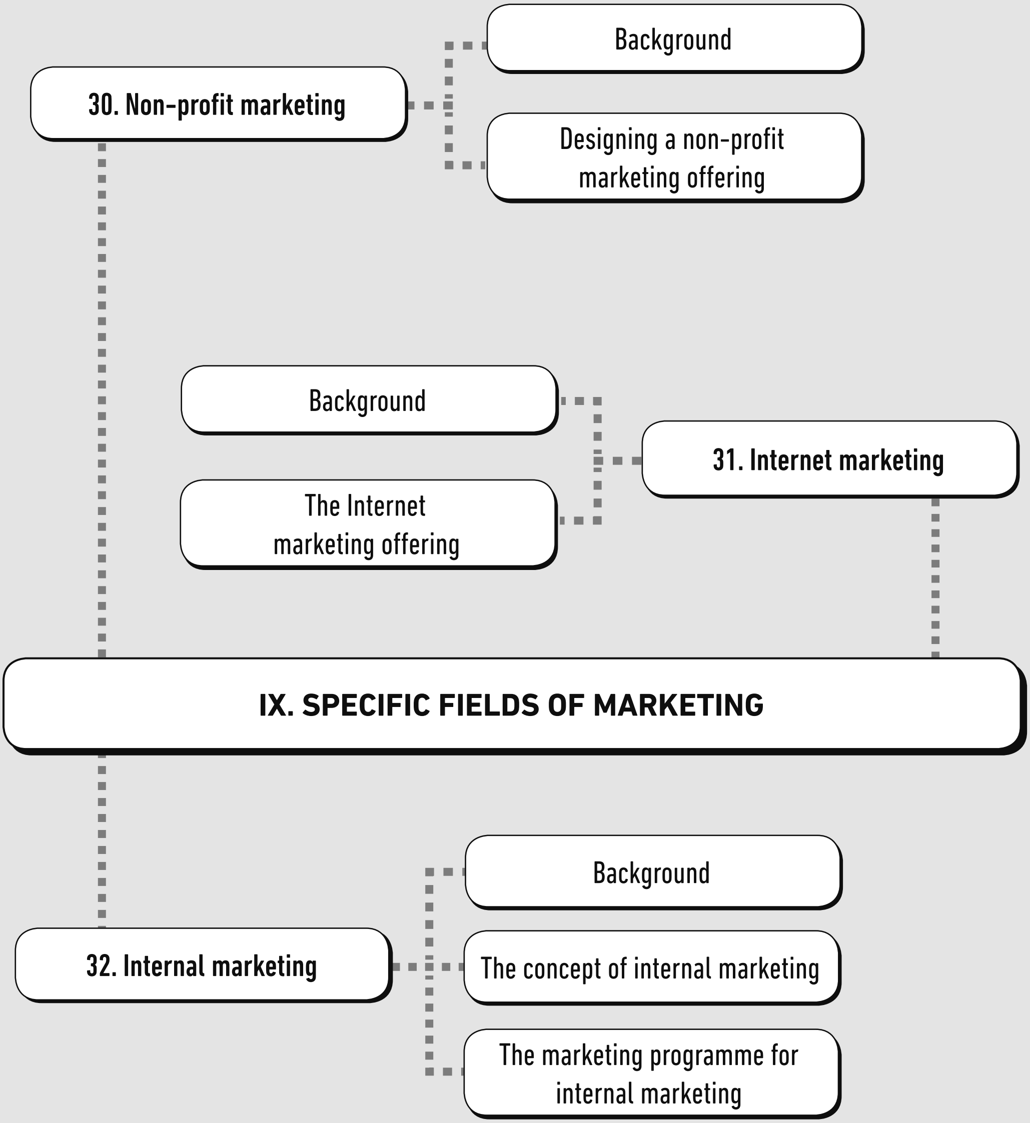
30. Non-profit marketing
Background
Designing a non-profit marketing offering
31. Internet marketing
Background
The Internet marketing offering
IX. SPECIFIC FIELDS OF MARKETING
32. Internal marketing
Background
The concept of internal marketing
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IX. SPECIFIC FIELDS OF MARKETING

Earlier, marketing was mostly linked to organisations whose main objective was to make a profit. Nowadays, the marketing concept has spread to the non-profit sector as non-profit marketing (Chapter 30). Marketing activities used to take place only in the so-called “traditional” market, while today similar activities are also conducted in the virtual market thanks to the development of the Internet and mobile telephony. Business operations in the virtual market are also closely linked to Internet marketing (Chapter 31). Internal marketing (Chapter 32) refers to marketing activities that take place inside an organisation to ensure the synergistic effect of all employees and all organisational units to accomplish the objectives of external marketing.

Objectives

After you have studied Part Nine, you should be able to:

- Understand the conditions wherein non-profit marketing is conducted and the issues it involves
- Identify the participants in non-profit marketing
- Discuss the structure of non-profit marketing
- Understand the features of e-business
- Discuss the Internet marketing mix
- Understand the concept and evolution of internal marketing.
- Analyse the special features of the internal marketing programme.

30. NON-PROFIT MARKETING

30.1. Background[1]

Marketing should not be viewed and understood exclusively from the viewpoint of profit, because it also has another dimension that humanizes its marketing concept. This dimension is seen in non-profit activities in the market that are also a part of marketing. Non-profit activities are linked to non-profit organisations (non-profits) that must take into consideration and implement the concept of non-profit marketing. Non-profit marketing also has a number of characteristics and special features.

Exchange always happens in the market, regardless of whether that change is motivated by profit or not. Exchange is always present because of the benefit derived from the exchange. Benefit, however, does not always have to be connected to profit. Regardless of whether an organisation is involved in for-profit or non-profit activities in the market, three basic types of benefits occur: economic, social, and psychological.[2]

Economic benefit is derived from situations wherein products are the object of exchange (physical products, services, or ideas). For example, if someone buys a Honda[3] motorcycle, they will derive benefit based on the ownership of a motor vehicle that enables them to get from one place to another quickly without incurring high costs. To receive this benefit, a certain amount of money must be spent.

Social benefits refer to the contributions of individuals or organisations when creating benefit for the broader community. For example, by buying tickets to a charity concert, individuals and/or organisations contribute to a charity campaign. This contribution to creating social benefit is seen not only in the value of the tickets purchased, but also in the time spent in attending the concert by giving priority to some higher cause instead of spending this particular speck of time performing some of the current individual or business tasks.

Psychological benefits are linked to the benefits an individual receives that are expressed through personal satisfaction. For example, if a person volunteers at a sports club, he/she receives a benefit that is basically a feeling of satisfaction from seeing the good performance of the club. Working as a volunteer a person is investing his/her free time, energy, and business contacts toward helping the sports club accomplish its planned objectives.

Non-profit marketing does not differ substantially from conventional marketing in terms of the specific elements of the marketing mix. Where it does differ is in its primary objectives. In the for-profit sector, the primary aim is to satisfy consumers while making a profit, but in the non-profit sector the main objective is to create benefits for society, that is, the community. Non-profit marketing also differs from conventional marketing in terms of the entities that take part in non-profit marketing. Participants in non-profit marketing are the legal or physical individuals who are the providers and creators of non-profit marketing, and the legal or physical persons who user or consume the non-profit marketing “product”.[4]

The list of organisations operating in the non-profit sector is a long one and includes organisations that are involved in other activities as well. They include government administration bodies, syndicates, animal protection associations, sports clubs, religious organisations, civic organisations against cancer, reformed alcoholics associations, etc. Through their individual activities, these organisations satisfy their needs and also the needs of their users, which can range from individuals across the organisations and their volunteers to the general public. Hence, in non-profit marketing, one group of participants creates an offering, while another group of participants benefits from the activities of the first group.[5]

In that exchange process, non-profits target a variety of legal and physical persons, including different interest groups and/or the general public. For example, to accomplish its objectives, the tennis club *Kvarner*[6] contacts and interacts with a number of interest groups and also the general public. As a non-profit sports association, the tennis club, like any other non-profit organisation, interacts with many groups. Basically, these interest groups fall into two categories: Interest groups directly involved in accomplishing the club’s objectives and interest groups indirectly involved through fostering the development of tennis as a sport.

The first category includes members of Boards of Directors, assemblies and supervisory boards; athletes; amateurs, the parents of children attending a tennis school; business partners that handle the operational side of training and the tennis school; and club employees. The second category consists of people and organisations with an indirect, but connected, interest in the tennis club. This category includes firms with which the club cooperates in procuring equipment and supplies, sponsors that watch the development of programmes to which they have contributed funding, citizens living in the neighbourhood who are keen on ensuring that public disturbances are kept at a minimum, etc.

The specific features of non-profit marketing thus pertain not only to stakeholders in the non-profit market, but also to target-market selection, marketing objectives, market research, and the behaviour of stakeholders in the non-profit market.

The objectives of non-profits are multiple and often cannot be precisely expressed, which makes them difficult to measure and monitor. However, in situations when the general public takes an interest in examining how a non-profit organisation is working to reach its objectives, interest groups are called upon to analyse the situation and recommend the activities to be carried out. For example, in setting the price of art gallery tickets, key interest groups may exert influence on the amount of revenue obtained from tickets by reducing the unit price of those tickets. Otherwise, in their opinion, high ticket prices might prevent the art gallery from achieving its mission statement.

It often happens that the objectives of non-profits do not meet the preferences of service users. For example, an art gallery's programme may include exhibitions aimed at showing the public the most important works of art from a specific era. On their part, the key sponsors suggest the gallery will exhibit those works of art that are likely to attract the most visitors, resulting in a situation where the interests of the target group are not always given full priority. Indeed, non-profits, such as art galleries, can have a dual audience. One is the audience that provides the art gallery with the means its needs to operate (sponsors, the local community), while the other is the audience that benefits (visitors). Short-term non-fulfilment of user demands – in our example, the demands of the gallery's visitors – will not have any substantial adverse effect on its long-term relationships. Long-term non-fulfilment of consumers' needs and wants in the non-profit sector, however, can produce adverse consequences.

In their decision- making, non-profits use a variety of information sources. However, unlike the information sources available to for-profit organisations, the information sources for non-profit organisations are very limited. For example, there are either no secondary information sources available to organisations in the non-profit sector or those sources are very sparse.

It is clear that the nature of the non-profit sector makes it difficult to collect primary data, and any market research is constrained in terms of costs and the involvement of respondents. For example, respondents will rather take part in a survey about beer consumption than in a survey about the harmfulness of smoking. What is more, researchers in the non-profit sector often must deal with the indifference of respondents. Respondents are indifferent either because they are not aware of a situation or because they are simply not interested in it. For example, many people do not see the large number of homeless dogs and cats as an issue nor does it matter to them. Marketers for non-profits, seeking to resolve this or similar issues, often find that there is a lack of sources for the information needed for effective decision-making.

Non-profits often have the task of trying to influence user behaviour. In carrying out this task they may encounter difficulties in convincing service users that there are benefits of a new mode of behaviour. For example, it is very difficult to persuade people that they should stop smoking just because smoking is harmful to their health and environment. Smoking is a habit and, for some people, a pleasure they will not willingly give up even if their future health and the health of their broader environment are endangered.

In some cases, when the non-profit sector seeks to persuade users to give up a certain benefit, other sectors may generate an even greater benefit on the same basis. For example, when speed limits are implemented on a motorway, drivers will need more time to travel the same distance. The benefit of having a motorway in the first place is thus reduced. On the other hand, the government that implemented the speed limits creates a benefit by making the road safer and by reducing the number of accidents. A smaller number of accidents results in less damage and lower costs for treating the injured, which occurs at the expense of the system that operates compulsory health insurance coverage.

30.2. Designing a non-profit marketing offering

Organisations operating in the non-profit sector often design their offerings using a combination of marketing mix elements, but after they have selected a target market. They use market segmentation to select the target market. In effect, by segmenting their market, they create small homogenous groups of service users that will differ from one another. This segmentation helps non-profit organisations have a more comprehensive understanding of the attributes, habits, and responses of their targeted users, which ultimately enable the non-profit organisations to adjust their marketing mix accordingly. Any form of segmentation is viewed as being better than treating users as single, non-differentiated units.

It is not possible for non-profit organisations to fully adjust their services to the demands of users just to increase market potential, as is regularly the case in the for-profit sector. The basic situation in the non-profit sector is much more complex, because the services provided are not defined by statute, and the delivery of these services depends on the key people who are managing that non-profit organisation. For example, a theatre could organise concerts featuring folk music stars, the financial outcome of which would probably be very good. However, folk music concerts are not part of what a theatre is about, so it is hardly likely that any theatre management would accept this challenge.

Taking into consideration these kinds of constraints, marketers in the non-profit sector will seek to develop services based on segmentation, differentiation, and positioning of each non-profit service. Success can be expected if a segment can be identified that has sufficient size and that accepts the value offered by a specific non-profit organisation.

The distribution system in a non-profit system has limited possibilities for helping to improve the marketing mix. Namely, the large majority of non-profit organisations are often located in a single location or possibly in a small number of locations. These facts represent the constraints for the organization when the quality improvement of this marketing mix element is taken into account. Modern technology, primarily the Internet, greatly helps to change this situation. Today, certain activities related to distribution are taking on new dimensions. Services that understand the nature of information can be sent to users by e-mail or can be posted on Web pages. For example, the Faculty of Economics of Rijeka organizes a postgraduate study *Marketing Management*. All information concerning this study course, i.e., the schedule of lectures, lecture summaries, PowerPoint presentations for certain courses, and much more can be found on the Faculty Web pages. The Faculty of Economics of Rijeka also uses its Web pages to publish calls for enrolment in undergraduate and postgraduate programmes or enrolment in life learning programmes.7.

As a marketing element, price is also less important in the non-profit sector because most non-profits do not valorise their services, but instead provide them free of charge. For example, the Entrepreneurial Information Centre[8] was established with the aim of facilitating the development of small organisations and providing entrepreneurs and citizens a one-stop centre where they could get all the information they needed to carry out a variety of initiatives. The Centre also focuses on helping with the start-up of new organisations and fostering the further growth and development of existing ones. The Centre does not charge for its services, but it does generate revenue from the budgets of local and regional self-governments and the national budget.

Some non-profit organisations, such as hospitals or higher education institutions, partially charge their users for their services. Hospitals partially charge for medical examinations and hospital days, while higher education institutions charge students based on the cost of studying in a given academic year. It is, however, very characteristic of non-profit organisations that they cannot influence price just by increasing production.

Promotion is a key element of the marketing mix for non-profits. Communicating with service users is imperative in the non-profit sector. Communication can occur through a number of media, ranging from daily and weekly printed media to magazines and specialized journals to radio and television. A problem that has become obvious is the lack of professionalism when designing advertisements and other forms of communications that non-profit organisations use to reach out to their users. Wanting to make the most of the modest funds they have at their disposal, many non-profit organisations choose to design their own messages and communicate with users by themselves. Although they may have saved money by not engaging the services of professional advertising agents, as a rule, the damage caused is greater than any savings gained, because their message fails to achieve its desired aim.

Personal selling is most commonly used for communicating with service users in non-profit organisations. These non-profit organisations rely on the volunteer work of many citizens, and it is these citizens who carry out the promotional function through their field activities and their contacts with other citizens. Another widely used form of communication is public relations. A non-profit organisation will use this form of communication to inform users, as well as the general public, about the actions it has taken, the results it has achieved, and the activities it has planned for the future.

Mogu[9], an equine therapy association, uses this form of communication. The association is located on the banks of the Drava River, west of the race track in Osijek. The association's volunteers are efficient, careful, and professional when carrying out programmes in therapeutic and recreational horseback riding and equestrianism for people of all ages who have various physical, mental and/or emotional disabilities. The message the association sends is that its… *goal is, by sharing knowledge, experiences, and inspiration, to improve the quality of life of people with special needs through the outstanding effects of therapeutic horseback riding, and thus improve the relationships these people enjoy with the rest of the world*.[10]

To conclude, non-profit marketing is linked to the non-profit-based activities of various organisations with the primary aim of creating value for the community (society). When creating offerings, non-profit organisations focus heavily on communication with their target markets and less on the other elements of the marketing mix, in particular, price.

31. INTERNET MARKETING

31.1. Background[11]

In today's new business environment, it is imperative for organisations to be in constant communication with their markets. Thus, the use of the Internet and information technology is inevitable. Organisations that fail to make use of the Internet today soon find themselves in an unfavourable position with far-reaching consequences.

Directly linked to the use of the Internet for business operations is the application of new principles of organisation and management. When they are combined, they lead to e-business and Internet marketing that implies new ways of doing business. Internet marketing is an integral part of e-business increasingly used by a constantly growing number of organisations.[12]

With the appearance and development of the Internet, the principles for doing business in the market are changing, and new principles are emerging. Most authors refer to this new business type as e-business. E-business involves doing business based on processes carried out via computer-supported networks. The Internet and e-business have produced a new virtual market and also new relationships between actors in this market. Transactions over the virtual market are carried out entirely on-line, because there is no physical space.[13] The supply and demand that come together in the virtual market are now global in character, that is, supply and demand within the virtual market originate from all parts of the world.

In comparison with conventional forms of business, e-business provides organisations with a number of new advantages, including global availability, unlimited work hours (24/7), and a multimedia environment. Given these circumstances, some organisations, for example, commerce, banking, the stock exchange, the hotel industry and tourism, have already begun to exploit the clear advantages of doing e-business. A variety of e-business forms have also developed, and they range from electronic commerce (e-commerce, telecommerce) to electronic banking (e-banking, telebanking) an electronic stock exchange (e-bourses, e-exchanges), computer reservations systems (CRS) and e-marketing.

E-marketing or Internet marketing[14] is the totality of an electronically based process that helps manufacturers collect the right feedback necessary to produce and launch products that will satisfy consumers' needs as much as possible. This process is based on a network technology that makes it possible to coordinate market research, complement product development, formulate strategies and tactics to stimulate consumers to buy, enable the direct distribution of certain products over the Internet, provide special user support to consumers, and also record and detect changes in consumer needs. The process also provides support to an organisation's entire marketing programme to help it accomplish its e-business objectives.

Hence, Internet marketing comprises the activities of organisations in the virtual market that are aimed at recognizing consumer needs, communicating with their market, and selling an offering by using sophisticated information technology.

The development of the computer has made it possible to store huge amounts of data and create databases that can be used individually or in many different combinations, as required. The development of the Internet has made it possible for an organisation to post on its Web pages large amounts of information that can then be easily accessed by researchers and marketers. Internet users can access many on-line databases free of charge, for example, stock market databases[15], but may have to pay a specific fee to access other databases, such as the *Privredni vjesnik* database that provides information about economic trends.[16]

All these possibilities has caused modifications in conventional marketing information systems (MIS). The new Internet MIS has three key parts. The first pertains to various data sources that range from market research and competition studies to a variety of secondary data sources. The second part comprises the database, that is, the business data warehouse, and the marketing decision-support system that includes the software needed for any data processing. The third part refers to using all of this information when making business decisions, handling knowledge management and monitoring business control systems.

31.2. The Internet marketing offering

Organisations operating in the virtual market design their offerings in much the same way as organisations do in the conventional market, although there are a few different special features. For example, the product that is the object of exchange in the virtual market does not differ essentially from the product sold in the conventional market. However, the virtual market product is expanded and enriched through additional pre-sales and post-sales services, on-line consumer support, and guides for product usage. The introduction of information technology in business, together with the strong support available on the Internet, has given rise to two new processes for product creation: customization and personalization.

Customization is a process by which basically identical products, such as certain car models, can be delivered in a variety of versions. For example, the same car model may have two or more air bags; it can come with or without air-conditioning, with leather seats or seats covered in materials of different colours, and with or without a moon roof, etc. These choices are made possible by flexible production technologies, on the one hand, and the ability to obtain information about individual interests and wishes of consumers, on the other hand. Enabled by Internet marketing, organisations can individualize offerings to a larger number of consumers, thus satisfying special needs and wants of individuals.

Personalization is indeed a special form of product differentiation. Through personalization a standard product is transformed into a special version of that same product for a consumer who is a single individual. In this aspect, personalization differs from customization which is aimed at adjusting a product to the needs and wants of a large number of consumers. By personalizing a product, the manufacturer changes the product according to the needs and wishes of a single individual. These changes do not pertain just to physical adjustments, but also to product attributes, such as size, design, packaging, post-sales services, price, distribution channels, and more. Internet marketing greatly facilitates this personalization, because it allows information from the market to be gathered and processed, and it lets consumers become very involved in creating a product to meet their own needs. On the other hand, by embracing this trend manufacturers obtain a great amount of resourceful information dealing with their consumers' real interests in the virtual market.

What is more, new product development becomes much faster with the use of the Internet than with the more conventional approach. This change especially pertains to products sold over the Internet. Manufacturers are able to test a product concept faster and easier. Flexibility in designing a product also makes it easier for manufacturers to take consumer feedback into immediate consideration. And because all this research – from testing, across gathering and processing information, to consumer feedback –takes place over the Internet, the speed at which new or innovated products can be created or modified is considerably faster.

Organisations will be able to design, develop, test, improve, and innovate their products in the future by continuously investing in new information technologies that enable better and more involved interactive relationships with their consumers.

The pricing models used by organisations in the virtual market are also modified in comparison with those used in the conventional business models. A vital factor in pricing on the virtual market is knowing that consumers can very easily do an on-line search of an offering and do it globally, 24 hours a day and 7 days a week. Consumers are very interested in the price of a product, in addition to its other attributes, so they pay special attention to prices in their on-line searches.

Once a consumer has decided to purchase a product in the virtual market, he/she must add to the price the cost of Internet usage and cost of delivery. For example, to gain access to the Internet, a consumer's computer must be somehow connected to it, thus inccuring connection costs. The price of the product is also affected by delivery costs usually paid at the time of purchase. For small packages consumers usually pay just the delivery costs as postage. With a bulky product or a large quantity of several products, consumers pay freightage. Also consumers may experience other potential costs such as custom duty.

It is characteristic of the virtual market that the key figure when setting prices is the consumer, unlike the conventional market where either the manufacturer or the seller is that key figure. While conventional pricing is based on past sales, pricing in the virtual market is tied to the sale at hand, from which it naturally follows that prices are continuously being modified.

To a considerable extent, the virtual market eliminates the need for intermediaries and organisations that are solely engaged in product distribution. Intermediaries are not needed because an on-line organisation can set up its own distribution point. This change indicates the growing importance of the zero-level marketing channel, which can help cut costs and indirectly boost consumer satisfaction.

However, considering the increasing complexity of relationships between operators in the virtual market, independent organisation of distribution over the Internet is becoming very burdensome for many organisations. Further, the speed at which many organisations are growing makes it difficult for them to focus on two fronts at the same time, namely, product development and product selling. This issue has given rise to so-called cybermediaries or intermediaries that operate in the virtual market. Their role is to create conditions that facilitate consumers when searching for a product, build clear and precise databases that consumers can use to evaluate products, and handle the distribution of products from virtual department stores or on-line auctions to the home addresses of consumers. Some of these successful intermediaries on the virtual market are *eBay,*[17] *Realbid* [18] and *Aucnet.*[19]

Intermediaries operate by creating consumer and supplier databases, databases about the volume of certain needs, the attributes of products, conditions of sale, etc. Based on such data, clients are then grouped into categories. For example, one category might be the hotel industry, where hotel enterprises are the consumers, and the manufacturers of food, furniture, equipment and other products needed by hotels are the suppliers. *Lastminute.com*[20] is another intermediary that provides travel services by filling, up to actual departure, the unsold seats in airplanes or buses, and/or unsold rooms in hotels. Because these seats and rooms are filled at the last minute, prices are substantially lower for them and thus attract those travellers who want to travel, but have no date-specific travel agenda.

Promotion in Internet marketing is an equally important – and according to some, the most important – element of the marketing mix. The primary objectives of promotion in the virtual market are to attract consumer attention, enhance credibility, ensure proper positioning, develop familiarity between the public and the organisation, build a brand, and develop consumer loyalty. These possibilities will ultimately increase sales.

As mentioned earlier, products offered in the virtual market are enriched by a variety of pre-sales and post-sales services. Organisations need to highlight these services on their Web pages, with special emphasis placed on customization and personalization of their products. In other words, content should be presented based on the special interests of target consumer groups and the individual consumer within those groups. To do so, marketers can use software, such as *WebS Commerce Server 4.0, Broadvisions One-to-One, NetPerceptions, Likeminds, Match Logic* and, *Future Tense*.[21]

Marketers have several ways of carrying out promotions in the virtual market. To this end, they use mail servers and AutoReply options (an option that enables automatic replies to consumer questions received by e-mails). Marketers can also use e-mail to communicate directly with their consumers or suppliers. Web-pages are also used. Web-pages must also be appropriately designed, starting with the right logo, a clear structure and colour scheme, and ending with precise, easy-to-read content, text and images, because Web-pages promote not only the content, but the organisation as well.

Computer cookies are also an often used approach for promotion. When people visit the Website of an organisation, its Website places a cookie into the visitor's computer. In this way, the owner of the Website can collect information about that consumer's interests, preferences, and behaviour. Frequently Asked Questions (FAQ) provide a list of questions and answers that helps new consumers or new visitors to Websites learn more about the most common ambiguities that consumers come across when visiting each site.

Advertising on the virtual market includes the use of banner ads, and static or active drawings on billboards. Despite the large number of potential visitors in absolute terms that learn about an offering and are stimulated to buy, the number of visitors who actually purchase in relative terms is often very small. Only 0.1% of visitors generally become actual customers.[22]

To conclude, Internet marketing is developing rapidly and being used by more and more organisations. Internet marketing is also undergoing rapid changes to adjust to its users. The most important changes are liked to direct communication wtih consumers and direct deliveries to consumers.

32. INTERNAL MARKETING

32.1. Background[23]

It can be said with some certainty, that the 20th century, as imbued as it was with the principles of neoliberal political economy, was characterised by competition as the primary carrier of business activities in its economy. However, new times in a new century have brought a new way to understand the reality of the business world. Cooperation is now considered the main framework for achieving long-term business success. The role of relationship marketing has expanded to include suppliers, consumers, and other market operators, while the term *consumer* has taken on a new, broader meaning that encompasses both external and internal consumers.

The external consumer is, in fact, the entity that buys products on the external market, while the internal consumer is the entity that buys products on the internal market, that is, the market that exists within an organisation. In this internal market, the employees of an organisation seek to satisfy the needs and wants of the organisation's other employees or organisational units, either directly or through the organisational units where they work, as if they were the consumers of the organisation's products. Accordingly, in certain cases, an organisation's employees are seen as internal consumers, and yet in other cases, as internal sellers. These internal sellers abide by the same high standards for achieving consumer satisfaction dealing with the departments used for developing relationships with external consumers. Relationship marketing recognizes the importance of internal marketing in achieving external marketing activities. Activities carried out to improve an offering to internal consumers concurrently contribute toward increasing production and raising the morale and enthusiasm of employees. These actions ultimately results in better relationships with external consumers, suppliers, and other actors in the external market.

The employees of an organisation become more motivated and more encouraged to act if internal communications among employees exist, and if these employees are familiar with the full vision and the goals of the organisation. Basically, when employees are not familiar with the goals of an organisation, their contributions toward achieving these goals is reduced because they lose motivation and interest. Research indicates that organisations with well-developed internal communications are more successful than are those organisations where internal communications is poorly developed.[24] Management-employee communications and communications among employees are just one aspect of internal marketing that is, given its nature, highly complex. Although vital, communication is not the only activity of internal marketing that helps ensure an organisation’s rapid development. Accordingly, as Ballantyne states, the organisation becomes an internal market wherein internal buyers and internal sellers operate, while its organisational units are seen as profit units.[25] By satisfying their internal buyers, organisations will become more successful in satisfying their external buyers, thus ensuring their development.

32.2. The concept of internal marketing

The origin of internal marketing is found in the works of Gronroos, Berry, and other authors from the late 1970s and early 1980s. Since then, more and more scholars and marketers have focused their attention on the study and implementation of internal marketing. [26] Teachings from that period emphasize that there is no essential difference between internal buyers and external buyers, because both buyers wish to have their needs and wants satisfied. The vital difference, however, can be seen between the needs and wants of internal buyers and those of external buyers. External buyers are looking for a product that will match their expectations, while internal buyers are looking for a “product” that will satisfy their need for information and the transfer of knowledge, as well as their need for an appropriate physical and social environment.[27] Internal marketing is becoming even more important than external marketing despite the fact that, as some authors correctly point out, internal marketing, despite the vast scientific opus that exists, is still not being implemented to the extent that is required.[28] According to the AMA (American Marketing Association), internal marketing is marketing to employees of an organisation to ensure that they effectively carry out desired programmes and policies.[29]

For example, the company JGL[30] has developed internal marketing based on horizontal and vertical communication between employees at all levels. The internal marketing approach motivates employees to treat each other as customers. This results in motivated employees that act jointly towards external customers. As a consequence, the organisation is becoming more profitable.

According to Ahmed and Rafiq, and their extensive analysis of the literature, the **evolution of internal marketing** can be divided in three phases:

- Phase One, employee motivation and satisfaction
- Phase Two, customer orientation
- Phase Three, strategy implementation/change management.[31]

The first phase of internal marketing, linked to the work of Berry in 1981, views an organisation's employees as internal consumers and their jobs as internal products through which they satisfy their needs and wants, and through which they accomplish the organisation's goals. Internal marketing is based on the philosophy that one should treat employees as consumers and thus, the strategy of designing job products should start with meeting employees' needs. This understanding of internal marketing has emerged from services marketing where the satisfaction of service consumers (external buyers) depends on the quality of the service process. In this service process, service employees are the most important component. When service employees are motivated, informed, and educated, they will, in turn, be able to fulfil the expectations of service consumers.

The second phase of internal marketing is the result of research carried out by Gronroos and other authors who considered that, in addition to meeting the needs and wants of internal buyers (an organisation's employees), it is also necessary to take into account the relationship between employees and external consumers.[32] Gronroos claims that marketing activities can be used in the internal market, which consists of an organisation's employees, to help create more efficient and motivated employees who then become focused on creating and marketing value to the organisation's external consumers. To achieve this goal, it is necessary to coordinate between contact employees and backroom support employees. Unlike Berry, Gronroos focuses attention on creating customer orientation in employees through influencing employees, rather than just satisfying and motivating employees.

In the third phase, the concept of internal marketing is broadened to include strategy implementation and change management. Here, internal marketing is seen as a component of an organisation's strategic development wherein employees are treated as the agents of activities through which an organisation's goals are achieved. Ahmed and Rafiq, as representatives of this phase, claim that through internal marketing, organisations can undertake activities to overcome the resistance of their employees toward change, and then guide, motivate, educate, and align these employees in effectively implementing functional strategies, together with delivering the organisation's corporate strategies.[33] It is on these bases that internal marketing has become a key factor for implementing strategies, as well as for reducing contradictions between business operations, and thus overcoming resistance to change.

By analysing the evolution of internal marketing, Ahmed and Rafiq[34] concluded that internal marketing consists of five elements: 1) Employee motivation and satisfaction, 2) Consumer orientation and consumer satisfaction, 3) Inter-functional coordination and integration, 4) Application of a marketing approach to the above, and 5) Implementation of corporate and functional strategies. By taking into considerations these five elements and the strengths and weaknesses of each individual phase of internal marketing, the authors saw internal marketing as a planned effort that uses a marketing approach to motivate employees for the purpose of implementing and integrating the consumer-oriented strategies of an organisation.

To motivate employees to implement and integrate these consumer-oriented strategies, marketers must understand the characteristics of the marketing programme for internal marketing.

32.3. The marketing programme for internal marketing

The internal marketing programme involves performing specific marketing activities whereby an organisation can put its functional and corporate strategies into action. Performing specific marketing activities is linked to tactical decisions related to the marketing mix elements. Furthermore, tactical decisions can contribute to business efficiency only when they are integrated into the marketing programme. Hence, the following section examines the features of each element of the marketing mix and the tactical decisions linked to it. It must be noted, however, that the marketing mix used in internal marketing does differ from the conventional marketing mix. The conventional marketing mix, or the 4Ps, comprises four elements (product, price, place, and promotion), while the extended marketing mix, more suited to internal marketing, comprises seven elements, the 7Ps. In addition to the usual elements, the extended marketing mix also includes three new elements – people, process, and physical evidence. These additional marketing mix elements are applied in service marketing. Hence, because internal marketing deals with services, which are intangible, it is appropriate to include people, process and physical evidence in the marketing mix of internal marketing.[35] This extended marketing mix indeed acknowledges the need for inter-functional coordination, as well as the necessity of ensuring the mutual efforts of all employees to deliver an organisation's strategies.

In internal marketing, employees are treated as consumers. Accordingly, the organisation, being the employer, offers ("sells") a **product** in the form of a job that employees then perform. The organisation is in a position to decide on and create conditions that make a certain job acceptable, desirable, and even interesting to its employees as individuals or as a group. For an organisation to successfully "sell" its internal product, that is, jobs and assignments, it must select its target market, just as it would if it were using the conventional marketing approach. An organisation should segment and group its employees, so it can gather clear and unambiguous information about their needs. This process will enable the business to delegate assignments to different employees and select those employees who are the most capable of meeting the organisation's expectations.

Pricing in internal marketing is much more complex than in conventional marketing. In conventional marketing, the price of a product depends on the cost of raw materials, production materials, labour costs, supporting services, etc. The price for the external consumer is based on the monetary cost that relates to the price paid for the product, the cost of time necessary to acquire and use the product, the cost of the external consumer's physical and intellectual energy, and the psychological cost regarding the stress and uncertainty an external consumer feels during the buying process. In internal marketing, price primarily relates to the psychological cost that the internal consumer incurs when trying to adapt to new conditions and work methods. Because psychological costs are difficult to determine and measure, employees often overestimate these costs and tend to resist certain changes that are required of them due to misunderstanding.[36]

The internal market "product" cannot be stored because it is a service, and it has to be consumed where it is created. In the internal market, the **distribution channel** can be seen as conference rooms, the offices of department managers or similar places where employees are given new assignments, new operational processes, a new way of providing services, etc. Using this element of the marketing mix, the internal market ensures that employees are provided needed information concerning the tasks they must perform and the changes to tasks already assigned. Employees also receive feedback concerning the quality of their accomplished tasks.

Promotion in internal marketing is linked to the communication between an organisation (management) and its employees, but also to communication occurring among the employees themselves. This communication may be achieved using several approaches, such as internal advertising, personal selling, and sales promotion. Most often, however, a combination of approaches is often used. The aim is to influence the attitudes, thinking, and satisfaction of employees. The greatest effects are achieved through personal selling, that is, through contacts with persons in charge. In this form of communication, authority, flexibility, and speed are present, while information is more simply spread by word of mouth. Internal advertising is carried out using various media, such as posters, internal bulletin boards, internal gazettes, loudspeakers, and work-related meetings. More recently, the Internet via e-mailing, Web pages and video recordings has become a very effective medium for communication. Through sales promotion, employees are stimulated with the promises of bonuses, prizes, awards, etc., all of which significantly contribute to producing a creative atmosphere within the business.

Employees, who are the service providers in an organisation's internal market, are also a key factor in the success the organisation achieves in the external market. The work these employees perform provides services to internal consumers and, ultimately, also ensures the quality of services provided to external consumers.[37] For this reason, organisations should seek to recruit qualified personnel, and continuously provide information needed for them to adapt to change by organizing workshops and training to ensure the transfer of prescribed performance standards as well as best practices.

In internal marketing, an organisation defines the **processes** by which it will deliver a standardized offering to its external consumers.[38] Delivering a product of consistent and standard quality contributes to the success of the organisation and helps reinforce relationships with its external consumers. Process, as an element of internal marketing, is in fact how a service is delivered to internal, as well as external, consumers. In other words, these dual processes ensure that everyone knows what to do and how to do it.

Physical evidence is the seventh element of internal marketing mix by which internal services receive tangible expression. Services in the internal market, as in the external market, are intangible, and an organisation seeks ways to make them tangible to enhance the consumer's interest and experience.[39] There are many ways to do this task. The important methods, however, are tied to the area where the service is created and provided, as well as to the equipment used to create and provide that service. Some authors consider various documents, manuals, letters, and written instructions, which facilitate employees in carrying out their work assignments, as a special way of providing those services.[40]

To conclude, internal marketing focuses on the needs and wants of internal consumers to create an entrepreneurial and motivating atmosphere within the organisation. Yet this process alone cannot contribute to business development if the organisation fails to operate in compliance with the principles of marketing orientation, which the organisation must also take into consideration not only for its consumers, but also for its suppliers, distributors and other market actors. The organisation must build partner relationships with all of these if it is to perform successfully within a dynamic environment.[41]

SUMMARY

Non-profit marketing. In addition to the for-profit sector, marketing is becoming increasingly widespread in the non-profit sector. Non-profit marketing is characterized by non-profit-oriented organisations, non-profit-based primary objectives, and a pronounced need for continuous communication with the users of non-profit marketing services.

Internet marketing. The characteristics of the virtual market have modified the traditional approach to marketing. Significant changes have occurred in all elements of the Internet marketing mix, particularly in distribution, because certain products are delivered directly to consumers, thus reducing the need for intermediaries. Promotional activities take advantage of new technological solutions and action in the virtual market.

Internal marketing focuses on the needs and wants of internal consumers, that is, an organisation's employees, with the aim of creating an entrepreneurial and motivating climate. Internal marketing is marketing to employees to ensure that they are effectively carrying out desired programs and policies. Internal marketing has evolved from employee motivation and satisfaction to a customer orientation phase and strategy implementation/change management phase.

CRITICAL THINKING QUESTIONS

1. Participants in non-profit marketing include legal or physical persons who are the carriers and creators of non-profit marketing, and the legal and physical persons who are the users of the services of non-profit marketing. Use examples to explain the characteristics of these individual participants.

2. The marketing mix of non-profit organisations is based on a combination of service, price, distribution, and promotion. Only some of these elements, however, can be fully defined. Which ones are these? Why can the others not be defined?
3. The Internet environment is complex because it involves a large number of intensively connected participants; it is heterogeneous because its relevant component parts are extremely diverse; it is dynamic because changes are numerous, rapid, and often unpredictable and uncertain. Comment.
4. What are the main elements of the Internet marketing mix and what are its basic characteristics? Explain.
5. What is internal marketing, and how does it differ from conventional marketing?
6. Discuss the features of the marketing mix elements of internal marketing. Use an example to explain each element.

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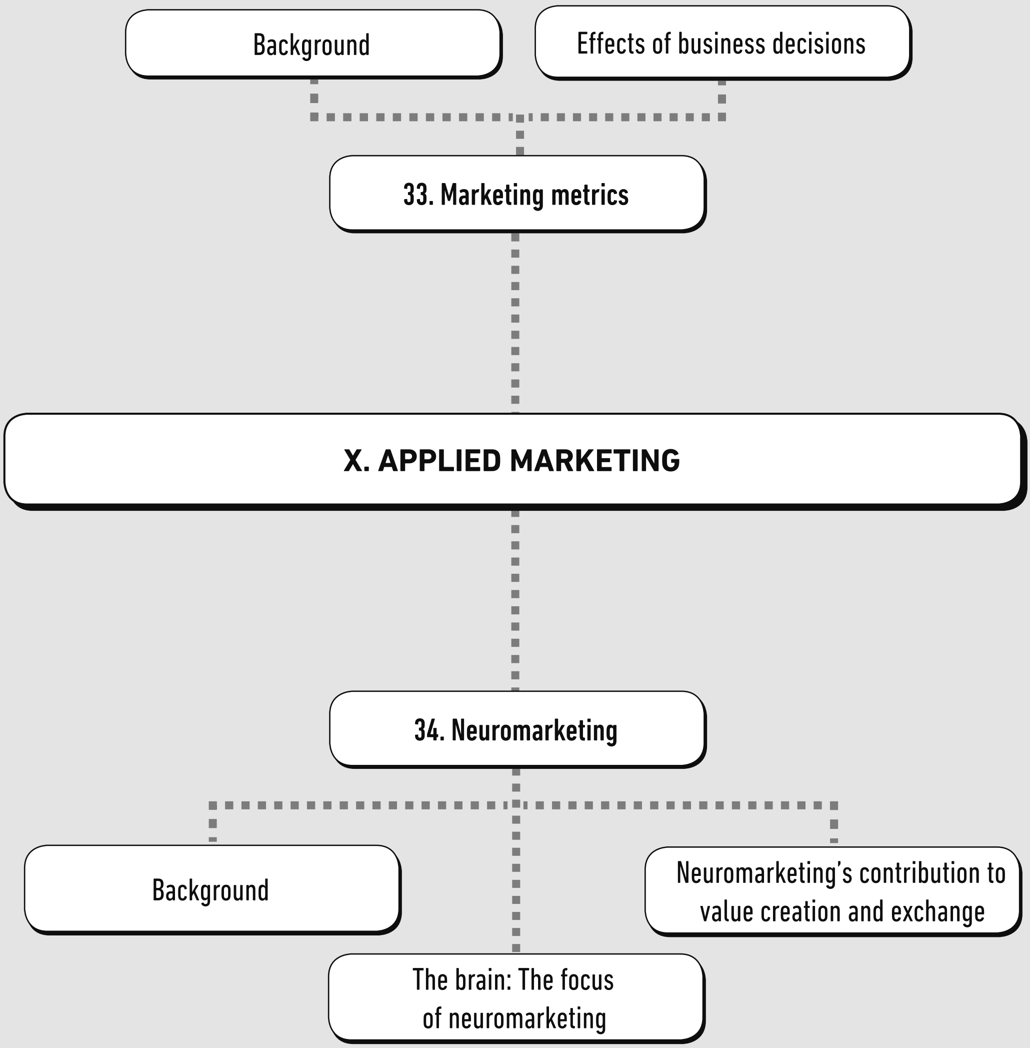
Background
Effects of business decisions
33. Marketing metrics
X. APPLIED MARKETING
34. Neuromarketing
Background
Neuromarketing's contribution to value creation and exchange
The brain: The focus of neuromarketing

X. APPLIED MARKETING

New knowledge and technological advancements have created new conditions for applying marketing to various areas of human activity. To gain control of the future, marketers have developed a series of measurements, brought together under the common name of marketing metrics (Chapter 33). Neuromarketing (Chapter 34) is a combination of marketing and neurology that helps us to understand how consumers respond and then how they behave during the buying decision-making process.

Objectives

After you have studied Part Ten, you should be able to:

- Distinguish marketing as a science that sets guidelines, leads and defines measuring instruments and marketing as an art that inspires and creates
- Design a metrics system for marketing activities
- Understand the basics of neuromarketing
- Identify and relate to the interests and concept of neuromarketing
- Understand the use of neuromarketing to create and exchange value.

33. MARKETING METRICS

33.1. Background[1]

Much more today than in the recent past, marketing is accepted as a generator of revenue. The importance of marketing will grow (or shrink) depending on its ability to prove its contributions to the success of an organisation. In this context, the success of marketing activities is increasingly linked to financial results, that is, to investments and return-on-investments that is required, as well as to the ongoing debates on whether marketing is a science or an art form.

There are many arguments that support marketing as a science, and just as many that see marketing as an art. Marketing is considered to be a science because it lets marketers anticipate the responses of consumers to the marketing activities of an organisation. Through marketing, marketers seek to understand as well as to influence consumer behaviour. Marketing is a science because it uses mathematics and statistics to learn about and anticipate change in a market. Marketing is a science because it provides answers for how much to spend on developing a certain product or winning a new market. As a science, marketing provides answers to questions about return-on-investment, product awareness, consumer satisfaction with a specific offering, etc. Marketing seen as a science calls for a certain level of exactness which is then achieved through precise measurements and analysis of those numbers.

On the other hand, the argument that is often used when portraying marketing as an art is based on the fact that, in some situations, marketing activities cannot be measured or are difficult to measure. Marketing is seen as an art form because it often requires creativity when designing a product image to make it different and distinctive to consumers. Another argument that supports marketing as an art is based on the assumption that marketing creates and stimulates demand in the marketplace. Because not everything can be measured and anticipated, the resolution of unknown quantities is thus left to the artistic aspect of marketing.

The correct answer of course is that marketing is both a science and an art form. Marketing is both because marketing as a science lays down the basic tenets of business, while marketing as an art helps resolve the unique nuances that guarantee success. Hence, marketing as a science should lead and measure the results, while marketing as an art should inspire and create new opportunities.

Seeing marketing as both a science and an art form, marketers primarily try to establish the efficiency and effectiveness of marketing activities. Some of these activities are linked to measuring profit gained, return-on-investment, consumer loyalty, brand awareness, etc. which, together with other marketing activities, do contribute to the overall success of an organisation. To take control of the future, marketers have developed an array of measurements known as marketing metrics.

33.2. Effects of business decisions

Because each organisation operates for itself, there is always mounting competition in each market. This aspect, consequently, requires that each organisation must take the risk of facing severe market competition. This fact also implies the full mobility of organisations when making effective business decisions that hopefully minimize the risk of any adverse consequences. What this qualitative shift is about, relative to the previous condition, needs no special explanation. Effective decision-making requires a modern process to be developed, together with the decision-making instruments. Based on its effectiveness, this process directly affects an organisation's existence as well as its future growth and development.

It follows from the above that innovative thinking needs to be incorporated into business behaviour, not only when innovating products and services, but also, and perhaps more importantly, when innovating business processes and, in particular, designing management processes that will boost an organisation's performance.

The primary reason for understanding the application of marketing metrics is the need for increasing the effectiveness and efficiency of an organisation's marketing decisions. Foremost, it is necessary to understand the relationship between the various measurements that arise out of marketing or through the operationalization of various marketing activities at a given moment. After carefully analysing these relationships, organisations make strategic, that is, long-term decisions. It is also very important to distinguish between costs that relate to the development of business activities and costs that do not. It is especially important to know which costs are involved in creating good consumer relations and which costs are incurred from business consumption that does not necessarily lead to enhancing that organisation's performance. In other words, marketing metrics should represent a quantified link between marketing and finance as associated business functions. This link can be clearly seen from examining several comparative examples of the relationship between marketing metrics and financial performance.[2] (see Figure 23)

Figure 23 Marketing vs. financial metrics

Marketing metrics	**Financial metrics**
Response rate	Additional revenue
Consumer retention	Increased profitability
Cross-selling ratio	Increased revenue
Cost per lead	Reduced cost of acquiring consumers
Consumer satisfaction	Reduced cost of additional services

For example, increase of response rate, a marketing metric, will result in additional revenue, a financial metric. Additionally, consumer retention will influence increased profitability where the first criterion is used as a marketing metric and the second criterion is used as a financial metric.

The question clearly arises: Why is the connection between marketing and finance and, in turn, between marketing metrics and financial metrics, so important? This connection is especially important in today's world where an organisation's existence is viewed by its stakeholders, bankers, employees, and management primarily through its financial performance.

The business functions of marketing and finance are reciprocally related. On the one hand, to carry out most of its activities and operationalize its efforts, marketing requires financial support. On the other hand, the financial condition of an organisation depends to a large extent on the effectiveness and success of that same marketing. Similarly, marketing should be seen as a kind of investment on which return-on-investment can be calculated. However, what is most important is the fact that neither financial metrics nor marketing metrics mean much individually; however, together they can almost always help to identify the cause of a certain problem. Nevertheless, as Ambler[3] cautions, a slavish adherence to certain metrics will lead to distortions and thus suboptimal business behaviour.

There is a problem about how to use metrics in everyday business. Obviously, an organisation must have organised databases[4] which it can use to make most measurements, but it also has to be organised to keep track of a variety of data that is collected in its environment, particularly data about its immediate competitors. It should be noted as well that the data an organisation requires are often unavailable, incomplete, expressed in different measurement units, approximate, or considered as business secrets. A much greater problem is the resistance to using marketing metrics. Such resistant behaviour is displayed as a resistance to being informed, uncertainty about procedures, and conservatism and opportunism. That is why it is necessary for an organisation to create the right climate among its marketers and through direct education persuade top management to introduce marketing metrics at all levels of marketing decision-making.

This key issue, however, is hidden in the fact that the critical mass of people in Croatian organisations still possess a fairly low level of knowledge of effective marketing and effective decision-making, and, as a rule, they tend to rely on their intuition and business instincts rather than on precise numbers and facts. A fairly recent survey by the search firm, Christian & Timbers[5], shows that fully 45% of managers in Croatia rely more on their instincts than on market research when making their business decisions. Hence, to successfully implement marketing metrics and help make marketing decision-making more effective and efficient, in key positions – the positions at which such decisions are made – we need people capable of doing so on a know-want-can basis. More marketing managers need to recognize “competency in metrics” as a part of the broader business culture and the process of doing business.[6]

The use of metrics in marketing should be continuous rather than sporadic, which means that an organisation should track its metrics constantly at pre-defined intervals for each metric. In choosing which metric to use, each organisation must make a selection based on relevance, clarity of expression, and, particularly, the availability of the information needed to calculate that metric. Not all metrics are suited to organisations who are engaged in different activities. For example, the metrics used by manufacturers are not the same as those used by resellers. This protocol also applies to metrics used by large organisations and small organisations, which is why marketers must select the metrics that are best suited to their individual business and those that can be tracked continuously, taking into consideration the objective constraints that exist to carrying out precise metrics. Marketers, however, must do more. They must be able to measure the specific metrics, they must know how to explain them, and then they must be able to make the right decisions based on analysis of these metrics. To do all of this, they must fully understand each metric and its purpose.

34. NEUROMARKETING

34.1. Background[7]

Neuromarketing is a new phenomenon in marketing. It is based on the research of neuroscientists and marketers seeking to acquire new knowledge about consumer response and behaviour. Being knowledgeable about consumers means understanding how they behave during the buying process. Consumer behaviour in the buying process is affected by internal and external factors that consumers will evaluate in their brains, their “black box”.[8] The external factors that affect consumer response and behaviour include purchasing power, culture, social factors, information about the offerings of various organisations, and demographic and other personal characteristics of the consumers. In addition to external factors, there are a number of internal factors that impact each individual person uniquely; no two people react and behave in exactly the same way. This knowledge underscores the complexity involved when studying the influences that these multiple factors have on the decision-making process.

The purpose of neuromarketing is to provide a comprehensive understanding of consumer needs and wants, as well as an understanding of consumer behaviour during the buying process.[9] Neuromarketing makes it possible to determine the reactions of individuals to a variety of stimuli and then establish what triggers them to respond in a specific way. To do so, neuromarketers use technologies, such as EEG (Electroencephalography), PET (Positron Emission Tomography), MRI (Magnetic Resonance Imaging), fMRI (Functional Magnetic Resonance Imaging) and MEG (Magneto-Encephalography) to register how the brain reacts to specific marketing activities, such as product design, taste, colour, packaging, and picture or voice messaging.

Consumer surveys conducted using conventional research methods, such as questionnaires, one-on-one interviews or group interviews, deliver results that most often are not identical to the results obtained through research that uses a neuromarketing approach. For example, a respondent may say that the price of a product ranging from HRK 150 to HRK 180 is suitable for a given product, while the results of brain reaction studies show the true attitude of the same respondent, that is, the respondent sees the price range as too high. The results of studies on brain reaction point to the fact that what people say (in reply to questions posed by researchers) is not always the same as the way their brains react. This contradiction makes it necessary to briefly discuss the brain, its parts, and the functions of these parts. Understanding how the brain works in decision-making is especially important to marketers. It is vital that they understand consumer behaviour during the buying process, as well as understand the decision-making process and how it occurs in all other human activities.

34.2. The brain: The focus of neuromarketing

It is well known that the brain has a left side and a right side. It is, however, less well known that the reactions of the brain can be studied through examining a number of its component parts.

According to Renvoisé and Morin[10], and other authors, there are three parts of the brain – the “new brain”, the “middle brain” and the “old brain” – each with its own functions and interactions. Put in a nutshell, the “new brain” thinks, the “middle brain” feels, and the “old brain” makes decisions. Obviously, this explanation is not complete enough to fully understand how the brain works and appreciate the role of neuromarketing in studying consumer behaviour. Hence, the following visual shows a graphic presentation of the parts of the brain and provides a brief explanation of the functions of each part.[11] (see Figure 24)

Figure 24 The three parts of the brain

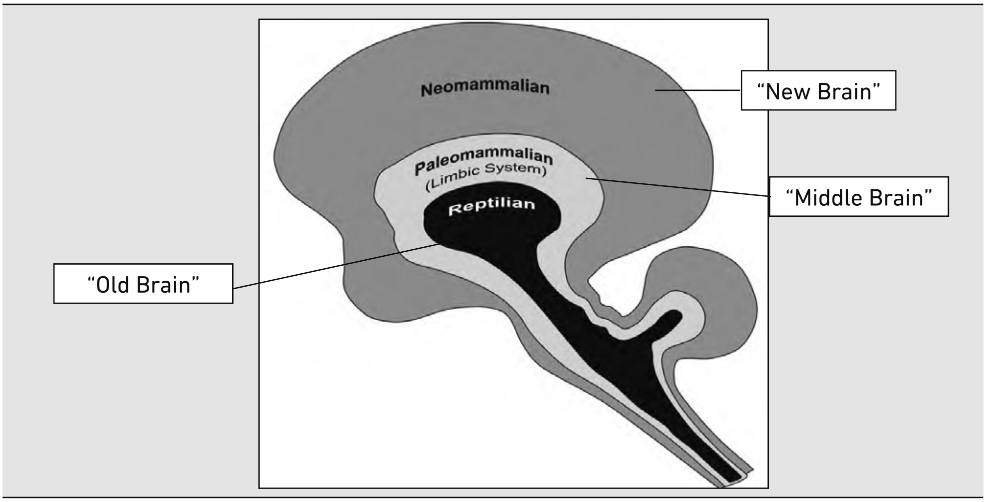

Figure 24 shows the three parts of the brain. The first is the reptilian part also known as the “Old Brain”. It encompasses the limbic system or paleomammalian part, known as the “Middle Brain”, which is situated in the centre of the brain. The largest part of the brain is the neomammalian, known as the “New Brain”.

"Old Brain"- The innermost and oldest of the three brain parts is the brainstem and the spinal cord. This part controls primary physiological needs like drinking, eating, sleeping, waking, blood pressure, body temperature, bowel movements, and regulation of muscle tone. It is assumed that the brain is geared toward achieving and maintaining an ideal balance within which such processes take their course automatically and in total regularity and order. Also, the brainstem is believed to be the seat of our instinctive reactions.

"Middle Brain"- The second largest part of the brain includes the limbic system and houses mainly emotions, feelings, and expressive reactions that are important to our preservation of life, i.e., happiness, anger, fear, sorrow, excitement, and boredom. The limbic system is very sensitive to images and analogue communication. Images summon emotions in this system, and these emotions lead to behavioural tendencies. The communication is related to the perception of postures, facial expressions, smells, and sounds.

"New Brain"- Finally, the third and largest part of the brain is the cerebral cortex. The brain cortex is the centre of higher brain functions, such as speaking and understanding language, thinking, reading, writing, mathematics, analysis, music, ethics, morals, and all other specific human capacities.

These facts are very important to marketers, because the neuromarketing approach enables marketers to detect consumer reactions related to what they think, feel, want, and do, which are expressed in cognitive processes, affective processes, motivational processes, and observing of behaviour.[12] (see Figure 25)

Figure 25 Processes developing in a consumer's brain and their manifestations

The Consumer	**Processes**	**Examples**
Thinks	*Cognitive processes* Observe, information search, consider, problem-solving	Knowledge about products Attention to advertising Consideration of the advantages and disadvantages of products
Feels	*Affective processes* Feelings, emotions, and moods	Sensory pleasure in a glass of delicious wine Excited by the good help of a salesperson in a shop Angry while waiting for checkout
Wants	*Motivational processes* Targets and standards	Striving for recognition and measurement Convenience and time savings Pursuit of an animal-friendly farm
Does	*Observing behaviour*	Brand choice Brand loyalty Frequency of buying eco-products

Taking the above illustration into consideration, it can be concluded that neuromarketing studies the characteristics of consumers during the buying process, as well as the broader context of individual reactions to processes occurring in a society. Some authors (Lee, Broderick, Chamberlain, 2007) approach neuromarketing as the application of neuroscientific methods to analyse and understand human behaviour in relation to markets and marketing exchanges. This manner of viewing neuromarketing correctly points out that such a definition has two main applications: First, it moves consideration of neuromarketing away from being solely the use of neuroimaging by commercial interests for commercial benefit; second, the scope of neuromarketing research has widened from solely consumer behaviour to include many more avenues of interest, such as inter- and intra-organisational research, which are now common in the marketing research literature.[13]

Hence, neuromarketing is the application of neuroscientific technology in its broader context, which includes knowledge, processes, and the equipment needed to understand and improve the creation and exchange of value in both the B2C and B2B markets and in both for-profit and non-profit sectors.

34.3. Neuromarketing's contribution to value creation and exchange

The development of organisations directly links to their ability to create and exchange value with their consumers. The knowledge acquired through neuromarketing research can contribute substantially to this process. Neuromarketing research can facilitate the process of creating and innovating products, setting prices that the target market is willing to accept as a proper basis for value exchange, establish best distribution channels for value exchanges and design communications that will inform the target market efficiently about the value that is being created.

Product creation and innovation is based on the principles of new product development and product diffusion into the market[14], and neuromarketing can contribute to the process of searching for new ideas and conducting market testing. A significant contribution of neuromarketing is seen in the assumption that neuroscientists are "asking the brain, not the person".[15] Once a product's key attributes are defined, it is ready for market testing. The purpose of that testing is to learn consumers' reactions in a target market. Thanks to neuroscientific methods, the results of neuromarketing research are of great importance in this new-product development process. It follows also that, as Lindstrom correctly points out, "traditional market research – questionnaires, surveys, focus groups, and so on – will gradually take on a smaller and smaller role, and neuromarketing will become the primary tool companies use to predict the success or failure of their products".[16]

Price can also be defined as a type of value, which consumers exchange for benefits derived from having or using a product. In determining value, consumers link the price of a product to the benefits which they believe they will receive by using that product.[17] Neuromarketing research can provide new insight into the willingness of consumers to buy certain products depending on their prices.

Neuromarketing studies have been conducted that focus on detecting activity in certain areas of the brain (in response to the stimulus of price change) to determine whether an individual is willing to buy a product.[18] Other studies have shown that willingness-to-pay increases when customers are instructed to use a credit card rather than cash.[19]

Since consumers always require products and services in a place and time that suits them, **distribution** issues are also particularly important. Marketers are interested in learning how and when the most effective results can be achieved when delivering a product or service, and how to influence the way that offered product or service is perceived. While marketing logistics is important, it is also important to provide added value by turning the purchase of a product or service into a positive experience by exploiting the visual elements of space, using scents and sounds, etc.

The above finding has been confirmed in several studies and experiments and by the opinions of neuromarketing authorities.[20] Namely, certain areas of consumers' brains do respond to what they see as pleasant stimuli, such as the combination of scents, colours and sounds in a specialized sales area, in comparison to other stimuli that the brain does not perceive as pleasant. Lindstrom notes that in addition to finding such a space to be more pleasant, consumers will memorize the feeling and the location in the brain.[21]

Effective **communication** between an organisation and a target market is characterized by a message (regardless of the approach used, i.e., advertising, personal selling, publicity, PR) that attracts attention and causes a response, that is, a message that triggers the process of value exchange.[22]

In line with the above discussion, the aim of neuromarketing research is now to investigate what is the most effective way of attracting consumer interest and what is the best way of communicating with consumers. Research in neuroscience laboratories worldwide has produced a greater understanding of how the brain functions and the specific characteristics of the stimuli the brain notices and values.[23]

In conclusion, neuromarketing and new research methods are helping marketers gain a fuller understanding of consumer behaviour during the buying process. In this context, neuromarketing research has helped marketers further adjust to consumer needs and wants and thus facilitate business development, while satisfying the interests of the broader community.

SUMMARY

Marketing metrics is about defining measuring instruments and continuously applying statistical and mathematical methods for analysing data and problems in marketing. To this end, an organisation builds and brings together databases of its operational performance in a specific market and databases of its financial performance. Marketing metrics is important because it provides a platform for evaluating the effectiveness of marketing activities.

Neuromarketing. The purpose of neuromarketing is to provide a comprehensive understanding of consumer needs and wants, as well as new understanding of consumer behaviour during the buying process. Neuroscientific research methods provide data on how the brain reacts to certain marketing activities. Sophisticated technologies (EEG, PET, MRI, fMRI, MEG and others) are used to deliver new information that organisations need to modify the elements of their marketing mix successfully.

CRITICAL THINKING QUESTIONS

1. To enhance the effectiveness of business decisions, organisations seek to design and implement marketing metrics. In designing and implementing these marketing metrics, it is essential that organisations understand the relationships between various factors used in or linked to marketing activities. Marketing metrics is a quantified link between marketing and finance in an organisation. Explain.
2. The use of metrics in marketing should be continuous rather than sporadic, which means that an organisation should track its metrics constantly at pre-defined intervals for each metric. In choosing which metric to use, each organisation must make a

selection based on relevance, clarity of expression, and, particularly, the availability of the information needed to calculate that metric. Discuss.

3. Consumer reactions and behaviour are affected by a number of external and internal factors that consumers process in their personal "black box". How they process these influences is the focus of interest of neuromarketers. Comment on this.
4. Neuromarketing facilitates value creation and exchange, from defining product attributes and pricing to identifying distribution channels and communicating with target markets. Choose one element of this marketing mix and explain how neuromarketing science contributes to that element of the marketing mix.

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35. Knowledge and skills needed in successful business practice

XI. IMPLEMENTING MARKETING KNOWLEDGE AND SKILLS

36. Levels of marketing knowledge and skills

- The strategic level of knowledge and skills
- The tactical level of knowledge and skills

XI. IMPLEMENTING MARKETING KNOWLEDGE AND SKILLS

Marketers acquire marketing knowledge and skills through education, the exchange of thoughts, and experience, and by continuously studying the topic of marketing. In so doing, they learn the regularities of the market, which can help an organisation to adjust to change in its environment. By understanding market dynamics thoroughly, organisations can create a solid basis for gaining more competitive advantage and fostering rapid development. The following chapters discuss the fundamental considerations of knowledge and skills necessary for successful business practice (Chapter 35) and examine the different levels of marketing knowledge and skills that help an organisation adjust to changes in its environment (Chapter 36).

Objectives

After you have studied Part Eleven, you should be able to:

- Identify strategic and tactical levels of marketing knowledge and skills
- Understand the importance of the strategic levels of marketing knowledge and skills
- Describe the knowledge and skills needed for marketing management
- Understand the importance of tactical levels of marketing knowledge and skills
- Define the tactical levels of marketing knowledge and skills needed to manage marketing information systems (MIS)
- Understand the tactical levels of marketing knowledge and skills needed for managing market and product development

- Identify the tactical levels of marketing knowledge and skills needed for Supplier Relationship Management (SRM) and Consumer Relationship Management (CRM)
- Analyse the tactical levels of marketing knowledge and skills needed for managing integrated marketing communications (IMC)

35. KNOWLEDGE AND SKILLS NEEDED IN A SUCCESSFUL BUSINESS PRACTICE

Knowledge can be defined in a number of ways. Most often it is defined as a set of facts, information and skills a person acquires through experience and/or education. Knowledge is the theoretical and practical understanding of a particular subject and the totality of information known about a certain field. According to Webster[1], knowledge represents our beliefs and values using a meaningfully organised set of information obtained via experience, communication, or reasoning. Knowledge also refers to understanding a certain area of human activity and having the ability to use that knowledge for personal development and/or the development of the organisation where one works. Here is where marketing knowledge becomes effectively demonstrated. This marketing knowledge is among other things based on specific skills that a person develops.

A **skill** is the ability of an individual to perform a series of systematically organised operations or set of operations quickly and accurately and thus carry out a specific task easily and successfully.[2] Marketing skills are required if the marketer is to be successful in the daily, demanding tasks involved in marketing. These skills are actually our learned or acquired reactions to the business world. A person with marketing skills has the expertise to succeed at marketing jobs and tasks and performing them improves his/her marketing skills. Skill improvement correlates to previous learning, the experiences the marketer gained by carrying out jobs and tasks, and also to experimenting while performing those jobs and tasks.

Appropriate knowledge and skills are a precondition for individuals when building their positions in the business world, and society as a whole. When considering the dynamics of change, knowledge and skills need continuous updating and improvement. Indeed, the continuous improvement of one's knowledge and skills as an employee or owner of an organisation is a prerequisite for that organisation to gain the knowledge and skills that are increasingly needed to meet the challenges of the modern market. One of the key types of knowledge and skills an organisation must possess and continuously improve is marketing knowledge and skills. Obviously, other knowledge and skills are also important in areas like production, financing and related business activities. Knowledge of the market and marketing, however, is the key knowledge needed and the best starting point to achieve good business performance.

Knowledge and skills in marketing can facilitate the development of organisations and help restructure an economy by finding marketable and profitable ways of production that can be rapidly adapted to foster positive economic development. To this end, marketing efforts will focus on identifying potential new markets of interest and satisfying already existing markets by building a competitive ability that, in turn, increases overall business efficiency.

The starting point for business development can be found in marketing. Marketing management is actually mostly about managing the development of an organisation in particular and the economy in general. As a creative process and business function, marketing uses forecasting methods to predict which line of technological advancement should be embraced and which should be seen as a threat to development. In this manner, marketing plays a vital role in developing today's knowledge-based society.

In order to gain competitive advantage and develop effectively, organisations need to implement the marketing knowledge and skills that their employees already possess as well as to constantly improve their knowledge and skills through training and lifelong learning.

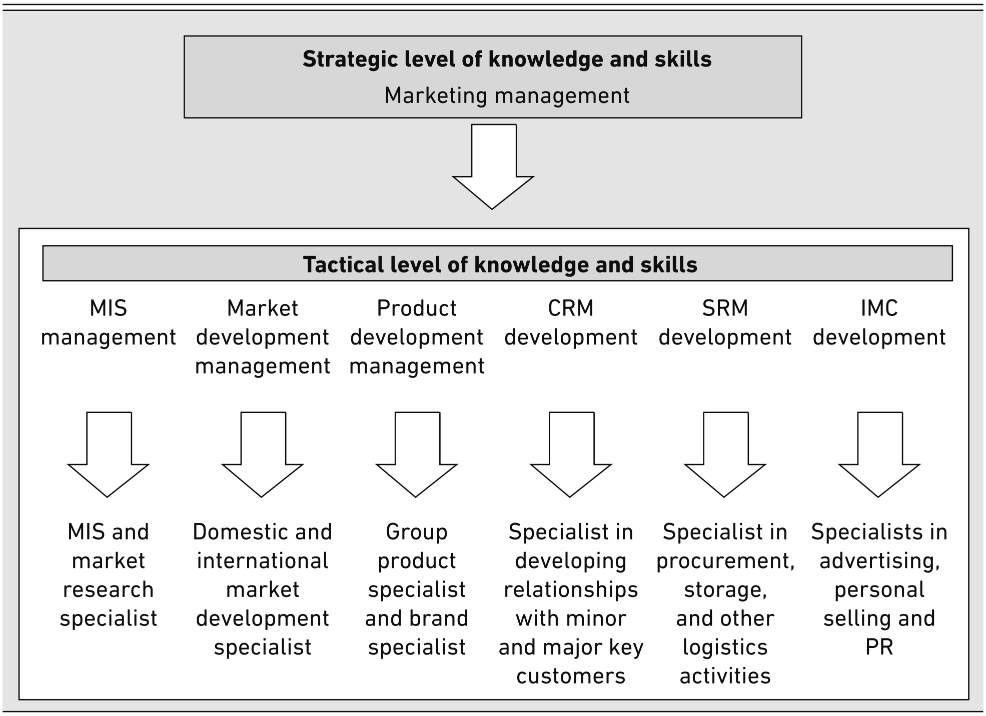
Marketing knowledge and skills can be synthesized into two groups that are discussed in the following section. The most complex of these knowledge and skills are needed at the strategic level, that is, for marketing management, while the less complex knowledge and skills are required for the tactical marketing operations, that is, for formulating a marketing policy. Chapter 36 examines the specialized jobs and tasks that are performed by marketers who are engaged in marketing activities at both the strategic and tactical levels.

36. LEVELS OF MARKETING KNOWLEDGE AND SKILLS

There are many types of marketing knowledge and skills needed in order for an organisation to develop successfully.

The two major sources of knowledge and skills are education[3] and work experience gained from performing specific jobs. However, a person cannot be expected to perform the most complex jobs and tasks successfully using the marketing knowledge and skills acquired through education alone. The right way to start is with clear involvement in operative and tactical jobs and tasks. Having gained that work experience, and based on one's affinities, capabilities and abilities, the new marketer begins to acquire the knowledge and skills needed to carry out increasingly more complex jobs and tasks and do them well (Figure 26). The following section looks at the knowledge and skills required for performing strategic and tactical marketing activities in organisations.

Figure 26 Levels of marketing knowledge and skills



36.1. The strategic level of knowledge and skills

The strategic level of knowledge and skills involves the most complex knowledge and skills that are needed to guide marketing activities in an organisation. Only those organisations capable of adjusting more rapidly and efficiently to new market conditions will develop successfully within that dynamic environment. This dynamic environment, which is the result of influences present in the macro marketing environment (politics, society, economy, and technology) and the micro marketing environment (consumers, competitors, distributors, and suppliers), is changing the way business is done today. In this context, the ability to guide marketing activities requires very specific knowledge and skills in marketing management, that is, how to plan, organise, and control related marketing activities. Every organisation, regardless of its size, seeks to acquire and improve its marketing management. To this end, they engage marketers that have an adequate level of marketing knowledge and skills.

Marketing managers are individuals who possess marketing management knowledge and skills and are directly responsible for carrying out focused marketing activities. Usually, the marketing manager is also the person who is the vice president or assistant general manager of an organisation and is responsible for handling issues related to market and product development. Other employees that are on the same level of decision-making as the marketing manager must deal with the financial operations, production, R&D and human resources related to that organisation. The marketing manager guides the organisation's marketing policy and coordinates the work other marketers are undertaking in the organisation.

The marketing manager closely cooperates with those marketers responsible for market research and product modification and new product development to develop strategies for competing in their market. The marketing manager is also responsible for sales and procurement activities, and works closely with procurement and sales staff in various activities that range from analysing market situation to developing sales and procurement plans by territory, product, consumer, or some other focused criterion. A particularly important area where the marketing manager is active is market communications. To this end, the marketing manager helps to guide promotional activities within the organisation and collaborates with external agencies specialized in promotion.

36.2.The tactical level of knowledge and skills

Operating on the tactical level in an organisation requires specific marketing knowledge and skills that will formulate the market action policy and development policy of an organisation. This specific knowledge and these specific skills are used to create an efficient marketing information system, carry out market research, ensure effective and precise market and product development, and boost sales activities, procurement activities and promotional activities for positive outcomes.

Managing marketing information systems. To adjust to change that occurs in the environment and know which type of change facilitates the most rapid development and which type will be a constraint to development, organisations need to monitor customer behaviour regularly, study the responses of their competitors, analyse the moves made by suppliers and distributors, and identify ongoing changes that take place in the social, economic, legal and technological environment. Therefore, a continuous supply of information for marketing decisions is needed. To this end, organisations develop marketing information systems (MIS), which they use to gather, sort, store and distribute information relevant to making sound marketing decisions. An MIS will transform data into useful information for the best long-term and short-term decisions, and this data is gathered both within and outside of the organisation and through market research. This MIS requires that organisations engage marketers with specialist knowledge and skills.

MIS and market research specialists ensure that the information needed for making the right business decisions is available. The information is gathered and processed to identify market opportunities, define marketing activities, monitor marketing performance, and evaluate these results. Once the data is collected and information processed, MIS and market research specialists propose appropriate solutions and present this analyzed information for business decision-making. Business practice research shows that MISs are usually set up in larger organisations, although the drop in prices of computer software and hardware is today enabling more and more smaller organisations to implement MISs as well.

Larger organisations will employ **market research specialists** who possess knowledge and skills in economics, statistics, mathematics, psychology, and other scientific disciplines, while for smaller-sized organisations, this focus is more of the exception than a rule because carrying out market research in-house requires substantial financial and human resources that small organisations cannot usually support. In addition, because market research is conducted on a case-to–case basis, it is usually much more efficient to use the services of external agencies that do specialize in conducting market research. Market research specialists are expected to conduct qualitative and quantitative research that can range from problem definition and developing research instruments to analysing gathered data and presenting research results to their clients.

Managing market development. The development of an organisation is directly linked to effective market development. Organisations undertake market development either to increase their consumer base or generate more sales from their existing consumers. There are a number of approaches to use for market development. The most important approaches deal with winning new consumers (competitors' consumers or completely new consumers), and making existing consumers more loyal and consume more of organizations' products. This goal requires new knowledge and new skills to identify the real needs of both existing and potential consumers of an organisation and acquiring the new knowledge and skills to build and also enhance consumer loyalty.

Knowledge and skills that relate to market research derive from those accumulated knowledge and skills that are essential in winning new consumers and retaining existing ones on both the national and the international level. Some organisations have even introduced key accounts management, where their consumers are treated as key small, mid-sized, or large accounts.

Many organisations operate in the international market which requires foreign language skills, the ability to adjust to other cultures, and employees who are willing to travel around the world and be away from home for periods of time.

Managing product development. Marketing knowledge and skills involved in successful product development are an essential component in the profitable performance of an organisation. A new product is defined as a product that is new either to consumers or to an organisation, or both. Developing this new product requires knowledge and skills that focus on either modifying an existing product through functional and adaptive innovations or launching an entirely new product. An organisation can either develop a new product alone or buy it from another organisation or an individual innovator. In some cases, an organisation will commission the creation of a new product or simply buy a product already patented. Regardless of which approach is taken for new product creation, specific knowledge and skills are always required. Product development is an area where special knowledge and skills are especially needed to manage the development of a group of products, as well as handle subordinate jobs and tasks that are linked to a specific product or product brand.

Basically, product marketers are unique professionals who possess the specialized knowledge and skills needed to coordinate a broad array of activities related to product management, from actual product creation and promotion to selling that product in the market. Business practice distinguishes between those professionals who manage a group of products or coordinate the development of several products (multiple-product managers), and professionals who manage a single product and usually are called brand managers. The latter are generally subordinate to the former. Multiple-product managers are responsible for the success or failure of an individual product and that group of products. The large budgets they have at their disposal often lead to their position in an organisation being identified as the “mini managing director”.

Brand managers create and implement marketing plans for the product for which they are responsible. This marketing plan covers the entire marketing mix for that product, which in addition to product development includes organising distribution, pricing, and promotional activities. Apart from possessing the necessary knowledge and skills, brand managers must have excellent communication skills to ensure coordination with and support of colleagues in other departments, ranging from market research and product and quality control to sales and post-sales activities.

Brand managers must also possess the knowledge and skills needed for market research, the analytical abilities to monitor reactions in consumer behaviour, and especially the capabilities to adjust their strategies depending on whether the product is in an introductory, growth, mature or declining stage.

Managing supplier relationships. The development of positive supplier relationships is linked to effective procurement activities, which involve all the activities an organisation carries out to procure raw materials and manufacturing materials, as well as other products and services essential for its production process, that is, the production of a product or the creation of a service. Procurement is a complex job and requires the knowledge and skills about buying those products needed for further production. The buying process should be preceded by several steps, i.e., procurement market research, planning and organizing procurement, selecting suppliers, and contracting for the procurement of those products and services with selected suppliers. The process ends with successful quality and quantity control of the products or services purchased. Procurement also requires knowledge and skills in other logistics-related marketing activities, such as transportation, storage, and packing. In carrying out these activities, an organisation seeks long-term relationships with its suppliers. This strategic approach has become fertile ground for developing the concept of Supplier Relationship Management (SRM).

A market approach to procurement calls for procurement professionals who have adequate knowledge and skills for analysing the need for specific raw materials, supplies, equipment and other items to complete the production process or the service creation process. Further, procurement professionals need good communication skills and the ability to coordinate with colleagues also engaged in product development and production planning and its realization to identify the right needs, that is, the types and quantities of manufacturing materials, equipment and other items required for successful production of a product or development of a specific service.

Procurement professionals also must possess the knowledge and skills to contact and develop relationships with different suppliers, that is, the organisations that sell them raw materials, manufacturing materials, equipment, etc. Procurement professionals carry out important negotiations with suppliers concerning prices, delivery times, transportation and other contract terms and conditions, and they are responsible for seeing that procurement through successfully. Hence, the task of procurement professionals is to find answers to questions about what to procure, in which quantities, when and where and at what price. All these efforts are possible when the buying activity of an organisation is based on precisely planning, organizing and controlling the effects of procurement.

Additional important marketing activities that are carried out within the scope of procurement activities also require specialist skills. These activities involve quality control of purchased goods, effective product storage and delivering stored products to the point of production in a timely manner.

Managing consumer relationships. Developing solid consumer relationships requires different knowledge and skills. When an organisation operates based on marketing principles, it focuses on satisfying the needs and wants expressed in the market. With B2C markets, these become the needs and wants of the ultimate consumers. In the B2B market, these are the needs and wants of business buyers. To perform successfully over the long term, an organisation must know its consumers, whether B2B or B2C consumers, and build unique relationships with them that deliver consumer support and strengthen cooperation. Knowing one's end consumers and business buyers means learning about their attributes and their behaviour in the buying process and applying specialist marketing knowledge and skills. Organisations want to retain their end consumers and business buyers and turn them into loyal consumers. To this end, organisations seek long-lasting partnership relations with their end consumers and business buyers.

Building and maintaining consumer relationships is a sound basis for gaining solid competitive advantage and achieving success in the market. Considering the high cost of winning new consumers compared to the lower cost of retaining existing consumers, organisations will seek to develop and retain their existing consumers, always looking for new creative approaches to identify and meet the needs of existing consumers, while gaining more profit. One such approach is based on *Customer Relationship Management (CRM)*. To set up a CRM system, organisations need an IT basis, that is, the hardware and software necessary to gathering important data about business buyers, and the expertise to make that CRM system work.

Managing integrated marketing communications (IMC). Communication activities inform, persuade or remind existing and potential consumers about an organisation and its products or services. Successful market communications means possessing the knowledge and skills required to deliver the right combination of IMC elements. Supply providers communicate with B2C and B2B consumers alike via a range of different communication activities, such as advertising, personal selling, sales promotion, and publicity/PR.

Marketers who engage in promotional activities will define and coordinate IMC with the specific market. In doing so, they need to cooperate closely with professionals in various areas of promotional activities, i.e., advertising, personal sales, and PR professionals.

In addition, marketers who engage in advertising must have the creative ability to discover the best combination of words and images that will stimulate consumers to buy a product or remind them of that particular product or the organisation as a whole. Visual criteria are especially important in such advertising.

Marketers engaged in public relations should have the specialist attributes that are needed in public relations, as well as a personality that highlights their creativity, initiative, ability to read situations quickly and accurately, and the power of the written word and verbal expression that expresses accuracy, simplicity, and clarity easily and in readable way. Self-confidence and enthusiasm are also traits every marketer in PR should have and exhibit.

Personal selling is yet another marketing activity. In personal selling, marketers are in direct contact with consumers, and thus can directly highlight the features of a product or service to influence sales outcomes. Personal selling requires the ability to research consumer needs, provide information, suggest products that can satisfy needs, and organise post-sales services like maintenance and repair, spare parts, warranties, etc.

Thus, in conclusion, it is clear that marketers must acquire the knowledge and skills on a broad spectrum of marketing activities that pertain either to the strategic or the tactical levels of a successful business operation.

SUMMARY

To adjust to new challenges and market regularities, an organisation needs to continuously innovate both knowledge and skills. Marketing knowledge is a key type of knowledge and skills that individuals and indeed the entire organization must possess. Considering the fact that knowledge has become a perishable commodity and becomes outdated at such a speed, it is crucial to innovate it continuously following the trend of "information is the hard currency of today".

The best sources of knowledge and skills are education and work experience gained from performing specific projects. However, a person cannot be expected to perform the most complex jobs and tasks successfully by simply using the marketing knowledge and skills acquired through education alone. The right way to start is to participate in operative and tactical jobs and tasks. Having gained this work experience, and then applying one's best affinities, capabilities and abilities, the new marketer acquires new knowledge and skills needed for carrying out increasingly more complex jobs and tasks.

We distinguish between a strategic level of knowledge and skills and a tactical level. The strategic level involves the most complex knowledge and skills needed to guide marketing activities in an organisation, that is, for planning, organizing and controlling marketing activities. In practice, marketers who possess marketing management knowledge and skills and hold marketing manager positions are directly responsible for these activities. Usually, the marketing manager is also the vice-president or assistant general manager of the organisation, and thus responsible for handling major issues related to market and product development.

Operating on the tactical level also requires specific marketing knowledge and skills to formulate a market action policy and a development policy. These specific knowledge and skills help create an efficient marketing information system, carry out market research, ensure market and product development, and thus boost sales activities, procurement activities and promotional activities to solid competitive advantage.

CRITICAL THINKING QUESTIONS

1. What are the basic characteristics of the knowledge and skills needed to adjust to changes in the business environment?
2. Discuss the basics knowledge and skills and the role of marketers in marketing management. Explain using an example from hotel industry.

3. Compare the tactical marketing knowledge and skills needed by a service sector to those skills needed by a manufacturer.
4. List the tactical levels of marketing knowledge and skills needed to manage a marketing information system. Explain using an example.
5. Analyse the tactical level of marketing knowledge and skills needed for product management. Add an example.
6. Elaborate the tactical level of marketing knowledge and skills needed for market management using the dairy products market as an example.
7. Consider the tactical level of marketing knowledge and skills needed for SRM when an organisation is in a superior position and can dictate market conditions.
8. Discuss the tactical level of marketing knowledge and skills needed for CRM when you do business on a small market segment.
9. Examine the tactical level of marketing knowledge and skills needed for IMC in an organisation that uses the Internet for communication.

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[3] Specialist knowledge can be acquired, for example, in the post-graduate Marketing Management course that has been held for ten generations of students at the Faculty of Economics of Rijeka, as well as at other Faculties of Economics in Croatia; http://www.efri.uniri.hr/

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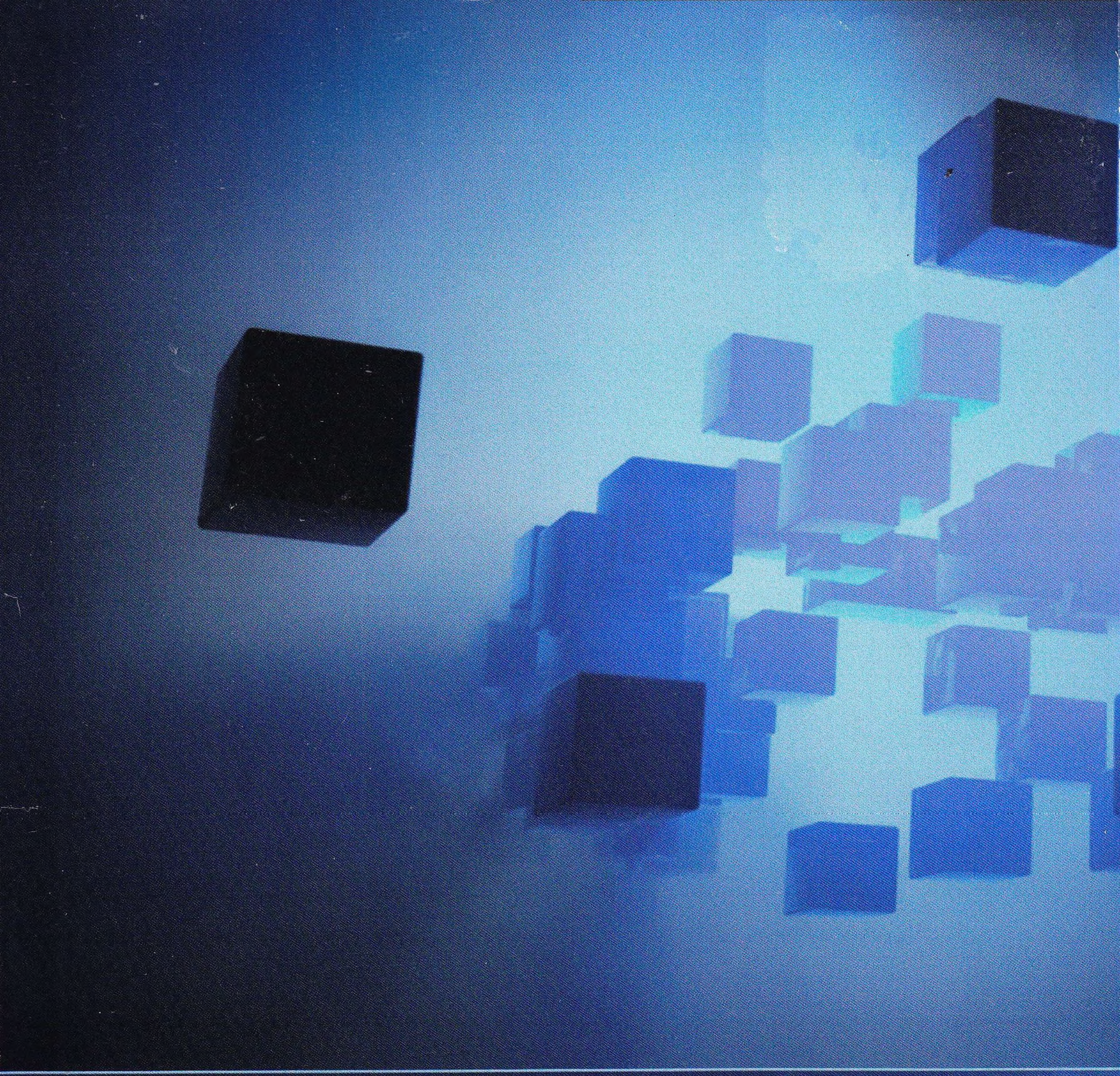

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