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Expert Group Meeting on Marketing Management and Strategy for the Developing World

Vienna, Austria, 2 - 7 December 1974

# PLANNING MARKETING STRATEGY FOR INDUSTRIAL EXPANSION 1/

prepared by

the Secretariat of UNIDO

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## 1. Foreword

The economic and structural development of the Industry Sector, in any country, primarily depends upon the expansion of the market demand for locally manufactured products, and it takes planning to avoid the riskful creation or multiplication of improductive "cathedrals in the desert".

Market is not an abstract or merely geographical concept. "Market" means people and/or institutions, characterized by latent or manifested needs and requirements, motivations and objectives which identify the dynamic profile of the demand, according to priorities and in relation with environmental specifications.

"Marketing" is the "strategy of the offer", or the operational function which, on the basis of factual information, aims at improving the communication between the industry and the market, translating the actual or potential demand into effective purchasing of goods or services, in accordance with the objectives and expectations of both the producers and the consumers or users.

"Marketing-mix" is the basic compound factor of the marketing strategy and is composed of 4 inter-acting elements: Product, Price, Promotion and Distribution.

The above streamlined concepts shall be regarded as guidelines for planning, organizing and implementing the marketing strategy. They are, however, by no means, the last word or the most exhaustive approach to marketing concept or technology.

Nevertheless, they do aim at encouraging marketing-men, in developing countries, to enlarge their repertoire of marketing techniques. Their usefulness will, in any case, largely depend upon the drive and imagination of those who seek to apply their principles, in practice.

## 2. Introduction

The changing industrial and socio-economic environment creates many opportunities and hazards in both private and public sectors. Anticipating and responding to these changes is one of the management's most important tasks. To be fully effective, the industrial manager needs to assess the implications of his actions on his organization, his company's resources, its products and the market at large.

The basic objective for an Industrial Enterprise is to attain the highest level of operational viability, competitiveness and economic profitability, within the national framework of socio-economic expansion, ecological welfare and technological progress.

The achievement of such targets depends necessarily upon the level of efficiency and expertise of Management, in planning and implementing policies and strategies apt to maximize the utilization and value of available resources, according to the actual and potential opportunities of the market.

In the Developing Countries it is important to develop industrial marketing expertise and know-how, especially with regards to the planning, promotion and distribution of locally manufactures goods. The improvement of Marketing policies and strategies is a fundamental requirement for attaining production and economic targets at enterprise and sectoral levels.

Effective marketing policies and strategies are vital factors for the economic and structural expansion of the industrial sector in the developing countries, inducing appropriate returns on investment, optimum use of material and human resources and profitable growth of demand for locally manufactured goods.

It is recognized that one major aspect of economic development is the balanced interaction of the factors "supply" and "demand" (or "production" and "consumption"), operationally identified as the functions of "manufacturing" and "marketing". Such factors are inter-related in various contexts:

- the forecasting of demand potentials and production requirements;
- the planning and development of financial, material and human resources;
- the typology of output and of marketing-mix strategies (product planning, pricing, promotion, distribution and service).

It is, thus, of the greatest importance, that marketing policies and technologies are thoroughly formulated, reviewed, adapted and applied, in order to induce the profitable attainment of planned targets, at enterprice, sectoral and national levels.

A general awareness of advanced marketing techniques and methods has to be created with the aim of encouraging the demand and increasing the productivity and the competitiveness of products manufactured in the developing countries. This can be achieved if managers and government officers would be able to speak the same marketing language, and appreciate the importance of the market impact as a generating force of the industrial economic expansion.

The basic scope of this meeting is to focus some relevant aspects of marketing strategy, and to examine the value of the marketing concept in its socio-economic dimension.

The objectives of the meeting are mainly:

- to review and discuss marketing strategies and methods of marketing in the Third World,
- to illustrate marketing concept and techniques for the use of industrial enterprises of industrializing countries,
- to underline the importance of marketing, in relation with phenomena and problems facing industrial expansion in developing countries, and

- to suggest a programme of action for the improvement of marketing expertise in developing countries.

The Meeting is mainly expected to enable industries of developing countries to adopt and develop modern and appropriate means and methods of marketing, in order to accelerate the profitable expansion of their activities and contribute to the attainment of economic objectives and social expansion, in accordance to the targets of national development plans.

3. Marketing in a human dimension

Marketing is the strategy of the offer. It aims at transforming the potential demand of a market into actual demand for goods and services, so as to grant the fulfillment of human desires and requirements, meanwhile accellerating economic and industrial expansion.

The whole field of marketing revolves around a specific theme: how to design and implement a "strategy of the offer" in relation to the prevailing pattern of the demand.

Marketing, however, does not serve only industrial development purposes, but also the goals of society, and its contribution extends well beyond the boundaries of business.

Recent development in such areas as consumers and environmental protection is stimulating industrial managers, experts and governmental officials to pay increasing attention to marketing, for its social implications and its human dimension.

There is evidence that criticism is developing against the achievements of the present economic system and institutions and questions are raised about priorities of expenditures and plans of development of industrial activities.

A general expectation exists, at latent or manifested levels, for a brighter and better future based on the availability of products and services to satisfy human needs and requirements.

As a result of this perspective, industrial growth and market opportunities are perceived not so much in terms of curbing social desires, but in attempting to stimulate people to the fullest extent of their resources to acquire all possible goods, services or symbols, particularly in the socalled developed societies.

Similarly, the emerging developing nations, now characterised by raising economic levels and lifestandards, expect to share the economic abundance attained by the most advanced societies.

The marketing role extends well beyond mere profit considerations, to intrinsic values based on social concern, on human dimensions, on development of patterns where people may achieve their objectives of satisfaction and welfare, in a context in which increasing expenditures are encouraged to help solving some of the fundamental problems that developed or developing nations are both facing today. Included are such problems as the search for peace, since peace and socio-economic progress are strictly correlated, the renewal of urban areas, which is closely related to marketing practices, the reduction of the gap between "have" and "have-not" societies, the preservation of natural resources and the prevention of natural and social environmental degradation.

Business executives, in developed or developing countries, can achieve the degree of adaptation according to their social responsibilities and still meet the objectives of their firm's development.

Governmental agencies alone cannot meet the social tasks without the direct cooperation of the enterprises. A spirit of mutual endeavor must be developed, as marketingmen cannot misregard their social responsibilities and involvement.

The development of a human dimension of marketing practice by industry and other public institutions is necessary for building a society in which every person would have the opportunity to live and develop to the full extent of his capabilities, in which the older people can play their role in a dignified manner, in which young human potentials are recognized and in which the contribution of men and women is equally accepted.

In such a human dimension marketing performs its role in two ways: responding to social challenges in the same sense as the government and other institutions, and participating in cultural and economic efforts exceeding mere profit considerations.

Industry is confronted, in any country, with a dilemma. On one hand, it aims at improving living standards, on the other hand it faces hard working conditions to overcome constraints.

Yet, our societies appreciate that the acquisition of more material benefits are belittled by the alteration of the international economic order, social unrest and unpleasant or dangerous environmental conditions.

The criteria for judging the actual economic system, based on the actual marketing activities, should include the opportunity for producers to develop themselves to the fullest extent, personally and professionally, to express themselves in a creative and non-destructive manner, to accept their social responsibilities.

The importance of the demand, as stimulant of industrial and economic growth, has been underemphasized. We must understand and establish the necessary conditions for consumption in order to progress on a continuing and orderly basis. This is the basic meaning of marketing. New marketing concepts and tools that encourage productions must be developed to achieve socio-economic goals of stability, welfare and employment.

To this date the major determinant of consumption is considered income. But as economic abundance increases, consumption patterns change. By the year 2000 the consumers will experience that constrain is not money, but time. As time takes on greater utility, affluence will permit the purchase of more time-saving products and services. Interestingly enough, although time is an important by-product of productivity, many people are not presently prepared to consider the manner in which time affects the quality of life.

A multitude of products with built-in services extend free time to consumers on a broad base. Included are such products as automobiles, jetplanes, mechanised products in the home, prepared foods, "throw-aways", and leased facilities. Related to this is the concept that many consumers now desire the use of products rather than ownership. The symbolism of ownership appears to take on lesser importance with increasing wealth and welfare.

But what will happen to human values when people will have suitably gratified their "needs"? What will happen after the acquisition of the third automobile, the second color-televisionset, and the third or fourth house? It has been noted that consumers then become motivated in a manner different from that explained in Maslows hierarchy of motives. They become devoted to tasks outside themselves. The differences between work and play are transcended; one blends into the other, and work is defined in a different manner. Consumers become concerned with different values reflected in motives or needs beyond physical love, safety, esteem, and self-satisfaction.

The tasks to which people become dedicated, given the gratification of their "needs", are those concerned with intrinsic values, because they embody these values. The "self" becomes enlarged to include other aspects of the world. Under those conditions, Maslow maintains that the highest values, the spiritual life, and the highest aspirations of mankind become proper subjects for study and research.

We may reach the stage of affluence without having developed an acceptable justification for our economic system, and for the eventual abundance and relative leisure that it will supply. Here in lies a challenge for marketing. What is required is a set of norms and a concept of morality and ethics that correspond to our conditions. This means that basic concepts muet be changes, which is difficult to achieve because people have been trained for centuries to expect little more than subsistence.

When we think of abundance, we usually consider only the physical resources, capabilities and potentials of our society. But abundance depende on more than this. Abundance is also dependent on the society and culture iteelf. It requires natural and sociological environmente that encourage and stimulate achievements. <u>In large measure, economic prosperity results from certain institutions in our society which determine our pattern of living, and not the least of these institutions is marketing</u>, as it is expressed in new approaches to product development, the role of credit, the use of research and planning and the management of innovation.

We may well ask, what are the boundaries of marketing in human society? This is an important question that cannot be answered simply. But surely these boundaries have changed and now extend beyond the profit motive.

The human dimension of marketing will unquestionably receive increasing attention in a variety of areas, and the result will be some very challenging and basic questions that must be answered.

We might ask, for example, can or should marketing, as a function, possess a social role distinct from the personal social roles of individuals, who are charged with marketing responsibilities? Does the business, as a legal entity, possess a conscience and a personality whose sum is greater than the respective attributes of its individual managers and owners? Should each member of management be held personally accountable for social acts committed or omitted in the name of the business? Answers to such questions change with times and situations, but the trend is surely towards a broadening recognition of greater social responsibilities - the development of marketing's social role as human dimension.

However, an emerging view is one that does not take issue with the ends of customer satisfaction, the profit focus, the market economy, and the industrial growth. Rather, its premise seems to be that the tasks of marketing and its concomitant responsibilities are wider than purely economic concerns. It views the market process as one of the controlling elements of the world's social and economic order, because marketing is a social instrument through which a standard of living is transmitted to society.

In the last years, there have been governmental decisions about safety standards, devices for controlling pollution, implied product warranties, packaging rules and regulations of national brands to private labels, pricing and credit practices, etc. There have been discussions about limiting the amount that can be spent on advertising for a product, about controlling trading stamps, about investigating various promotional devices and marketing activities. Such actions indicate the increasing importance of marketing's social role and define the limits between the profit motive and social responsibility, between corporate marketing objectives and social goals, between marketing actions and public welfare. What is required is a broader perception and definition of marketing and of its human dimension, more than just a business technology, as the multiple contributions of marketing that are so necessary to meet economic challenges, are also necessary to meet a nation's social and cultural problems.

"Market" means people. The market is a progress-generating force which gears and adapts its dynamics to the improvement of human living standards through both the development of technologies and structures and the optimum use of available resources, in order to satisfy latent or expressed demand by an ethical quality-offer, parallely determining economic order by continuous work and higher income.

This consideration alone shall induce a proper appreciation of the marketing concept, helping governments and industries rediscover the creative values of marketing, in its human dimension, as a tool of socio-economic progress.

The development of sciences and techniques and the dynamics of the economic and trade processes, at domestic and international levels, have resulted, in the recent years, in a consistent growth of industrial activities and in a parallel expansion of managerial responsibilities, particularly in the field of planning and implementation of marketing strategies.

The problem of how to accellerate the rate of economic growth of developing countries and, in particular, of least-developed countries, has led to increased interest towards the adoption of advanced marketing technologies.

In the developing world, where traditionally there is a tendence to concentrate on structural and technological aspects of industrial expansion, the importance of developing marketing expertise still is, to a certain extent, mis-regarded. When this occurs, industries may lose their competitive strength, the investment programmes are discouraged, the production is slackening, the costs are magnified and the domestic market environment is, in turn, affected by crisis and stagnation.

Following these considerations, this book aims at meeting the latent or expressed requirements of the industry of developing countries, as to the critical issue of "how to profitably expand the demand for locally manufactured goods". The aim is to provide an overall view of the most relevant aspects and problems of marketing strategy planning, identifying criteria and implications for its implementation.

The specific objective is to draw attention concerning the relevance of the local marketing environment and local policies upon the operational efforts of local industrial enterprises, in a context of aggressive competition.

Before all, it is however advisable to clearly define the marketing concept, so as to avoid confusion or misinterpretation, depending of the fact that "marketing" is a conventional expression identifying a rather complex context. The definitions of marketing are numerous and often are generic or restrictive and do not provide sufficient scope or elements to distinguish marketing from some of its functional components (such as research, promotion, selling, distribution, etc.).

"Marketing is the management function which plans and directs the totality of business activities related to optimizing the flow of goods and/or services from producers to consumers or users, so as to translate the potential demand of a market into effective demand, and satisfy it according to plan objectives".

In elaborating this book, emphasis was particularly placed on the way in which the marketing concept, originally formulated for developed economies, can be factually adapted and successfully adopted in the developing countries, taking into account their structural, cultural and economic environment.

## 4. The Marketing environment

The term "market" identifies people, or the universe of individual consumers and users interested or potentially interested in purchasing a given product or service. Each person, in fact, necessarily consumes or uses an important amount of goods and services during his lifetime, according to his economic profile, his needs, wishes, age, culture and status.

In formulating and implementing a marketing strategy, special attention shall be, therefore, reserved to these aspects, which, all together, represent the marketing environment.

Marketing strategy requires not only the careful observation of who are the people but also how they live, where they live, what are their special needs, interests and motivations. For example, populations of urban areas are very dissimilar from those of rural areas; however, each of them are far from being homogeneous. At the same time, income trends and financial assets vary considerably, according to education, age-class and individual or family characteristics.

Evidently, if such socio-economic particularities would not be there, the largest markets in the world would be China with almost one milliard of inhabitants, India with almost 500 million, Europe with almost 350, and URSS with almost 250 million. This is not the case, because of great differences in national and individual income, culture, needs and requirements. Yet, population is still an important factor of the market economy.

The types, quality and quantity of goods and services required by a society mainly depend upon the economic structure of the market, which is generally identified according to one of the 3 following classifications:

1. <u>subsistence economy</u>, which is characterized by a market environment in which the largest majority of the people is engaged in agriculture, consumes most of its production and exchanges the rest for necessary goods and services.
   This market environment can be characterised also by

availability of natural resources, which are general exported in form of raw material.

2. industrializing economy, which is characterized by an increasing amount of domestic manufacturers and growing middle-class, demanding types of goods and services generally not required in the above mentioned economic area.

3. advanced industrial economy, which is characterized by very large industries and capitals, advanced specialization, skilled man-power and predominant exports.

The marketing environment is additionally identified by the income level, which is also distinguished in 3 specific categories:

i. very low individual income, particularly present in the subsistence economy areas, where starvation is present and home grown food and home made goods and services constitute the bulk of the market.

ii. very low and very high individual incomes, where most of the population is poor and a minority is very rich, the masses live on subsistence farming and the rich live on the import of goods and services.

iii. medium and high incomes, which is characteristic of industrialized nations, low income tend to decline, workers are organized in unions, and the result is a generally large middle-class, called class-less society, where the possession of consumer values is greater and where taste and individual status operate the basic choice for products and services.

Another aspect of marketing environment is the one related to local cultural characteristics and traditional habits, which determine not only the global size of the market, but also the individual preferences.

In trying to ascertain all such aspects of the marketing environment, as a set of forces inducing economic expansion, other factors must be considered such as the human and technological dimensions.

The industry, in fact, has to contend with a large number of policies and innovations as well as the pace of technological changes. Of all the changes, those taking place in distribution systems are certainly the most dramatic, as new institutions replace or integrate old ones, determined by society's needs, culture and requirements, such as:

- department stores, which are the result of the improvement in transportation and of the growth of urban areas,
- mail-order houses, which are created by the need of serving rural areas at better conditions than the rural population could otherwise obtain, and which are made possible by the improvement of postal service, communication systems, and improved economic conditions of rural population,
- chainstores, whose eventual growth is determined by the possibility of achieving economies in ware-housing, deliveries and promotion to serve large urban conglomerations,
- supermarkets, which inaugurate the system of mass merchandizing at lower costs and on a self-service basis, attracting a large number of new consumers by broad assortments, promotional display and concentration of goods and other commodities,
- shopping-centers, which are in response to migration from cities into suburbs, satisfying consumers both from urban and rural areas by offering them the opportunity to come shopping by car.

The developments in the area of communications and automation must also be studied in the context of marketing environment in developing countries.

The significance of all these aspects, in addition to leisure, preferences, security, health and ecological consciousness, is very clear, and in formulating and implementing the marketing strategy the industry must be fully aware of the impact of such market environmental factors, influencing the domestic demand for locally manufactured products.

The industrial expansion strictly depends on the ability to formulate and harmonize the marketing strategy with the domestic market environment.

This principle is the result of at least 3 dramatically different views of the marketing concept:

1. the primitive marketing theory, based on profit-seeking sales orientation in which industries pretend to know better what is good and worth to offer, than consumers themselves. The production oriented concept of marketing is actually regarded as obsolete even if still practiced in various economic areas and particularly in developing countries.

2. in the recent years, the notion of consumers' oriented marketing overtook the previous concept, inducing that the needs of the market rather than those of the producer should determine the strategy of the offer. The great merit of this new approach is to focus the attention on the fact that any enterprise exist only in view to serve the market. It led to a factual explosion of marketing research, stimulating the integration of investment and operational plans and determining a positive dialogue between producers and consumers.

3. the environmental view of marketing, is the modern present aspect of the marketing strategy, and derives by the idea that every production programme is strictly connected to and depending on the environment.

The market environment, in fact, consists of a series of factors and inputs which generate other factors and conditions according to the particular structure of the market.

The environmental theory of marketing postulates that any marketing programme shall be designed in terms of objectives and operated in terms of strategy, according to the specific aspect of the market environment.

In effect, the more an enterprise is willing and capable to identify the market factors, the more it will become successful in formulating, implementing and achieving the objectives of its strategy of the offer.

This analytic approach is valid in both domestic marketing and international marketing practices.

Environmental marketing obviously requires a great deal of data feedback, to identify markets' socio-economic characteristics, consumers needs and requirements, to keep track of competition and to forecast technological or structural changes within the market environment.

The concept of market profitability can no longer be regarded as the stimulus of economic expansion of industrial activities, though still remains important to grant the progress and development of industrial enterprises. Demand growth is typically correlated with marketing productivity and effectiveness, but the key for the expansion of the industry sector is definitely related to the ability of adjusting the marketing strategy to the factors characterizing the market.

The study of different advantages and disadvantages are of immediate interest to formulate and implement a marketing strategy and attain the industrial and economic objectives.

## 5. The role of marketing at national level.

Marketing, in terms of distribution and selling in order to produce at profit, presumes a relatively advanced level of structural and economic development.

It assumes the existence of a set of policies and systems, a coherent division of labour and some specialization in manufacturing as well as in distribution.

Marketing normally passes through three distinct phases:

1. barter among producers;
2. direct selling of products by the producer to the consumer;
3. specialized distribution and selling activities, in which marketing is divorced from production.

All such forms of marketing exist today in most developing countries. Direct selling is, however, very common in Latin America, Africa and Asia and is, by no means, rare in the most industrialized countries.

Increased industrialization and urbanization are normally accompanied by a relevant increase in the proportion of labour force in marketing activities. In Western Europe, for example, only an average of 5 % of the total work force was engaged in marketing activities at the end of 1800. By 1950 this ratio increased to almost 31 %. In 1965, for urban areas only, employment in the field of marketing increased to 43,7 %, according to statistical studies carried out by the European Economic Community and other non-governmental organisations.

The relative efficiency of national marketing structures, policies and systems, in Europe, also improved considerably.

In any case, it is relevant to notice that even sophisticated marketers from industrialised countries, who clearly perceive the typology of the market in their own countries, may ignore distinctions and characteristics of market segments in the developing areas. Thus, some Westerners may be prone to think of the African or Arab markets as homogeneous entities without adequately recognizing significant differences among and within such areas, obscuring the considerable cultural, social and environmental aspects.

Distinctions among and within the developing countries are strongly significant, revealing the need for considerable diversity of marketing approach and strategy in each specific area.

For the marketers a most meaningful basis for assessing a nation's propensity to consume and its demand structure, based upon its marketing environment, is per capita income, provided that adequate provision is made to relate the various income factors within the country and in comparison with other countries.

Such comparisons should not only stress per capita income or ownership of houses, cars, electrodomestics, clothing and food, but must place adequate weight upon social services, medical care, recreations, education and similar factors.

If production is the economic function that can be most readily transplanted, in terms of technologies, from nation to nation, marketing is certainly the function that can be uprooted from its native soil with least success in developing countries.

Given identical ingredients, still a chemical machinery in Nairobi should operate in exactly the same manner as those in Frankfurt. Not so with marketing, however.

Differences in local environment, views, traditions and culture among both sellers and buyers, as well as in socio-economic and political systems, call for most careful adaptation in the transferring of marketing technologies from developed to developing countries, and preclude standard adoption. Nevertheless, certain techniques of marketing can be translocated almost intact, particularly those concerning physical distribution.

It is evident that very advanced and sophisticated techniques of marketing are applicable only to later stages of a nation's development and must be necessarily preceded by a solid infrastructure of communications, transportation, finance and appropriate policies as well as by the improvement of local information systems, management skills and expertise.

The social utility of marketing has been mis-regarded throughout the ages in spite of the consideration that trade is a natural function granting the survival of the community by maintaining it self-sufficient.

The transfer of goods and services is based upon the existence of goodwill and reciprocal needs among members of the same national community or among communities.

Large-scale trade, at both domestic and foreign levels, induce not merely earnings but also the economic and the structural expansion of production and service activities.

The history of the western world is replete with cases in which the marketing activity has challenged the existing socio-economic order, stimulating progress and reducing the risks of wars.

The developing countries are, however, prone to neglect marketing in favour of manufacturing, for a number of identifiable reasons. Probably the major reason is an inappropriate evaluation of the socio-economic function of marketing and non-appreciation of the intangible manner in which marketing enhances the value of a product and satisfies human needs and requirements.

An overemphasis on production to the neglect of marketing may be explained in developing nations where goods are scarce but certain middlemen's personal services are found in abundance.

Many industrialists of developing countries appear to have been, for long time, seriously concerned with the marketing phase of their operations. How far they are from the marketing concept adopted in the industrialized countries, can be illustrated by a case happened in a management development training session, where 25 top executives were discussing the aspects of planning and budgeting of a proposed business. One of the managers had forecast sales and then planned the production accordingly. Most of the class members considered this a wrong approach, as the manager should have planned his production capacity first and then forecast the sales at that level!

In developing countries, the role of marketing at national level is too often neglected or even treated with contempt, while fields as production, financing and, eventually, export, being more glameurous and physically more obvious, are accorded top-priority by both governments and industrialists.

In any case, no doubt exists that the inducement of socio-economic changes and the progress of the industrialisation process in the developing countries is determined by the marketing factor.

Most reforms to improve the operational efficiency of a domestic marketing system stems from the assumption that production becomes more economic in an organized marketing system than through fragmented and primary marketing practices.

Moreover, both governments and technicians may not be fully aware of the significant advantages accruing to the population because of the improvement of the domestic marketing structure, resulting not only in an economic gain but in innovations which will determine higher employment rates and new economic earnings.

Government officials and marketers shall, therefore, operate in close relationships as the political framework and the marketing system are closely inter-connected and have a common role in promoting and inducing social welfare.

## 6. Planning the Marketing Strategy

Planning marketing strategy is a major task of the industrial management function as it consists in anticipating possible future developments, formulating policies and objectives, mobilizing men and resources and organizing action programmes, to attain economic operational targets, at profit.

The question is not wheather industrial managers plan in terms of products, pricec, promotion, distribution or investment, but how well they plan the marketing strategy and how accurate are the data they have collected to formulate the programme of action and to organize the available resources within a given marketing environment.

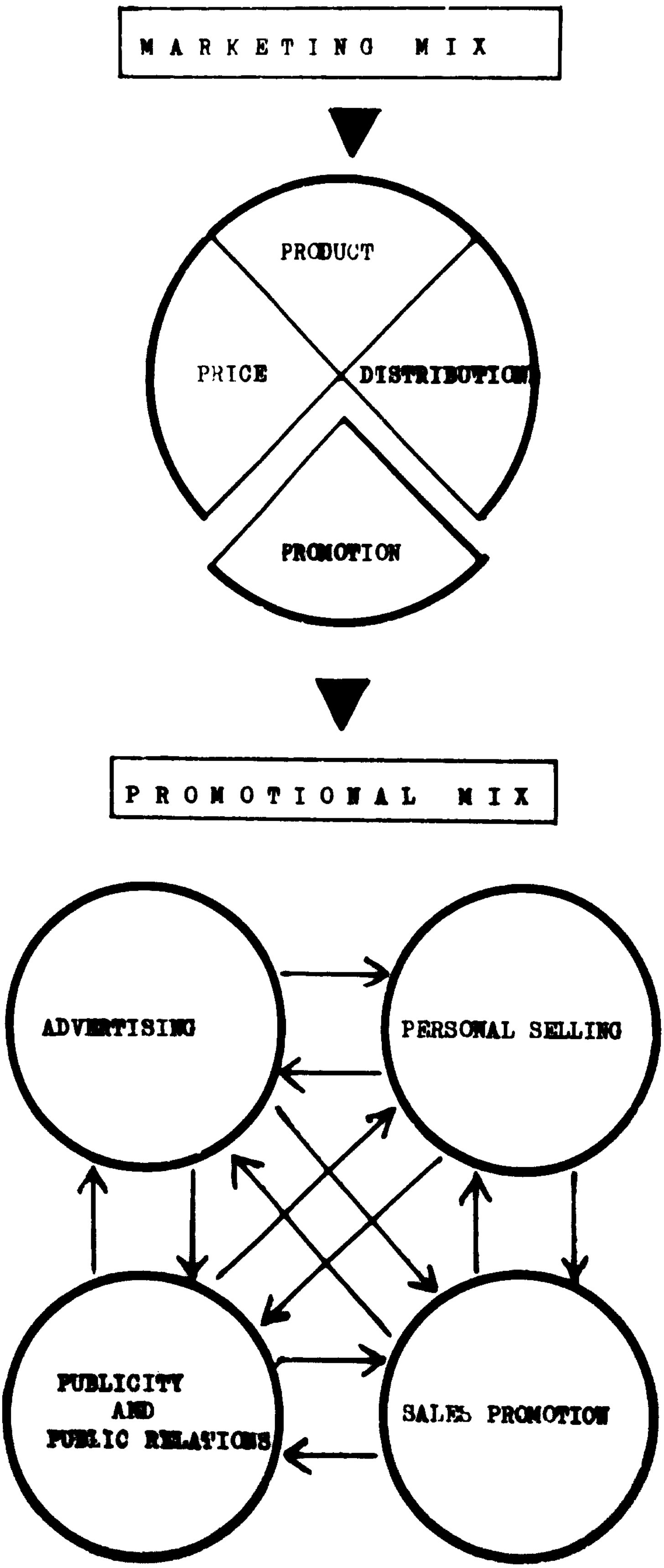
Marketing strategy is a comprehensive set-up which, on the basis of actual external and internal information and in view of foreseeable developments over a given time-span, shall enable an enterprise to adjust its output, its communication and its field action, so as to overcome critical factors and optimize the efforts within the context of its market.

The marketing strategy first of all includes a clear statement of objectives and the proper allocation of resources to attain such targets involving, therefore, realistic estimates of costs and benefits.

Planning marketing strategy is vital to minimize investment risks and to chart the future course for the economic and operational expansion of the enterprise.

It begins and ends with the knowledge of the structure of the market, and the identification and measurement of market potentials and competitiveness.

It consists in the clear determination of marketing targets, within a given market area and time-span, and is based on the design of the marketing-mix (product, prese, promotion, distribution), to achieve such objectives.


MARKETING MIX
PRODUCT
PRICE
DISTRIBUTION
PROMOTION
PROMOTIONAL MIX
ADVERTISING
PERSONAL SELLING
PUBLICITY AND PUBLIC RELATIONS
SALES PROMOTION

The major marketing objectives include:

- sales targets,
- market share,
- product penetration ratio,
- market segments coverage,
- geographical market coverage,
- capital investment/return ratio,
- value added per product or product lines.

The determination of the marketing-mix strategy is rather difficult as the components (product, price, promotion and distribution) are inter-dependent and each of them must be considered in strict relation with the others. This means, for example, that it is erroneous to plan a distribution policy or strategy without taking into consideration its effects upon pricing or promotional policies or strategies.

The management decision in planning the marketing-mix strategy must be designed to minimize risks and optimize results in terms of invested resources.

The marketing manager should be able to answer 4 basic questions before making any marketing planning decision:

- how will this decision affect the economic budget?
- how will this decision affect the image and the performances of the enterprise and/or its products?
- how will this decision affect the organization?
- how will this decision affect the market environment?

In most developing countries the distance between a producer and his customer is ordinarily much wider than one thinks.

By distance we do not mean only physical distance. More important is the marketing distance created by intermediaries standing between the enterprise and the ultimate consumer of the product, or the cultural distance arising out of the fact that the consumers can be members of different cultures or social groups.

All these distances conspire to produce an information gap that must be overcome when planning marketing strategy. The way to narrow this gap is through a systematic study of the market environment, directed towards the identification and the measurement of actual and potential market conditions and opportunities.

## 7. The Marketing Information System

The information gap has always oonfronted industrial produoers and it is a most relevant oritioal faotor in business development. The rapidity of ohanges oonoerning buying power and attitude of oonsumers, the growing oomplexity of marketing operations, the intensity and quality of oompetition offer great advantages to the enterprise whioh has superior information about the identity and behavior of the market.

It is no longer possible to oarry out marketing aotivities on a hit-or-miss basis, as in the days when a merohant exchanged his goods for whatever the "natives" offered him. Marketing has beoome, today, a highly oomplex and soientifio operation, whioh oannot be planned and implemented unless it is based on market knowledge whioh only researoh oan supply.

Marketing planning depends, in faot, upon oareful analysis and appraisal of markets, oompany strengthes and weaknesses, and the full range of the marketing-mix. This is to say that marketing researoh is the basio input for strategy planning. This applies not only to market studies but also to researoh in advertising, prioing, distribution ohannels, and all other factors that may oontribute or affeot industrial expansion.

As we are here oonoerned with the "market", 3 basio questions must be answered by industrial management if it has to effeotively plan a profitable marketing strategy:

- what is the aotual and foreseeable potential of the market?
- what is the oompany's sales potential in the market?
- on what speoifio market segment should we oonoentrate our marketing effort?

Answers to these questions lead to the seleotion of market segments, foousing aotual and potential oonsumers' behavior, demand struoture, and performanoe standards.

The majority of enterprises in developing countries generally neglects estimating market and sales potentials and merely rely on past experiences, reports from distributors, credit and sales reports, and the like. There is nothing wrong with these information sources, but they should be interpreted in the light of systematic studies on markets and customer behavior. Otherwise, there is great danger that management will make decisions based on incomplete information often coloured by subjective judgment and prejudices.

A systematic study of the market should not be identified with high cost or the necessary use of outside consultants. Undoubtedly, larger industrial companies make greater use of market research than the smaller ones. But the use of marketing research is only partly a question of company size. Basically, it is a question of management attitude towards research and towards planning in general. It is the approach that is most significant, not the money or the time involved into research. Useful market information can be gathered at a very low cost, that can be adaptable to all sizes of enterprises.

Preliminary surveys identify market opportunities that warrant further investigation. The techniques used in preliminary screening are simple ones, relying mainly on readily available information which, however, should be consistent enough to focus existing market opportunities within the widely diversified set of consumers segments.

Management seldom applies survey techniques to the domestic market, disregarding, for example, that for some products, climatic factors may exclude certain market areas from consideration in certain given periods.

Management may declare certain other areas out of bound because of past experiences, imagined fears or preconceived ideas. At other times, it may be the marketing executive himself, who is responsible for a survey, that may limit screening to those areas he knows or which appear to him to have economies and demand most appropriate. Or he may take his cue from domestic competitors. And because he talks with other marketing executives and reads trade journals he may develop definite inclinations towards specific market segments or geographical regions.

Because surveying is a preliminary research, it should be as comprehensive as possible. Management should know why certain areas do not warrant further investigation. Otherwise, it may neglect excellent market opportunities, leaving them to more enterprising competitors.

The most useful technique for preliminary screening is a appraisal of official statistics showing performances of the product or product line.

Management should understand that small trade does not always indicate small markets. By failing to find out why trade is low, management may overlook opportunities that deserve considerations.

Information on trade restrictions is generally available, and estimates of consumption are all that is needed for screening purposes.

In this way, management can make a three-way breakdown of national market, that can be very helpful in preliminary screening. Import analysis can also be applied to assess share of trade. If the share is big, it is ordinarily a hopeful sign. A small share, on the other hand, raises questions on competitive strength.

Management completes its preliminary survey when it has identified problems that justify further investigation. The number of these problems depends not only on factual analysis, such as we have described, but also on the judgment criteria used by management. In most cases, however, the number of problems identified for further study is far less than the number given in a preliminary screening.

When marketing management has evaluated the market potential, over the considered planning period, it may proceed on to a second question: how much of the market potential should the company plan to get? The answer to this question represents the company's "sales potential" in that market.

Sales potential is the maximum sales that an enterprise can reasonably plan for in the market. It is usually derived from an estimate of the company's maximum share of the market potential over the planning period, that is, its maximum penetration ratio.

The sales potential is not the same as a sales forecast. The sales forecast is used to determine the short-term sales goals of current operations by estimating actual sales prospects. In contrast, the sales potential is a basis for strategic planning and a projection of maximum sales opportunity. Sales forecasts have an important role in budget planning within the frame work of objectives and policies laid down by the marketing plan.

To arrive at a good estimate of the company's sales potential, marketing management should evaluate the relative importance of various factors which may vary among areas, products and consumer segments. In some areas product design may be a key factor; in others, price; in others, distribution channels. In all cases, key factors should be identified and measured as to their impact on sales potential.

The major area of investigation should be an evaluation of trade policies and other pertinent government regulations that may influence marketing action, pricing and the like. These include registration requirements for patents and trademarks, anti-dumping and countervailing duties, anti-monopoly legislation, resale price maintenance laws, trade practice legislation and labelling requirements, to name only the most prominent.

Another area of research involves a series of comparisons between the enterprise's product line and those of competitive firms in the market. In some instances, comparisons of quality, design or price will indicate that the company's product is highly differentiated from other products. Although this may enable the company to build a strong competitive position by appealing to specific segments of the market, it also makes the task of estimating sales potential more difficult.

Product comparisons should not be restricted to the product alone. The successful marketing of many industrial and consumer durable goods requires an after-sale service of some kind, such as technical assistance, installation, repair and maintenance, and the easy availability of spare parts. Competitors' performance on these auxiliary services should be carefully evaluated as to cost and effectiveness.

In replying to the question: "at equal conditions, can our product line compete successfully against products already in the market"? answers may range over all aspects of the product price, design, size, quality, servicing, etc. However, such findings should be viewed in the nature of hypothesis to be tested by later research on relevant market segments.

It is also important to look beyond competitive products in the same industry. Comparisons should be made among all products - whether or not in the same industry - that serve the same function in the behavior of consumers. At times, inter-industry competition may be more severe than competition among similar manufacturers within the same branch.

Market structure and the marketing efforts of competitors are a third area of study. An investigation of market structure raises a number of questions, among others:

- what is the degree of monopoly in the market?
- who are the market leaders?
- is competition rigorous or loose?

Competition structure is often a decisive factor in determining the expansion in the market. Some markets are characterised by strong associations of various producers who bend their collective efforts to keep out intruders. Sometimes markets are dominated by one or two large firms and a host of smaller, less efficient followers. Other markets may, instead, have no dominant firms and a loose competitive structure that makes expansion easy.

In evaluating the performance of competitors it is wise to focus on the market leaders. To expand in a market, the enterprise must necessarily come up against these leaders who can be expected to offer the stiffest competition. Apart from this basic consideration, the company can learn a great deal about promoting and distributing by studying the operation and policies of its competitors.

A simple study of the performance of competitors is not enough. It is necessary to identify the particular sources of success of each competitor in the market. Is it low prices? Patents? Product quality? Extent of product line? Brand image? Service? Location? Company size? Channels of distribution? Effectiveness of promotion and communications?

In some markets there may be only one or two distributors who can effectively handle the marketed line. When these distributors are tied to competiting companies by exclusive selling arrangements the enterprise is faced with a serious problem and is forced to use inferior distributors, hoping to improve their performance through training, promotional efforts and other devices. At times, the distribution bottleneck occurs at the retail level. This adds substantially to marketing costs and probably scares some producers. It is common to find inadequate distribution channels in the markets of developing countries.

Sales potential analysis also calls fo research on the final consumer and is closely related to market segment analysis.

When carefully formulated, the sales potential can serve not only as a strategic marketing tool but also as a measure of performance. But to do this most effectively the sales potential should be broken down in terms of the different segments making up the market, by identifying the groups of consumers which offer the most profitable potential to the enterprise. This method is known as "market segment analysis".

Segment analysis is necessary because market demand is never homogeneous. This is true even when markets are small in geographical extent. Consumers differ - often markedly - in incomes, wealth, education, social class, age, sex, occupation, race, culture and innumerable other ways. Any of these differences may have a decisive bearing on consumers' willingness and ability to buy a product.

Because of these differences, seldom can a single enterprise satisfy equally well all consumers. This applies to even very large companies with extensive product lines. Furthermore, an attempt by a manufacturer to appeal to all consumers in the same manner can be dangerous policy and the manufacturer may end up with a product image that appeals to no one in particular.

Segment analysis is especially important in the marketing of industrial products. Often the manufacturer does not know which firm can use his product or, if they use it, why they do it and how.

Because of consumers differences, marketing management should break down the domestic market into segments (or submarkets) in order to isolate the segments which have the greatest potential. This enables the enterprise to focus its marketing efforts on specific targets and avoid dispersing resources and energies on unprofitable segments.

An even-coverage, non-selective approach for the marketing of goods and services is wasteful. Segmentation research enables budgets and promotional campaigns to be directed in a specialized and rational way.

In summary, segment analysis helps defining the marketing strategy related to the allocation of resources towards the submarkets that together make up the total domestic market.

Here is an example showing the influence of different market segments motivations in the Venezuelan market, concerning taste in industrial design:

Three panels of housewives, drawn from three different local classes (upper-middle, lower-middle, and upper-lower) were shown various designs for a number of products, including beer cans, air conditioners, table lamps and cookie packages. The same designs were presented to each panel: the first design was severely controlled in form and pattern, the second design was spontaneous and free but coarse, the third design was sentimental in style. The upper-middle panel chose the first design by large majority; the lower-middle panel was divided between the second and third design; and the upper-lower panel unanimously rated the third design as its first choice.

Product planning should be guided by a careful analysis of market segments. It is illogical to decide on marketing strategy before research has identified and located those market segments having the highest sales potentials. Only after this is done can marketing management make a decision as to how, given the resources, it should allocate its marketing effort within the market. Market segment analysis also helps marketing management plan for an expansion of its present market coverage.

We have outlined a systematic approach to identify and measure market opportunities, and emphasized the use of official data and secondary data, which normally are the least costly and time-consuming to gather. Only when secondary data is not available to answer specific questions about markets should marketing management undertake specific field studies.

## 8. Planning Product Strategy

Once marketing management has identified and measured its market, it must plan the marketing-mix that will enable the enterprise to reach its objectives. We have already mentioned the difficulties of planning the marketing-mix, and the interdependence of the mix elements.

Product planning is the systematic determination of the manufacturer's product line, that is, the number and variations of products to be offered by the enterprise to the market it serves. Product planning tries to answer two basic questions:

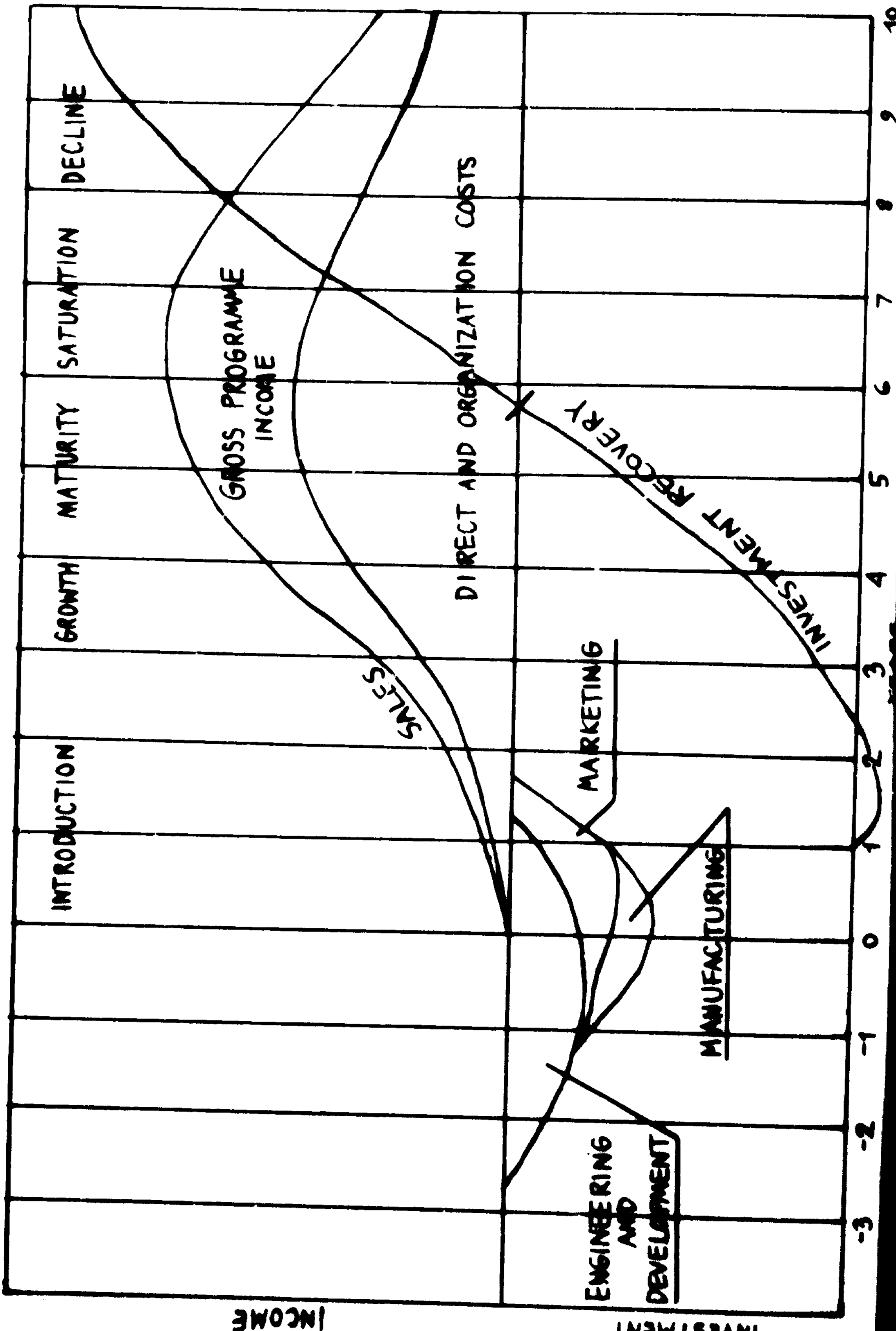
- what, if any, products should be added to the company's current product line?
- what, if any, product should be dropped from the company's current product line?

All enterprises run the risks of adding or retaining products that are not profitable, and of ending up with a product line that does not match the requirements of the market. Product planning seeks to minimize these risks through a careful appraisal of actual and potential markets (market position, sales potentials, buyer characteristics, etc.) together with an evaluation of the company's resources (technical, production, financial, manpower, etc.).

Product planning must also take account of what the company is selling now and its capacity to change the current product line.

The complexities of product planning are heightened by the many dimensions of a product. After all, what is a product? This questions can be rephrased: what is the company selling? In the final analysis, it is selling the satisfaction that buyers expect to get from the consumption of its "product". Thus an airline is not selling air services, but space and time convenience;

. **The Product-Life cicle** .



a toothpaste manufacturer is not selling toothpaste but health, cleanliness, and social acceptability. Broadly conceived, a manufacturer's products is what contributes to the satisfaction of his customer. His product is the output of the whole company's effort and is not "fully produced until consumed" by the market.

In more specific terms, product may be viewed as having 3 dimensions:

1. the physical structure,
2. the packaging structure, including brand name and trademark, and
3. the service structure, such as performance guarantees, use instructions, installation assistance, spare parts availability, etc.

Accordingly, product planning involves not only planning the physical structure (product core), but also the ways in which it is identified and presented to the consumer (product package), and its consumption is facilitated and made effective (product service).

As is true of planning in general, product planning must be guided by a profit yardstick, which is the expected profit contribution over the life of the product. The use of this standard may be considerably modified by company objectives, other than profit, and supplemented by other standards relating to how a new product or product improvement fits into the existing product line and capabilities of the company.

Often the refusal of some companies to adapt their products to market requirements is more frequently a question of management's attitude than strategic or financial considerations.

Although management may be constrained from planning new products, there is much it can do to adapt existing products to market demand. Management should also strive to adapt the many elements of packaging to the requirements and preferences of customers. Finally, it should decide what auxiliary services will facilitate sales and consumption.

Whether and how the many dimensions of a product should be adapted to the requirements of markets can be decided only after answering the questions relating to potential consumers, environmental conditions, government regulations, competition and expected profit contribution.

Product planning begins with a consideration of the physical properties of the product from the perspective of potential customers and total market environment.

The vast majority of products can be adapted to markets in one way or another with a resulting improvement of their image and their profit contribution. Such adaptation may refer to size, function, materials, design, style, color, taste, specification standards, etc.

It is not, however, necessary to change the standards of the product to conform to the buying behavior of consumers, often the same result may be obtained through packaging. Also, the preference of a consumer for big sizes may be satisfied by multiple-unit packages such as those commonly used in the sale of soft drinks and corn-flakes.

Differences in technical skills, labor costs, the availability of manpower, climate and other factors often change the functional requirements of industrial products in developing countries, and adaptation may generate satisfactory results. Although it is possible to speak of international design in certain products there still exist wide disparities in the style preferences of different people.

The color of the product may be a critical factor. Although color is usually less important for industrial products, it bears directly on the saleability of certain products, such as office equipment.

Differences in taste are pertinent to the sales of manufactured food products.

Industrial equipment is particularly sensitive to variations in standards. Manufacturers of industrial equipment should adjust their products to the measurements, calibrations, voltage, and other specifications if they are to take full advantage of market opportunities. Often such adjustments can be made easily and at low cost; in other cases, they may require substantial changes. Undoubtedly, differences in systems of weight, measure, and industrial standards are an obstacle to trade, but can often be overcome through product adaptation.

This brief review of some of the many aspects of the product core that may be adapted to the requirements of markets, suggests the complexity of product planning. It also points to the necessity of testing products in the market before undertaking substantial and costly production and marketing programmes.

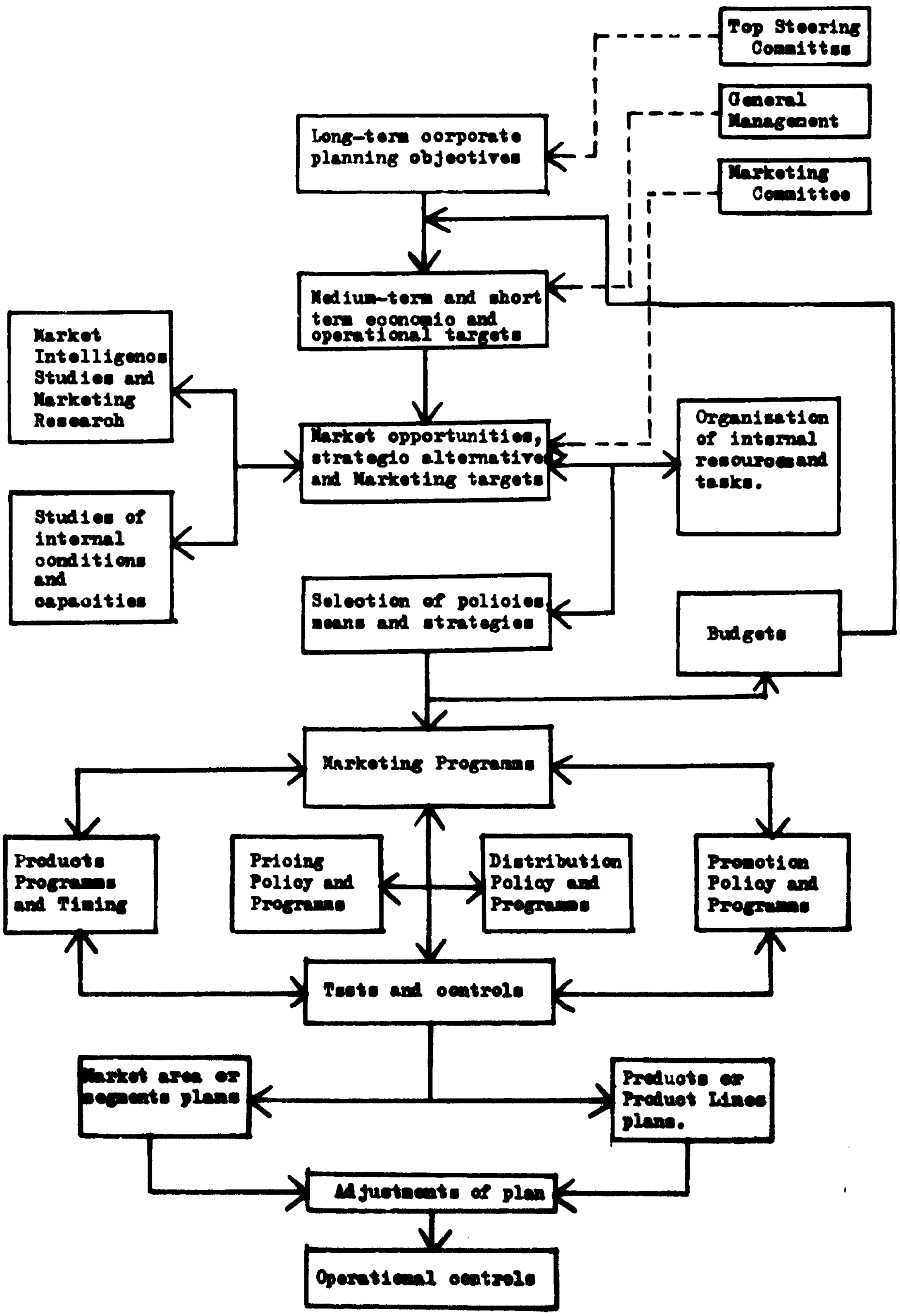
This involves a careful and systematic analysis of the consumers' reaction to the product and how they use it.

In addition to adapting the physical product to the requirements of the market, management should also plan the presentation of the product at the "point of sale". For most consumer products and various industrial products the most important element in this presentation is the packaging.

The product package should be distinguished from the shipping container because they have different functions. The purpose of the shipping container is to protect the product (and its package) against various risks such as physical damage and pilferage during handling and transport.

The product package has a dual function. Like the shipping container it protects and preserves the physical product, especially at the point of sale. But the distinctive function of the consumer package is its role as a "silent salesman", attracting attention to the product, identifying it, and persuading customers to buy. This promotional function of product packaging and its planning is the subject of a research.

SCHEME OF MARKETING STRATEGY PLANNING



The promotional use of packaging has determined a remarkable development in the marketing of consumer goods. The expansion of self-service has created new point-of-sale conditions that greatly enhance the marketing significance of the package, as most items are generally bought on impulse. In these circumstances the product package assumes a critical importance.

If the package is to promote the product in the market, it should be adapted to the behavior, attitudes and preferences of potential buyers. One obvious adaptation is the printing of the package label in a language that is agreable to consumers. In spite of its obvious nature, quite often marketers ignore the language factor in package labels. As a result these labels lose much of their value to inform buyers about the product and persuade them of its merits.

A less obvious form of package adaptation is color. Certain colors have a symbolic value in all cultures, and the use of these colors may affect the sales of a product. It is known that people in Pakistan, Israel and Venezuela dislike yellow. In the Far East white is the color of mourning and blue is the color of sorrow, but Greeks like both of these colors. Moslems favor green, and so on. In summary, the color of the package should not offend or repel its potential buyer, but attract him.

The vital part of the promotional package is its trademark. It is the trademark (a name, mark, design or other symbol) that confers a unique identity to the product by distinguishing it from similar competitive products. In brief, a trademark is the product's commercial signature.

Marketing management gains several advantages from trademarks. Most important, it can focus promotional efforts on product identity. In the absence of trademarks only large companies with dominant market positions could gain from promotion. Trademarks help small-scale enterprises to develop a market by promoting brand preferences among customers. This process also induce the repetition of sales and permits to concentrate promotional efforts at the point of sale.

When a trademark gains wide acceptance among consumers it becomes a valuable property.

In many countries brand names may be difficult to protect (even when they can be registered) because of loose administration of trademark policies. In others, the reputation of the product may be compromised because of its possible identification with inferior imitations which can seriously endanger the image of a product or of an enterprise.

The effective marketing of industrial equipment and consumer durable goods normally requires auxiliary services both before and after sale. They are just part of the product as the product core or the product package.

When an industrial user considers the purchase of industrial equipment he is mainly interested in how well and how long that equipment will operate in his plant. The proper installation of the equipment, the training of workers in its use, and the maintenance and repair of the equipment to keep it is order, are all important factors, on which often depend the sales.

An enterprise can improve its market position by demonstrating and making known the effectiveness of its auxiliary services.

In developing countries, enterprises should develop appropriate service-mix to expand market demand, considering the conditions which may call for auxiliary services: changes in specifications, market ignorance of the product's use, unavailability of spare parts and maintenance facilities, and so on. Only by knowing these conditions can marketing management plan an optimal service strategy that can facilitate sales and lead to repeat orders.

In addition to studying and planning the adaptation of product core, package, and auxiliary services according to the requirements of consumers, marketing management needs to plan the product line it will offer to the market.

How wide should the product line be - how many different products? How deep should the product line be - how many variations, models, styles, etc. for each product?

Product line planning must take into account the characteristics of the market, the differences among potential buyers (social class, income, sex, industry, etc.), the consumers' expectation about assortment and quality range, the competitive product lines, and other powerful marketing factors such as distribution structure and economies.

When all products can use the same channels it may be, in fact, possible to achieve economies in distribution by spreading fixed costs. On the other hand, when the addition of a product to the product line requires a new channel of distribution, marketing management needs to carefully weigh costs against profitability. Economies in distribution systems may influence product line planning. In certain cases, it is possible to make economies in distribution by taking on complementary products of other (not competing) enterprises. This is known as "allied company arrangement", and offers numerous opportunities, particularly to small enterprises with limited product lines, which thus may be able to gain advantages by co-operative distribution systems.

## 9. Planning Pricing Strategy

Whatever product strategy is adopted, it has repercussions on other components of the marketing plan. Marketing management needs to relate product policies to price, distribution and promotion policies to get a comprehensive strategy for the entire marketing effort.

Planning pricing strategy is a difficult job. Marketing management must make judgments on a broad variety of conditions which are often known only imperfectly and with varying degrees of probability.

One difficulty is the concept of price as the ratio between goods and money, as determined by the interaction of supply and demand in the market.

To the businessman, price is the money he gets from selling a product unit, and it determines the profitability of that product. The product, however, has several prices because of many kinds of discounts (functional, cash, seasonal, etc.) and frequent gaps between list prices and negotiated prices. To speak of the price of a good is an abstraction.

For the marketing manager price should be merely one of the several elements of the marketing-mix. Pricing is, in fact, a marketing tool and a mean for attaining the sales potential and other objectives in the marketing plan.

The starting point in pricing strategy is the determination of the basic price. This is the price that the final buyer pays for the product. For consumer goods the basic price is the retail price; for industrial goods it is the price to the industrial user.

The determination of the basic price of a product involves 3 logical steps:

- estimating the demand of final buyers, over a planned period,

- estimating the manufacturing and marketing costs to achieve projected sales volumes, and
- selecting the price that offers the highest profit contributions.

It is the job of market research to supply the data needed for estimating demand. The information may come from a variety of sources: past sales records, competitors' prices, consumption analysis, surveys of the trade (retailers, industrial distributors), etc. Most difficult is the projection of possible shifts in the demand, over the planning period, in relation to the probable life-cycle of a product.

In estimating the costs of projected sales volumes, all costs should be included. This means that the final determination of the basic price can be obtained only after decisions have been taken on the rest of the marketing-mix. For example, when one decides on a distribution channel comprising independent agencies (distributors, agents, etc.), one should be certain about the margins required by those agents to distribute the product.

The determination of the basic price involves also an evaluation of the expected profit contribution in relation with the choice of strategies promising the highest. This indicates that the forecast maximum depends on the accuracy of the information on projected costs and sales revenues.

Once determined, the basic price guides marketing management in planning the discount structure and the pricing strategy.

Strategic factors other than profit, may however modify the profit contribution approach. These include considerations concerning market share position, price stabilization, investment risks, special arrangements with important customers, etc.

Such considerations and other factors may lead to a departure from the basic price. Should we use price as an active promotional tool? Should we price above, below or at the same level as competitors? When the product is now to the market, should we enter with a high price or a low price? Should we price to minimize the profit of the whole product line, or of each product taken alone? Such questions underline the complex nature of pricing and why determination of the basic price is only the first step in planning marketing price strategy.

Pricing strategy may, in some cases, influence the discount policy by affecting the size of distributors' margins. Aside from this consideration, the fact that enterprises often use channels involving intermediaries to reach final consumers means that their marketing prices are not final-buyer prices but intermediate prices.

None of these observations mitigate the value of the basic price as a guide. When the basic price is determined, marketing management can assess the impact that decisions on pricing are likely to have on profit contributions and market expansion.

Before taking up these further aspects of pricing, however, we should make a brief comment on value-added pricing because of its apparent appeal to marketing management.

Value-added pricing is pricing a product according to the following formula:

> cost of materials and labor plus allowance for manufacturing overhead plus selling expenses plus allowance for general overhead plus fixed profit margin.

This formula is attractive because of its simplicity and its seeming assurance that the company will make a profit on each unit sold.

But value-added pricing has several disadvantages:

- it completely ignores the market demand;
- it ignores competition;
- it uses an arbitrary allocation of overhead costs which are not affected by current sales;

- it involves circular reasoning because price influences costs which, in turn, affect sales volume; and
- it offers no guidance to maximize profit or to reach other indirect profit targets.

The selling price is normally a compromise between the value-added which the seller would like to get, and the amount which the buyer is willing to pay.

The proper use of cost analysis in pricing permits to measure the profit contribution of different projected prices and to establish a discount policy.

The most important discounts are the functional discounts to distributors, as they serve as:

- payment to middlemen, and
- incentives to encourage distributors to give extra promotional effort to the product.

Quantity discounts also have a promotional function. Marketing management needs to decide whether to give quantity discounts considering profit contribution and investigating their effects on sales and the savings in transportation, handling and order costs. Pressure by buyers and competitive practice enter into this evaluation.

When auxiliary services are offered, a decision should be made on whether to cover their costs out of sales or whether to charge customers for each specific service. The latter policy may be implemented in the form of discounts.

Cash discounts are also offered to accelerate payment.

This short discussion on discount policy makes clear its dependence on product, channel and promotion as well as pricing decisions - and confirms the need to plan marketing strategy comprehensively, with full regard to all components of the marketing-mix.

Marketing management has wide pricing discretion when its product is known to the market and has no competitive substitutes. The degree of pricing flexibility hinges on the degree of product differentiation. When consumers show a preference for a product because of its quality, style, performance or any other property, marketing management has some degree of pricing authority and the opportunity to develop an optimal pricing strategy.

The degree of pricing discretion determines marketing management's capacity to use price as a marketing tool. What is needed is an accurate assessment of the profit contribution offered by each and every part of the marketing-mix, so that management can plan a strategy with a maximum profit contribution. A low-price policy, for example, is likely to vitiate a quality product image which management wants to promote.

Each product has a life-cycle. The life-cycle starts when a company introduces a product new to the market which is differentiated from older products. In a word, the product is a speciality. At this stage the marketing job is mainly promotion and distribution, stimulating demand and making the product available to people. There is little or no price competition, giving management broad pricing discretion.

Few products can, however, remain specialities indefinitely as, sooner or later, they are duplicated or even improved, by competitors.

The producer may seek to maintain his market position through promotion emphasising the distinctiveness of his product. But as competitive pressure grows more intense and products become more alike, he is forced to lower price. His pricing discretion is much less and he must pay closer attention to competitors. The product is no longer a speciality and becomes a standard commodity.

Although companies are not usually successful in preventing a speciality from becoming a standard product, they should be able to forecast the transition. Skillful promotion can sustain brand preference. Product improvements and new packaging are commonly used to stop a drift towards standard commodity status. Indeed, much of modern marketing may be viewed as a continuing effort to keep up products from slipping to a standard commodity level.

Marketing management should carefully study what stage of the life-cycle its product occupies in the market.

When a product is new in the market, how should it be priced in view of its probable life-cycle? We can distinguish 2 basic strategies.

The first strategy is to enter the market with a high price to select the demand. Later, when the speciality becomes a standard commodity, the price is lowered to maintain and increase sales.

The second basic strategy is to enter the market with a low price serving as a spearhead in order to penetrate the market as quickly as possible. Here the strategy is to build up a dominant market position in a short time. Penetration pricing may also keep out competitors because of low profit margins. In following this strategy marketing management wants to build up a mass demand for its product and prevent others from competing in the market. It expects its profits to come from volume sales rather than profit margins.

Which strategy is better? It depends on the enterprice, the product and the market. Let us simply note that penetrating pricing is more daring than high priving, becauss it relies on a build-up of volume sales.

In pricing its products marketing management should always take into account the expected reactions of competitors in the market. When the company has only a small market share, competitors are likely to ignore its initial price or subsequent price changes. But when its market share is sizeable, then changes in price are quickly matched by competitors. In these circumstances management may well decide to follow a stable price policy, relying on product adaptation, promotion and other non-price measures.

The pricing strategy must leave room for tactical flexibility. It is most unwise to require marketing management to keep to a specific price with no margin for negotiating with customer prospects, meeting shortrun market developments, or countering competitive activity. In this way, pricing strategy offers the best protection against tactical victory bought at the cost of economic defeat.

## 10. Planning Distribution Strategy

If marketing management has made planning decisions on product and price strategies, he must develop a distribution strategy, getting the product to consumers at the place and time they want it.

Channel of distribution is the chain of marketing agencies linking the producer to the final buyers in the market. These agencies negotiate sales transactions and direct the physical movement and storage of the product so as to place it ultimately in possession of final buyers where, when and in the quantities they want it. The agencies comprising a given channel of distribution may be independent middlemen or owned by the producer. They may be many or few in number. Since the first and last links in a channel are the producer and final buyer respectively, it is logical to consider them also a part of the distribution channel.

In making these decisions marketing management should think in terms of the entire channel of distribution stretching all the way from the company to the final buyer in the market. Too many enterprises think their distribution channels end with their distributor, ignoring the section of the channel linking those intermediaries to final buyers. This is a faulty attitude because a distribution channel is only as effective as its weakest member. Transactions and physical flows may be blocked or slowed down at any point in the channel. Marketing management should plan channels that minimise obstructions, regardless of their location in the channel. And to control channel operations, marketing management should get an information feedback that covers the whole channel.

Several questions are pertinent for the determination of distribution channel performance, including:

- what geographical coverage do we want? How intensive should it be?

- what selling efforts do we want from channel members?
- what promotional efforts do we want from channel members?
- what should be the performance of channel members, the volume and location of inventories, the delivery systems?
- how and in what way should we support channel members?

Specific answers to these questions depend on the nature of the market and competition, the nature of the product, the resources available to marketing management, and the over-all marketing strategy. From such answers enterprises should be able to design distribution strategy, which relate to other components of the marketing plan.

A critical element in distribution strategy is the degree of market coverage. If management wants intensive coverage, it needs many channel members. Management is generally inclined to use any type of channel which gives intensive coverage. Total coverage also encourage heaviest reliance on advertising and promotional support.

Sometimes marketing management pursues a strategy of selective market coverage. In its extreme form this strategy uses a single distributor, having exclusive rights: the channel member agrees not to sell competitive products. A policy of exclusive distribution gives the company much more opportunity than total market distribution, in terms of controlling final-buyer prices and the distributor's performance. Such a control is particularly important when the enterprise wants channel members to push products aggressively, to maintain large inventories and to provide auxiliary services, such as installation and repair. Exclusive distribution calls for the protection and full support of the channel member and more promotional effort than in the strategy of intensive distribution. Because of their role careful selection of exclusive distributors is critical to the success of the manufacturer's marketing programme.

Distribution channel planning is closely associated with promotion planning because channel members can be used to carry and intensify promotional messages directed towards consumers. The emphasis placed on the promotional activities of channel members is another ingredient of distribution strategy.

Distribution strategy is also influenced by the company's decisions on the size of margins to be offered to channel members, as well as credit, inventory, promotion and customer service. These decisions determine the performance specifications of the channel of distribution and the basic distribution strategy.

It is not easy to choose the optimal distribution channel. The true problem is not channel multiplicity but the difficulty of estimating the profit contributions of alternative channels. It should start with an appraisal of the performance of alternative channels. This leads to a rejection of many types of channels that fall short of the performance specifications, greatly simplifying the job of channel selection.

Ordinarily, marketing management finds more than one channel type that can meet the performance specifications. For example, it may decide that either a distributor or a sales branch can do the job. In this situation the choice becomes a question of relative cost. If a company could ignore channel costs, it would invariably decide to sell directly to final buyers. This would give the manufacturer full control over his distribution system and would bring him into intimate contact with his market, possibly covering all possible buyers by adopting a policy of intensive distribution. But, of course, distribution is not costless. In many cases the higher costs of direct, intensive distribution far outweigh its advantages.

Once marketing management has estimated channel performance (expressed in terms of expected sales) and channel costs, it should calculate the profit contributions of alternative channel types.

It may be found that the channel which promises the biggest sales volume or the lowest cost does not grant the highest profit contribution over the marketing planning period.

On the other hand profit contribution can be rejected because the required financial outlay for controlling it exceeds company resources. By appraising alternative channels in terms of their profit contributions one can also avoid choosing a channel simply because it is the lowest-cost channel, a common mistake in distribution planning.

Information on distributors may be obtained from banks, government agencies, credit agencies, trade associations, and other sources. Armed with profile specifications and a prospect list, management is much better prepared to make the final selection.

It goes without saying that marketing management does not always get the channel members it wants. Distributors with the desired qualifications may simply not exist in the market, or they may be tied to competition, or they may not want to handle the product. Concerning this last point it should be remembered that the selection of channel members is two-sided: the enterprise selects the distributor but, at the same time, the distributor selects the enterprise. Depending on the circumstances, one or the other party is usually in a stronger bargaining position.

When the enterprise can not get the channel members it wants, it must either use inferior people, hoping to improve their performance, eventually by providing credit and technical assistance, or establish its own distribution network. This last choice may involve a change in marketing strategy and eventually call for a capital investment beyond the financial capacity of the manufacturer.

In planning physical distribution it is a mistake to think in terms of transportation or inventories alone. Thinking should be in terms of the entire logistical system (plant location, materials handling, transportation, storage, and information).

Logistic distribution planning should start with a study of consumers: where are they located? How much of the product do they buy at one time? How often do they buy? What physical supply services do they need in terms of inventory assortment, delivery time, etc.? Starting with the requirements of final buyers, marketing management can proceed to design a logistical distribution system by working backwards from the market to the place of production.

The inter-relationship among transportation, stocks and customer services is sometimes hard to detect. A shift from ground to air transportation may add to distribution costs, but these may be offset by lower inventory and packing costs or the sales advantages of quicker delivery to customers. Larger and more varied stocks closer to customers may increase storage costs, but they sometimes make possible less frequent shipments and improved customer service. This demonstrates the need to plan the distribution logistical system in its entirety.

Good logistical distribution planning pays off not only in lower costs but in higher satisfaction and, therefore, determines sales expansion and competitiveness. Technological changes in transportation and communication and better methods of inventory control offer new opportunities for improvements of distribution systems. The manufacturer who overlooks these opportunities risks to jeopardise his own marketing programme.

A last remark on distribution channel planning pertains to the need for periodically reviewing the adequacy of the channels already in use. Changes in market demand, competition, products, company resources and in external factors can contribute to make existing distribution channels obsolescent. Once the distribution channel is set up, there is a tendency by marketing management to regard it as fixed and to avoid any changes until they assume an emergency character. But, in truth, nothing is fixed in marketing. Management should plan its distribution channels for change, and change them according to objectives.

## 11. Planning Promotion Strategy

Promction takes many forms: personal selling, advertising, sales promotion, and public relations. However different they may appear, eaoh is an effort by the produoer to oommunioate with consumers, distribution ohannel members, or the general public.

Promotion consists of messages to the market to inform about the produot, persuade to buy it, develop positive attitudes towards the produot and the company, and induoe ohanges in people's benavior. The soope and effeotiveness of promotion are highest for branded produots beoause the produot of eaoh manufaoturer is identifiable by the buyer.

Promotion is communioation and involves 5 elements: a sender, a message, a medium or message-carrier, a reoeiver and a feedbaok from the reoeiver to the sender. Communioation is effeotive when the receiver understands the message, in the way intended by the sender, and takes the aotion desired by the sender. Feedback information aots as a oontrol, letting the sender know about message failure or suooess.

We oan distinguish 2 major kinds of media or message-oarriers. The first, and oldest, is the human faoe-to-faoe oontaot. It is the most effeotive medium beoause the sender oan adjust his message in response to an immediate and oontinuing flow of feedbaok information.

The second olass of media inoludes some meohanioal forms of message-oarriers, suoh as printed symbol (word, number, pioture, eto.) or eleotrioal, photographic, and eleotronio devioes (telegraph, oinema, telephone, radio, television, tape reoorder, eto).

Communioation may fail for a number of reasons:

- the message does not get through to the reoeiver. The medium may break down or not link the sender to his intended reoeiver. More oommonly, the message is not reoeived beoause of disturbanoes in the oommunioation ohannel that takes the reoeiver's attention away from the message;

- the receiver perceives the message but he does not understand it in the way intended by the sender (this is a common faulire when sender and receiver belong to different cultures);
- although understood, the message does not persuade the receiver to take action as wanted by the sender. Also, the receiver may have little or no interest in the message's content. Or he may not believe the message. Even when the receiver believes the message and has an interest in its content, he may not take the desired action because he is not convinced it would benefit him. Finally, the appropriate action may not be feasible, however willing the receiver is to take it. In the case of promotional message this can occur when the product is not physically available to the receiver, or he lacks money or credit to buy, or he does not have the facilities or the reason for using the product.

Promotion is only one of many forms of communication in marketing. Actually, all marketing activities have a communication aspect. Planning a promotional strategy requires an information flow from several sources: markets, competition, government and other external institutions as well as from inside the firm (administration, research, production, finance and sales departments. To become operational, promotional strategy decisions must be communicated to the members of the organisation responsible for its implementation, including distribution channel members, as feedback information is essential to control results is accordance with planned objectives.

Communication may be distorted by economic, structural and cultural factors.

When one thinks of cultural differences, one probably thinks first of language differences. This may lead to view the problem of communication as a linguistic one, whose solution is a simple translation from one language into another. It has been wisely said: "To kill a message, translate it".

What is needed is much more than a translation of promotional message. Promotional messages should fit the ideas, attitudes, motivations, experiences and ways of life of the receivers.

It should be realized that often consumers are likely to know little or nothing about products' brand name or company, however well-known and accepted they may be.

Knowledge about product image in the market can be very helpful in designing the text of the promotional message. By appealing to cultural factors and doing what is necessary to neutralize or reverse negative attitudes, the enterprise stands a much better chance to develop an attractive image for its product.

The decisions made by marketing management on the over-all strategy to be adopted in terms of product, price and distribution channel policies have a bearing on planning promotion. Promotion should serve the strategic marketing plan and support the other components of the market-mix.

In planning promotion strategy, 2 fundamental questions confront management: whom do we want to communicate with? and what do we want our communication to accomplish?

The first question relates to promotional objectives and the second to specific promotional targets.

Promotional targets fall into 3 main groups:

- potential buyers (household consumers, industrial users, government);
- distribution channel members (agents, distributors, wholesalers, retailers); and
- the general public.

The promotion directed towards potential buyers tries to transform them into actual buyers; promotion to distribution channel members aims at developing orders by persuading distributors that they can sell the product at a good profit; and promotion to the general public endeavours to build good will and a good image concerning the enterprise and its products.

Marketing management needs to go beyond this three-way targets classification to identify the best promotional strategy to implement. This is mainly a question of research, which should help identifying the economic, structural and cultural differences of promotional targets.

Once promotional objectives and targets are defined, management can begin to plan its promotional strategy. It may use any one or a combination of 4 major tools of promotion: personal selling, advertising, sales promotion, and public relations:

- Personal selling uses salesmen to communicate face-to-face with prospective customers. Although salesmen may use the telephone, mail or other media to send and receive messages, the essence of personal selling is the face-to-face contact. This differentiates personal selling from all other forms of promotion.

  Personal selling does not merely concentrate on "order-taking" which does not concern the generation of new sales.

- Advertising is a non-personal presentation of marketing messages through various media, such as newspapers, magazines, motion pictures, outdoor posters and signs, direct mail, radio, television, catalogues and directories.

- Sales promotion covers all sales activities that supplement the functions of personal selling and advertising. It includes displays, shows and exhibitions, demonstrations, sales contests, samples, and other activities which are usually non-recurrent but geared to generating new sales and develop market demand.

- Public relations is any kind of news about a company or its products which has commercial significance. It is a kind of publicity that cultivates good will toward products and company's images. To get it, enterprises shall supply media with interesting news items, without payment for space or time given by such media. It may, however, involve payment to an outside public relations agency.

Each of these forms of promotion has special strength, but also some limitations. Personal selling is usually the most effective promotion, as the ratio of sales related to the number of sales prospects contacted is normally higher than in impersonal promotion. The major limitation of personal selling is its high cost per sales contact, if compared to impersonal promotion.

Advertising offers the advantage of reaching a larger number of potential buyers at a relatively low cost for each contacted buyer. It is the form of publicity best suited for mass-promotion. The main limitation of advertising is its possible failure to persuade a fraction of prospects exposed to advertising messages to buy the advertiser's product. Because advertising is impersonal it can seldom rival the impact of personal selling.

Sales promotion is generally used to improve the performance of channel members or salesmen through sales aids, displays, contests, exhibitions, and the like. Participation in trade shows is a traditional form of sales promotion and frequently a very successful one, because it combines the face-to-face contact with a large number of buying prospects.

The advantage of public relations is its credibility. People who do not believe advertising appeals about a product, often believe the same appeals when they read or hear about them as news items. The use of public relations as a promotional tool is relatively developed and mostly used by medium and large-scale enterprises and co-operatives of small-scale companies.

In planning the promotional strategy, decisions must be made on the allocation of efforts among personal selling, advertising, sales promotion and public relations. Decisions on the promotional-mix are guided by prior decisions on promotional targets and promotional objectives.

We first look at personal selling. How much and what kind of personal selling efforts does the company need to achieve its marketing targets? The answer to this question is greatly dependent on the structure of the channels of distribution. When a company uses distributors it turns over to them the bulk of personal selling effort in the target market. On the other hand, if the company distributes through its sales branches directly to final buyers, it assumes the full responsibility for whatever personal selling effort may be needed to reach its targets. For this reason an important consideration, in choosing a direct distribution channel, is the cost of doing the personal selling job.

Because channels are likely to be more direct, personal selling is more common in the marketing of industrial goods than consumer goods. Here the emphasis is on highly-trained, creative salesmen who are able to communicate and explain the often complex nature and advantages of industrial products. Generally, the salesman must use rational appeals, and may have to deal with several people in a company such as the production manager, the chief engineer and the financial officer in order to negotiate a sale. This creative selling job makes essential a very careful selection of sales representatives.

In this context, promotional planning decisions relate to the number of sales representatives needed, sales territories, sales quotas, sales training, sales message, and other factors that determine the scope and intensity of the personal selling effort. Marketing management should weight all implications in terms of expected profit contributions, even though such estimates can seldom be precise.

Advertising may be used in place of personal selling or as a supplement to it. In planning its advertising strategy, marketing management faces several questions.

- Do we need advertising? The need for advertising is mainly dependent on the product, the nature of target consumers and what competitors are doing in the market. Marketing management should make a judgment on the opportunities of sales at different levels of advertising expenditure.

  If the decision is to go ahead with advertising, it should be clearly defined in terms of characteristics of the advertising targets.

- What is the best media-mix? Obviously, marketing management should choose advertising media that reach marketing targets. It is, however, difficult to evaluate the effectiveness of the available media.

  Marketing management should also consider direct mail advertising as many promotional programmes can be successfully implemented by sales letters sent to distributors, industrial users and consumers.

  Considerations related to objectives, promotional targets and the product require factual information, persuasive appeals in advertising texts.

  Co-operative advertising arrangements whereby the enterprise pays for part of the advertising done by channel members are frequently used.

  Advertising should be a dynamic tool of promotion, taking account of changes in demand, competition, company resources and other elements of the marketing-mix. When such changes are projected and incorporated into the strategic plan, marketing management should also plan appropriate adjustments in advertising, particularly when the product is expected to enter a new phase of its life-cycle, during the planning period.

- How much to spend on advertising? This question is the great problem for marketing management, because it is very hard to measure advertising effectiveness. But even rough estimates are better than none. Too many enterprises decide to advertise up to a certain percentage of past or expected sales. When sales go up, advertising goes up and when sales go down, advertising goes down. Clearly, this approach to advertising budgeting has no logic basis and makes advertising the result of sales rather than sales the result of advertising.

Another faulty approach occurs when advertising is considered a marginal activity. Then the company spends on advertising what it thinks it can afford. Usually this is too little, sometimes too much, but seldom the right amount.

The most reasonable approach is the one we have above outlined: set the advertising objectives and then spend what is necessary to attain those objectives, using profit contribution analysis as a measure. Good control over advertising comes from good planning. Some enterprises avoid this problem by letting channel agents make all advertising decisions "on the spot". The result is apt to be a very "spotty" performance, some doing a good job, others a poor one. Furthermore, there is little co-ordination between advertising and other components of the strategic marketing plan.

The ideal solution is a control that insures that advertising conforms to the marketing strategy, but at the same time encourages active participation by channel members.

Many sales promotion activities are of a special, non-repetitive character with short-run, tactical objectives. As such, they fall outside the realm of strategic marketing planning. Even here, however, marketing planning can offer guidance concerning the intensity and kinds of promotional support to give to channel members, and in co-ordinating it with advertising and personal selling. For sales promotion activities that are costly and have long-run effects, such as expositions, trade fairs, annual sales conventions, etc., it is necessary to determine their importance and integrate them with the over-all marketing plan.

After marketing management has made preliminary decisions on specific promotional efforts, it should draw them together to form a harmonious promotional strategy which, in turn, needs to be brought together with product, price and channels strategies, to finalise the actual marketing plan-strategy. As competitive pressures push enterprises towards more sophisticated forms of marketing, promotion of all kinds, carefully planned and ably executed, has become indispensable to create or sustain the economic expansion of industrial activities.

## 12. Organizing for Marketing Planning

Planning, directing and controlling are the major components of the management function. These activities are effected through the organization, that is itself subject to planning and control.

What, then, can we say about organizing for marketing planning? Who should do the planning? At what management level? Who should control operations according to the plan?

Strategic marketing planning starts when the man in charge of the enterprise (president, general manager, managing director, owner) sets the planning wheels in motion. He does so when he strives to develop markets and to forecast the future of the enterprise's progress rather than to merely react on a basis of critical events.

The chief executive's contribution to marketing planning is mainly represented by his enthusiastic support. But he can do much more. He can set company-wide objectives to guide marketing management; he can indicate where he wants the enterprise to be in the next three, five, ten years. He can make sure his best marketing people do the planning, not delegating the job to other non-specialised executives who lack expertise or analytical powers.

Marketing management must have both the responsibility and the authority to formulate and implement the strategic marketing plan, for several reasons.

First, marketing management should have confidence in the plan, if it is to succeed. Second, marketing management has a general acquaintance with many aspects and problems of marketing, and, most important, it has the power of judgment in the market place.

Sometimes, management lacks of the technical skills needed in marketing planning. But these can be obtained by using experts and consultants from outside the company.

Top management oan learn a great deal from marketing planning. Training in oonoeptual problems, testing assumptions against faots, integrating many diverse faotors and looking byyond everydays' business operations is as important by-produot of oorporate planning.

Marketing management is in a unique position to oontrol if operations oonform with the strategio planning. Ultimate oontrol, of oourse, is exeroised by top management, but marketing management should bear the responsibility and have the authority for aohieving marketing targets.

In some enterprises, marketing planning is a funotion oarried out by persons with no responsibility for marketing operations, but having expertise in planning.

No doubt there are merite in this deoision. Our own judgment, however, is that planning speoialists should only assist marketing management in planning.

Marketing management, in preparing its strategio plan needs the oo-operation of exeoutives from other funotional areas of the company. Financial offioers must be oonsulted about expenditures and oompany resouroes. Marketing management must also work oloseely with produotion management on questions involving physioal oapaoity to meet sales potentiale, and possibly on produot adaptation. Engineering and research people oan offer invaluable assistanoe in planning produots oharaoteristios.

Marketing management shall also seek the advioe of these people for a second reason. Approval of the marketing plan by top management will commit all exeoutives of the company, in one way or another. They are more likely to aooept their commitments in a oo-operative spirit when they feel a sense of partioipation in the marketing planning prooess. Planning aotivities also enoourage mutual assistance and understanding among exeoutives in different departments because then everyone oan visualise that the entire enterprise is working in view of common objectives.

In this case, organizational planning - like marketing planning - starts with a consideration of the markets that the company presently serves and expects to serve in the future. The goal should be an organization that can exploit market opportunities and that can conceive and carry out the approved strategy.

The kinds of decisions that enter into marketing planning help determining the organizational structure needed to carry out the plan.

Marketing management shall participate in all top-level decisions concerning product development, capital investment and other vital matters that may have a bearing on the success of marketing strategy.

It takes a major effort to formulate, organize and implement marketing strategy, as it was described. But rewards can be great. Given the full backing of company leadership, with the authority and resources to plan, execute and control the marketing programme, marketing management can develop market demand, directly contributing to the progress of the enterprise, and indirectly of the industrial sector and of the national economic environment.

## 13. Organising for Marketing Research

Marketing research concerns the function of fact gathering and the analysis of information to aid marketing decision-making. Its emphasis is on demand analysis and the study of competitive position, product development, package design, advertising, promotion, and physical distribution.

Marketing research is the starting point in the systematic process of industrial development. Its ultimate goal is to reduce risks of decisions and economic waste, supplementing intuition with facts and aiding the decision-maker in the process of "choice of action".

The value of marketing research depends upon the degree to which it provides a basis for developing marketing strategy.

Although the uses of marketing research in the consumer goods field and the industrial goods field are more alike than different, some of the distinctive elements of industrial marketing research should be noted. Because of the limited number of large customers in some industries, industrial market research may vary in its approach, as surveys in this field often are specifically directed to engineers, managers, highly skilled technicians, or purchasing agents. Peculiarities of the industrial marketing, such as formalised decision making, group negotiating, reciprocity, geographic concentration, profit motivation, product differences and production requirements must be reckoned with.

Although individual enterprises may rely on outside sources for the investigation, the transformation of the findings of a research into policy always occurs at management level. Research carried out by members of the enterprise has the advantages of continuity, closer control, familiarity, and better integration with the enterprise's strategy.

The most important consideration in the organisation of marketing research within an enterprise is that the person responsible for it shall be a key executive of the organisation, in direct contact with those actively directing the activities of the enterprise. Much otherwise good marketing research has limited value because the person in charge, either as a result of low rank or lack of personal influence, fails to induce management to use it. The person who directs the work of research must be able to translate management problems into a research project whose findings meet the needs of the decision-maker. He must be able to show that the research is worth its cost, that the information is timely, usable, and acceptable, and that the recommendation have practical applications. Direct channels of communication with the heads of the company must be provided for the transmission of information leading to improved decision making.

Specific qualifications of the responsible for marketing research include:

- ability to communicate effectively with top management,
- aptitude for and training in analytical work,
- experience and training in marketing,
- comprehension of company policies and objectives,
- imagination in the use and development of research techniques,
- recognition of priorities in the application of research,
- an understanding of human and environmental market conditions, and
- an objective approach.

To be of value, marketing research must be a continuing activity since much of the factual information with which it is concerned changes from year to year.

Marketing research usually takes time and costs money. Its immediate monetary return is often difficult to measure. Having a definite budget is, therefore, important, The importance of marketing research in developing countries is illustrated by the development of this activity in the industry sector in recent years. The major fields of marketing research are:

- Product analysis. This embraces all applications of marketing research designed to develop new products or adapt old ones so as to induce maximum acceptability by the market.
- Consumer survey. The best-known and probably most universal application of marketing research is in the field of industrial and consumer studies, designed to determine who, in fact, are the users or consumers of products (by such classification data as age, sex, economic status, as well as identification of factors influencing the demand, reasons for use, consumer attitudes, loyalty, etc.).
- Distribution channel surveys. One of the broadest applications of marketing and distribution research is in studies of the various channels of distribution. Marketing research methods are being applied increasingly by middlemen themselves, particularly larger wholesalers and retailers. Specific studies illustrating the most important applications from the point of view of the manufacturer include selection of channels, selection of individual units, appraisal of dealer coverage, credit policies, exclusive franchises, operating methods of dealers, attitudes of dealers, dealer stocks, and dealer costs and profits.
- Sales analysis. This form of analysis uses records of sales as a function for studying a number of specific marketing problems. By comparing sales results by product line, by territories, by market segments, or also by individual salesmen, it is possible to develop new strategies for significant improvement of market position.
- Distribution cost analysis. Although all distribution research has its ultimate result in the improvement of effective distribution system, the magnitude of their cost,

representing an important burden upon the final cost of commodities, has led to specialized studies aimed at reducing the cost of distribution. The methods employed are those of cost accounting analysis, which assigns to detailed operations their share of distribution costs. By elimination of small orders, increased storage facilities, re-routing of deliveries, simplification of lines, reduction and adjustment of marketing effort, and similar interpretations, savings in distribution costs are achieved.

- Market potential. Market potential determines the amount of a commodity that a given market can be expected to absorb and is useful in developing sales forecasts quotas. It facilitates comparison of potentials for and performance by individual salesmen and dealers, and is used for setting boundaries of sales territories, routing salesmen, and selecting territories in which to concentrate marketing efforts.

- Attitude and opinion research. This type of marketing research is a basis for promotional and advertising activities. Studies of attitudes and opinions of the market are only one phase in this field, as studies of special groups of consumers, employees, stockholders, management, and certain social groups are also important.

- Advertising and promotion research. This type of marketing research is a basis for planning and executing advertising or promotional campaigns, in addition to consumer surveys.

- Price analysis. The specific contribution of this type of marketing research is primarily that it helps measuring market demand at varying price levels, by applying experimental methods in different outlets or markets, noting the volumes absorbed, also in relation to competitive sales volume and prices, on a trend basis.

- Market trend analysis. The object of such marketing research is to observe and interpret changing environmental market conditions and to forecast future market developments.

- Operations research. This type of research started during World War II to solve military operational problems, and it is now also used to analyze marketing problems. Basically, operations research measures changing relationships and their consequences.

  Operations research has several applications in marketing. Generally these involve optimizing the allocation of marketing resources and effort. Specifically, operations research has been used to locate warehouses and outlets, determine optimum inventory levels, estimate size of sales force, route distribution, assign terrotories, select promotional devices and media, establish product policy, forecast market shares, and determine price and credit policies.

- Behavioral research. To study the forces influencing market behavior the marketing researcher has borrowed techniques from the various behavioral sciences. Emphasis in this area is placed on the analysis of motives determining consumer attitude. Social structure, situation variables, conformity, and purchase influence are studied, accordingly, as well as forms of incentive, identification, regression, repression, and other behavioral variables. In effect, behavioral research deals with the variables underlying the factors of attention, interest, desire, conviction, action and satisfaction, that are important elements in the marketing process.

There are a number of basic steps in marketing research procedure:

Step 1. The situation analysis. It concerns the collection of available data regarding the company, its products, the industry, the market, the distribution situation and the promotion. In this phase the researcher seeks to obtain all possible information about the company and the environment conditions.

Step 2. Planning the formal investigation. The specific procedure for carrying on the investigation is determined at this point. Various hypotheses are considered until the specific purpose of the research has been selected. The types and sources of data to be obtained are determined. Decisions as to the sample to be employed are made. The various forms and instructions sheets are drawn up and the results of this planning work are summarized in a formal plan that becomes a basic guide for conducting the research.

Step 3. Gathering data. In this phase the field work or organised collection of primary data is carried on. After the practicability of the research plan has been tested, the final survey is implemented.

Step 4. Tabulation and analysis. The research reports are edited and the data obtained are tabulated so that they take the form of a series of statistical conclusions.

Step 5. Interpretation. From the statistical summaries and conclusions that have been developed in the preceding step, the researcher now makes interpretations in terms of business policy. These interpretations may confirm the effectiveness of policies already established, or they may point out the need for fundamental changes. The final product of this stage is a series of specific recommendations.

Step 6. Preparation of report. This is a separate step in which the results of the research are finalised for presentation to the top management.

Step 7. Follow-up. This final phase is most important. The ultimate value of the research is the extent to which its recommendations are actually put into practice and the objectives are then achieved. In order to fully benefit from the collected information, researchers usually cooperate in the implementation phase at least during earlier stages of inauguration of the new policies which have come about as the result of the study.

In the majority of marketing studies, primary data are obtained from buyers or users of a commodity, government offices and various other data-banks. The most important sources of primary marketing data, generally are:

a. Dealers, including wholesalers and retailers. Furthermore, there are special groups engaged in the distribution of certain products that it is wise to include.

b. Enterprise records. A major source of data is the internal records of the firm. In the situation analysis these records are scanned and examined. In planning the research, the solution to a major problem may be made from an intensive analysis of sales data already in the files of the company.

c. Data from published records. Another useful source of data is published external records which may provide background for the study. Findings and conclusions may be, however, based on incomplete data.

d. Reference and bibliography lists.

e. Governmental publications containing market data.

f. Non-governmental publications.

After the decision has been made to collect marketing information from primary sources, it is implemented through a choice of a combination of research tools and techniques. In the implementation of research procedure a certain sequence has to be followed.

Information about a market is obtained by observing the characteristics of a sample picked from that market. The more carefully a sample is selected, the more information it will contain about the market from which it is drawn.

No sample is likely to be an exact indicator of the market from which it was selected and may induce certain errors in estimating the market values. These errors are divisible into two groups: sampling errors and errors of procedure. Sampling errors occur because of the limitations of the sample itself, and are a function of the sample size, the variability of the factors under study, and the sampling plan. An error of procedure, or bias, exists when the sample shows a persistent tendency to deviate from the market values, and may be caused by wrong assumptions.

The basic objective of a sample is to provide the necessary information about a market, with the required precision and at a minimum cost. Before the actual sample is drawn, two basic elements of the sample have to be determined:

- definition of the market: the market, also known as the universe, from which the sample is to be drawn, has to be defined in clear terms,
- definition of the sample framework: the selection of a sample from a market requires a framework. One framework, through which it is possible to detect elements in the market, is the geographic frame.

The final step in planning a marketing research project is laying out a set of operating plans and costing the remainder of the work.

The importance of planning a specific operating schedule for a marketing research study cannot be overemphasized. By the time the plan has been completed and tested, an accurate time programme should be worked out to keep the progress of the later analysis orderly and avoid confusion.

Costs are dependent upon the character of the problem and vary greatly. What is important is that all costs of the various operations are determined, allocated, and budgeted.

Costing marketing research work must include every stage and every function of the total operation. No one stage or function should be used as a basis for determining a total cost.

Adequate cost records must be maintained so that standards of cost allocation and budgeting are further developed. Such standards are useful as a frame of reference for costing new research projects.

One of the most common causes of ineffective marketing research is failure to allow adequate time and sufficient funds. It is long-established scientific truism that good research takes time and costs money.

The key to successful handling of the entire marketing research operation lies in the quality of the supervision which is employed.

The results of most marketing researches are so largely intangible that it is impossible to obtain final and complete evidence. The research-man must not allow himself to overlook the many unmeasurable factors which are present in any given situation.

It is not enough to merely use logics for presenting the findings of a marketing analysis. The following rules indicate some considerations that will go far toward avoiding this pitfall interpretation:

1. the actual condition of the company and the market should be taken into account.
2. the probable opposition of executives should be taken into account.
3. the required course of action should be clearly stated.
4. a series of progressive ad-hoc changes should be recommended.
5. recommendations should, if possible, be quantified in terms of advantages concerning the new proposed course of action.

As a result the Research Report should have the following definite characteristics:

- <u>completeness</u>: nothing is omitted, from detailed tables showing all data, the questionnaire and forms used, to a complete exposition of methods used,
- <u>logical arrangement</u>: each step in the procedure is unfolded exactly as it was done. The procedure was scientific,

which means that the work is divided into specific steps, each step leading logically to the next one. The background and the problem come first, the conclusions come last,

- impersonality: the report is a cold exposition of what has been done, a statement of facts, emphasizing the importance attached to procedure and objectives, as required,
- accuracy: facts are accurately stated, as well as conclusions and recommendations,
- pertinence: there should be no deviation from the assigned research targets.

To achieve these characteristics, the material in the research report must be properly organized. A good outline to be employed takes a form similar to the one that follows:

1. Introductory material:

   Title page:

   . subject

   . for whom prepared

   . by whom prepared

   . date of the report.

   Preface:

   . brief statement of occasion for the study

   . by whom authorised

2. Objectives of the study:

   A clear statement of the problem and objectives for which the research is made. This takes the form of a clear organization of hypotheses.

3. Methods employed:

   . description of the conditions under which the study was conducted. A running account of how the study was made, step by step.

   . statement of sources of data.

. samples of schedules and questionnaires (if any),
. description of any special methodologies employed, with justification for their use,
. statement of limitations from the point of view of methodology.

4. Findings:

The material on which conclusions are based. This includes statistical summarizations, whether in table or chart form.

5. Conclusions:

A summary of the significant conclusions brought out by the study.

6. Recommendations:

A statement of specific policy recommendations to which the conclusions point.

7. Appendix:

. detailed tables,
. bibliography,
. detailed theoretical matters, such as proof of reliability, and so on,
. original documentation.

The last step of a marketing research project is translating the recommendations into practice.

The ultimate test of the value of a marketing research lies on the results that have been attained by carrying its recommendations into effect. What really counts is the degree to which the conclusions are adopted in business practice.

## 14. Planning Market Segmentation.

Whenever a market consists of two, or more, consumers or users, it can be liable of being segmented. The meaning of segmentation consists in fact in determining specifications or differences between consumers or users, which may lead them to require appropriate marketing strategies.

The maximum number of segments a market can consist of is the total number of buyers constituting the market.

In effect, each consumer can be a specific market, as his needs and requirements can be unique. On the other hand, the marketer is bound to sell according to broad classes of buyers, possibly not differing in interests, motivations and needs.

The measurement of the characteristics of potential consumers are a fundamental consideration in marketing strategy planning, together with the evaluation of the degree of accessibility and substantiality of such segments.

By market segmentation, an enterprise can adjust its products and appeal, taking advantage of realistic opportunities and plan its production and investment, accordingly.

The most usual variables to determine market segments are those related to socio-economic characteristics (age, sex, family size, income, occupation, education, religion, race, culatual and social class), geographic (region, city-size, rural county size, density, climate), personality (leadership, ambition, authoritarism, conservatism, compulsiveness, extrovertism and introvertism), behavior (usage, buying motive, brand-loyalty, channel loyalty, price sensitivity, service sensitivity, promotional sensitivity).

The socio-economic variables are very significant for distinguishing segments in a market. However, the geographic variables, the personality variables and the behavior variables are also considered important aspects of market segmentation.

Since a product can satisfy a number of needs and motives, it is useful to ascertain which motive may predominate and define the market segment accordingly.

The basic problem facing enterprises which segment their market, is how to estimate the dynamic values of each such segment, in order to allocate marketing effort and budgets over each segment and shape the marketing-mix strategy.

In other words, by analysing each market segment, the enterprise is led to regard each segment as a distinct socio-economic entity.

Some segments may appear oversaturated while others may be underdeveloped.

In summary, the most important thing about segmenting a market along socio-economic, geographical or behavioral lines, is that it represents sub-markets with individual and global differences, which can be measured.

The analysis of segment characteristics has to be considered the fundament for setting market targets, allocating resources and shaping the marketing strategy.

For market measurement is intended the activity of formulating quantitative estimates of market potential demand.

The market demand can be measurss in terms of:

- product line dimension,
- time dimension (short range, medium range and long range),
- space dimension (specific geographic areas, segmented and global market).

Each type of market measurement serves a specific purpose, such as:

- providing orientation for ordering raw materials,
- planning and scheduling production output,

- making decision on investment,
- planning new product development, and
- considering or deciding industrial expansion.

To formulate strategies, based on market measurements, one shall generally start by evaluating or forecasting the total volume which could be marketed within a well defined segment or within a specific area, during a specific time period, under well determined environmental market conditions.

In this definition there are these specific factors or variables:

1. product, which must be carefully defines,
2. volume of possible purchases, which shall be measured in relative financial and physical terms,
3. market segments, which shall be measured per se and in relation to the global market,
4. environmental market, which shall identify geographical boundaries and environmental characteristics,
5. time, which is related with the measurement of market and climatic or seasonal conditions, and
6. marketing effort, and available resources.

One of the most important aspects of market measurements is the forecasting of future demand for a given product or service, within a given area, according to a given market segment, during a given time span, in relation with a given marketing strategy and competitive pressure.

The current methods of market forecasting are affected by serious limitations and may only depart by surveying the market and ascertaining the capacity of it, on the basis of statistical studies of past purchases.

In forecasting market demand it is important to make substantial use of sales force estimates, considering salesmen as constant field observers, even if they are generally unaware of local economic developments.

Another interesting contribution is the one of outside experts' opinion or market test methods, which involve procedures related to the evaluation of recurring market forces (trends, cycles, seasons) or non-recurrent impulses (special events, strikes, price conflicts and other disturbances).

The predictive reliability of a market forecast depends on the quality and quantity of observations concerning variable and non-variable factors in an attempt to reveal the size and impact of measurable conditions, which have affected or are likely to affect the market demand.

The market, as we have said, is not generally presenting itself as an homogeneous pattern; many are the different characteristics and requirements appearing even within the primary scheme of needs and requirements.

The analysis and the subdivision of the global market in relatively homogeneous groups or market segments are the fundaments for marketing strategy planning.

Market segmentation includes the following elements:

- a clear definition of the market which shall be segmented,
- a choice of parameters and criteria to identify and subdivide the market into specific and relatively homogeneous sub-markets or segments,
- a value measurement of each segment,
- a strategical choice of segments upon which to orientate the marketing strategy, and
- the allocation of the marketing budget per selected segment.

Each market segment has both quantitative and qualitative characteristics.

When the enterprise operates specifically into only one or a few market segments, the concept of "market of the enterprise" as a quota of the global market, loses most of its meaning.

The criteria, or parameters, for identifying the value of each market segment are many, according to the product, the enterprise and the environmental conditions.

We doubt, for a number of reasons, that socio-economic parameters are so essential as traditionally claimed, but, however, we consider that their analysis is an efficient contribution to the identification of market segments.

A subdivision of the market in relatively homogeneous segments is valuable only if based on measurable data related to the characteristics of each segment.

On this basis we can subdivide the marketing strategy into 2 basic systems: differentiated marketing, and un-differentiated marketing.

The majority of industrial enterprises is evidently oriented towards the strategy of un-differentiated marketing, where the market is considered as a homogeneous pattern. This can be advantageous when the product lines are limited, as it contributes to minimise costs of production, transportation, warehousing, promotion and research. This is however negative in case of market congestion by excessive competition and may determine the insatisfaction of specific market segments.

Differentiated marketing is particularly adopted by producers of consumers goods, which aim at considerably increasing the total sales of each product line, in view of development programmes and diversification strategies. Of course, such strategy induces higher cost in implementing the marketing-mix and can be adopted only after a careful evaluation of the margins of profit.

The usefulness and profitability of market segmentation is confirmed by a large number of advantages, some of which we shall briefly list here:

- they increase total sales, reduce costs and rise profits,
- they diminish dependence on the limited potential of the domestic market, balancing investment risks and rendering an enterprise more resistant against increasing competition,
- they are a factual way of specializing operational capacity, improving presentation and quality of products, developing know-how and improving competitive position and image of the enterprise and of the product,
- they offer a chance to develop the demand for locally manufactured products.

In this context, success goes to whoever is able to offer his goods in a form and condition which meets single market segment wishes.

The study of alterations in demand, supply and competition induces a marketing strategy oriented upon market segmentation. As "market" means "people", any other approach for planning a sound marketing strategy is riskful and often bound to failure and losses, in terms of investment, production planning and economic expansion.

## 15. Organieing for test-marketing

Test marketing ie basioally a marketing strategy tool whioh providee relatively perfect results, and requires very careful controls if the reeulte are to be valid.

For the most meaningful reeulte one must follow the rules as rigorouely as one can, knowing in advance that when they are violated problems are arieing, money and time is wasted, and inconclueive reeults or even dangeroue mis-information ie produced.

The advantagee of correct teet marketing will, however, outweigh ite disadvantagee, in marketing strategy planning.

Research and pre-testing ie only useful if it helpe management to make sound deoieione.

Management, therefore, muet determine where research ie required and where decisions can be made; and in the final analyeis it ie judgment based on research, which determinee whether investment ie risked in the market place.

The decision to be taken, for example, can be whether to run eome test markets or whether to launch a product at national level.

Much will obviouely depend on the degree of acceptance shown by the market at its testing stage.

Equally much will depend on the nature of the product and the market it is entering.

A product which requires heavy capital investment in machinery and tooling costs, regardless of the scale of marketing, would not be a viable proposition on a test area operation.

In some highly competitive, large volume consumers' markets it may also be unwise to run a limited test market, unless one recognises in advance that the test may be invalidated by the tactics of major competitors.

Equally, to show one's intention via a test market on a product which, although perhaps original, is capable of being rapidly copied, may result in a somewhat similar product being launched nationally by a competitor while the test market is still running.

Before going into the advantages of test marketing, let us first distinguish between the testing of individual factors in the market place and a total test market operation.

In the former case one is attempting to answer a problem about some specific elements, like: which of two selling prices is most acceptable; which pack size; which advertisement?

To do this, small size tests can be run in the market place using, for example, matched panels or shops or matched towns. Only one variable factor is on test and the operation can, to some extent, be forced or speeded-up providing equal force is given to both halves of the matched samples.

However, in the case of a total test market operations all the elements of the marketing-mix are brought forward: product, price, package, advertising, selling, promotion, etc. Of course it is also possible to have a known variable factor in a test market operation - assuming two areas are used - but only in the context of a total marketing-mix. The weight of advertising is, for instance, sometimes varied between two test areas, but all the other elements of the marketing-mix are kept as constant as possible, and all are an integral part of the test marketing plan.

The best way to distinguish between market place tests of specific factors and a test marketing operation is simply that one precedes the other, and whereas a factor test does not require a comprehensive marketing plan to be prepared in advance, such a plan is an essential part of a genuine test marketing operation.

Indeed, on of the advantages of a test market, is that it forces management to bring together all the facts and figures, the market information, and prepare a first Marketing Plan embracing objectives and strategies for advertising, distribution, selling, promotion, production, research, etc.

Since a test market is usually regarded as a scaled-down version of a national research such a test plan is vital.

Once the limitations of test marketing are accepted, then its true value as a diagnostic and predictive tool can be more readily appreciated:

- it is an invaluable exercise in preparing a co-ordinated marketing plan;
- it is an opportunity to predict - on the basis of earlier research - what will happen in the market place;
- it is a chance to be proved either very right or very wrong in one's predictions at a limited financial risk to the company;
- it provides an opportunity to discover why one was right or wrong;
- it enables one more realistically to decide whether to drop the new product, amend the plan or proceed with a national launch;
- it is - by virtue of the interest it arouses - an impetus to further new product development.

These are, or should be, the benefits derived from test marketing. Perhaps the greatest danger lies not so much in the technique, but more in a lack of objectivity of those running the test. The primary purpose of a test market should be to determine whether a particular product or service will prove sufficiently acceptable to the consumer/end-user and materially benefit the future of the enterprise, and to prove this at a limited risk.

However, if those responsible for running and assessing the results of a test market are not sufficiently objective in their assessment, then failure may be explained and some minor modifications made.

Since the usefulness of a test market is in determining not only whether a new product will prove successful or unsuccessful but also why it should prove so, it is necessary to establish targets in advance and methods of measuring the levels of attainment.

The criteria for assessing results will be based on:

- sales - both ex-factory and consumer sale,
- repeat purchases - both by the retailer and consumers,
- consumer awareness of the product,
- consumer usage, including the proportion and type of consumers using the product, and the frequency of use,
- attitudes towards the product - both by the trade and consumers,
- distribution achievement - broken down by types and sizes of outlets,
- competitors reaction.

Sales of a well marketed, well promoted product are often higher in the early months of a test market simply by virtue of its newness. An analysis carried out of 44 test markets indicated that on average sales dropped by 40 % after the early peak period. This "drop factor" enabled deduction to be drawn:

- if at any stage during the initial build up, sales exceed twice the rate of the target level, then there is a 3 to 1 probability of the product proving a success.
- but unless peak sales exceed the target stable level by at least 50 % then there is a 3 to 1 probability that the product will fail to maintain its target.

Assuming that a thorough marketing test is to be planned, the points to cover are:

1. marketing budget - agree the total budget and its division between above and below-the-line. The budget for the test area should equate with what is affordable on a nationally projected basis, assuming a given level of sales.
2. sales - agree the sales targets related to the test area size and the anticipated duration of the test. The analysis of sales can be based on:
   - ex-factory data - both volume and value of sales, broken down by direct and indirect purchases, by territory and by week/month.
   - retail audit data - showing trade and consumer purchases on a regular monthly/bi-monthly basis.
3. repeat purchasing - arrange consumer research to establish who is buying (or not buying) the product, and the degree and frequency of repeat purchases. This is a vital piece of information since it is the willingness to buy a product regularly which ultimately determines the success or failure; sales may initially rise constantly simply because of first-time purchasers.
4. awareness and attitude - the consumer research programme must help to determine whether the advertising approach (in terms of both creativity and expenditure) is effective,

and whether those who have bought the product are satisfied. The awareness of a product and its main selling points is a major responsibility of advertising; the attitude towards the product is governed by what the consumer is told about it and what he eventually discovers on purchasing. Unless information is available on these points, we may never know, for example, whether the right amount of money is being used in the right way to say the right things about our product.

5. distribution - agree the target level for the early and later stages of the test and arrange an audit to show the distribution achievement both in total and by outlet type and size to determine any weaknessess. Failure to achieve distribution in one major store-chain on a test area may be seriously affecting the interpretation of the test results.

6. competitive activity - a careful watch must be kept on the reaction by competitors to the test in case their spoiling tactics completely invalidate the result of the test. They may flood the area with free samples, price reductions, trade bonuses, etc., and unless this is recognized we may believe that our new product is a failure per se rather than that our competitor has taken steps to engineer the failure - steps which he probably could not afford to repeat on a national scale.

Given these controls, given objectives for each aspect of the marketing-mix - sales, advertising, promotion, etc. - and given that we will not over-play the test by increasing the expenditure and man-power out of proportion to what could be afforded nationally, then we have the basis for a realistic test operation.

Obviously the sales targets and expenditure levels will be dependent on the size of area chosen and therefore logically the selection of a test location should come first.

The selection of an area is allowed to take precedence over the formulation of an effective test market plan. In other words cost-consciousness sometimes prevails, and a small-scale test is run which does not really permit an effective total marketing plan because of the limited size of the test area.

If the test depends, for example, on the sales effort of one representative then it is more a test of the salesman than of the marketing operation. One man can very largely make or fail the test. If, however, the test area covers three or four sales territories then the performance of one individual has less dramatic effect on the overall results.

In an ideal way, the test area selected would be representative of the country as a whole in terms of:

- population break-down by age groups and social classes.
- consumption/ownership of the product category per head of population.
- income per head of population.
- type of industry/employment in the area.
- break-down of the appropriate trade outlets by shop type and size.
- acceptance of the company's other products.

No one area, however, can be fully representative of the whole country. Apart from the above criteria there are many other incidental disasters which can radically affect the typicality of the test area - sudden unemployment, strikes, floods, epidemics, etc.

Where the area is known in advance to be biased in some particular and relevant aspect, then weighting should be given to this factor when the results are assessed and projected to a national level.

For example, consumption per head of population may differ between the north and the south of the country; car ownership varies by area; and sometimes a particular competitive brand has abnormally strong consumer loyalty in a region.

Naturally if some major variable is being deliberately introduced by the tester then more than one area will be required.

The duration of a test market depends entirely on the product type, its rate of usage by the consumer, its seasonality (if any) and the rate of built-up of distribution in trade outlets.

It would require a longer period to determine the likely success of a high priced toiletry line which is purchased once every four months, than for a food product which is purchased every second week. Or if - perhaps through some weakness on the part of the sales force - the distribution achievement is very low at the end of the first six months, then the opportunity for the consumer to purchase and re-purchase will be limited -- which is not necessarily a reflection on the product itself but more on the marketing strategy.

In assessing the results one relates achievement to expenditure (both money and man-power) to get some indication of cost effectiveness both for the operation as a whole and for certain major elements of the marketing-mix, for example advertising.

The criteria on which the results are assessed include sales, brand share, distribution, consumer awareness, penetration level, re-purchase rate, attitude towards the product (both consumer and trade) - and from all this the profitability level and the likely payout period for the brand when projected to a national level.

Goals are a necessary preliminary, and there is no point in using them unless one sets them up in advance. Nor should they be general goals, such as "increase volume", but by how much (specifically).

At least a minimum figure is needed, because otherwise one cannot properly design the measurement system one needs. (This has to do primarily with any consumer research, and relates to size of sample and other considerations.)

For example, if one wants to know if one has boosted sales within a margin of error of 5 % and one is currently operating with a market share of 15 or 20 %, one can manage with a smaller sample of consumers than if one is currently operating with a share of 45 to 50 %.

Establishing goals also requires that one understands fully both the current conditions of the test and the preceding conditions in the market. The better informed one is, the more realistic one can be about establishing goals for a market test (and the more efficient one can be in setting up the test). This, of course, places a great deal of importance on prior research.

One should not do anything in the test markets that one would not be willing or able to do in other areas if, as and when, one expands one's effort.

For example, it is only confusing the issue to send additional salesmen into a market to build distribution, erect displays, or otherwise stimulate the test market to make it work better, unless this would be practical on the broader scale to be undertaken later.

It would be just as unrealistic to compress a campaign into a briefer time period than would actually be used later, in order to "speed up" consumer reaction. It is highly unlikely that a budget or series of activities compressed into a period of two months, for example, would have the same effect on consumers as it would if used over a period of six months.

There is no substitute for accurate information on the enterprise's and the competitive sales at the retail level.

False economies in this aspect of test marketing have a way of becoming extremely costly when all the results are in and the total effort is being evaluated.

To control the test partly means the obvious: that the store audits should include provision for checking price changes, special displays, deals, new products, etc. (It is helpful to use an audit service whose representatives can readily gain the confidence of store managers to learn of other unusual competitive activities.)

It also should involve checking of newspapers and other local media for competitive advertising.

And it is desirable to know about any unusual happenings in the community itself that can have an effect on sales. To cite an extreme case: a local flood would depress the sales of some products, but would almost certainly increase sales of disinfectants.

Too often the results of a market test are determined exclusively by sales results. This means that if it has been a failure or a near-failure you have no diagnostic information to tell why it failed or nearly failed; there is no basis, beyond logic and inference, for deciding exactly what went wrong and what needs changing if a new test has to be undertaken.

Such information is vital in making future plans, and it is short-sighted not to provide for it, especially since it normally represents a relatively small additional expenditure.

The exact nature of the additional research will depend, of course, on the the particular issue being tested. It normally requires a consumer study of some kind - either a survey or a consumer panel - to evaluate brand awareness, trial and re-purchase rates, reactions to the product, awareness of advertising, etc.

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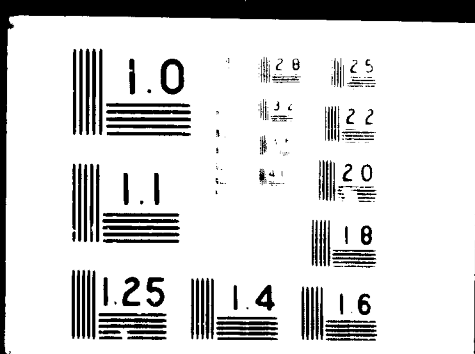

The use of enough markets is the rule that probably is violated more than any other. There is no formula that dictates the use of three markets, or five, or ten; different circumstances may require a different number of markets. But one thing is certain - it is dangerous to use only one market.

The problem, of course, is that there is no such thing as a typical average market. The results of a test in a specific market will represent exactly that market and nowhere else. And even if a market seems "typical enough" there is too much danger from unexpected or unusual happenings that could throw off the results.

Three markets are a reasonable minimum and this is a practical compromise for reasons of economy. If local factors do affect the test, they will not affect all three markets in the same direction, and thus the results will only be inconclusive rather than misleading.

To select comparable markets sounds simple enough, but is is not. Comparability can mean many things and exact marching simply is not possible because there are too many different variables that may deserve to be matched, such as population size, effective consumer buying income, population characteristics, number of shops, coverage of local media, influence of local media, availability of local media (radio or TV), availability of competent auditing service, distribution of the product, distribution of competitive products, competitive product franchise, competitive product promotion, coverage of other "normal" advertising for the product, strength and aggressiveness of local distributor or company salesman, local or state ordinances, etc.

These market characteristics are not equally important, of course; which are more important in a particular case will depend on the nature of the test.

Moreover, comparability is not a static notion; there is always a risk that the situation will change within a market during the course of a test, so it is desirable to be attentive to any such changes, whether or not one can do anything about them. (Knowing about them can help to explain what might otherwise be a confusing result of the test.)

Over-all, true comparability is a hard thing to achieve. It is next to impossible to match up sufficient markets comparable in each and every one of the relevant factors, but one should be aware of them and strive to account for as many as possible. One must do the best one can, keeping in mind the particular problems of the test one is conducting.

Incidentally, the test areas need not be matched exactly in population. Areas of different size can be used, so long as they are not so different as to make for differences in other characteristics (different kinds of people living in them).

As a matter of fact, test areas can range in size from a small section of a community, containing a handfull of shops, to an entire region. How large it should be depends, again, on the nature of the test.

The question is often asked: "is projectibility necessary?". The answer depends on the particular problem. It can sometimes be "no", but it is usually "yes".

A simple, non-projectible test can be used as a final checkout, the final act in a series of investigations and evaluations - one may already know practically everything about the product and its marketing environment and one simply wants to test to see if the product has the kind of vitality that earlier research indicated that it has.

For example, it may have been learned from a usage survey that consumers are unhappy with the amount of filling in a pastry. The amount is increased and a product test is conducted showing that consumers prefer the adapted product to the earlier version. It may well be sufficient to put the product into 10 to 15 shops in each of a couple of markets to see how well it sells over a period of a month or two (assuming that prior data is available on sales for these shops, or if data is to be developed concurrently for other shops which are still selling the original version.

On the other hand, if the problem is introduction of a new product or a new package, there is need for as precise and definitive information as possible for the entire market:

- what was the effect on competitive sales as well as on your own?
- how sustained will any changes in volume and share be?
- coverage of all kinds of shops is needed; the overstatement of results normally coming from supermarket audits is misleading.
- a measure of the time-lag that occurs in small shops (where customers have to ask for the product) is needed.
- distribution problems (if any) must be represented in the sample of shops (especially initial distribution).
- it is necessary to get a good indication of the progress in achieving maximum distribution and an indication of any problems in out-of-stock situations.

Too often, non-projectible samples are used in situations where they do not provide enough information; then, too late, it is realized that projectibility is needed, and future attempts are made to try project the results anyway.

It is important to remember that projectibility is a matter of both accuracy and precision - of getting as close as possible to the actual total figures for the market as a whole. This is vital for interpreting the result of a test - so vital that it should not be compromised even if it means getting less information in total than eventually desired (limited information of good quality is preferable to broader information of low quality).

To run a test long enough means that is makes possible not only to measure what happens during the course of the particular activities being tested, but also to measure the after-effects of those activities.

It is not enough to know the temporary, short-term results. One needs to get an indication of the likely long-term results, reflecting normal distribution, normal usage habits, repeat purchase patterns, etc.

A minimum period of six months for high volume, quick-turnover products is usually recommended. For products such as appliances and drygoods, longer test periods would be required.

Visit the test markets - more than once, if possible - and have the researcher visiting them too, is good advice. Much of the value from test market findings depends on having a thorough understanding of what happens in them; and one can understand the situation best by going there and seeing and feeling the facts.

It is probably apparent that if the preceding rules are rigorously followed adequate funds are needed. There is no doubt that market testing, done properly, is expensive. Test plans have been used in which the research costs were greater than the marketing expenditures involved.

It is, therefore, understandable why test marketing often is not done the right way. But it is bad economy to weaken a test by under-spending on needed research. It would be better in such cases to rely on judgment alone.

Market testing is a difficult job, requiring careful planning, careful supervision and careful analysis which only a thoroughly experienced researcher can provide. It is important that the researcher is consulted in time to lend his experience and judgment in the original planning stage.

## 16. Conclusions

Marketing is "the strategy of the offer". Marketing is, however, a rather neglected area in the economic life of developing countries. It is manufacturing and financing which occupies the attention in these economies.

Yet, marketing holds a key position in the developing countries, as a propeller of economic development with particular emphasis on its ability to promote much-needed managerial expertise.

Marketing should be, in fact, regarded as a systematic management function, indicating how to go about in a planned and purposeful way to find, create and develop demand, integrating and satisfying needs, wants and preferences in relation with the economic capacity of a progressing society.

Marketing has its focus on the consumers or users and represents, thus, the process through which economy integrates with society to serve human requirements. Marketing occupies a critical role in respect to economic expansion of the industrial activities of developing countries, as a stimulator of economic development. It is, however, the least actually developed and most backward technology of the economic system of the Third World.

The advancement of marketing expertise is bound, above all, to contribute to the fullest utilization of whatever assets and productivity capacity an economy already possesses. It mobilizes latent economic potentials. It contributes to enhance the entrepreneurial function, through its own conceptual and technological effort.

The essential aspect of an "underdeveloped" economy is the inability to organize economic efforts to bring together resources, capacities and needs, so as to convert a self-limitating economic system into a creative, self-generating one.

Marketing might, by itself, go far toward changing the entire economic tone of the actual national syste , without any change in methods of production, socio-economic distribution of population, or infrastructural schemes.

It would only make the producers capable of manufacturing marketable products, qualified by standards, style, prices and specifications capable to expand and satisfy local demand, even if characterized by limited purchasing power.

Marketing is also the most easily accessible "multiplier" of managers and entrepreneurs skills in an "underdeveloped" growth area. And marketing expertise is the most urgent need of developing countries. Economic development, in fact, is not a force of nature, but the result of the responsible action of men, as managers or entrepreneurs.

In most developing countries, owing to the particular conditions of the local market environment, the organization of distribution channels and promotional activities is a very complex problem. As a result, without a marketing organization and an effective marketing strategy, many locally manufactured products, for which there could be adequate demand, cannot be distributed, or are produced and marketed only under monopolistic or non-profitable conditions.

A marketing system may, thus, serve as a co-operative channel for promoting, distributing and developing products of small enterprises, granting them the conditions for survival and expansion.

Marketing is, obviously not a cure-all. It is only a technology needed particularly in developing countries precisely because it first looks at the values and wants of people, and because it helps developing management expertise and skills.

The marketing management's role goes beyond getting the product off the factory and seil it at most profitable prices to consumers. In an economy that is striving to break the age-old bondage of underdevelopment, marketing is the catalyst for the transmutation of latent resources into actual resources, of desires into accomplishments and to develop responsible economic leaders and informed economic citizens.

# APPENDIX

## Guidelines for collecting relevant data for marketing strategy planning.

### A. The profile of the enterprise

- reputation of the firm within the Industry
- reputation of the firm within the:
  . domestic market
  . foreign market
- description of the firm's organization
- date in which this type of organization has been shaped
- percentage of value-added growth against output
- personnel employed (managers, executives, skilled labour, unskilled labour, others)
- does the firm employ - or has it employed during the past 3 years - any foreign Consultants? In what area?
- fixed capital assets and gross investment value
- conditions of machinery and equipment
- conditions of stock level (raw, semi-finished and finished)
- working capital
- debts and rates of interests
- procedures for programming and controlling production, maintenance, distribution and marketing activities
- procedures for cost and profit control (monthly, quarterly, etc.)
- number of plants in existence (at home or/and abroad)
- plans for output expansion
- is the supply of raw material locally available?
- other technical details about the enterprise (machinery, lay-out, production methods, complexity of manufacturing, etc.)

- how does the name of the product associate with the producer's name and with the image of the country?
- does the firm have any self-patented products?
- does the firm produce on the basis of foreign or local patents?
- how does the firm research new patents for diversification?
- what standards exist for the product and how does the production conform with such standards?
- what new standards are likely to be adopted?

B. Profit and costs

- history of profit per product-lines
- history of costs per product-lines
- contribution made by each product-line to other firm's manufactured product
- non-profit advantages derived to the firm per each product-line sold
- analysis of changes in profit which have determined changes in marketing and distribution strategies during the past 5 years
- advantages in production costs over the competitors
- advantages in marketing and distribution costs over the competitors
- competitors reciprocal advantages over the firm
- how does research and development expenditures compare with competitors'?

C. The product

- major uses of the product
- how does these uses compare with competitors'?
- description of firm's range of products
- ideal profile of the product, according to demand
- comparison between the "ideal profile" and the product
- what are the "plusses" of the product?
- what are the "weaknesses" of the product?
- how does the product differ from 5 years ago? last year?
- changes effected in the product since its introduction

D. The market

- size of the total market for the product-lines of the enterprise
- domestic consumption (in volume or value)
- proportion or amount (volume and/or value) not from domestic market
- main export markets from a) domestic production,<br>b) re-exported imports
- factors limiting the size of the market (purchasing power, economic factors, geographic or climatic reasons, users or consumers characteristics, type, quality, design, price, specifications, distribution methods, etc.)
- comparative size of the total market for a substitute product
- identification of export opportunities

E. Market structure

- main domestic suppliers to the market
- main sources of imports (by country and type of exporters)
- identification of major importers
- export performance of major competitors
- identification of major export markets
- geographical variations in the domestic market
- seasonal or cyclical variations in the domestic market
- major factors favouring the emergence of competitors
- major factors likely to reduce the competition
- existence and effectiveness of reciprocal trading practices

F. Market tendencies and trends

- how does the market compare, in size, with 10 years ago? 5 years ago? Last year?
- how does the product demand differ from 10 years ago? years ago? Last year?
- What trends are revealed indicating a shift in demand over the next year? In 5 years? Over 5 years?
- in what ways are the above changes likely to manifest themselves?
- what changes are occurring to induce the above changes, in terms of users or consumers, processes or general economy:
  . levels of employment
  . levels of income
  . levels of industrial investment
  . levels of industrial profit
  . rates of taxation
  . wholesale or distribution prices
  . levels of industrial production capacity
  . consumers' expenditures or savings
  . personal taxation
  . retail prices
  . population trends
  . rates of interests
  . credit restrictions
  . hire-purchase difficulties or debts
  . export trends
  . import trends
  . inappropriate policies
- are changes in materials, production, standards, distribution, specifications, prices, etc. likely to stimulate the demand?

## Q. Market share

- share of market controlled by the enterprise (per product-line)
- main competitors' shares
- share of market held by imported competitive products
- factors supporting the market shares of imported products
- percentage of sales derived from:
  . old customers in the domestic market
  . new customers in the domestic market
  . old customers in the foreign market
  . new customers in the foreign market
- importance of the product for the national industry or the agriculture
- can the surplus of agriculture or industry be used as raw material?
- is the firm a strategic element from the viewpoint of national interest?
- future programmes of expansion of the firm, in terms of:
  . new investment
  . new plants
  . new equipment
  . additional skilled or unskilled personnel
  . exports
  . output capacity

H. Marketing and promotion

- history of sales of the product-lines, in value and volume
- history of the firm's marketing and promotion expenditure
  . per unit sold
  . per market
  . per year (in the last 5 years)
  . per enquiry
  . per order
  . per salesman
  . per person employed
  . by media
  . by geographical area
  . seasonally
  . by group of customers
- comparison between the marketing and promotional strategy of the firm and the competitors
- effectiveness and characteristics of the sales-promotion and export-promotion activities
- analysis of major changes and causes of changes in promotional strategy during the last 5 years
- budget percentage according to the following promotional media:
  . newspapers
  . magazines and journals

. specialized press

. direct mail

. exhibitions and fairs

. outdoor campaigns

. catalogues and brochures

. public relations events

. point of sale

. films and documentaries

. sampling

- analysis of the differences with competitive promotion campaigns

- evaluation of exposure of potential and effective users and consumers to any of the above indicated media

- extent of media recall

- percentage of enquiries from a) new customers
  b) old customers

- analysis of changes in the above proportions, after a new promotional campaign

1. Distribution methods

- effectiveness of actual distribution system
- comparison with competitive distribution systems
- possible other existing alternatives in distribution
- report of firm's sales by:
  . each type of distributor
  . size of distributor
  . geographical location of distributor
  . industrial concentration of distributors
- Percentage of total sales for each product-line directly traded
- history of introduction of product-lines and developments leading to present distribution system
- history of "out-of-stock" situation
- percentage of stocks normally in the distribution phase
- effectiveness of "service-to-customers" provided by distributors
- comparison with "service-to-customers" provided by competitive distributors
- evaluation of distributors' technical competence
- effectiveness of distributors' sales force and sales efforts
- aids provided to distributors and comparison with aid provided by competitors to their own distributors
- system of maintaining contact and supervise activities of distributors

J. Packaging and shipment

- is the package destroyed, returned or re-used?
- is the package used to hold content until empty or is it immediately emptied?
- is other material subsequently stored in the package?
- distance to which the package can be identified
- length of keeping the package in store
- system of shipping and handling the package
- comparison of physical transportation methods with competition, in terms of:
  . cost
  . speed
  . liability to damage
  . liability to pilferage
  . quantities by dimension containers
- analysis of losses owing to transportation, storage, mishandling, pilferage, other
- analysis of delays in delivering
- what are the changes in the whole range of production?
- what are the reasons for such changes?
- changes in materials, production processes or end-use which have determined the change in shipment or in packaging

K. Prices

- system of constructing the products' price
- comparison between gross and net prices with competitive ones
- comparison of discount system with competitive one
- price history per product-line
- price history of the least profitable product
- reasons for price fluctuations
- is price-fixing system in practice?
- technological developments leading to new demand and new prices
- reputation of the product(s) because of price

## L. Users' and/or consumers' attitude

- analysis of the users' and consumers' loyalty towards the product
- reasons for developing new accounts
- reasons for losing old accounts
- market behavior towards
  - . new products
  - . new prices
  - . new distribution channels or methods
  - . new promotional devices
- market behavior towards
  - . similar competitive products
  - . prices of competitive products
  - . competitive distribution channels or methods
  - . competitive promotional systems

M. Marketing research

- how does marketing research expenditure compare with competitors'?
- what marketing research has been accomplished in home and export markets?
- how effective has it been?
- how efficient are the firm's information sources?
- how comprehensive are the firm's statistical data?
- which methods of marketing research have been found to be the most effective?
- what methods exist for obtaining product intelligence?

N. Overseas markets

- can earnings be remitted to the exporting country?
- what physical conditions call for product and packaging modifications?
- what is the import duty for each of the main exporting markets?
- do quotas or licensing arrangements exist?
- are local producers protected?
- what production under licence from foreign competitors is taking place?
- what development schemes are taking place or are planned which will affect demand for the product and business conditions in general?
- what are local charges:
  . dock dues
  . landing charges
  . clearance charges
  . weighing and measuring
  . shipping agents
  . local transport

9. New products

- is the firm planning the launching of a new product?
- what market will use the new product?
- has the product a potential market among institutional and government users?
- will the new product round up the firm's lines?
- how will the new line compare with competitors'?
- will the new product fill idle time of plant and equipment?
- will the new product contribute to long term growth and security of the firm?
- will the new product contribute to a lessening of the effects of business cycles?
- will the new product be accepted because it satisfies some need or because it sells at a price prospective buyers will pay?
- will the new product have to penetrate a very competitive market?
- does the new product offer some important competitive advantages? What advantages?
- will the new product even without competitive superiority, penetrate a market because of the firm's image?
- will marketing agreements, franchises, etc. in any way limit production, sales or the use of the product?

- is there any element in pricing policy, specification, quality, etc. which can affect the sales of the product?
- are buyers of the new product accustomed to purchasing ahead of need or do they order for immediate delivery?
- what is the structure of the raw and processes material and equipment supply industries use for the manufacture of the new product?
- how secure are suppliers?
- what stocks of materials are necessary and usual?
- what substitutes are available?
- how deep seated are existing loyalties and how receptive are buyers to new products?
- what are user preferences in relation to distributive channels and methods for the promotion and sales of the new product?
- what standards (official or unofficial) exists or are likely to be adopted?

P. Competitive activities

- which firms make competitive products?
- what are their respective market shares?
- what specific advantages do the main competitors have:
  - . geographical
  - . industrial
  - . size
  - . related products
  - . commercial and industrial associations liaisons
  - . protection (official and unofficial)
- what is the reputation of the leading competitors?
- what methods of distribution are used?
- what is their sales structure?
- what promotion techniques are used?
- what service do competitors offer:
  - . technical advisory
  - . installation
  - . maintenance
  - . repair
  - . replacement
  - . advisory
  - . financial
- what is the usual credit and discount practice?
- is price used as an instrument of sales policy?

- what guarantees are offered?
- what is the firm's and competitors' policy in relation to the use of technical and non-technical salesmen?
- what is the sales history of the firm's and competitors' technical and non-technical salesmen?
- what is the extent of competitors' product research and development?
- what is the quality of personnel and management?
- what is the manufacturing potential of principal competitors?
- what are competitors' appropriations for advertising and sales promotion generally?
- are changes in materials or methods likely to increase present competitors' sales?
- what proportion of competitors' output is sold for export?
- what are their principal export markets?
- what is the extent of competitors' marketing research?

Q. Competitive products

- how do competitive products, closely similar in characteristics, compare?
- how do competitive products, dissimilar but substitutable for the firm's product, compare?
- what are competitive products' "plusses"?
- what additional products in competitors' ranges gives them sales advantages?
- what sales advantages does availability of produots range give competitors?
- to what extent do unrelated products or procesces oompete with the firm's products?
- what is the reputation of competing products?
- how does the product compare on:
  . prioe
  . quality
  . performance
  . finish, design
  . length of servioe
  . paokaging or methods of paoking
  . other oharaoteristios
- what is the basis of the purohasing deoision in relation to competitive produots:
  . prioe
  . teohnioal speoifioation

- other physical characteristics
- delivery and services
- packaging or packing method
- supporting services provided
- company's reputation
- brand or product reputation
- reciprocal trade agreements
- company affiliations
- personal relationships

- what stocks are normally held:
  - at the plant
  - by distributors
  - by agents
- what is the history and cause of sales fluctuations over the last few years?
- what is the history of firm or brand leadership over the last few years, and what were the reasons for changes?
- what uses do the products have other than those promoted?
- to what extent are those used practiced?
- what changes have competitors made in their products since their introduction?
- what were the reasons for changes in products?
- have ranges been extended or reduced since they were introduced?
- what were the reasons for such changes?
- how closely do competitors' products conform to official and unofficial standards?

## h. Demand

- what is the demand history for the product
- what are the limitations to demand:
  - . technical characteristics
  - . availability of purchasing power
  - availability of products
  - . substitutions
  - . obsolescence
  - . fashion
  - . seasonal factors
  - . price
  - . availability of services
- how do the firm's products fit within acceptable style/quality/price range?
- are the product characteristics acceptable to the majority of purchasers?
- how does demand vary between the various segments of the market:
  - . industrial segment
  - . geographical segment
  - . economic segment
  - . age segment
- what conditions in the end-user markets are affecting demand?

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- [illegible]

- [illegible]

- [illegible] any [illegible]

- what is the [illegible]
  . protection
  . financial aids
  . support prices
  . technological assistance
  . promotional assistance
  . price agreements
  . restrictive practices
  . standards and quality control

- what legislation exists on safety, quality control, weight and measures, standards and specifications, packaging, etc.?

- what governmental aid is likely to help the development and expansion of the firm:
  . technological
  . promotional
  . financial
  . policies of protection
  . policies of intervention
  . credit terms
  . collective purchasing
  . collective marketing
  . consultancy and advice on technical matters
  . other

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