

# FUNDAMENTALS OF MARKETING (FOM)

**Exam Preparation** (June 2003)

## Chapter 1 – Concept of Consumerism

### Core Marketing Concepts

- Needs
- Wants
- Demands
- Consumers
- Sellers

*Needs* are essential requirements: food, clothing, shelter, water, medicine, reading glasses

*Wants* are non-compulsory requirements: designer clothes, jewelry, cameras, cosmetics, television, frequent holidays, frequent haircuts

*Demands* are all the products and services which we would like to have available at **price affordable** to us. *Wants* and *needs* combine to give demands of individuals. Not all wants can become demands.

## Chapter 2 – Marketing Management Theories

### 4 Concepts of Marketing Management

- Production
- Product
- Selling
- Marketing

### The Product Concept

- Seller wants to differentiate his product from the others
- Product focus to make product of higher quality
- Examples: better raw materials and/or more features

Memorise:



## **Marketing Myopia**

Trying to perfect a product long after the need for the product has disappeared, or when the market has appreciably shrunk, is known as *marketing myopia*.

- Manufacturer is behaving in a shortsighted manner and not assessing his market correctly.
- Focus on product instead of customers' needs
- Product cost may go up as product quality increases, resulting in low demand
- Product Concept assumes consumers will only favour those products that offers the most quality, performance and better feature
- Product concept can lead to marketing myopia.
- Examples are **audio cassettes versus CD; VCR versus VCD/DVD, Dot-matrix printers versus laser and ink-based printers**

## **The Selling Concept**

- Starting Point → Focus → Means → Ends
- **Factory → Existing Products → Selling & Promotion → Profits through Sales Volume**
- Manufacturer takes existing products and focus on selling and promoting them
- Focus is on what it can produce
- No effort is made to change product manufactured
- Belief: Manufacturer can impress buyer into acquiring product even if he does not have a need for it
- Sales people often employ high-profile selling methods
- Buyer is pressurised into acquiring goods
- Advantages:
  - Promote personal interaction between seller and customer;
  - Higher sales volume can be achieved through active selling

- Disadvantages:
  - Focus on existing products
  - Does not allow the seller to adapt to customers' needs
  - Selling concept is short term and brings profits only in short term
  - High profile selling creates a bad image for company
  - May result in customer buying product he does not want

## **Chapter 4 – Marketing Management Process**

Managing the Marketing Effort

### **Marketing Strategy**

- Market Leader
- Market Challenger
- Market Follower
- Market Nicher

Which marketing strategy a company decides to adopt depends on its industry position.

### **Market Leader**

A firm that dominates a market can adopt a Market Leader strategy.

Examples of Market Leader:

- IBM: computer market
- Olympus: photographic film market
- Coca-Cola: soft drink market

### **Leader Strategy**

- Expand total market by looking for new users for product and more frequent use from current customers
- Increase market share by investing heavily in the market to force its competitors out of the market

- Cut own profits and offer high value product to consumers to capture them away from competitors ... then increase price after accomplished
- Work out strategies to protect current business against competitor, for example, by leading the industry in innovation and in providing good-value to customers

## **Chapter 5 – Marketing Research**

Marketing research is used to identify and define marketing opportunities and problems; to generate, refine, and evaluate marketing actions; to monitor marketing performance; and to improve understanding of the marketing process.

*Memorise:*



### **Marketing Research**

- Defining (Specifying) the Problem and Research Objectives
  - Developing (Forming) the Research Plan
  - Implementing the Research Plan
  - Analysing and Reporting the Findings
- 
- Marketing manager and researcher work closely to define the problem and agree on research objective
  - Determining the required information, forming a plan for gathering information efficiently as well as presenting plan to marketing management
  - Researcher puts plan into practice – collecting, processing and analysing information
  - Research analyse findings, draw conclusions and report to management

### **Postal Questionnaires**

- Cheap way of obtaining information, but accuracy of the results can be affected by poor return of completed questionnaires
- Best used when respondents are very keen in the subject of the study and are assured that information would not be misused

- Advantages: cheaper, but prior appointment required; fast source of info
- Disadvantages: requires large pool of experienced telephonists; accuracy of results with poor return of completed questionnaires

## Chapter 6 – Environmental Factors affecting Marketing Operations (Macro)

MACRO	MICRO
• Demographic	• Suppliers
• Economic	• Customers
• Natural	• Competitors
• Technological	• Marketing Intermediaries
• Political	• Other Departments in the Company
• Cultural	

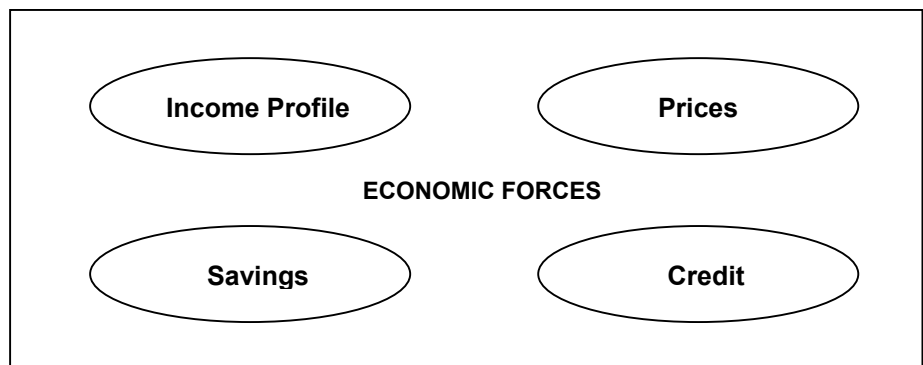
### Economic Environment

Economic factors can mean the economic structure as well as the economic status of the average buyer.



#### Economic Forces

- Income Profile
- Prices
- Savings
- Credit



Current income, prices, savings, and credit are the major forces in the economic environment that affect consumer purchasing power and hence the company. *Income* and *prices* are directly related to market size in number and expenditure. *Savings* are each individual's savings whether in a bank, government stocks, shares or other investments. *Credit* is the

amount of money that any lender will allow you to draw upon at a fixed interest, **for instance a loan for a house, car, education or other products or services.**

To assess income profile of the Singaporean, one can look at the per capita income and the income distribution among the different classes of people.

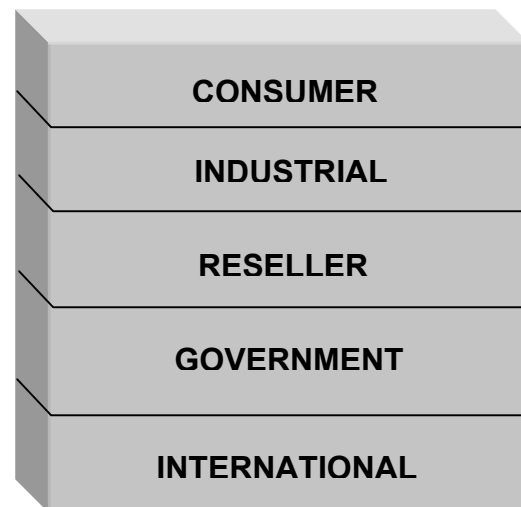
## Chapter 7 – Environmental Factors affecting Marketing Operations (Micro)

Customers are probably the most important microenvironmental influence on the marketing department.



### 5 Types of Customer Markets

- Consumer
- Industrial
- Reseller
- Government
- International



**Consumer markets** are individuals and households that buy goods and services for personal consumption (e.g. soap, toothpaste). Marketers of convenience, specialty, shopping and unsought goods can find potential customers in this market.

**Industrial markets** are goods and services that organisations buy for further processing or for use in their production process (e.g. raw materials, machineries for processing products, overheads support). An example is **Microsoft who buys computers for use in the production of their goods or services, in their case software.**

**International market** consists of the foreign buyers, including consumers, producers, resellers and governments. **An example is a wholesaler who acquires computers from overseas manufacturer to distribute in a local market. Another example is clothings, which are made differently to meet different requirements in different parts of the world.**

## **Publics**

A *public* is any group that has an actual or potential interest in or impact on an organisation's ability to achieve its objectives.

7 types of *public* surrounding a company

- Government
- Media
- Financial
- Citizen
- Local
- Internal
- General



**Financial publics influence the company's ability to obtain funds.** Banks and shareholders are some of the financial publics. The company seeks their goodwill by issuing annual reports and maintaining a good image through the media.

## **Chapter 8 – Consumer Buying Roles**

Consumer decision-making varies with the type of product being bought.



### **Types of Buying Behaviour**

- Routine Response Behaviour
- Limited Problem Solving
- Extensive Problem Solving

## **Routine Response Behaviour**

- Occurs when consumers buy **low-cost, frequently purchased** products
- Examples include **cleaning liquid, soap, bread and cheese**
- Buyers make few decisions and spend little time over the purchase
- Do not always buy the same brand
- Examples are **stock-outs, special deals, wish for variety**
- **No brand loyalty**
- **Low-involvement** goods
- **Widely available**
- *Routine response behaviour* usually takes place when making decisions for purchase of low-involvement products or services
- Marketers of low-involvement products have two tasks:
  - **Satisfy current customers** by maintaining good quality, service and value
  - **Attract new buyers** – to break them out of routine of buying competing products by introducing new product features, promotional features, such as point-of-purchase displays, discounts, and premiums.

## **Limited Problem Solving**

- Buying process becomes more involved when buyers are confronted with unfamiliar brands
- An example is **customers thinking about buying new tennis racket will be spending enough to require more thought into purchase**
- Product is **more durable and expensive** than soap or bread or other low-involvement products
- Confronted with **several brands** (e.g. new shapes or rackets made of new materials)
- Ask questions and watch ads in media to learn more about the choices offered
- Indulge in *limited problem solving*
- Examples are **shoes, dress and bag**

## Extensive Problem Solving

- Complex-buying decisions for **expensive, less frequently purchased** products (High perceived risk)
- Buyers may not know about available brands or factors to consider when evaluating different brands (No experience)
- Indulge in *extensive problem solving*
- **High involvement** with **brands consideration**
- Needs a great deal of information as perceived risk is high
- An example is **when buying an expensive new stereo system, customer would spend time visiting different stores, collecting information, and comparing various brands, talking to friends and persons who already possess system, before making final decision**
- Goods under extensive problem solving behaviour include **house, car, home theatre**
- Marketers' tasks in this category include:
  - helping the buyer reduce search time
  - understand buying criteria of consumers
  - persuading customers that their brand rates high on those attributes compared to competing products
- Example of **criteria of importance for buying a music system might rank in this order: sound quality, look, price, brand name and warranty**
- If most buyers have the same rating of criteria, marketer can focus on most important qualities when he creates his marketing mix



## 6 Stages in the Buying Process

- Stage 1: Problem Recognition
- Stage 2: Information Search
- Stage 3: Evaluation of Alternatives
- Stage 4: Purchase Decision
- Stage 5: Post-purchase Behaviour
- Stage 6: Post-purchase Actions

The buying process starts before the actual purchase and continues after purchase. Not all six stages need to be passed through for every purchase, especially routine purchase. Non-purchase may be due to goods not fully meeting the need or be restricted due to the cost.

**Problem recognition** is when the buyer senses a difference between his or her *actual state* and some *desired state*.

**Information search** is acquiring information regarding products that could satisfy the need, such as its suitability, design, price and quality.

**Evaluation of alternatives** is the information processes in which the consumer arrives at in making brand choices, such as the *attributes* which are most important to most people or the *brand image*.

**Purchase decision** is usually made on most preferred brand, but sometimes it can be affected by two factors – the attitudes of others and the situational factors. Attitudes of others are influences from person other than buyer, while situational factors are purchase intention due to income, high price, or need for other products being greater at that point in time.

**Post-purchase behaviour** is the perceived performance after buying the product, whether buyer is satisfied or dissatisfied depending on consumer's expectation and product's performance.

**Post-purchase actions** are steps taken by companies to reassure the customer that their choice was a good one (e.g. through advertising slogans). A company's sales come from two basic groups – new customers and repeat customers (customers retention). It costs more to attract new customers than to retain current ones.

### Review Questions

Routine Response Behaviour, Limited Problem Solving and Extensive Problem Solving are three types of consumer behaviour. Which behaviour is exhibited during the purchase of the following products?

- a) Two week tour to East Coast of America costing \$4500 per person
- b) Sunshine white bread
- c) Visiting Starbucks Café
- d) Kellogg's sugar frosted cereals
- e) Casio Baby G watch

- f) Rolex watch
- g) Ticket to a popular English movie
- h) Toothpaste

Give two reasons for each of your answers.

- Extensive: High cost/involvement; low experience; less frequent purchased
- Limited: Brands differences; little knowledge; more expensive than durables/routine; material and make
- Routine: Low cost; frequent use; low involvement; widely available; no brand loyalty

## Chapter 9 – Product and Service Decisions

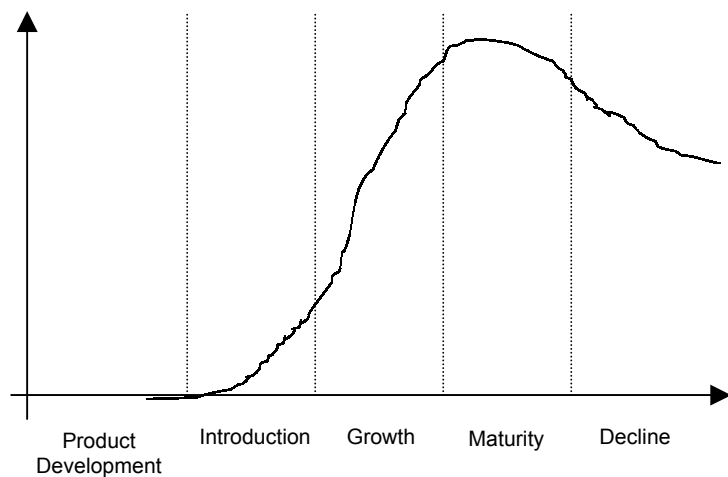
A product refers to anything that can be offered to a market for attention, acquisition, use or consumption.

### Product Life Cycle Strategies

Each product will have a life cycle, although the length is not known in advance. The product life cycle consists of five stages.

#### 5 Stages of Product Life Cycle

- Product Development
- Introduction
- Growth
- Maturity
- Decline



## **Maturity stage**

This is the point when a product's sales growth will slow down. Maturity stage usually lasts longer than the previous stages, thus most of marketing management deals with the mature product. At this stage, the company looks for new users and market segments to extend its market through:

- Market modification
- Product modification
- Marketing Mix modification

Not all mature products can be extended in view of:

- Declining interest
- Newer products
- Heavy competition
- Market saturation

To revive the sales of matured product, the following approaches may be implemented:

- New market segment
- New product features
- More usage by current and new users
- Advertising and promotion
- Explore new uses
- New classes of consumers for present and for modified products
- Increase product usage
- Change marketing strategy

Examples of Marketing Strategy Change

- Price reduction to attract new users and competitors' customers
- New advertising campaign
- Aggressive sales promotion (trade deals, premiums and contests)

## Individual Product Decisions

Product decisions are made based on:

- Product Attributes
- Brand
- Packaging
- Labeling
- Product-Support Services

**Product attributes** identify benefits, quality, features, design and style.

### Memorise



## Brand

A **brand** is a name, term, sign, symbol, or design or a combination of these, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors.

- A **brandname** is that part of a brand that can be vocalised. An example is Disneyland
- A **brandmark** is that part of a brand which can be recognised but is not utterable, such as symbol, design, or distinctive colouring or lettering. An example is a Kodak film box.
- A **trademark** is a brand or part of a brand that is given legal protection. An example would be the Coke bottle for Coca-Cola.
- A **copyright** is the exclusive legal right to reproduce, publish, and sell the matter and form of a literary or artistic work.
- **Brand forms** may include mix of *name, packaging, logo, design, term, sign, and symbol*, which make a company's product identifiable from those of its competitors'.
- Developing a branded product requires **long-term marketing investment**, including **advertising, promotion** and **packaging**.

### **Branding provides:**

- value to product
- differentiation

- quality (implied)
- shopper's efficiency
- seller's operation efficiency in processing orders and tracing problems
- legal protection on unique feature that can prevent copying by competitors when used with copyright
- seller the ability to attract loyalty and profitability from group of customers
- the creation of brand packaging loyalty
- attention

## **Chapter 10 – Pricing Considerations**

Price is the amount of money charged for a product or service.

### **Pricing Strategies and the Product Life Cycle**

- New Product Pricing Strategies
- Product Mix Pricing Strategies
- Price Adjustment Strategies



#### **New Product Pricing Strategies**

- Market Skimming Pricing
- Market Penetration Pricing

**Market skimming pricing** refers to the skimming of revenue from market layer by layer, through setting the price high at first and then gradually lowering price. This is applicable for a completely new product where there is no competitor. At first, few people will be able to afford the product, but as price is lowered, the market will expand. Example of this category is an innovative brand new product in the market.

- Setting a high price for a new product to skim maximum revenue from the segments willing to pay high price
- Company makes fewer but more profitable sales
- Target Buyers: Price insensitive customers

**Market penetration pricing** refers to the approach of setting a price low in the hope to attract a large number of buyers, that is, to penetrate the market quickly. This would happen in the case of a product, where company expects competition after a short time.

- Setting a low price for a new product in order to attract a large number of buyers and a large market share
- Lower profitable sales
- Target Buyers: Price sensitive customers

### **Price Adjustment Strategies**

Companies adjust their prices to account for changing situations and different customer groups.

### **Price Adjustments**

- Discounts and allowances
- Discriminatory pricing
- Promotional pricing
- Psychological pricing
- Geographical pricing.

## Promotional Pricing

- Loss Leader
- Special Event
- Cash Rebates
- Low-interest Financing
- Longer Warranties
- Free Maintenance

### Promotional pricing:

- aims to attract more customers to the product to increase **short-run sales**
- is a temporarily pricing of product below the list price or even below cost, to increase sales
- examples are **special event pricing, rebates, long warranties, low interest**
- may act as a particular product loss leader to attract customers to the store in the hope that they will buy other items at normal prices, which will lead to an overall profit

## Psychological Pricing

- Sellers take into account the psychology of prices and not just the economics
- An example is the higher priced cars that are perceived as having higher quality.
- When consumers are able to judge the quality of a product, they use less of price to judge quality
- When they cannot judge quality because of lack in necessary information, price becomes an important quality signal
- Sellers must keep in mind the psychological weight of pricing in buyers' minds

## Review Questions

Explain with examples, the two pricing strategies that a company can use when it decides to launch an innovative new product.

- *Market Skimming*: Sony leads in new technologically improved and innovative products, such as TVs and Hi-fi system, which are highly priced with its initial introduction so as to recover cost in research and development. Gradually when a new innovation is about to be introduced, earlier models are set at lower price to target all remaining market segment for massive buying; Canon leads in introducing new innovative digital cameras, such as the incorporation of DIGIC technology. When initially available in market, the price of the camera is very high, targeting at the non-price sensitive customers before it gradually lowers the price for other customers or introduce lower end cameras for different segment of market. Another example is the new models of mobile phone which are price very high before it gradually lowers.
- *Market Penetration*: When a new magazine (8 days, a TV entertainment magazine in Singapore) was first introduced, it cost S\$1.50. Once readership goes up, the magazine is price also increases to S\$2.00. Another example is that of public transport. When the MRT was first introduced, the price was lower, but it eventually becomes more expensive as time lapse. This also applies to taxi fares and bus fares.

## **Chapter 12 – The Promotion Mix**

A firm communicates directly with its potential customers through its promotion activities. These include: Advertising, Sales Promotion, Public Relations and Personal Selling.



### **Personal Selling**

- Personal Interaction
- Company's most expensive promotion tool
- Most effective promotion tool (especially industrial products)
- Useful for selling costly items that requires considerations

### **Objective of Personal Selling**

Not product selling, but promoting need for product and to generate good feeling of it.



## 7 Steps in the Selling Process

- Prospecting and Qualifying
- Preapproach
- Approach
- Presentation and Demonstration
- Handling Objections
- Closing
- Follow-up

### Step 1: Prospecting and Qualifying

- *Prospecting* is identifying qualified potential customers
- Referral sources can be from current customers, suppliers, dealers or build up from names in directories
- Can use telephone and mail to get in touch with prospects
- *Qualifying* is how to identify the good prospects and screen out the poor ones (ie. whether customer can pay for it)
- Prospects can be qualified by looking at their financial ability, volume of business, special needs, location and possibilities of growth.

### Step 2: Preapproach

- *Information gathering.* Salesperson learn as much as possible about the buyer and the buyer characteristics before calling on prospect (e.g. through annual reports, magazines, acquaintances)
- *Approach.* Decide on best approach – personal visit, phone call or a letter
- *Timing.* Time to approach client
- *Sales Strategy.* Overall sales strategy to use

### **Step 3: Approach**

- *Greetings*. Meet and greet the buyer and get relationship off to a good start (e.g. tailored or standard approach)
- *Personal Presentation*. Salesperson's appearance, opening lines and follow-up remarks are important
- *Open Lines*. Be positive in opening lines, followed by key questions to learn more about customer's needs or the showing of a display or sample to attract the buyer's attention and curiosity

### **Step 4: Presentation and Demonstration**

- Salesperson describes the product features focusing on presenting the customer benefits
- Enhance presentation with demonstration aids such as **booklets, flip charts, slides, videotapes or video discs and product samples**
- Buyers can better remember product features and benefits if they can see or handle it

### **Step 5: Handling Objections**

- Objections are inevitable during presentation or when asked to place order
- Problem can be logical or psychological
- Use positive approach when handling objections, seeking out hidden objections by asking buyer to clarify objections
- Take objections as opportunities to provide more information and turn the objections into reasons for buying
- Every salesperson needs training in the skills of handling objectives
- Never hurt the customer nor think you know more than your customers

### **Step 6: Closing**

- Salesperson now tries to close the sales
- **Recognise closing signals** from the buyer, such as **physical actions, comments and questions**
- Examples are customer sitting forward and nod approvingly or ask about prices and credit terms
- Closing techniques include asking for order, offer to write up order or asking buyer which model he wants
- Offer buyer reasons to close, such as lower price or extra quantity at no charge

### **Step 7: Follow-up**

- Objective is to ensure customer satisfaction and repeat business
- Upon closing, salesperson should complete any details on delivery time, purchase terms and other matters
- Schedule a follow-up call to assure the buyer of salesperson's interest
- Reduce any buyer concerns that might have arisen since the sale

## **Chapter 13 – Placing the Product or Service**

The concept of distribution channels is not limited to distribution of physical goods. Producers of services and ideas also face the problem of making their output available to target markets. They must consider the agencies and locations for reaching a big population.

### **Channel Behaviour**

*Distribution channel* consists of different firms that have banded together, where each member is dependent upon the others and their performance. Each channel member plays a role in the channel and specialises in one or more roles.

*Channel firms* should work together smoothly as the success of individual channel members depends on overall channel success.

Channel members usually act alone in their own short-term interest and often cannot agree on roles each should play. Such agreements over goals and roles will result in channel conflict, such as:

- Horizontal Conflict
- Vertical Conflict

### **Horizontal Conflict**

- Conflict between firms at same level of channel
- Example, a particular franchisee may complain about other franchisees cheating on ingredients, giving poor service, and harming the overall image

### **Vertical Conflict**

- Conflict between different levels of the same channel
- Example, an automobile company may have conflict with its dealers by try to enforce policies on service, pricing and promotion

### **Channel Design**

A channel system evolves to meet local opportunities and demand. Designing channel system calls for analysing consumer service needs, establishing the channel objectives and constraints, identifying the main channel alternatives and assessing them. The objective of a channel system is to allow manufacturers to balance and decide between what is ideal and what is available.

### **Identifying the Main Channel Alternatives**

Three strategies:

- Intensive Distribution
- Exclusive Distribution
- Selective Distribution

### **Intensive Distribution**

- Usually used by producers of convenience goods and common raw materials
- Involves stocking products in as many outlets as possible, so that these goods are available when consumers want them
- Provide maximum brand exposure and consumer convenience
- Examples are toothpaste, candies, soap, detergent (fast moving consumer goods)

### **Exclusive Distribution**

- Producers deliberately limit the number of middlemen handling their products
- Limited number of dealers are given the exclusive right to distribute the company's products in their territories
- Producer hopes for stronger distributor selling support and more control over middlemen's prices, promotion, credit and services
- Improves the product's image and allows higher mark-ups
- Examples are new automobiles, prestige clothing and renovation fabrics distribution

### **Selective Distribution**

- Between intensive and exclusive distribution
- Use of more than one but less than all the middlemen who are willing to carry company's products (e.g. television and furniture)
- Firm does not need to spread its efforts over many outlets
- Can develop a good working relationship with certain selected middlemen
- Allows producer to gain good market coverage with more control and less cost than intensive distribution
- Examples are products in the electronic industry

## Review Questions

Which distribution strategies – intensive, selective or exclusive – are used for the following products and why?

- a) Giordano jeans
- b) Coca-Cola's coke
- c) Ferrari cars

## Chapter 14 – Export and Global Marketing

### Memorise



### Joint Venture

- Licensing
- Contract Manufacturing
- Management Contracting
- Joint Ownership

### Licensing

- Firm enters agreement with licensee in foreign marketing, offering right to use a manufacturing process, trademark, patent, trade secret, or other item of value for a fee or royalty
- Firm gains entry into the market in this way at little risk without having to start from scratch
- Advantages are minimum risks, production expertise, and borrowed reputability
- Disadvantages are limited control over licensee, creation of competition, loss of potential profits

### **Contract Manufacturing**

- Contracting with producers in overseas markets to produce its product or provide its services
- Advantages are fast start-up, less risk, possibility of forming partnership
- Disadvantages are less control over manufacturing process and loss of potential profits

### **Management Contracting**

- Local (domestic) firm supplies management know how to a foreign company that supplies the capital
- Exports management services rather than products
- Mainly for services, not products

### **Joint Ownership**

- Consist of one firm joining with overseas investors to form a local business in which they share joint ownership and control
- Firm may buy an interest in a local firm or two parties may establish a new business venture

## **Chapter 15 – Ethical Issues in Marketing Practice**

Looks into the social effects of private marketing practices.

### **The Marketing System and Society**

Critics have charged that the marketing system causes people to be judged by what they own rather than by what they are.



### **Materialism**

- Creating false wants that benefit industry more than they benefit customers
- A circle where one earns to buy unnecessary products and then work to earn more money

- Man's basic desire to acquire more and more goods may be the cause of materialism rather than the industry
- An evil that is created by society itself or by marketers?

### **Effects of Marketing on other Businesses**

Because many have viewed business as the cause of many economic and social problems, development have arisen from time to time to keep business in line. The two main movements have been *consumerism* and *environmentalism*.

### Memorise



### **Consumerism**

Consumerism is an organised movement of citizens and government created for the purpose of improving the rights and power of buyers in relation to sellers.

- Consumers possess the rights and responsibility to protect themselves
- Buyers' rights include:
  - Right not to purchase a product that is offered for sale
  - Right to anticipate the product to be safe
  - Right to anticipate the product to perform as claimed
- Consumerism calls for additional rights above buyers' rights:
  - Right to be well informed about important aspects of the product
  - Right to be protected against doubtful products and marketing practices
  - Right to influence products and marketing practices in ways that will improve the "quality of life"
- Consumers who believe they got a bad deal have several remedies available, including writing to the company chairman or the media, small claims court, and CASE.

Compiled by:

**EDMOND NG**