CHAPTER 3

Marketing strategies

1 *Understanding marketing objectives*

What you need to know:

- the nature of marketing objectives
- the internal and external influences on marketing objectives

Strategy is the medium- to long-term plan required to achieve a business's overall objectives. The **marketing strategy** is the contribution made by the marketing department to this process. Developing a marketing strategy requires:

- careful analysis of the firm's current position
- complete understanding of the business and the market in which it operates
- some assessment of the resources available to the business

1.1 The nature of marketing objectives

Marketing strategy entails the setting of **marketing objectives**. Marketing objectives are medium- to long-term targets that may provide a sense of direction to the marketing department and to the whole business. This is especially true if the targets are quantified. A business might set a range of marketing objectives, including the following:

- **To increase or maintain market share.** For example, a company might seek to increase market share (as measured by value of sales) from 20% to 25% over the next 3 years. Alternatively, it may decide to introduce a new product to maintain its current market share. For example, Mercedes introduced a small car to protect itself from increasing competition in the luxury car market.
- **To broaden its range of products to improve its market standing.** A company may adopt an asset-led approach by using an existing brand name to develop new products. The Virgin Group is a classic example of this approach.
- **To break into a new market (or market segment).** Kellogg's, for example, has marketed its breakfast cereals as a product that can be eaten at any time of the day.

1.2 The internal and external influences on marketing objectives

The precise marketing objectives a firm might set will depend on a variety of factors, the relative importance of which will vary from business to business.

Internal factors

- **The business's corporate objectives.** These are clearly a major determinant, since the achievement of the business's marketing objectives should assist it in achieving its corporate objectives. Therefore the two sets of objectives should be interrelated.
- **The size and type of firm.** Large firms possessing high degrees of market power may set more expansive and aggressive marketing objectives. In contrast, new entrants to a market or smaller businesses may be less ambitious in the scope of such objectives.
- **The financial position of the business.** A business that is profitable or has a strong cash-flow position may be able to engage in the necessary research and development of marketing campaigns to set marketing objectives that are challenging.
- **The possession of a USP.** A business that has a unique selling point (or proposition) may set objectives reflecting an expectation of substantial increases in market share or brand recognition. Having a feature that differentiates the business or its products allows this to be a more realistic objective.

External factors

- **The business's position in the market.** A dominant business may be able to break into new market segments and build on its existing brand image. Kellogg's (as described above) provides an example of such an approach.
- **The expected responses of competitors.** Whether rivals might match any actions taken to achieve particular marketing objectives can be a major determinant in the objectives that are set. This might be particularly influential when the businesses concerned are of similar size and financial power.
- **The state of the economy.** If the economy is growing slowly or not growing at all (as may be the case in many countries in 2009), marketing objectives will be more conservative, especially for businesses that sell luxury items. Conversely, in a period of economic boom, the opposite may be true.

Examiner's tip

This is a topic on which you could be required to write evaluatively. The marketing objectives set by a business depend upon the type of factors listed above. The key point is that we cannot say with certainty what objectives a firm might set. We need to consider the circumstances of the business and the environment in which it operates.

2 *Analysing markets and marketing*

What you need to know:

- reasons for, and the value of, market analysis
- methods of analysing trends
- the ways in which IT can be used in analysing markets
- difficulties in analysing marketing data

2.1 Reasons for, and the value of, market analysis

Businesses take major marketing decisions regularly. Such decisions are essential and must be successful if a business is to achieve its marketing objectives. Businesses can take two broad approaches to decision making:

- **Decisions based on hunches or instinct.** It is possible for managers to take major marketing decisions, such as whether to introduce a new product, based entirely on instinct. This means that they conduct little or no research and rely on their knowledge of the market.
- **Scientific marketing decisions.** Many factors influence the markets in which businesses trade. Actions of competitors, consumers, suppliers and governments can all have an impact, as can changes in tastes and fashions. It is important to gather as much evidence as possible and to consider it carefully before taking major marketing decisions. This is why analysing the market can be so important.

Hunch or instinct might be a valid approach in a market that regularly experiences rapid change, where market research cannot be used effectively. It may also be that in some fashion markets, decisions taken by businesses on the design and format of products can help to shape consumers' tastes.

However, dependence on guesswork is a risky approach because it is entirely possible to be wrong. For example, incorrectly predicting a surge in demand for a product can result in a business having an embarrassing surplus of products, with a consequent adverse impact on its cash-flow position. It can be argued that the analysis of a market is an expensive exercise, but it might be less expensive than making a major error in forecasting consumer demand.

2.2 Methods of analysing trends

The analysis of marketing data enables firms to:

- forecast future sales, allowing them to produce sufficient quantities of a product to avoid the accumulation of surplus stocks or unfulfilled orders
- assess consumer reactions to the products they are selling
- estimate the future need for resources such as labour, allowing recruitment or redeployment in advance of changes in demand

Central tendency and normal distributions

Firms may need to reorganise data into a form that can be used by decision-makers in the business. It may, for example, be necessary to identify the most common figure from a range of data. This single figure can be used to represent the entire group of data. Such figures are referred to as **measures of central tendency**. There are three principal measures of the central tendency of data:

- **Arithmetic mean** — commonly referred to as the 'average'. This is calculated by adding the value of all items in the data and then dividing this total by the number of items.
- **Median** — the middle number of a range of data when the figures are placed in ascending or descending order.
- **Mode** — the most common number among a set of data. In other words, the mode is the value that occurs most frequently.

The **normal distribution** of data is a frequency distribution possessing a symmetrical pattern, as shown in Figure 3.1 overleaf. Normal distributions tend to occur when data are collected frequently. Data exhibiting a normal distribution have the following characteristics:

- Within a normal distribution, mode = mean = median.
- The number of results above the average will be exactly equal to the number of results below it.

The normal distribution is useful in statistical quality control. It can provide data by which components and other items subject to variation can be assessed — and rejected if necessary.

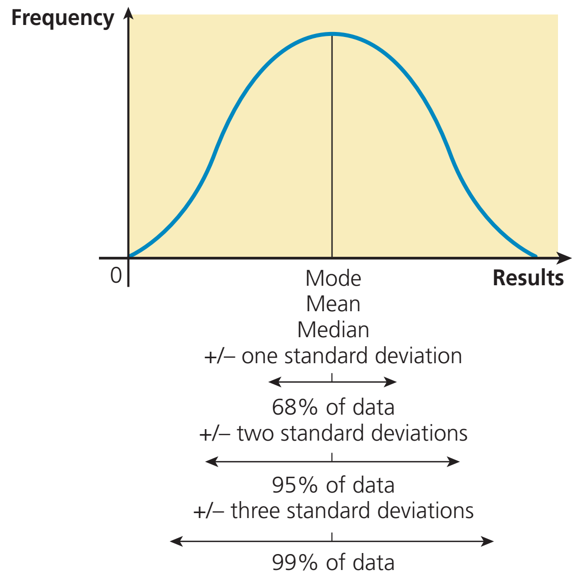

Figure 3.1 A normal distribution

Analysing trends: extrapolation

A **trend** is an underlying pattern of growth or decline in a series of data. By establishing whether sales trends, for example, are rising or declining, a firm can plan production to meet the demands of the market as fully as possible.

Managers are very interested in future trends in the markets in which they trade. Having an insight into future trends can assist firms in taking correct marketing decisions. **Extrapolation** is a relatively simple technique that can assist forecasting.

Extrapolation analyses the past performance of a variable such as sales and extends this into the future. If a firm has enjoyed a steady increase in sales over a number of years, the process of extrapolation is likely to forecast a continued steady rise.

Extrapolation can assist managers in identifying market segments that are likely to experience growth or decline, so they can plan production accordingly. Extrapolation simply extends the apparent trend by eye, as shown in Figure 3.2.

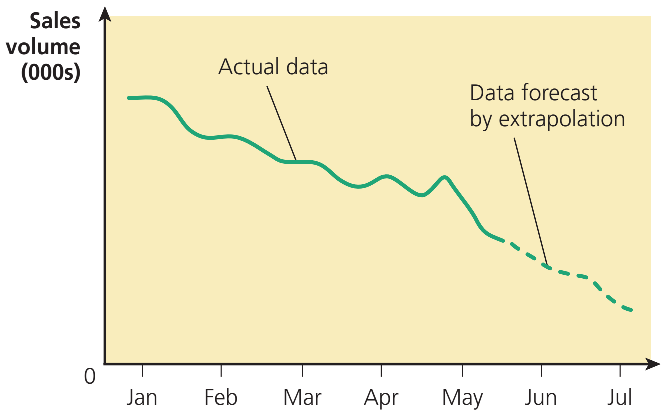

Figure 3.2 The process of extrapolation

Extrapolation has a number of advantages. It is easy to carry out, as it merely involves extending a trend and this is often done by eye. It can be completed quickly and is simple to understand.

However, it may be inaccurate because it assumes that the future will be similar to the past. For this reason, it is not suitable for use in environments subject to rapid change. Predicting that sales of a fashion good, such as clothing, will continue to rise on the basis of extrapolation may be unwise, as a change in fashion may provoke a slump in sales.

Analysing trends: correlation

When analysing market trends, firms will attempt to identify whether there is any **correlation** between different variables and the level of sales. Correlation is a statistical technique used to establish the extent of a relationship between two variables, such as the level of sales and advertising.

Correlation can be illustrated by plotting the two variables against each other on a graph. Figure 3.3(a) plots monthly sales figures against the level of advertising expenditure for the same month. Each month's relationship is shown by an X. It is apparent that higher levels of advertising expenditure lead to higher sales. Managers may be encouraged by this result to increase spending on advertising.

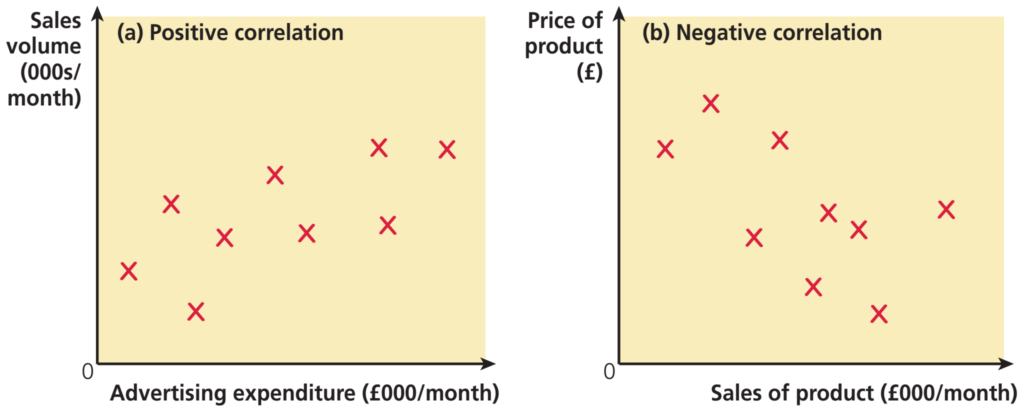

Figure 3.3 Correlation

Figure 3.3(b) shows a negative correlation between the price of a product and its sales. From this managers might decide that demand is price elastic and attempt to reduce the price as far as possible.

Correlation only shows a *possible* relationship between two variables. Sales might rise at the same time as a firm increases its expenditure on advertising. However, the two events might not be related. The rise in sales may be due to a competitor increasing prices or the fact that the firm's products have become fashionable. So the results of correlation should be treated with caution.

However, correlation can help to identify key factors that influence the level of sales achieved by a business. For example, there may be a strong positive correlation between sales and income levels. In these circumstances, the business should target markets in which consumers are enjoying rising income levels.

Analysing trends: moving averages

Moving averages are a series of calculations designed to show the underlying trend in a series of data. They can be calculated over various periods of time, although a 3-year moving average, as shown in Table 3.1, is one of the most straightforward to calculate.

Year	Bicycle sales	Three-year moving average
1999	1,500	–
2000	1,550	4,550 ÷ 3 = 1,517
2001	1,500	4,700 ÷ 3 = 1,567
2002	1,650	4,725 ÷ 3 = 1,575
2003	1,575	4,820 ÷ 3 = 1,607
2004	1,595	4,870 ÷ 3 = 1,623
2005	1,700	5,100 ÷ 3 = 1,700
2006	1,805	5,270 ÷ 3 = 1,757
2007	1,765	5,470 ÷ 3 = 1,823
2008	1,900	5,545 ÷ 3 = 1,848
2009	1,880	–

Table 3.1 Annual sales of George Ltd, bicycle manufacturers

In this example the 3-year moving average is calculated by gradually moving down the data, adding 3 years' sales together and dividing the result by 3 to obtain an average annual figure. The average figure is then plotted on the middle year of the three in question. So, for example, the moving average for 1999–2001 is plotted next to 2000.

The use of moving averages should smooth out the impact of random variations and longer-term cyclical factors, including seasonal variations, thus highlighting the trend. This can assist managers in taking good-quality marketing decisions, as they can see the underlying pattern of sales for their products.

2.3 The ways in which IT can be used in analysing markets

Information technology (IT) has a range of uses in collecting and analysing marketing data.

Collecting marketing data

It is possible for businesses to use IT as a means of collecting market research data. For example, you might be persuaded to fill in an online survey in return for being entered into a prize draw. IT can collect data on people's spending habits in a variety of ways. Online spending is simple for firms to record and analyse. This can reveal spending patterns of which managers can take advantage. For example, it may show that certain groups of products are purchased together. As a result, the business concerned may market these products together. The online retailer Amazon records its customers' purchases and promotes similar products to them at a later date.

A number of supermarkets and other retailers use loyalty cards. One purpose of these cards is to encourage customer loyalty and therefore repeat purchases. However, they also enable the business to collect data on customers' purchases and to relate them to personal data they have on these customers. Thus, they are able to analyse electronically the types of people who purchase particular products, allowing for better-focused advertising campaigns.

Analysing marketing data

Data that are collected electronically can be analysed and presented using IT. This is a relatively cheap method of data analysis and also a highly flexible one. Data can be analysed in a variety of ways and presented in different formats to ensure that all the messages they contain are understood.

It is possible to argue that in many cases the speed of data analysis afforded by IT may be more of an advantage than its relatively low cost.

2.4 Difficulties in analysing marketing data

Marketing data can give the wrong message for a number of reasons:

- The samples on which the forecasts are based may be too small. This could mean that the views expressed by those in the sample are not representative of the entire population of potential consumers.
- Some industries are subject to rapid change. Examples are mobile telephone and other high-technology industries. Delays between gathering the data and presenting the results to those who take marketing decisions may mean that the market has changed.
- Major changes in the external environment can have substantial effects on the decisions of purchasers. A rise in interest rates, for example, may lead to many consumers delaying or abandoning their decision to purchase, especially if the product in question is bought on credit. Similarly, the introduction of a new competitor into the market could cause sales to plummet.

3 *Selecting marketing strategies*

What you need to know:

- the major marketing strategies that can be used
- how to assess the effectiveness of marketing strategies

3.1 The major marketing strategies that can be used

Low cost versus differentiation

One way of thinking about marketing strategies is to consider businesses that base their strategy on being low cost. We have already discussed low-cost financial strategies on page 21. They offer businesses a way of attracting customers and can be used by businesses that are late entrants to a market and do not have an established brand name or customer base. They can be highly effective if demand for the product is price elastic. Airlines such as easyJet have used this marketing strategy to great effect and have captured market share from established airlines, particularly British Airways. However, it does require the business to have a low cost base and to be able to maintain or reduce its cost levels as established suppliers begin to respond to the challenge.

An alternative approach is to opt for differentiation. This means that a business makes its product distinctive from those of its rivals and gives consumers a reason to purchase it and to become brand loyal. The Co-operative Bank presents itself as ethical and environmental and, using this strategy, has competed successfully against much larger financial organisations.

Ansoff's matrix

A major way to assess a variety of marketing strategies is to use **Ansoff's product–market matrix**, illustrated in Figure 3.4. It assists businesses in evaluating the organisation and the market in which it operates. Developed by Igor Ansoff in 1957, it represents a useful framework for considering the relationship between marketing and overall strategy.

The matrix considers product and market growth and analyses the degree of risk attached to the range of options open to the business. The key findings of Ansoff's matrix are:

- Staying with what you know (e.g. market penetration) represents relatively little risk.
- Moving into new markets with new products is a high-risk strategy.
- Assessment is made of the value of each option.

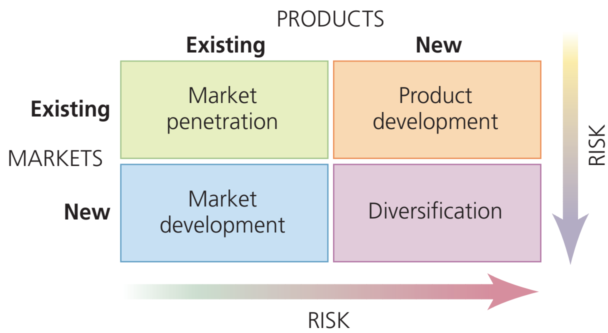

Figure 3.4 Ansoff's matrix

We can look at Ansoff's matrix in more detail.

Market penetration

In this situation, the business's strategy is to market existing products to its existing customers more strongly. By making this choice the business avoids the commitment in terms of expense and time of developing new products or investigating and analysing unfamiliar markets. In this way, the strategy can be implemented relatively quickly and cheaply.

However, it may be that the market is saturated (few, if any, new customers exist), and therefore the only way to increase sales is by taking customers away from competitors. This is the situation that mobile phone service providers such as Vodafone are experiencing. A policy of market penetration in these circumstances can necessitate heavy expenditure on promotion and some flexibility in pricing decisions. Because this marketing strategy does not involve new products or new markets, it is categorised as low risk.

Market development

This strategy involves a business targeting its existing product range at potential customers in a new market. This means that the product remains the same, but it is marketed to a new audience. New markets could be overseas or possibly a different segment within a domestic market. Well-known companies such as McDonald's and Starbucks have engaged in a strategy of market development as they have introduced their products to countries across the globe. One way to achieve market development is through a joint venture with an existing supplier. Tesco has used this approach in China.

This strategy is classified as medium risk because the product or products are unchanged and presumably the business's managers are familiar with their strengths and weaknesses. It also avoids the need for developing new products, which can be costly and time consuming. However, it has drawbacks in that the products may not be accepted in the new markets or they might need expensive modifications if they are to sell in profitable numbers. McDonald's has encountered some resistance to its expansion, most notably in India and France.

Product development

This strategy requires that a new product be marketed to a business's existing customers. The business develops and innovates new product offerings to replace or supplement existing ones. Tesco has engaged in product development (as well as market development) by selling electrical products and financial services to its existing grocery customers.

The advantages of this approach are that the business knows its customers and is in contact with them already, making it easier to conduct market research and promote any new products. The business may also have a strong brand name that it can attach to its new products. Product development has been a key strategy of the Virgin Group. The downside of this strategy is that the business may engage in producing and selling products in which it has limited expertise and it may be vulnerable to the actions of more established businesses in the market. The balance of advantages and disadvantages means that this strategy is categorised by Ansoff as medium risk.

Examiner's tip

It is vital that you consider the risks and benefits of these strategies in relation to national and international markets. Consider also how businesses might actually implement such strategies.

Diversification

This is where a business's marketing strategy is to sell completely new products to new customers. There are two types of diversification: related and unrelated diversification. **Related diversification** means that a business remains in a market or industry with which it is familiar. An example of this is Virgin moving into rail transport when it already operated Virgin Airlines. **Unrelated diversification** is where the business has no previous industry or market experience. This took place when Virgin began to produce vodka.

This is a high-risk strategy, as the business lacks experience of the product and the customer base that it is targeting. As a consequence, it will have greater need of market analysis to guide its marketing decisions and more chance of taking the wrong decisions.

3.2 How to assess the effectiveness of marketing strategies

The ultimate means of assessing the effectiveness of a particular marketing strategy is to compare it to the marketing objectives that were set prior to the implementation of the strategy. If these are fulfilled, the strategy can be deemed to have been successful. A further key means of judgement is to assess the extent to which the marketing strategy has enabled the business to achieve its corporate objectives.

Other measures can also be applied. It may be that a successful marketing strategy will result in other businesses copying it. The first low-cost airline was South West Airlines in the USA. It is a tribute to the success of its low-cost strategy that it has been copied in markets across the world.

4 *Developing and implementing marketing plans*

What you need to know:

- the major components of marketing plans
- the major internal and external influences on marketing plans
- possible issues in implementing marketing plans

4.1 The major components of marketing plans

An overview of marketing plans

A **marketing plan** is a document setting out the strategy a business will use to achieve its marketing objectives. The plan will include the following:

- Marketing targets that the firm is attempting to achieve.
- The elements of the marketing mix (place, price, promotion and product) to be used and how they will be coordinated.
- The timescale to which the plan relates (normally several years).
- The resources available to fund the marketing plan. This section will include a marketing budget (see below for more details on marketing budgets).

A marketing plan for a large organisation might bring together a number of separate marketing plans for individual goods and services.

Marketing budgets

A marketing budget is the amount of money that a business allocates for expenditure on marketing activities over a particular period of time. This money is likely to be used for a variety of activities, including advertising, sales promotions, public relations and market research.

The size of a firm's marketing budget is determined by a number of factors:

- **The financial position of the business.** If a business is recording rising profits, it is likely to be able to fund higher levels of expenditure on advertising and other marketing activities. However, it might be more sensible if a business spent more on marketing during less prosperous periods in order to increase sales and profits.
- **The actions of competitors.** If a business's rivals are increasing expenditure on marketing activities, it is likely that the firm in question will follow suit. For example, the marketing budgets of the businesses competing in the market for package holidays will rise together. Marketing, and especially advertising, is an important form of competition in many markets.
- **The business's marketing objectives.** If a firm has set objectives such as increasing market share or extending its product range, it is likely to spend heavily on marketing. Increasing market share might require substantial expenditure on advertising and sales promotions, while extending the product range may mean that the business has to invest in extensive market research.

Forecasting sales

Good forecasting is a key component of business success. Firms are likely to want to forecast data that relate to:

- sales of product(s)
- costs for the forthcoming accounting period
- cash flow
- key economic variables, such as inflation, unemployment, exchange rates and incomes

Time-series analysis involves forecasting future data from past figures. A firm is able to predict future sales by analysing its sales figures over previous years. This builds on work we did earlier on analysing trends using techniques such as extrapolation, moving averages and correlation (pages 30–32).

Analysis of a business's historic data can reveal patterns in those data. These patterns include the following:

- **Trends.** A trend is the underlying pattern of growth or decline in a series of data. Identifying a pattern in historic data will help the business to predict what will happen in the future. A trend can be identified by calculating and plotting the moving average using the technique explained on page 32. Establishing trends helps managers to forecast sales and to ensure they have sufficient resources available so that production can meet demand.
- **Seasonality.** This relates to shorter-term fluctuations arising from the time of year. Many businesses, pubs and wine merchants, for example, enjoy higher sales at Christmas. Travel agents expect peak sales in the spring and summer, and costs of vegetables for hotels and restaurants are lower in the summer.
- **Cycles.** These reflect periodic changes in patterns over a period of time. It is important for a firm to establish the reasons for these cycles. They may be related to fluctuations in the economy or successful (or unsuccessful) marketing activities. An example of the operation of cycles is in the building industry, which suffers severely from economic booms and recessions. In a recession, firms do not want new factories or offices, and fewer people purchase new homes.

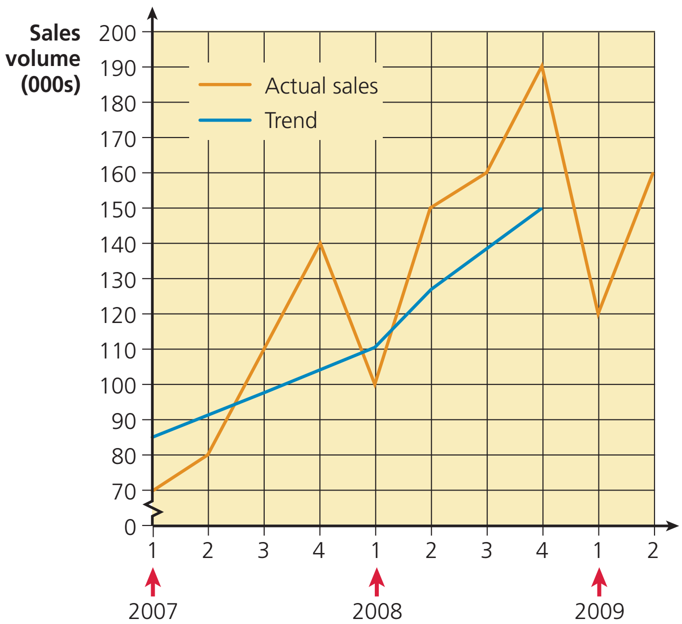

Figure 3.5 Establishing the trend

Why do firms forecast sales?

Businesses might choose to forecast sales for a variety of reasons:

- Sales forecasts form the basis of budgets for many businesses. From these figures, firms can plan production levels and draw up budgets that assist in the management of the enterprise. Sales forecasts also help businesses to predict the timing of income and expenditure, and to express this information in the form of cash-flow forecasts.
- Forecasts help firms to avoid overproduction and the possibility of selling off inventories (stock) at low (and perhaps unprofitable) prices. They also help to avoid unnecessary storage costs.
- Forecasting sales provides important information about changes in the market. If a competitor has introduced a product, or a new business has entered the market, a firm will benefit from an accurate assessment of the impact this change may have on its sales.

4.2 The major internal and external influences on marketing plans

There are a number of key influences on the marketing plan that a particular business may draw up:

- **The finance available to the business.** Initially this might appear to be an obvious influence on the marketing budget, but it can also influence the approach to sales forecasting (i.e. how extensive it is as well as the timescale and the specific marketing mix that is to be used). Access to more funds allows a business to set more expansive and challenging marketing objectives and to pursue them through extensive and expensive advertising campaigns and programmes of new product development.
- **Operational issues.** A business can only put in its marketing plan what it can actually deliver. Thus, the available operational resources will act as a constraint. For example, the productive capacity of the business may determine the number of markets in which the business can operate. Additionally, the cost at which the business can supply its products will be a key determinant of its pricing strategy and of the markets in which it thinks it can succeed. If it cannot compete on equal terms in, for example, the US market, its plan is likely to exclude this type of market development.
- **Competitors' actions.** It is common for businesses trading in markets that are dominated by a few large firms to consider the likely reactions of competitors as an integral part of planning. Businesses in such markets are said to be interdependent. In such circumstances, sales forecasts will be drawn up carefully and underpinned with assumptions about the likely responses of rivals. Similarly, the marketing budget will take into account the amount that competitors are expected to spend on marketing.

Examiner's tip

Don't forget that marketing plans are subject to influences from all the other functions within the business. A marketing plan should not include what the business cannot afford or what it cannot deliver because of human resource or operational problems.

4.3 Issues in implementing marketing plans

Marketing planning may be more important for a business that has recently started trading or for one considering a major change, such as entering a new market. A marketing plan may be more valuable for businesses whose markets are not volatile. This means that unexpected and significant changes will not ruin months of careful planning. Despite this, marketing plans do not always work as the planners had intended.

The benefits of marketing planning

Businesses can gain significant benefits from drawing up marketing plans:

- Plans help to give a sense of direction to all employees within the business.
- The business's managers can compare their achievement with the plan and take the necessary action if they are not on target.
- Planning is a worthwhile process in itself. It encourages managers to think ahead and to weigh up the options open to the firm as well as to consider threats and opportunities.

Potential problems in marketing planning

But plans have to be treated with caution too:

- Drawing up a marketing plan takes time and resources. In a rapidly changing marketplace, this might not be the optimal approach, as quick decisions (possibly based on hunches) might be required.
- Plans might encourage managers to be inflexible and not to respond to changes in the marketplace. Sometimes it might be more important to change the marketing targets than to achieve them.