

UNDERSTANDING BUSINESS

SERIES EDITOR: RICHARD BARKER

Marketing Decisions

Peter Tinniswood

DECISION MAKING IN
ORGANISATIONS FINANCIAL
DECISIONS AND DECISION
MAKING MARKETING
PRODUCTION DECISIONS
THE ECONOMY
DECISIONS PEOPLE
AND DECISIONS
STATISTICAL
DECISIONS
ECONOMICS
FINANCIAL
AND
ORGANISATIONS

Understanding Business

Marketing Decisions

Peter Tinniswood



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Introduction to the Series

Once in a generation when an idea is coupled with resources, a completely new approach to a subject may be developed. So it has been over the last decade with the study of business behaviour for young adults. The need for students to gain some real understanding of the nature and purpose of business activity has long been felt but there was no course which would stimulate the minds of the academically gifted members of the age group.

This new programme provides for an analytical understanding of people's problems and behaviour within organisations. The text discusses the nature of problems and explores concepts and principles that may be employed to aid their solution. Case materials are chosen from industrial and commercial organisations; from the private and the public sector; from non profit-making institutions and the various schools and colleges with which students are automatically familiar. The material is as much to provide general understanding about industrial society and the workings of organisations as it is to help those who have already decided on a business or a professional career.

The approach to decision-making has been used to draw together ideas and to give purpose, reality and challenge to the programme. Any organisation is striving towards more or less closely defined objectives by deciding how to carry out and control its activity within constantly changing conditions. The programme looks carefully at these processes of decision-making; it provides the student with an understanding of their overall nature. Ideas from the four functional areas of human behaviour, quantitative data, accounting and the economic environment are drawn together within a decision-making framework; the approach is then applied to different areas of business activity, particularly those of finance, marketing and production. The whole has been shown to be stimulating to sixth-formers, useful for students taking the BEC National Certificate or Diploma, and a sound introductory course for first-year degree work and for management training. Thus, the depth and intellectual challenge is appropriate for boys and girls who are taking 'A' levels or to those who have just left school or college at eighteen and are beginning their careers within or without the business world.

This series of eight books has been designed to meet the needs of students (and their teachers) studying the business world. The up-to-date materials

within each book provide many ideas and activities from which the teacher can choose. Teachers of 'A' levels adjacent to the area (Economics, Accounting and Sociology), and BEC National Certificate and Diploma courses should find that the challenging approach to the subject matter, and the participative work, provide a new ingredient of value for their own programmes. To meet these different needs, each book in the series has been designed to stand either as part of the whole or completely on its own.

All books have the same chapter format:

- a chapter objective and synopsis so that the purpose and pattern are clear;
- a factual/explanatory text with case examples where applicable;
- a participative work section to provide materials for learning, application and discussion.

These participative sections are an integral part of the whole text and allow the students to gain understanding by doing. They are usually divided into three parts. Firstly, some simple revision questions to enable the students to check their own basic understanding. Secondly, a series of exercises and case problems to test their application and to increase their knowledge of the area. Thirdly, a set of essay questions.

There is a teachers' booklet accompanying each student text which introduces the topic area, clarifies possible objectives, suggests approaches to the selected materials and adds additional ideas. The teachers' booklets also provide solutions, where appropriate, to the participative work sections.

The philosophy, approach, materials and examination have been forged in discussion with teachers and by trial and error in the classroom. These have been co-ordinated by the Cambridge Business Studies Trust Project¹ which was the brainchild of John Dancy, now Professor of Education at Exeter University. Without John Dancy's enthusiasm, energy, foresight and organisational skills, the Project would never have been formed. The Project has also gained great assistance through encouragement, ideas and finance from literally hundreds of educationalists, academics, businessmen and organisations. We thank all these. Without their help little could have been achieved. I hope it will not be thought invidious if I mention a few people and organisations: Professor Sir Austin Robinson who guided the setting up of the syllabus and examination; Sir Leonard Wolfson and the Wolfson Foundation who provided the initial finances; Shell UK Limited who have done so much to pioneer the practical elements of the programmes; the University of Cambridge Local Examinations Syndicate for allowing the new subject, with a specially designed examination pattern, to be introduced; the Schools Council for advice and finance; the Longman Group Limited for their encouragement, understanding and helpfulness over publication; Marlborough College for giving their facilities to the Project team during the development period and the Institute of Education, London University, for agreeing to take this on post August 1976; David

¹ until 1981, the 'A' Level Business Studies Project.

Introduction to the Series

Dyer, the present project Director, for his support; the headmasters, teachers and students of eighty schools and colleges throughout the United Kingdom who pioneered the programme, used and commented on the ideas and materials for the 'A' level; the many other educational bodies who have spread these ideas.

Richard Barker

Series Editor

Formerly Project Director, Cambridge Business Studies Trust Project

Author's Preface

Too often we hear of projects designed in one country and left to others to develop, of lost or unexploited markets as a result of apathy towards marketing, of opportunities missed through failure to match production with market requirements. The frontiers of technology are advancing rapidly but developments in that field have little value unless they are marketed. Without an aggressive marketing strategy the benefits of technology are lost both to manufacturer and consumer.

This book is an introduction to one of the most exciting aspects of business. Marketing is the interface between the consumer and the firm. It ranges from decisions on production policy to ways of creating a market and fulfilling a need. The essence of marketing lies in practical experience, but a clear grasp of the basic principles gives direction to the marketing effort and reduces the risk of wasted resources.

Case studies play a vital part in the understanding of marketing because they create practical situations and present problems for analysis. The book contains both imaginary and real case material, designed to illustrate the ideas of each chapter and provide the opportunity to apply the theory. The last chapter looks at four complete case situations to enable the student to bring together all the ideas in marketing.

Although the text uses masculine terms (he/man, etc), marketing is by no means the preserve of the male. Indeed, it is an area where women have been extremely successful. I have used the masculine merely for consistency and to avoid the interruptions of the 'he/she' format.

I should like to thank the students and teachers who have used the draft chapters and whose comments have been very valuable. Particularly, thanks to Jim Jamison who taught the area with me, and to John Powell for his comments on the numerate aspects.

The Advertising and Sales Policy and Sales Promotion chapters were kindly read by James Goble, Director of J. Walter Thompson; Richard Venables, Chairman of Ogilvey Benson and Mather; and also Richard Awdry, Director of Bell Chesney Malleson whose sense of humour was a great support throughout the book. These three gave freely of their valuable time, and their comments and suggestions have been an enormous help.

Author's Preface

I owe a debt of gratitude to my parents who read the manuscript and undertook the tiresome, but essential, job of proof reading.

Special thanks to Elizabeth Rhea for her competence and determination in typing the manuscript from my illegible scrawl.

Richard Barker always plays an important part in the production of any book in this series. His prodding, advice, encouragement and help throughout its stages have been invaluable.

Lastly, my thanks to the many people, too numerous to mention, who have provided information and ideas. Needless to say, such errors as remain are my own.

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Chapter 1

Introduction to Marketing

Objective: *To show why marketing has become important. To show how business organisations have come to depend on marketing and to show its all-embracing nature. To define the term 'marketing'.*

Synopsis: *The term 'marketing' is used in many ways, but all reflect some link between producer and consumer and establish it as a function in the business context. It radically influences the philosophy of the firm and its basic direction, as well as having a significant impact on the success of the organisation. Some organisations are market-orientated, determining their product range on the satisfaction of their customers, both existing and potential. Others are production-orientated. Their prime concern and expertise lie with what they are making. Selling is of secondary importance. The best mix of product and market-orientation is achieved through examination of the market and the nature of the product – some organisations need to be more market-orientated than others. However, mass production and competition have ensured that marketing plays an increasingly important role.*

Plan of the chapter:

- 
- 1.1 What is Marketing?
 - 1.2 The Change from Product to Market-Orientation
 - 1.3 The Importance and Need for Marketing
 - 1.4 Marketing: Summary and Definition

1.1 What is Marketing?

'Would you tell me, please, which way I ought to go from here?'

'That depends a good deal on where you want to get to,' said the Cat.

'I don't much care where ——' said Alice.

'Then it doesn't matter which way you go,' said the Cat.

'—— so long as I get *somewhere*,' Alice added as an explanation.

'Oh, you're sure to do that,' said the Cat, 'if you only walk long enough.'

Alice felt that this could not be denied, so she tried another question.

‘What sort of people live about here?’

‘In *that* direction,’ the Cat said, waving its right paw round, ‘lives a Hatter: and in *that* direction,’ waving the other paw, ‘lives a March Hare. Visit either you like: they’re both mad.’

‘But I don’t want to go among mad people,’ Alice remarked.

‘Oh, you can’t help that,’ said the Cat: ‘we’re all mad here. I’m mad. You’re mad.’

‘How do you know I’m mad?’ said Alice.

‘You must be,’ said the Cat, ‘or you wouldn’t have come here.’

Alice’s Adventures in Wonderland.

Lewis Carroll.

Marketing is about which way to go, and how to get there. It has become an increasingly important part of business activity and yet it is extremely difficult to define exactly what it is. Part of the problem lies in the broad nature of the marketing function. The market now influences the whole process from raw materials to the finished product, affecting the development of the idea, the levels of production, the pricing of the product and the way it is presented and distributed to the final consumer. As such, it is a highly integrated function. In addition, marketing means different things to different people. For many, it is synonymous with advertising, partly because this is the most obvious public face of business, partly because it is the ‘glamour’ area of activity. For the sales staff, marketing is more likely to be viewed in terms of sales targets and selling techniques. To others it represents market research, finding out what the size of the market is and what competitors are doing, as well as the important part of discovering what consumers want and are prepared to buy. Marketing is all these things, and more. It is an all-embracing activity from the conception of the product to its final use, and an organisation can be made or broken by the way the marketing function is handled.

Marketing differs from other areas of business operation because of the uncertainty involved. Decisions are taken to introduce new products, mount advertising and promotion campaigns, develop and modify company and product images. For any chance of success, they require a major commitment of time and money well in advance of results. There is no guarantee of the outcome. There is no definite link between the inputs and the effects, and success is the result of the judgement of the marketing team based on past experience and the information obtained.

There is much more to a product than is immediately obvious. Biscuit manufacturers make biscuits, processing the raw materials to reach the desired end-product, namely, a biscuit. What they sell, however, is something more. If it was not, the manufacturer would find himself with a huge store of biscuits that remained at the factory. One of the areas of marketing involves the distribution of the product to the outlets where it is bought. Other areas involve image creation. All of them add value to the product.

When we purchase a packet of biscuits, we are buying something much

more than a biscuit. Apart from the answer to questions such as 'Why did you buy that particular brand of biscuits?', consider the packaging itself. Clearly, one of the functions of packaging is to keep the product fresh, and intact. Secondly, it must be of a size that is suitable for the customer's needs, and easy for shops to handle. Thirdly, the product on the shelves is competing with other brands and types of biscuit for the customer's attention, so the package must be designed to be distinctive and easily noticeable, as well as reflecting the image the manufacturer wants the product to have. Bendicks 'Bittermints' are packaged to convey a sense of exclusiveness and quality; 'After Eight' Mints represent a lower priced attempt to do much the same thing for the mass market. If the package does not do its job well, then sales will be below their potential, reducing profits or, in the extreme case, causing the collapse of the product. Yet packaging is only one part of the whole marketing process.

1.2 The Change From Product-to Market-Orientation

In feudal times, society operated in small, self-sufficient units where the range of products available was largely determined by the resources at the disposal of the group. The needs of the group were basic – food, clothing and shelter, reflecting the base line of Maslow's hierarchy of needs (physiological, social, ego, self-fulfilment). These needs determined the priorities of production, but were so self-evident that marketing had no place in such societies.

With the advent of the Agricultural and Industrial Revolutions, the nature of production began to change. Specialisation and the division of labour meant that products could be manufactured in much greater numbers. Adam Smith cites an example of a firm making pins. Prior to the division of labour, output per man stood at 20 pins per day. Once the task had been split into two broad groups output per man rose to 4,000 pins per day. These changes were taking place against a background of rising population and longer life spans. Britain came to be the manufacturer for the world, importing raw materials and exporting manufactured goods. Britain's success at this stage marked the beginning of the need to take more notice of markets, because international competition began to grow from Germany and the United States. Just as improved transport and communications had enabled Britain to expand her markets, it also meant that she was, herself, a potential market for competitors' goods.

Mass production is generally recognised to have been pioneered by Henry Ford with his Model T. Yet the production of this car brought with it one of the earliest marketing strategies. In *My Life and Work*, Henry Ford says that he chose a price at which cars could be sold by the million, and then set about finding a way of producing them within this cost. Here, we have a clear example of market considerations determining production methods. It reflected a very different approach from the production-orientated firm, where the real

problems lay in the means of producing goods. Market-orientation involves finding out what consumers want, and selling the product.

Mass production allows a reduction in the costs of each article produced through '**Economies of Scale**'. Although the **fixed overheads** of setting up a production line may be high, they are spread over a large number of units, so that provided there is sufficient demand for output each individual unit attracts only a small proportion of the total cost.

There are several types of economies of scale, including:

1. Managerial Economies.

In a large organisation it is possible to make use of specialists who are well qualified to advise in particular areas. An accountant, for example, is able to use his skills in the provision of detailed financial advice, both in the budgeting of future operations and in the control and review of past performance in the light of earlier budgets. Similarly, other functions within the firm can be organised by men or women trained in those specific areas. Such specialists are expensive, and usually only large organisations are able to finance and make full use of their services.

2. Marketing Economies.

In large-scale operations, bulk purchases of raw materials may be achieved at a lower unit rate, and economies may be obtained in distribution and promotion. A national market can be supported by a nationwide poster campaign, and this has a considerable reinforcing effect on potential customers.

3. Technical and Production Economies.

Costs do not necessarily rise proportionally with an increase in production capacity. A new blast furnace with twice the capacity of a small one will not cost twice as much to build since it will not require twice the materials. Equally, it will not cost twice as much to run, as less heat escapes into the fabric of the furnace in the larger one. It is more expensive to heat the same amount of water in two saucepans than in one large saucepan because there are two containers to heat.

4. Technological Economies.

Some technological developments require heavy investment in machinery. In the chemical industry much of the equipment is expensive, and only economic to use in large units. For example, recent developments in the fertiliser business enable profitable and efficient operation only if outputs are high. Large organisations are necessary for the benefits of new technology to be gained.

5. Financial Economies.

As firms increase in size, their needs for finance grow. However, the cost of finance may fall as loan size increases, and the ease with which loans are obtained will improve. Large organisations also have a wider variety of sources of finance, from the Stock Exchange and merchant banks, for example.

Production, as we know it now, altered radically after the Second World War. Huge organisations came into being, making vast numbers of products to fill the post-war consumer boom. However, after the initial rush when rationing was lifted, firms found themselves in a new situation. The seller's market eased and competition between firms became much stronger, both domestically and from overseas. Yet in order to reap the benefits of mass production it was necessary to sell large outputs, and consequently firms increasingly came to look more closely at their markets: at who was buying their products, at what changes their customers wanted, at the actions of their competitors, at the way they could best inform the public of their products and persuade them to buy. This was the real birth of marketing, and the change to market-orientation.

The standard of living rose as a result of this change. The benefits of specialisation, mass production and international trade have been greater productivity and greater wealth. That wealth has not always been evenly distributed, and governments have tried to do something to compensate for this through progressive direct taxation, social security benefits and welfare payments. However, regardless of its distribution, wealth could not have accrued at all had the markets for the increased output not opened up. Marketing became increasingly necessary to maintain and enlarge the market for a product.

A mass market is necessary for mass production to operate at a profit. Without it the cost advantages of economies of scale are lost, and products become more expensive. Higher prices reduce the size of the market and the number of people who can afford to buy products. The fall in demand leads to a reduction in output which has serious financial consequences for the firm, and represents a waste of the resources that are forced into idleness. Employment falls, and with it the material standard of living. At the same time, uncompetitive prices make foreign imports more attractive, so further reducing the demand for domestically manufactured goods. Since 1944, British governments have been committed to full employment and growth as two of their basic objectives. Marketing is an essential part of the process of achieving these ends.

1.3 The Importance and Need for Marketing

Many other factors contribute to the need for much greater interest in the market. As production lines become more sophisticated they cost far more to set up. This means that the cost of a failure is much greater. A firm which backs the wrong horse by making a product that people do not want, or is inferior to competitors' products, may not be able to survive. Certainly, profitability will be badly affected. Given that most organisations aim to make some profit or, at least, break even, time taken to sound out the market before undertaking major investment in plant and machinery is well employed. As in all expenditure, however, it is important to see that the cost of gathering the information on the market does not outweigh the benefits obtained from it.

It may take ten years or more for the idea of a new product to reach its finished state ready for consumers. Coupled with the cost of the production line and the rapid advance of technology, it is obviously essential to get the final product right. It is now too dangerous to leave the market to chance. Technical changes in the methods of manufacture and the materials that can be used, mean that firms must look ahead to discover new openings for existing products, and ideas which take advantage of new possibilities. The following case example illustrates the reaction of Kodak to the untapped market for cameras. By designing a product that matched consumers' needs it realised this potential market.

In the early 1950s Kodak was chiefly concerned with the professional photographic market, producing a limited range of cameras for the amateur, including its most famous, simple machine, the 'Brownie 127'. Aware of the tremendous potential market, the company undertook market research to discover more about the amateur photographer. It was surprised to find that half of the households it tested did not even possess a camera. The reasons for this lay in the use people wanted to make of photography: Most people wanted a camera to capture family scenes and holidays; they were not interested in the technical qualities of the final picture, nor did they want to involve themselves in complicated methods of taking pictures. Setting the aperture, the shutter speed and focus all affect the final picture but they also require a limited understanding from the photographer. Kodak found from its survey that it was this that prevented many families from buying a camera in the first place (and, of course, subsequently using other Kodak products – film, flashguns, etc.).

The major part of Kodak's product range was designed for twenty per cent of the market who were interested in the technical performance of their cameras. Even loading a film presented problems for potential customers so that the Brownie 127 failed to meet their needs. As a result of this, Kodak set about trying to design a system that would reduce the problems of loading a camera, and so open up a wide market. A new camera was developed that used a cartridge film which could be dropped into the camera without any threading problems. This camera, the Instamatic, was tested by employees and finally put on to the market. With nothing but a shutter to press it solved the 'snapshot' photographers' difficulties. Photography rapidly became a major hobby, providing huge sales for the manufacturer. Kodak then developed the Instamatic to incorporate a flash cube, removing the need to fit flash bulbs, and, more recently, a small camera that incorporates a hand grip, reducing camera shake and making it easier to hold. The cartridge idea has been extended to cine cameras with the growth of the 'home movie' market.

Firms can no longer rely on past products for future success. They must constantly adapt and improve. Past products may develop the image of the company: Rolls-Royce has a prestigious image from past cars, but this is not sufficient to enable it to sit back. Ideas of what is expected of a car change, and for Rolls to maintain its position in the market, it must anticipate change

and be ready to capitalise on new developments. The market is moving increasingly quickly (see Fig. 1.1) and firms which are left behind face significant difficulties just to keep going.

Electric motor	65 years
TV	52 years
Vacuum tube	33 years
X-ray tube	18 years
Frozen foods	15 years
Nuclear reactors	10 years
Radar	5 years

Fig. 1.1: Time between invention and commercial development (*Source: Marketing, by Baker*)

As more products are made under conditions of intense competition and tight price margins, they tend to become very similar. For example, there are many different brands of washing powder or butter, all of which do much the same thing at nearly equivalent prices. It is important for firms to be as distinctive as possible in order to build up brand loyalty, and this has led to a greater emphasis on packaging and advertising. If a firm can make its name well known to consumers through advertising which links the product – say, Lager – with the brand – say, Carlsberg – then consumers are more likely to choose that brand since they have already heard of it. Firms work on this by introducing minor differences which distinguish one brand from its competitors – ‘the blue whitener’ of Daz or ‘the mileage ingredient’ of Shell. Once a purchase is made, a firm achieves its sale at the expense of every other manufacturer. This is particularly important in the field of consumer durables because a repeat purchase is unlikely to occur for some years. Hence there is increasing pressure on the market to persuade people to buy a particular brand. If a washing powder performs well and is up to the customer’s expectations, then a measure of brand loyalty will be achieved, making it more likely that the replacement purchase will be made from the same firm.

As people’s income rises, a wider range of possible purchases opens up. Figure 1.2 shows the change in ownership of consumer durables between 1965 and 1975 reflecting the increase in the standard of living. It means that firms have to persuade buyers that a new suit is preferable to a new refrigerator. Again, getting the product higher up the list of potential customers’ preferences is a priority of advertising.

Thus there is a wide range of factors that have contributed to the need for a marketing function within the firm. The survival of the methods of production and the material benefits we have come to expect, depend on maintaining markets large enough to make use of improved technology at reasonable prices. There are many reasons for the development of the silicon chip, but the

	1965(%)	1975(%)
Percentage of households owning:		
Washing machine	56	71
Food mixer	8	40
Refrigerator	42	84
Toaster	16	28
Electric blanket	40	50
Vacuum cleaner	78	90
Central heating	16	49
Colour television	—	45
Freezer	—	21

Fig. 1.2: Ownership of consumer durables (*Source: AGB, NOP*)

calculator would never have been so inexpensive were it not for the rapid opening up of huge international markets. The costs of research and development as well as the investment in plant and machinery have been spread over a sufficiently large output to be barely evident in the total cost of an individual calculator.

1.4 Marketing: Summary and Definition

Marketing involves the examination of people's wants, and from this, the direction of production, the selling, packaging and distribution of the products once they are made. These wants in turn are dependent on the image of the product created in the customers' minds, hence the promotion, and the price. Marketing represents the link between producers and consumers (see Fig. 1.3). It is a highly integrated function, affecting all the other activities of an organisation. The products that should be made, and hence indirectly the types of skill, the size of the workforce and location of production, the priorities for finance and research, all depend in part, on the marketing function.

Broadly, goods are bought because they satisfy a need. Initially those needs are the basic physiological needs. After these have been satisfied consumers become more discriminating, and they buy products which satisfy emotional as well as physiological needs. Marketing is the process whereby the need is identified and then met. People buy perfume, not merely because they wish to 'smell nice' but because they feel that they are more attractive in some way. We may buy 'health' foods not primarily because we need food but because we want to live longer or suffer fewer diseases. Thus marketing comes to support far more than a simple product. It is a sophisticated process of satisfaction of a complex group of needs.