# MARKETING

## Textbook

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*This textbook explains the most important theoretical and practical foundations of the phenomenon called marketing. The basic elements of the material are in line with the most used marketing book worldwide (Kotler-Armstrong Principles of Marketing, Pearson: London). This textbook covers the same topics as the Kotler-Armstrong book, however usually implies a more concentrated, student-friendly way of explaining complex phenomena.*

*The textbook intends to foster several competences regarding business knowledge and the understanding of general economic concepts. After carefully interpreting the elements of the textbook, the students…*

*…will possess knowledge about*

- *the essential concepts, facts and theories of economics;*
- *the relationships of national and international economies, relevant economic actors, functions and processes;*
- *the decision-making process of customers and the factors affecting it;*
- *the basic concepts and methods of founding institutions along with managing and altering their structure and organisational behaviour;*
- *value creation in the market;*
- *the concepts and methods of controlling, organising and performing economic processes along with the methodology of analysing said processes, preparing and supporting decisions;*
- *business processes on the level of international and world economy;*
- *the supply- and value chain that connects the buyers and sellers;*
- *the difference between service and product;*
- *the concepts and methods of controlling, organising and performing economic processes along with the methodology of analysing said processes, preparing and supporting decisions;*
- *essential methods of collecting information;*

*…will obtain the competences*

- *of planning, organising, leading and overseeing economic activities, projects, minor enterprises and economic organisations;*
- *of completing basic leadership and organisation related tasks and of preparing, launching and leading small to medium sized projects and enterprises;*
- *of calculating the complex consequences of economic processes and organisational events;*

*…will also have the attitude of*

- *being open towards digital and other office appliances designed to aid economic processes and the effective operation of economic organisations*

*…and will have the autonomy and responsibility of*

- *making informed decisions in connection with routine and partially unfamiliar issues with creativity*

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# The basis and essential elements of marketing

Marketing as a term is heard in many places nowadays, and the average person is somewhat familiar with the concept. However, it is important to state that marketing is, from a scientific point of view, much more than well-known advertising.

The English term marketing comes from the word "market". Marketing deals with market processes, typically approaching them from the company's side. In general terms, the market is a meeting place for supply and demand. During this encounter, transactions take place when the demand is met by the product or service provided by the supply. In transactions between buyer and seller, both parties endeavour to achieve the best possible situation. According to one interpretation of *marketing, this* is an asset (or group of assets) used to give the seller the best possible position in market transactions. Another well-known approach to marketing is *that it is* an approach that focuses on the market and the buyer. In this sense, marketing provides a customer-oriented viewpoint for corporate decisions.

The above two wordings share a common corporate perspective and market orientation. In this note, we will learn about marketing from the point of view of a start-up, always taking a market, customer-oriented approach. Our logic is as follows: Situation analysis (Chapters 1-2) — Accounting for and understanding assets (Chapters 3-6, i.e., 4P) — Specialized method for service industry (Chapter 7)

The following chapters follow the logic of marketing planning, described below, indicating the issues that will be touched on for each subject:

1. **Environment Analysis** - Where Are We? What is the environment around us? What are the characteristics of this region? What are the conditions here that need to be adapted to?
2. **Segmentation – Targeting - Positioning (STP)** - What are consumers like in the market we want to enter (or where we operate)? Can they be grouped? If so, which group should be sold and how?
3. **Product** - What product should we produce? If we have our target group, what product would be suitable for them? What is it that makes me buy our product? What is it at all, the value that our product represents to the consumer? How to create a new product? How does an idea become a product on the market?
4. **Price** - How much do we sell our product for? How much are you willing to pay for it? How are we even going to set our price? Should we start from costs or from prices on the market? Should we make different price ranges? Is it worth the action?

5. **Sales policy (Place)** - How to get your product to the consumer? Where and how will you be able to get it? Should we open our own store or involve merchants? What does a trader do, why do you need it?
6. **Marketing communication** - How to speak to the consumer? How do we get our message about our existence, product excellence, promotions, sales points? What's our message? How do we tell you this message?
7. **Service marketing** - How is a service different from a product? How much different does it have to be treated? What are the special tools for services?

# 1. Environmental analysis

**The main message of this chapter:**

- The company should study the environment in which it operates.
- Marketing managers should adapt and change their activities according to the environment.
- We can understand the macroenvironment with STEEP analysis.
- We can understand the microenvironment with stakeholder analysis.

**The main knowledge provided in this chapter:**

To be familiar with the relationships of national and international economies, relevant economic actors and functions and processes

Knowledge of local conditions is essential for the successful start-up and operation of a business. We can talk about general marketing guidelines, internationally recognized and applied methods and techniques, but nevertheless it is essential to take into account local conditions. Think of the fact that a successful flame or roast in midtown Manhattan would have very little success; as well as the dog grooming in the capital who wants to live in a small village, where although there are many dogs, they are washed by the rain; or simply if a Chinese best seller is placed on the shelves of bookstores in Hungary (in Chinese).

Environmental analysis means taking into account local conditions and specificities. This is the starting point for marketing planning, the first step in assessing the situation. We separate 3 levels of the external environment:

**1. Global environment** – Includes factors that have a global impact on a global scale. The company cannot exert any influence on them, these factors only indirectly affect its operations, they change relatively slowly, but they cannot be ignored. E.g.: Global climate change; Urbanisation; Internet spread; Pandemic (H1N1; avian influenza).

**2. Macro environment** - This includes factors and specific conditions specific to each region. These have an indirect impact on the company's operation, but the company cannot influence them and must accept them as a given.

**3. Micro environment** - Factors directly affecting the operation of the company can be included. This is also called the market environment, because it includes market participants and the specificities of the market. The elements of the micro-environment can be somewhat affected by the shoulder itself.

Below we take a closer look at the elements of the macro and microenvironment. The global environment is less common in marketing.

## 1.1 Macro environment

When examining the macro environment, the characteristics of the region shall be examined. These opportunities must be accepted by the company on the one hand and exploited on the other.

### Social environment:

It covers the characteristics and social conditions of people in a given region. The two main parts of the social environment are cultural and demographic environments. The former covers the cultural characteristics of the region, while the latter refers to age and gender distribution.

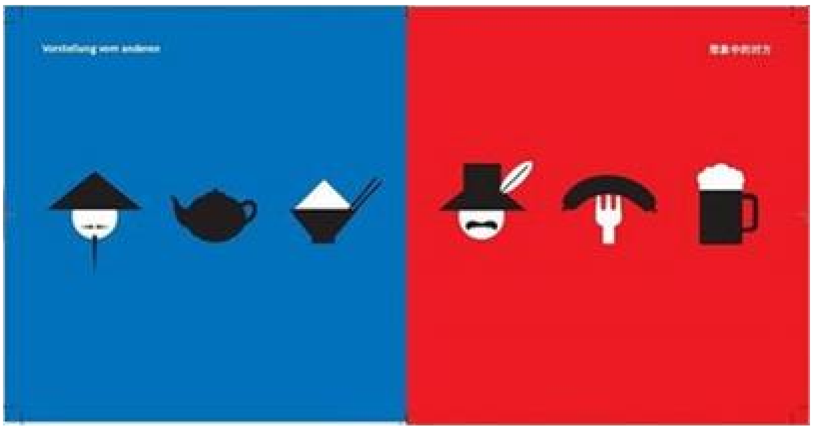
The most important elements of the cultural environment are:

- Language
- Customs, traditions
- Values
- Standards

The most important elements of the demographic environment are:

- Age distribution of the population
- Gender distribution of the population
- Life expectancy
- Marriage and divorce rates
- Willingness to have children

*Figure 1: Different cultures different consumption*



*Source: http://germanchinesenetworking.weebly.com/cultural-differences-25991212702404624322.html*

### Technological environment

It encompasses the technological capabilities of the region. The level of technology, the technical tools used by the population, the construction of the infrastructure determines what technology we can produce and what innovations we can make.

The technological environment is elementary:

- Infrastructure of the region (road network, level of public works, internet penetration)
- Technical devices common to the general public (TV, mobile phone, laptop)

### Economical environment

It covers the economic situation of the region and the financial opportunities of the people living in the region. This determines the scope for price policy in the region and the range of products that can be placed on the market.

Parts of the economic environment:

- Average income of the population
- The income distribution
- Discretionary (freely spendable) income of the population
- Situation of enterprises in the region
- Labour market characteristics

### Natural (Ecological) environment

It means natural conditions, topography, climate, natural resources and raw materials. The natural environment determines the industrial possibilities of the region, the costs of purchasing raw materials and raw materials, as well as the space for tourism.

Parts of the natural environment:

- Relief
- Hydrography
- Mineral resources, raw materials
- Climate
- Flora and fauna

### Political and legal environment

This includes the political conditions specific to the region, which determine the functioning of the economy. A democratic, liberal market economy is generally more attractive to entrepreneurs than a dictatorial one-party system. In addition to political conditions, legislation is also an important cornerstone of the functioning of an economy.

Elements of the political-legal environment:

- Political establishment
- The role of political lobbying and corruption in economic life
- Tax conditions
- Labour, competition and consumer protection regulations
- Authorisation system

Macro environment analysis is also known as STEEP analysis, based on the initials of the English names of the above factors. (Social - Technological - Economical - Ecological - Political).

## 1.2 Micro environment

The micro environment is the immediate environment of the company, which includes the market, market conditions and market participants. Since the company itself operates on this market, depending on its size and influence, it can have some influence on these conditions, including the elements of the micro-environment. Below are the parts of the micro environment.

### Market size

The size of the market basically determines the company's ability to sell. If, for example, before starting a business selling sandwiches, we calculate that we need to sell 450 sandwiches a day to be profitable, but the market itself is smaller overall than that, then regardless of the other factors, our idea is probably doomed to fail. However, determining the size of the market is not so simple. Market size cannot be captured along a single dimension. Types of market size:

- Market potential: Maximum marketable quantity imaginable (e.g., number of licensees in the case of a car)

- Market volume: The quantity actually sold on the market – this is typically projected over earlier periods (number of cars sold in Hungary last year).
- Company sales volume: The quantity actually sold by the company on the market – this is also typically projected for earlier periods (Number of cars sold by Toyota in Hungary)

Company sales volume / Market volume = Market share of the company

### Market growth rate

If we base our calculations purely on the size of a market at the moment, we can easily be disappointed with future actual sales. For example, the CD disc market is currently much larger than the blue-ray disc market, but in the coming years this proportion is likely to be replaced as the former shrinks and the latter grows dynamically.

### Structure of the market

The size of the market determines the size of the imaginary "cake", the rate of growth refers to the expected size of the cake, but this is all worth almost nothing until we look at how many people are dividing this cake. The structure of the market is determined by the number of companies on the market and their economic strength. Some typical market structures:

- Monopoly – There is only one seller on the market (e.g., the only baker in a village.)
- Monopolistic competition – Some of the larger companies are on the market (e.g., Domestic mobile operator market)
- Perfect competition – There are many, smaller sellers on the market who produce a similar product or offer a similar service at a similar price.

### Competitors

The company's operation is also affected by its competitors, so it is important to pay attention to them in microenvironment analysis. In terms of the interpretation of competition, there is a multi-level interpretation. The level of competition may be as follows:

- Brand competition – Manufacturers of almost the same product or service compete for the same consumers (e.g., LG TV; Panasonic TV; Sony TV)

- Competition for substitutes - Products with the same needs, which meet a different appearance and are therefore not necessarily in the same way for the same consumers. (e.g., Cinema; Theatre, Plasma TV; Movie downloaded to computer)
- Global competition – Completely different manufacturers compete with completely different products for the same consumer's wallet (e.g., Samsonite Suitcase -. Fossil Clock; Egyptian Holiday - Home Theatre System)

Although brand competition usually exerts the most intense influence on the company, it does not make us forget about other competitors. Competitors at all levels of competition must be monitored. Particular attention should be paid to the following issues:

- How are they better than us (what is their competitive advantage)?
- How are we better than them (what do we have a competitive advantage in)?
- How do we match our target group?

### New entrants

If we do not find a competitor close to us at first sight in a market, that does not mean that there will be no competitors later. Due to the specific mechanism of market economies, the market for a successful business is typically rapidly entering new followers who also want similar successes. The number of companies entering and the pace of entry depend on two factors:

- Entry barrier - Difficulty in entering a particular market. The higher the entry barrier, the fewer businesses and the slower they appear on the market. The entry barrier to a market is high if
  - High production capital requirements
  - Requires serious expertise
  - The market is administratively protected
- Exit barrier - Difficulty exiting a market. When a business considers the possibility of entering the market, it also considers how difficult it will be for it if it wants to leave. If it is difficult to leave a market, entry into that market will be less attractive, resulting in fewer businesses or slower growth in the market.

  There is a high exit limit from a market if

  o the compatibility of the resources used in a given market is low

  o High sunk cost at launch

  o Administratively limited exit

### Buyer bargaining power

We will deal with the customers of the business in detail in the future, but at this point it is important to state the dangers inherent in their bargaining power. The stronger a buyer's bargaining power, the more vulnerable our company is to him. A strong bargaining position determines the company's market space. If the bargaining power of the buyers is very strong, the company's room for power is limited. Buyers have a strong bargaining power when

- The customer is difficult to replace
- If our company is easily substitutable for the customer
- If we have a close merger with the buyer
- If the customer makes up a significant part of our sales (our large customer)

### Vendor bargaining power

Each undertaking depends on its suppliers to provide them with the raw material, raw material and conditions necessary for production. Vulnerability to suppliers also has a significant impact on a company's margins. If a supplier has a strong bargaining power, the business depends largely on that supplier. A supplier's bargaining power is strong when

- The specific supplier is difficult to replace
- If our company is easily substitutable for the supplier
- If we have a close relationship with the supplier (without it our own production is in question)
- If a significant part of our purchases is provided by the

## Important concepts

Macro environment; STEEP analysis; social environment; technological environment; economic environment; natural environment; political-legal environment; micro environment; market dimensions; market structure; entry barrier; levels of competition; bargaining power

## Overview questions

How is the macro environment different from the micro environment?

Why does the cultural environment affect consumption?

In a poorer region, what products and services are in greater demand?

How is market potential different from market volume?

Why pay attention to several levels of competition?

What can be done to change the supplier's bargaining power in our favour?

# 2. Segmentation, Targeting, Positioning (STP)

**The main message of this chapter:**

- Companies need to have fresh and deep insights into customers' needs and wants.
- If a company sells to everybody it means that this company actually sells to nobody specifically.
- For a more targeted marketing activity companies should group the customers into segments.

**The main knowledge provided in this chapter:**

Knowledge about essential segmentation methods and choosing your target group.

Most companies cannot have a purpose in selling to all consumers. This perverse statement at first sight does not mean that certain customers are deliberately rejected by the company, but that in the market conditions of the 21st century it is indispensable to group consumers and choose between groups. To put it more bluntly, 'anyone who sells to everyone doesn't really sell to anyone'.

There are many companies producing similar products on the market. Differentiation and separation from others are essential conditions for long-term success. They can only insist on paying more for the goods they can distinguish. Discrimination is based on the fact that the manufacturer produces a product or provides a service that is specific to the needs of each target group. Those who do not adapt their offerings to the specific needs of a target group will, of course, be at a disadvantage compared to the competitors who make this fit.

In this chapter, we look at how to group the market (segmentation), how the company can choose from each group (target market choice), and finally how to match its offerings to the selected group (positioning). This three-step process is overtaken by the market choice and market analysis described in Chapter 1.2 as a "zero" step. Before grouping consumers in a given market, it is necessary to decide which market exactly we want to look at, i.e., which market we want to appear in.

## 2.1. Grouping of consumers: Segmentation

A market usually consists of consumers with very diverse and diverse needs. If you want to tailor our products and services to your needs, you may want to divide them into groups first, thereby making demand more manageable from a marketing point of view. This grouping takes place in several steps, which are described below:

### Criteria choice

Grouping can take place in a wide variety of perspectives. However, these grouping criteria, the so-called criteria, must meet certain criteria. The criteria used to group consumers should be:

- They are relevant – i.e., important for the product in question (e.g., financial situation in the case of a car; lifestyle for cookbooks; gender for clothing; age for glasses)
- Measurable – i.e., in the case of a consumer, we can identify this trait in market research for grouping (measurable: gender, age, hair colour, financial situation, etc.; not measurable: kindness, prudent shopping; tendency to self-deception)
- They are stable – i.e., the property should be relatively stable, otherwise it may change between market research and subsequent sales (stable: gender, age, financial situation, etc.; unstable: hunger, good cheer; agitation; etc.).

### Create segments

Once we have selected the criteria used for grouping, we conduct one (or more) market research to test consumers according to the criteria chosen. By examining consumers according to the characteristics chosen, we can form groups. These groups are called segments. In developing segments, particular attention should be paid to two criteria:

- The segment formed should be homogeneous inwards – i.e., the people within the segment should indeed be similar (at least in their characteristics relevant to us).
- The segment formed should be outwardly heterogeneous – i.e., the different segments should indeed differ from each other (at least in the characteristics that are relevant to us).

In the following imagined example, we grouped consumers in Szeged according to their eating habits. The criteria chosen were age, gender, income, where he used to eat lunch. We received the following groups:

- Elderly with lower incomes who eat at home
- Middle-aged men on higher-than-average incomes who don't eat lunch
- Women between 20 and 45 with average income who order lunch at work
- Young people eating in fast food
- Men aged 18-30 who eat in canteens

### Analyse segments

Once you've created the groups, it's a good idea to look at their other features. In particular, emphasis should be placed on the following characteristics:

- Segment size
- Presence of competitors in a given segment
- Discretionary income of the segment
- Consumption volume of the segment
- Segment lifestyle
- Media usage patterns in the segment

These features are necessary to better understand the segment, to decide whether it has business potential, to develop a suitable product for it, and to achieve it through marketing communications.

## 2. 2. Choosing the target market: Targeting

Segmentation reveals the consumer structure of the market. It is clear to us what groups are present in the market. The only question now is which of these groups to choose. This decision is the target market choice or targeting. The decision should take into account the fact that

- can we develop properly manageable groups on the market?
- are the segments outwardly heterogeneous and inward homogeneous?
- does it make sense to manage the market at group level?

In the selection of the target market, we can basically use 4 techniques:

### Mass marketing

We do not distinguish the consumers in the market, we do not form groups between them (either because they do not differ according to the criteria we are examining, or because we cannot examine this difference). In the case of mass marketing, we sell the same product type to everyone. (It is important to point out that mass marketing does not refer to the large quantity of goods sold, but to the fact that we do not differentiate our offerings.)

Example of mass marketing:

- Tea at the school cafeteria (if you want to drink tea, you only get the one)
- Simple products: nail, matches, printer paper
- Public services: street lighting, street cleaning

### Differentiated marketing

If we are able to create groups, we can choose to serve multiple groups. In this case, we offer different products or services to each group, tailored to the needs of that group.

Example of differentiated marketing:

- Mobile phones (Nokia makes separate phones for young girls; managers; trendy guys; etc.)
- Cars (Peugeot 106 for young girls; Peugeot 307 for guys; Peugeot 607 for businessmen)
- Coca-Cola (Coca-Cola - For Girls; Coke Zero - For Young Boys; Coke - Middle-aged)

### Focused marketing

In the event that we can create different groups, but we only want to concentrate on one of them, we use concentrated marketing. The advantage of this is that we can adapt almost perfectly to the needs of the target group. The request is whether a single target group is sufficient to ensure the functionality of our company. Start-ups and small businesses often apply this strategy. A specific case of this is the 'niche' or 'market niche' strategy, where a very small but well-defined target group with specific needs is selected, specialising in their needs, to produce a better product for the group than the products of the stronger companies already on the market.

Examples of concentrated marketing include:

- Restaurants (Vegetarian restaurant; Turkish restaurant; Sushi Bar)
- Reform shop
- Military shop

### Custom marketing

In the case of mass marketing, we were unable to form groups because the individual consumers did not differ in the criteria we examined. The opposite of this phenomenon is when we cannot form groups because the consumers on the market are so different that they cannot be grouped together. In this case, we have to deal with each consumer individually, according to each consumer's own needs. This is called custom marketing.

Example of custom marketing:

- Hairdresser, beautician
- Psychologist
- Family doctor
- Interior decorator

## 2. 3. Positioning

With the steps we have made so far, we have identified the consumers we want to serve. However, the question of how to adapt our product and service to their needs remains unanswered. This join consists of three factors:

- We need to tailor our product to the needs of the target group
- This fit and separation from competitors should be clearly
- This message (about adapting to their needs and different from competitors) needs to be delivered to consumers

Positioning means these three steps, which can be summarised briefly by placing the company itself and the image of its products in the consumer's mind. This placement is always relative, i.e., it can only be interpreted in relation to other offers and other competitors. In positioning, therefore, we communicate to consumers the specificity that sets us apart from our competitors and which is tailored to the needs of our target group. As a result of proper positioning, a sharp picture of the brand is formed in the consumer's head.

Here are some examples of positioning:

- Volvo - the safe car
- Mercedes - the prestige car
- Rolex - The Hour of the Rich

- Szentkirályi – the award-winning Hungarian mineral water
- Sport bar – the energy-giving chocolate
- Golden Aces – beer for football
- Gösser – beer consumed after work

## Important concepts

STP; segmentation, criteria, targeting, mass marketing, differentiated marketing, focused marketing, custom marketing, positioning

## Overview questions

Why segmentation should be carried out on the market?

Can a property be suitable for certain segmentation and unsuitable for other segmentation?

What determines what target market choice method is used?

What do mass marketing and individual marketing have in common?

How is differentiated marketing different from concentrated marketing?

How has Volvo positioned itself among reliable, safe cars?

What qualities should be emphasized when positioning?

# 3. Marketing-mix: Product & Branding

**The main message of this chapter:**

- Product can have a broad sense that covers services, events, persons, places, organizations, ideas.

- Brand gives identity to a product and it is the key element in the company's relationships with consumers.

- Consumer products are sold in B2C market that differs from industrial (B2B) market.

- A product-mix makes the sum of the company's product ordered and manageable.

**The main knowledge provided in this chapter:**

Understanding the role of value creation in the market. Being familiar with the concepts and methods of controlling, organising and performing economic processes along with the methodology of analysing said processes, preparing and supporting decisions.

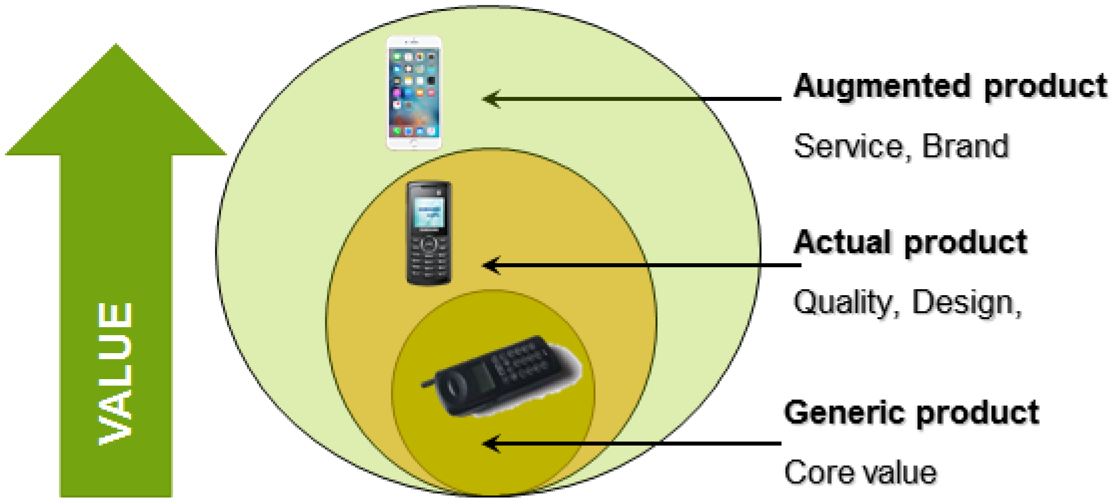
In order to get to product design, we need to know what the product is. A product is a total of goods and services used to meet a need. The distinction between services and physical products in marketing is very diverse, we will return to the differences between the two types of goods in the service marketing chapter.

## 3. 1. Marketing approach to the product

From a marketing point of view, the product is a package of needs-satisfying services, three levels of which are distinguished.

- Generic product – the core of the product, its essential element. This makes the product suitable for the specific need. (It is also commonly referred to as a basic product.)
- Actual product – in addition to meeting the basic needs, it has the expected usefulness: packaging, style, quality, brand name. (It is also commonly referred to as an expected product.)
- Augmented product – in addition to the expected properties, it also has additional usefulness. Consumers do not usually expect these qualities, but we can distinguish ourselves from competitors through them. E.g.: guarantee, home delivery, credit, commissioning

*Figure 2: Levels of Product and Services*




*Source: Own construct*

### 3. 2. Group products

Products can be divided into two large groups by use:

- Consumer goods: Products or services sold to consumers, natural persons who buy and consume the goods they buy to meet their needs.
- Production equipment (or industrial goods): When we sell goods purchased from us to companies other than consumers, they use the goods purchased from us for their own production.

#### 3.2.1. Consumer goods

Definition of consumer goods: They are intended for the personal consumption of members of society and to meet their needs. So when we talk about consumers, we think of individuals, natural persons, members of society. In this way, consumer goods are purchased by individuals and meet their needs. Sales to consumers take place in the B2C (Business to Consumer) market.

## Classification of consumer goods:

Consumer goods have long been categorised in the marketing literature according to the typical purchasing behaviour of consumers, in particular the time and energy they exert when purchasing.

It is generally accepted that the three-way table of consumer goods is as follows:

(a) Convenience goods

(b) Shopping goods

(c) Specialty goods

In addition, consumer goods are usually divided according to durability: we are talking about durable, semi-durable and daily consumer goods. As mentioned above, this classification is also based on how often and for how long a particular consumer product is used and at what intervals a new one is purchased.

### a.) Convenience products

The most important feature of convenience products is that (1) consumers have sufficient knowledge of them before purchase and (2) they buy them with the least possible energy and time. It is considered that the additional cost of price and quality comparisons for these products is not paid and, consequently, they are willing to buy the product currently available during the purchase. For most customers, this category includes vegetables, cheaper spices, tobacco products, simpler cosmetics, light bulbs, batteries, etc. The unit price of convenience products is typically low, less exposed to fashion, not bulky and is usually purchased frequently. The English literature uses two terms for these products:

- FMCG (Fast Moving Consumer Goods) - fast-rotating consumer goods,
- FMPG (Fast Moving Packed Goods) – fast-rotating packaged consumer goods.

For customers, these products are not very important, so they are easily willing to replace them. The producer shall therefore act correctly if the product is spread as widely as possible. As retailers sell a number of competing products and typically keep only small stocks of them individually, the producer is obliged to advertise and sell them through wholesale.

Convenience products can be further categorized as follows:

- basic household products (staples) which are often purchased frequently, routinely and before any serious considerations (e.g., milk, bread, washing powder, toothpaste),
- impulse products purchased quickly in the form of unplanned purchases to meet sudden demand as a result of on-site effects (e.g., ice cream, chewing gum, lighter, canned soft drink)
- emergency products purchased in sudden emergencies. (e.g., sudden rain – umbrella, blizzard – snow chain, feeling unwell – ambulances, unexpected guests – ice cubes, car broken on the road – tow truck, etc.) In such situations, price is clearly not a determining factor.

### (b) Shopping products

Before purchasing shopping products, customers tend to visit more stores, comparing prices, quality and other product characteristics because they think this time and energy expenditure will pay off in choosing the best product. This comparison is necessary because these products are generally purchased less frequently and therefore generally have less information on the market for these products. 'The sales channel may be shorter for these products. Retailers order larger quantities and are willing to participate in the advertising of products. Brand awareness is important, but often the reputation of the store where the buyer buys can be just as important. This group includes, for example, non-expensive outerwear, cheaper household appliances and consumer electronics.

Shopping products are also divided into two additional groups:

Homogeneous shopping products are considered relatively the same by customers and therefore generally seek a lower price within a given category. Such products include washing machines. This consumer perception of the product is not favourable to companies and can be protected by increased differentiation of products.

Heterogeneous shopping products are seen by consumers as different and choose not primarily on price but rather on quality, form, image and other distinctive features.

### (c) Specialty products

In the case of specialty products, we can see a strong brand preference of the customers. Customers are familiar with the product, for them the brand is particularly valuable and therefore, unlike the other two groups, they refuse to replace the brand with another. However, they are willing to make serious money, time and energy expenditures in order to buy the preferred brand. Knowing this purchasing behaviour, manufacturers of specialty products no longer need to spread the product extensively, it is enough to market it in one or a few places. You can have a direct relationship with the retailer and share the advertising costs of the product. These products include, for example, cars, more professional consumer electronics and many other brand items.

The three sections of consumer goods described here are closely related to the customer's "involvement" in the purchase of a product. The category of "involvement", which is also difficult to translate into Hungarian, has spread in the marketing literature in recent decades. It suggests that that product is particularly important to the consumer in some respects. Involvement affects the time spent on purchases, energy and the development of consumer loyalty(loyalty).

### 3. 2. 2. Industrial goods:

'Means of production which are not intended for the purposes of residential consumption. This grouping of goods is not based on differences in product characteristics, but essentially on the achievements of buyers' purchasing behaviour. Consumer goods are consumed and used by the purchaser, while the means of production are used, sometimes converted, and sold by the purchaser in order to produce his own product. 'The individual consumer has quite a lot of freedom when deciding to purchase, especially when spending his so-called discretionary income. In the choice of 'buy or not to buy' or 'buy what', you are free to choose between goods that are far apart to meet your needs. His decision mixes rational and emotional elements. On the other hand, the industrial buyer's freedom of choice is rather limited by functional constraints and is more rational within limited choices. (For example, if you purchase raw materials, you can decide from what source you buy cotton, but only cotton, and nothing else). Due to differences in the motives of the purchase (procurement), several authors treat the institutions or budget market as a separate category in the corporate market. Here, unlike corporate acquisitions, the decisive motive is not the direct profit of further processing or use. Industrial purchases are therefore treated separately because of their awareness, design, rationality, higher volume and purchasing characteristics. The market for industrial purchases is called the B2B (Business to business) market.

It is important to note that in many cases a product cannot be generally decided as a consumer product or a means of production. The category you fall into depends on your area of use. For example, one kilogram of tomatoes can be a consumer item if the housewife cooks a juice of it for her family.

However, the same kilogram of tomatoes is already a means of production for a canning factory if it makes a can of it.

There are also several schemes for grouping non-consumer goods. The categorisation we have outlined considers the role of the goods in the buyer's production and operation process and their relationship to it as a grouping criterion. This determines (1) the importance of the goods to the buyer, (2) how the purchasing company finances the purchase of the product and (3) how it calculates the costs of the purchase; and the customer behaviour of the product as a result.

According to the marketing literature, there are typically three types of customer behaviour when purchasing industrial products:

- new-task buying, which is intended to meet the new needs of the company,
- the same straight rebuy, which is a routine repetition of previous purchases and
- modified rebuy, which means a certain review of previous purchases.

## 3. 3. Product hierarchy

A company can produce many products. Because of the ease of use, recordability, and similar marketing properties, we can group the products manufactured by the company into groups. The totality of the products produced by the company is the entire product range of the company, also known as the product mix. This whole offer has a structure. It includes related units (product families, product lines), types within them and units within them.

### 1. Product family or product line

Closely related products of a product class. (e.g., Generali Insurance: life insurance, motor insurance, property insurance; Panasonic: DVD players, televisions, microwave ovens; Szegedi Paprika Zrt: canned vegetables; canned liver; ready meals; spice peppers). The elements of the product line or product line are interconnected because they can meet the same needs in a similar way and are similar in appearance, structure and operation.

### 2. Product type or type of product

Articles on the product line in which the product may take shape. These are therefore the specific forms of appearance of the product. A product can appear in different product types. They all meet the same need in essentially the same way, in a similar form. This is also known as a product type and a product type (the literature is not uniform in this respect). The different product types differ only in detail and have the same main characteristics. (e.g. Generali Insurance: fixed-term life insurance, life insurance, accident insurance; Panasonic: PA-342 plasma TV, PA-450 plasma TV; PA-556 plasma TV)

### 3. Unity

A distinct unit of a brand or product line that can be distinguished in size, price, appearance or other characteristics from the others. (e.g. A specific life insurance plan; Pa-556i black plasma TV)

The product mix therefore consists of product lines, which include product types, and each product type may have a specific form of appearance as a product unit. This looks like this in the example of a canning factory

The product mix has the following characteristics:

**A. Width:** Number of product lines and product families. In this example, ready meals, liver creams, and spice peppers represent each product line. The product mix of the canning factory is three elements wide. (Another example: in LG’s case, we can talk about a wide range of products, because refrigerators, televisions, mobile phones, climates, monitors, household appliances, product lines are all included in its product range.

**B. Length**: The number of product types offered in each product family. Therefore, where a product family (also known as a product line) is a group of related products, the number of those related products gives the length of the product family, and thus indirectly the product range. In the previous example, each type of liver cream or ready meal is the length. (Other e.g.: The length of LG's mobile phone range is the number of different types of mobile phones offered by LG. E.g.: LG Shine; LG Chocolate phone. Similarly, the length of lg's television range is the number of different TVs from LG. E.g.: LG plasma TV; LG LCD tv)

**c. Depth:** Number of choices offered within each product item. There are therefore several different product types within the product range and there is a choice within each product type, as there are several specific product types. The number of product types within a given product type gives the depth of the product variety, and thus indirectly the product range. In the example of the canning factory, it is the various pork liver cream units or bean soups that give the depth. (LG example: LG Shine gold, LG shine silver)

### 3.4. Life cycle theory

So far, we have dealt with the types of your product and the sorting of products of a particular company. We are now focused on the timeline of the products, the life cycle and life cycle of each product. The product lifecycle is a model that describes the competitive position of the product. The model describes the life path of the product, from development to market introduction, then sales, to withdrawal from the market. This is called the life cycle of the product. The life path of the products is graphically depicted in the product life curve, which has a classic appearance in the shape of a Gaussian curve. The classic product life curve represents the volume of product sales at different stages of your career. A special form of product life curve is the profit curve, which shows the expected profitability of the product in different periods.

The following stages of the classic life cycle of the product are distinguished: introduction, growth, maturity, decline. The following illustration illustrates these sections.

The following marketing features are associated with the four stages of the product lifecycle:

**1. Introduction:** In this era, potential buyers should be attracted to the new product. The number of competitors is still small and the range of product variants is limited in the market. The novelty of the product is high, so the customer's uncertainty is strong. Profits are negative because we have high costs and low sales volumes. Our goal is to set foot in the market and make our product known.

**2. Growth:** At this stage, the company focuses on market sales. Its main purpose is to increase sales and increase its market share. Typical at this stage is the intense advertising campaign, frequent press conferences. The number of competitors is growing rapidly, taking advantage of the weaknesses of the company that created the product, with strong competition pushing down market prices. Our profits become positive as our sales volume grows dynamically as the product becomes known.

**3. Maturity:** The product has proven and has become permanent; the entry of new competitors is made more difficult by the strength of those already on the market. Recognition and trust by customers are typical at this stage. Product-related services will become a priority to separate one product from another. At this time, the market is generally characterised by an oversupply, a permanent or temporary decrease in profits. Therefore, it is important to explore new markets, to expand internationally.

**4. Decline:** If it is not possible to renew or update the product and customer demand declines, the product will be in the phase of decline. At this point, the future evolution of demand is no longer certain, profits become low or negative, more and more people are leaving the market. The main target will be the final consumer, the strategic objective will be to reap the residual demand of a declining market. Finally, the product disappears, disappears from the market.

The product lifecycle is important because, on the one hand, each stage requires a different marketing strategy and, on the other hand, each product undergoes one or more changes over time that we need to be prepared for (i.e., a product can be successful on the market at the moment, but at some time there will inevitably be a decline).

## 3.6. Branding

So far, we've been dealing with the product. Nowadays, however, the brand is as inseparable from the product as the name of the human. The range of branded products has been extraordinary in recent years, so we can hardly find any products that do not have a brand. The brand gives the product extra features and can have a decisive influence on the purchase. On this basis, it is worth examining its specificities.

A brand is a name, expression, symbol, symbol, design, or combination thereof. It aims to identify the products or services of a particular group of sellers or sellers and to distinguish them from those of competitors.

The brand essentially identifies a seller or manufacturer. It can be a name, a trade mark, a logo, or another symbol. The trademark law gives the user of a brand name exclusive and perpetual rights, i.e., it can be said that the trademark is a brand protected by law. The protection of the brand it uses may be of paramount importance to the manufacturer, since for many products, the true value of the product is represented by the brand in addition to or in place of the specific product characteristics.

The brand has six levels of meaning:

1. **Description marks, properties.** For the first time, the brand reminds us of a description. For example, Mercedes is expensive, Ferrari is fast, Toyota is reliable, Volvo is safe, etc.
2. **Benefits**. Customers buy benefits, not descriptions. For example, a "reliable" sign means the advantage of "I don't have to buy a car every year."
3. **Values**. The brand says something about the values represented by the manufacturer. These values are also passed on to the consumer of the brand. Mercedes: suggests elegance, classic values, socialism. Toyota: practicality, reliability, efficiency; Peugeot: decorative, endearing appearance, dynamism, radiates. Some car buyers are looking for these values.
4. **Personality.** The brand can also suggest personality. What would we think of a brand if it was a human, an animal, or an object? Mercedes can suggest a strict boss, a lion or a cold palace. On the one hand, the personality of the brand is also transferred to the consumer, and on the other hand, the consumer can often be linked to a brand as a person. Thus, brand personality influences our decision.
5. **Users.** The brand inspires you to who your typical consumer is. Users will be those who recognize the values of the product, the culture it represents, and the personality it suggests. The Renault Twingo is typically a bohemian girl, while the Peugeot 607 is replaced by a man in a black suit. This makes the Renault Twingo less attractive to people in suits, while bohemian girls would be reluctant to buy a Peugeot 607.
6. **Community:** A sense of community can develop among the brand's customers. Around certain emblematic brands (BMW, VW Beetle, Harley Davidson, Apple) whole brand communities are organized to connect with each other in various online forums, brand meetings and other events.

If you can imagine the brand in all six dimensions of your audience, then branding has been effective.

### Types of brands

"Production and trading companies have a variety of branding options to choose from, taking into account the cost and the quality of the uniqueness. The construction of a standalone brand costs a considerable additional cost compared to the use of the company brand name. Independent brands, on the other hand, have a stronger ability to distinguish a product than a company brand with their uniqueness.

- **Corporate brand:** The company's brand name is used for all products in the company, without using any other brand name, such as Philips, Samsung or Sony. Goodwill associated with the company brand will benefit all brands, while the costs of branding are lower per product. However, it is risky if one of the company's products receives an unfavorable reception, because negative events can weaken the rest of the company's products in the market.
- **Product brand:** A product brand is a unique brand name that represents a specific product. The unique brand name does not refer to any specific company. For example, Procter and gamble doesn't use the company name for any of its products— Ariel, Pampers. The unique brand strategy consumes a significant cost, but it positions the brand well and any problems with the brand do not affect several brands in the company. Its main advantage is that it does not connect its own reputation to its product.
- **Private label:** A commercial brand is a brand that is only sold in a specific retail chain. These products are produced either by the brands themselves or by producers contracted by traders. The most important advantage offered to customers by commercial brands – Spar, Cora, DM – is the favourable ratio of quality to price. In almost all cases, the commercial brand is the cheapest in each commodity group. In the long run, products offered under their own brand can bring extra profit despite the lower price. These products are also advertising media, reminding consumers of the distribution company every day, helping to develop brand loyalty.

## Important concepts

Product, abstract product, objectified product, supplemented product, product hierarchy, product line, product type, consumer goods, convenience products, shopping products, special products, production tools, product life cycle, innovation, brainstorming, morphological testing, product conception, store simulation, market testing, innovators, quick takers, early majority, late majority, delayers, brand, commercial brand

## Overview questions

Describe the levels of the product hierarchy with the help of a specific example.

How are the marketing decisions to be made for convenience and shopping products different?

Describe the possibilities of product renewal.

Describe the steps in the product development process.

What are the parts of the preliminary marketing strategy?

What methods can be used to test the product?

Classify consumers based on the date of product acceptance. Why is it important to know the size of each class?

In which case would you recommend companies choose a brand type?

# 4. Marketing-mix: Price & pricing

**The main message of this chapter:**

- Pricing is more than simply setting the price based on the costs.

- When customers buy a product, they exchange something of value (the price) to get something of value.

- Customers usually compare price with quality and even more they usually think that price and quality are linked together.

- A company can sell a product or service at two or more prices even though the difference in prices is not based on differences in costs.

**The main competence fostered by this chapter:**

The ability of calculating the complex consequences of economic processes and organisational events.

It is important to determine the price of the product after design (or at the same time). Pricing is far from an easy task. Below is a general process of price design and then the price application.

## 4. 1. The basics of pricing

Price policy is one of the most effective elements of the marketing mix. It is based on the limited price-taking of consumers. In this chapter, we will first look briefly at the price of consumers, demonstrating how important a success factor a properly chosen price can be.

To understand how consumers perceive prices, it is important to clarify a concept. The concept of reference price, which is a succinct reference price. In the case of the price established by the company, it is crucial that the consumer is in relation to what it is, i.e., on the basis of which it decides whether the product is expensive or cheap. On the one hand, the consumer can reference it to his previous experience with the price of a given product, which is called the internal reference price (the reference price in the consumer's head). However, in the event that the consumer's internal reference price is not sufficiently exact, it shall relation the price of the product to external reference prices. Any indicated price may serve as an external reference price, such as the price of other similar products in the store, the previous price indicated on the product ("that was it"), or even printed or on-line product catalogues and price sheets. On this basis, the consumer's price detection is therefore not absolute but relative (already relative to prices) and can therefore be influenced to some extent. The following is a look at the extent to which an appropriate pricing can make good use of this opportunity for the company.

Price policy deals with the pricing of the company's products and the development of prices. The main steps for price development are:

1. Cost estimation and competition testing
2. Setting a price target
3. Developing a price strategy
4. Choice of pricing method and pricing
5. Final price design

### 4. 1. 1. First steps in setting the price

In order to determine the price, it is necessary to take into account the circumstances (our costs and the prices of the competition), followed only by a general control principle, the setting of a price target.

#### Cost estimate

The company should be priced to cover the costs of production, distribution and sales and recognise its efforts and risk-taking. Costs can be by type:

#### Fixed and variable costs

Fixed costs do not change, we produce up to 10 or 500 products. These include heating, rent, interest, etc. Variable costs vary depending on the level of production, their amount varies with the number of units produced (cost of raw material, cost of packaging).

#### Total cost

The sum of the fixed and variable costs taken at that level of production.

#### The average cost

A unit cost taken at a given level of production, the value of which is the quotient of the total cost to the production.

The company must assess whether it is favoured or disadvantaged in terms of costs compared to its competitors. You also need to know the competitor's prices and quality. It uses comparative methods such as:

- send out comparison customers who assess and evaluate competitors' bids, get their price lists, and disassemble their products.
- ask customers how they accept the prices and quality offered by competitors. Your company can use your competitor's prices and offers as landmarks. If the company's offer is less favourable than that of the competitor, it cannot ask for a higher price, but if the offer is better, then yes, but it should be known that competitors can also change their prices.

### 4.1.2. Pricing objectives

A price target is the control principle that a company follows when determining the price of a product. The price target must, of course, be in line with the company's overall objectives. The clearer the company's goals, the easier it is to set a price. The company can follow any of the following six main goals:

- **Being the cheapest**: The company may aim to be the cheapest of its competitors on a permanent period of time.
- **Prestige pricing:** The company sets a very high price for its product. This suggests both high quality and prestige.
- **Survival.** This may be the main objective of the company if its capacity is underused, competition is strong or consumer demand varies. It lowers prices because survival is more important than profit. If the revenue covers variable costs and some of the fixed costs, then the company does not have to withdraw from the market. Survival can only be a short-term goal.
- **Stability:** The company may strive to keep its prices stable over the medium term. This will radiate reliability to customers.
- **Maximize instant revenue gains.** This price target means when companies make calculations of what demand and costs would be at certain prices, and select the price that brings the greatest instant revenue profit.

- **Increase in volume.** This price target is followed by companies which consider that higher total price revenue leads to falling unit costs and long-term increasing profits. This may be the case for a start-up for market gain.
- **Leading product quality**. You may want to be a leader in the market with the quality of your company's product. High quality and high prices can provide a lasting benefit above the industry average.

### 4. 1. 3. Developing a price strategy

The price strategy includes long-term price decisions. The price target was just a directive setting out the direction of strategic decisions. The following price strategy decisions must be made by a company:

#### Price-quality relationship

On the basis of the price, the consumer can infer the quality. This phenomenon should also be taken into account by the manufacturer. However, in today's complex supply conditions, it is increasingly difficult for the consumer to infer the costs associated with certain products, so that quality and price can be separated, thus increasing the room for bargaining for the company. Basically, we can talk about the following options:

The decisions taken in relation to price-quality are for the long term, because when a brand is known at a given level of price-quality, it is relatively difficult to break out of that category.

*Figure 3: Price-quality comparison*

| Product or service quality | Price: High | Price: Medium | Price: Low |
|---|---|---|---|
| High | Premium | High value | Superb value |
| Medium | Over charging | Average | Good value |
| Low | Rip-off | False economy | Economy |

*Source: Own construct*

### Price differentiation & price discrimination

Setting the price, the company may choose to set different prices according to the price sensitivity of consumers. This is especially the case in cases where the service has a very high fixed cost and a low variable cost. The essence of price differentiating is that in such a case almost the same product or service is sold to different consumers at different prices. The difference in prices is based on the following types of price differentiation:

- **Area-based price preference:** The consumer pays more or less for the service (or product) according to where he or she is using it. E.g.: Theatre: box - auditorium; Stadium, Outdoor: which sector; Train: first class - second class
- **Time price difference:** The consumer pays more or less for the service (or product) according to when they use it. E.g.: Travel: Last minute; Mobile phone: Peak time; Hotel: Pre-season; Disco: Free before midnight; Event: Advance ticket
- **Volume price preference:** The consumer pays more or less for the service (or product) according to how much of it he buys. E.g.: Volume discounts; season tickets; package tickets

## 4. 1. 4. Pricing methods

So far, we have only developed principles and strategies. The definition of a specific price is called pricing. There are two categories of pricing methods. Cost-based pricing methods are based on company expenses. While market-based pricing methods are based on the behaviour of other market participants.

### Cost-based pricing methods:

Profit margin principle. Standard margins are made for the costs of the product, which is above the cost. A strategy with a high profit margin can be bad if the competitor's prices are lower. This principle is generally applied because it is easier for sellers to determine their costs than to estimate their demand.

Projected yield principle. Cost-based pricing is also the target yield method. The company determines the price so that its invested capital gives the target return. This is common in product development by new investments, where the new product has to bring in the costs of the investment within a specified period of time.

**Market-based pricing methods:**

- **Pricing according to the recognised value principle.** A recognised value is the value for which the consumer acknowledges the product, i.e., the value for which he is willing to buy it. Therefore, the price key is not the seller's costs. Non-price elements of the marketing mix are used to get the buyer to accept it. The company thinks about a product for the target market at the intended price and assesses how much of the product can be sold at that price. It is then calculated whether the product will make the desired profit at the intended price and cost. If so, the preparation of the product will continue, if not, the idea will be dropped .The key to recognised value-based pricing is to specify exactly how the market values the bid. This market research can assess this and thus provide the company with efficient pricing.
- **Aligned pricing.** The point of the adjusted price is that the company determines the price of its own products according to the price of its competitors' products. The company can ask for the same amount, more or less than its main competitors.
- **Offer pricing.** The offer price means that there is no price on the market (common for services such as TV installers). The bid price can be competitive when companies make closed bids for the work to be completed. If the company wants to win, it must go below the price of the other offers, but it cannot go below its costs without making its own situation worse.

### 4. 1. 5. Design of the final price

As a result of pricing, a price is formed, which can be a final price, but it is often even converted, thus creating the price of the product that comes to the shelves of the stores. Such final price design tools may include:

- **Psychological pricing**. Many customers see price as an expression of quality. Sellers often charge more for a particular product because they know that customers think it is of good quality. Studies show that buyers attribute (unreasonably) better quality to expensive cars.
- **Particle number principle**. Instead of 300 HUF, it is advertised for 299 HUF, and the buyer perceives this even in the 200 and not the 300 range.

- **Package pricing.** The combined sale of two or more products in bundles of different types can be perceived as a means of promotion and, on the other hand, comparing the price of the package is a more difficult task for the buyer, so that instead of the restrictive role of the price, the joy of purchasing more products together can spur him to purchase. E.g., spirits and glasses, batteries and battery fillers, toothpaste and toothbrush.

## 4. 2. Application of prices

So far, we have dealt with the general process of price design. However, companies generally do not set individual prices, but develop a pricing system that reflects the geographical variability of demand and costs, segment requirements, order size, etc. You can also use discounts, discounts, incentives as promotional tools. Below we take a look at each specific price application.

### 4. 2. 1. Geographical prices

The company must decide at what price to sell its products in different locations and countries. You should consider, for example, raising the price with shipping costs or asking for less for the same product in certain geographical areas in the hope of more traffic.

### 4. 2. 2. Discounts and discounts

Companies should consider the cost of discounts or discounts, how they affect turnover, and then work out appropriate guidelines for what discounts can be granted to the customer in the interest of the business.

**Discounts may include:**

- **Payment method discount** - a discount depending on the method of payment (cash or cheque) and the due date of payment. It is used because it improves the solvency of the seller, reduces the cost of recovering claims and reduces the amount of doubtful outstanding debts.

- **Volume discount** – means a discount, a reduction in the price for bulk buyers. This can be unemulated when it comes to the size of orders placed and stacked when the number of units ordered in a given period is summered. The volume discount encourages buyers to buy more from a specific seller rather than from different sources.
- **Functional (reseller) discount** - the reseller discount is offered by manufacturers to the parties to the retail chain if they undertake certain tasks, such as sales, warehousing, records.
- **Seasonal discount** - this discount is granted to customers who buy goods or services during off-peak periods (e.g., sleds, swimwear, etc.)
- **Offsetting (credit)** - when the price of the old product produced and delivered is discounted from the price of the new product.

### 4. 2. 3. Promotional (incentive) prices

**Advertising price** - also called below-value price. In department stores, they often lower the price of a well-known branded item to increase their sales. Manufacturers do not like such moves by traders, as it can destroy the image of the brand. The advertising price is usually related to a product characteristic.

**Casual price** - this form is used by sellers at certain times of the year in order to attract more buyers. The occasional price is linked to an occasion, e.g., Christmas, Easter.

Money back - this method has an incentive effect, but it does not cost as much as the price reduction, because many consumers buy the product, but it may never return it. This method is used by many mail orders services.

**Psychological discount** - the essence of the method is to artificially over-price the product first, and then offers it with a significant discount. (Instead of 369 Ft, now only 299 Ft). Several committees are fighting unfair discount practices. However, lowering the normal price is an accepted form of incentive pricing.

Incentive pricing also has drawbacks. If it is successful, the competitors will start to imitate it, so it will lose its effect in the initiator company, but if it does not work, the company will lose money.

### 4.2.4. Prestige price

Certain products with a distinct role can serve as an expression of their social status for consumers (these products are called status symbols). In order for these products (brands) to fulfil their distinctive role, it is important that they are not accessible to everyone, i.e., they are particularly expensive. Prestige prices are the distinctive high price that is intended to underpin the status-expressing role of the product. (It is important to note that although these products are typically of good quality, it is not primarily quality but the distinctive role that should be paid for in high goods.)

## 4.3 Price sensitivity

When examining customer demand, it is important to examine their price sensitivity. Price sensitivity is a feature of consumers' reaction to price changes per unit and demand changes. Highly price sensitive consumers react intensively to price changes, i.e., they reduce their demand by more than one unit in the event of an increase in price per unit, while in the event of a price decrease per unit, their demand is increased by more than one unit. For the less price sensitive, this is the other way around. Price sensitivity therefore indicates the role of price in purchasing decisions.

The price sensitivity of customers is influenced by a number of factors.

- **Uniqueness**: The more unique, special a product is, the less the price plays a role in the purchasing decision, the more expensive the consumer is willing to buy it.
- **Substitutes**: If a product has a substitute and the consumer knows it, the price will play a greater role in the decision, the buyer will be more price sensitive.
- **Difficulty comparing**: If the customer has difficulty comparing competing products (for example, because the product is very complex or requires expertise), its price sensitivity decreases. (Or, you may see a price conclusion on quality.)
- **Size of expenditure**: The higher the price of a product relative to the customer's income, the greater its price sensitivity. (Price is a significantly less influential factor in the purchase of a cheap product.)
- **Cost sharing:** If someone else contributes to the cost of purchasing the product, the customer's price sensitivity decreases. (The higher the contribution rate, the more the role of the price decision will be diminished.)

- **Connected products:** Customers are less price sensitive when using the product in connection with a product that has already been purchased. This is especially true when it comes to an add-on without which the product cannot be used at all. For example: In the case of a new car, the discounted purchase price is "refunded" by the customer at the higher price of the associated service and parts. The same is true for catering establishments with higher drink prices linked to lower food prices, since the latter, as a related product, is less price sensitive to the consumer.
- **The price-quality effect**: When purchasing products that are considered to be of high quality, customers are generally less price sensitive.
- **Storage**: If you cannot store the purchased product, the role of the price is less important.
- **Effect of the final advantage**: The less price sensitive customers are, the greater the ultimate usefulness of the product purchased (such as a high-quality tyre, which costs a fraction of the price of a car, ultimately serves the safety of passengers).

## Important concepts

Profit margin, reference price, psychological pricing, price preference, advertising price, prestige price, price sensitivity,

## Overview questions

Why follow stability as a price target?

Which cost types should be taken into account when estimating costs?

Describe the difference between cost-based and market-based pricing methods.

What is the relationship between price sensitivity and price preference?

Describe the opportunities offered by price reductions.

What is the role of competitors' prices in pricing our company?

On what basis can discriminatory pricing be carried out?

What influences consumer price sensitivity?

How do shoppers react to price changes?

# 5. Marketing-mix: Place (Distribution & Sales channels)

**The main message of this chapter:**

- The success of an organization depends not only on how well it performs but also on how well its entire marketing channel is able to provide value for customers.

- Producing a product or service and making it available to buyers requires building relationships not only with customers but also with key suppliers and resellers in the company's supply chain.

- Developing an effective marketing channel (in most cases using a multichannel strategy) can serve as a source of a long term competitive advantage.

**The main knowledge gained by this chapter:**

Following business processes on the level of international and world economy and understanding the supply- and value chain that connects the buyers and sellers.

Sales are an enterprise feature that consists of multiple interconnected activities. It includes all the tasks that precede, accompany and follow the sale, from market research to contracting and actual freight transport to commissioning, parts supply and the organisation of continuous maintenance. In most cases, the manufacturer does not sell the product it produces directly to the final consumer, but delivers its product to consumers through intermediaries. These intermediaries constitute the sales channel (also known as a marketing channel or distribution channel). The distribution channel is therefore the totality of the entities involved in the sales process, i.e. through their contribution, the goods or services in question are made available to the consumer.

The concept of a sales system can also be seen frequently. This means the totality of the organizations and functions that ensure that the product is delivered from the manufacturer to the consumer.

Of course, in the sales channel between the producer and the buyer, it is not only the article itself that "travels". In addition to the product, ownership of the goods is transferred from the seller to the buyer. The movement of money in the channel is reversed, as it is directed from the buyer to the seller. In addition to the aforementioned, the information also "changes hands" during the sales process. However, the movement of information is understandable in both directions, since on the one hand the seller tries to inform the buyer about the characteristics of the product, while receiving continuous feedback from the buyer on its satisfaction and needs.

An important decision of the producer is whether to carry out the sales tasks himself or to use the services of the companies specialising in it. A production company should sell its products independently if it is able to carry out sales tasks more efficiently than other companies, so that it can use it to its advantage. If you don't benefit, it's better to turn on intermediaries in the process and focus your company's resources on other activities that are more important and more profitable.

The sales process is carried out by a variety of organizations with different tasks. Traders (retailers who sell directly to the consumer and wholesalers who sell to other traders) are the group of intermediaries who purchase the goods, i.e., acquire ownership of the product they sell, and then sell it. They carry out their activities on their own account and at their own risk.

The second group of intermediaries is the so-called agents, who seek out buyers on behalf of the producer and negotiate on behalf of the producer (e.g., brokers, sales agents). They shall carry on their activities on a mandate, on the account and at the risk of the principal. They do not become the owner of the product, and often do not have the product physically, since the quantity of goods they have been supplied by the producer himself is transported from his own warehouse, so the agent is not involved in the process of physical handling (he just delivers the order to the manufacturer). We distinguish between commissioners who can enter into contracts with the client themselves, and the commission fee is the consideration for their activities. Brokers and brokers, on the other hand, do not have the right to enter into contracts, they can only bring the buyer and seller together for the sake of the deal.

The third group of intermediaries is the organisations that assist in the distribution process but do not become the owner of the product and do not participate in the procurement and sales negotiations (e.g., freight forwarders, forwarders, independent warehouses, banks, insurers, advertising agencies, etc.). These actors are called contributors.

## 5. 1. Features of the sales channel

There are many ways to group sales tasks. We do not undertake to collect all possible functions in this course, we present to the reader only a collection of the most frequently displayed tasks.

Before building a sales system, the company must decide how and how much intermediaries it intends to use to deliver its product to consumers.

We are talking about a push strategy if the company encourages intermediaries (e.g., by organising sales competitions, brochures for traders, leaflets, etc.) to purchase as much as possible, so that intermediaries can then seek to sell the product efficiently to ensure their own benefit. This strategy is particularly advantageous if the product category has low brand fidelity, if the product is impulse-like, i.e., customers mostly make the purchase decision in-store or if the customer is aware of the advantages of the product.

For beer, cigarettes and soft drinks manufacturers, the push strategy is preferred, with different discounts (refunds, free fridges, glasses, lighting equipment) offered to traders, typically catering establishments, in exchange for which the trader sells only the products of that manufacturer in the product category in question. Consumers are not more biased in brand loyalty for these product categories, so when someone in the restaurant or pub of their choice does not find their favourite beer, soft drink or cigarette, they typically accept what is on offer at the property. In doing so, the manufacturer achieved its objective of 'diverting' the consumer from competitors' products simply by encouraging the trader.

If a pull strategy is used, the production company intends to raise the demand for the product directly to consumers by using various advertising and promotional tools, encouraging them to ask the intermediary dealers for the product. Thus, the trader, noticing the market demand, turns to the manufacturer and orders the product so that it can be marketed. This strategy is useful when customers perceive the difference between brands and visit the store with a purchase intention.

The two strategies are used in parallel by large companies (e.g., Coca-Cola, Nike, etc.) as they strive to retain customers and attract new customers at the same time.

## 5. 3 Multilevel Marketing

A particular case of sales policy is multilevel marketing. Multilevel marketing (MLM) is a form of sales that exploits the personal relationships of sales people. The manufacturer (or wholesaler) creates a special distribution network consisting of individuals (mostly customers of the product). Salespeople receive commissions for the distribution of the product, but this is not their only source of income. During product presentations and prospectuses, the salesperson tries to recruit not only customers, but also newer salespeople, who he initially helps with his work and can even support them in recruiting new resellers. The speciality of the scheme is that the sale by a new employee now means commissions not only for the sales manager, but also for the person who organised it, mostly at a lower rate. Thus, the more functioning sales branches a person builds, the higher the total income he can make through the work of himself and the salespeople he or she recruits (and recruits).

Marketing is present at all levels of the network, and therefore MLM systems are often referred to as "network marketing" systems.

The advantages of MLM systems can be the small entrance fee for the salesperson, the possibility of flexible working, the possibility of independence and the relatively high commission. However, the disadvantage is that it is difficult to calculate the pace of development, so that production and sales can be separated, both excessive production and product shortages can occur. Since the prices of products sold in this way are usually significantly higher than the prices of substitutes available in-store, and although of good quality, they quickly lose their market due to lack of brand loyalty.

## 5. 4. Width of sales route

Companies strive to make the product available to customers in the most appropriate way to the characteristics and demand of the product. Thus, it is not uncommon in the sales process to purchase the same product in multiple locations and in several stores.

The width of the sales route indicates the number of intermediaries participating side by side at that level of the sales channel. Based on the width of the sales route, three basic options are distinguished:

- **In the case of intensive sales,** the manufacturer strives to find his product in as many places as possible. In this case, many large and retailers are involved in the sales chain, the product is sold in many stores, not just specialty stores. This is how daily consumer goods are sold, such as food, beverages, chocolates, and nowadays cheap household electronics (e.g., kettles, automatic coffee makers, toasters), cleaning products and supplies are increasingly sold. By choosing intensive distribution, the company strives to acquire as much of the market as possible, the products sold in this way are standardized, simple and inexpensive, so that competition is primarily based on price.
- **In selective sales**, the product manufacturer places the product primarily in a specialised store, which, although still a number of trading units, is in any case less than in the case of intensive sales. In such stores, professionally prepared sellers await the buyers. This is how durable goods such as household electrical appliances, appliances (e.g., dishwashers, refrigerators) and mid-range perfumes and cosmetics are sold in general. The products sold in this way are usually sold at a relatively higher price level, but with a matching quality. Selective sales can benefit the manufacturer by developing a closer relationship with a smaller number of partners, a closer control of the producer and the help of resellers at a lower cost level than intensive sales, while adequately covering the market.

The extreme case of selective sales is also considered to be the exclusive sale of special quality, unique products (e.g., special watches, jewellery, cars). In such cases, the number of outlets is low, the manufacturer assumes that the buyers are willing to visit a store even a long distance from where they live in order to obtain the desired product or brand. The prices of these products are high and competition on the market is based on quality and branding.

- **In exclusive sales**, the product manufacturer exerts a strong influence over the sellers, inspecting its partners in detail.

## Important concepts

Sales channel, logistics, push strategy, pull strategy, multilevel marketing, intensive sales, selective sales, exclusive sales, retail, wholesale,

## Overview questions

What are the features of the sales channel?

What actors can be in a long sales channel?

How is the agent different from the dealer?

How is the retailer different from the wholesaler?

What is the difference between push and pull strategies?

Describe the characteristics of selective sales!

# 6. Marketing-mix: Promotion (Marketing Communication)

**The main message of this chapter:**

- Companies use a mix of marketing communication methods to reach their target audience and motivate customers to buy the product.

- Traditional ATL channels are used mainly to promote the product on the mass market.

- Although television, magazines, newspapers, and other traditional mass media remain very important, their dominance is declining.

- Advances in communications technology are causing remarkable changes in the ways in which companies and customers communicate with each other.

- Companies use less mass marketing and target smaller groups of consumers.

**The main autonomy and responsibility fostered by this chapter:**

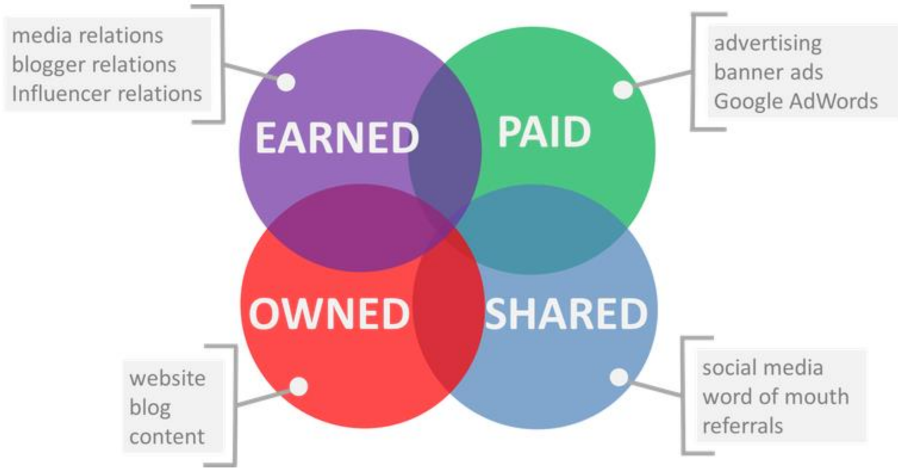
The ability to make informed decisions in connection with routine and partially unfamiliar issues with creativity.

For the most part, market participants quickly realize that it is not enough to develop a good product, to offer it to consumers at the right price, and to know about it to potential buyers. The most important feature of the methods and solutions that make up the fourth group of marketing tools is that they help the company communicate with potential and current customers, business partners, suppliers, traders, the public and, in fact, the entire range of stakeholders in order to influence their market behaviour according to their own business objectives. In one word, this tool is referred to in practice as marketing communications. Although the term promotion is only narrowly understood as promotion (especially for tasting, free sample sharing), the original English promotion (i.e., the fourth P) is a comprehensive name for the entire asset group.

The purpose of market influencing is twofold: to provide information, information and, on the other hand, to influence, persuasion or even to raise awareness. Communication activities can be the subject of both the product (goods or services) produced by the company and the company itself (or a unit or part the part the same).

In other words, marketing communication helps to sell the product and makes it easier for stakeholders to know and accept the product and the company. Figure 4 shows one typology of marketing communication tools.

*Figure 4: Owned, Earned and Shared Media*




*Source:* [http://www.business2community.com/online-marketing/new-online-marketing-mix-paid-owned-earned-shared-0906449#S9rOKUXR5mFvjpIi.97](http://www.business2community.com/online-marketing/new-online-marketing-mix-paid-owned-earned-shared-0906449#S9rOKUXR5mFvjpIi.97)

## 6. 1. The process of marketing communication

Effective communication requires the company to consciously direct the addressing of target groups, to ensure that its messages reach the appropriate groups, that these persons (properly) understand what they have to say, and that the company is informed of the steps taken as a result of the message. This process is illustrated by the general communication model known from communication theory.

In marketing communications, the issuer may be the producer itself, the reseller or the authorised advertising agency. The purpose of the issuer is to get what it has to say (message) to the recipient (e.g., the consumer). The content of the message can be almost anything (subject to applicable laws and ethical standards, of course), it can also apply to the brand, the different characteristics of the product, the possible ways of using it, or even the presentation of the company.

The message is encoded by the issuer, i.e., it is edible to the target group (articulates, creates a scene, composes an image of it, etc.). In coding, it is particularly important that the issuer is aware of the social and cultural background of the recipient, since the message must be shaped according to the tastes and customs of the target group (given the accepted colour and form, the desired music, the character representation, etc.).

The message is a unified system of symbols, shaped by the issuer. The more effective the message, the more the experience of the issuer and the recipient overlaps.

The message is delivered to the recipient through the channel. This channel can be either an individual, a group channel, or a mass communication channel. Encrypted messages flow between two persons in a personal or telephone conversation (or even a text message) as they do at an informational presentation, a product launch, or in television advertisements or newspaper advertisements. The difference is "only" in the coding, wording, presentation and, of course, the number of recipients of the message.

Decoding is the interpretation and understanding of the message by the recipient. As mentioned in coding, the recipient's background and experience have a serious impact on how a person interprets a message. Moreover, it is safe to say that every person interprets the message differently, at least in part (e.g., the location or object seen in the promotional film can awaken a personal memory that may be particularly positive or even negatively related to the advertisement and thus to the product being advertised).

The purpose of communication is to provide the recipient, i.e., the person in the target group, with the message and to provoke some kind of reaction. However, we must not forget that the recipient's current state of mind, the activity of reception, also influences our understanding of the message, since we are affected by thousands of stimuli and influences in our daily lives, and we may not be aware of the message in question. Of course, the issuer cannot rule out any impact, but it is very important to pay attention to and take advantage of the environmental impact when sending messages (e.g., it is much more likely that the advertisement of a small garden machine will attract the interest of the busy manager if you read it on weekends or in the garden magazine, as if you encounter the advertisement in a newspaper or magazine on busy working days).

The recipient therefore expects an answer from the issuer. This response can be many types, whether it's buying or rejecting the product, declaring loyalty, or even recommending the product further.

Feedback is very important for the issuer, as it provides information such as the effectiveness of advertising, the market acceptance of the product and the evolution of the image. The development and operation of feedback is also in the interest and responsibility of the issuer, and the company must monitor the market position of the brand and the development of advertising efficiency through continuous data collection.

Of course, the communication process does not take place in a vacuum, so there are always other environmental influences affecting the efficiency of communication that distort the message. Noise may come from the external environment (e.g., competitors' communication) or from a failure of the intermediary channel (e.g., a typographical error), but the source of the error may also be a problem with encoding or decoding (e.g., use of inappropriate symbols, brand names, etc.).

## 6. 2. Tools for marketing communication

The system of marketing communication tools has been seriously evolving over the past decades. There are tools that were used by market participants as early as antiquity or in the Middle Ages (e.g., product demonstration or proclamation in markets and fairs), but the development of the communication market has been a huge boost to the development of production and, today, to information technology. The development of production technology has increased the importance of communication and the frequency with which it is used, while the development of ICT has had a serious impact on the breadth of the range of tools that can be used. This is also due to the different emphasis placed by companies on different asset groups during different periods. Grouping according to a modern understanding of marketing communication tools:

**ATL (above the line) devices** — over-the-line devices: classic advertising tools that are connected to mass media.

Types:

- Television advertising
- Press release
- Radio advertising
- Outdoor advertising equipment
- Cinema advertising
- Internet advertising: banner, search marketing (keyword-based advertising on search systems)

**BTL (below the line) devices** - subline devices: any device that does not belong to the group of ATL devices. Its importance is steadily increasing today.

Types:

- Public relations (PR) or public relations
- Sales promotion
- Personal selling
- Direct marketing

- Point of purchase (POP or point of sale - POS advertising)
- Event marketing, events
- Fairs, exhibitions
- Sponsorship
- Product placement

Of course, the use of ATL and BTL devices is not understood independently. The combined, coordinated use of communication tools can bring real results, so companies should strive to develop a unified, integrated marketing communication. In the ATL/BTL expression system above, this is often referred to as TTL (through the line), which implies that the use of ATL devices directs the potential buyer towards the BTL device (or vice versa) and thus communicates effectively through joint efforts.

## 6. 3. Advertising

The term advertising is so deeply embedded in our daily lives that we use the term ATL marketing communication almost exclusively as jargon, and in professional meetings the term advertising is used more often than ATL. In this chapter, the reader will learn about the best-known methods of classical advertising, i.e., ATL communication.

### 6. 3. 1. Characteristics of advertising

The main features of advertising are:

- **non-personal**: Advertising delivers the desired message to a large number of consumers through mass communication tools. Custom salutation and personalized messaging are not available.
- **one-way:** Advertising does not build on direct feedback, and in most cases the communication channel used does not allow it, since the recipient of the advertisement is unable to respond to the advertising message using that medium. In order for your answer or question to be delivered to the company, you would need to use an additional means of communication.

- **identifiable:** Advertising allows the company to distinguish itself and its product from competitors. It is also necessary to identify from the legislation of advertising what it advertises and who (which company) is responsible for the content of the advertisement.
- **paid**: The manufacturer of the advertised product pays an advertising fee to the media owner for the publication of the advertisements. In addition, the customer will be charged the fee for the preparation of the advertisement (unless otherwise agreed).
- **the subject of the company's product:** The purpose of advertising is to cause the product to be sold/purchased, so it is most often about a characteristic of the product, the brand or even the benefit of consuming the product.

### 6. 3. 2. Designing advertising programs (5M)

In order to achieve effective communication, companies prepare an advertising plan, which should take into account not only the additional means of communication used by the company, but also ensure consistency with the company's objectives and other elements of the marketing mix.

**Steps for designing advertising programmes, 5M:**

1. definition of the advertising objective (**m**ission)
2. determination of the advertising budget (**m**oney)
3. wording of the advertising **m**essage
4. selection of the advertising medium (**m**edia)
5. **m**easurement of advertising effectiveness

Below we take a closer look at the advertising purpose, the message and the advertising media.

#### Definition of the advertising objective

Before you can set an advertising objective, your company must identify the target group (target groups) to whom the advertising message will be sent. The goal setting can only be successful if the company sets the most specific objective possible, i.e., it also seeks to limit and quantify the change in time that the advertising seeks to achieve. Achieving an overly general goal is uncontrollable and therefore not motivating for the company.

In the course of advertising, the company may choose three different advertising purposes, which are in practice closely related to each other:

- information,
- persuasion,
- a reminder.

Information advertising is particularly specific at the stage of the introduction of the product to the market, since the aim is to create primary demand and this requires consumers to be made more familiar with the potential of the new product. In addition to the introduction, of course, information advertising can be successfully used, for example, to promote a new use of the product, or even in the event of a price change (or even a failure to do so).

Convincing advertising becomes important during a period of fierce competition, i.e., primarily during the growth and maturity phase of the product life cycle. The aim of the company is to create selective demand for the brand, brand loyalty and a favourable brand image. A special form of persuasion is comparison. According to domestic advertising regulations, a competing product or brand can only be displayed in advertising if it supports the advertiser's claim about the other product with concrete, demonstrable data (otherwise consumer misrepresentation and discrediting may also be the criminal consequence). In the absence of data, companies can only compare their products to generic products (e.g., general washing powder).

Booster advertisements are used during the graduation phase of the product lifecycle. The company then seeks to strengthen its position in the "minds" of customers. The company does not provide any new information about the product.

The advertising objective should always be determined in the light of the current marketing and market situation.

### Message

When creating an advertising message, it is the responsibility of the marketing professional to find an argument and attractiveness that ultimately leads the recipient to purchase. To do this, the company needs to know where the customer stands in the stages of attention, interest, desire, and action.

Corporate communication tries to guide the customer through the process, from raising awareness to encouraging them to make purchases.

However, it is not enough to know the response hierarchy model, but you also need to know the type of argument that best influences the target group. This depends, of course, on the target, the product and the market effects.

Messages can be divided into three groups based on their arguments: rational or emotional or moral.

- **Rational messages** emphasize the benefits promised by the product by articulating rational messages. This type of reasoning can be beneficial for communication to organisations and companies, but it also has some use in the consumer market. Rational arguments are effective if the decision is forced, the buyer has a high sense of responsibility, or if the amount spent on the purchase is large.
- In applying **emotional reasoning**, the company intends to affect the recipient's emotions, creating negative or positive emotions. Nowadays, we are increasingly following the trend that advertising in mass media is emotionally based. Companies do not seek to bind their customers by emphasizing product characteristics and rational product advantage, but rather by creating entertainment, funny, interesting advertisements. (The explanation for this change can be found in the general revulsion towards advertising. Companies are trying to create advertisements that please the audience, because they hope that strengthening brand image in this way can also have a positive impact on traffic.)
- **Moral reasoning** is based on norms adopted by society in advertising. Good or bad behaviour, behaviour in line with social values, is at the heart of advertising. Moral reasoning is most often expressed in social advertising, where the combined interests of the country or community are prioritised.

### Selection of advertising media

When choosing media, the channels through which the company intends to deliver its message to the target group will be determined. Possible communication channels are referred to as advertising media or mediums (e.g., television), while the advertising device broadcast in the channel means the encoded, formulated message.

Companies typically do not rely on a single medium when designing their marketing communications, but combine advertising media to communicate as efficiently as possible. The combination of media used by the company to communicate with the product is called a media mix. Effective communication means an optimal media mix, where the company is directed only to those who are the target group of the product. The optimal media mix therefore means that the company reaches its potential customers (it speaks to them), but does not waste its resources communicating to consumers who are not part of its target group (only to those). In the event that the company is unable to do this effectively, i.e., it is (also) for non-target groups, we are talking about infertile spraying. On the one hand, infertility is harmful because it constitutes an unnecessary waste of money and, on the other hand, it can even cause revulsion among consumers who are not covered by the message but have nevertheless received it.

Different media have different properties. When designing an advertising campaign, the company should evaluate each medium in the knowledge of the specific product, advertising objective and target group, according to which media combination ensures the highest expected effectiveness for the campaign. Although it is not possible to determine in general which medium is the best advertising medium, knowledge of their basic characteristics can, in specific cases, be of great help to media choice.

## 6. 4. Public relations (PR)

While the primary task of advertising is to publish information related to the product, to stimulate and stimulate the desire to acquire the product, public relations is primarily aimed at building trust in the company. With PR activities, the company aims to gain the recognition of the people and organizations that make up its environment. There is no truly accepted Hungarian version of the term, but we can hear it as forming public opinion, organising relationships or cultivating public relations.

"Public relations is a conscious, planned communication activity whose task is to acquire and maintain the understanding, sympathy and appreciation of people whose opinions directly or indirectly influence the market situation of the organization.

The most common approach is that PR is also one of the corporate activities, as indicated in the definition above. However, in its view, it emphasises the importance of good relations. The company's success is based on a good relationship with the organizations and individuals that make up the company's internal and external environment.

More generally, it includes the entire communication activity of the company (hence the term 360° communication), information, information and feedback.

The basic task of PR is to develop an image and a positive picture of the company. The image is therefore the image of the company in consumers, partners, the public. In order to ensure the company's success, it seeks to influence this image in a positive way. In this context, corporate PR strives to create a corporate identity (CI). The corporate image is the totality of the company's communication to the outside world, i.e., the image the company shows of itself (self-representation) and the image perceived by this target group.

Today's companies are making great efforts to create a corporate image. The company's image is based on the history of the company and its products, the area of operation of the company and the level of technology used, the size of the company and its human and financial resources.

The most important content features are:

- customer management
- style of corporate communication
- communication of staff

The principles and communication rules for the most important elements of content and form are summarised in the Company Image Manual.

Most common elements:

- logo and name, logo
- colour scheme and font, typographical specifications
- office papers (stationery, envelopes, fax paper, etc.)
- administrative forms (forms)
- business card
- publications, advertising and advertising expectations
- portal, external image
- business and office interior

The corporate image is therefore a conscious, uniform and unique corporate identity that suggests stability, a peculiar and unmistakable picture towards the internal and external target groups of the company.

### 6. 4. 1. PR target groups

The organisation carries out its Public Relations activities towards two large groups: external and internal target groups.

Internal PR is ultimately responsible for improving productivity. To this end, it is possible to create a good corporate climate, to strengthen trust between and with the members of the organisation, thereby facilitating the establishment of ideal working relationships.

External PR includes all communication links with external environments, which play an important role in building the organisation's social and market recognition, favourable image and trust.

### 6. 4. 2. Internal PR tools

Persons, formal and informal groups within the organisation are the target group for PR activities. The success of a company depends on the relationships that each employee has established, whether they work in the same organizational unit or in two different units, and on the relationship between people and groups. A person has close ties to departments (e.g., sales departments, etc.), trade unions formed from the circle of employees, i.e., formal groups. However, we must not forget informal relationships that do not necessarily follow the organisational hierarchy (friendships, sympathetic or, on the contrary, negative relations), as they also have a serious impact on an individual's relationship to work and to the company.

The task of internal public relations in the company is to build and operate information channels within the company, which helps employees to be informed about the objectives of the management, the vision of the company or its current and past successes. This will help employees understand and identify with goals, company values.

Moreover, an external objective can be achieved: in the case of effective internal PR, employees will convey this positive image and values to the outside world through their own lives and external contacts.

### 6. 4. 3. External PR tools

External PR is intended to influence the opinions of persons who come into contact with the company or its product through its tools. PR only indirectly affects sales data, because it is its tools that shape reputation, nurture trust, strengthen the image: because the organization is good, so are its products.

## 6. 5. Sales promotion (SP)

In the consumer goods market, the most used asset group after advertising is the means of promotion. Today, we can't even go through the store without seeing at least one discounted purchase, promotion, or even getting a gift when purchasing a certain amount of the product. Of course, we are mostly pleased with this, and we do not even think about when we will run out of new special offers.

Companies generally use these tools to increase product sales in the short term. "Sales promotion is a whole of marketing communication tools designed to have an immediate sales-enhancing effect by temporarily giving consumers and resellers an additional advantage.

The promotion group now has tools that have an impact in both the short and long term. These include loyalty schemes, which, with their current offer, can influence the short term but also encourage the customer to return later.

It is important to note that although most of the time advertising is used to find out about the start of the promotion and the conditions for participation, the two instruments are different and are only used in a coordinated way. In this case, the advertisement is used to show the promotion.

The fundamental aim of SP promotions is to increase traffic, and in the short-term experience shows that it is also more effective than advertising.  There are two ways to increase the volume sold. By encouraging the purchaser on the one hand and the trader on the other. As already written in the sales policy chapter, the product manufacturer uses the push strategy if it encourages the trader to sell more efficiently, and the pull strategy if it directly targets customers through communication (see page 61).

### 6. 5. 1. Consumer devices

Most of the promotion tools target the customer, i.e., the end user.

The aim is therefore to achieve the additional purchase, for which a very wide range of tools has been developed. Let's see some of these:

- **Open or paved discounts**: In the case of an open discount, the customer will know the amount of the discount (e.g., 20% discount) and in the case of a covert discount, they will receive more for the same price than before (+ 20% free)
- **Coupon**: The coupon is a form which the customer is entitled to receive the discount named on the coupon when submitting it at the time of purchase. Redemption rates vary,

but are mostly low (depending on the product scope, discount rate and how the coupon is distributed)

- **Cash refund**: If the proof of purchase invoice is sent to the manufacturer, the full purchase price, or part of it, will be returned by post.
- **Product samples:** A sample of goods that help you test the product, usually containing a single use quantity. It is used primarily when the product is introduced.
- **Rewards:** Free transfer of a different product (usually related or from the same manufacturer) when purchasing a certain product (e.g., packaging of washing powder samples for rinses).
- **Free goods test:** The customer is provided with the opportunity to try the product in the hope that this will lead him to decide to purchase it.
- **Loyalty programs:** Long-term method of encouraging recurrent purchases (e.g., points collection systems). The aim is to continuously purchase and develop brand loyalty.
- **Product guarantees:** The manufacturer promises to replace, repair or refund the purchase price in the event of non-proper operation of the product.

### 6. 5. 2. Assets for traders

Some of the solutions in the promotion toolkit can be called sales promotion or promotion. These methods primarily seek to encourage traders to sell more efficiently. The basic principle of the methods is to promise an additional advantage to the trader, who, with the higher volume sold, becomes a more profitable business partner for the manufacturer (the manufacturer spends on this higher income to encourage the trader).

Encouraging traders may target the listing and inclusion of the product among the products sold, depending on the level of the relationship between the manufacturer and the trader; the placement of the product in-store, the appropriate offer to the manufacturer and the trader's offer to customers of the product in place of the competitive products.

Some of the methods of merchant incentive are similar to those used to encourage consumers (e.g., free products, trials, lotteries, rewards). Other tools:

- **Trade presentations, briefings, trainings:** Product descriptions can cover not only the basic characteristics of the product, but also the effective way in which it is sold.
- **Discounts (e.g., volume, cash discounts):** Manufacturers seek to encourage traders to purchase larger quantities. (We described in detail the methods of discounts in Chapter 5.2.)
- **Advertising support**: The manufacturer may provide support for the trader's advertising activities if the trader includes the product in his own leaflet or publication.
- **Sales competition:** A sales competition between merchants of similar size and category, the winner of which will receive a gift and a reward.
- **Special promotional gift**: Useful items with the manufacturer's brand name, which are most often received by the trader when concluding a contract, on larger orders.

## 6. 6. Personal sale

Personal sales are one of the oldest methods of marketing communication activities. It also contains significant sales channel elements, but we are now only evaluating it from the market impact side.

A personal sale is a personal, direct communication between the seller and one or more buyers, in which the seller communicates information and seeks to sell the product.

### 6. 6. 1. Forms of personal sales

The participants in the sale can be divided into two groups.

- **Internal sellers** are salespeople and servers working in retail or hospitality. This form of personal sales is not specific to the organisational markets, but rather to the consumer goods market, but is of varying importance for product and business types. With the spread of the self-service business, its importance has been somewhat diminished, and the polite, helpful, prepared seller is able to positively influence the image of the commercial business and the quantity sold.

- **The outside sellers** are the actual agents. The agent sells the offered goods and services in a face-to-face meeting with the buyer. In practice, we give agents many different names depending on the specific tasks they perform when selling which product. Agent e.g. salesperson, sales representative, featured customer manager, doctor visitor, or even ad organizer.

Agents also have a wide range of responsibilities, from simple ordering to customer information, consultancy, search for potential buyers and encourage them to make purchases, among other things.

### 6. 6. 2. Characteristics of personal sales

The role of personal sales is paramount for high-value products, technically complex products or products that require expertise. It follows that its importance is particularly high in the organisational (B2B) markets and in the case of certain services.

Advantages of personal sales:

- Allows two-way communication
- Immediate response to problems and suggestions
- Reduce the risk of purchase perceived by the buyer (due to the high value of the purchase or lack of expertise)
- Information can be obtained from customers
- Bargaining, ad hoc discounts may be granted
- Personal contact makes it easier to establish a long-term relationship
- Customers can be positively influenced
- Different sales technical tools can be used individually
- Corporate image can be positively influenced

The main disadvantages of personal sales are:

- Unit cost of personal sale is very high
- Reaching customers is time-consuming, slower
- Its benefits can only be re-used with a well-trained, dedicated team of professionals.

The disadvantages are eliminated by a specific case of personal sales in MLM marketing mentioned in Chapter 5.

## 6. 7. Direct marketing

Direct marketing is a set of methods for personalizing a pre-selected customer. "Direct marketing means the use of advertising tools that are personally direct to customers and make the response measurable. Direct Marketing is about directly speaking to the consumer (via letter, phone or TV) and offering him an immediate purchase offer.

Direct marketing, like personal sales, is a group of communication tools that also means sales. More importantly, some of the direct marketing tools also show the characteristics of advertising (e.g., catalogue, DM letter or TV advertising) and are also related to promotion (e.g., gift transactions related to DM letters).

The most important features of direct marketing are:

- **Impact can be measured directly:** Because the company knows who it has reached out to and can register how those addressed have responded (in practical ways: how many of them have made purchases), the effectiveness of marketing communications can be measured.
- **Identify respondents:** Instead of anonymous saluted and anonymous customers, the company can accurately register who its customers are. This is particularly important for identifying a loyal customer base of strategic importance and its needs.
- **Instant sales tool:** This communication tool not only addresses the consumer, but also achieves instant sales. This eliminates the weaker efficiency of your message due to subsequent forgetting, and on the other hand, it can instantly measure the persuasive power of the message.
- **Suitable for image building and loyalty**: Personal tone and personalized marketing create a positive image of the company for consumers, improve image and provide the basis for long-term commitment.
- **Personal, interactive:** Calls the consumer by his name, takes into account his specifics – because he knows some of his characteristics from the database – and allows immediate response and interaction during communication (in the simplest case, in the form of a shopping opportunity).
- **Direct communication, shortening of information flow**: By omitting intermediaries, the company can sell at a lower price and collect information from the consumer itself, thus avoiding the risk of being seized by the trader.

- **Less conspicuous actions for competitors**: Because the message is sent directly to the consumer, competitors cannot contact or react to this form of communication.

## 6. 7. 1. Direct marketing methods

Direct marketing methods allow you to reach both individual and organizational customers. The use of personalised messages is successful even in organisational markets known for its rational purchasing decisions, and personal outreach to decision-makers provides effective ways.

The most well-known methods are:

- catalogues (mail order)
- Mail (DM, mail advertising)
- telemarketing
- e-commerce
- TV shop
- faxes
- e-mail
- voicemail
- leaflets, order forms in newspapers, magazines

## 6. 7. 2. Role of the database

In most cases, the use of direct marketing methods presupposes the possession of the database on which the personal solicitation or request is based. Sending DM mail requires the names and addresses of potential customers, but this is only a condition of mailing.

The likelihood of successful direct marketing can be further increased by knowing the characteristics of the customer's earlier purchasing activity, so that we can offer the target product more efficiently.

The more accurate the recommendation, the more detailed knowledge we have about the customer's preference system, expectations and personal characteristics (e.g., demographic characteristics, age, marital status, etc.)

You can build the database yourself, or you can purchase and even rent the data for that campaign. The purchase, design and processing of personal data requires serious care, strict legal regulations and a code of ethics for direct marketing include requirements for data processing.

## Important concepts

Market penalisation, ATL, BTL, advertising, AIDA model, integrated marketing communication, advertising media, media mix, barren spraying, public relations, image manual, internal PR, external PR, promotion of purchases, personal sales, direct marketing

## Overview questions

Describe the general communication model.

What are the characteristics of advertising?

Describe the steps for designing advertising programs (5M)!

What groups can we group advertising messages into based on their arguments?

What advertising media do you know and what benefits can you link to them?

What is the optimal media mix?

What are the most important tools for internal PR?

What kind of shopping promotion tool do you know that can encourage both shoppers and merchants?

What are the main benefits of personal sales?

What direct marketing tools do you know?

# 7. Service marketing

**The main message of this chapter:**

- Services are a special forms of products that consists of activities offered for sale.

- The special characteristics of the services lead to a higher feeling of uncertainty for the customer.

- Companies should apply new marketing-mix techniques to reduce the perceived risk in the customer.

**The main knowledge gained by this chapter:**

Understanding the difference between service and product. Being familiar with the concepts and methods of controlling, organising and performing economic processes along with the methodology of analysing said processes, preparing and supporting decisions.

Many people have tried to define services in many ways, but there is no uniformly accepted definition. Economics classifies services into the “tercier” (third) sector (this includes everything that is not part of the productive sector). From a marketing point of view, the service is a problem solving of a non-physical nature. It's a necessity that's not objectifying. The service is action, action, effort.

A service is an action or performance that is provided by one party to the other and which is not materially objectified and does not result in ownership of anything. Production is either related to a physical product or not.

## 7. 1. Features of service marketing

Services differ from products in many ways. These differences are primarily related to consumer risk. In the case of elusive services, the consumer has a much higher sense of risk than physical products. To address this phenomenon from a marketing point of view, we first look at the characteristics of the services, thereby identifying the reasons for the sense of risk and then explaining the marketing techniques that manage it.

*Figure 5: Differences between products and services*

| Product | Service |
|---|---|
| Tangible | Intangible |
| Storable | Perishable |
| Control Quality with Data | Define Quality by Experience |
| Measure Output | Measure Outcome |
| Repeatable | Very Difficult to Repeat |

*Source: Own construct*

### 7. 1. 1. Features of services

The product needs a satisfactory package of services, which plays an objectifying, functional and aesthetic role. Services have features that the product does not have. These can be found in the literature under the HIPI principle.

**Heterogeneity**

Much depends on who, where, and when they deliver services, so ensuring quality of service is extremely fragile. Because people provide and people use them, quality can fluctuate. The heterogeneity of the service provided depends not only on the service provider, but also on the recipient. From the point of view of quality control, companies can take three steps:

- A lot of money is invested in selecting and training the right human resources.
- Standardize the service process throughout the organization.
- They monitor customer satisfaction and comments with complaint systems and comparative purchases. This way, they can find out the service's weaknesses and fix them immediately.

**Elusiveness (Intangibility)**

Services are not objectifying, so they are elusive. They are not visible, felt, audible or smellable before purchase, not like physical products. The service must be experienced, it must be experienced, because there is no comparison option. Customers are looking for signs of quality of service in order to reduce uncertainty. Conclusions can be drawn from location, people, fixtures, means of communication, symbols and prices.

### Perishability

Because the service is not objected to and cannot be stored, it cannot be stored. The perishability of services is not a problem when demand is continuous, but when demand fluctuates, the service company has great difficulties, for example, during peak periods, stores need more sellers.

### Inseparability

Services are typically supplied and consumed at the same time, while the physical product must first be produced, then stocked, then distributed through intermediaries and then consumed. For the service, the service provider is part of the service, the client is usually present and they are in mutual cooperation with the service provider, so they both influence the outcome of the service. From the point of view of the service, quality can only be measured retrospectively, mostly without the chance of correction.

The common denominator of the basic characteristics is the set of risks that both the service provider and the user should take into account. The outcome of the services is uncertain and the result risk is bilateral. The marketing practice of the service is to manage or reduce the risk of bilateral results.

## 7. 1. 2. Features of the services marketing mix

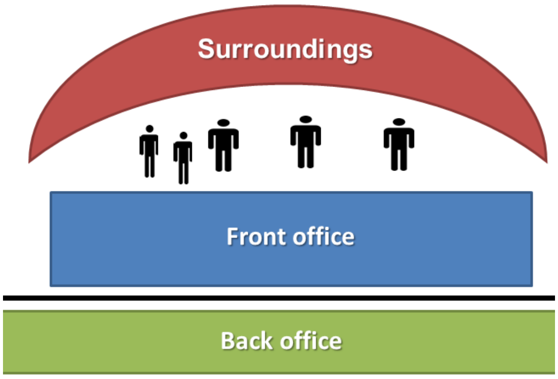
Many authors add three additional factors to the elements of the traditional 4P model of the marketing mix. In addition to product, price, sales path, and market influencing, employees can learn about the 7P model of the marketing mix of services by highlighting the importance of the physical environment and the service process.

The newer 3P, i.e., the proper management of employees (People), the shaping of tangible elements such as physical evidences, and the influence of the Process, are intended to address a higher risk characteristic than the products of the services. Here are 3 items.

### People:

The service is inseparable from the provider of the service and, as a result, the quality of the service itself is proportional to the performance of the individual. As humans, performance is not always the same, which is why services fluctuate. Therefore, in order for the quality of service to be adequate, we need staff with the right qualifications.

*Figure 6: Elements of a service – Service model*




*Source: Own construct*

You can split the employees involved in providing the service into two groups. One group is those that the user sees, i.e., who the customer comes into personal contact with. They are called front lines (e.g., customer service representative, salesman, bartender, cashier, stewardess). Their appearance and behaviour have a decisive influence on the perceived quality of the service. Consequently, it is important to consciously shape the front line. The conscious design and organisation of frontline appearance and behaviour is called frontline management.

The other group includes people who, although they affect the service, are not seen by the user. They are called back-office (e.g., risk analyst at the bank, tour operator of the travel agency, head of department store, restaurant chef).

The work and expertise of the back-office have a decisive influence on the quality of the service, because while the front line keeps in touch with the user, the back-office develops and performs the service itself. As a result, the expertise of back-office needs to be continuously improved.

For both frontline and back-office, it is also very important to have the right motivation and internal marketing. Employees with good capabilities are also need to get their performance right. In many cases, the easiest way to improve service development is to motivate your employees better.

### Physical evidences

The service is elusive. This property increases the sense of risk from the user's point of view, since he cannot experience or try the service in advance, and it is very difficult to infer its quality without trying it out. In fact, the material environment is used to make the service tangible. The equipment of the office, the atmosphere of the client space, the condition, quality, colour, shape of the related equipment, can all indicate the quality of the service.

Therefore, if we consciously design the tangible elements related to the service, they can express to the user the quality of the service and the company's image before the trial, thereby counteracting the sense of risk arising from elusiveness. This conscious organisation can be, on the one hand:

- **Standardisation**: Define the uniform quality of tangible assets related to the service. This reduces heterogeneity. (e.g.: Fast food is prepared using the same ingredients; the hairdresser works with specific hairdressing supplies)
- **Objectification**: They try to make the service tangible to the consumer. By displaying material related to or referring to the service. (e.g.: Leather-volume law collections in a law firm; pictures of hair poems in the hair salon; landscapes in a travel agency)

### Process

The feature mentioned above is that you have to sell the process and the result at the same time.

The user buys and lives the whole process, as opposed to purchasing products, where he pays for output that is separate from production. According to the inseparability of the services, the customer is influenced by the whole service process. As a result, the whole process needs to be adapted to improve the quality of the service. Types of service shaping:

- **Definition of the standards of the substance taken:** Definition of the part entered into the service by the consumer. This reduces the risk of inseparability that the seller feels due to the unpredictability of the consumer. (e.g.: Banning children from services that are not for them; Male hairdresser only; Car service that installs only certain brands)
- **Active customer policy**: Involving the consumer in the service process. This reduces your sense of risk, since the outcome of the service depends not on anyone else, but on it. (e.g., Self-service restaurant; IKEA; hand-held car wash)
- **Process management**: Breaking down the process into individual steps and specifying the steps also reduces heterogeneity. (e.g.: I will determine the exact course of preparation of the food in the fast-food restaurant; Hotel I will determine the steps and method of cleaning the room)
- **Complaints Management:** By properly handling complaints, I improve the process of my service.

The service process is unpredictable, most of the time I don't know in advance what I'm getting. There are times when it's not the result of the service, it's the process. E.g., cinema, fashion show, travel, education. The condition of the substance taken is also important for the process and the result, i.e., the basic conditions under which the claimant enters the process.

## Important concepts

Pure objectified product, clean service, HIPI principle, heterogeneity, elusiveness, perishability, inseparability, bilateral sense of risk, model 7 P, frontline, frontline management, back-office, standardization, objectification, complaint management, process management, active customer policy, definition of standards of material taken,

## Overview questions

What are the main differences between products and services?

What is the temporary step between clean product and clean service? Give me an example.

Why does heterogeneity increase the risk perceived by the consumer?

Why does inseparability increase the risk perceived by the seller?

Why is front office's work important?

Why does objectification reduce the risk perceived by the consumer?

Why is an active customer policy attractive to the consumer?