25 Marketing planning

This chapter covers syllabus section 4.2

On completing this chapter you should be able to:

- apply the elements of the marketing mix to given situations
- discuss the effectiveness of a marketing mix in achieving marketing objectives and evaluate marketing strategies
- discuss the ethics of marketing
- explain the value of a marketing audit
- H apply Porter's Five Forces to analyse competitive pressures in the marketplace
- examine the appropriateness of marketing objectives
- analyse the role of market research
- evaluate the different methods of market research
- understand segmentation and targeting
- discuss how organisations can differentiate themselves and their products
- H analyse sales-forecasting methods and evaluate their significance for marketing and resource planning.

SETTING THE SCENE

Nivea Pearl & Beauty launch based on market research results

The successful launch of a new deodorant product aimed at young women was aided by extensive market research. The market researchers used both existing data and newly gathered data. The existing data on consumer usage of deodorant products and competitors' sales were out of date, so new research was very important if the company wanted to find out what today's women want in a deodorant product and what its key features should be.

Using these data, the company produced test products and tried these on small discussion groups of women. Women seemed to prefer the most beautifying and caring product and this was the one that went into production. One of the most important questions to answer was about price – what price would encourage the groups of women to switch brands? How many would buy it at different prices? A mid to high price was acceptable to the majority. But what was the image of the packaging and the advertisements – did they give the correct brand image? These were shown to the groups and their reactions and opinions were used to adapt both packaging and the advertisements. The product is now one of the best-selling deodorants to the target market – 18–30-year-old fashion-oriented women.

Source: www.thetimes100.co.uk (adapted)

Points to think about:

- Why did Nivea use both existing and new market research data?
- Explain **four** uses of the data collected to Nivea.
- Was the use of market research the only factor that led to this product's success?

Introduction

KEY TERM

marketing planning the process of formulating appropriate strategies and preparing marketing activities to meet marketing objectives

A market plan is often a formal written document which outlines in detail how the business unit intends to achieve the marketing objectives derived from the corporate objectives. Effective market planning is nearly always based on clear awareness of market trends, competitors' actions and consumer wants so market research is vital. The plan will then contain detailed action programmes, budgets, sales forecasts and strategies – and these strategies will be based on adaptations of the firm's marketing mix.

Marketing mix

The marketing mix for a product is a major factor in influencing whether a business can sell it profitably.

KEY TERM

marketing mix the key decisions that must be taken in the effective marketing of a product

The marketing mix is made up of seven interrelated decisions – the 7Ps. The four key ones are **product**, **price**, **promotion** (including advertising and packaging) and **place** (where and how a product will be sold to consumers). The other 3Ps largely relate to marketing services – **people**, **process** and **physical evidence**.

- Consumers require the right product. This might be an existing product, an adaptation of an existing product or a newly developed one.
- The right price is important too. If set too low, then consumers may lose confidence in the product's quality; if too high, then many will be unable to afford it.
- Promotion must be effective – telling consumers about the product's availability and convincing them that 'your brand' is the one to choose. Packaging is often used to reinforce this image.
- Place refers to how the product is distributed to the consumer. If it is not available at the right time in the right place, then even the best product in the world will not be bought in the quantities expected.
- Selling services successfully requires people who can interact positively with customers and create the correct impression to encourage them to return. This is particularly relevant in the hotel and restaurant industry.
- The processes that a business has in place to satisfy customers' wants reliably and consistently form an important part of marketing services. For example, banks replacing an out-of-date debit card without the customer having to ask for one.
- Physical evidence means allowing customers to see for themselves the quality of the service being provided. This will reduce the element of risk in buying a service as opposed to a tangible product. For example, a clean and well-presented reception area in a hotel would raise appropriate expectations in the mind of the customer.

Not all of the 7Ps have the same degree of significance in every case. It is vital that these elements fit together into a coherent and integrated plan. An appropriate marketing mix will ensure that these marketing decisions are interrelated. They must be carefully co-ordinated to make sure that customers are not confused by conflicting messages being given about the good or service being sold.

KEY TERM

co-ordinated marketing mix key marketing decisions complement each other and work together to give customers a consistent message about the product

AN APPROPRIATE MARKETING MIX

- If an expensive, well-known brand of perfume was for sale on a **market stall**, would you be suspicious?
- If the most exclusive shop in your town sold expensive gifts and wrapped them in **newspaper**, would you be surprised?
- If a cheap range of children's clothing was advertised in a **glossy colour magazine** aimed at professional women, would this advert lead to many sales?

These are all examples of poorly integrated marketing decisions. The marketing strategies – shown in bold – lack integration with the rest of the marketing mix and are therefore inappropriate. If the messages consumers receive about a product are confused or lacking in focus, they may fail to recognise the true identity or 'personality' of the product. Consumers are likely to reject products where the marketing mix has not communicated a clear and unambiguous message, resulting in fewer long-term sales.

If just one part of the marketing is inconsistent or does not integrate with the rest, it may lead to the failure of even the best marketing plan. The most appropriate marketing mix decisions will therefore be:

- based on marketing objectives that are affordable within the marketing budget
- co-ordinated and consistent with each other
- targeted at the appropriate consumers.

EXAM TIP

IB questions may ask you to recommend and evaluate a marketing strategy for a product. As with an actual business, the key point here is to suggest a fully co-ordinated marketing mix which is appropriate for achieving a set marketing objective.

ACTIVITY 25.1

Look at the examples of four marketing mix decisions and then answer the questions that follow.

What went wrong?

	Product	Price	Place	Promotion
Mix A	Fast sports car	High – based on top-range competitors' prices	Exclusive dealers in impressive city showrooms	Advertised on radio only
Mix B	Range of furniture for families with low incomes	Low – low costs allow prices to be set below competitors'	Sold only over the internet	Advertised on posters and in free local newspapers
Mix C	Ladies' fashion hairdressing salon with cutting by well-known stylists	Low-price offers to large family groups	Salon located in wealthy area of city	Advertised in fashion and beauty magazines
Mix D	Fast-food restaurant	Skimming or high-price strategy	Expensive business district location with many top-class restaurants	Advertised in business magazines, loyalty card scheme operated together with quality retail department stores

16 marks, 30 minutes

1 In each case, identify which marketing mix decision seems to be 'out of place' and not integrated with the other decisions. [4]

2 In each case, recommend and justify a change to one of the marketing decisions to create an integrated mix. [12]

The ethics of marketing

Chapter 3 looked at the importance of ethical standards in business decision-making. These are of particular significance to the work of marketing departments as the examples of ethical issues given in Table 25.1 show.

Ethical marketing issues are becoming increasingly significant in a period of rapid globalisation. What may be acceptable and normal marketing practice in one country may be viewed as offensive and unethical in others. Many of these issues were discussed in Chapter 3 (see pages 31–33).

The value of a marketing audit

KEY TERM

marketing audit a regular review of the cost and effectiveness of a marketing plan including an analysis of internal and external influences

A marketing audit is conducted not just at the conclusion of a marketing plan but also during its implementation. Its purpose is to alert management to the progress being made, for example, with the launch of a new product, so

Marketing mix decision	Is it ethical to:
Pricing	• sell a computer printer cheaply and then tie in customers to buy expensive refill cartridges? • offer low airfares on the internet and then add taxes on after a purchase has been made?
Promotion	• advertise toys on TV to young children who may not be able to distinguish between programme and advert? • use sexual images to sell products in countries with deeply held religious views?
Place	• close all retail branches and sell only over the internet when many elderly consumers may not have access to a computer?
Product	• buy cheap and potentially dangerous supplies in order to cut prices? • design clothes for young children that are sexually provocative?

***Table 25.1** Marketing and ethics*

that changes may be made to the marketing mix if necessary. A marketing audit should provide an answer to the question: What is the current marketing situation?

A marketing audit consists of three key features:

1. An analysis of the business's internal strengths and weaknesses and how they have changed since the last audit – for example, a successful marketing manager might have left the company, which would be considered a weakness.
2. An analysis of the external opportunities and threats and how these have changed since the last audit – for example, the entry of a new rival into the market would add to the threats faced by the business. SWOT and PEST analyses are central to the first two stages of the marketing audit. Review their importance by re-reading the relevant sections in Chapters 5 (see pages 46–47) and 6 (see pages 64–65).
3. Review the progress of the marketing plan. This will analyse:
   - market share – compare with objectives set at the start of the plan
   - actual sales performance compared with the original sales budgets
   - whether the company is achieving its SMART objectives.

Once the audit has been completed, then changes to the marketing mix might be needed to respond to any of the changes identified by it.

H HIGHER LEVEL

Porter's Five Forces analysis

Michael Porter provided a framework that analyses an industry as being influenced by five forces. It has been suggested that management, attempting to establish a competitive marketing advantage over rivals, can use this model to understand the industry context in which the business operates and take appropriate strategic decisions. Figure 25.1 shows these five forces with the key one – competitive rivalry – at the centre.

1 Threat of entry

This means the ease with which other firms can join the industry and compete with existing businesses. The threat of entry is greatest when:

- economies of scale are low in the industry
- technology needed to enter the industry is relatively cheap
- distribution channels are easy to access, e.g. retail shops are not owned by existing manufacturers in the industry
- there are no legal or patent restrictions on entry
- the importance of product differentiation is low, so extensive advertising may not be required to get established.

2 The power of buyers

This refers to the power that customers have on the producing industry. For example, if there are four major supermarket groups that dominate this sector of retailing, their buyer power over food and other producers will be great. Buyer power will also be increased when:

- there are many undifferentiated small supplying firms, e.g. many small farmers supplying milk or chicken to large supermarket businesses
- the cost of switching suppliers is low
- buyers can realistically and easily buy from other suppliers.

3 The power of suppliers

Suppliers will be relatively powerful compared with buyers when:

- the cost of switching is high, e.g. from PC computers to AppleMacs
- when the brand being sold is very powerful and well known, e.g. Cadbury's chocolate or Nike shoes
- suppliers could realistically threaten to open their own forward-integration operations, e.g. coffee suppliers open their own cafés

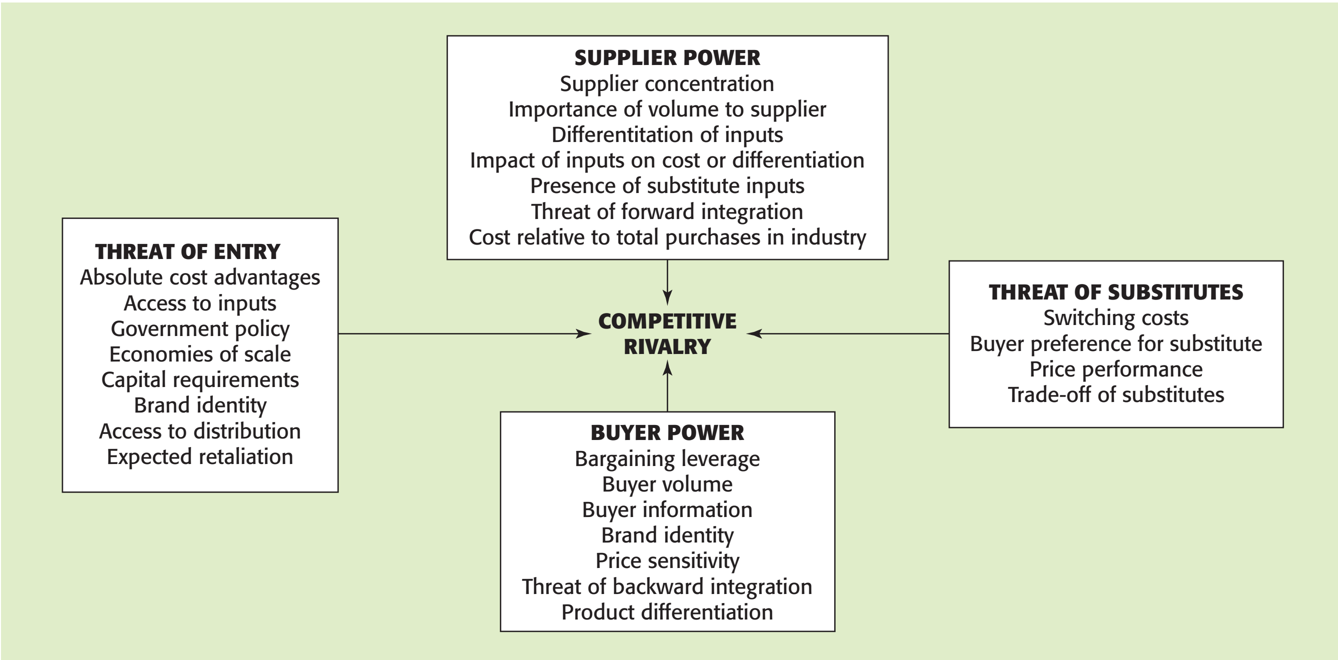

Figure 25.1 *Porter's Five Forces model*

- customers have little bargaining power as they are small firms and fragmented, e.g. dispersed around the country as with independent petrol stations.

4 The threat of substitutes

In Porter's model, 'substitute products' does not mean alternatives in the same industry such as Toyota for Honda cars. It refers to substitute products in other industries. For instance, the demand for aluminium for cans is partly affected by the price of glass for bottling and plastic for containers. These are substitutes for aluminium, but they are not rivals in the same industry. Threats of substitution will exist when:

- new technology makes other options available such as satellite TV instead of traditional antenna reception
- price competition forces customers to consider alternatives, e.g. lower bus fares might make some travellers switch from rail transport
- any significant new product leads to consumer spending that results in less being spent on other goods, e.g. increasing spending on mobile phones by young people reduces the cash they have available to spend on clothes.

5 Competitive rivalry

This is the key part of this analysis – it sums up the most important factors that determine the level of competition or rivalry in an industry. It is based on the other four forces which is why it is often illustrated in the centre of the Five Forces diagram. Competitive rivalry is most likely to be high where:

- it is cheap and easy for new firms to enter an industry
- there is a threat from substitute products
- suppliers have much power
- buyers have much power.

There will also be great rivalry between competing firms in an industry when:

- there are a large number of firms with similar market share
- high fixed costs force firms to try to obtain economies of scale
- there is slow market growth that forces firms to take share from rivals if they wish to increase sales.

ACTIVITY 25.2

Porter's Five Forces model

20 marks, 35 minutes

Choose an industry/market such as supermarkets, newspapers or hotels in your own country. Based on your own research, analyse the industry/market using Porter's Five Forces model. Write a report of your findings, assessing the overall degree of competitive rivalry. [20]

PORTER'S FIVE FORCES AND STRATEGIC DECISIONS

How does this analysis of the competitive situation in an industry help businesses take important strategic marketing decisions?

1 By analysing new markets in this way, it helps firms decide whether to enter them or not. It provides an insight into the potential profitability of markets. Is it better to enter a highly competitive market or not?
2 By analysing the existing markets a business operates in, decisions may be taken about: 'Do we stay in these markets in the future if they are becoming more competitive?' and 'How could we reduce the level of competitive rivalry in these markets – and thus increase potential profitability?'
3 With the knowledge gained and the power of competitive forces, businesses can develop strategies that might improve their own competitive position. Examples include:

- product differentiation, e.g. Honda hybrid cars with a distinctive appearance
- using patents and other forms of protection to prevent simple copying of products
- focusing on different market segments that might be less competitive, e.g. Nestlé entering niche confectionery markets such as vegetarian chocolates
- merging with or taking over suppliers or customers in order to reduce supplier and buyer influence over the business – this is a major strategic decision that would have a considerable marketing impact
- signing exclusivity agreements with buyers and tying in customers with long-term service agreements that would make it more expensive for them to switch to another supplier.

H

Marketing objectives and corporate objectives

The long-term objectives of the company will have a significant impact on both the marketing objectives and marketing strategy adopted. A business with clear short-term profit targets will focus on maximising sales at the highest prices possible. In contrast, a business with longer-term objectives, which may include both profitability as well as the achievement of goals of social responsibility, may adopt a social marketing approach.

KEY TERMS

marketing objectives the goals set for the marketing department to help the business achieve its overall objectives

marketing strategy long-term plan established for achieving marketing objectives

Examples of marketing objectives include:

- increasing market share – perhaps to gain market leadership
- increasing brand awareness
- increasing total sales levels – either in terms of volume or sales value
- development of new markets for existing products to spread risks.

To be effective, marketing objectives should:

- fit in with the overall aims and mission of the business – they should reflect the aims of the whole organisation and should attempt to aid the achievement of these.
- be determined by senior management – they will determine the markets and products a business trades in for years to come and these issues must be dealt with by managers at a very senior level in the company.

- be realistic, motivating, achievable, measurable and clearly communicated to all departments in the organisation.

Why are marketing objectives important?

- They provide a sense of direction for the marketing department.
- Progress can be monitored against these targets.
- They can be broken down into regional and product sales targets to allow for management by objectives.
- They form the basis of marketing strategy. These marketing objectives will have a crucial impact on the marketing strategies adopted, as without a clear vision of *what* the business hopes to achieve for its products, it will be pointless discussing *how* it should market them.

The role of market research

KEY TERM

market research process of collecting, recording and analysing data about customers, competitors and the market

Market research is a broad and far-reaching process. It is concerned not just with finding out, as accurately as possible, whether consumers will buy a particular product or not, but also with trying to analyse their reaction to:

- different price levels
- alternative forms of promotion
- new types of packaging
- different methods of distribution.

The results of market research can have a great impact on decisions made in all areas of the marketing process:

1 To reduce the risks associated with new product launches

By investigating potential demand for a new product or service the business should be able to assess the likely chances of a new product achieving satisfactory sales. Although market research cannot guarantee success, market research is still a key part of new product development (NPD). Table 25.2 summarises how NPD is supported by market research.

2 To predict future demand changes

A travel firm may wish to investigate social and other changes to see how these might affect the demand for holidays in the future. For instance, the growth in the number of single-person households may suggest that there could be a rising demand for 'singles' holidays.

The NPD process		The market research process
identify consumer needs and tastes	→	primary and secondary research into consumer needs and competitors
product idea and packaging design	→	testing or product and packaging with consumer groups
brand positioning and advertising testing	→	pre-testing of the product image and advertisements
product launch and after launch period	→	monitoring of sales and consumer response

Table 25.2 *Summary of how NPD is supported by market research*

3 To explain patterns in sales of existing products and market trends

Market research is not just undertaken for new or planned products, it needs to be conducted for existing products too. Sales at the fashion retailer Gap had, by the end of 2008, fallen in 28 of the last 31 months. Unless Gap managers were prepared to find out why this happened, they would not be able to take remedial action.

4 To assess the most favoured designs, flavours, styles, promotions and packages for a product

Consumer tests of different versions of a product or of the proposed adverts to promote it will enable a business to focus on the aspects of design and performance that consumers rate most highly. These can then be incorporated into the final product.

Market research can, therefore, be used to discover information about:

- market size and consumer tastes and trends
- the product and its perceived strengths and weaknesses
- the promotion used and its effectiveness
- competitors and their claimed unique selling propositions
- distribution methods most preferred by consumers
- consumers' preferences for packaging the product.

Sources of market research data

Primary research collects 'first-hand' data as they are being collected by the organisation for the first time for its own needs. In contrast, secondary research is the use and analysis of data that already exist. These data were originally collected by another organisation, often for a different purpose, and are often referred to as 'second-hand' data.

Secondary research should be undertaken first – but only if the data exist, which they may not if the planned

ACTIVITY 25.3

Read the case study below and then answer the questions that follow.

We know who our customers are

IKEA is one of the world's best-known furniture retailers. In 2009, it had 267 stores in 25 countries serving 590 million customers.

Peter Hogstead, one of its senior managers, has researched its consumer base very carefully:

- It is largely middle class and the middle class in most countries of the world is increasing.
- Its core customers are between 25 and 50 years old.
- They are fashion conscious but want good-value products.
- Eighty per cent are female.
- The majority have children.

12 marks, 21 minutes

Explain **four** benefits to IKEA's managers of having detailed research information about their customers. **[12]**

product is so different that no second-hand data exist. Why undertake secondary research first? It is because of the benefits that secondary research offers over primary methods. Assume that a US-owned supermarket business is thinking about expanding into Trinidad and Tobago. The following data could be obtained from secondary sources, without the manager leaving his or her desk – which is why it is sometimes called desk research.

- The two-island republic has one of the highest per capita GDPs in the Caribbean.
- The retail market is made up of over 500 chain stores (supermarkets, grocery stores and petrol stations), with sales estimated at $817 million in 2009.
- Aiming for a 'one-stop' shopping experience, many supermarket chains have begun to renovate and remodel their stores.
- In-house bakeries and delis are becoming more common.
- Retail food sales rose by nearly 45% between 2000 and 2009.
- Supermarkets are increasing the amount of low-fat and health-food products on offer.

Much more detailed information about the supermarket sector in Trinidad and Tobago could then be obtained by the US business purchasing a second-hand market research report from an agency specialised in this market in the republic.

KEY TERMS

primary research the collection of first-hand data that are directly related to a firm's needs

secondary research collection of data from second-hand sources

SOURCES OF SECONDARY DATA

Secondary data can be obtained from the following well-known sources.

1 Government publications

In most countries, sources, such as the following from the UK, could be referred to:

- *population census*
- *Social Trends*
- *Annual Abstract of Statistics*
- *Family Expenditure Survey.*

Therefore, if a furniture manufacturer was undecided whether to produce new designs for teenagers' bedrooms or electric reclining armchairs for the elderly, reference to government publications for the forecasted age distribution of the population over the next ten years would be a useful starting point.

2 Local libraries and local government offices

If the research data needed were only for a small area – investigating the viability of a new café, for example – then local not national data would be necessary:

- local population census – total population size, age and occupation distributions
- number of households in the area
- proportions of the local population from different ethnic and cultural groups.

3 Trade organisations

Trade organisations produce regular reports on the state of the markets their members operate in. For example:

- Society of Motor Manufacturers and Traders
- Furniture Retailers Association
- Engineering Employers Federation.

If a garage owner wanted to start stocking new cars for sale, then details of the type and size of car that is most popular with consumers could be obtained from the first source listed above. Clearly, further research might then be needed to see if, locally, these national data were reflected in consumer demand in the garage's own area.

4 Market intelligence reports

These are extremely detailed reports on individual markets and industries produced by specialist market research agencies. They are very expensive, but they are usually available at local business libraries. Examples are:

- Mintel reports
- Key Note reports
- Euromonitor.

If the owner of a small hotel planned to expand the business by opening a hotel in the capital city, one of these reports on the hotel and catering market would provide huge amounts of detail on market and consumer trends, eating and holiday habits of consumers, number of tourists and so on.

5 Newspaper reports and specialist publications

- *Marketing* – this journal provides weekly advertising spend data and consumer 'recall of adverts' results
- The *Grocer*
- *Motor Trader*
- The *Financial Times* – regular articles on key industries such as IT and detailed country reports – essential for potential exporters.

6 Internal company records

If the business has been trading for some time, a large quantity of secondary data will already be available for further analysis from:

- customer sales records
- guarantee claims from customers
- daily, weekly and monthly sales trends
- feedback from customers on product, service, delivery and quality.

7 The internet

The internet has transformed secondary data collection. Whenever secondary research is conducted just from the internet, the accuracy and relevance of the source should always be checked upon.

Initial secondary research will nearly always indicate the focus that subsequent primary research should have. However, on its own, it is rarely sufficient, which is why primary research is also usually undertaken. Table 25.3 summarises the advantages and disadvantages of secondary research. Secondary research gathers background data, but only primary research can provide detailed, up-to-date information from consumers within the firm's target market.

ACTIVITY 25.4 RESEARCH ACTIVITY

Read the case study below and then answer the questions that follow.

What do you want to know about Malaysia?

If you are prepared to pay for it, the range of secondary market research data available for businesses operating in Malaysia is incredible. Four examples, from many thousands of reports available are:

- Clothing and footwear in Malaysia (Euromonitor)
- Pet food in Malaysia (Euromonitor)
- Gardening in Malaysia (Euromonitor)
- Malaysian desktop and notebook demand 2009–13 (IDC).

Research into a market for a product or service in your own country. Find out as much as you can about the size of the market, any segments that exist within it and the features of 'typical' consumers for this product.

Advantages	Disadvantages
• Often obtainable very cheaply – apart from the purchase of market intelligence reports. • Identifies the nature of the market and assists with the planning of primary research. • Obtainable quickly without the need to devise complicated data-gathering methods. • Allows comparison of data from different sources.	• May not be updated frequently and may therefore be out of date. • As it was originally collected for another purpose, it may not be entirely suitable or presented in the most effective way for the business using it. • Data-collection methods and accuracy of these may be unknown. • Might not be available for completely new product developments.

***Table 25.3** Secondary research – advantages and disadvantages*

Primary research

Table 25.4 summarises the advantages and disadvantages of primary research.

METHODS OF PRIMARY RESEARCH

Primary – or field – research can itself be divided into quantitative and qualitative research.

Advantages	Disadvantages
• Up to date and therefore more useful than much secondary data. • Relevant – collected for a specific purpose – directly addresses the questions the business wants answers to. • Confidential – no other business has access to this data.	• Costly – market research agencies can charge thousands of dollars for detailed customer surveys and other market research reports. • Time consuming – secondary data could be obtained from the internet much more quickly. • Doubts over accuracy and validity – largely because of the need to use sampling and the risk of sampling error.

Table 25.4 *Primary research – advantages and disadvantages*

KEY TERMS

quantitative research research that leads to numerical results that can be presented and analysed

qualitative research research into the in-depth motivations behind consumer buying behaviour or opinions

Qualitative research

Finding out about the quantities that consumers might purchase is clearly important information, but what is often even more revealing is why consumers will or will not buy a particular product. Qualitative research should discover the motivational factors behind consumer buying habits. For example, quantitative research might establish the size of the potential market for a new luxury ice cream. But will consumers buy it for its taste and the quality of its ingredients or because it will be promoted as a lifestyle product that will reflect on the consumers' image of themselves? Only qualitative research, perhaps by the use of focus groups, can establish the answer to the last question – and it is important because it will help the business in its pricing and promotional decisions for the new product.

KEY TERM

focus groups a group of people who are asked about their attitude towards a product, service, advertisement or new style of packaging

In these discussion groups, questions are asked and the group are encouraged to actively discuss their responses about a product, advertising, packaging and so on. All members of the group are free to talk with other group members. These discussions are often filmed and this is then used by the market research department as a source of data. Information is often believed to be more accurate and realistic than the responses to individual interviews or questionnaires, where respondents do not have this discussion opportunity presented. There might, however, be the risk of researchers leading or influencing the discussion too much, leading to biased conclusions.

Focus groups are an important method for gathering consumers' opinions and responses – qualitative research

Quantitative research techniques

1 Test marketing

This takes place after a decision has been made to produce a limited quantity of a new product but before a full-scale, national launch is made. It involves promoting and selling the product in a limited geographical area and then recording consumer reactions and sales figures. It reduces the risks of a new product launch failing completely, but the evidence is not always completely accurate if the total population does not share the same characteristics and preferences as the region selected.

KEY TERM

test marketing marketing a new product in a geographical region before a full-scale launch

2 Consumer surveys

These involve directly asking consumers or potential consumers for their opinions and preferences. They can be used to obtain both qualitative and quantitative

ACTIVITY 25.5

Read the case study below and then answer the questions that follow.

Carlos plans a new restaurant

Carlos Sanchez is a chef specialising in Spanish cuisine. He has always wanted to work for himself and has decided to open his own small restaurant. Property prices are too high in the capital, so he has moved to a small coastal resort about 100 kilometres from the capital. He has many important decisions to make. He is not sure whether Spanish cooking will be popular with the locals and the tourists. He is able to prepare many other types of dishes too. He could open just a restaurant or a takeaway too. If Carlos offers takeaway meals, he could either serve these in plastic containers for microwave heating, which are expensive, or in paper trays, which are cheaper. Carlos has noticed that there are few other restaurants in the area and no takeaways, although one well-known fast-food chain has recently closed down. There are no other Spanish-based restaurants. After finding a suitable shop site, Carlos then has to decide whether to decorate it for younger people's tastes with loud pop music or in a more sober style with traditional-style Spanish music.

24 marks, 44 minutes

1. Explain the benefits to Carlos of undertaking market research before he opens his new business. **[6]**
2. List **four** questions Carlos needs answers to from marketing research. **[4]**
3. Assuming Carlos lives in your country, list four sources of secondary research that he could refer to. **[4]**
4. Assess the likely usefulness of secondary research to Carlos. **[10]**

research. For example, here are two questions asked in a recent survey of shoppers:

'How many foreign holidays did you take last year?'
'What do you look for in an ideal foreign holiday?'

The first question will provide quantitative data, which can be presented graphically and analysed statistically. The second question is designed to find out the key qualitative features of a holiday that would influence consumer choice. There are four important issues for market researchers to consider when conducting consumer surveys:

- Who to ask? In most cases it is impossible or too expensive to survey all potential members of a target market (the survey population). A 'sample' from this population is therefore necessary. The more closely this sample reflects the characteristics of the survey population, the less chance of sampling error.
- What to ask? The construction of an unbiased and unambiguous questionnaire is essential if the survey is to obtain useful results.
- How to ask? Should the questionnaire be self-completed and returned by post or filled in by an interviewer in a face-to-face session with the respondent? Could a telephone or internet survey be conducted instead?
- How accurate is it? Assessing the likely accuracy and validity of the results is a crucial element of market research surveys.

KEY TERMS

sample group of people taking part in a market research survey selected to be representative of the target market overall

sampling error errors in research caused by using a sample for data collection rather than the whole target population

Who to ask? – sample size and sampling methods

Generally speaking, the larger the sample, the more confidence can be given to the final results. In surveying consumer reaction to a new advertising campaign for a major brand of chocolate, a sample of ten people is unlikely to be sufficient. The first ten people chosen might show a positive reaction to the new advertisement. Yet another ten might show a majority with negative reactions. A sample of ten is too small to be confident about the result, as chance variations from the views of the whole target population occur because of the limited number of respondents. A sample of 100 or even 1000 will produce results that will reflect much more accurately the total preferences of the whole survey population. There will be much less risk of pure chance distorting the results causing sampling error.

What prevents all primary research being based on a sample size of 1000? Cost and time are the two major constraints here – the bigger the samples, the greater the cost and the longer the time needed to collect and interpret results.

There are several different ways of selecting an appropriate sample. The ones below are the most commonly used.

1 Random sampling
Each member of the target population has an equal chance of being included in the sample. To select a random sample the following are needed:

- a list of all of the people in the target population
- sequential numbers given to each member of this population
- a list of random numbers generated by computer.

If a sample of 100 is required, then the first 100 numbers on the random number list are taken and the people who had these numbers allocated to them will form the sample – but it may take time to contact these specific people. Just asking the first 100 pedestrians who pass by during a survey on a main shopping street is *not* random sampling – it is called convenience sampling and will be biased because different groups of people tend to frequent the main shopping streets at different times.

2 Stratified sampling
This method recognises that the target population may be made up of many different groups with many different opinions. These groups are called strata or layers of the population and for a sample to be accurate it should contain members of all of these strata – hence the term, stratified sampling.

If you were asked to sample 100 students in a school about soft drink preferences for the school shop, it would be more accurate if, instead of asking 100 friends, you split the school up into certain strata, such as class groups, ages or gender. So, if the whole school or college contains 1000 students of whom 50 are girls in year group 8, an accurate sample of 100 would contain five girls from year group 8 ($50/1000 \times 100$). This process would be repeated with all year groups until the total required sample of 100 was reached. The people to be surveyed in each stratum should be selected randomly. Stratified sampling may also be used when a product is designed to appeal to just one segment of the market, for example if a computer game is aimed at 16–24-year-olds, only people from this stratum of the population will be included in the sample.

3 Cluster sampling
When a full sampling frame list is not available or the target population is too geographically dispersed, then cluster sampling will take a sample from just one or a few groups – not the whole population. This might be just one town or region and this will help to reduce costs – but it may not be fully representative of the whole population. Random methods can then be used to select the sample from this group. A multinational wanting to research global attitudes towards its product would save time and money by concentrating on just a few areas for its research.

4 Quota sampling
The population is first segmented into mutually exclusive sub-groups – such as male and female. Then the interviewer or researcher uses his or her judgement to select people from each segment based on a specified proportion; for example, an interviewer may be told to sample 200 females and 300 males between the ages of 45 and 60 years. In quota sampling the selection of the sample is non-scientific and may therefore be biased – interviewers might be tempted to interview those who look most helpful or most attractive. The main weakness of quota sampling is that not everyone gets a chance of selection.

5 Snowball sampling
The first respondent refers a friend who then refers another friend . . . and so the process continues. This is a cheap method of sampling and can be operated through social networking sites. However, it is likely to lead to a biased sample, as each respondent's friends are likely to have the same kind of lifestyle and opinions.

EXAM TIP

Each method of sampling has its own advantages and limitations – so which is best? This depends on the size and financial resources of the business and how 'different' consumers are in their tastes between different age groups and so on. Remember, cost-effectiveness is important in all market research decisions.

KEY TERMS

random sampling every member of the target population has an equal chance of being selected

stratified sampling this draws a sample from a specified sub-group or segment of the population and uses random sampling to select an appropriate number from each stratum

cluster sampling using one or a number of specific groups to draw samples from and not selecting from the whole population, e.g. using one town or region

quota sampling gathering data from a group chosen out of a specific sub-group, e.g. a researcher might ask 100 individuals between the ages of 20 and 30 years

snowball sampling using existing members of a sample study group to recruit further participants through their acquaintances

ACTIVITY 25.6

Read the case study below and then answer the questions that follow.

Low market share at Cosmos

The Cosmos Soft Drink Co. Ltd is concerned about its low market share despite extensive press advertising and colourful displays in large retailers. The image the company was trying to create was a 'sport energy drink' for youthful consumers. This was because the directors had used census data to discover that the proportion of the population under 18 was forecast to rise in the next ten years and the sports participation rates of most age groups were increasing. The directors believed that this image was the correct one to have and that other factors were to blame for the poor sales performance. Market research was undertaken using a telephone survey as they believed that quick results were essential to allow them to take the right measures to boost sales. A questionnaire was drawn up asking for details of soft drinks bought and the reasons for purchase decisions, names and addresses of the respondents so that free vouchers could be sent, income levels to identify consumer profiles and many other details that the directors thought might be useful. One hundred people were to be contacted by picking names at random from the telephone directory.

The results of the survey were disappointing. Many calls were not answered, some people refused to answer some of the questions and some elderly respondents said that all soft drinks were too sweet and fizzy for them anyway. The directors were no clearer after the survey about what could be done to increase sales of Cosmos soft drinks.

21 marks, 39 minutes

1 What evidence is there in the case study that this business has used secondary research methods? **[3]**

2 Analyse **two** possible reasons why the results of the telephone survey were so disappointing. **[8]**

3 Suggest and justify **two** alternative sampling methods that Cosmos could have used to achieve more useful results. **[10]**

Market segmentation and consumer profile

KEY TERMS

market segment a sub-group of a whole market in which consumers have similar characteristics

market segmentation identifying different segments within a market and targeting different products or services to them

consumer profile a quantified picture of consumers of a firm's products, showing proportions of age groups, income levels, location, gender and social class

Segmentation is sometimes referred to as differentiated marketing. Instead of trying to sell just one product to the whole market as in mass marketing, different products are targeted at different segments. This is a form of niche marketing. To be effective, firms must research and analyse the total market carefully to identify the specific consumer groups or segments that exist within it.

Below are some examples of market segmentation:

- Computer manufacturers, such as Hewlett Packard, produce PCs for office and home use, including games, but also make laptop models for business people who travel.
- Coca-Cola not only makes the standard cola drink but also Diet Coke for slimmers and flavoured drinks for consumers with particular tastes.
- Renault, the car maker, produces several versions of its Mégane model, such as a coupe, saloon, convertible and 'people carrier' – all appealing to different groups of consumers.

Sometimes firms only market their goods or services to one segment and deliberately do not aim to satisfy other segments. Gap is a clothing retailer that aims only at the youth market, Nike shoes are only for sports use and Coutts Bank only offers banking services to the seriously rich. These businesses make a virtue out of concentrating on one segment and developing an image and brand that suits that segment.

IDENTIFYING DIFFERENT CONSUMER GROUPS

Successful segmentation requires a business to have a very clear picture of the consumers in the target market it is aiming to sell in. This is called the consumer profile. The main characteristics of consumers contained in a consumer profile are income levels, age, gender, social class and region. Marketing mix decisions need to be appropriate for the consumer profile of the target market.

A well-targeted product will need less advertising and promotional support than one which does not really meet the needs of the consumers that it is aimed at.

KEY TERM

target market the market segment that a particular product is aimed at

Markets may be segmented in a number of different ways. The three commonly used bases for segmentation are shown below.

1 Geographic differences

Consumer tastes may vary between different geographic areas and so it may be appropriate to offer different products and market them in 'location-specific' ways.

2 Demographic differences

These are the most commonly used basis for segmentation as age, sex, family size and ethnic background can all be used to separate markets. A house construction firm will use demographic data to help determine which segment of the market a new block of apartments should be aimed at. Should they be retirement flats with a resident caretaker? Should they be small studio flats for young, single people? Should they offer large reception rooms to encourage certain ethnic groups that live in extended families to be attracted to the apartments? The construction firm may not attempt to attract all market segments – but having decided on the most appropriate one, it will be essential to gear the price and promotion strategies towards this segment.

An individual's social class may have a great impact on their expenditure patterns. This will be largely due to income differences between different classes of employment. The wealthy will have very different consumption patterns from the 'working class'. The jobs people do are one of the main factors influencing people's income levels. Other forces apart from income levels could operate, however. For instance, top professional groups would be expected to spend more money on, say, power boating and golfing, as these tend to be class-related activities.

Many marketing acronyms exist as abbreviations for different demographic groups of consumers. Here are just three:

DINKY – double income no kids yet
NILK – no income lots of kids
WOOF – well-off older folk

3 Psychographic factors

These are to do with differences between people's lifestyles, personalities, values and attitudes. Lifestyle is a very broad term which often relates to activities undertaken, interests and opinions rather than personality. The huge increase in TV channels and TV viewing in many countries has contributed to the growth of 'TV dinners', which are pre-prepared meals ready to eat without missing any of your favourite programmes.

Table 25.5 summarises the advantages and limitations of market segmentation.

Advantages	Limitations
• Businesses can define their target market precisely and design and produce goods that are specifically aimed at these groups leading to increased sales. • It helps to identify gaps in the market – groups of consumers that are not currently being targeted – and these might then be successfully exploited. • Differentiated marketing strategies can be focused on target market groups. This avoids wasting money on trying to sell products to the whole market – some consumer groups will have no intention of buying the product. • Small firms unable to compete in the whole market are able to specialise in one or two market segments. • Price discrimination can be used to increase revenue and profits.	• Research and development and production costs might be high as a result of marketing several different product variations. • Promotional costs might be high as different advertisements and promotions might be needed for different segments – marketing economies of scale may not be fully exploited. • Production and stock holding costs might be higher than for the option of just producing and stocking one undifferentiated product. • By focusing on one or two limited market segments there is a danger that excessive specialisation could lead to problems if consumers in those segments change their purchasing habits significantly.

Table 25.5 *Market segmentation – advantages and limitations*

POSITIONING

Before targeting a niche market, businesses often analyse consumers' perceptions of existing brands. This is called positioning the product by using a technique such as market mapping. The first stage is to identify the features of this type of product considered to be important to consumers – as established by market research. These key features might be price, quality of materials used, perceived image, level of comfort offered (hotels) and so on. They will be different for each product category. The example in Figure 25.2 uses the criteria of price and healthy image to 'map' the market for soft drinks. This analysis could be used in a number of ways:

The tourist market can be segmented in many ways to allow for differentiated marketing

- It identifies a potential gap in the market for a cheaper drink with a healthy image. This could be the segment that the business should aim for. Alternatively, the firm could play safe and position the new product in with others – less risky but likely to be less profitable too.
- Having identified the sector with the greatest 'niche' potential the marketing manager is then made aware of the key feature(s) of the product that should be promoted most heavily.
- Lastly, when this analysis is used to monitor the position of existing brands a firm can easily see if a repositioning of one of them is required. This could involve a new advertising campaign or restyled packaging rather than a newly launched product.

CORPORATE IMAGE

KEY TERM

corporate image consumer perception of the company behind a brand

In a competitive business climate many businesses actively work to create and communicate a positive image

ACTIVITY 25.7

'Understanding market segmentation key to repeat visits by tourists'

According to a study by Cathy Hsu of the School of Tourism at Hong Kong University, the key to boosting the number of tourists re-visiting the region is for companies to understand market segmentation. In a survey of 1300 tourists passing through Hong Kong international airport, Professor Hsu identified six distinct groups of tourists who, she claimed, needed to be treated differently by marketing activities.

The six groups were:

- leisure travellers 55 years or younger
- first-time mature travellers 55 years +
- repeat mature travellers
- business travellers with incomes over $50 000 per year
- business travellers with incomes under $50 000 per year
- travellers visiting friends or family in Hong Kong.

These groups needed a different marketing focus to encourage repeat visits. Young, single leisure travellers might be attracted by 'bring a friend' promotions. High-income business travellers could be more influenced by promotions about the wide range of leisure and shopping facilities in the region. Mature repeat travellers made up just 4.5% of the total sample, suggesting that this was a market segment that needed to be more fully developed. The segment that needed little additional marketing focus was made up of those visiting family and friends – they would be likely to visit Hong Kong again anyway.

Source: www.eturbonews.com

24 marks, 44 minutes

1. Why does successful market segmentation need to be supported by market research? Use this case study as an example in your answer. [6]
2. Explain **two** of the ways that this research has segmented the total tourist market to Hong Kong. [6]
3. Discuss the possible benefits and limitations to a Hong Kong travel company of targeting different segments of the tourist market with different marketing activities. [12]

Figure 25.2 *A market map for soft drinks*

to their customers and other stakeholders. This helps to build a good reputation, has a positive impact on sales and makes the successful launch of new products easier to achieve. In *Building Your Company's Good Name* (1996), Davis Young recommends the following steps to achieving a positive corporate image:

- Focus on long-term reputation, not short-term profits.
- Insist on honesty in all business dealings.
- Uphold the stakeholders' right to information about the company and its activities.
- Develop good company policies, e.g. towards staff, rather than trying to control damage caused by bad company policies.

Young notes, 'A good corporate image can take years to build and only moments to destroy.' This saying was certainly true in the case of Toyota in 2010. The carefully crafted image of 'quality products' and 'customer comes first' was shattered by revelations about faulty, potentially dangerous cars being produced and sold in the USA and Europe even though, it has been alleged, the company knew about potential problems. Toyota initially responded slowly to these concerns and was then forced to take very expensive remedial action to millions of cars worldwide. Would this action be enough to save the company's image and reputation? Only time – and sales figures – will tell.

UNIQUE SELLING POINT/PROPOSITION (USP)

KEY TERM

unique selling point/proposition (USP) differentiating factor that makes a company's product unique, designed to motivate customers to buy

Unless a business can pinpoint what makes its product unique in a world of homogeneous competitors, its sales efforts will not be targeted effectively. Customers are often attracted towards goods or services that offer a distinctive image, service, feature or performance. Establishing a USP is about differentiating a company from its competitors. USPs can be based on any aspect of the marketing mix. For example:

- **Product.** Dyson's vacuum cleaners offer 'dual cyclone technology' that is unique (and patented) and the company has become the world number two manufacturer of vacuum cleaners in just 20 years.
- **Price.** 'Never knowingly undersold' is the classic advertising slogan for the John Lewis Partnership's department stores in the UK. The retailer checks and matches its high street competitors' prices regularly, both at national and local level. The company achieved 10% sales growth in the UK in 2009 despite the most severe economic recession for 60 years.
- **Place.** Dell became the first computer manufacturer to focus almost exclusively on internet sales. Keeping its costs down allowed it to offer competitive prices.
- **Promotion.** 'When it absolutely, positively has to be there overnight' (FedEx courier service) is one of the most famous promotional slogans of recent years. It helped to establish in customers' minds the unique quality of service that this company claimed to offer.

H HIGHER LEVEL

Sales forecasting

KEY TERM

sales forecasting predicting future sales levels and sales trends

POTENTIAL BENEFITS

If marketing managers were able to predict the future accurately, the risks of business operations would be much reduced. If a precise forecast of monthly sales over the next two years could be made, the benefits to the whole organisation would be immense:

- The production department would know how many units to produce and what quantity of materials to order and would hold the correct level of stocks.

- The marketing department would be aware of how many products to distribute and whether changes to the existing marketing mix were needed to increase sales.
- Human resources workforce plan would be more accurate, leading to the appropriate level of staffing.
- Finance could plan cash flows with much greater accuracy.

In reality, such precision in forecasting is impossible to achieve, because of the external factors that can influence sales performance. Consider the difficulties in forecasting, even for a short-term period, the sales of films on DVDs. Apart from changes in film tastes, new developments in recording, playback and downloading technology will impact on DVD sales; the growth of internet shopping, rather than buying from stores, and the general economic climate will also have a great effect on future sales levels. Despite these problems, most firms make sales forecasts in order to reduce to an acceptable minimum the unforeseen nature of future changes.

Market forecasts form an essential part of the market planning process and of the screening process before new products are launched on to the market. These forecasts will be based on market research data, gained from both primary and secondary sources. For existing products sales forecasts are commonly based on past sales data.

QUANTITATIVE SALES FORECASTING METHODS – TIME-SERIES ANALYSIS

This method of sales forecasting is based entirely on past sales data. Sales records are kept over time and, when they are presented in date order, they are referred to as a 'time series'.

Extrapolation

Extrapolation involves basing future predictions on past results. When actual results are plotted on a time-series graph, the line can be extended, or extrapolated, into the future along the trend of the past data – see Figure 25.3. This simple method assumes that sales patterns are stable and will remain so in the future. It is ineffective when this condition does not hold true.

Moving averages

This method is more complex than simple graphical extrapolation. It allows the identification of underlying factors that are expected to influence future sales. These are the trend, seasonal variations, cyclical variations and random variations. The moving-average method is used to analyse these in Table 25.7 on ice-cream sales. Once they have been identified, then short-term sales forecasts can be made.

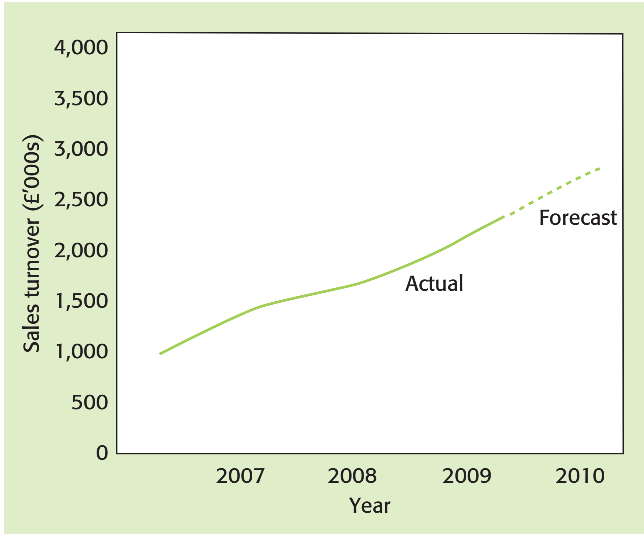

Figure 25.3 *Extrapolating a trend*

KEY TERMS

trend underlying movement of the data in a time series

seasonal variations regular and repeated variations that occur in sales data within a period of 12 months or less

cyclical variations variations in sales occurring over periods of time of much more than a year – they are related to the business cycle

random variations may occur at any time and will cause unusual and unpredictable sales figures, e.g. exceptionally poor weather, or negative public image following a high-profile product failure

Key stages of the moving-average method:

- The method involves calculating moving totals from a number of sales figures. Each total in column 4 of Table 25.7 is made up of four results. This is why the total is called a four-period moving total. A four-period moving total was used because the data clearly vary consistently over this period of time. For example, sales are always highest in quarter 3. If other data were used,

Quarter	Sales	Four-quarter total	Four-quarter average
1	20		
2	30		
3	50		27.5
4	10	110/4	

Table 25.6 *Four-period moving total – but the four-quarter average is not yet centred*

perhaps daily sales figures, then a seven-period total would have been used, because the regular variation in sales would have been over seven days. Monthly sales data may require the use of a 12-period moving total.

- If this four-quarter moving total was divided by 4 in order to calculate the average, the result would not lie alongside any one quarter. This would not make sense – to have a result which does not 'belong' to any one time period (see Table 25.6). The problem is overcome by 'centring' the average so that it lies alongside one actual quarter. This is done by adding two four-quarter moving totals together. This gives an eight-period moving total. This is divided by 8 to give the moving average.

  The moving average is known as the trend of the data. The underlying movement of the data has been identified by averaging out the regular seasonal fluctuations.
- The difference between the actual sales and this trend must have been largely due to seasonal fluctuations. These can then be calculated as shown in Table 25.7.

  seasonal variation (col. 7) = actual result (col. 3) – moving average (trend) (col. 6)

  Make sure you obtain the correct plus or minus sign for your results. If the result is negative, it means that in that quarter sales are usually below the trend or average for seasonal reasons.

- The average seasonal variation smoothes out the actual seasonal variations. This is obtained by adding up all of the seasonal variations for each separate quarter and then dividing by the number of results. For example, quarter 3 seasonal variations are:

$$43.75 + 52.5 + 58.75 = \frac{155}{3} = 51.67$$

Any further variation in sales, not accounted for by the seasonal fluctuations in demand for ice cream, is caused either by cyclical factors or random factors. In the table shown, only random factors are assumed to exist. In quarter 4 2008, sales were lower than average due to seasonal variation but not by as much as the average seasonal variation for that period indicated. The difference of $6650 was caused by random factors – perhaps there had been production problems at a competitor's factory and this meant that sales did not fall as much as normal in quarter 4 in this year.

Forecasting using the moving-average method

The results from Table 25.7 can now be used for short-term forecasting. You will need to:

1. plot the trend (moving average) results on a time-series graph (see Figure 25.4)
2. extrapolate this into the future – short-term extrapolations are likely to be the most accurate
3. read off the forecast trend result from the graph for the period under review, e.g. quarter 2 in year 2011
4. adjust this by the average seasonal variation for quarter 2.

1 Year	2 Quarter	3 Sales revenue	4 Four-quarter moving total	5 Eight-quarter moving total	6 Quarterly moving average (trend)	7 Seasonal variation	8 Average seasonal variation	9 Random variation
2007	1	120						
	2	140						
	3	190			146.25	43.75	51.67	–7.92
	4	130	580		150.00	–20	–15.4	–4.6
2008	1	130	590	1170 ÷ 8	156.25	–26.25	–33.3	6.8
	2	160	610	1200	163.75	–3.75	–4.6	1.1
	3	220	640	1250	167.5	52.5	51.67	0.83
	4	160	670	1310	168.75	–8.75	–15.4	6.65
2009	1	130	670	1340	172.5	–42.5	–33.3	–9.2
	2	170	680	1350	176.25	–6.25	–4.6	–1.65
	3	240	700	1380	181.25	58.75	51.67	–7.08
	4	170	710	1410	187.5	–17.5	–15.4	–2.1
2010	1	160	740	1450	191.25	–31.25	–33.3	2.05
	2	190	760	1500	193.75	–3.75	–4.6	0.85
	3	250	770	1530				
	4	180	780	1550				

Table 25.7 *Moving averages for ice-cream sales ($000s)*

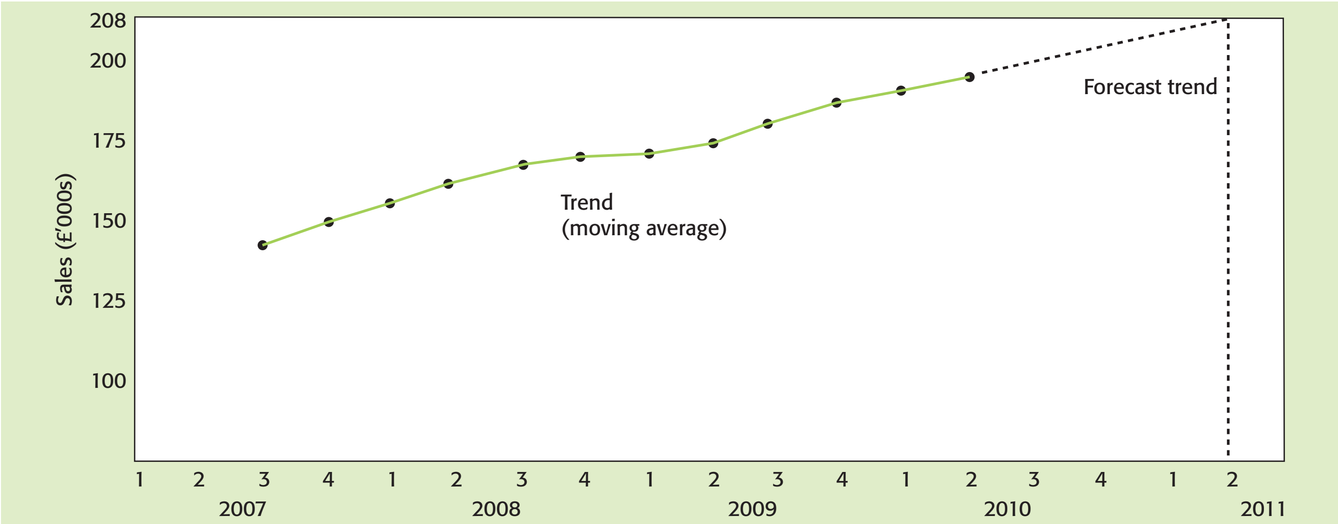

Figure 25.4 *Forecasting future trend sales figures*

Thus, for quarter 2 in the year 2011: the actual forecast will be the extrapolated trend forecast for this quarter, \$208 000, plus the average seasonal variation of –£4600 = £203 400.

See Table 25.8 for the advantages and disadvantages of the moving-average method.

Advantages	Disadvantages
• Useful for identifying and applying the seasonal variation to predictions. • Reasonably accurate for short-term forecasts in reasonably stable economic conditions. • Identifies the average seasonal variations for each time period and this can assist in planning for each quarter in future.	• Fairly complex calculation. • Forecasts further into the future become less accurate as the projections made are entirely based on past data. • Forecasting for the longer term may require the use of more qualitative methods that are less dependent on past results.

Table 25.8 *Moving-average method – advantages and disadvantages*

EXAM TIP

You should be prepared to discuss the limitations of sales fore-casting techniques as well as the potential benefits of predicting future sales.

THEORY OF KNOWLEDGE

The table below lists some of the richest entrepreneurs in the world. To what extent is the successful marketing of products about the intuition of entrepreneurs?

Name	Business	Worth in \$billions	Industry
Bill Gates	Microsoft	40	Computer software
Carlos Slim	Telmex	35	Telecommunications
Larry Ellison	Oracle	23	Computer software
Ingvar Kamprad	IKEA	22	Retail
Karl Albrecht	Aldi	22	Retail
Mukesh Ambani	Reliance	20	Steel, petroleum
Amancio Ortega	Zara	18	Retail

H

OVER TO YOU

REVISION CHECKLIST

1 Outline the key features of a marketing mix of a product that you have recently purchased.
2 Why is 'people' one of the important marketing mix factors for consumer services?
3 Explain why some people consider direct advertising of toys to young children is unethical.
4 Explain **two** benefits of a marketing audit.
5 State **two** possible marketing objectives for the Starbucks Coffee Company in your country.
6 Differentiate between primary and secondary market research.
7 Differentiate between quota and random sampling.
8 Explain **two** ways in which a producer of TV programmes might use market segmentation.
9 What would the benefits be of using a targeted marketing strategy for a clothing retailer?
10 Explain the USP of any company of your choice.
H 11 Use Porter's Five Forces model to assess competitive pressures in either food retailing or car retailing in your country
H 12 Differentiate between the 'trend' and the 'seasonal variation' of time-series sales data.

H HIGHER LEVEL

REVISION ACTIVITY

Read the case study below and then answer the questions that follow.

Sodhi's sales forecast

The sales of Sodhi's convenience store were recorded over a four-year period. The owner of the store has started to undertake a short-term forecasting exercise to help plan future purchases and stocks of goods.

	Quarter	Sales ($000)
Year 1	1	18
	2	24
	3	35
	4	27
Year 2	1	19
	2	26
	3	38
	4	29
Year 3	1	23
	2	27
	3	40
	4	32
Year 4	1	25
	2	30
	3	42
	4	35

25 marks, 45 minutes

1 What is meant by:
  a sales forecasting? [2]
  b the moving-average method? [3]

2 Copy out the table above and add columns for: four-quarter moving total, eight-quarter moving total, quarterly moving average (trend), seasonal variation, average seasonal variation, random variation (assume no cyclical variation). Calculate values in these columns. [6]

3 Graph the actual sales data and quarterly moving average data and draw a line of extrapolation. [6]

4 Estimate sales for year 5 quarter 4. [2]

5 Discuss briefly how useful this forecast is likely to be for Sodhi. [6]

H

EXAM PRACTICE QUESTION

Read the case study below and then answer the questions that follow.

LE SPORTIF HEALTH AND SPORTS CLUB

Le Sportif is a health and sports club located in Paris. The club has performed well over the last two years but now faces competition from two clubs, Wellness and Glides, which have just opened. Wellness has been particularly successful and has attracted a number of customers from Le Sportif.

The management of Le Sportif conducted some extensive market research to find out more information about their customers. They used a series of focus groups to find out about customers' views on Le Sportif and a questionnaire to provide them with more precise data about the way customers used the club.

Le Sportif has responded positively to its market research by adopting the following strategies:

- introducing a family membership scheme
- introducing a range of family-based classes to encourage health and fitness
- opening a coffee shop.

The management of Le Sportif believe that this new customer-oriented approach, which targets health and fitness for the whole family, will give the club a unique selling point and will enable it to stand out from the competition.

25 marks, 45 minutes

1 Define the following terms:
   a market research
   b unique selling point. [4]

2 Explain the way focus groups could have been used to provide Le Sportif with market research information. [6]

H 3 Using Porter's Five Forces model, analyse **two** forces that might have affected Le Sportif. [6]

4 Evaluate the advantages and disadvantages of Le Sportif using market research to guide its new strategy of targeting the family market. [9]