

Marketing – important marketing concepts

Introduction: the important marketing concepts of

1. **Adding value**
2. **Mass marketing vs. Niche marketing**
3. **Market segmentation**

1. ADDING VALUE

In our first few lessons, we talked about 'adding value'. A firm tries to add as much value and ideally, without spending too much money. Let's review:

- The **selling price** of the product **minus** the **cost** of the materials and components to make it
- Let's say a tub (plastic carton) of ice cream **sells for \$4** and the cost of the sugar, cream, milk and flavourings **cost \$1**: **Value added = \$3**
- This is **N_____** the same as profit as the firm still has to pay wages, rent and other costs but profit will be included in this added value
- If the firm is able to increase this added value – potential for greater profits is clear
- **Effective marketing makes this possible: How?**
- **What will encourage consumers to pay a price that exceed the cost of the basic materials?**

KEY DEFINITIONS

product differentiation making a product distinctive so that it stands out from competitors' products in consumers' perception

USP – unique selling point (or proposition) the special feature of a product that differentiates it from competitors' products

A **USP** can be created by:



2. Mass marketing and niche marketing

KEY DEFINITIONS

niche marketing identifying and exploiting a small segment of a larger market by developing products to suit it

mass marketing selling the same products to the whole market with no attempt to target groups within it

Niche marketing:

This market segment can be a very small section of the whole market, perhaps not been identified by competitors

Examples are:



Disadvantages of niche marketing might be:



Mass marketing is the exact opposite of niche marketing:

'One product for the whole market' is becoming more unusual concept for firm to adopt. The traditional example of Coca-cola sees them trying a marketing campaign aimed at putting people's names on the cans. While the product IS THE SAME for everyone (no customisation), they are still aware of some distinction.

Examples of mass marketing are:



Advantages of niche marketing	Advantages of mass marketing
<ul style="list-style-type: none"> • Small firms may be able to survive and thrive in markets that are dominated by larger firms. • If the market is currently unexploited by competitors, then filling a niche can offer the chance to sell at high prices and high profit margins – until the competitors react by entering too. Consumers will often pay more for an exclusive product. • Niche market products can also be used by large firms to create status and image – their mass-market products may lack these qualities. 	<p>Note: these can also be viewed as the disadvantages of niche marketing.</p> <ul style="list-style-type: none"> • Small market niches do not allow economies of scale to be achieved. Therefore, mass-market businesses are likely to enjoy substantially lower average costs of production. • Mass-market strategies run fewer risks than niche strategies. As niche markets contain relatively small numbers of consumers, any change in consumer buying habits could lead to a rapid decline in sales. This is a particular problem for small firms operating in only one niche market with one product.

Table 14.1 Advantages of niche marketing and of mass marketing

Activity 14.7: *TI to peddle premium cycles for sale*

3. Market segmentation

KEY DEFINITIONS

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

This is very widely practised marketing strategy. It is **CONSUMER FOCUSED** so it is consistent with the concept of market orientation. It is often called '**DIFFERENTIATED MARKETING**' as it doesn't just try to sell ONE product to the WHOLE market; it targets **different markets** with **different products**.

- *Computer manufacturers*
- *Coca-cola*
- *Toyota*

Sometimes firms only market their goods or services to ONE segment. GAP is a clothing retailer aims only at the youth market. Nike shoes are only for sports use (although its usage may be different) and Coutts Bank only offers banking services for the very rich. SAGA is company that aims at people over 55 years old.

Market segmentation – identifying different consumer groups:

- Successful requires the firm to have a 'clear picture' of the typical customers in the target market it is trying to sell to
- A 'clear' picture needs to be build up to **HELP** with **MARKET RESEARCH** sampling, designing the product, pricing and promoting the product
- This is called the '**CONSUMER PROFILE**'
- The main **characteristics** of consumers contained in a customer profile are
 - Income levels, age, gender (male or female), social class and region

KEY DEFINITION

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

Total market can be segmented in **three different ways** (but sometimes four):

<p>Geographic differences</p>	<p>Consider difference within China: Xinjiang, Shanghai, Guangzhou, SiChuan, Xi'an etc.</p> <p>Differences between regions, countries, districts, coastal, climate</p> <p>Differences between European consumers: Northern Europe versus Southern Europe</p>
<p>Demographic differences</p>	<p>Most commonly used basis for segmentation</p> <p>Study of population data and trends, and demographic factors, such as</p> <p>House construction firm would be interested in...</p> <p>Socio-economic groups</p>
<p>Psychographic factors</p>	<p>Peoples' lifestyles, personalities, values and attitudes</p> <p>Attitudes towards ethical business</p> <p>Lifestyle – activities, interests and opinion</p> <p>Personality characteristics – aggressive, passive, cautious, reckless, adventurous</p>

Geographic region	Pacific Mountain, West North Central, West South Central, East North Central, East South Central, South Atlantic, Middle Atlantic, New England
City or metro size	Under 5,000; 5,000–20,000; 20,000–50,000; 50,000–100,000; 100,000–250,000; 250,000–500,000; 500,000–1,000,000; 1,000,000–4,000,000; 4,000,000+
Density	Urban, suburban, rural
Climate	Northern, southern
Demographic age	Under 6, 6–11, 12–17, 18–34, 35–49, 50–64, 64+
Family size	1–2, 3–4, 5+
Family life cycle	Young, single; young, married, no children; young, married, youngest child under 6; young, married, youngest child 6 or older; older, married, with children; older, married, no children under 18; older, single; other
Gender	Male, female
Income	Under \$10,000; \$10,000–\$15,000; \$15,000–\$20,000; \$20,000–\$30,000; \$30,000–\$50,000; \$50,000–\$100,000; \$100,000+
Occupation	Professional and technical; managers, officials, and proprietors; clerical sales; craftspeople; forepersons; operatives; farmers; retired; students; homemakers; unemployed
Education	Grade school or less; some high school; high school graduate; some college; college graduate
Religion	Catholic, Protestant, Jewish, Muslim, Hindu, other
Race	White, Black, Asian, Hispanic
Generation	Silent Generation, Baby boomers, Gen X, Gen Y
Nationality	North American, Latin American, British, French, German, Italian, Chinese, Indian, Japanese
Social class	Lower lowers, upper lowers, working class, middle class, upper middles, lower uppers, upper uppers
Psychographic lifestyle	Culture-oriented, sports-oriented, outdoor-oriented
Personality	Compulsive, gregarious, authoritarian, ambitious
Behavioral occasions	Regular occasion, special occasion
Benefits	Quality, service, economy, speed
User status	Nonuser, ex-user, potential user, first-time user, regular user
Usage rate	Light user, medium user, heavy user
Loyalty status	None, medium, strong, absolute
Readiness stage	Unaware, aware, informed interested, desirous, intending to buy
Attitude toward product	Enthusiastic, positive, indifferent, negative, hostile

Generational Cohort	Birth Range	Approximate Size	Defining Features
Millennials (Gen Y)	1979–1994	78 million	Raised with relative affluence, technologically plugged in and concerned with the environment and social issues, they also have a strong sense of independence and a perceived immunity from marketing.
Gen X	1964–1978	50 million	Sometimes seen as falling between the generational cracks, they bridge the technological savvy of Gen Y with the adult realities of the baby boomers.
Baby Boomers	1946–1964	76 million	Still largely in the prime of their consumption cycle, they embrace products and lifestyles that allow them to turn back the hands of time.
Silent Generation	1925–1945	42 million	Defying their advancing age, they maintain active lives and products and marketing that help them to achieve that.

Sources: Kenneth Gronbach, "The 6 Markets You Need to Know Now," *Advertising Age*, June 2, 2008, p. 21; Geoffrey E. Meredith and Charles D. Schewe, *Managing by Defining Moments: America's 7 Generational Cohorts, Their Workplace Values, and Why Managers Should Care* (New York: Hungry Minds, 2002).

Advantages

- Businesses can define their target market precisely and design and produce goods that are specifically aimed at these groups, leading to increased sales.
- It enables identification of 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 – see Chapter 16.

Limitations

- 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.
- Extensive market research is needed.

Activity 14.8 –

A large empty rectangular box with a thin black border, occupying most of the page. It is intended for the student to complete the activity.

Consider that IKEA will open in Xi'an next year. Can you identify **four customer profiles** that they are aiming for?

Give **characteristics** of each customer profile

1.

2.

3.

4.

Can you profile **yourself**?

Revision questions 260:

2. Using examples, differentiate between market orientation and product orientation.

5. State four possible examples of marketing objectives that a business might set.

14. Outline three ways in which a manufacturer of jeans might increase market share.

15. How might a retailer of sports clothing attempt to 'add value' to the products?

Summary of the worksheet in your own words (in English and Chinese):

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Vocabulary check:

English	Chinese