Chapter 16: Marketing

Marketing Concept

The marketing concept has been defined as:' understanding the needs and wants of customers in the market and adapting the business to satisfy those needs better than competitors do, while making a profit.

Marketing Strategy

This is a tactical plan to use the company's resources to achieve its marketing objectives. The stages in developing a marketing strategy or plan are as follows:

- Opportunity analysis
- Select Target market
- Conduct Market research
- Develop Marketing mix

Market Segmentation

Market segmentation means dividing a market into similar groups of customers. For example, a hotel may divide its market into the following segments:

- those who stay for a short holiday
- those who have to stay for business reasons
- those who stay to avail of the hotel's facilities, e.g. golf course
- those who stay to avail of a special promotional offer.

Marketing Mix

The marketing mix is made up of the Four P's:

Product	Price	Place	Promotion

Product

The product is made up of the detailed characteristics of the item on offer, e.g. its distinctive features, its design, shape and colour, brand names etc.

Product Life-Cycle

This shows the various stages that a product is expected to pass through and it also indicates the likely level of sales that can be expected at each stage. The length of the lifecycle will vary from product to product and from industry to industry.

For example: *The Rolling Stones*, *Kellogg's Cornflakes and Tayto Crisps* have lifecycles that have lasted for nearly 50 years, but various pop groups and childrens' toys have a lifecycle that can last less than 12 months.

Stages in the Product Life Cycle

(David Likes Garys Mothers Strawberry Desserts)

1. **Development** Stage	2. **Launch** Stage	3. **Growth** Stage	4. **Maturity** Stage	5. **Saturation** Stage

Price

Price is what you pay for a product. It is also the representation of the value of the product to the buyer. It will be influenced by a number of factors, such as:

- Cost of Production
- Profit
- Discounts offered
- Competition
- Customers
- Image

Methods of pricing

Cost Plus Pricing

This involves calculating all the product costs and adding a percentage for profit.

Penetration Pricing

Market penetration pricing involves setting prices lower than the competition in order to gain a large number of customers quickly and keep market share.

Premium Pricing

In an effort to reinforce the high quality image, the business might set prices at a higher level than the competition. The customer 'expects to pay' a high price because of the perceived value of the product. Example – BMW or Mercedes Benz charge a premium price.

Tactical Pricing

Tactical pricing involves the use of discounts, promotional prices and special offers. Special offers and promotions often attract the new customer to try out the product for the first time and may result in further sales in the future. Examples in use – supermarkets such as Tescos, airlines such as Ryan Air, mobile networks such as Meteor.

Break Even Analysis

This is a graph showing the **total revenue** and the **total costs** of a business at various levels of output. It enables a manager to see the expected profit or loss that a product will face at different levels of sales.

(1) Costs

Total costs = Fixed Costs + Variable Costs

(2) Revenue

Total revenue is the money received by a firm from the sale of its good/service

Total Revenue = Selling Price x Qty sold

(3) Contribution

Contribution per unit

Cont p/u = Sales price p/u – Var costs p/u.

(4) Margin of Safety

This is the difference between expected sales and break even point, and is the amount by which sales can fall before a firm suffers a loss.

Margin of Safety = Sales Volume – Break Even Point

(5) Break-even point

The break-even point is the point on a break-even chart where the total revenue (T.R) is equal to its total cost (T.C).

It can also be calculated mathematically by using the following formula:

$$\text{Break - even point} = \frac{\text{Total Fixed Cost}}{\text{Contribution per unit}}$$

For example a business supplies the following figures about its activities.

Forecast Output (Sales)	20,000 units
Selling price	€50 per unit
Fixed costs	€300,000
Variable Cost per unit	€20

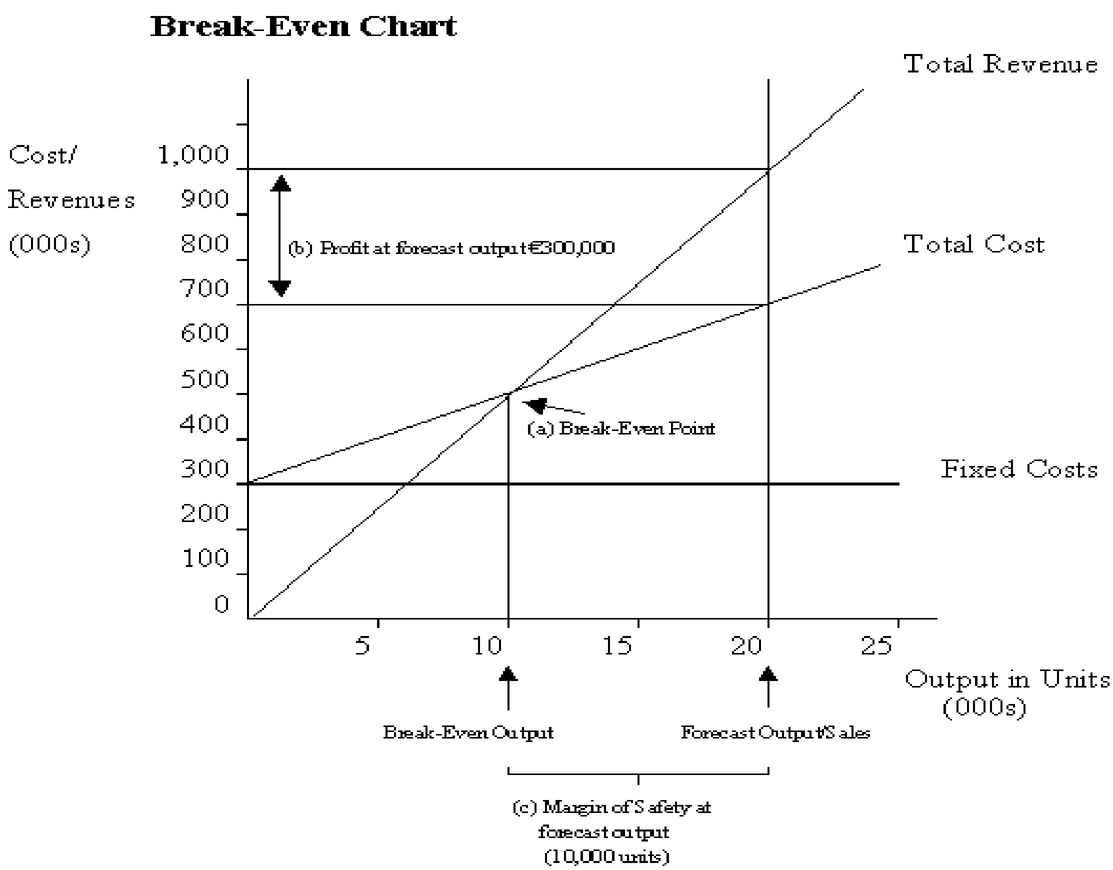
Using a break-even chart, illustrate:

1. The Break even point
2. The Profit at forecasted output
3. The Margin of Safety at forecasted output

Units	FC	VC	TC	TR	Profit/Loss
0	€300,000	0	€300,000	0	(€300,000)

20,000	€300,000	€400,0000	€700,000	€1,000,000	€300,000

If variable cost per unit is €20:



Outline the effect on the BE point if the Variable Costs increase to €25 per unit. Use the BE chart to illustrate your answer.
If variable cost per unit is €25:

Units	FC	VC	TC	TR	Profit/Loss

(a) Break-Even Point increases/decreases from ___________ units to _____________ units
(b) Profit at forecast output increases/decreases from €______________ to €______________
(c) Margin of Safety increases/decreases from _____________units to ____________ units

Draw the new Break Even chart!!!

Place

How will the business sell its product – how will it make it available to the customer using the channels of distribution

Producer – Consumer
This consists of the producer selling directly to the consumers, for example McInerney Construction building houses and selling to home-buyers, or buying fitted furniture and kitchens from B&Q.

Producer – Retailer - Consumer
This channel contains one middleman: the retailer. Large retailers buy directly from the manufacturers and sell to consumers, for example Dunnes Stores and Tescos.

Producer – Wholesaler - Retailer - Consumer
This channel contains two middlemen: the wholesaler and the retailer. This channel is used for mass produced goods. Wholesalers buy in bulk from the manufacturer and sell onto the retailer.

Promotion

The purpose of promotion is to inform the market that the business has something for sale and to convince someone to actually purchase it.

Promotion techniques

The essential promotional methods are:

- Advertising.
- Sales promotion.
- Public relations.
- Personal selling.
- Merchandising