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# **MARKETING**

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Transition of economy of Kazakhstan to the market relations demands the experts of new thinking, who are adapted to work in the competitive environment.

In this textbook, the complex of questions concerning system of modern marketing is taken up, the functions, which are carried out by marketing specialists, are considered: complex market research, studying and forecasting of a market demand, formation of the commodity range, establishment of goods and services prices, organization of sales, advertising activity, ways and methods of implementation of public relations and etc. The textbook contains material on program questions and tasks for independent work for students on each section.

The textbook is for students of economic specialties and for practical workers.

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## INTRODUCTION

Any firm, working in market conditions, wishes to achieve success. For its achievement, it is necessary to choose the correct strategy, well adjusted system of informing, exact implementation of marketing program.

The term "marketing" comes from the English word "market" and means activity in the market sphere.

Today marketing services are created in many production associations, large, medium-sized and small enterprises of various forms of ownership. The knowledge of marketing can help the people, occupied in the most various fields of activity, understand and meet wishes and needs of customers, and provide commercial success of business activity.

The course of "Marketing" gives the opportunity to receive primary preparation in marketing, study experience in the market sphere in foreign countries and to adapt it to our economic conditions, find new market forms and methods of management of the enterprises. This course is urged to teach students to work in the conditions of the competitive market, relying on knowledge of marketing mix elements: product, price, place and promotion (4 Ps).

The textbook is made on the basis of the standard program and includes the following parts of the course:

No	Name of parts of the course	Hours
1.	Concept of marketing	4
2.	Marketing environment	2
3.	Process of marketing management	2
4.	System of market research and marketing information	2
5.	Market segmentation	2
6.	End user research	2
7.	Research of market demand	2
8.	Planning of goods	4
9.	Methods of distribution	2
10.	Promotion planning	2
11.	Pricing in marketing	4
12.	Marketing strategy planning	4
13.	International marketing	2
14.	Services marketing	2
	Overall	36

The listed parts have included the purposes of studying material, the main material and a practical task.

## Part 1. CONCEPT AND ESSENCE OF MARKETING.

Purposes: Having got acquainted with this subject students have to:

- to understand essence of category "market", elements of the market;
- to be able to give definition of marketing and to tell about its role in economy;
- to be able to compare five approaches to marketing management.

### 1.1. Economic prerequisites of emergence and development of marketing

Transition of economy of our country to the market relations led to awareness of use of marketing as a management concept of economic activity of the enterprise.

Currently, the word "marketing" even more often sounds in discussions of business executives, economists, business people who are engaged in business activity and look for ways of receiving profit based on observing and forecasting of the market, demand and development of strategy and tactics of work in the market. Many domestic enterprises have already created special services of marketing.

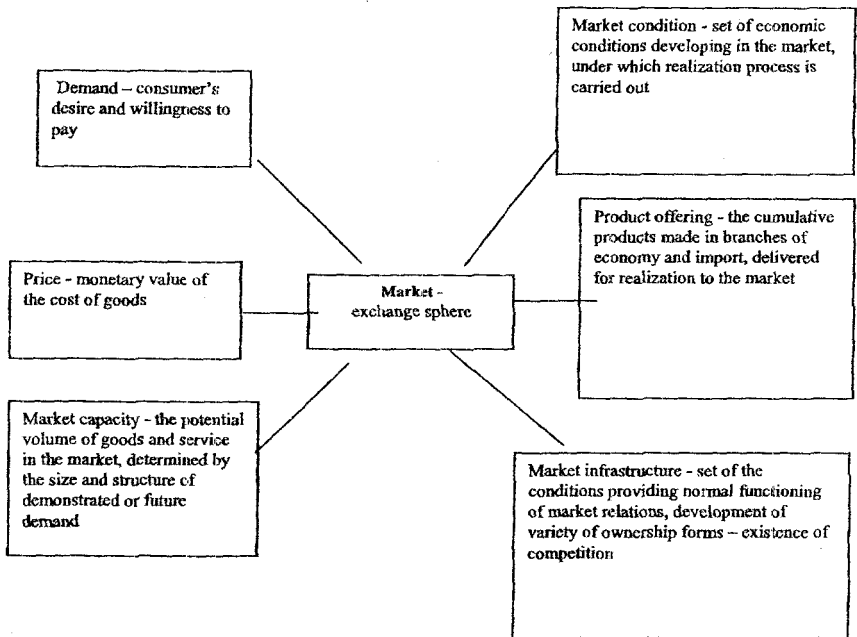
Marketing is the scientific discipline, which is directly connected with the market. For receiving the correct idea of it, it is necessary to understand the essence of category "market" and elements of the market. The last one refers to demand, supply, price, market capacity, environment and infrastructure of the market. Interaction of these elements provides satisfaction of specific needs of society, balancing supply and demand, production and consumption in both micro-, and macro levels.

All economic subjects can be shared into 2 groups according to the carried-out functions - buyers and sellers. Customers relate to buyers who acquire goods and services. The firms buying labour, capital and raw materials by which they make goods and services. The firms offering the goods and services, the workers selling their labor force and the owners of resources leasing or realizing them treat sellers. It is obvious that most of people and firms act at the same time as buyers and as sellers, but for us, it is more convenient to consider them as buyers when they get something, and sellers when they sale something.

Interacting, buyers and sellers form the market. *The market* represents set of buyers and sellers whose interaction brings in a result to a possibility of an exchange, i.e. the market called the exchange sphere.

"Market" usually adds any specifying term to the word. If the sphere of an exchange interesting us covers all national territory, "the market of the country" turns out: - Kazakhstan, Russia, Turkey. The world market is a set of national markets of countries between which communications are mediated by international trade, including trade in licenses and services, international movement of the capitals and etc. If to consider the international exchange of the electronic equipment, we will receive the market of goods (for example, equipment) in which it is possible to allocate the markets of computers, etc.

Components of the market are represented on the figure 1.



**Figure 1. Components of the market.**

The concept of the market of these or those goods is extremely important for a firm: all set of the firms functioning in this sphere of an exchange is defined by this term so, it is possible to reveal potential and



real competitors that is very important for the analysis of firm activity and strategy planning. There are concepts "seller's market" and "buyer's market".

Seller's market. In the conditions of such market demand considerably exceeds supply, any available goods, any services find immediate sale in the market even if they do not meet those requirements, which are imposed to them by the buyer: the main thing - their existence. The major role is played by quantity of goods, the commodity range is poor, scales of production are small, the competition is absent, the buyer is forced to buy that the producer will offer to the market. The rules of the "games" are dictated by the seller.

Buyer's market. In such market, the buyer compares different kinds of goods, which are produced by different producers, estimates them and chooses that which meet his wishes and money. Excess of the offer over demand is characteristic of the market of the buyer. In such market, buyers have more power.

Offer is when one party expresses interest to buy or sell a product from another party. Components of the offer are current production and stocks of goods.

Demand is how many goods and services are bought at various prices during a certain period of time. Demand is the consumer's need or desire to own the product or experience the service. It's constrained by the willingness and ability of the consumer to pay for the good or service at the price offered.

Price is a monetary value of the cost of goods. Feature of the price is its compliance to goods cost size only on average while the actual prices constantly deviate from cost base.

Capacity of the commodity market - one of the main objects of research in marketing as this indicator shows the possible volume of any goods. Market capacity is defined by the volume of the goods realized on it within a year (in physical units or value terms). The knowledge of market capacity is important for knowing market share belonging to the firm. The big share of the market allows to reach high output that in turn allows to expand business activity of firm and to increase desirable profit. Market capacity does not remain invariable, it to a certain extent depends on an economic environment. Concept "conjuncture" in a broad sense means set of the conditions, taken in their interconnection, passing situation, current situation and state of affairs.

Economic environment - the manifestation form in the market of system of conditions and factors of reproduction process, which is expressed in a certain ratio of demand, offer and price dynamics.

Efficiency of activity in the market depends on development of infrastructure - all branches of national economy providing normal activity of economy. It includes transportation, communication, trade, banks, the exchanges, etc.

Interaction of all elements of the market allows it to carry out the following functions:

1. Balancing. If demand exceeds the commodity offer, then the prices grow. New high prices reduce demand and counterbalance it with the commodity offer, i.e. the market by means of change in price regulates a ratio between supply and demand.

2. Sanifying (cleaning) The enterprise with low expenses gets the greatest profit in the market. By means of the price mechanism, the market gets rid of inefficient producers and the enterprises with high expenses extinct.

3. Establishment of optimum proportions in economy. If any goods are made insufficiently in comparison with demand for it, then, proceeding from the first function - balancing - the prices grow. High prices draw attention of other producers, and they begin to make more advantageous products, fill the market to necessary level.

4. Mediating. The market mediates many branches of economy, establishes connection between intermediaries in the most profitable way, raising thereby trade and operational efficiency of economy.

The methodology of economic environment research assumes need of carrying out classification of the commodity markets. Classification of the commodity markets is given in tab. 1.

*Table 1*  
Classification of commodity markets

No	Classification feature	Type of the market
1.	Structure of country's economy	1. The markets of the countries with economy like a subsistence economy 2. Markets of raw materials export 3. Markets of industrially developing countries 4. Markets of industrially developed countries.

2.	Level of the income and nature of their distribution in the country	<ol style="list-style-type: none"> <li>1. The countries with low average income per person (very low)</li> <li>2. The countries with very low and very high average income per person</li> <li>3. The countries with low, average and high levels of average income per person</li> <li>4. The countries with medium level of average income per person.</li> </ol>
3.	Territorial coverage	<ol style="list-style-type: none"> <li>1. Internal</li> <li>2. National</li> <li>3. Regional</li> <li>4. International</li> </ol>
4.	Commodity and branch with multilevel details	<ol style="list-style-type: none"> <li>1. Cars and equipment</li> <li>2. Mineral raw materials and fuel</li> <li>3. Agricultural raw materials, food and forest goods</li> </ol>
5.	Sphere of social production	<ol style="list-style-type: none"> <li>1. Commodity market of material production (raw materials, food, cars and equipment)</li> <li>2. Commodity market of intellectual work (achievement of science, technology, know-how, work of art, books and etc.)</li> </ol>
6.	Nature of end use	<ol style="list-style-type: none"> <li>1. Commodity markets of production appointment</li> <li>2. Commodity markets of consumer appointment</li> </ol>
7.	Term use of goods	<ol style="list-style-type: none"> <li>1. Commodity markets of long-term use</li> <li>2. Commodity markets of short-term use</li> <li>3. Commodity markets of one-time use</li> </ol>
8.	Organizational structure: Different conditions of trade and relationship between sellers and buyers	<ol style="list-style-type: none"> <li>1. World market</li> <li>a) hidden; b) closed;</li> <li>c) preferential</li> </ol>

## 1.2. Marketing as a system of activity in the market

The word "market" as a verb in English has also such meanings how to sell, trade, find a sales market, i.e. the word marketing orientation to the market makes broader sense and means also an opportunity "to sell",

"buy", and also assumes certain marketing actions from not only the seller, but also the buyer. Different authors interpret "marketing" in different ways. The set of definitions of marketing is put nowadays forward, each of which considers this or that part of marketing, or does attempt of complex characteristic of the concept. The term "market" is the cornerstone of the concept "marketing" and in the most general view means market activity. In classical understanding, it is defined as a business activity, which manage promotion of goods and services from the producer to the consumer or the user, or social process by means of which demand for goods and services is forecasted and satisfied by development of product promotion and realization.

These "traditional" definitions of marketing assume that the main thing in it - physical movement of goods and services. So, the specified definitions have a number of minuses. In them the role of sales channels and product distribution channels are exaggerated. Besides, modern definition of marketing should not be limited only to goods and services since the organizations, people, certain territories and ideas can be its objects.

One of the leading scientists Peter Druker writes: "Marketing is not business function, and represents a view of all sphere of economy including production and services". Everything that becomes in the world of business represents marketing or joins this concept". Some elements of marketing (for example, the prices and advertising) have more than a thousand-year history. As a scientific discipline, marketing was created recently, the end of XIX - the beginning of the XX centuries. At the same time, marketing is some kind of management philosophy of market activity of the enterprise directed to satisfaction of requirements.

John Makkitterik gave one of the first definitions of marketing "The concept of marketing is the business philosophy integrated, focused on consumer and profit".

The American marketing association (AMA) replaced traditional definition by more modern: "*Marketing* represents process of planning and the embodiment of a plan, pricing, promotion and realization of ideas, goods and services by means of an exchange".

It is possible to *expect, predict* demand, only constantly studying consumers, their inquiries to make and offer consumers what they need.

*Demand management* is urged to stimulate consumers aspiration to what is offered by firm, to make purchase of goods (services) readily available physically.

*Demand satisfaction* is not only normal functioning of the existing goods or services, but also safety of their use and availability of various options, an after sales service. L. Roger in work "Essence of marketing" writes that it should be noted marketing as a certain concept from marketing as complex of the various kinds of activity, which are carried out by experts, and marketing as a way of thinking from marketing as line of actions.

Marketing is a market philosophy, strategy and tactics of action of all subjects of the market: producers, intermediaries, suppliers and consumers.

One of the important parties of marketing - the orientation on prospect - opens such definition: "Marketing is the process consisting in satisfaction of requirements by the offer of the corresponding goods: products, technologies, services, etc.". From the given definitions, it is obvious that orientation to the consumer has to be the main thing in any definition. The purposes of marketing are formation and stimulation of demand, ensuring validity of the made administrative decisions and plans of firm, and also expansion of sales volumes, a market share and profits. To make what is on sale, but not to sell what is made - the main slogan of marketing approach in management.

In other words, before producing, the enterprise has to study carefully needs of specific consumers and according to the obtained data to finish and improve goods and then to enter with it the market.

Marketing is not imposing and pushing through goods, it is evidence-based concept of the analysis and mentioning of buyers requirements, requirements of a concrete segment of the market, development of new goods, system of the organization of its sales, measures for stimulation and advertising; it is also an organization of effective system of channels of good movement.

F. Kotler gives definition: "Marketing - a human activity, directed to satisfaction of needs and requirements by means of an exchange". Along with requirements, the main categories of marketing are: goods, exchange, need, demand, transaction.

The initial idea of marketing is the idea of human needs. A need - is something that is necessary for an organism to live a healthy life. Needs of people are diverse and difficult. Here and the main physiological needs in food, clothes, heat, safety and social needs.

The second initial idea of marketing is the idea of human wants and inquiries. The requirement is the specific condition of the person arising

because this person exists, firstly, in the form of a separate biological individual, secondly, is a component of public system, and thirdly, interacts with external environment. Requirements, in this regard, can be considered from the most different parties: as biological, social, economic, production, cultural, etc.

Inquiries. Needs of people are almost boundless, and resources for their satisfaction are limited therefore the person has to choose the most necessary goods within his financial opportunities. The inquiry is the requirement supported with purchasing power of the person.

Human needs, requirements and inquiries cause the necessity of creation of goods.

Goods - everything that can meet requirement or the need and are offered to the market for the purpose of drawing attention, acquisition, use or consumption by the person.

Let's assume, the woman feels need to look beautiful. All goods capable to meet this need, we call it the commodity range of the choice. This range includes cosmetics, new clothes, suntan, cosmetological service, plastic surgery, etc.

The concept "goods" is not limited to physical objects.

It is possible to call goods everything that it is capable to meet any need. Besides products and services, it can be persons, places, organizations, kinds of activity and ideas. The consumer decides what entertainment event to watch on TV, where to go to holiday, to what organizations to give a help, what kind of ideas to support.

Ability of goods to satisfy specific human need is presented on the following scheme. In fig. 2 is shown that goods A do not satisfy need of X, goods B satisfy it partially, and goods C - completely. In this case, goods B will be called "perfect goods".

If goods meet desires of consumer, the producer will achieve more success.

The point is that producers have to find consumers to whom they want to sell their products, to find out their requirements, and then to create the goods as much as possible fully satisfying these requirements.

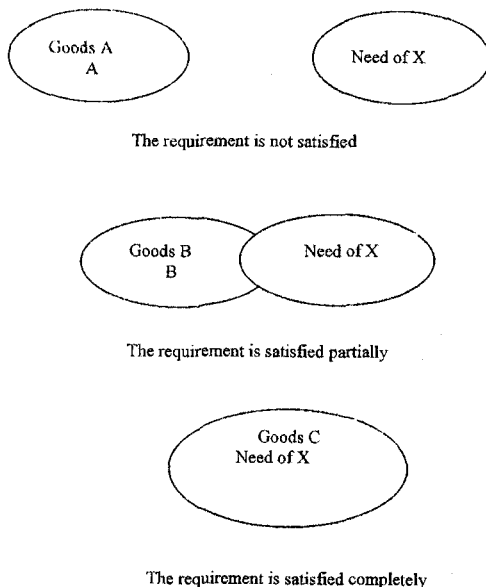
The concept "goods" is not limited to physical objects.

Besides products and services, it can be persons, places, organizations, kinds of activity and ideas. Marketing takes place when people decide to meet the needs and inquiries by means of an exchange.

An exchange - the act of receiving from someone desirable object with the offer something in exchange.

Exchange - one of four ways by means of which individuals can receive desirable object. For example, hungry person can get food the next ways: by means of hunting, fishing or collecting fruits (*self-sufficiency*), will steal food (*depriving*) from someone, will elicit its (*begging*) and, at last, will offer for granting food to it any means of compensation, say, money, other goods or some service (*exchange*).

From these four ways of need satisfaction, exchange has the greatest advantage. People should not encroach on the rights of others, it is not necessary to depend on someone's charity. Needless to them making yourself any object necessities regardless of whether they know how to do it or not. It is possible to concentrate on creation of things which production they well mastered, and then to change them to the necessary objects made by others. As a result, cumulative production of goods increases in society.



**Figure 2. Three degrees of requirement satisfaction**

The basic concepts, which are the most often found in the sphere of relationship of the Kazakhstan subjects, are the exchange and the transaction.

Exchange - the basic concept of marketing. To make a voluntary exchange, it is necessary to observe five conditions:

1. The parties have to be at least two.
2. Each party has to have something valuable for other party.
3. Each party has to be capable to carry out communication and delivery of the goods.
4. Each party has to be completely free to accept or reject the offer of other party.
5. Each party has to be sure of expediency or desirability to deal with other party.

These five conditions are created only a potential possibility of an exchange. And whether it here will take place, depends on the agreement between the parties and its conditions. If the agreement is reached, it is possible to draw a conclusion that as a result of an exchange all its participants receive benefit (or at least do not suffer damage) because each of them was free either to reject, or to accept the offer.

Transaction - a commercial exchange of values between two parties for which it is necessary that the party A transferred to the party B object X and received from it in exchange object Y. For instance, Ivan gives to Semyon 40 thousand tg for TV. It is the classical monetary transaction, though presence of money as commercially exchanged values is not obligatory at all. At the barter transaction in exchange for the TV Ivan will give to Semyon the refrigerator. Instead of goods during the barter, transaction services can also act. For example, when the lawyer Ivanov writes a will to the doctor Semenov in exchange for medical examination in its clinic.

The transaction assumes existence of several conditions: 1) at least two valuable and significant objects, 2) agreed conditions of its implementation, 3) time agreement, 4) place agreement. As a rule, terms of transaction are supported and protected by the legislation.

One of basic elements of a market mechanism is demand. Demand is the form of expression of the requirements presented at the market, supported with cash security.

Depending on character and features of demand there are different types of a market demand. If there is a lack of demand, when a number of buyers refuse consumption of some types of products, then the task of the marketing specialist consists in demand creation for a number of reasons. In this case, we deal with conversion type of marketing.



In a situation when the buyer is indifferent to goods, the problem of marketing - consists in demand stimulation. Such marketing is called stimulating.

When the consumer has a demand for goods, which are not on sale, the problem of marketing consists in transformation of potential demand in real one, i.e. the developing marketing takes place.

If we deal with decreasing demand, then the objective of marketing is to restore the volume of demand, such type of marketing called remarketing.

At sufficient demand for goods and services, a marketing specialist has to make efforts on stabilization and alignment of demand by means of use of various marketing tools. Such kind of activity carries the name of sinkhromarketing.

In case when demand corresponds to the offer, a problem of marketing - preservation of the reached demand and its stabilization. Such demand is called full, and marketing auxiliary.

If the excessive demand cannot be also satisfied now, the problem of marketing consists in development of the methods allowing to reduce temporarily demand. It can be reached by means of prices, refusal of sales promotion and advertising. This marketing is called a demarketing.

At the market there can be an irrational demand, for example, for wine, tobacco products and etc. In this case, it is necessary to develop the actions reducing and liquidating such kind of demand. This type of marketing is called counteracting.

Thus, marketing can be defined as scientifically – applied discipline, as a type of professional activity, as a system of management, as a way of thinking, a complex of concrete functions. The complex purpose of marketing is accurately formulated by professor P. Druker. "The purpose of marketing is to know and understand the buyer so well that goods or service always suited the buyer and were in demand".

### 1.3. Concepts of marketing management

The modern concept of marketing passed rather long evolution. There are different concepts of marketing management:

- concept of production improvement;
- concept of product improvement;
- concept of intensification of commercial efforts (selling concept);

- concept of marketing;
- concept of social and ethical marketing.

In some degree, these concepts reflect marketing formation evolution as a science. The listed concepts can be considered as an embodiment of various periods in the history of the American economy for the last half a century and to bring the general tendency of this development - "transfer of accent from production and goods to commercial efforts, to the consumer and the increasing orientation to problems of the consumer and social ethics".<sup>1</sup> In order to better understand, what distinguishes marketing from other approaches to the organization of market activity, we will consider the specified concepts in more detail.

The concept of production improvement is one of old approaches to which sellers are guided. The firm believes that consumers will like goods, which are widespread and affordable. The management focuses efforts on production improvement, finds the ways of increasing production because demand for goods exceeds the offer.

The concept of product improvement claims that consumers will like high quality goods, having the best operational properties and characteristics. The organization has to concentrate the efforts on continuous improvement of its products.

The concept of intensification of commercial efforts (selling concept) is in the statement that the firm will achieve the highest results in the market, undertaking, considerable efforts in the sphere of sale and stimulation. Especially aggressively used the concept in relation to goods of passive demand, the purchase of which the buyer is not currently thinking.

The concept of intensification of commercial efforts is applied also in the sphere of non-commercial activity. The carried-out pre-election company, when any party imposes the candidate as the Member of Parliament, who is most suitable for a role, can be an example. Any minuses of the candidate disappear from voters for achieving the main goal - to take the place in Parliament.

The concept of marketing as a special approach to production management and realisation was selected at the beginning of the XX century, when large-scale production was created, the competition sharply sharpened that stimulated search and development of new approaches to management of market activity of firms, to demand

<sup>1</sup> Kotler F. Marketing bases. M.: Progress, 1990 pages 60

stimulation for products. The concept of marketing is guided by creation of consumer satisfaction as a basis for achievement of the objectives of the organisation. Such approach favourably distinguishes it from considered earlier.

As for the concept of social and ethical marketing, it is further development of marketing ideas in the conditions of complicated social, economic and ecological situations. Adherents of this concept additionally check their decisions by comparing the benefits and rewards to consumers the impact that the activity of firm has on the environment at the situation of shortage of natural resources and environmental degradation. The concept of social and ethical marketing demands balance between three factors: income of the firm, needs of buyers and interests of society.

Marketing as the concept of production management – marketing activity has a number of the general functions inherent in any type of management: planning, organization, coordinating, record and control.

These the main, management of function inherent in any kind, can be added with functions, specific to marketing activity:

- 1) complex research of the market;
- 2) the analysis of production marketing opportunities of the enterprise;
- 3) conducting marketing strategy and program;
- 4) implementation of commodity policy;
- 5) implementation of price policy;
- 6) implementation of marketing policy;
- 7) implementation of communication policy;
- 8) formation of structures of marketing services;
- 9) control of marketing activity and assessment of its efficiency.

1. Complex research of the market covers the following major directions:

studying of the marketing environment;  
analysis of cumulative characteristics of the market;  
research of conjuncture and forecast development;  
behaviour in the market;  
analysis of company structure of the market: firms – buyers;  
firms – competitors, firms – neutrals;  
analysis of forms and methods of sale;  
identification and studying of market segments;  
studying of consumers.

2. The analysis of production – sales opportunities of the enterprise.

It is important type of market research as, having only defined requirements of the market, the enterprise will not be able effectively to choose its concrete segment since for this purpose it is necessary to correlate requirements and inquiries of the market to own opportunities.

3. Development of marketing strategy and program.

As a result, the above-stated research marketing services make strategic and tactical, operational plans of enterprise activity. They include market conjuncture forecasts, aims, strategy and tactics of enterprise behaviour in the market, on trade, price, marketing policy.

4. Implementation of commodity policy, represents special sections of marketing program, a series of specifically realized marketing corrective actions on the market directed to increase of competitive positions of firm.

5. Implementation of sales policy assumes planning and formation sales channels of goods: width and extent of sales channels, research of various methods of sale: direct, indirect and mixed.

6. The communication policy or demand creation and sales promotion represents a complex of the actions directed to advertising advances, direct or personal sales, sales promotion, a pre-sale or after sales service.

7. Implementation of price policy means determination of price strategy of firm behaviour in the market counting on long prospect and price tactics for shorter period on each group and each type of goods. The price policy includes a combination of various type of price behaviour in the market: politics of high, low, differentiated prices, politics of discounts and price privileges, the discrimination prices, competitive, prestigious prices, etc.

8. The organization of marketing activity provides creation of special structural divisions in a control system of firm which are under construction on three main types:

on functions of marketing activity;

by the commodity principle;

on regions;

on groups of consumers.

9. Control of marketing activity is exercised in the course of implementation of marketing programs, in the form of control over the implementation of plans of firm.

#### 1.4. The state of introduction of marketing activity in Kazakhstan firms

Strategy "Kazakhstan 2030" determined by one of the major priority tasks economic growth. Economic growth can be reached on condition of creation in the country of the developed market economy relying on the principles of modern management and marketing.

Need of introduction of marketing in activity of economic subjects, is predetermined, firstly, by transition to a market way of development, secondly, by world tendencies of development of the theory and practice of management.

The economy of Kazakhstan develops in difficult conditions. It is a low welfare of the population that determines the volume and structure of market capacity; insufficiency of fixed and current assets of the enterprises, instability of external factors, etc.

The solution of these and other problems connected with functioning in the conditions of the competition, in many respects depends on skilful use of marketing as the concept of market management based on understanding of laws of the market and mechanisms of their action.

However, marketing as the mechanism capable to provide to the enterprise social and economic production efficiency, by domestic enterprises is used very poorly.

Marketing is not the law, not legal installation. It is impossible to move at the same time to all domestic enterprises to large-scale use of its tools. In process of development of the market relations in RK, marketing develops into full.

In development of domestic marketing, it is possible to allocate 3 levels:

- The lowest, assuming local introduction of separate elements of marketing, for example, firm, trying to enter a new market segment, develops new goods, actively is engaged in their advertising, i.e. places emphasis on separate functions of marketing.
- The second level of the organization of marketing is a partial introduction. At this level, the firm is not limited to use of separate elements of marketing, and uses the concept of marketing on a constant basis. Partial introduction is "marketing -- mix".

- The third level – global introduction, means use of the concept of marketing at the macroeconomic level assuming orientation of activity of the state, the enterprises, etc. subjects of the market for needs and wants of buyers and creation of buyer's market.

The analysis of the operating divisions of marketing on domestic-owned firms showed that these services according to contents, generally carry out only separate functions of marketing: marketing, advertising, commercial, etc.

Process of formation and development of marketing in the Kazakhstan economy is conditionally divided into two periods.

*Table 2*

The periods of development and implementation of marketing in Kazakhstan

Periods	Spheres of creation of marketing services	Years of establishment	Main characteristics
I period – 1991 - 2000. Marketing formation. Marketing formation	Infrastructure of marketing Agency "Brif" Commercial firms: "Butya"	1991  1992	1. Departments of marketing instead of the former sales departments or supply are created 2. In functions sales and advertising prevails 3. Tasks, functions of marketing department are not accurately defined. 4. Budget volume minimum 5. The number of marketing department is insignificant.
	Agriculture: Agricultural firm "Bereke"	1993	
	Education: Marketing department of KAZGAU (KAZEU)	1993	
	Services sector: Yassau travel agency	1994	
	Trade: "Zangar" trading house	1996	
	"Kazkommertsbank"	1997	
	Industry: AZTM, "Rakhat", Atyrau "Becker and K"	1996 1997	
	"East" machine factory	1998	
	"PRG Bottlers", "Almaty tea"	2000	
Non-commercial sphere: RNTB library (sector on market research)	1996		

2 period - since 2000. Marketing development.	Development of marketing in all spheres of economy	2000	1. Services and departments of marketing are formed 2. Their functions and tasks are defined 3. The position of marketing director is entered 4. Technologies of marketing are used
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The first period from 1991 to 2000 is characterized by orientation of activity of the enterprises to performance of separate commercial and marketing functions. The enterprise is guided by the production capabilities and the role of marketing service in business management is auxiliary.

The second period is characterized by the orientation of the majority of firms to needs and wants of clients caused by fierce competition and further development of market relations.

The marketing condition in Kazakhstan enterprises is characterized by data of the table 3

*Table 3*

Characteristic of marketing condition of the Kazakhstan enterprises

	Parameters of marketing condition	Enterprises
1.	The companies where no services marketing	"Bakhus", "Candies of Karaganda", "Almaty margarine plant"
2.	The companies having services of marketing with a number: to the 5th persons.  from 5 to 10  over 20	"Fudmaster", "Asem-ay", "Sugar center", "Almaty tea", "Bayan - Sulu", "PRG Bottlers", "Becker and K"  "Rakhat", "Filip Morris"
3.	Marketing role: fundamental auxiliary	"PRG Bottlers", "Filip Morris", "Rakhat", "Asem-ay", "Almaty tea", "Bayan Sulu", "Candies of Karaganda", "Bakhus"

4.	Conduct market research independently	"Rakhat", "Asem-ay", "Becker and K", "Almaatinsky tea", "Candies of Karaganda", "Bakhus"
	independently and with a help of the specialized organizations	"Fudmaster", "Asem-ay", "Filip Morris", "PRG Bottlers"
5.	Practising - long-term planning of marketing - only short-term planning	"PRG Bottlers", "Filip Morris", "Fudmaster", "Rakhat", "Asem-ay", "Almaty tea", "Bayan Sulu", "Candies of Karaganda", "Bakhus"
6.	The budget of marketing in % to sales volume: To 8 To 2 To 1	"PRG Bottlers", "Filip Morris", "Becker and K", "Asem-ay", "Almaty tea", "Rakhat", "the Bayan – Sulu"

Materials of the doctoral dissertation of Esimzhanova S.R. are used.

Thus, formation and development of market relations in the Republic of Kazakhstan will inevitably lead businesspersons to awareness of need of large-scale use of the concept of marketing for the activity, to understanding that marketing approach will allow them to find the target market, customers and to achieve success.

### Summary

Marketing activity of firm is directly connected with the market. For receiving the correct idea of it, it is necessary to understand essence of category "market" and elements of the market. It is necessary to refer demand, offer, prices, market capacity, conjuncture and infrastructure of the market to the last. Interaction of all elements of the market allows to execute balancing, sanifying, mediating functions, besides optimum proportions in economy. The market is the cornerstone of the concept "marketing". Marketing affects life of each of us. Many confuse marketing to commercial efforts on sale, whereas actually it combines several kinds of activity directed to identification, service, satisfaction of consumer needs and wants for purpose solutions facing the organization.

Marketing is a human activity, directed to satisfaction of needs and requirements by means of an exchange. The basic concepts of the sphere



of marketing is the following: needs, requirements, inquiries, goods, exchange, transaction and market.

Control of marketing can be exercised from positions of five different approaches:

- the concept of production improvement is based that the consumer will give preference to goods which are widely available and which price suits the consumer. Then, therefore, management has to be directed to improvement of production and reduction of price.

- the concept of product improvement is based that the consumer will always give preference to goods which represent the highest level of quality, the maximum productivity and new opportunities. Therefore, the company has to direct all energy to continuous improvement of the products.

- the concept of an intensification of commercial efforts or selling concept is based on what goods will not buy in enough, if not to induce consumers to it by means of considerable efforts in the sphere of sale and stimulation.

- the concept of marketing assumes that achievement of the purposes by the company depends on definition of needs and inquiries of the target markets, and also on satisfaction of consumers in comparison with the rival companies.

- the essence of the concept of social and ethic marketing is that the company not only reveals needs and requirements of the target markets, but also provides a combination of satisfaction of consumers and long-term public wellbeing.

### Tasks for independent work

#### Task 1.

You are very hungry and in break you bought at university canteen one bun and a cup of tea for 10 tenge. Apply to this situation the concepts: need, requirement, inquiry, goods, exchange transaction and market.

#### Task 2.

You have given to the friend an apple:

- without having received anything in exchange;
- received in exchange a candy;
- received in exchange money.

Name: where the transaction and where simple transfer takes place?

Task 3. The client came to shop. Its attention was drawn by a new doll. The seller instantly begins "psychological" actions saying that it is a fine good, he will go and can become inaccessible soon. By what concept of conducting commercial activity the seller is guided?

Task 4. The farmer grows up potatoes. Demand for potatoes in the market is higher than the offer, and the farmer focuses the efforts on production increase of potatoes and decrease in expenses, considering that it will make its production available to a wide range of buyers. By what concept of conducting commercial activity the farmer is guided?

Task 5. The farmer focuses the efforts on improvement of a taste of potatoes, considering that it will lead to increase demand for potatoes. By what concept of conducting commercial activity the farmer is guided?

Task 6. In the university canteen, only pies with cabbage and with onions were baked. The catering manager decided to change a situation:

1. began to bake meat pies, but they were badly bought;
2. asked students what of the baked products they would like to see in the dining room. It became clear that onions and meat pies are loved by very small part of students, the most part from them loves jam and potatoes pies. The dining room began to bake different pies, but the most part of them - with jam and potatoes. By what concept of conducting commercial activity the catering manager at a solution with pies was guided in the first and in the second case?

Task 7. What condition of demand is observed and what type of marketing should be applied in the following situations:

- children do not like to go to dentist;
- students are not interested to learn a foreign language;
- there is a great hidden demand for the cigarettes harmless to health;
- demand for chewing gum falls;
- in cinemas, there are not enough visitors on weekdays;
- the cafe, which is near university, satisfied with its turnover;

- demand for "Zhanar" sweets is higher, than the confectionery can offer.

**Test questions for self-examination of knowledge.**

**1. Demand for goods (service) as a category of marketing is:**

- a) need for a specific type of product;
- b) need for goods (service);
- c) need for goods which can be paid by the consumer;
- d) all answers are right;
- e) there is no correct answer.

**2. The type of marketing realized at a negative condition of demand:**

- a) supporting;
- b) conversion;
- c) developing;
- d) all answers are right;
- e) there is no correct answer.

**3. The word "market" in translation means ....**

- a) market;
- b) price
- c) demand;
- d) goods;
- e) marking.

**4. Demarketing advisable to implement at:**

- a) lack of demand;
- b) excessive condition of demand;
- c) negative condition of demand;
- d) all answers are right;
- e) there is no correct answer.

**5. Positive attitude of consumers to widespread and to affordable goods (services) - is the basis for implementation of marketing concept:**

- a) improvement of goods;
- b) intensifications of commercial efforts (sales);
- c) production improvement;
- d) all answers are right;
- e) there is no correct answer.

**6. Buyer's market defines a situation, when in the market it is noted:**

- a) large number of consumers;
- b) excess of the offer over demand;
- c) excess of demand over the offer;
- d) all answers are right;
- e) there is no correct answer.

**7. Remarketing is connected:**

- a) with negative demand;
- b) with decreasing demand;
- c) with irrational demand (demand<sup>4</sup> - delusion);
- d) with an excessive demand (superdemand);
- e) with lack of demand.

**8. The idea of social and ethical marketing is realized:**

- a) creation of high-quality goods with special characteristics;
- b) considering long-term interests of society;
- c) production with minimum socially necessary costs;
- d) all answers;
- e) there is no correct answer.

**9. The marketing concept assumes that planning of commercial activity begins:**

- a) from development of new goods and services;
- b) from the analysis of data on demand for goods (services);
- c) from planning actions for organising production base of the enterprise;
- d) all answers are right;
- e) there is no correct answer.

**10. The market corresponding to situation when the offer exceeds demand is:**

- a) seller's market;
- b) buyer's market;
- c) position of market balance;
- d) point of a crisis situation;
- e) there is no correct answer

## Part 2. MARKETING ENVIRONMENT.

Purpose: After studying of the offered material students have to be able:

- to list and describe factors of the micro and macro environment which influence ability of the company to serve the clients;
- to explain how factors of a macroenvironment influence on marketing decisions of firm;
- to explain how factors of a microenvironment impact on marketing activity of firm.

### 2.1 Microenvironment of firm

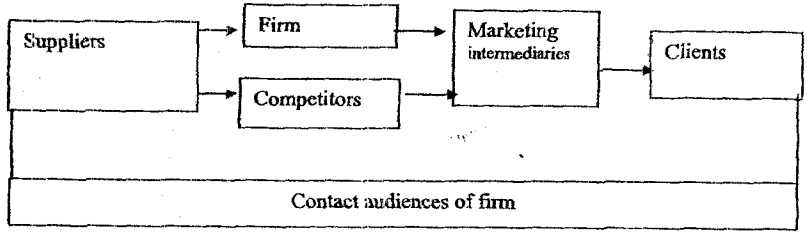
Any firm functions, having communications with the market: delivering on it products and providing buyers with goods and the relevant information. From the market, the firm receives money and information. There is a closed system functioning as a unit. There is one more system, in which the firm acts as the accepting link in relation to delivery of raw materials, components, any indications of legislative bodies. In reply, the firm also directs information and money. Thus, activity of any firm depends on the marketing environment.

*The marketing environment of firm* - set of the active subjects and forces operating outside a firm influencing on possibilities of marketing management and establishing and maintaining the cooperation relations with target clients.

The marketing environment consists of micro and macroenvironment. The microenvironment is presented by forces having a direct bearing on the firm and its opportunities for service of clients i.e. suppliers, marketing intermediaries, clients, competitors and contact audiences.

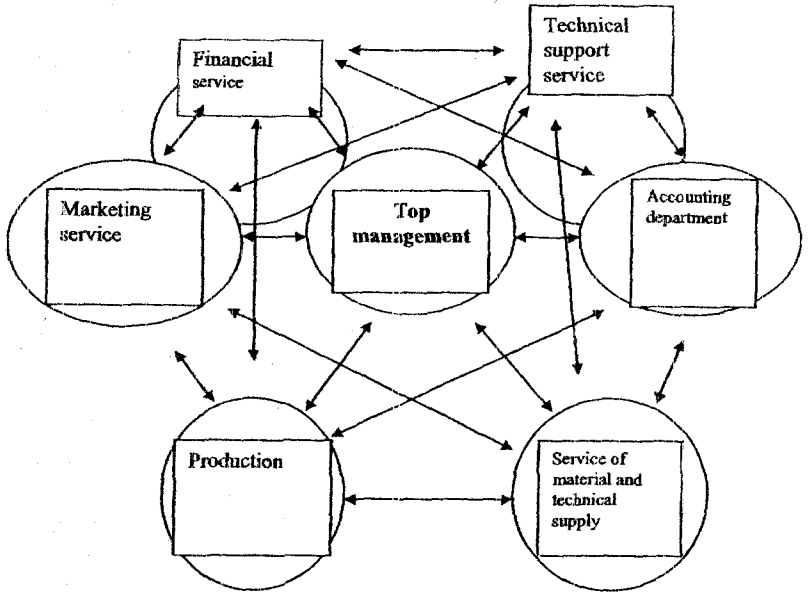
Forces of wider social plan present macroenvironment-factors of demographic, economic, natural, technical, political and cultural characters.

The success of firm depends in many respects on actions of its intermediaries, competitors and various contact audiences. Forces operating within a microenvironment of firm can be presented in the form of the following scheme.



**Figure 3. Microenvironment factors**

**FIRM.** When developing marketing plans heads of marketing service have to consider other groups in the firm. For development of marketing plans, all these groups make microenvironment of firm (see figure 4).



**Figure 4. Firm's internal environment**

Top management includes general managing director, members of executive committee, managing director, chairman and board members. The general strategic installations are defined by the highest person of

management. Managing directors on marketing have to make the decisions which are not contradicting plans of the management. Moreover, all marketing projects are subject to the approval by the top management. Managing directors on marketing have to work in close cooperation with other divisions of firm.

Financial service concerns problems of existence and use of means, which are necessary for implementation of marketing plans.

Technical support service solves technical problems in the firm. Service of material and technical supply cares for existence of enough raw materials, details and so forth for production.

Production service bears responsibility for releasing necessary quantity of products. The accounting service monitors the income and expenses, helping service of marketing to be aware of case of that, how successfully there is an achievement of the purposes planned by it. Activity of all these divisions anyway affects both plans and actions of service of marketing.

Suppliers are business partners of firm and individuals providing the company and its competitors with material resources for production of goods and services. Events in "the circle of suppliers" can seriously influence marketing activity of firm. Managing directors on marketing have to trace prices. Shortage of these or those materials, strikes, etc. events can break a regularity of deliveries of goods to customers.

Marketing intermediaries are the firms helping the company with promotion, sale and distribution of goods among customers. Resellers, physical distribution firms, marketing services agencies and financial institutions treat them.

1. Resellers are firms or individuals helping the company to find customers or to directly sell them goods. Resellers can provide convenience of the place, time and procedure of purchasing goods. Convenience of the place is created by resellers by means of accumulation of stock in the locations of clients. Convenience of time is created due to exhibiting of goods, at the moment, when consumers want to buy them. Ease of acquisition procedure is the sale of goods with simultaneous transfer of ownership of the rights.

2. Physical distribution firms help the company to create stocks and to advance them from place of production to the destination. Warehouses providing accumulation and preservation are also included. The railroads, airlines, a cargo, water transport and the other cargo handlers moving goods from one place to another are among transport firms. The

firm needs to choose the most economic methods of transfer, having balanced such factors as cost, volume and speed of deliveries, and also safety of goods.

3. Marketing services agencies. – these are the firms which are carrying out market research, advertising agencies and consulting companies. They help the company to promote its goods on the markets suitable for them.

4. Financial institutions. The banks, credit, insurance companies and the other organizations helping the firm to finance transactions or to insure itself against risk in connection with purchase or sale of goods.

Clients. The firm has to know the clients well. Any firm can act on 5 types of the client markets:

1. The consumer market – the individual or the household acquiring goods and services for personal consumption.

2. The market of producers – the organizations acquiring goods and services for their use in the course of production.

3. The market of intermediate sellers - the organizations acquiring goods for resale.

4. The market of government institutions – the organizations acquiring goods and services for use in the municipal sphere or for transfer of these goods and services by that who needs them.

5. The international market – buyers behind country's boundaries.

Competitors. Any firm faces a great number of various competitors. The best way to reveal all competitors of firm - to conduct research how the person makes the decision on purchase of its goods. For example, you have a certain sum of means and consider the actions: to buy the vehicle, a stereosystem or the tour. If you decided that you most of all need the vehicle, then you choose a car, motorcycle or bicycle. These are commodity-generic competitors. Let's say that you decided to buy the bicycle and you will think what type of the bicycle to buy. There is a number of commodity-specific competitors. Then, having chosen bicycle type, you will get acquainted with rival brands. Understanding of that, how exactly consumers make the decision on purchase, can facilitate to the marketing specialist a problem of identification of all competitors preventing firm to sell the goods.

Contact audiences – any group of consumers, which shows real or potential interest in the organization or exerts impact on its ability to achieve goals.



It is necessary to allocate the following types of contact audiences:

- the financial circles influencing a possibility of the company to receive money. The main financial contact audiences are banks, broker firms, investment companies, shareholders;

- Contact audiences of mass media. Those who report news treat them, writes newspaper articles and editorial comments. In other words, it is owners of newspapers, magazines, radio stations and television centres;

- Contact audiences of government institutions. The management of the company has to consider the events, which are taking place in the state circles. Marketing specialists need to consult with lawyers on safety issues of goods, truthfulness of advertising and other questions constantly;

- Public organizations. Marketing decisions of the company can raise questions at the organizations, consumers, movements in environment protection, and many other organized associations. Therefore, the department of public relations has to help the company to maintain the constant relations with the public and consumer organizations;

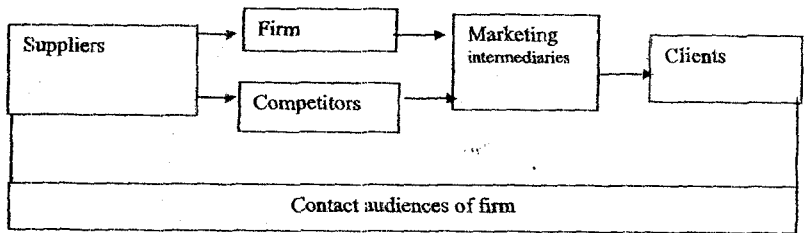
- Local contact audiences. Each company has local contact audiences, for example, residents of neighbouring areas and the local organizations. In big companies, the special position for work with the public is, as a rule, provided. The public relations manager holds meetings with local people, answers questions and helps to solve the arising problems;

- General public. The firm needs to watch the relation of general public to the goods and the activity captiously. And though the general public does not act in relation to firm in the form of organized force, the image of firm in the opinion of public affects its commercial activity;

- Internal contact audiences consist of own workers and employees, managers, volunteer assistants and board members. When workers and employees are satisfied with the activity of own firm, their positive relation extends also to other contact audiences.

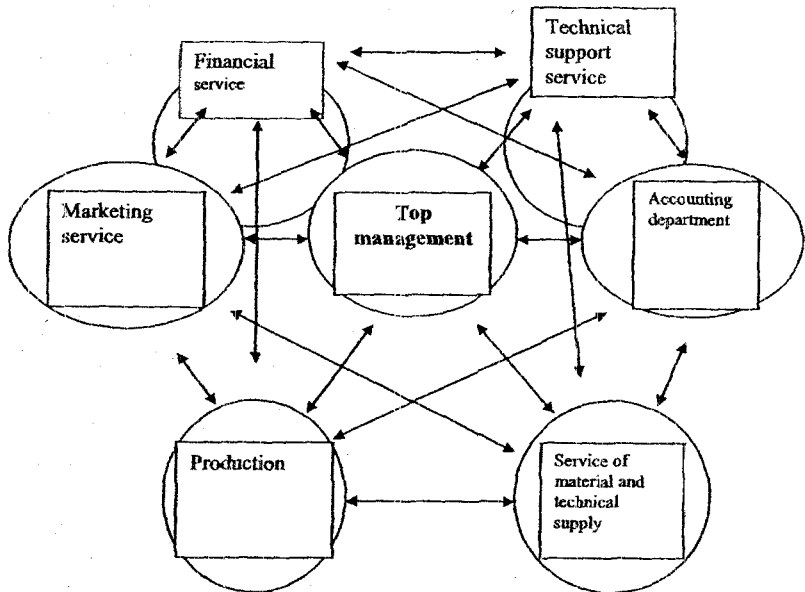
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Firm and its suppliers, intermediaries and competitors act within more extensive macroenvironment.



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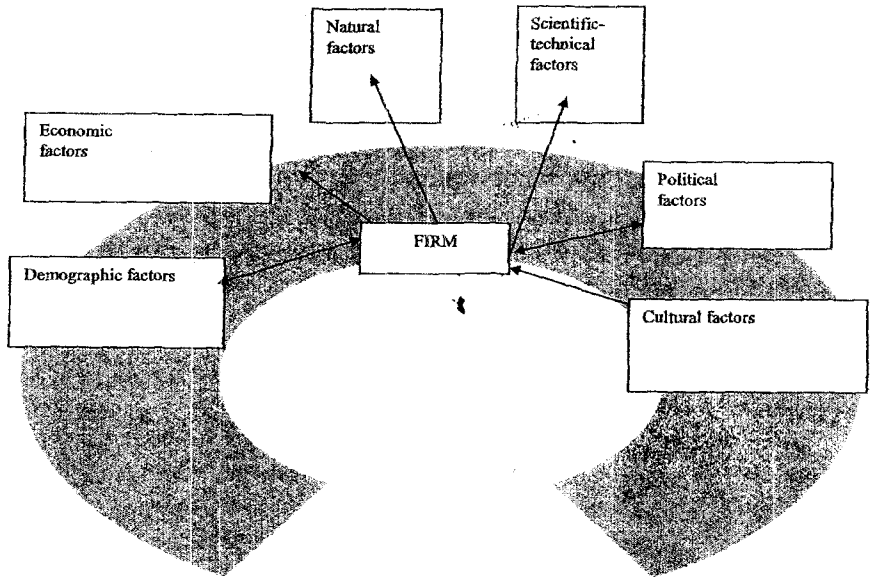
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**Figure 5. Main factors of macroenvironment of functioning firm**

The main factors of macroenvironment:

Demographic factors. Demography – the science studying the population from the point of view of its number and density. Typical factors include age, gender, marital status, race, education, income and occupation. For the experts, who are engaged in marketing, the demographic environment is of a great interest. The main tendencies of demographic factors are:

World population explosion. The population of the earth grows at explosive rates that causes concern in various countries for the following reasons:

- 1) resources of the planet can just not be enough for maintenance of life of the growing number of people;
- 2) growth of population goes the highest rates in the countries, where most of all cannot afford the resources.

Growth of population is followed also by growth of human needs which business needs to satisfy. This means growth of volumes of the markets with sufficient purchasing power.

Despite the general growth of Earth population, different countries have different situations.

For example, in the USA from the middle of the 80th years, rate of population growth was significantly slowed down to 1% per year. Reduction of the size of a family was promoted by such circumstances as desire to raise own standard of living, aspiration of women to work, career, effective research of methods of birth control.

*Declining birth rate* – threat for one market spheres and wellbeing for others. The problem arises for the branches, which are engaged in production of a baby clothes and toys, products for baby food, insurance.

Firms are forced to change the production, advertising, to direct the efforts for service of old population. Decline in mortality means that people of present generation live longer. Increase in life expectancy and decrease in birth rate lead to population aging. Demographers show forecasts about settlement changes in age groups of the population, for example, for the next 10 years. Such information allows firm to define the behaviour in the market. So, for example, growth of group of the population of 65 years is also more senior causes demand for boarding schools, nursing homes, quieter forms of rest (golf, fishing).

In the American family there were considerable changes in recent years. 1) marriages became later; 2) less children in families; 3) 50% of marriages come to an end with divorces; 4) 50% of all married women work; 5) many young people seek to live separately from parents. These are changes in a family cause also changes in the market.

For example, the aspiration of children to live separately from parents, high percent of divorces causes demand for smaller apartments, modest furniture, household appliances and etc.

*Population migration.* Annually many people change the place of living. Many of immigrants moved from rural areas to the cities where the level of the income, more wide choice of goods and more quality services. The bulk of sales of expensive fur, fragrances, work of art falls to the share of the largest cities. But not all locate in the cities. The cities appeared in an environment of suburbs, and those, in turn, in an environment of country houses. Inhabitants of suburbs buy the equipment for house workshops, garden furniture, the equipment for cooking outdoors.

*Increase of educational level and growth of employees.* Growth of number of educated people increases demand for high-quality goods: books, magazines and trips. In recent years growth of a share of

employees and reduction of a share of workers, was outlined in total of the working population. The largest growth of workers is observed in science, medicine, rendering personal services, trade, etc.

Noted demographic tendencies within the short-term and medium-term periods are reliable factors of development. The firm can take the list of the main demographic tendencies and precisely define what each of them will matter for it.

Economic environment. Besides people, their purchasing power also is important for the markets. Economic recessions, high unemployment rate, the growing cost of receiving loans affect purchasing power. More careful approach to shopping can become response of buyers to deterioration in an economic situation. Figures of the market have to consider geographical distinctions in structure of income distribution, focus the efforts on the areas opening perspective opportunities.

Besides, it is necessary to pay attention to nature of income distribution. Income distribution has extremely uneven character. For example, there are consumers belonging to the highest society, economic situation does not affect on their expenses at all. They remain the main consumers in the markets of luxury goods.

Then there are consumers of middle class who are a little limiting themselves in expenses but all the same capable to acquire rather expensive clothes, houses, etc.

The working class - the most dependent on economic situation, gets only the most necessary products.

And at last, the representatives of the lowest class, people living on social security benefits. They are forced to consider each tenge when making even the most necessary purchases.

Environment. The concern grows in the society on the fact that industrial activity destroys surrounding environment. Groups and movements on environmental protection are appeared. Changes in environment affect also goods which firms make and offer the market. For example, these groups support prohibition of sale of preparations in aerosol package because they harm to an ozone layer. A big problem is renewability of resources. For example, the firms, which are engaged in timber, have to restore plantings on the cut-down squares. A serious problem is exhaustion of stocks of such resources as oil, coal and other minerals.

Even in the presence of initial raw materials activity of the firm, using scarce minerals, can become complicated and demand much bigger



expenses. And it will be hard to shift these costs for the consumer's shoulders. The firms, which are engaged in research and survey works, can partially remove sharpness of a problem having opened new valuable sources of raw materials and having created new materials.

Growth of environmental pollution. Industrial activity always harms to the environment. It creates prerequisites for the market of means of fight against pollution.

The management of service of marketing has to keep an eye on all these problems not to do harm to the environment because activity of firms, which can do harm to the environment, is under control of the government. Always it is necessary to remember that any new equipment appears on the place of old. For example, emergence of TVs caused damage to film distribution, cars – the railroad, etc.

Instead of turning into new productions, old branches or fought against innovations, or ignored them, losing at the same time scales of the activity. The figure of the market has to observe closely the leading tendencies in scientific and technical processes. Many of goods habitual today did not exist 100 years ago. For example, Abraham Lincoln did not know what is the car, the plane, the radio. Today the set of ideas is developed, the gap between emergence of ideas and their embodiment in life is reduced, the set of new technologies and goods are developed. The largest sums for research and development are spent by Americans. However, many firms instead of risking, making investments in new goods, are engaged in improvement of already existing goods. Public institutions observe that new products are safe for human life and the environment. Figures of the market need to understand the changes happening in the scientific and technical environment and how new equipment and technologies can satisfy customer needs.

Political factors. The political situation strongly affects marketing decisions. This situation consists of the legislation on regulation of business activity. So, for example, there are laws protecting firms from each other (competition), the laws protecting consumers from actions of rival firms. It is also necessary to protect the highest interests of society from businessmen (environment protection). The head of marketing has to know well laws of the country under which operation its marketing activity falls.

Cultural environment. People grow in concrete society, which forms views and standards of behaviour. Such features of cultural way as a resistant commitment to the main traditions and cultural values of the

country can influence on marketing decisions. Within concrete society, people support a set of views and values. They are generally given from parents to children and supported with activity of the main institutes of society – laws, church and the government. In any society, there are subcultures, i.e. groups of people with the general systems of the values resulting from a community of their life experience. Figures of the market can choose this or that subculture as the target market, based on needs and characteristics of consumer behaviour.

Despite considerable stability of primary values in the cultural environment, nevertheless there are changes. For example, influence of hippie, Beatles on haircuts, fashion. The figure of the market is obliged to foresee cultural and other shifts for identification of marketing opportunities for its enterprise. The main cultural values of society find expression in the relations of people to themselves, to others, to the institutes existing in society, society in general, to the nature.

The relation to ourselves. Today many people concentrated on satisfaction of own aspirations. The theory "society is I" has a set of marketing consequences. People use usual and branded goods and services as means of self-expression. For example, buy the car of "the dream" or go to holiday of "the dream".

Relationship of people with each other. People are very different: for example, the hermits avoiding communication. The aspiration to strengthening of interpersonal contacts grows in the society. Within many years, the percent of the people appreciating physical fitness and health grows. Figures of the market have to satisfy this tendency, extending the relevant information. It assumes expansion of services of health clubs, the organization of rest, etc.

At the same time, it assumes also growth of the market of the things which are not allowing to feel lonely (video games, computers).

Relation of people to public institutes. People differ from each other in the relation to corporations, the government organizations, universities and so forth.

Relation of people to society. In relation to society, in which they live, people take different positions. The tendency of easing of patriotism, the critic of the country leaders is noted. The relation of people to society influence on structure of consumption, savings, etc.

Relation of people to the nature. People differ on the relation to the nature. The love to the nature leads to growth of popularity of travel in inhabited vans, water walks, hiking. Business answered to it with growth

of release of sport equipments, tents and other accessories to fans of outdoor recreation. Advertising of these goods is given on a background of beautiful views of the nature.

Managing directors of marketing can not always affect the factors defining the marketing environment. In many cases, they are just forced to observe the situation and to react to its changes. For example, the company will not achieve success if it tries to interfere with geographical migration, to forces operating in the economic environment or want to change the main cultural values. But, when it is possible, experts - marketing specialists have to occupy an active, but not passive position in relation to the marketing environment.

### **Summary**

Any company functions in the marketing environment. It is divided into microenvironment and a macroenvironment.

The microenvironment is presented by forces directly related to the firm and its opportunities for client service, i.e. suppliers, marketing intermediaries, clients, competitors and contact audiences.

Macroenvironment is presented by forces of wider social scale, these are factors of demographic, economic, natural, technical, political and cultural character.

In the demographic environment tendencies of change of age structure, structure of a family, educational level and also deepening of heterogeneity are observed. The economic environment shows change of income level and character of the bought goods. In environment energy rise in price, pollution, shortage of some raw materials is observed.

The scientific and technical environment is characterized by acceleration of scientific and technical progress, increase of attention to innovation. In the political environment fight of two opposite is observed.

### **Tasks for independent work**

Task 1. At university there is a cafe:

- a) what are the elements of microenvironments of this cafe;
- b) whether the success of cafe depends on his employees?;
- c) how increase by suppliers of the prices of initial raw materials will be reflected on sale results?

Task 2. On the example of sugar trade, show when the consumer market, a commodity market of industrial function and the market of intermediate sellers takes place, show difference between them.

Task 3. Parents of students dislike food of school cafe. How this factor of microenvironment of the cafe is called?

Task 4. One company bought from "economic school" five thousand copies of the magazine for the purpose of their subsequent resale in other regions. What customer type of the market is presented here?

Task 5. About what four types of competitors the businessman, who plans to open a new pancake house in the neighbourhood with your university, has to know?

Task 6. How decline of birth rate will be reflected on activity of the firms which are producing children's toys?

Task 7. How growth of unemployment among parents of private college students will be reflected on its economic state?

### **Test questions for self-examination.**

1. The marketing environment of the enterprise is:

- a) part of its microenvironment;
- b) part of its macroenvironment
- c) both micro and macro environment;
- d) all answers are right;
- e) there is no correct answer.

2. **The concept of macroenvironment reflects:**

- a) forces influencing activity of the enterprise directly;
- b) forces which are not influencing activity of the enterprise;
- c) forces influencing the microenvironment in which the producer works;
- d) all answers are right;
- e) there is no correct answer.

3. **What is included in the microenvironment of the enterprise:**

- a) mass media;
- b) population of all country;
- c) trade organizations;

- d) all answers are right;
- e) there is no correct answer.

**4. Kinds of the same good are:**

- a) competitors – desires;
- b) commodity – generic competitors;
- c) commodity - specific competitors;
- d) brands competitors;
- e) there is no correct answer.

**5. Contact audience for the producer is:**

- a) suppliers;
- b) competitors;
- c) clients (customers);
- d) mass media;
- e) there is no correct answer.

**6. What the difference between marketing intermediary represented by bank and the representative of contact audience "financial circles"**

- a) the intermediary is engaged in current operations on an order of the enterprise;
- b) "financial circles" lends the enterprise;
- c) the concept "financial circles" concerns to the subjects which are in other region;
- d) all answers are right;
- e) there is no correct answer.

**7. Contact audiences are:**

- a) subjects who can exert impact on ability of the enterprise to achieve goals;
- b) subjects who directly contact with the enterprise and deliver it goods;
- c) subjects, which directly with the enterprise buying its goods;
- d) answers b) and c) are right);
- e) there is no correct answer.

**8. The demographic environment is:**

- a) set of the factors influencing purchasing power;
- b) the science studying the population from the point of view of its number, density, placement, age;
- c) the science studying natural resources;
- d) all answers are right;
- e) there is no correct answer.

**9. Economic factors are:**

- a) set of the factors influencing migration;
- b) set of the factors influencing purchasing power of consumers;
- c) set of the factors influencing a state of environment;
- d) all answers are right;
- e) there is no correct answer.

**10. The cultural environment is:**

- a) the social institutes and other forces promoting formation and perception of values, tastes, a standard of behaviour;
- b) set of laws, public institutions and structures;
- c) set of the factors influencing purchasing power of the consumer;
- d) all answers are right;
- e) there is no correct answer.

### Part 3. PROCESS OF MARKETING MANAGEMENT.

Purposes:

Having got acquainted with this subject, students have to be able:

- to characterize how the enterprises find new opportunities in the sphere of marketing;
- to tell for what the enterprises are engaged in market segmentation;
- to analyse elements of marketing mix.

#### 3.1. Analysis of market opportunities

Process of marketing management is measures of strategic and tactical characters directed to effective implementation of market behaviour of firm and achievement of its main objective: ensuring steady and comprehensive success of firm at normal profitability of its activity.

Process of marketing management consists of:

- I) analysis of market opportunities;
- II) selection of the target markets;
- III) developments of marketing mix;
- IV) implementations of marketing actions.

It can be presented in the form of the following scheme:

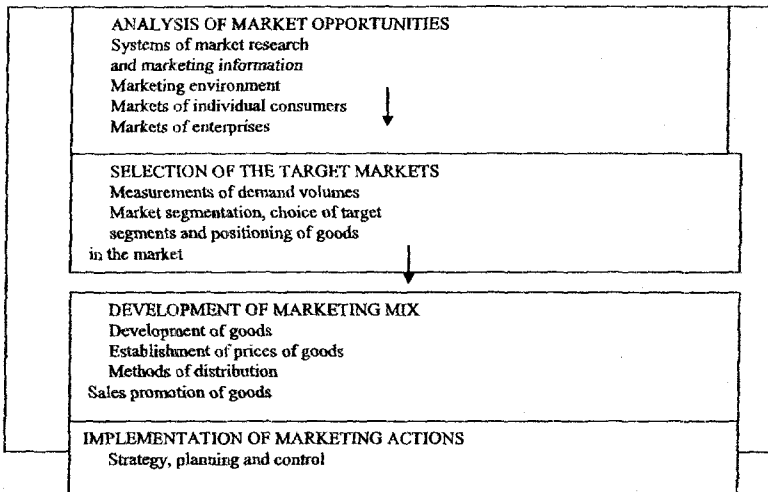


Figure 5. Process of marketing management

Any firm cannot expect constant success of its goods in the market. Therefore, firms have to be engaged in searches of new opportunities and ideas, to watch closely changes in the market, to study goods of competitors. For identification of new markets, it is possible to make a grid of development of goods and the market.

Existing goods    New goods

Existing  
markets

New markets

1. Deep market penetration	3. Development of goods
2. Expansion of market borders	4. Diversification

**Figure 6. Identification of new markets by means of the grid of good and market development.**

Let's consider in more detail the offered scheme.

1. Deep market penetration. The relative minimum of expansion of business activity when the known, mastered goods continue to be on sale within the known, existing market is supposed. In this case, increase in a market share due to reduction of production costs, advertising campaigns, changes of price policy, etc. is supposed.

2. Expansion of market borders. Activization of business activity is provided, mainly, due to development of the new markets not only at home, but also abroad. Firm conducts search not only the new geographical markets, but also new segments of the market.

3. Development of goods. Expansion of activity of firm due to extension of the production program within the former existing market is planned. This can be accomplished by any modifications, improvements or modernizations of manufactured goods or issue of absolutely new brands of products for this market.

4. Diversification (strategy of active expansion) consists in extension of the nomenclature of new goods in the new markets. It is the most difficult and dynamic conduct of the firm because it requires considerable efforts from the management, first of all, considerable volumes of financial means for realization. Despite difficulties, it is the



most widespread marketing strategy. It allows to carry out search of the markets in new regions for new products.

Not all revealed opportunities are suitable for firm. It is necessary to consider marketing opportunities of firm. The marketing possibility of firm - attractive direction of marketing efforts on which the firm can achieve competitive advantages. Marketing opportunities of the firm have to comply with its purpose and available resources.

### 3.2 Selecting of target markets

From the point of view of marketing, the potential market consists of set of people with similar needs for the relation of concrete product or service.

Mass marketing, market segmentation and multiple segmentation is three alternative methods available to the firm to determine the target market for its products.

*At mass marketing* the firm seller neglects distinctions in inquiries, requirements and addresses all market with the same product at once. The firm is guided by the wide market and makes goods in a large number. Goods and the marketing program are calculated on positive perception by the most wide range of buyers. Considerable advantage of such strategy - low level of expenses due to mass production at which cost decreases and expenses on advertising decrease. The main goal of mass marketing - maximizing sales. For this purpose the firm sells the goods in all possible points, believing that big set of buyers feels need for identical properties of goods or service. Mass marketing was popular when mass production began, however now the number of the firms using it purely has reduced. It was due to: competition growth, improvement of quality of market researches that allows defining precisely desires and preferences of various segments of the market.

It is possible to understand division of the concrete market as *segmentation* (or its any components) on the segments differing either in the parameters, or on the reaction to these or those kinds of activity in the market (advertising, methods of sales etc.).

The segment of the market consists of the consumers who are equally reacting to the same set of incentives of marketing.

The target market includes several segments which are selected for marketing activity of firm. The firm can decide to enter one or several

segments of the concrete market. Ways of market coverage can be various:

1. Concentration on one segment. The firm offers the goods for one group of consumers.
2. Orientation to consumer requirement. In this case, the firm can offer the specified goods for all types of buyers.
3. Orientation to group of consumers. The firm can make the decision to make all kinds of the goods for concrete group of consumers.
4. The firm can make the decision to serve several segments of the market, poorly connected among themselves. It can be production of several kinds of goods for different groups of consumers.
5. Total market coverage. The firm can make the decision on production of all range of goods for all segments of the market.

Within multiple segmentation of firm try to combine the best parties of mass marketing and market segmentation: are guided by two or more segments with various marketing plan for each of them.

In the strategy of multiple segmentation, some firms use both mass marketing and segmentation of the market. Then they have one or several main trademarks aimed at the mass market and brands focused on concrete segments of the market. Multiple segmentation requires careful analysis. Resources and possibilities of firm have to be sufficient for production and marketing of two or more brands or goods.

Market segmentation is closely connected with positioning. Positioning of goods is a determination of its features, the characteristic features distinguishing it from similar goods of competitors. Positioning is connected with strengthening of positions of goods on a concrete segment of the market as corresponding to needs of these consumers.

Having made the decision concerning positioning of the goods, the firm starts development of marketing mix.

### **3.3. Marketing mix and its elements**

Marketing mix is a set of the variable factors of marketing which are giving in to control which set the firm uses in aspiration to cause response from the target market.

Marketing mix - one of the basic concepts of modern system of marketing enters it everything that the firm can undertake for rendering

impact on demand of the goods. Marketing mix can be presented as follows:

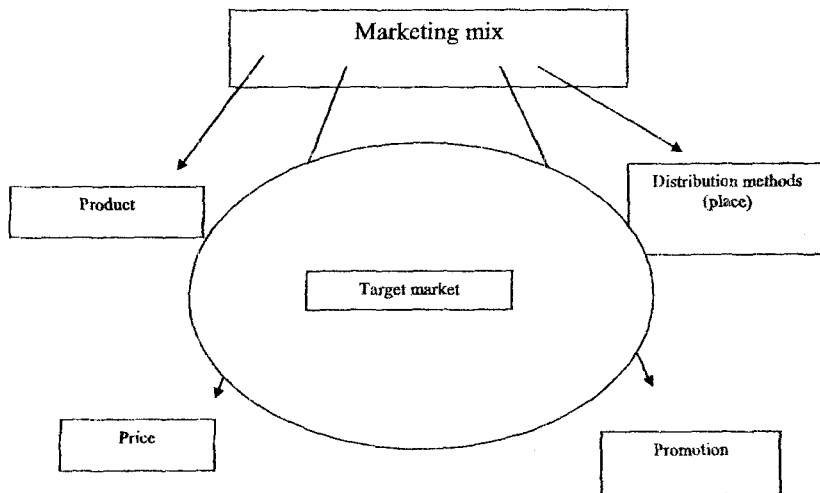


Figure 7. Marketing mix elements.

Detailed analysis of the listed marketing variables will be given in appropriate sections. Here the general concepts are given.

**Product.** The standard definition of product - "the work product made for sale" - remains fair, of course, and in marketing. However, it is necessary to emphasize that in marketing is not important so much the role of the product in its exchange for money, but opportunity of its use and consume. The goods are a complex of useful properties of things. Therefore, it automatically includes all making elements necessary for the maximum satisfaction of consumer needs. Thus, not only the product perse, but also all other components enters concept of goods. The special attention in the market is given to such components of goods as colour, packing, design and accompanying documentation. Example: the firm made a magnificent toy, however, the instruction to a toy was inaccessible not only to children, but also to some parents. In this case, it is possible to claim that, the entrepreneur made a bad product.

**Price.** We know definition that the price is a monetary value of cost of goods, the economic category serving for measurement of size of the goods of public and necessary working hours spent for production.

However, in practice, the set of types of the prices connected with various features of purchase and sale is used. The price - one of the main elements of marketing mix. The prices often change throughout life cycle of goods from very high to low, focused on the mass market. The achieved commercial results in many respects depend on the prices, and the right or wrong price policy renders long-term (positive or negative) impact on all activity of firm. The essence of price policy in marketing is in establishing such prices for goods of firm and to vary so them depending on position in the market to seize its certain share, to provide the planned volume of profit and to solve other strategic and operational problems.

*Methods of distribution (place)* are a various activity thanks to which the goods become available to target consumers. It is selection of wholesale and retail dealers, effective transportation, timely replenishment of commodity stocks, the calculation of goods, etc.

*Promotion.* It is activities of firm for distribution of data on advantages of the goods made by firm, belief of consumers to buy (advertising, events and etc.).

#### 3.4. Organizational structure of marketing service

The special service of marketing which would be able to undertake functions on service of production and sale, and also coordinating, planning and controlling functions is necessary for implementation of the actions developed on a marketing mix. If firm is small, all marketing duties can be assigned to one person. The big firm is able to afford to contain marketing department. The structure of marketing services is various. The most widespread is the functional organization of service of marketing. At such organization, marketing specialists direct different types (functions) of marketing activity.

As a rule, marketing services of the small firms working with the narrow commodity range on a small number of the national markets and their segments differing in a certain uniformity, stability and insignificant capacity have such structure. However, in process of growth of the commodity range this scheme loses the efficiency. Absence of special divisions on a product (goods) is led to delay of innovations. Due to the lack of special divisions on regional segments of the market reaction to change of requirements of consumers is slowed down.

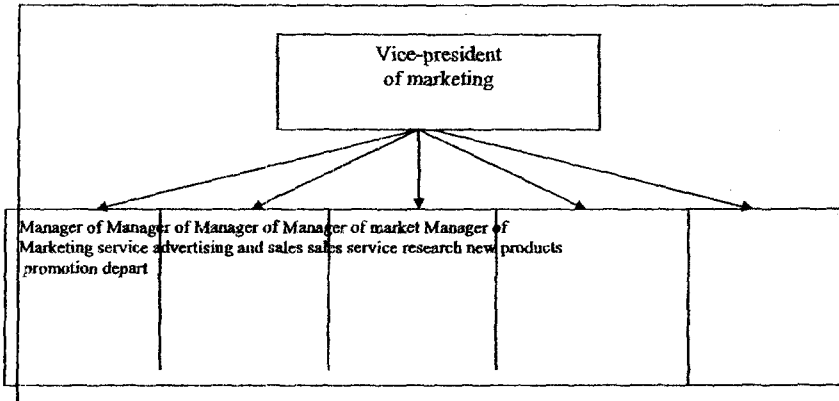


Figure 8. Functional organization of marketing service

The organization for a commodity sign is a basis of formation of the organization for commodity-branch sign - types of products and the provided services. Such structure is effective for the firms which are turning out wide range of products with various production technology, specializing in a small number of sales markets of rather uniform character.

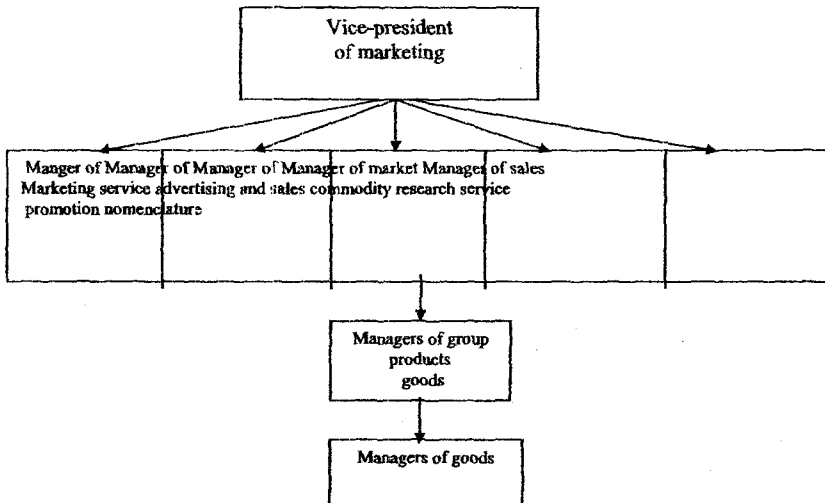


Figure 9. Organization of service of marketing for commodity production.

The goods produced by firm at such structure of the organization are characterized by various production technology and short life cycle. The markets differ in dynamism, demand flexibility and speed of reaction of marketing services to the changing inquiries of consumers.

At such organization of service of marketing, the manager of commodity nomenclature manages all production of goods. Advantage of such organization of marketing is that the managing director coordinates all marketing mix on the goods and quicker reacts to market problems. However, these advantages cause also additional costs (states of managing directors, additional expenses on different marketing mixes, etc.).

The organization for the geographical principle is characteristic of the firms with regional orientation of marketing activity i.e. working on not numerous non-uniform, with accurately outlined borders of the markets. It gives advantages to the firms which are carrying out a wide marketing and production activity abroad.

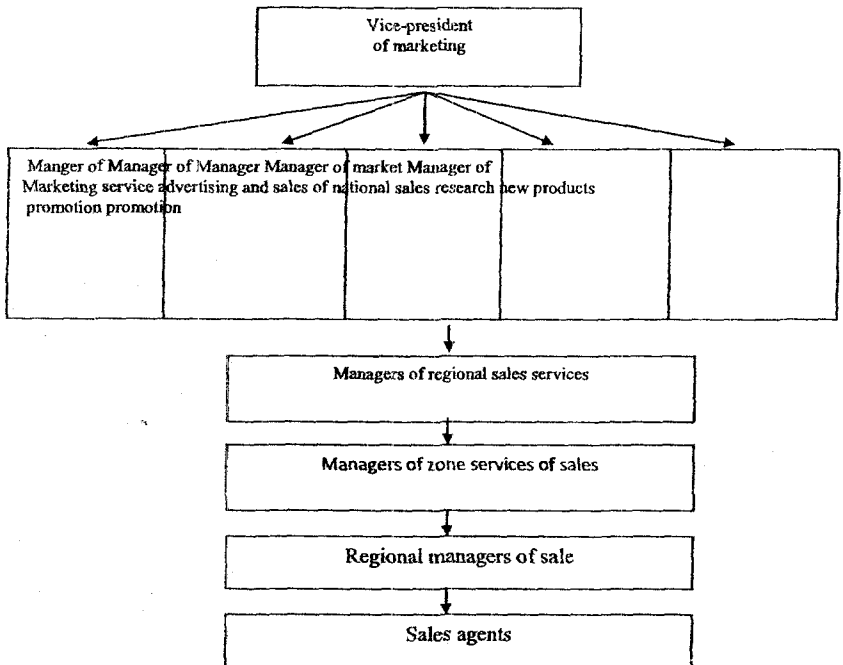


Fig. 10. Organization for the geographical principle.

The organization for the market principle is similar to system of the organization for commodity production. The managers of market work direct activities of several managers for the separate markets. Such organization gives the chance to focus all activity of firm on end users and on this basis to carry out individual, specialized market policy for each their group. This structure most conforms to the principles and requirements of the concept of marketing.

The organization for the product-market principle is characteristic of the firms selling a set of different goods in a set of the different markets. Such firms can have at the same time managers of goods and managers of the markets, i.e. apply the matrix organization.

The given types of marketing services cannot be used fully on a substantial scale in our domestic economy now. Depending on a stage of development of marketing and its introduction in administrative activity of the enterprises in the Republic of Kazakhstan, the Russian Federation and other countries from a transitional economy can the following types of the organizational structures which are engaged in marketing are used.

The following divisions operate on the first stage:

- the sales department which will organize and directs operational activity on internal and export realization of goods;
- the department of an environment and the prices which is engaged in studying of a sales market, changes of a market situation, the analysis of dynamics of the prices;
- department of advertising, which function is a complex communicative function and organization of sales promotion.

At the second stage, the system of administrative services joins a separate link on marketing (as a rule, instead of departments of an environment, the prices and advertising). This link except the listed functions deals with issues of market research, commodity policy, etc.

At the third stage, the management personnel marketing activity extends and becomes complicated, acquires the status of management. There can be a department of marketing which is engaged in studying of the market, its segments, creation of new goods, definition of sales channels, etc.

The sales department, will organize operational commercial work, in particular, preparation and the conclusion of contracts.

The created marketing services have to provide the following operating conditions of the enterprise:

- flexibility, mobility and adaptability of system to dynamically changing conditions of the market;
- relative simplicity of structure. The structure is simpler, the system is more mobile and the chances of firm of success are higher;
- compliance of scales of marketing service of degree of its efficiency and to sales volume of firm;
- compliance of service structure to specifics of the range of the made production and services;
- compliance of organizational structure to number and volume of sales markets and to their characteristics.

### Summary

Process of marketing management is the wide package of measures of strategic and tactical character directed to effective implementation of market behaviour of firm and achievement of its main objective.

Starting point of marketing activity is the analysis of market opportunities then following selection of the target markets, development of marketing mix and implementation of marketing actions.

Any firm cannot hope on constant success of the goods in the market. Therefore, firms have to be engaged in searches of new opportunities, ideas, to observe closely changes in the market, to study goods of competitors. For identification of the new markets methods of deeper market penetration, expansion of market borders, development of goods, diversification are used.

Marketing mix is a combination of four elements: product, price, methods of distribution (place) and promotion.

During creation of marketing departments, options of the functional organization for the geographical principle, the organization for commodity production are used.

### Test questions for self-examination of knowledge

#### 1. What kinds of activity do not relate to marketing mix?

- a) consumer survey;
- b) advertising campaign;
- c) deciding a way of sales of goods;
- d) all answers are right;
- e) there is no correct answer.



**2. Full diversification of firm activity is:**

- a) improvement of sale of goods (services) made by the firm in the existing markets;
- b) development of new products (services) for the existing goods;
- c) sales organization in the new markets;
- d) development of new goods for the new markets;
- e) there is no correct answer.

**3. Mass marketing assumes:**

- a) release of new types of goods;
- b) mass production and distribution of one product when entering new markets;
- c) development of new goods;
- d) release of various goods;
- e) there is no right answer.

**4. Process of marketing management consists of:**

- a) analysis of market opportunities, selecting target markets;
- b) marketing mix;
- c) implementations of marketing actions;
- d) all answers are right;
- e) there is no correct answer.

**5. Deeper market penetration is:**

- a) modification of goods;
- b) the mastered goods continue to be on sale within existing market;
- c) the mastered goods are on sale abroad;
- d) all answers are right;
- e) there is no correct answer.

**6. Expansion of market borders is:**

- a) development of new markets at home and abroad;
- b) improvement of goods;
- c) development of new goods;
- d) all answers are right;
- e) there is no correct answer.

**7. Find the correct statement. The choice of target segments of the market is:**

- a) an assessment and selection of one or several market segments to enter them with their goods;
- b) actions for providing to goods a competitive position in the market;
- c) differentiation of market segments;

- d) production of two or several goods with different properties;
- e) appeal to all market the same offer.

**8. Marketing mix includes:**

- a) business management;
- b) set of tools (product, price, place, promotion);
- c) choice of conditions of realization of goods;
- d) all answers are right;
- e) there is no correct answer.

**9. The structure of marketing service includes the following types of the organization:**

- a) functional organization;
- b) organization of commodity production;
- c) market organization;
- d) organization on a geographical sign;
- e) all answers are right.

**10. The employee of the company doing analysis, planning, implementation is:**

- a) financier;
- b) manager;
- c) auditor;
- d) manager of marketing;
- e) direct-sales representative.

## **Part 4. SYSTEM of MARKET RESEARCH AND MARKETING INFORMATION**

Purpose: Having studied this subject, students have to:

- to know about value of information for implementation of market activity;
- to be able to describe the main components of system of marketing information;
- to list stages of carrying out market research;
- to compare advantages and disadvantages of various methods of information collection

### **4.1. Contents and purposes of market research**

Successful commercial activity in the market provides, first of all, satisfaction of customer needs. The task of the market is in finding this buyer and to convince that the product, which is offered, more than others meets his or her requirements. But, there is other question: how much will cost to the seller the way "find" of the buyer and "to convince" him. For this reason, the enterprise has to have sufficient initial information on the market that assumes creation of complex and accurately directed system of collecting, processing and interpretation of diverse data on activity conditions in the market.

Nowadays, the tendencies which caused need of obtaining more extensive and more good-quality information, caused by a variety of reasons:

1. There was a shift from local marketing to national scale marketing. In this regard, firms expand borders of the market that causes the necessity of information collection for studying their clients.

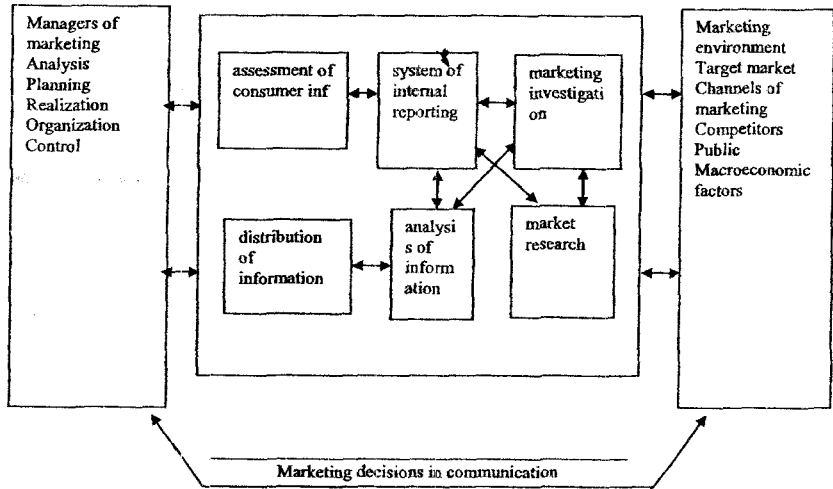
2. Shift from consumer needs to consumer requirements in the modern markets with high degree of saturation goods, high level of the income of buyers caused the necessity of carrying out the special market research directed to studying demand of consumer behaviour.

3. Shift from the competition in the prices to not price competition led to use by sellers of not price tools of marketing (branded names, advertising, sales promotion). It also demands information on reaction of the market to use of these tools.

System of marketing information - the permanent system of interrelation of people, the equipment and methodical receptions

intended for collecting, classification, the analysis, an assessment and distribution of actual, modern and exact information for use by managers of the sphere of marketing for improvement of planning, control of execution of marketing actions.

The provided scheme illustrates the concept of system of marketing information.



**Figure 11. Marketing information system**

The information need is estimated by managers of marketing.

Good, qualitative information allows firm:

1. to get competitive advantages;
2. reduces financial risk;
3. to define the relation of consumers to goods or service;
4. to monitor changes in external environment;
5. to coordinate strategy of firm;
6. to estimate activity in the market;
7. to increase trust to advertising;
8. to increase efficiency of firm activity.

Marketing information is collected and analyzed by means of 4 auxiliary systems: systems of internal reporting, system of external

current marketing information, system of market research and system of the analysis of marketing information.

Any firm has a system of internal reporting. It contains data on sales volume, commodity stocks, sum of costs, etc. Many firms use the COMPUTER that allows to create the system of internal reporting capable to provide information service of all the divisions. Collected information has to facilitate the managing director adoption of effective decisions.

System of collecting external current marketing information - a set of sources by means of which heads obtain daily information on events in the market. These sources are books, newspapers, specialized editions, clients, suppliers, etc.

Market research - systematic definition of a circle of the data necessary in connection with the marketing situation facing firm, their collecting, the analysis and the report on results.

Market research are conducted differently. The small firm can address the specialized organizations with the order to conduct research. The large organizations have own departments of market research. Market research of firms can be conducted in various directions:

#### I. Advertising

1. Research of consumer motivations
2. Research of advertizing texts
3. Studying of advertizing media
4. Studying of efficiency of advertisements

#### II. Commercial activity and its economic analysis

1. Short-term and long-term forecasting
2. Studying of tendencies of business activity
3. Studying of price policies
4. Studying of the principles of an arrangement of the enterprises and warehouses
5. Studying of commodity nomenclature
6. Studying of international markets.

#### III. Responsibility of firm.

1. Studying of problems of informing consumers;
2. Impact on the environment;
3. Studying of legislative restrictions in the field of advertising;
4. Studying of social values and problems of social policy

#### IV. Development of goods.

Studying of reaction to new goods;  
Studying of goods of competitors;  
Testing of goods;  
Studying of problems of creation of packing.

#### V. Sale and markets.

1. Measurements of opportunities of the market;
2. The analysis of distribution of shares of the market between firms
3. Studying of characteristics of the market
4. Analysis of sale;
5. Definition of quotas and territories of sale;
6. Studying of distribution channels;
7. Trial marketing;
8. Studying of sales promotion strategy.

The system of the analysis of marketing information is a set of methods of the analysis of marketing data. The basis of any system of the analysis of marketing information is made by statistical bank and bank of models.

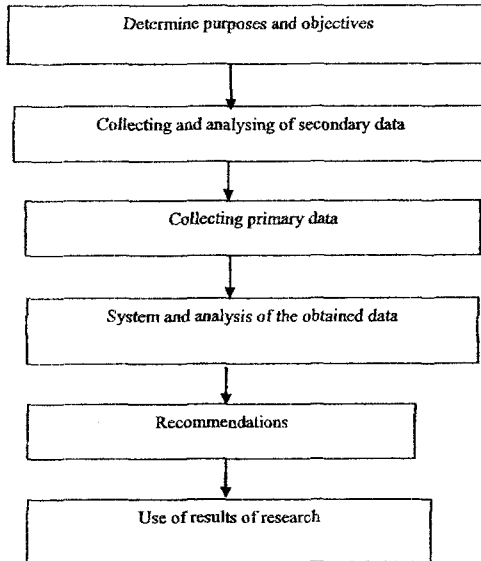
Statistical bank is a set of the techniques of statistical information processing allowing to open interdependence within a selection of data and to establish degree of their reliability. These techniques allow to play different situations:

- what will happen to sale if to raise the goods price to 10%, and expenses on advertising - by 20%?
- what reasons are the most probable indicators that these consumers will buy my branded goods, but not goods of the competitor?
- on what variables it is the best of all to segment my market and how many its segments exist?

Bank of models - a set of the mathematical models contributing to adoption of more optimal marketing solutions. These models give the chance to receive the answer to the questions "what if?", "what is better?". The last twenty years, scientists of marketing created a huge number of the models urged to help marketing managers, it is better to cope with activities for establishment of borders of territories of sale and plans, the choice of location of retail outlets, selection of an optimum complex of advertising media and forecasting of sale of new products.

## 4.2 Stages of market research

Process of market research can be presented by the following scheme



**Figure 12. Process of market research of the market**

The first and main requirement at research of the market is an accurate and concrete formulation of the problem. It needs to subordinate all complex of the planned actions, to accurately outline their borders to avoid dispersion of attention, resources, time and means. After definition of problem the managing director defines *the purposes and research objectives*. They can be search (for example, to provide collecting any preliminary data shedding light on a problem); descriptive (for example, description of certain phenomena); experimental, providing check of any hypothesis.

*Secondary data* – information, which already somewhere exists, is collected earlier for other purposes.

Research usually begins from collecting secondary data. Many of the data sources which are available nowadays include internal (profit and loss reports, reports of direct-sales representatives, reports on the

previous research) and external (editions of public institutions, the periodical press, books, services of the commercial organizations).

Secondary data serve as a starting point of research. They favourably differ in the fact that the cost is cheaper and more available. However, the data necessary to the researcher can just not exist, or the existing data can be outdated, inexact or unreliable. In this case, it is necessary to the researcher with much bigger expenses of means and time to collect primary data which is more actual and more exact. It is the best of all, to develop the special plan containing preliminary decisions concerning methods of research, tools of research, the plan of drawing up selection, ways of communication with audience for collecting primary data.

Systematization and the analysis of the obtained data. During the analysis of data, the researcher takes the most important data and results from a data set, tabulates the obtained data. Then the researcher in hope to receive additional data, processes the obtained data with the help of the modern statistical techniques and models of decision-making applied in system of the analysis of marketing information.

By the results of the analysis *recommendations* about improvement of activity of firm are developed.

#### 4.3 Types and sources of marketing information

In the previous question, we spoke about use of secondary and primary information. Sources of obtaining secondary information can be divided on internal and external. Internal sources are included by reports of firm on profits and losses, balance sheets, reports of direct-sales representatives, invoices, registration sheets of inventory items, reports on the previous research.

External sources contain, mainly, data statistical, survey, analytical and predictive. At research of general economy environment, editions of all-economic character are studied, and when studying the environment of separate markets - trade publications, as they give the developed information on all important changes for this market and the related markets. External sources of secondary information are:

1. International (regional) statistical editions. The UN and its bodies on the basis of national statistics published statistical collections.

2. National statistical editions. In the developed countries, the government statistical departments publish monthly, quarterly, annual,



statistical collections in which the important place is taken by branch statistics.

3. National economic editions. Necessary data on a general economy environment and the environment of the world commodity markets can be published in the economic periodical press.

4. Industry economic publications of the government organizations. Various state organizations of many countries publish information on the world commodity markets.

5. Economic editions of branch consulting firms. Consulting firms by orders of the enterprises prepare reviews and forecasts with recommendations about further practical, including commercial activity. Such information has confidential character and paid information.

The growing needs for information support brought the new information technologies (IT) to life. They provide collecting, processing, storage, search and information transfer on the basis of the modern computer equipment which is based on personal computers with software. Personal computers of users can be united in local information systems (the cities, the countries, the region, the world).

Introduction of new IT is connected with considerable expenses of time, finance and human resources. However, these expenses pay off considerable advantages received by firm: organized collection of information, saving important data, speed of the made decisions, etc.

#### 4.4. Methods of collecting marketing information

We already spoke about importance of drawing up the correct program of collection of information. Otherwise collected information can be in whole or in part useless. It is necessary to consider that the majority of market research assumes collecting primary data. It is the best of all to develop the special plan in which it is necessary to define methods of research, the research tool, the plan of drawing up selection and ways of communication with audience for collecting primary data. There are four main methods of collecting primary data: survey, observation, experiment, imitation.

Survey. During survey, there is systematic collection of information about the relation of the buyer, purchase and the characteristic of consumers, their preferences and satisfaction with made purchase.

When collecting primary information various tools of research are used. The questionnaire is widespread. It represents the list of questions

on which respondent has to give answers. The form, sequence and the formulation of questions can be various. The task of the author of the questionnaire - to choose its most optimal variant by approbation of the questionnaire since it is necessary to consider that the form of questions influences the answer. Questions can be made with use of various methods: Likert's scales when alternative answers are under construction from the most positive to the most negative (absolutely agrees, agrees, cannot answer, does not agree, absolutely disagree); a method of semantic differential when respondents are offered the list of opposite, bipolar definitions; importance scales with ranking of any characteristics on importance degree: from "absolutely unimportant" to "extremely important"; the alternative question assuming the choice from two answers (yes, no).

The questionnaire is the most widespread tool of research when collecting primary data. In a broad sense the questionnaire is a number of questions on which respondent has to give answers. It is very flexible tool in the sense that questions can be asked a set of different ways. The questionnaire demands careful development, approbation and elimination of the revealed shortcomings prior to its use. During its development the researcher of the market thoughtfully selects questions which need to be set, chooses a form of these questions, their formulations and sequence.

Each question needs to be checked from the point of view of its contribution which it makes in achievement of research results.

Survey assumes systematic collection of information from respondents face to face, and also by phone or by mail.

Personal interviewing - the most exact method of survey. The shortcoming is a high cost, it takes a lot of time, demands high qualification of the interviewer.

Survey by phone it is rather inexpensive and limited in time.

Survey by mail - the cheapest of the specified methods. The influence of interviewer is eliminated, but in the survey a shortcoming is - low interest of return of questionnaires and a delay of answers, and also participation not of those persons on which the researcher counted. One of the serious moments in market research is selection scheduling. Sample is the segment of the population urged to represent all population. The researcher has to define such sample in which the obtained data would be representative. For definition of the plan of sample, it is necessary to answer a number of questions:

1. Who to ask?

2. What number of people needs to be asked?

3. How properly select members of sample?

For the correct answer to the questions posed the researcher has to decide what information is necessary to it who, most likely, has it. Bigger sample is more reliable than small, however it is also expensive. So, there is no need to interrogate more than 1% of the population. Selection of members of sample can be made on various signs (age group, the fact of residence in a certain area, etc.). The method of casual selection is most often used.

Observation means direct studying and fixing of consumer behaviour in real situations. It assumes collection of information about buyers upon purchases, their reaction to the acquired goods, etc. The main lack of a method - observers can be mistaken in an assessment of consumer behaviour of goods and services that can lead to the wrong conclusions by results of observation.

Experiment offers existence of two comparable groups of research: trial and control. It can be two cities, two shops, two products, etc. For example, to estimate a design of new packing for goods, it is possible to send it to five shops and old packing in five similar outlets. After a while (for example, a month) results compare. The main advantage of experiment - the fact that it allows to see cause and effect (for example, new packing increases sale). The main minus - high costs, the thought-up conditions, impossibility to control all factors which can exert impact on marketing activity.

Imitation. Application of this method became possible in connection with development of the COMPUTER since it assumes a reconstruction of the situation with use of a number of factors of marketing activity not in actual practice, and on the computer and on paper. The model of controlled and uncontrollable factors is under construction, then various combinations of factors put in the computer to define their influence on the general marketing strategy.

The method of expert evaluations assumes an assessment of these or those marketing factors or actions by the experts qualified in the field. As these experts also consumers can sometimes act. This method also includes a certain artificiality and it is a research method in the laboratory.

## Summary

During performance of the duties, the managing director on marketing needs a huge number of information. Data necessary for it either is absent, or arrive too late or is not credible. The increasing number of firms begins to realize shortcomings of information support and takes measures for improvement of the systems of collecting marketing information.

Four auxiliary systems are a part of well planned system of marketing information. The first - the system of internal reporting reflecting indicators of current sale, the sums of costs, volumes of material stocks, the movements of monetary cash, data on receivables and payables. Many firms created perfect systems of internal reporting on the basis of COMPUTERS which provide the bigger volume of comprehensive information in shorter terms. The second - the system of collecting external current marketing information delivering to heads of marketing daily information on the events which are taking place in the commercial environment. Existence of well trained staff of the sellers and special employees who are responsible for collection of information, purchase of data from the centralized suppliers of information and establishment of special division on collection of information - all this can contribute to improvement of quality of obtained external current marketing information. The third - the system of market research urged to provide collection of information, actual from the point of view of the specific marketing problem facing a firm. Departments of market research of marketing information, using the modern techniques of statistical data processing and model facilitating to figures of the market process of adoption of optimal marketing solutions. Constantly the number of companies having statistical banks and banks of models grows.

Market research - the process consisting of a set of stages. At the first stage, there is an accurate definition of a problem and research objectives. The second stage - development of the plan of information collection with use of primary and secondary data. The third stage - collection of information with the help out of room and laboratory researches. The fourth stage - the analysis of collected information for a conclusion from set of the received these indicators of the average level, variable components and any identification of interrelations. The last

stage - representation of the main results which will give to managing directors on marketing the chance to make more weighed decisions.

For carrying out market research various methods and tools of research (observation, experiment, survey, questionnaires, mechanical devices), ways of communication with audience (phone, mail, personal interview) are used.

### **Test questions for self-examination of knowledge**

**1. The purpose of functioning of marketing information system is:**

- a) creation of marketing plan;
- b) providing information for administrative decisions;
- c) implementation of the marketing concept of enterprise management;
- d) all answers are right;
- e) there is no correct answer.

**2. The main processes which need to be organized for functioning of marketing information system:**

- a) collecting, processing, analysis, transfer and storage of information;
- b) decision-making on business management;
- c) decision-making on marketing management;
- d) all answers are right;
- e) there is no correct answer.

**3. The following resources are necessary for functioning of marketing information system:**

- a) the qualified personnel possessing skills of data collection and processing;
- b) methodical methods of working with information;
- c) office equipment;
- d) all answers are right; e) there is no correct answer.

**4. Marketing information depending on a stage of processing can be:**

- a) external;
- b) internal;
- c) primary;
- d) all answers are right; e) there is no correct answer.

**5. The system of analysis of marketing information includes:**

- a) databases;
- b) system of marketing information;
- c) statistical bank and bank of models;
- d) all answers are right;
- e) there is no correct answer.

**6. The bank of models is necessary:**

- a) performance of statistical calculations;
- b) support management decision making;
- c) simplifications of communications;
- d) all answers are right;
- e) there is no correct answer.

**7. Studying of the internal environment of firm assumes:**

- a) research of legislative restrictions of its activity;
- b) research of its production-sales activity;
- c) research of firm's opportunities in the market;
- d) all answers are right; e) there is no correct answer.

**8. The enterprise needs to estimate as a percentage that part of shop visitors who made purchases. What method of research it is expedient to use?**

- a) observation;
- b) survey;
- c) experiment;
- d) all answers are right;
- e) there is no correct answer.

**9. Research of dependence between the volume of advertising and the price of goods can be carried out with the help:**

- a) observation;
- b) experiment;
- c) survey;
- d) all answers are right;
- e) there is no correct answer.

**10. Wide use of experiment as a method of gathering information is complicated because:**

- a) difficulty of measuring consumer reaction concerning goods;
- b) unfitness of results of experiment for other conditions of the environment;
- c) mutual influence between independent factors;
- d) all answers are right;
- e) there is no correct answer.

## Part 5. MARKET SEGMENTATION.

Purpose: Having studied this subject, students have to be able:

- to give definition to the concepts "market segmentation", "target market" and "positioning of goods"
- to list and tell about the main criteria and the principles of segmentation
- to explain how firms choose strategy of market coverage.

### 5.1. Essence and criteria of segmentation

The markets consist of buyers, and buyers differ from each other in different parameters. Requirements, resources, geographical position, consumer relations and habits can be different. Any of these variables can use as a basis for market segmentation. Market segment can be defined differently, but basically, it is in a special way the allocated part of the market, group of consumers, products or enterprises owning certain general signs. During market activity, each company has to reveal for itself the most attractive segments of the market which it is able to serve effectively. However, sellers not always adhered to this practice. Their views passed through 3 stages:

Mass marketing. At mass marketing sellers are engaged in mass production, mass distribution, and mass sale of the same product for all buyers at once.

The main argument in favour of mass marketing is that at similar approach costs of production, the prices have to decrease as much as possible and big potential market will be created.

Commodity-differentiated marketing. In this case, the seller makes two or several goods with different properties, in a different form, different quality and packaging. The main goal of the seller - a variety for the buyer.

Target marketing. In this case, the seller makes differentiation between segments of the market, chooses from them one or several and develops for them a marketing mix.

Today firms depart from idea of the mass and commodity-differentiated marketing to technology of target marketing more and more. In this case, the firm can vary the prices and distribution channels. Marketing efforts concentrate on the buyers who are most interested in purchase of goods.

Market segmentation is certainly one of the most important instruments of marketing. From that, the segment of the market is how correctly chosen, the success of the enterprise in competitive fight in many respects depends. But, anyway, it is necessary to know by what criteria and signs it is possible to carry out segmentation. *Criterion* is a way of assessing the validity of the choice of this or that segment of the market for your firm. *Sign* – a way of allocation of this segment in the market.

Target marketing demands carrying out 3 main actions:

Market segmentation	Choice of target market	Positioning of goods in the market
1. Definition of the principles of market segmentation 2. Drawing up profiles of the received segments	3. Evaluation of attractive segments 4. Choice of one or several segments	5. The decision on positioning of goods on each of target segments 6. Development of marketing mix for each target segment

Figure 13. Actions of target marketing.

The most widespread criteria of segmentation:

1. Quantitative parameters of a segment. Treat their number the segment capacity i.e. how many products and what total cost can be sold, what number of potential consumers is available. From these parameters, the firm can define what production capacities should be focused on this segment, what has to be the power of sales network.

2. Accessibility segment for a firm, i.e. a possibility of firm to receive distribution and sales channels, storage conditions and product transportation. The firm has to define whether it has enough sales channels of the product (intermediaries or own sales network), what power of these channels, whether they are capable to sell all volume of the made products.

3. Importance of a segment, i.e. definition of that, how really this or that group of consumers can be considered as a market segment, how far it is steady on the main uniting signs. The management of firm in this case should find out whether this market segment is decreasing or growing, whether it is worth focusing on it capacities or they should be redirected to other market.



4. Profitability. On the basis of this criterion, is defined how profitable will be for firm work on the allocated segment of the market (the rate of return, the sizes of dividends on stocks, etc. is defined).

5. Compatibility of a segment with the market of main competitors. The management of firm has to receive the answer to a question in what degree the main competitors are ready to enter the chosen market segment, how far promotion of products of this firm infringes their own interests. In certain cases, it is necessary to be ready to incur additional expenses on fixing in this segment.

6. Overall performance on the chosen segment. How engineering, production and sales personnel products of firm on this segment are ready to promote effectively; how they are prepared for competitive fight.

7. Security of the chosen segment from competitors. The management of firm has to estimate the opportunities to stand in competitive fight. It is important to define who can become a competitor, what its strengths and weaknesses, what advantages of your firm, etc.

Having received answers to all these questions, having estimated the capacity of the enterprise for all criteria, it is possible to make the decision whether this market segment suits you, whether it is worth continuing data collection and processing about a consumer demand on this segment and to spend for it resources.

## 5.2. Basic principles of market segmentation

Any uniform method of market segmentation does not exist. The figure of the market needs to test segmentation options on the basis of different variable parameters, one or several at once, in attempts to find the most acceptable approach at segmentation.

Table 2

Some variables used for segmentation of the consumer markets

Variable	Typical breakdown
<b>GEOGRAPHICAL PRINCIPLE</b>	
Region Districts (in size)	Northern Kazakhstan, Southern Kazakhstan, Western Kazakhstan, Eastern Kazakhstan, Central Kazakhstan

City or standard Metropolitan area (in size)	With the population less than 5 thousand people, 5-20 thousand people, 100-250 thousand people, 250-500 thousand people, 0,5-1,0 million people, 1-4 million people, over 4 million people
Population density	Cities, suburbs, rural areas
Climate	Northern, southern
<b>PSYCHOGEOGRAPHICAL PRINCIPLE</b>	
Public class	The lowest lowest, highest lowest, lowest average, highest average, lowest highest, highest highest
Way of life	
Type of personality	Traditionalists, cheerful persons, esthetes
	Addicting nature, the fan to do "as all", authoritative nature, ambitious nature
<b>BEHAVIOURAL PRINCIPLE</b>	
Reason for purchasing	Ordinary purchase, special case
Required benefits	Quality, service, economy
Status of the user	Not using, former user, potential user, new user, loyal customer
Intensity of consumption	Weak consumer, moderate consumer, active consumer
Commitment degree	None, average, strong, absolute
Degree of readiness of the buyer for perception of goods	Unaware, informed, interested, wishing, intending to buy
Relation to goods	Enthusiastic, positive, indifferent, negative, hostile
<b>DEMOGRAPHIC PRINCIPLE</b>	
Age	Younger 6 years, 6-12 years, 12-19 years, 20-34 years, 35-49 years, 50-64 years, older than 65 years
Gender	Men, women
Family size	1-2 persons, 3-4 persons, 5 people and more
Stages of family life cycle	Young singles, young family without children, young family with the young child aged till 6 years, young family with the young children at the age of 6 years and older, elderly spouses with children, elderly spouses without children that are younger than 18 years, lonely, other

Income level	Less than 5 thousand tg., 10 thousand tg., 5,0-7,5 thousand tg., 10-15 thousand tg., 15-20 thousand tg., 20-30 thousand tg., 30-50 thousand tg., 50 thousand tg. and above
Occupation	Persons of brainwork and technical specialists; managing directors, Officials and owners; Clerks, sellers; handicraftsmen, heads of average link; skilled workers; farmers; pensioners; students; housewives; unemployed
Education	Primary, incomplete high school, graduate of high school, incomplete high, the highest level
Religious beliefs	Catholic, Protestant, Jew, other
Race	White, Black, Easterners
Nationality	Americans, British, French, Germans, Scandinavians, Italians, Latin Americans, inhabitants of the Middle East, Japanese

Segmentation by geographic principle. Segmentation by geographic principle assumes breakdown of the market on different geographical units: countries, states, regions, districts, cities, communities. The firm can make the decision to work: 1) in one or several geographical areas or 2) in all areas, but taking into account distinctions in the needs and preferences determined by geography.

Some firms in addition break the large cities into smaller geographical territories.

Segmentation by demographic principle. Segmentation by demographic principle consists in breakdown of the market on groups on the basis of such demographic variables as gender, age, family size, a stage of family life cycle, income level, occupation, education, religious beliefs, race and a nationality.

Now we will illustrate, how exactly certain demographic variables are used for market segmentation.

1. Gender. Segmentation based on sex is carried out in relation to clothes, hair care, cosmetics and magazines.

2. Age of consumers and stage of family life cycle. Requirements and possibilities of buyers change with age.

3. Segmentation in several demographic parameters. The majority of firms carry out market segmentation based on a combination of two or more demographic variables.

4. Income level. One more known reception of division of the market in relation to such goods and services as cars, boats, clothes, cosmetics and travel, is segmentation based on income level.

Segmentation by the psychographic principle. Psychographic segmentation of buyers subdivide into groups on signs of belonging to a public class, a way of life and/or characteristics of the personality.

1. Public class. So, in the USA society conditionally is divided into six public classes. Belonging to one of them strongly affects preferences of the person concerning cars, clothes, economic accessories, leisure, books, the choice of retail outlets, etc. Many firms project the goods and/or services counting on representatives of a concrete public class.

2. Way of life. The way of life exerts impact on interest of people in these or those goods. Sellers of branded and usual goods even more often resort to market segmentation based on way of life of consumers.

3. Type of personality. Producers give to the goods the personal characteristics corresponding to personal characteristics of consumers. Sherli Young, the director of service research of one of the leading advertising agencies, declared creation of technique of successful market segmentation on the basis of audience traits of character in relation to such types of goods as female cosmetics, cigarettes, insurance and alcoholic drinks.

Segmentation by behavioural principle. At segmentation on the basis of behavioural features of buyers divide into groups depending on their knowledge, the relations, nature of use of goods and reaction to these goods. Many figures of the market consider behavioural variables as the most suitable basis for formation of market segments.

Reasons for purchase. Buyers can be distinguished among themselves in occasions of emergence of idea, commission of purchase or use of goods.

Segmentation on the basis of occasions can help firms to lift extent of use of goods. For example, orange juice is drunk most often for the first breakfast. The manufacturing firm can try to give its advertising as a drink, suitable for the second breakfast, and for a lunch.

Required benefits. Segmentation on the basis of benefits demands detection of the main benefits which people expect from goods of a concrete class, kinds of the consumers who are looking for these main benefits, and the main brands in which these benefits are to some extent inherent.

The markets can also be broken on intensity of consumption, i.e. into groups of weak, moderate and active consumers of goods. It is obvious that it is more favourable to serve one market segment consisting of considerable number of active consumers than several small segments of weak consumers.

Any market consists of combinations of various types of buyers. The market of branded commitment is the market in which the big percent of buyers shows unconditional commitment to one of the brands which are available on it.

The firm can learn a lot of things, having carried out the analysis of distribution of commitment in the market. So, the firm has to study characteristics of unconditional adherents of own branded goods.

Studying tolerant adherents, the firm can reveal the brands which are most sharply competing with its own.

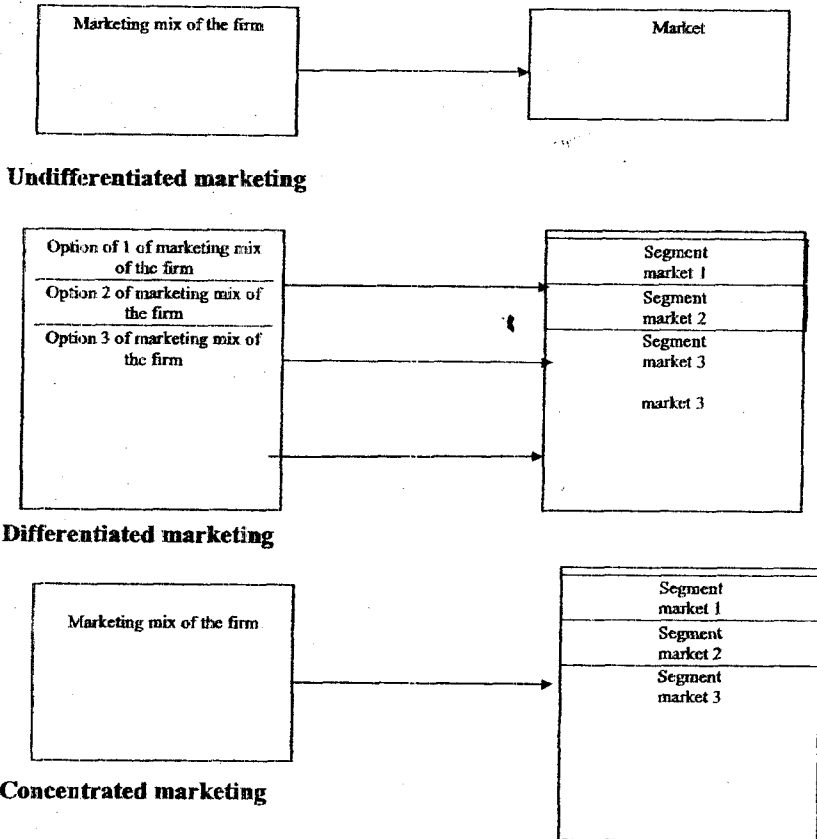
Studying of the consumers refusing its brand in favour of others will help firm to learn about the marketing weaknesses. As for the consumers who do not have commitment, the firm will be able to attract them to itself, having offered its brand.

In any time, people are in different degree of readiness for commission of purchase of goods. Some of them are not informed about goods at all, others – know it, the third - are informed about it, the fourth - are interested in it, the fifth - wish it, the sixth - intend to buy. The numerical ratio of consumers of various groups in a huge measure affects character of the developed marketing program.

In general, the marketing program should be built so that it reflected redistributions in numerical structure of the groups of persons which are in different degree of readiness for purchase commission.

The market audience can differently relate to goods, i.e. enthusiastically, positively, indifferently, negatively or hostilely. The actor of the market needs to study deeply approaches of buyers when they choose a product.

Segmentation opens possibilities of various market segments in which the seller should act. After that, the firm needs to solve: 1) how many segments it is necessary to capture and 2) how to define the most favourable to it segments. The firm can use three strategy of market coverage: undifferentiated marketing, differentiated marketing and concentrated marketing.



**Figure 14. Three options of strategy of market coverage**

**Undifferentiated marketing.** Perhaps, the firm will decide to neglect distinctions in segments and to address all market at once with the same offer. In this case, it does not concentrate efforts on what the difference between customer needs, it concentrates on what is common between these needs. It develops goods and the marketing program which will seem attractive to perhaps bigger number of buyers. It relies upon methods of mass distribution and mass advertising. It seeks to give to goods an image of superiority in consciousness of people.

Undifferentiated marketing is economic. Costs for production of goods, maintenance of its stocks and transportation are low. Costs for

advertising in undifferentiated marketing also keep at a low level. The firm resorting to undifferentiated marketing usually creates the goods designed for the largest market segments.

Differentiated marketing. In this case, the firm decides to act in several segments of the market and develops the separate offer for each of them.

Concentrated marketing. Many firms see for themselves and the third marketing opportunity especially attractive to the organizations with limited resources. Instead of concentration of efforts on a small share of a large market, the firm concentrates on a big share of one or several submarkets.

Thanks to the concentrated marketing, the firm ensures a strong market position in the served segments as it is better than others knows needs of these segments and has a certain reputation. Moreover, as a result of specialization of production, distribution and measures for sales promotion, the firm tries to obtain economy in many spheres of its activity.

At the same time, the concentrated marketing is connected with the increased risk level. The chosen segment of the market can not have equal hopes, many firms prefer to diversify the activity, covering several different market segments.

When choosing strategy of market coverage, it is necessary to consider the following factors:

1. Resources of firm. With limited resources, the most convenient is a strategy of concentrated marketing.

2. Degree of product uniformity. Strategy of undifferentiated marketing is suitable for uniform goods. For goods which can differ from each other in construction such as cameras and cars, suit strategy of the differentiated or concentrated marketing more.

3. Stage of product life cycle. When entering the market with new goods, it is expedient to offer only one option of new product. At the same time, it is the most reasonable to use strategy of the undifferentiated or concentrated marketing.

4. Degree of market uniformity. If buyers have identical tastes, they buy the same quantities of goods in the same intervals of time and equally react to the same marketing incentives, it is more convenient to use strategy of undifferentiated marketing.

5. Marketing strategy of competitors. If competitors are engaged in market segmentation, application of strategy of undifferentiated

marketing can be disastrous. Conversely, if competitors apply undifferentiated marketing, the firm can receive benefits from use of strategy of the differentiated or concentrated marketing.

### 5.3. Positioning of goods in the market.

Positioning of goods in the market includes actions for providing to goods a competitive position in the market and development of the corresponding marketing mix.

Having decided in what segment to act, the firm has to decide how to enter this segment. If the segment already settled, so it has competitors. Moreover, competitors already took "positions" within a segment. And before resolving an issue of own positioning, the firm should define positions of all available competitors. Having studied positions of competitors, the firm solves whether to take the place close to a position of one of competitors or to try to fill revealed "gap" market. If the firm takes a position close to one of its competitors, it has to differentiate its offer by the product, its price and qualitative differences.

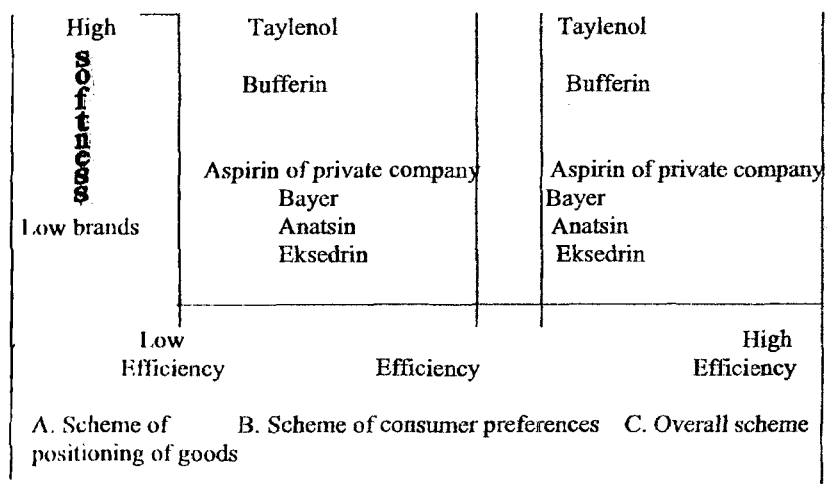
For an example, we will take the market of painkillers medical means, for people of middle age. First of all, it is necessary to find out that consumers of the chosen segment want. Also, marketing specialists will need to study all medicines of painkiller character offered now in the market. The figure of the market has to imagine clearly what the difference between existing brands of painkiller medicines, how they advertised and what their prices. If the firm offers the same painkillers as competitors offer, customers will not have a reason to choose its product.

Any goods – a set of the properties perceived by the consumer. For example, eksedrin consider high-speed, but "rigid" for a stomach, and teylenol works slowly, but is "softer" for a stomach. One of ways to understand why consumers buy this, but not the other product – to compare their properties for the purpose of identification the best one.

Let's assume, the firm learns that buyers of the target market are interested first of all in two parameters of painkiller medical means: level of efficiency of influence and softness of its action on a stomach. Now it is possible to learn opinion of each consumer about their preferences, about a combination of properties of painkillers. Results of research can be represented on the scheme which we will call the scheme of consumer preferences.



Then the marketing specialist unites two schemes – the scheme of good positioning and consumer preferences in one summary scheme. From it, it becomes clear that most of consumers would like to buy that painkiller which combines softness for a stomach and high efficiency, though in the present, they do not perceive any of the existing brands. The firm can begin release of such brands of medicine because competitors did not find a way of its production yet. But, here the main thing that the firm has all opportunities for production of this product and that the price would be affordable, otherwise, because of high price it will not find many consumers.



**Figure 15. Schemes of positioning of goods and consumer preferences**

If the firm is not able to seize this opportunity and makes the decision to follow the brand existing in the market, then it can position the brand of the class "Brand of Well-known Company", having declared that its efficiency is higher, than the competitor's and charging higher price for the product. Or to choose as a basis for positioning of the goods other properties – price, packing, state of the product (tablets, liquid, suspension), which according to a large number of consumers are important and are not present in brands of competitors.

The decision on exact positioning will allow the firm to start the following stage, namely detailed planning of marketing mix.

Sellers can use three approaches to market coverage. Mass marketing - the decision on mass production and mass distribution of one goods and attempt to draw to it attention of buyers of all types. Target marketing - decision on identification of various groups of consumers of all types. Target marketing - the decision on identification of various groups of consumers making the market, development of the corresponding goods and marketing mixes for the chosen target market. Today sellers shift from methods of mass marketing and differentiation of goods more and more to methods of target marketing which helps to reveal market possibilities to a large extent and to create more and more effective goods and marketing mixes.

The main stages of target marketing are market segmentation, the choice of target segments of the market and positioning of goods in the market. Market segmentation is a division of the market into certain groups of buyers, for each of which separate goods and marketing mixes are required. Segmentation is performed based on various variables. Overall effectiveness of segmentation depends on in what measure the received segments are measurable and available. After the choice of a certain segment, the company has to stop on one of three marketing strategy of market coverage: undifferentiated, differentiated or concentrated marketing.

### Test questions for self-examination of knowledge

#### 1. What is market segmentation:

- a) division of competitors into uniform groups;
- b) division of consumers into uniform groups;
- c) division of goods into uniform groups;
- d) all answers are right; e) there is no correct answer.

#### 2. Positioning of goods is:

- a) determination of the main consumer properties of goods and their comparison with similar properties of goods of competitors for specification of the place of goods in the market;
- b) analysis of all market policy of the enterprise relating to goods;
- c) determine potential consumers of goods;
- d) all answers are right; e) there is no correct answer.

#### 3. What variables are used in market segmentation by geographic principle:

- a) public class, type of personality, occupation, climate;
- b) way of life, reason for making a purchase, race, climate;
- c) region, city in size, population density, climate;
- d) all answers are right; e) there is no correct answer.

**4. The producer has two opportunities in the market. It is possible to come with a new product to a segment A with a capacity of 240 million items, where 3 leading producers are presented in the industry, and to a segment B with a capacity of 60 million items, where 15 enterprises with the general market share around 45%. What opportunity should the producer use, if other conditions are equal:**

- a) segment A;
- b) segment B;
- c) both segments at the same time;
- d) look for absolutely free segment;
- e) there is no correct answer.

**5. Segmentation of industrial markets:**

- a) it is carried out according to the same characteristics as consumer markets;
- b) can use only its own characteristics;
- c) can use separate signs of segmentation of consumer market;
- d) is not used by producers absolutely;
- e) there is no correct answer.

**6. Criteria for evaluation of segments are necessary for:**

- a) determination of market capacity;
- b) justifications of the target market;
- c) formations of the offer for a segment;
- d) all answers are right;
- e) there is no correct answer.

**7. Market segmentation by product parameters used:**

- a) when releasing new production;
- b) in the absence of information about consumers;
- c) for positioning of goods in the market;
- d) all answers are right;
- e) there is no correct answer.

**8. Competitiveness is:**

- a) the highest level of quality in the region;
- b) ability of goods or service to sell itself;

c) ability of goods or service to sell itself in comparison with similar goods and services in the region, defined during the concrete period of time;

d) all answers are right;

e) there is no correct answer.

**9. The enterprise sells one type of goods at one price, advertising addressed to the market in general. What strategy of market coverage is used by the producer?**

A) differentiated marketing;

B) undifferentiated marketing;

C) concentrated marketing;

d) all answers are right;

e) there is no correct answer.

**10. The firm segments consumers by psychographic principle. It can use the following signs:**

a) occupation;

b) type of personality;

c) status of the user;

d) all answers are right;

e) there is no correct answer.

## Part 6. END USER RESEARCH.

Purpose: Having got acquainted with this subject students have to be able:

- to tell about relationship between incentive methods of marketing and consumer response;
- to explain the mechanism of action of the factors influencing consumer behaviour;
- to describe stages of consumer buying decision process.

### 6.1 Model of consumer behaviour.

The normal economy functions as a system *which main task is to satisfy first, of all, personal needs of consumers*. Consumer market – individuals and households buying or acquiring goods and services for personal consumption. Consumers differ from each other in age, habits and level of culture and education. Figures of the market for the purpose of satisfaction of requirements of each group of consumers carry out market segmentation, study, predict and meet their needs through providing goods and service.

The most difficult questions arising in the course of marketing activity: who buys, how and when, where and why the decision on purchase is made.

The firm, which understood how consumers react to various characteristics of goods, the price, advertising texts, arguments, etc., will have a huge advantage than competitors. For this reason, practical and science workers waste so many efforts to research of dependences between incentive factors of marketing and response of consumers.

Starting point of all these efforts is the simple model of consumer behaviour (figure 16).

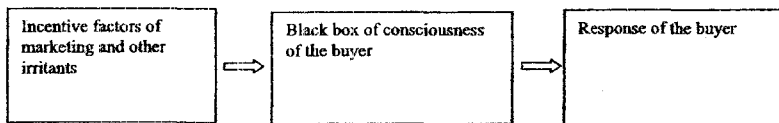


Figure 16. Simple model of consumer behaviour.

It has shown that incentive factors of marketing and other irritants get into "a black box" of consciousness of the buyer and cause certain responses.

The following figure represents developed model of consumer behaviour.

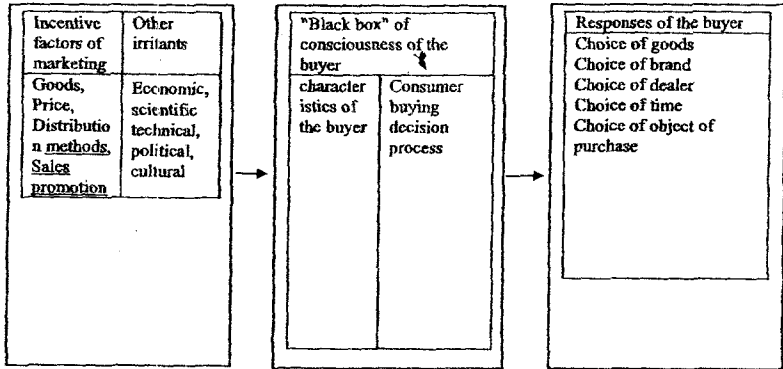


Figure 17. Developed Model of Consumer Behaviour.

*Task of the figure of the market* – to understand how incentive factors of marketing (goods, the price, methods of distribution and sales promotion) and other irritants (economic, scientific and technical, political) influence "a black box" of consciousness of the buyer. "The black box" consists of the characteristic of the buyer and process of decision-making. Let's see these parameters in more detail.

## 6.2. The factors influencing on behaviour of end users

*Characteristic of the buyer.* Factors of a cultural, social, personal and psychological order impact on consumer buying decision process. As a rule, it is the factors, which figures of the market can not control of figures. The greatest and deepest influence on consumer behaviour is exerted by factors of cultural level because the culture defines requirements and behaviour of people. The child in a family or society acquires a certain set of values, perceptions, manners and actions (for example, the American views: success, career, etc.). Any culture includes smaller components - subcultures. For example, in large

communities there are groups of persons of one nationality showing accurate ethnic, taste preferences and interests.

*Social status.* In each society, there are various social classes. Social classes – rather stable groups of the population within the society which are located in a hierarchical order and characterized by presence in their members similar valuable representations, interests and behaviour.

Several characteristics are inherent in social classes: 1) the persons belonging to the same class usually behave equally; 2) depending on belonging to this or that class people hold higher or lower position in the society; 3) the social class is defined on the basis of an occupation, the income, education. Individuals can pass into higher class or fall to one of the lowest classes. Obvious preferences concerning certain goods and brands in clothes, cars, carrying out leisure are characteristic of social classes. Philip Kotler divides all consumers into six classes: the highest highest class, the lowest highest class, the highest middle class, the lowest middle class, the highest lowest class, the lowest lowest class. Such gradation can be quite used also for research of the Kazakhstan market. At such approach, figures of the market can concentrate the efforts on requirements of one social class.

*Factors of social order.* Consumer behaviour is defined by such factors of a social order as reference groups, a family, social roles and the statuses.

*Reference groups* – the groups exerting direct or indirect impact on the relations or behaviour of the person. The groups exerting direct impact on the person are called member collectives. Some of these collectives are primary, and interaction with them has quite constant character: it is a family, friends, neighbours, fellow workers. Besides, the person belongs to a number of secondary collectives with which interaction has no constant character. These are various public organizations like religious associations, labor unions. The impact on the individual is exerted by groups to which he or she does not belong. It is the desirable collective – the group which a person would like to treat, undesirable group – communications with which would like to avoid people.

Members of family exert strong impact on behaviour of buyers. Influence of parents on buyers is very considerable. In the family, people gain an impression about religion, policy, economy, love, etc., but more considerable impact on the person is exerted by spouses and children. Figures of the market are interested in the role of wife, husband, children

in implementation of purchases. Depending on the acquired goods, the ratio of influence of the husband and wife fluctuates. For example, when acquiring a car, the opinion of husband needed and when purchasing a dish, the opinion of wife needed.

Each person is a member of different social groups. Its situation in each of them can be described in terms of the role and status. The role represents a set of actions which are expected from the person by people around. For example, Maria in relation to her parents plays the role of daughter, in own family - the role of wife, at work - the role of managing director. The certain status reflecting degree of positive assessment from the society is inherent in each role.

In the opinion of society, the role of managing director has higher status in comparison with the role of daughter. As a managing director, Maria will acquire clothes which reflect this role and its status.

The following group of factors - factors of personal order. Factors of personal order is age, a stage of family life cycle, an occupation, an economic situation, type of personality and representation of the person about himself. With age, there are changes in the range of goods and services acquired by people. In the first years of life, the customer needs products for baby food. In the years of growing and maturity, a customer eats the most various products, in old age - special dietary; over the years customer tastes concerning clothes, furniture, rest change. Nature of consumption depends on a stage of family life cycle. Filip Kotler gives the following gradation of family life cycle:

- bachelorhood stage;
- newlyweds without children;
- "full nest", the first stage: the youngest child is less than 6 years old;
- "full nest", the second stage: the youngest child 6 years or more;
- "full nest", the third stage: elderly spouses with children on their care;
- "empty nest", the first stage: elderly spouses whose children already live separately, the head of the family works;
- "empty nest", the second stage: elderly spouses, children live separately, the head of the family on pension;
- the widow, works;
- the widow, on pension.

A kind of occupations exerts impact on character of goods and services acquired by the person. For example, a worker buys working

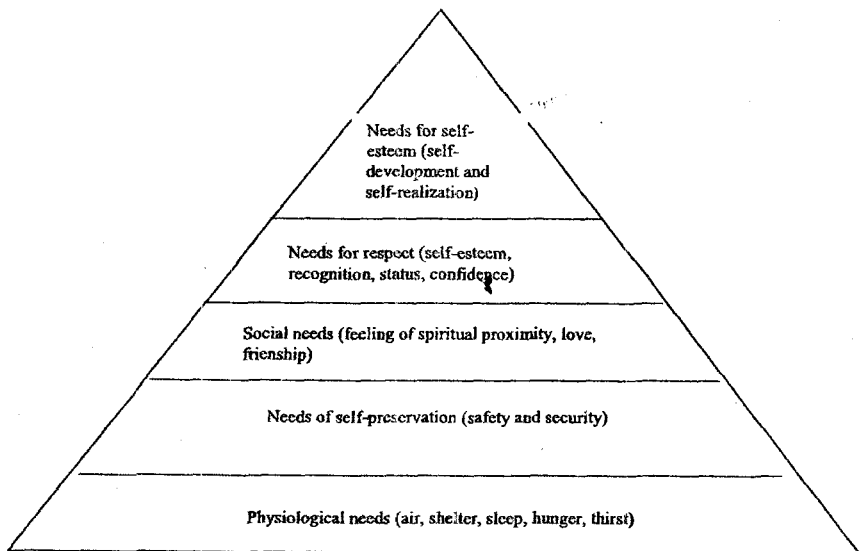


clothes, working footwear. A president of firm can buy to himself expensive suits, cars, yacht, etc. The figure of the market from all set of the population seeks to allocate such groups which members show keen interest in its goods and services. The economic situation of the individual affects his commodity choice. It is defined by the sizes of revenues of its budget, savings, creditworthiness, etc. The figures of the market offering goods which sales depends on the level of income of consumers have to watch constantly change tendencies in the sphere of personal income, savings and a discount rate. If economic indicators show a recession, the figure of the market has to take measures to adapt the goods for such situation: to reduce output, commodity stocks, to reduce the prices, to change a design, etc.

The persons belonging to the same subculture to the same social class can have a different way of life. A way of life – the settled forms of life of the person in the world finding the expression in its activity, interests and beliefs. Each person has especially specific type of personality which is reflected in his or her consumer behaviour. *Personality type* - set of the distinctive psychological characteristics of the person providing relative sequence and constancy of person's responses to environment. The knowledge like personality can be useful in the analysis of consumer behaviour, when there is a certain link between personality type and the choice of goods or commodity brand.

Factors of psychological order affect the consumer choice: motivation, perception, assimilation, beliefs and relations.

At any time, people feel various needs. The need which reached the sufficient high level of intensity becomes motive. Consumer motives are in essence socially meaningful needs which can be satisfied by purchase of goods. Abraham Maslow tried to explain why people are driven by different needs at different times, he developed a hierarchy of human needs (see fig. 18). On degree of the importance of needs, settle down in the following order: physiological needs (survival), safety and security needs, social needs, needs for respect (esteem), need for self-actualization. The person will seek to satisfy, first of all, the most important needs. As soon as he manages to satisfy some important needs, it for a while stops being driving motive. At the same time, there is a motivation to satisfy the needs following on importance.



The motivated person is ready to action. Two different persons, being equally motivated, can differ in different reactions to the same irritant. This reaction depends on perception. The perception can be defined as a process by means of which the individual selects, will organize and interprets the arriving information for creation of a significant picture of world around. Daily the person can come into contact with very large number of advertisements (irritants). It is natural that it cannot react to all irritants. Difficulty for the figure of the market is in defining what irritants will be noticed. However, even the irritants noticed by the consumer, not necessarily are perceived by him as the advertiser conceived. The person enters the arriving information in a framework of his existing opinion. The person just forgets much of what he learns, in memory there is only the information maintaining his relations and beliefs. Existence of selectivity of perception, distortion and storing – means that figures of the market need to put a lot of effort for bringing the appeals to recipients. Assimilation is the certain changes happening in behaviour of the individual under the influence of his or her experience.

The human behaviour is generally acquired. Assimilation is a result of interaction of motives, strong and weak irritants, responses and reinforcement. Motivation is understood as a strong internal irritant

pushing to action. Directed to concrete object, motivation turns into motive. Response to idea of purchase is caused by existence of a number of the accompanying small irritants (hearing about sales, encouragement from people around) which exert impact on response of the buyer and an impulse to purchase of goods.

By means of actions and assimilation of people gets beliefs and the relations. Belief is a mental characteristic by a person about something. Producers are interested in beliefs of people concerning concrete goods and services. From these beliefs, there are images of goods and brands.

Practically to everything - to religion, policy, clothes, food, etc. - a person has own relation. The relation - the steady favourable or adverse assessment which developed on the basis of the available knowledge the individual of any object or idea, experienced feelings and direction of possible actions.

The relations allow the consumer to behave rather steadily in relation to objects similar with each other. The person should not react every time in a new way. For example, the relations like "To buy only the best", "Japanese make the best goods in the world" play a large role for the figure of the market.

So, we reviewed briefly those numerous forces which exert impact on consumer behaviour. The choice of goods is result of difficult interaction of various factors. The majority of these factors can not be influenced by the figure of the market and prompt it what marketing program it is necessary to develop to cause consumer response.

### 6.3. Process of making purchase decision

On the way to making decision on purchase and its commission the buyer overcomes the following stages.

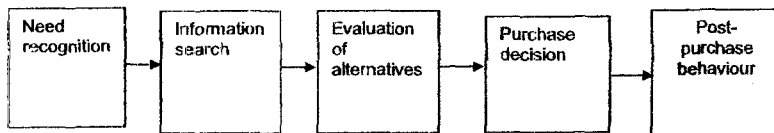


Figure 19. Consumer buying decision process.

Need recognition. Process of purchase begins with the fact that the buyer realizes a problem or need. The problem or need can be caused by

internal irritants. One of human needs – hunger, thirst – increases and turns into motivation. The person knows how to meet these needs from past experience. Irritants can be external: the advertisement about sea tour, exposed in a show-window can lead to problem understanding. The figure of the market at this stage has to try to establish circumstances, the reasons, which usually push the person to understand a problem.

*Information search.* Consumer feeling need, can be engaged in information searches. If motivation very strong, and the goods are readily available, then the consumer will get it. If not-the need can just be postponed. The buyer can: to continue information search, to search very actively, or to absolutely stop searches. Can be sources of information: 1) personal sources (family, friends, etc.); 2) commercial sources (advertising, sellers, exhibitions, etc.); 3) public sources (mass media) 4) sources of empirical experience (touch, studying, use of goods).

As a result, information collection increases consumer awareness of the available brands in the market. For example, prior to information collection, the buyer who decided to buy the camera knew only a few models from a complete set of cameras. It was a set of his awareness. The obtained information expanded its knowledge and allowed to eliminate part of brands, having left only a choice set. A task of the market figure - to develop such marketing mix, which would enter the product into a set awareness set and into a choice set. If the product of the firm does not manage to be included in these packages, sales opportunities decrease.

*Evaluation of alternatives.* The consumer uses the obtained information to make a final choice from several options. The following concepts: 1) concept about properties of goods help to shed light on an assessment of options. Consumers consider goods as a certain set of properties. For example, the camera has to provide sharpness of pictures, range of excerpts, to have an optimum sizes and price; 2) the consumer is inclined to mark out characteristic properties are those which first of all occur when ask to think of properties of goods; 3) a set of beliefs about brands. The set of beliefs about concrete branded goods is known as an image of brand. Beliefs of the consumer can fluctuate from knowledge of original properties to the knowledge which is a result of selective perception, selective distortion and selective storing; 4) the consumer attributes to each property usefulness function. It describes degree of the expected satisfaction with each separate property (the camera has to provide sharpness of pictures, to be not too heavy, etc.); 5) the attitude towards branded alternatives develops as a result of the assessment which is carried out by a customer.

Purchase decision. As a result of assessment of various options, intention to make a purchase ripens. On making a purchase decision influence: 1) the relations of other people (than more sharply the negative or positive view of other person and than is closer this person to the consumer, a high probability of revision of intention to make a purchase); 2) intention about purchase of goods can be reconsidered under the influence of unforeseen factors (for example, consumer lost a job, in this regard did not gain the expected income, etc.).

Post-purchase behaviour. The consumer, at last, bought goods. Reaction to purchase can be various:

- the buyer is satisfied with the bought goods if it meets expectations;
- the consumer is very satisfied – if the goods exceed them;
- the consumer is not satisfied – if the goods do not meet expectations.

Expectations are formed on the basis of information obtained from advertising messages from friends, acquaintances. If advertising was biased and exaggerated operational properties of goods, then the consumer will have dissatisfaction with goods because he had high expectations. Therefore, the figure of the market has to care for objective informing buyers. If the buyer is satisfied with purchase, he can buy the same brand of goods once again. The unsatisfied buyer can: refuse use of goods, to return it to the seller; to try to find some favourable information on the bought goods. Studying of actions of the buyer after purchase of goods is important for the figure of the market. For example, if the goods are used in some new purposes, then this opportunity can be advertised; if the consumer sold or changed the bought goods, it speaks about its dissatisfaction, so about decrease in sales volume in the future.

The understanding of consumer needs, studying of influence of factors on consumer behaviour and process of purchase are a basis of successful marketing.

## Summary

Market research of end user behaviour includes studying simple and expanded model of consumer behaviour.

Various factors impact on behaviour of end users such as cultural (culture, subculture, social status), social (reference groups, family, roles and status), personal (age, a stage of family life cycle, occupation, economic situation, a way of life, type of personality and representation of themselves) and psychological factors (motivation, perception,

assimilation, beliefs and the relations). Information obtained during studying of the end user allows the market figure to estimate positions of buyers in making purchase decision.

Consumer buying decision process consists of the following stages: need recognition, information search, evaluation of alternatives, purchase decision and post-purchase behaviour. The figure of the market has to understand impact on consumer behaviour at all these stages that will allow to develop modern marketing programs for the target market.

### Tasks for independent work

Task 1. A big seller of alcoholic beverages intends to produce the soft drink "for adults" which would be socially recognized substitute for alcohol. What cultural factors can influence on making entry decision into the market and on structure of marketing mix?

Task 2. You talk to the woman, who was a managing director of goods in competitor company, and consider that she can be hired. She will tell you all about plans of the competitor for the forthcoming year. What would you do?

### Test questions for self-examination of knowledge.

#### 1. What is in the simple model of consumer behaviour:

- a) characteristic of buyer;
- b) incentive factors of marketing and other irritants, "a black box" of consciousness of the buyer, responses of the buyer;
- c) economic, scientific, technical, political, cultural factors;
- d) all answers are right; e) there is no correct answer.

#### 2. Incentive factors of marketing are:

- a) choice of goods, choice of dealer, choice of brand;
- b) goods, price, distribution methods, sales promotion;
- c) process of making decision on purchase;
- d) all answers are right; e) there is no correct answer.

#### 3. Responses of the buyer are:

- a) sales promotion, choice of purchase object, characteristic of the buyer;
- b) choice of goods, economic incentives of sale;
- c) choice of goods, choice of brand, choice of dealer, choice of purchase time, choice of purchase object;
- d) all answers are right; e) there is no correct answer.

**4. What factors of social order are included:**

- a) family, neighbours, friends, colleagues, perception
- b) spouses, children, motive, belief
- c) reference groups, family, social roles and statuses;
- d) all answers are right; e) there is no correct answer.

**5. Factors of personal order:**

- a) age, stage of family life cycle, occupation, economic situation, type of personality and representation of himself;
- b) social roles, type of personality, belief, motive;
- c) creative activity of the person, reference groups;
- d) all answers are right; e) there is no correct answer.

**6. Factors of psychological order are:**

- a) age, perception, occupation;
- b) social roles, type of personality and representation of himself;
- c) motivation, perception, assimilation, beliefs and relations;
- d) all answers are right; e) there is no correct answer.

**7. Consumer buying decision process consists of the following stages:**

- a) belief, purchase decision and reaction to purchase;
- b) assessment of options, stimulation, reaction to purchase;
- c) need recognition, information search, evaluation of alternatives, purchase decision, post-purchase;
- d) all answers are right; e) there is no correct answer.

**8. What sources of information help to make a purchase?**

- a) personal sources, commercial sources, public sources, empirical sources;
- b) understanding of a problem; mass media, neighbours;
- c) reference groups, colleagues, own belief;
- d) all answers are right; e) there is no correct answer.

**9. Reaction to purchase can be:**

- a) satisfied;
- b) unsatisfied;
- c) almost satisfied;
- d) all answers are right; e) there is no correct answer.

**10. What influence on making a purchase decision:**

- a) evaluation of alternatives;
- b) usefulness of goods;
- c) relation of other people, unforeseen factors;
- d) all answers are right; e) there is no correct answer.

## Part 7. RESEARCH OF MARKET DEMAND.

Purposes:

Having got acquainted with this subject, students have to:

- to know essence of the concepts "demand", "demand management", "management of the market", "demand classification";
- to tell about methods of the analysis of a market demand;
- to be able to predict demand.

### 7.1. Concept and essence of market demand

Demand - the most important element of a market mechanism. "In relations between survey and the offer of goods, - K. Marks wrote, - the relation between goods and money, the buyer and the seller is reflected, first; secondly, - the relation between the producer and the consumer though both the last can be presented by the third parties, dealers" \*. Demand defines the main thing - *market capacity*, i.e. that part of the commodity offer, which can be realized in exchange for money of the population, at this level and the ratio of retail prices.

Demand is the specific solvent needs, which are taken out in the market, and which can be satisfied in the presence of commodity offer.

Solvency is the special property of demand. But, this property does not show its essence. Other, not less important property of demand, its ability to reflect needs for their natural form. Demand is not only the amount of money, but also a set of certain requirements to certain costs, i.e. concrete goods.

Naturally - material characteristics of demand are concretized in the form of consumer estimates of the range and quality arriving in a commodity market and services.

Consumer estimates of the range and quality are an objective expression of the approving, neutral or negative relation of buyers to this product or its separate properties.

Consumer estimates can be expressed as in the form of direct preference - through the act of acquisition or, conversely, refusal of product purchase and in the form of judgments of advantages of this or that product against others or about the defects reducing the consumer

\* Marx K., Engels F. *Sobr. soch.* 2 - oye prod., 1.25, p.1., page 211



value, usefulness of goods, stated by buyers at acquaintance with the concrete range of goods.

Demand satisfaction is a resolution of contradictions between its solvency and natural-material contents. As a quantitative expression of this contradiction serves the ratio between the shown demand and its satisfied part between which gap is equal to the size of unsatisfied demand. Existence of unsatisfied demand leads to "switching" on other similar goods or "the compelled purchase" takes place, or demand changes and turns into postponed.

Demand management is represented a a complex problem. The matter is that demand development has substantially changeable character and badly gives in to planning. Firstly, because demand is the need for goods and services presented in the market, and we are not able to define requirements precisely. Secondly, because demand - the phenomenon very dynamic, and to measure constantly changing size very difficult. Thirdly, demand depends on a large number of social-economic, demographic, climatic, esthetical-psychological factors, to consider influence of which in their set, it is impossible. Fourthly, demand for many goods is subject to influence of fashion, to predict whims of which is very difficult. Fifthly, carriers of demand are people whose behaviour mechanism in the market is not properly studied. Therefore, behaviour of buyers in the market, their motives, the relation to goods, decision-making processes about purchases of these or those goods are difficult predictable and difficult operated.

Demand management has to be based on deep scientific understanding of all forms of manifestation of demand in their interrelation and interdependence. For this purpose, it is necessary to classify demand. To classify demand - means to allocate those which differ in a community of any essential sign from all set of real forms of its manifestation, and to group them in the main properties and functions. Classification of forms of demand is presented on the picture. Demand is a form of satisfaction of specific needs of people. They are satisfied by assignment of consumer goods and services. Therefore, in the course of "disintegration" demand is divided into demand for goods and demand for services.

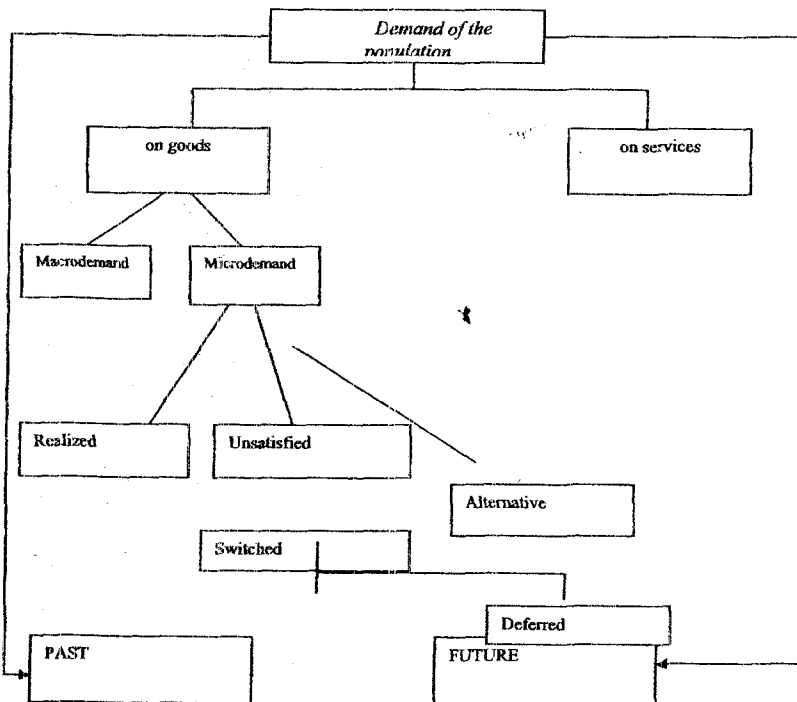


Figure 20. Classification of Demand Forms.

Each of two main parts of demand can be broken consistently up into smaller units on concrete objects: goods and services.

*Macrodemand* is understood as cumulative demand of the population of the country, region for products of a certain branch, i.e. the demand differentiated on the integrated groups of goods and services.

Microdemand is a demand for the concrete products, their versions and modifications allocated on the accepted signs. Demand can be shown in the form of the alternative demand allowing replacement of one product with another or as rigidly formulated requirement which is not allowing such replacement (for example, demand for footwear of a certain size). On this sign two forms of micro demand - alternative and firmly formulated are allocated. On the basis of satisfaction degree demand can be divided on satisfied (or realized) and unsatisfied. On time of presentation, it is possible to mark out past demand and future demand.

For the market figure, it is important to know what caused the fact of purchase implementation, what reasons caused emergence of need for

concrete goods or service and what conditions promoted realization of the arisen requirement. Set of these reasons and conditions represents the system of factors forming demand. For studying an extent of influence of separate factors on demand, the system of factors is classified on groups depending on various signs:

1. Social: character of a social production, social structure of society, cultural wealth of the people, a form of distribution of material benefits, a level of culture development, government policy in the field of social security, professional structure of the population.

2. Economic: a level of production development, the income of the population, price level, degree of security of families with goods cultural-household purpose, a condition of trade service.

3. Demographic: population, gender and age structure, size and structure of a family, migration level, income of the population, education level, occupation and other.

1. Natural - climatic: climate, land relief, vegetable life.

Besides there is a group socially - psychological factors exerting impact on a market demand and consumer behaviour.

## 7.2. Methods of the analysis of market demand

One of the most important functions of marketing is the analysis of a condition of demand of consumers that assumes carrying out the deep economic analysis of primary data. The most widespread method of information processing about demand is recalculation of absolute measures in relative. Generalizations to which the figure of the market because of the analysis comes, are expressed most often in the form of average or others relative greatness and indicators. For the analysis of a tendency of demand development indexes, which represent a version relative greatness, are widely used. By means of indexes, changes of demand in time or its distinctions on regions come to light.

In the analysis of dynamic ranks of change of demand count rate of increase and growth. The average annual growth rate is calculated by the formula:

$$K = \sqrt[n]{\frac{y_n}{y}} * 100$$

where

k - average annual rate of change;

- yn - a demand indicator in the last year of the analyzed period;
- y - a demand indicator in the base year;
- n - the number of years taken for the analysis.

One of widespread methods of processing of economic information on demand is *the tabular method*. The main thing in a tabular method - the correct *group* of data. Groups represent the most widespread way of allocation of the phenomena or signs from their set. The method of groups used for the analysis of demand allows to establish existence or lack of dependence of demand on a number of factors which serially makes a basis of each separately taken group to characterize the general tendencies. For generalization and the analysis of a tendency of demand development *graphics* are used. With their help, it is possible to demonstrate structure of demand, to compare levels and structure of demand of various social, economic groups of the population, to reveal forms of dependence of demand from various factors. The graphic method represents a form of the evident image of processes of demand formation and allows getting the real picture of the phenomenon.

Analyzing interrelation of the phenomena, the figure of the market has to be able to establish types of communications, to measure quantitatively their narrowness, i.e. to reveal the main (defining) factors under the influence of which demand changes by means of comparable measuring instruments. Communication between the size of demand and a factor will be functional if one corresponds to a certain value of a factor and only one size of demand. It means that if two families have, for example, the same income, then they have to have also the same structure of demand. However, in life such does not happen since the income differently influences demand. Comparison will be more fruitful, if to compare groups of families with different income levels. In this case, the same value of a factor will correspond to several values of demand, and communication between them can be shown only at mass supervision, such communication call *correlation*.

It is necessary for use of a correlation method, bigger number of supervision specific features of the phenomena faded into the background and the main dependence, if it takes place, could be shown. Use of correlation in the factorial analysis of demand is connected with two tasks:

1. to find dependence in the actual material and to establish its form;
2. to measure force and narrowness of communication

The first task is solved by the corresponding processing of material (ranging, group, a communication equation conclusion), the second - by means of calculation of special indicators of narrowness of communication. Definition of a form of communication of a factor with demand matters at one-factorial the analysis when application of certain functions depends on this or that concrete form of communication. In one factorial analysis functions are used:

$$y = a * x b; y = a * b x; y = a * x + b$$

Most often use the direct equation.

Indicator of narrowness of communication between a factor and size of demand for goods is the correlation coefficient. In case of linear functional dependence it is equal at direct link + 1, at the return - 1 (in the absence of communication it is equal to 0). If communication positive, then *coefficient of correlation* is from 0 to + 1, if negative - from 0 to -1. The pair coefficient of correlation can be calculated by the formula:

$$r_{xy} = \frac{\sum xy - \frac{\sum x \sum y}{n}}{\sqrt{(\sum x^2 - \frac{(\sum x)^2}{n})(\sum y^2 - \frac{(\sum y)^2}{n})}}$$

where *Chukh* - correlation coefficient

x - value of a factor;

y - value of demand;

n - number of couples of demand values and factor.

If the correlation coefficient is equal to zero, then it speaks about lack of communication; if it is equal to 0,2 - 0,3 - communication weak, 0,3 - 0,5 communication moderate; 0,7 - 0,99 - noticeable; and full (functional) at coefficient 1.

The pair correlation coefficient can be calculated also by other formula:

$$r_{xy} = \frac{\sum (x - \bar{x})(y - \bar{y})}{\sqrt{(\sum (x - \bar{x})^2) \sum (y - \bar{y})^2}}, \text{ where}$$

H - correlation coefficient;  
y - value of demand;  
x - value of a factor.

In the analysis of information on consumer demand elasticity coefficients are used. Elasticity of demand is its ability to change under the influence of these or those factors. Degree of dependence of demand from factors is expressed in quantitative measurement through elasticity coefficient which is estimated on a formula:

$$K_e = \frac{\Delta y}{\Delta x} \cdot \frac{x}{y}$$

where K - elasticity coefficient;  
y - level of demand per capita in a year;  
 $\Delta y$  - change of demand per capita in a year;  
 $\Delta x$  - change of a factor in a year;  
x - value of a factor.

### 7.3. Forecasting of market demand

Successful activity of the enterprise in many respects is defined by the forecast of a market demand. In general view the forecast is an evidence-based judgment of possible conditions of object in the future and (or) alternative ways and terms of their implementation. Processes, the phenomena, events to which cognitive activity of the person is directed can act as objects of forecasting.

*Forecasting* is a process of formation of probabilistic judgments of a condition of object in the future. The business cycle forecast of the market is a basis for drawing up the marketing program of firm and is used for making decisions on behaviour of firm in the market.

In practice of forecasting development of demand, many modern methods are used: extrapolation of tendencies, expert estimates, analogies, standard calculations, economic-mathematical modelling.

The broadest application in practice of forecasting is found by extrapolation of tendencies. Extrapolation is understood as finding of the levels of a row outside its empirical value characterizing development of the predicted phenomenon in the past and the present periods.

For demand forecasting, relative sizes of dynamics are often used. When forecasting demand for goods in the sales volume of which in recent years has been a steady tendency of growth or decrease,

calculations with a certain simplification can be built on the average annual rates of change. The assumption is the cornerstone of such approach that development of indicators of the predicted phenomenon in time represents a geometrical progression, i.e. each subsequent member of a dynamic row is equal previous, multiplied by average coefficient of growth rate or decrease. Use of such calculations is lawful for short-term forecasting of demand. From here, it is necessary to consider that calculation according to this method do not allow to consider the changes happening in demand due to the conjunctural situations. Therefore, results of forecasts have to be estimated and be corrected logically in each case. Calculation of forecasts in case of a steady tendency of its change can be made by alignment of dynamic ranks. For this purpose, the form of demand development in time is defined by a graphic method and analytical function is selected. The following types of functions are most widespread:

$$y = a + bt - \text{linear};$$

$$\bar{y} = a + bt + ct^2 \text{ parabola};$$

$$\bar{y} = a + at^b - \text{sedate curve};$$

$$y = a \cdot bt - \text{indicative curve.}$$

The analysis of extent of influence of factors on formation of demand on many groups of goods shows that as the defining factor the level of the income of the population often acts. On such goods, forecasting of demand can be carried out by means of *elasticity coefficient* (it is estimated on the formula given earlier).

In forecasts of demand, *the standard method* is widely used. Perspective norms of rational consumption or standards of rational security of the population with nonfoods, and also physiological norms of consumption of food are its cornerstone. Norms of consumption characterize a limit to which consumption has to reach, i.e. reflect the consumption level providing full satisfaction of reasonable requirements of the population both in industrial goods and in the food necessary for normal physiological functioning of the person

In practice of forecasting situations when basic information is absent at all or it is insufficiently reliable. Furthermore, by what way the forecast of demand would not be calculated, there is always a need for qualitative logical assessment of this forecast.

In all these cases, the method of expert evaluations can be applied. In favour of this method it would be possible to give also some other arguments, for example, the value of demand forecasts is often quite low due to the fact that for many years is deficient in certain products. The volume of demand for such goods for last periods is almost unknown as it does not coincide with the actual sale. Use for forecasting of demand for such goods of mechanical transfer of tendencies of development simply does not make sense.

It is obvious that in such situation the solution of the problems facing the service of studying demand requires in addition to other methods of forecasting the wide use of *expert estimates*.

The essence of method of expert evaluations consists in collecting, processing, the analysis and use for various purposes of data from representative number of experts. Experts are the persons having knowledge of the studied phenomenon and capable to express the reasoned opinion. Procedure of receiving estimates from experts is called expertise. Certainly, answering the question posed, each expert proceeds from own experience, knowledge, conditions of real life. From this point of view, his answer represents more subjectively opinion. However, if there is a lot of opinions and they are rather qualified, then their generalization and averaging leads to objectification and allows to receive the correct assessment of a state or development of the studied phenomenon. In practical work on demand forecasting expert methods can be also successfully used at an assessment of so-called "informal" factors of demand. Demand is influenced by a large number of various socially - economic, psychological and other factors. It is almost impossible to consider quantitatively many of them and communications between them. Influence of all factors together forms the volume and structure of demand of the population. In this case, a good addition to "formal" mathematical methods of forecasting are quality assessments of competent experts. Carrying out an expertise includes the following stages:

- 1) definition of the purposes and objectives of expertise
  - 2) formation of expert group
  - 3) drawing up questionnaires, definition of a way and procedure of survey of experts
  - 4) carrying out a survey
  - 5) processing and the analysis of information obtained from experts.
- For demand forecasting economic-mathematical models of demand



development depending on various factors are widely used now. Mathematical modelling is the effective instrument of generalization of regularities of economic processes. For forecasting of demand, there is a number of factorial models. For creation of models it is necessary to reveal first of all the major factors forming demand, to define extent of their influence on demand change, to choose a form of communications of separate factors with demand, to mathematically express these communications.

The demand forecasting models expressed in the form of the equations of regressions of various types, for example, are most commonly used multifactorial in practice:

$$y = a_0 + b \cdot x_1 + c x_2$$

$$y = a_0 + a_1 x_1 + a_2 x_2 + a_3 x_3 + \dots + a_n x_n$$

where  $x$  - demand

$a_0, b, c, a_1, a_2, a_3$  - equation parameters

$x_1, x_2, x_3, x_n$  - factors forming demand

All forecasts have probabilistic character. Therefore, for increase of degree of their reliability, it is necessary to carry out additional economic and logical justification of the received results.

### Summary

Studying of a market demand is the most important function of marketing. Demand defines the main thing - the market capacity, i.e. that part of the commodity offer which can be realized in exchange for money of the population.

Giving demand definition, marketing specialists emphasize that it is the specific solvent needs which are taken out in the market which can be satisfied in the presence of the commodity offer. There is a big variety of demand, among which first, demand for goods and demand for services is distinguished.

One of the most important functions of marketing is the analysis of demand condition. Widespread methods of the analysis of demand are recalculation of absolute measures in relative, index method, graphics, mathematical methods, correlation coefficients are used.

In practice of development of demand forecasts many modern methods are used: extrapolation of tendency, expert estimates, analogies, standard calculations, economic-mathematical modelling.

### Tasks for independent work

Task 1. How the demand assessment from the prices is carried out? Let's say that at the price of 70 tenge, 50 commodity units were sold; at the price of 60 tenge - 80 commodity units. Elastic or inelastic demand is observed on these goods in this interval of time? What elasticity of demand from the price?

Task 2. At the price of 520 tenge, demand of goods A is 60 pieces. By reducing the price of 20 tenges demand increased to 50 pieces. Determine the elasticity of demand.

Task 3. The following dependence of demand (K) from the price (C) is given

C	900	700	500	300
K	15	25	35	45

Find elasticity of demand at each value of the price and give its characteristic.

### Test questions for self-examination of knowledge.

#### 1. Demand is:

- the specific solvent needs which are taken out in the market which can be satisfied in the presence of the commodity offer;
- resolution of contradiction between solvency and natural-material content of requirements;
- set of quite certain requirements to so certain consumer costs;
- all answers are right;
- there is no correct answer.

#### 2. It is necessary to manage demand because:

- we are not able to measure requirements exactly;
- demand – dynamic phenomenon;
- demand is influenced by a set of factors;
- all answers are right;
- there is no correct answer.

**3. Demand is divided into:**

- a) goods and services;
- b) macro and microdemand;
- c) past and future
- d) all answers are right;
- e) there is no correct answer.

**4. On presentation time demand can be marked out on:**

- a) alternative;
- b) firmly formulated;
- c) past, future;
- d) all answers are right; e) there is no correct answer.

**5. Demand is influenced by factors:**

- a) economic;
- b) social;
- c) demographic;
- d) all answers are right; e) there is no correct answer.

**6. Methods of the analysis of market demand:**

- a) recalculation of absolute measures in relative;
- b) index method;
- c) tabular method;
- d) correct a) and b)
- e) there is no correct answer.

**7. The correlation coefficient defines:**

- a) narrowness of communication between factors and size of demand for goods;
- b) ranging of factors;
- c) group of indicators;
- d) all answers are right; e) there is no correct answer.

**8. If demand for goods is reduced, then total revenue of the seller:**

- a) grows;
- b) reduced;
- c) remains unchangeable;
- d) all answers are right; e) there is no correct answer.

**9. Forecasting is:**

- a) a link between the past and future;
- b) the changes happening under the influence of various factors;
- c) process of forming a probabilistic judgment about the state of the object in the future;
- d) all answers are right; e) there is no correct answer.

**10. Demand forecasting methods:**

- a) extrapolation of tendency, expert estimates, analogies;
- b) economic-mathematical modelling;
- c) standard calculations
- d) all answers are right; e) there is no correct answer.

## Part 8. PLANNING of GOODS.

Purpose: Having studied this subject, students have to:

- to give definition to the term "goods", "goods as envisioned", "goods in real execution" and "goods with reinforcement";
- to tell about classification of consumer goods;
- to explain stages of product life cycle;
- to tell about a role of packing of goods and its marking.

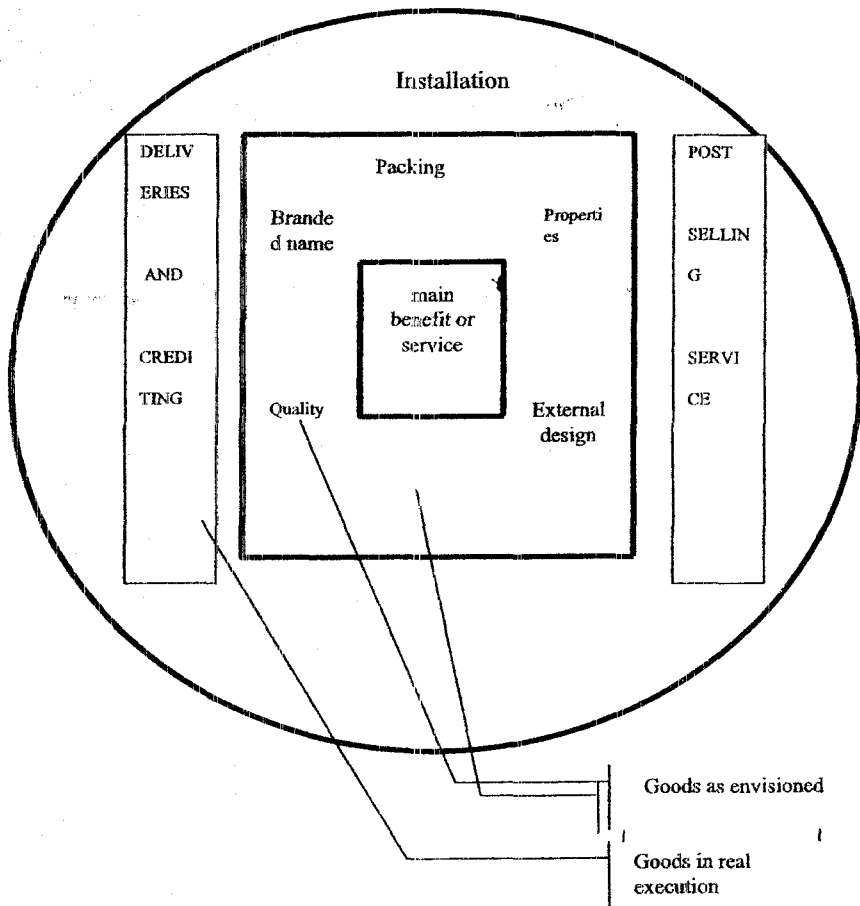
### 8.1. Goods as a research object in marketing activity

Most of marketing specialists consider that marketing is related not only to production and sale of goods or services, and covers everything that it is capable to meet the various human needs. What is goods in marketing? The standard definition of goods – "the work product made for sale" – remains fair, of course, and in marketing. However, in marketing emphasize not so much a goods role in its exchange for money how many opportunities to use it, to consume.

"The goods" are a complex of useful properties of a thing. Therefore, it automatically includes all making elements necessary for satisfaction of consumer needs. Not only material things belong to goods. Goods include physical objects, services, concrete places, the organizations, ideas or their combinations.

Services are any activity or the benefit which one party can offer another. The hairstyle, repair of housing, rent of a hotel room, storage of money in bank, visit to the doctor, consultation with the lawyer, watching movie are not a full list of the rendered services.

During creation of goods, the developer needs to estimate its product, considering three various levels. Goods level as envisioned at which give the answer to a question is fundamental: what will buy the customer? In essence, any goods are the service concluded in packing for the solution of some problem. A task of the market figure is to reveal the needs hidden behind any goods and to sell not properties of these goods, but benefit from it. As shown in fig. (21), goods as envisioned - a core of concept of goods in general.



**Figure 21. Three levels of goods**

Based on goods as envisioned, it is necessary to create goods in real execution. The goods in real execution can possess five characteristics: level of quality, set of properties, specific design, branded name and specific packing.

And at last, the developer can provide to the client additional services and benefits making together goods with a reinforcement.

The idea of a reinforcement of goods forces the market figure to look narrowly at the system of consumption existing at the client in

general, at how the buyer of goods approaches a problem which he tries to solve thanks to goods.

The commercial success of firm depends on existence of modern, high quality, favourable to the buyer and to the producer goods.

When choosing a marketing strategy, it is necessary to consider a number of commodity classifications. According to the degree of their inherent durability of the goods can be divided into:

- durable goods are those which serve for many years (refrigerator, TV);
- goods of short-term use are, as a rule, used quickly for one or several times (beer, soap, salt).

Services are the actions offered to sales, benefits or satisfaction of requirements (hairstyle, repair). Products of long use and furthermore goods of production appointment demand efforts not only in the organization of sales but also building brand commitment. Goods of short-term use and services are characterized by feature, important for the producer: the buyer once satisfied with product quality prefers also other goods of the same brand.

Consumer goods can be classified as follows:

Daily demand products - goods which the consumer buys often, without thoughts and with the minimum efforts on their comparison (tobacco products, soap, newspapers). They can be subdivided in addition into: main goods of a stable demand, goods of impulsive purchase and goods for emergencies. The main goods of a stable demand people buy regularly, for example, bread, milk, toothpaste. Goods of impulsive purchase get almost without preliminary planning and efforts to searches. As a rule, such goods are usually offered in many points of sale as consumers seldom specially look for them. For example, chocolate bars or magazines spread near cash desk because otherwise the consumer can not remember them. Goods for emergencies buy in emergence of a severe need in them, for example, umbrellas during a rain, shovels during snow drifts.

Goods of preliminary choice - goods which the consumer compares among themselves on indicators of suitability, quality, price. They can be divided into uniform and non-uniform. The buyer considers uniform goods (refrigerators, TVs) as products similar in quality, but differing in the price. The seller of such goods in conversation with the buyer has to "substantiate the price".

However, when purchasing non-uniform goods, such as clothes, furniture, their characteristics are often more important than the price.

Goods of special function - goods with unique characteristics and separate branded goods for the sake of which acquisition of the considerable part of buyers is ready to spend additional efforts. Concrete brands and types of fashionable goods, cars, photographic equipment, and men's suits can be examples of such goods.

Goods of passive demand - goods which the consumer does not know or knows, but usually do not think of their purchase. New products like smoke indicators and the kitchen equipment for processing of foodstuff stay in the category of goods of passive demand until advertising does not provide awareness of the consumer about their existence. Known and nevertheless the goods, which are not causing demand, serve as classical examples: life insurance, dictionaries, encyclopaedias.

## 8.2. Product life cycle

The concept of product life cycle (PLC) recognizes from the fact that any product, what magnificent consumer properties it would not possess, is driven out from the market by other perfect goods eventually. PLC is a concept, which tries to describe sale of a product, profit of producers, competitors and a marketing strategy from the moment of receipt of goods in the market before its removal from the market.

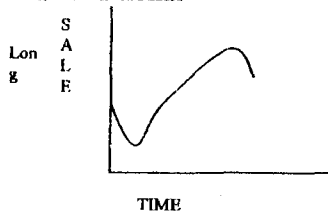
Marketing specialists are interested in research of product life cycle for a variety of reasons. Firstly, some analysts found out that life of goods became shorter, than earlier. Secondly, new products demand the growing investments. Thirdly, this concept allows the marketing specialist to expect changes in tastes of consumers, level of competition and to expect changes in system of realization of goods and, respectively, to adapt for them its marketing plan. Fourthly, the concept of product life cycle allows the marketing specialist to analyse the commodity range which the firm will offer, considering that many companies seek to reach the balanced combination of the new, developing and mature goods in the production.

In PLC four stages are distinctly allocated:

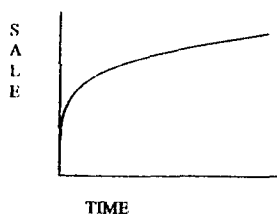


1. Introduction stage— the period of slow growth in sales of goods in the process of goods entry into the market. Due to the high cost of entering goods into the market, there is not profit at this stage.
2. Growth stage - the period of fast perception of goods by the market and rapid growth of profits.
3. Maturity stage – the period when the goods reach the maximum sale and profit. However, in this period delay of rates of sale is observed because the goods already achieved perception of potential buyers. Profits are stabilized or reduced in connection with growth of costs of protection of goods against competitors.
4. Decline stage – the period which is characterized by sharp falling of sale and decrease in profits.

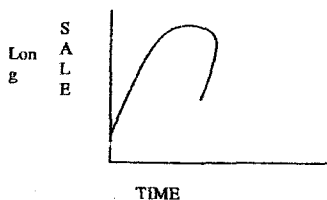
### I. Traditional



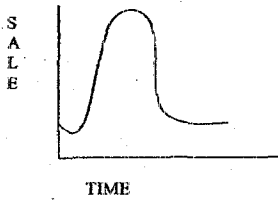
### II. "Boom" (classical)



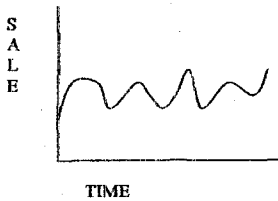
### III. The curve of hobby



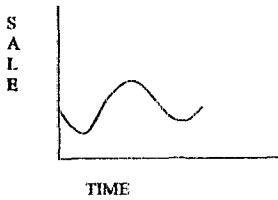
#### IV. The curve of long hobby



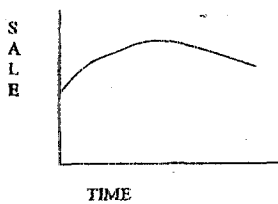
#### V. Seasonality or fashion



#### VI. Renewal or "nostalgia"



#### VII. Failure



Types strongly differ with PLC both in duration and in form. Traditional curve PLC includes the periods of introduction, growth, maturity and recession.

Classical curve (boom. describes extremely popular product with stable sale throughout the long period of time.

The curve of hobby describes goods, which received fast takeoff and also quickly lost popularity.

Long increase is shown also, except that "residual" sale continues in the sizes making an insignificant share from the former volume of realization.

The seasonal curve or curve of fashion takes place when the goods have popularity only during a certain period.

The curve of renewal or "nostalgia" describes goods which would become outdated, but again received popularity.

The curve of a failure characterizes a product, which did not make success at all.

### 8.3. New product development

To give a definition to new product and its value for successful business.

New product planning process includes seven phases (figure 22.)

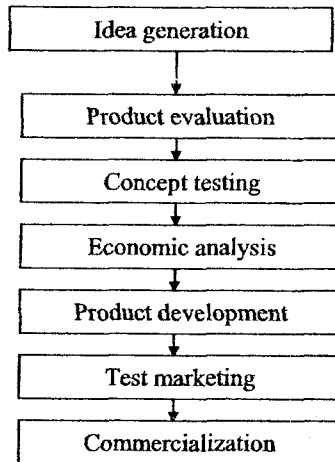


Figure 22. New product planning process.

*Idea generation* is a continuous systematic search of opportunities to create a new product. It includes collecting new ideas and methods of their creation.

Consumers, employees, sales channels, competitors, the government, etc. can be sources of ideas. The sources, focused on the market, reveal the opportunities based on desires and needs of consumers; then scientific research are guided by satisfaction of these desires.

The sources, focused on laboratories, identify opportunities based on fundamental research directed at obtaining new knowledge and which are indirectly leading to idea emergence of new product of the applied research which are purposefully using the existing scientific methods for development of ideas about new products.

Methods of new idea generation include brainstorming (meeting of small groups where open discussions stimulate emergence of a wide range of ideas), the analysis of existing products and survey. Many specialists of the analysis of the market express opinion that new idea generation requires broader vision: it is necessary to seek ideas of various people; to generate a large number of ideas; not criticize them no matter how unusual they seem.

Product evaluation. After allocating potential goods, the firm has to carry out a filtration of ideas: to exclude ideas, bad, improper for further consideration. Now many companies for primary assessment of ideas use the filtering list of new products. In it, the firm lists qualities of new products which it considers as the most significant, and compares all ideas in these parameters. The list is standardized and allows to compare ideas among themselves.

The filtering list of new products includes three main groups of characteristics: general, marketing and production. Within each group, it estimates several parameters of products for each idea on the basis of a scale - from 1 (great) to 10 (very bad). Besides, importance of each parameter of products as they differently influence on product success in the market is weighed.

During a stage of filtration, the possibility of patenting new production has to be noted. Plans of the working model have to be submitted to management of patenting. When applications for patents are submitted, information about them becomes available to the public. The owner of the patent has the right to sell the invention or to receive license assignments.

The firm has to have a feedback from consumers concerning the ideas and products. Concept testing - means to present to the consumer

estimated products and to measure consumer's relation and intention to make a purchase at this early development stage.

Concept testing – not expensive instrument of checking the relation of potential consumers to goods, whom ask to express the relation to the image, written information or the oral description of goods before expensive development of a prototype. At the same time, it is necessary to ask such questions: Is it easy to understand the idea? Whether you see advantages of this products in comparison with the goods which are available now in the market? Whether you trust the information about these goods? Whether you buy it? Whether you replace the model, which is available, to this new product? Whether it satisfies your real requirement? What improvements you could offer concerning various characteristics of a product? How often you will buy it? Who will use it?

*Economic analysis.* As the following stage - expensive and long development of products, effective use of the economic analysis is necessary in time to eliminate ineffective options.

Factors	What is considered?
Demand forecasts	Ratio of sale and prices; potential short and long-term sale; growth rates of sale; seasonality; indicators of repeated purchases; intensity of sales channels
Cost forecasts	Total and relative costs; the use of existing capacities and resources; ratio of initial and operating costs; estimates of future expenses for raw materials and other costs; saving of mass production; distribution channels needs; level of achievement payback
Competition	Short and long-term indicators of company share and its competitors in the market; the strengths and weaknesses of competitors; potential competitors; probable strategy of competitors in response to the new products of the company
Required investments	Product planning (engineering, patent search, product development, testing); promotion; production; distribution and sale

Profitability	Period of covering of start-up costs; short and long term total and relative profits; control over the price; income from investments; risk
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At product development stage, the idea of a product is embodied in physical shape and defines basic marketing strategy by product design, packing, brand development, determining the position of product in the market, checks of the relation and use by the consumer.

To make a decision on product design - means to choose type and quality of materials of which it consists, a production method, to establish the cost of a unit, production time, extent of use of production capacities, the possible sizes and colours, and also the period necessary for transition from development to commercial use. Decisions on packing define materials, which will be used; functions, which it has to carry out (such as advertising and storage); costs, alternative sizes and colours. Decisions on commodity brand include the choice of new or use of existing name; exclusivity; protection of a trademark and required image. To determine the position of product - means to choose for it a market segment, to compare new products with competing and other offers of firm. Check of the relation and use concentrates on representations of consumers and their satisfaction with products.

Test marketing is a realization of a product in one or several chosen regions and observation of actual developments of events within the offered marketing. The purpose of test marketing - to estimate products and preliminarily check the marketing program in real conditions prior to full-scale product sales. Instead of learning about intentions, it is possible to observe real consumer behaviour, to learn about their reactions and about a marketing network. Based on this method, the firm can go with more large-scale plans forward, modify (products), then develop the efforts, change the marketing plan and then develop the activity or stop production.

In order to apply this method, it is necessary to make several decisions: when, where, how long, what information to obtain and how to apply results. The period of carrying out is defined by the speed and the choice of moment.

In strongly competitive environment, companies seek to do all this as soon as possible. The choice of the moment is more important for commercial production, than speed.

To choose a test place - means to determine in how many and in what cities to present its product. Usually the companies check the market in two or three cities.

Selection of a particular city depends on as far as it represents the national market, from extent of cooperation of retail trade, level of the competition and ability to control and measure the marketing program.

Duration of test usually makes from two months to two years and depends on how far the firm is ahead of competitors, from complexity of tests, rates of secondary purchases of products and aspiration to privacy. Besides, it is necessary to determine how sale of goods after recession of initial enthusiasm will go (at the same time the share of secondary purchasers, their frequency, shortcomings of products and marketing are carefully traced). For often-acquired goods there is usually enough six-month period of test.

The firm has to determine what information it wants to obtain and to correlate the received results to the purposes of the company. It is possible to learn about realization, consumers, rates of purchases, strong and weaknesses of distribution and sale, enthusiasm of dealers, market share, an impact of new product on other products of firm, reaction of competitors, efficiency of marketing strategy and the position of goods in the market.

At last, it has to solve the management of firm how will use test results. Some firms use test marketing not only to gain recognition of consumers, but also as the first stage of realization within all country; others - for determination of necessary changes in products and marketing plans; the third - finally to decide a destiny of product: they will stop production of goods before commercial realization if it does not meet expectations of the company (to increase efficiency of test marketing and to lower the its costs, it is necessary to collect only that information which will be directly used for adoption of the subsequent decisions).

After completing all tests, the firm is ready to enter the all target market with its new product. Commercialization corresponds to introduction stage of product in the market and includes implementation of all marketing plan and full-scale production. Commercialization requires big expenses and fast decision-making. Among factors which

have to be considered at this stage, the speed of recognition by consumers, recognition speed by sales channels, intensity of distribution, production capabilities, structure of promotion, the price, the competition, period to achieve the desired profit, cost of commercialization.

#### 8.4. Product branding and packaging

The firm issuing goods in the market has to take care of its recognition consumers. Marketing is entrusted also with this sphere of activity - registration of individual market person of goods. Commodity-symbols come into action.

*Product branding* is a logo, design or a symbol demanding to distinguish goods of different makings.

The company name (branded, the name) is a letter, the word or group of letters or words which can be said ("Caucasus", Intourist). The firm - (branded) sign is a symbol, drawing distinctive colour or any other designation. Company's sign is part of product branding which can be identified, but it is impossible to pronounce.

*Trademark* is a product brand or any its part which is protected legally. In market economy, the trademark is an object of property. It means that the exclusive right to the trademark is legally approved. They can own, dispose its illegal use is forbidden. In many countries for suppression violation there is a designation indicating that this trademark is registered and is protected by the law.

The trademark helps consumers and producers:

- Gives the chance to distinguish goods of different producers.
- Indicates what enterprise is responsible for the released to the market product
- Guarantees a certain level of quality.
- Facilitates market segmentation, creates an individual image of goods
- Increases popularity of products.
- Contributed to introduction into new markets (if the producer with the famous trademark installs it on the new goods, intended for the new market).

Certain requirements are imposed to the trademark:



1. Simplicity, i.e. the minimum quantity of lines, lack of small, badly readable details and everything that prevents fast and exact memorization.
2. Identity.
3. Attractiveness.
4. Protectability, i.e. opportunity to register the trademark officially.

The trademark always should be distinguishable. For this purpose, it should be written either in quotes or capital letters. The first use of the trademark is necessary to supply with a remark in any text. For example, "Finnit" - the registered trademark of Almaz jeweller company. It is necessary to check the accuracy of the mark sign. The trademark does not incline.

Let's formulate the rule of a company name.

*The company name differs from others. Corresponds to a product and provides an accurate memorization. It is made in only one way. It has to be legally protected from use by others, the trademark in itself is a product. (For example, the cost of the Capital trademark in a foreign market makes \$400 million.).*

The buyer sees the trademark on packaging. It acts as the business card of the producer or seller.

*Packaging* - development and production of a receptacle or cover for goods. Packaging contains, protects, preserves, transports, informs and sells.

*The receptacle or cover* is different options of packaging which includes three layers. *Internal packaging* is a direct receptacle of goods. For the "Old Spice" aftershave lotion the bottle in which it is poured will be internal packing. Under external packaging mean the material serving as a protection for internal packaging and removed by preparation of goods for immediate use. For a bottle with lotion, external packaging the cardboard box which provides additional protection and gives to the producer an opportunity to use it for sales promotion of goods serves. Under transport packaging, mean the receptacle necessary for storage, identification or transportation of goods. For "Old Spice" lotion, the box from corrugated cardboard containing 72 bottles will be transport packaging. And at last, an integral part of packaging are the markings and printing information with the description of goods applied on packaging and enclosed in it.

*Purpose of packaging.* The basic purpose of packaging are:

- to protect goods from damage;

- to provide creation of rational units of cargo for transportation, loadings and unloading of goods;
- to give an opportunity of formation of rational units for their warehousing of goods;
- to provide creation of optimal- on the weight and volume - units for sale;
- to be the important carrier of advertising.

Marking of goods. The most important part of design strategy and use of packaging is marking of goods with application of labels, shaped coding and etc. They can have plain label attached to goods, or graphic composition which is an integral part of packing. On a label, there can be only a branded name of goods or large volume of information about the product.

Shaped coding. In the conditions of quickly increasing use of the computer equipment in all fields of activity it is difficult to underestimate a role of shaped coding in increase of production efficiency, trade, transport, banking. Shaped code - a way of information introduction to the COMPUTER with which the object can be quickly "learned" and transferred the information about it to the computer.

The shop obtains on electronic channels from the supplier information about goods (its size, weight, colour, etc.). Also, the code is reported. In a warehouse by means of the laser reader, there is record of goods in their parameters and quantity. Goods are exposed to the electronic registration, at their receipt in shop and sale. It carries out all COMPUTERS instantly. There is an opportunity to observe almost in one stage a demand condition, consumer preferences, dynamics and structure of the range of goods.

Sellers create for their goods labels, i.e. means of marking which can appear in the form of the plain label attached to goods, or carefully thought over complex graphic composition, which is an integral part of packing. On a label, there can be either one branded name of goods, or large volume of information on it.

Labels carry out several functions, and depends on the seller. At least, the label identifies goods or brand, for example, on oranges the name "Sankist" can be stamped. The label can also specify a goods grade. For example, peach canned food divides on the grades designated by letters A, B and C. Label can describe to some extent goods, for example who, where and when made it, packing contents, an order of its use and safety measures during the work with it. And at last, the label

can propagandize goods the attractive graphic execution. Some authors distinguish the identifying, descriptive and propaganda labels. The goods of firm usually assume existence of these or those services.

### Summary

A product is the most important element of marketing mix. The standard definition of goods – "a product of work, made for sale" – remains fair in marketing. However, in marketing emphasize not so much a product's role in an exchange for money how many an opportunity to use it, to consume.

Any product, no matter what magnificent properties it would not possess, is driven out of the market by new more perfect goods eventually. Each product has a life cycle. Life cycle is a reaction of the market to goods in time. Stages of introduction, growth, maturity and decline are characteristic of life cycle. Success of the enterprise serves timely creation of a new product.

New product planning process includes: idea generation, product evaluation, concept testing, economic analysis, product development, test marketing and commercialization.

On each goods, marketing specialists make individual decisions, which include decisions concerning attributes of goods, trademarks, product packaging, marking.

### Tasks for independent work

Task 1. To what classification group of consumer goods is necessary to include such goods: toothpaste, jacket, fashionable cars and dictionaries.

Task 2. Arrange in the proper order new product development stages:

- a) development of new goods;
- b) preliminary estimate and selection of ideas;
- c) plan development and its testing;
- d) formation of ideas for new goods;
- e) development of preliminary marketing strategy;
- e) expansion of commercial production.

Task 3. Why does a product enter a decline phase? Tell us, what marketing actions the firm at a decline stage has to take, if it some time wants to remain in the market.

**Test questions for self-examination of knowledge.**

**1. The commodity market of consumer appointment consists of:**

- a) the companies which acquire goods for their subsequent realization;
- b) the buyers acquiring goods for private use;
- c) the people acquiring goods for resale;
- d) firms - producers of goods of consumer appointment;
- e) there is no correct answer.

**2. Goods of everyday demand is characterized:**

- a) distribution through a network of special shops;
- b) acquisition for a large sum of money;
- c) lack of a need for additional consultations with the seller;
- d) all answers are right;
- e) there is no correct answer.

**3. A task of commodity policy is:**

- a) management of product life cycle and their competitiveness;
- b) search of the consumers wishing to buy goods;
- c) to make as much as possible goods;
- d) all answers are right;
- e) there is no correct answer.

**4. The first stage in the course of new product creation:**

- a) administrative analysis;
- b) designing of goods;
- c) idea creation;
- d) all answers are right;
- e) there is no correct answer.

**5. Creating product modification based on improving its quality is expedient:**

- a) in the presence of the technology increasing product quality;
- b) in the presence of resources on carrying out research and development;
- c) in the presence of market research results confirming the positive relation of consumers to goods;
- d) in the presence of quality parameters, improvement of which the consumer will be able to estimate positive changes.
- e) there is no correct answer.

**6. The product is new if:**

- a) it is assessed by the market;
- b) the producer in a new way advertises the product;
- c) the producer uses a cutting edge technology of its production;
- d) all answers are right;
- e) there is no correct answer.

**7. It is expedient to carry out creation of new products in the following way:**

- a) by own efforts;
- b) to acquire patents;
- c) everything depends on the purposes and resources of firm;
- d) all answers are right; e) there is no correct answer.

**8. The product brand is intended for:**

- a) to compensate missing quality of a product;
- b) to explain reasons of higher price for the product to the consumer;
- c) to differentiate the product in the market;
- d) all answers are right; e) there is no correct answer.

**9. What the difference between the range and the nomenclature:**

- a) the nomenclature is a part of the range;
- b) the range is narrower concept, is a part of the nomenclature;
- c) the range and the nomenclature are not used at the same time for the characteristic of the same set of goods;
- d) all answers are right; e) there is no correct answer.

**10. What stage of product life cycle is usually characterized by the lowest price:**

- a) introduction;
- b) growth;
- c) maturity;
- d) decline;
- e) there is no correct answer.

## Part 9. WAYS OF DISTRIBUTION

Purpose: Having studied this material of this part, students have to:

- to estimate a role of distribution channels;
- to call the main versions of channels which the firm can use;
- to list functions of distribution channels;

### 9.1. Understanding of product distribution channels

The essential place in marketing is taken by policy of organising a product distribution channels. Its task – the organization of an optimum network for effective sales of the made products including creation of a network of wholesale and retail shops, warehouses, points of maintenance and showrooms, determination of routes of product distribution channels, the organization of transport works on shipment and loading, ensuring efficiency of distribution channels.

That is policy of the organization of distribution channels, system of events, which are held after issuing the product and transporting it to consumption.

Sale is the personal contact of the seller and buyer directed to receiving profit from selling products and gaining knowledge, skills and a certain level of trade competence.

The existing channels of distribution assume use of three main methods of sell: the direct or immediate sell allowing to come into direct contacts with buyers without resorting to services of independent intermediaries. In this regard, it is necessary to explain some categories. For example:

Direct sale is widespread in the market of means of production (it is characteristic for oil, coal, machine-tool constructing, etc. the companies delivering main types of raw materials for industry processing). Direct sale allows to keep complete control of conducting trade operations, it is better to study the market of goods, to establish long-term relations with the main consumers. However, it is unlikely the economy of funds for intermediary fee and direct contact with consumers will be able to replace the high professional level of the intermediary in the marketing sphere.

In the market of consumer goods to the direct sale is resorted less often. Firms prefer to use services of independent intermediaries, and the released means to put in the main business that brings big benefit.

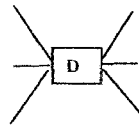
However, firms sometimes use forms of direct work with the consumer. They are the following:

*Indirect sale* – for the organization of selling its goods, the producer resorts to different services of independent intermediaries. The intermediary link of marketing activity in most cases increases efficiency of marketing operations (...)

Methods of sale can be presented on the following picture.



a) direct



b) indirect

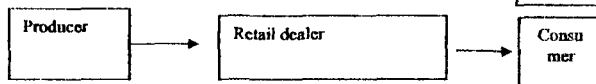
*Combined (mixed) sale* – when as an intermediary link the organizations with the mixed capital including both means of firm – producer, and other independent company for example marketing are used.

Distribution channels can be characterized also on number of the levels making them. Level of distribution channel is any intermediary who performs this or that work on approach of goods to the final buyer.

Channel of zero level



Two-level marketing channel



Three-level marketing channel

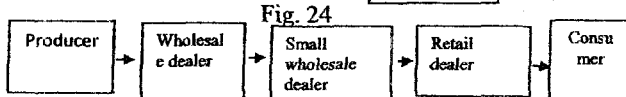
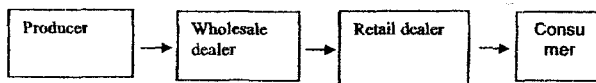


Figure 23. Levels of distribution channels.

From the above picture, it is possible to note that the channel of zero level, or the channel of direct marketing, consists of the producer selling goods directly to consumers.

The single-level channel includes one intermediary on commodity markets of industrial function. The sale agent or the broker can be this intermediary, as a rule.

The two-level channel consists of two intermediaries. On commodity markets of industrial function, industrial distributors and dealers can act as such intermediaries.

The three-level channel includes three intermediaries. From the point of view of the producer the more levels has a distribution channel, the lower opportunities to control it.

The relations of the producer with the sell organizations can be contractual (including a contract, written or oral form of establishment of the relations) and corporate, causing structural submission of the sell organizations to interests and tasks of firm – producer. Sales channels have a certain extent and width.

Extent of selling channel is a number of participants of selling or intermediaries in all sell chain.

Width of selling channel is a number of independent participants of selling at a separate stage of a sell chain.

## 9.2. Functions and types of product distribution channels

**Product distribution channels** are a way on which goods move from producers to consumers. Thanks to them long gaps in time, the place and the property rights separating goods and services from those who would like to use them are eliminated. In system of marketing, distribution channels carry out various functions:

- Research work – information collection, necessary for planning and simplification of an exchange;
- Sales promotion – creation and distribution of communications about goods;
- Establishment of contacts – adjustment and maintenance of communication with potential buyers;
- Goods adaptation – adjustment of goods under requirements of buyers. It concerns such kinds of activity as production, sorting, installation and packaging;



- Negotiation – attempts of coordination of the prices and other conditions for the subsequent implementation of the act of transfer of property or possession;
- The organization of product distribution – transportation and warehousing of goods;
- Financing – research and use of means for covering costs for functioning of the channel;
- Acceptance of risk – accepting responsibility for functioning of the channel.

Implementation of the first five functions promote the conclusion of transactions, and remained to end of already concluded bargains.

Such wide range of merchandising of the functions by firms which are carried out by marketing channels provides sale of goods through them more effectively and with smaller costs of a unit, than at a direct method of sale.

### **9.3 Strategy of distribution channel**

After the enterprise defined the market segment, it thinks over strategy of its sale. The organization should choose favourable types of the channel and a rational number of intermediaries in them. At the choice of distribution channels, it is necessary to consider action of major factors:

- a) consumers - their quantity, the main characteristics, the average amount of their purchases;
- b) features of products or service. Complexity, safety, the prices and other qualities of a product is considered;
- c) placement of trading network, mode of its work, condition of the loan;
- d) internal opportunities and shortcomings of the enterprise, that is its purpose, resources, experience and knowledge of employees, flexibility level, etc.;
- e) quantity, characteristic of management, strategy and tactics of market activity and tactics of competitors;
- e) the existing channels of distribution, their availability, characteristics, the carried-out functions.

After an assessment of all these factors, the organization makes the decision on type of the used channel, the management of channels,

possibilities of the introduction in the contract relations, length and width of the channel, its intensity.

Distinguish three types of intensity of use of the product distribution channel: exclusive, selective and intensive distribution.

Exclusive distribution or distribution as exclusiveness assumes sharply limited number of intermediaries. The producer in this case gives to the limited number of dealers, distributor's exclusive rights to distribute goods of the enterprise in a certain marketing territory. So, for example, the "Butya" firm as the exclusive dealer extends goods of world famous firm "Gillette" in Kazakhstan. Producers from the dealers requires performance of the main condition of exclusive dealership – not to sell competitors' products. In practice, exclusive distributions and sale meet in trade in prestigious cars, household devices and separate brands of women's clothing. The producer seeks for creation of a prestigious image of goods, control over sales channels, high share of profit here and is ready to agree with smaller sales volume, than at other types of distribution and sale.

At selective distribution and sale, the firm uses average of wholesalers and retail dealers. The firm does not spray the efforts to a set of outlets, considering that among them there are a lot of inefficient. It can establish a good business relation with specially selected intermediaries and expect from them efforts on sale at the level above an average. Selective distribution gives to the producer the chance to try to obtain necessary market coverage at more rigid control and with smaller costs from its party, than at the organization of intensive distribution. Producers of everyday demand goods and usual raw materials seek to adjust their intensive distribution. The purpose of this type of distribution and sale – a wide sales market, recognition of channels, mass realization and high profit. This strategy directed to attraction of the greatest number of consumers. Such goods as chewing gum, cigarettes, chocolate bars and others are necessary to sell practically in all outlets. Such approach provides broad access and conveniences to buyers, popularity of brands.

The industrial enterprises can use double channels of distribution. At the same time, they come with different goods or to various market segments, using for them different sales channels. So, for example, the VIZA company in the city of Karaganda uses both indirect and direct sales channels, realizing the office products to directly end users and indirectly wholesale and retail dealers of all region. Streamlining of interests, the purposes, duties and responsibility between participants of

sales channels happens on the basis of the conclusion of contractual agreements. In the document all conditions are discussed- the volume and terms of deliveries, discounts, terms of payment, participation in advertising, etc. However owing to natural distinctions in situation functions and aspirations of various participants of sales channels, there can be conflicts. In similar cases, the leader of the channel needs to develop accurate installations which observance could be provided forcibly and to take operational measures for the fastest resolution of conflict. Some producers see the main problem in how to achieve in sales channels. In order that the intermediary in the best way carried out the functions the motivation is necessary. Positive factors of motivation are higher discounts, transactions on favourable terms, awards, joint programs for promotion (advertising, exhibitions, and competitions). Threats to reduce discounts, to slow down rates of deliveries or in general to break off the relations belong to negative factors of motivation. Here the producer does not study need, a problem, weak and strengths of the intermediary and in it its shortcoming. The long-term partnership can be provided only at mutually advantageous agreements and positive factors of motivation. The assessment of activity of participants of a sales channel which is carried out on such indicators as performance of sale, maintenance of the average level of stocks, efficiency, the relation to damages and losses, cooperation in sales promotion, etc. is periodically necessary.

#### 9.4. Organizational forms of goods distribution: wholesale and retail trade

Wholesale trade includes any activities for sale of goods or services by that who gets them for the purpose of resale or professional use. It carries out the following functions: provides realization of marketing strategy for the producer or the supplier, the retail dealer or the direct consumer of goods and services; helps producers to sell effectively the products on places; gathers the wide range for buyers; promotes decrease in costs of delivery; making purchases in big amounts; provides technically equipped material resources for storage and delivery; provides financial support, paying delivery of goods and granting the commodity loan; solves problems of return of goods and makes discounts for low-quality or inefficient production; is responsible for plunders, maintenance of stocks and elimination of outdated stocks.

There are three general categories of the organization of wholesale activity: wholesale activity, and also agents and brokers.

Wholesale activity of producers can be conducted through marketing office or branch. The marketing office of the producer is located in production rooms or near a sales market and does not store stocks. The branch of producer has conditions for storage and sale of products.

The commercial wholesale organizations buy, acquire the property right to goods for the subsequent resale. It is the most solid group of wholesalers of which the greatest sales volume is the share. Distinguish the wholesale organizations with full limited service. Wholesalers with a full service provide such services as storage, crediting, delivery and other types of service. Large wholesale bases, industrial distributors concern to them. Wholesalers with limited service buy too and acquire the property right, but carry out the smaller list of function, for example, they can not grant the loan, not give help in realization or data for market research. This type of the wholesale organizations is widespread in the market of construction materials, coal, wood, perishable goods of food.

Agents and brokers do not undertake the property right to goods, and only promote purchase and sale. They earn reward not for the account of profit on sales, and at the expense of commission charges. The main distinction between agents and brokers is that the first usually work at a constant basis, and the last – is temporary. Widespread type of the marketing agent is the dealer who, as a rule, specializes in sale of durable goods, rendering at the same time necessary services.

Retail trade is a final stage of sales channels. It represents the business activity connected with sale of goods and services to end users.

Retail trade carries out the following main functions: participates in sorting, informs the buyer through advertising, participate in market research, stores goods, establishes on them the price, pays suppliers and other services.

Retail trade is classified: on forms of ownership, structure of strategy of shop and non store trade. On form of ownership allocate independent retail dealers, retail franchiser and tenants. The independent dealer has one and more shops and offers the full volume of services. Retail franchising represent control agreements between the producer, the wholesale and service organization and retail points. They allow retail to carry out economic activity under well-known brand and certain conditions (contribution to advantage of the franchiser). In system of retail trade rent was widely adopted. In these cases the department in

retail shop, usually universal or specialized, is given to the third party. The managing director of leased department is responsible for all parties of its activity and pays a rent in the form of percent from sales volume.

Retail trade can be classified also by strategy structure which usually represents a combination of business hours, locations of the range, price levels, etc. In practice of trade – there are shops on duty, usual supermarkets (food supermarkets), super shops.

Also non store retail trade connected with use of vending machines, direct sales at home, sales by mail, on television, phone, etc. practices.

Process of improvement of systems of wholesale and retail trade continues. And in these conditions, it is necessary to plan promotion of goods of all chain a product - the market.

### Summary

The essential place in marketing activity of the enterprise occupy the politician of good distribution. Its purpose- carrying out actions after product production. Sale methods, which are reduced to direct, indirect and combined, are among actions.

At the movement from the producer to consumers goods pass distribution channel which pass various functions: research work, sales promotion, establishment of contacts, goods adaptation, negotiation, organization of distribution, acceptance of risk.

In all chain of product movement, the main organizational forms are wholesale and retail trade.

### **TASKS for independent work.**

Task 1. You are a marketing specialist in one of the following enterprises and you need to choose product sales channels. Give the characteristic of possible sales channels for each products:

- a) machine-building enterprise - turbines;
- b) the agricultural enterprise - vegetables;
- c) the enterprise making the construction equipment – concrete mixers of small power;
- d) factory of rubber products - rubber rugs for cars.

Task 2. Characterize the scheme of promotion of your products or services that the buyer or the client preferred your goods (service).

Task 3. Compare options of distribution policy:

a) call at least quantitative and qualitative criteria by means of which it is possible to choose option from several alternative opportunities of implementation of distribution policy;

b) compare by these criteria options direct and indirect (through intermediaries) sales of goods.

Task 4. You are the head of marketing of engineering factory which began production of individual filters for the water purification which is selected from a water supply system in apartments of big city.

In the market of such goods was not available before. For sale of filters, you suggest to use an intermediary network. However, intermediaries in view of novelty of your goods treat your offer frostily. What actions you offer the head of factory to find necessary number of intermediaries for cooperation.

**Test questions for self-examination of knowledge.**

**1. Physical distribution of goods means:**

- a) its sale through intermediaries;
- b) transportation and storage;
- c) donation of goods to the client;
- d) all answers are right;
- e) there is no correct answer.

**2. Intensive distribution of goods is carried out:**

- a) deliveries to a network of specialized shops;
- b) through a large number of outlets of mass destination;
- c) by delivery of goods directly to the consumer;
- d) all answers are right;
- e) there is no correct answer.

**3. The distribution channel is:**

- a) way of advertising distribution;
- b) set of the organizations and persons promoting product to the consumer;
- c) way of product transportation;
- d) all answers are right;
- e) there is no correct answer.

**4. Level of the distribution channel is:**

- a) type of the reseller participating in movement of goods to the consumer;

- b) the number of the transport hubs passed by goods in the course of movement to the consumer;
- c) quality of the services provided by the producer to its intermediaries;
- d) all answers are right;
- e) there is no correct answer.

**5. When using a direct distribution channel, sale of goods is carried out:**

- a) direct-sales representatives of firm;
- b) the shops of retail trade belonging to the producer;
- c) by means of mail;
- d) all answers are right;
- e) there is no correct answer.

**6. Width of a distribution channel means:**

- a) number of intermediaries at one level of a distribution channel;
- b) the number of realized product groups;
- c) number of levels of a distribution channel;
- d) all answers are right;
- e) there is no correct answer.

**7. Fundamental difference of wholesale trade from retail consists in the following:**

- a) buyers in wholesale trade are not the individuals acquiring goods for the subsequent resale;
- b) buyers in wholesale trade are not the individuals acquiring goods for personal use;
- c) buyers in wholesale trade are only the organizations;
- d) all answers are right; e) there is no correct answer.

**8. Tools of marketing policy is not:**

- a) a set of methods, allowing to obtain information about the resellers existing in the region;
- b) place of granting goods to the consumer;
- c) time of granting goods to the consumer;
- d) all answers are right; e) there is no correct answer.

**9. What of kinds of activity relate to wholesale trade?**

- a) acquisition of a box of apples in vegetable warehouse for winter preparations;
- b) negotiation by the broker with the producer in order to enter into agreement for the supply of reinforced concrete batch of one of the construction companies;

c) carrying out a banquet by firm for 150 persons with full service in the cafeteria;

d) all answers are right; e) there is no correct answer.

**10. The direct marketing channel will be chosen, most likely, by the producer:**

a) fashionable clothes "Tom Klaym";

b) disposable syringes;

c) garden market-gardening inventory;

d) all answers are right; e) there is no correct answer.



## Part 10. PROMOTION PLANNING.

Purposes:

Having studied this section, students have to:

- to know methods of budget calculation of promotion and to give the characteristic of factors, the exerting impacts on formation of a complex of promotion;
- to show the place, a role and value of advertising;
- to be able to tell about a role of sales promotion and product promotion.

### 10.1. Promotion planning

*Promotion* is any form of the messages used by firm for information, belief and a reminder to people about the goods, services, images, ideas, public work or influence on society.

The enterprises have to carry out constantly communication with the consumers therefore, it is very important to plan promotion of own production.

The firm can send messages necessary to it through company names, packaging, point of purchase displays, personal sale, industry shows, and mass media.

Conditions of promotion are turned to consumers, shareholders, the organizations, the government, participants of sales channels, personnel and the population in general.

For development of marketing programs, it is necessary to have a clear idea of the main functions of promotion of goods and services. Relate to them: creation of image, informing on parameters of goods and services; formation of conditions for recognition of new goods and services; creation of popularity of the existing goods and services; informing about the place of acquisition of products; about sales; providing an after sales service; creation of conditions for favourable perception of firm and its goods and services from competitors and others. A good promotion plan coordinates together goods and distribution, sale and price components of marketing. In the action program, the firm can use one or a combination of four main types of promotion: advertising, personal selling, sales promotion, public relation.

Let's dwell upon the planning system of promotion within marketing. Promotion plan consists of three main parts: purposes, budget

and set of elements. At the same time, the purposes of promotion can be divided into two big spheres: demand formation and sales promotion. At establishment of specific goals on demand formation, the firm uses the model of hierarchy of influence showing medium-term and long-term goals of promotion: understanding, knowledge, positive attitude, preference, belief and purchase. Realizing this model, the firm passes from stage to stage. At the first stages, when the product or service are little-known, creation of primary demand has to be the purpose. At later stages (preference), the firm tries to satisfy selective demand. By means of advertising not only the image of goods is created, but also the relation of consumers to activity of the firm improves.

There are five ways to determine the total budget for promotion:

1. "By residual principle". In this case, the firm at first allocates funds for all elements of marketing, except promotion. The rest comes to the budget for expenses on promotion. This method the weakest as the purposes do not correspond to finance, minimum attention is paid to aspects of promotion.

2. "From reached" or it is still called a gain method. The budget is under construction on the basis of the previous allocations, increasing or reducing the planned budget by a certain percent. There is no communication between the purposes and money allocated for promotion of goods or service.

3. At a parity method with competitors the budget increases or decreases by promotion of firm depending on competitors' actions. This method is focused on the market, but does not consider essential distinctions of the internal environment and opportunities of different competitor companies.

4. The share method from sales coordinates the budget of promotion to receipts from sale. The firm estimates the budget of stimulation in a certain percentage to an amount of sale. Advantages of this method: sale use as bases, adaptability, interrelation of sale and promotion. However, there is also no communication with the purposes, during the recession periods allocations sharply decrease, though it is absolutely inefficient.

5. Calculation method "proceeding from the purposes and tasks". It demands that figures of the market formed the budgets on stimulation on a basis: 1) developments of specific goals; 2) definitions of tasks which should be solved for achievement of these purposes; 3) estimates of costs of the solution of these tasks. The sum of all these costs will also give the focused number of budgetary allocations on stimulation.

## 10.2. Advertising

*Advertising* is any paid form of impersonal representation and promotion of ideas, goods or services on behalf of the famous sponsor.

Positive side of advertising is that it can attract the big and geographically scattered market. The producer for the benefit of sale of its products does it so, that it as much as possible satisfied needs of future owner. For this purpose, producer also creates a mix for the buyer - from packaging to after-sale service. However to the consumer to estimate goods and conveniences of its purchase, it is necessary just to know for a start about its existence, and in this sense advertising - the most important function of marketing.

There are, of course, many other ways to learn where it is possible to buy necessary goods and what the goods are: from turn "tail" in shop to information from friends, neighbours. However, in promotion process of society to abundance and transformation of seller's market into consumer's market even the process of recognition about goods becomes business, very important for the producer. Therefore, modern producers constantly inform consumers about existence of the goods satisfying this or that human needs.

After the consumer learned about goods, there is other task - to convince him to buy these goods. Information and psychological impact of advertising on the consumer is necessary.

It is the easiest option. A reverse situation - when it is necessary "to pull out" advertising weak goods. And at last, the most typical picture - approximately equal properties of goods and convenience of their acquisition. Here advertising acts as almost only opportunity to draw attention of the consumer to goods.

For advertising, the most various means are used: magazines and newspapers, radio and television, external expositions (boards, posters, signs), souvenirs (notebooks, calendars), transport tablets (in trains, in buses), catalogs, reference books, circulars, packaging, etc. Advertising has a set of functions:

- a) formation of a long-term image of the organization - prestigious advertising;
- b) allocation of concrete branded goods - advertising of brand;
- c) distribution of information about sales, services or an event - public advertising;
- d) the announcement of sale at reduced prices - advertising of sales;

e) promotion of concrete idea - explanatory and propaganda advertising.

Organizations carrying out advertising differently. The large enterprises use services of special advertising agencies. They can sometimes create the advertising departments in the organization. Small enterprises delegate it to one of employees of sales department.

In the course of implementation of advertising activity, the management marketing service needs to make the following most important decisions:

1. Decision on appropriation amount for advertising (budget of advertising).
2. To determine the purposes and problems of advertising.
3. Decision on advertising appeal. Ideas are formed and the best versions of the address to audience are chosen.
4. Decisions on means of information distribution are chosen depending on coverage of target audience, the schedule and frequency of influence is defined.
5. Assessment of the advertising program. Marketing specialists carry out measurements of communicative and trade advertising efficiency.

### 10.3. Sales promotion

Sales promotion is short-term incentive measures of encouragement of purchase or sale of goods or service.

Distinguish: a) stimulation of consumers (distribution of samples, coupons, awards, competitions, offers on a refund, preferential packaging);

b) stimulation of trade sphere (offsets for purchase, freebies, carrying out joint advertising, prizes);

c) stimulation of own trade personnel (awards, competitions).

Let's describe the main means of sales promotion. Distribution of samples - the offer of goods to consumers is free or test. Samples extend by the principle "to each house", by mail, distribute in shop, apply to other goods or beat them in the advertising offer. It is the most effective way of representation of goods and involvement of buyers, however, it demands considerable expenses from firm.

Coupons represent the certificates granting to consumers the right for the stipulated economy upon purchase of concrete goods. Coupons

are also distributed by mail, included in advertisements, and can be effective for sales promotion of already mature branded goods or for support of loyal consumers.

Packaging at preferential price are an offer to the consumer of a certain economy against the usual price. Information on them is placed on a label or packaging.

Awards is the goods offered free of charge or at a low price as encouragement for purchase of other goods.

Test coupons are a specific type of an award which is got by consumers at commission of purchase and which they can exchange for goods in special exchange offices.

Exposition and demonstration of goods in places of sale - effective, but expensive method of involvement of buyers. It is used seldom as demands big cost and efforts of registration.

Producers can provide a discount from the price of the goods bought in a certain interval of time for stimulation of wholesale and retail dealers. Alternatively, the producer offers free goods, on condition of purchase from it of a certain volume or quantity of goods. Intermediaries are attracted also by actions for joint advertising, an award in the form of cash or other gifts.

For stimulation of activity of trade personnel stage contests, games, lotteries where it is possible to win a monetary prize, tours or some goods.

In sales promotion, there are restrictions. The image of firm can worsen if it continuously stimulates sale. Consumers will consider discounts as a symptom of deterioration of goods and think that the firm will not be able to sell it without it.

Long stimulation can lead to the fact that consumers will consider the usual prices as raised.

Sales promotion appears the most effective of its use in combination with advertising.

Responsibility for carrying out these actions is most often conferred on the managing director on sale. Use of sales promotion demands accurate statement of tasks, the choice of suitable means, development of the action programs, its preliminary approbation, implementation and an assessment of the achieved results.

#### 10.4. Public relations

Public relation is the impersonal and not paid by the sponsor stimulation of demand for goods, service or a business organizational unit by means of distribution about them commercially important data in printing media for creation of good idea of goods on radio, television or from a scene.

Use of public relation is for promoting branded and usual goods, persons, places, ideas, kinds of activity, the organizations and even the whole countries. The organizations through PR create the image or correct it, form favourable idea of them. The countries resort to public relation for involvement of tourists, investments and providing to themselves international support.

For the solution of these tasks, departments of the organization of public opinion use the following means:

1. Establishment and maintenance of press relations. Mass media place data of informative and event character for drawing attention to persons, goods, the organizations.
2. PRODUCT propaganda. Includes various efforts on promoting concrete goods (posters with propaganda of a product in shops).
3. General company communication. It is directed to formation of positive opinion about firm's activity.
4. Lobbyism. Includes work with the government and other structures of the power for prevention any legislations or regulation.
5. Consultation. Issuing recommendations to management on question of public importance, situation and company image.

Public relation activity assumes statement of tasks, the choice of PR addresses and their carriers, implementation of promotion plan and an assessment of the received results.

#### 10.5. Personal selling

Personal selling is an oral representation of goods during conversation with one or several potential buyers for the purpose of sale commission.

The individual attention to the consumer and a possibility of transfer of considerable information volume is among advantages of personal sale. It is very flexible and can adapt to requirements of the specific buyer.

For the majority of types of personal sale the size of costs which are not bringing result is less than in advertising. Personal sale concentrates in accurately certain and concentrated target markets (real estate trade, furniture, cars and others). It finishes the transaction and in the process of consumer buying decision and represents the last stage after information search and acquaintance with advertising. It holds constant consumers, and relieves those who are already convinced by advertising of indecision and doubts. However, personal sales have no big scale of influence, demands a large number of sales agents and sellers. Costs for one consumer, often, are big. It is criticized for insufficient honesty, excessive pressure upon buyers forcing consumers to make premature decisions. However, these shortcomings can be overcome in the course of the best training of sellers and use of the modern methods of marketing focused on consumers. To attraction and selection of direct-sales representatives, sales agents and sellers follows approaches very carefully that to lower the costs connected with hiring of improper workers to a minimum. Programs of training are urged to acquaint them with firm's history, its goods and political installations, features of its clients and competitors, and also with sale art bases. Art of sale is seven step process in which enter: finding and assessment of potential clients and buyers, preliminary preparation for visit, approach to the client, presentation and demonstration of goods, overcoming of objections, conclusion of the transaction and completion of the work on the deal, check of results. As the trade personnel should make a set of decisions and to face a set of disappointments, it needs the management and continuous encouragement. To help the trade machine better to adjust work, the firm has to estimate regularly and objectively efficiency of their activity.

## Summary

Successful marketing assumes use of different types of promotion. They are advertising, sales promotion, public relation, personal selling.

Advertising is any paid form of impersonal representation and promotion of ideas, goods and services on behalf of the famous sponsor. By means of advertising, the possibility of drawing attention of the consumer to goods is provided.

Sales promotion is short-term incentive measures to encourage a purchase and sale of goods and services. The main sales promotion tools include awards, competitions, freebies and, so forth.

Use of public relation for promoting branded goods, persons, ideas, places, activity and even the whole countries for creating positive image.

Personal selling - representation of goods during conversation with one or several potential buyers for the purpose of purchase commission.

**Test questions for self-examination of knowledge.**

**1. At what condition of demand the producer can not use advertising:**

- a) at decreasing demand;
- b) at negative demand;
- c) at minus demand;
- d) at excessive demand;
- e) there is no correct answer.

**2. Advertising as the instrument of marketing communications differs from public relations in the fact that:**

- a) advertising has a commercial nature of communication;
- b) advertising is a way of paid communication;
- c) public relations allows to affect sales volume quicker;
- d) all answers are right; e) there is no correct answer.

**3. The tool kit of communication policy does not include:**

- a) exhibitions;
- b) sponsorship of political organizations;
- c) marketing information system;
- d) all answers are right; e) there is no correct answer.

**4. Advertising is:**

- a) impersonal communication;
- b) not mass communication;
- c) bilateral communication;
- d) all answers are right; e) there is no correct answer.

**5. The main advantage of advertising in newspapers is:**

- a) efficiency of placement;
- b) numerous secondary audience;
- c) wide choice of advertising means and forms;
- d) all answers are right; e) there is no correct answer.

**6. Advertising in places of good sale has such advantage over other distribution channels as:**



- a) high frequency of repetitions;
- b) mass character of audience;
- c) productivity;
- d) all answers are right; e) there is no correct answer.

**7. Sales promotion differs from other tools of communication policy in the fact that:**

- a) provides additional motivation of buyers;
- b) possesses a commercial orientation of communications;
- c) has mass character;
- d) all answers are right; e) there is no correct answer.

**8. Between communications of sales promotion and personal selling there is some similarity, it is:**

- a) formation of firm's image;
- b) orientation to the long-term relations;
- c) assistance to increase in sales volume;
- d) all answers are right; e) there is no correct answer.

**9. The structure of promotion is:**

- a) concrete combination of actions of different communication policy instruments;
- b) set of the actions, supplementing each other, distributed in time;
- c) analysis, planning, realization and control of marketing communications;
- d) all answers are right; e) there is no correct answer.

**10. Impersonal nature of marketing communication means:**

- a) absence of company's name that organizing the communication;
- b) the address to a large audience with one offer;
- c) absence of "the public person";
- d) all answers are right; e) there is no correct answer.

## Part 11. PRICING IN MARKETING.

Purpose: Having studied this subject students have to:

- To describe all internal and external factors influencing decisions on the prices;
- To compare and estimate the main approaches to pricing.

### 11.1. The essence of price

The prices and price policy - the most important elements of marketing activity of the enterprise. It is connected with the fact that commercial results of the enterprise depend on the level of prices for goods, and the price policy chosen by it exerts decisive impact on efficiency of its work in the market.

So, what is the price and price policy in marketing? The price represents the economic category meaning the sum of money for which the seller wants to sell and the buyer is ready to buy a product. The price of a certain quantity of goods makes its cost, from here the price - the monetary cost of goods. When unit of concrete goods exchanges on a certain quantity of other goods, this last becomes the commodity price of these goods.

Price - difficult economic category. In it, practically all main economic relations in society are focused. First of all, it belongs to production and realization of goods, formation of their market value, and also to creation, distribution and use of monetary accumulation. The price mediates all commodity-money relations.

According to classical definition, the price represents monetary value of product's cost. However, it seldom coincides with the cost as it is influenced by a set of various factors: demand for production, its competitiveness, position of the enterprise in the market. The enterprise can sometimes sell its products at exclusively high prices, and is sometimes forced to keep low prices in order to stay in the market.

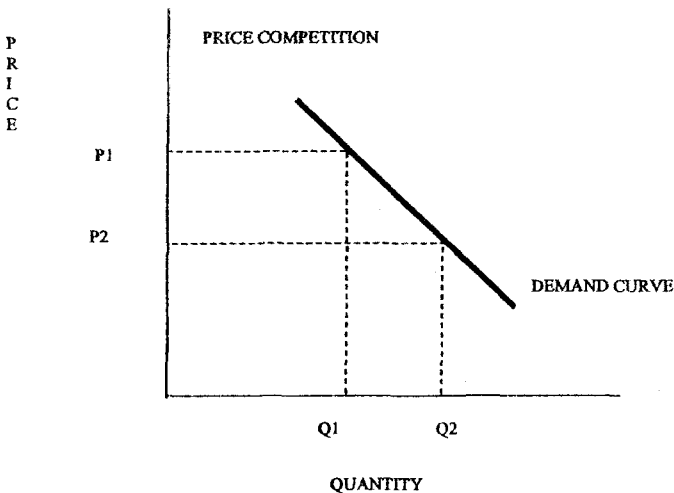
Thus, ability to establish the price, reasonable, admissible for the market, - helps to solve a number of the strategic acceptable problems. The essence of firm's price policy is to establish such price for the goods and change it depending on a situation in the market, to possess a certain market share, to reach the planned profit volume, i.e. to solve a problem which is connected with sale of goods in any phase of its life cycle, to react to activity of competitors, etc.

## 11.2. The factors influencing price decisions

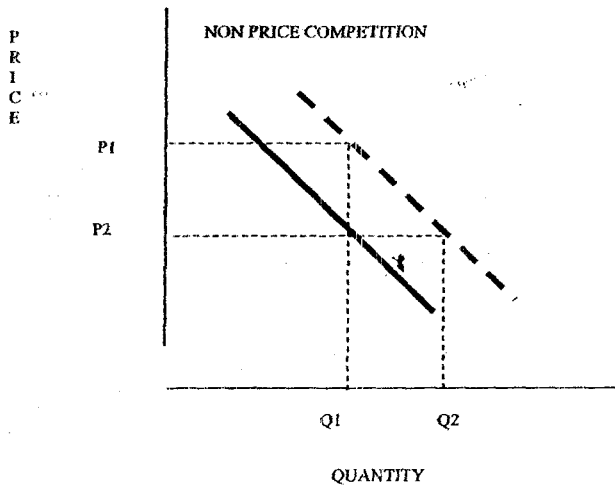
The prices and price policy - one of the main components of marketing activity which role more and more increases.

The prices are in close interrelation with other variables of marketing and activity of firm. For firm the price - the most important indicator as its main function - to provide profit on realization of goods. The essence of purposeful price policy in marketing is in establishing such prices for goods of firm and to vary so them depending on position in the market to seize its certain share, to provide the planned volume of profit and to solve other strategic and operational problems. Any price quoted by firm anyway will affect level of demand on goods.

Dependence between the price and the level of demand which developed as a result of it can be presented to a demand curve.



The company operating at  $P_1Q_1$  values can increase sale, having reduced the price to  $P_2$ . It will increase demand to  $Q_2$ . The firm, which is based on the price competition, has to reduce the prices for increase in sale



Production with distinctive features  
Production without distinctive features

Through non price competition, the firm translates a consumer demand to the right, successfully allocating its products / services / among the competing goods. It allows a firm: a) to increase demand from  $Q_1$  to  $Q_2$  at the price of  $P_1$  or b) to increase the price from  $P_1$  to  $P_2$  at saving demand at the  $Q_1$  level

**Figure 24. Price and non price competition.**

At the price competition, sellers move on a demand curve, increasing or decreasing the price. The price is a flexible instrument of marketing as it is possible to change it quickly and easily, considering factors of demand, costs or the competition. The price competition is shown in the following types:

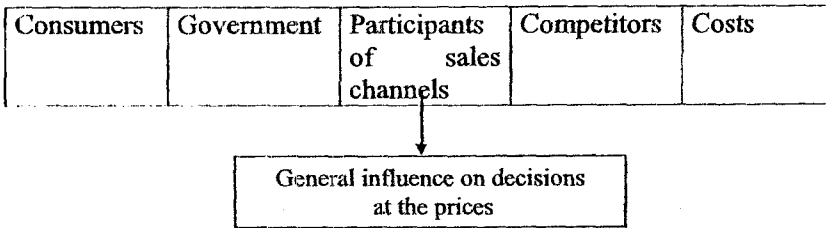
- 1) the competition between the sellers of similar products, trying to force out sale of goods at the lowest price other sellers and to ensure the greatest sale;
- 2) the competition between buyers in one branch which leads to price growth on the offered goods;
- 3) competition between buyers and sellers; the first want to buy cheaper, the second- to sell more expensive. The result of this

competition depends on a ratio of forces of the competing parties;

- 4) intersectoral competition allowing to create the competing branches which are letting out the goods covering identical needs of buyers. Development of such competition can cause both decrease and increase in price in the market.

At non price competition, sellers move demand curves of consumers, placing emphasis on distinctive properties of the products. It allows firms to increase sale at this price or to sell initial quantity of products at higher price. In practice of pricing "non price" competition or the competition of quality is of special interest. Experts note that in the conditions of a scientific and technological revolution, in the world market the "price" competition was replaced by the competition of quality, and fight for sales markets is won not by the one who offers lower prices, and that who offers higher quality.

Before developing strategy of pricing, the firm has to analyse all external factors influencing decisions on the prices.



**Figure 25. Factors influencing on pricing.**

*Consumers.* Demand and the price are in inversely proportional dependence, that is the higher price, the lower demand. Such factors as market saturation, the general state of the economy, advertising, fashion, production of goods substitutes and so forth have significant effect on demand size.

Dependence of the price on demand depends also on price elasticity. The company's management has to know how the consumer can react to the changes in price of goods. The dependence of demand on prices is not high in the following cases:

- when there are no competitors in the market;

- when the goods have no replacement, buyers are not really sensitive to an increase in prices, so consider that price increase is justified by high quality. In these cases, we are talking about inelastic demand.

It is about demand, elastic at the price, in cases when even little change of the prices influences demand size. In case of elastic demand, it is necessary to think of changes in the field of price policy as reduction of prices can bring in the bigger volume of the income due to increase in mass sales.

The government measures connected with pricing. At pricing on goods, the seller has to observe provisions of laws. It has to avoid use of the following receptions:

1. Fixation of the prices. Sellers have to quote the prices without preliminary consultations with competitors. Otherwise, there is a suspicion that they entered into a collusion: practice of fixation of the prices is not lawful and when violations come to light, punishments can be severe (penalties, imprisonment).

2. Price discrimination. The legislation forbids producers and wholesalers to carry out price discrimination if it causes damage to the competition. This act concerns the prices, discounts, awards, terms of credit. Conditions of realization have to be available to all competing participants of sale.

3. Minimum prices. Using injurious pricing, big firms can reduce the prices below costs to eliminate small local competitors. Similar practice is also forbidden by the law.

Distribution channels. Each participant of the channel seeks to play an important role in pricing for increase in volume of realization, profit, ensuring repeated purchases.

The producer can receive a big control over the price: using system of exclusive product distribution or minimizing sale through retail trade, opening own shops, etc.

Wholesale and retail trade can achieve bigger control over the prices, emphasizing to the producer the importance as a consumer, refusing to realize unprofitable goods; marketing the competing products and developing strong dealer brands, etc. To provide a consent of participants of a sales channel with decisions on the prices, the producer has to consider a share of profit of participants of channels, price guarantees, special agreements and impact of price increase. Wholesale

and retail trade needs a certain share of profit to cover expenses, and also to gain reasonable income.

Attempt to reduce the existing shares of wholesale and retail trade can lead to cooperation loss.

Competition. Except solvent demand and costs of production for the level of the price exert impact of the price of competitors. If quality of goods of firm is close to quality of goods of the main competitor, then the firm has to establish the price close to the competitor's price. Higher price can be quoted in the presence of noticeable advantages.

The environment, in which the price is controlled by firms is characterized by the limited competition. The firm can achieve success and at high prices since consumers consider the offered goods as unique, representations of consumers contact image of commodity brand, the corresponding service, etc.

The environment, in which price is controlled by the government is, for example utilities, bus transportations, a taxi. The government organizations determine the price after obtaining information from the companies of the organizations or branches which this decision, and also from interested parties influences.

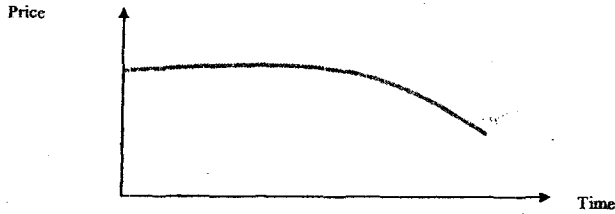
Some firms adapt to changes in a competitive environment of the branch. Strategy of pricing is easily copied therefore it is possible to predict reaction of competitors. The excess competition in the prices can lead to price wars. During such wars, firms try to involve consumers, to establish the prices of low prices of competitors. Usually it leads to low profits or even losses and for some firms it is necessary to stop the activity.

### 11.3 Types of price policy

When developing price policy important not only to determine price level, but also to formulate the strategic line of price behaviour of firm in the market. Price strategy forms a decision-making basis concerning the sale price in each concrete transaction.

In marketing, there are different types of price strategy:

- strategy of high prices, or strategy of "cream removal" provides sale of goods originally at the high price considerably exceeding the price of productions, and then its gradual decrease.



**Figure 26. Strategy "cream removals"**

Application of such strategy is possible for goods novelties, at introduction stage when the firm lets out expensive option of goods in the beginning, and then begins to attract all new market segments, offering buyers from various segments cheaper and simple models. Application of such strategy is possible if the goods - new, high-quality, possess any distinctive features.

Conditions are necessary for application of strategy of high prices:

1. High level of the current demand from a large number of consumers;
2. The initial group of the consumers acquiring goods is less sensitive to the price, than the subsequent consumers;
3. Unattractiveness of the high initial price for competitors;
4. High price of goods is perceived by buyers as the quality certificate of goods;
5. Rather low level of costs of small-scale production providing financial benefits for firm.

This type of strategy practically prevails in the market. It is actively applied when the firm holds a monopoly position in production of new goods. Subsequently, when the market segment is saturated, there are goods-alternatives, rival goods, the firm goes for reduction of price.

Strategy of low prices or strategy of "penetration", "break on the market" offers originally establishment by firm on the novelty and rather low price in hope for attraction of a large number of buyers and a gain of a big market share.

The firm tries to obtain success in the market, forces out competitors, holds in a sense a monopoly position at growth stage, then raise the prices of the goods. Establishment of low price is favoured by the following conditions: 1) the market has to be very sensitive to the prices and then low price promotes its expansion; 2) with growth of



output costs of production and addresses are reduced; 3) low price is not attractive to the existing and potential competitors.

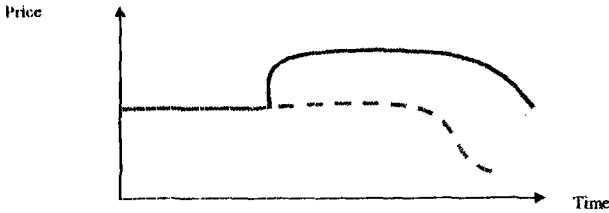


Figure 27. Strategy of Low Prices of "Break"

Strategy of low prices is effective in the markets with high elasticity of demand when buyers sensitively react to the change in price therefore it is practically very difficult to raise the prices since it causes negative reaction of consumer. Therefore to firm, having won a high market share, it is recommended, not to raise the price, and to leave at the former low level. The firm is ready to reduce the income from a unit of production for receiving big cumulative profit at the expense of large sale volume of low product cost, characteristic of release of goods in large numbers.

Strategy of differentiated prices actively is applied in trade practice of firms which establishes a certain scale of possible discounts and extra charges to the average level of the prices for various markets, their segments and buyers. Strategy of differentiated prices provides seasonal discounts for quantity, discounts to constant partners, establishment of different price level and their ratio on various goods in the general nomenclature of products, and also on each their modification.

Strategy of differentiated prices allows "to encourage" or "punish" various buyers, to stimulate or to constrain sales of various goods in various markets a little. Its versions are strategy of preferential and discrimination prices.

Strategy of preferential prices. Preferential prices are low prices. As a rule, they are established below costs of production and in this sense can represent the dumping prices. They are established on goods and for buyers in which firm-seller have a certain interest. Besides, the policy of preferential prices can be used as a temporary measure for stimulating sales.

Strategy of discrimination prices. The discrimination prices are applied in relation to the incompetent, not guided in a market situation buyers who are extremely interested in purchase of goods to buyers and also when carrying out a price policy (the conclusion between firms of the agreement on prices).

Strategy of uniform prices - establishment of uniform price for all consumers. It is easily applicable, convenient, strengthens trust of consumers to the seller.

Strategy of flexible, elastic prices provide the change in price depending on a possibility of the buyer to bargain and his purchase power.

Stable, constant prices provide sale of goods at constant prices during the long period (prices for transport services, candy, magazines, etc.).

Price leader provides either a ratio of firm of the price level with the movement and characters of the prices of firm - the leader in this market in concrete goods, or conclusion of agreement with the leader in this market, i.e. in case of the change in price by the leader, the firm also makes corresponding changes of the prices of goods.

Strategy of competitive prices is connected with carrying out aggressive price policy by firms by competitors with decrease in the prices by them and assumes for this firm a possibility of carrying out two types of price strategy for strengthening of a monopoly position in the market and expansions of a market share, and also for maintenance of rate of return from sales.

## Summary

One of important elements of a marketing mix is the price.

The price represents economic category, the price is a monetary value of product's cost.

Pricing is a process of pricing goods and services.

In the conditions of the market, pricing is influenced by a set of factors: consumers, government, participants of sales channels, competitors, costs.

In practice of concrete organization activities, difficult questions of pricing for goods, services are resolved. There are different types of price strategy used in marketing. They are: strategy of high prices, or strategy of "cream removal", strategy of low prices or strategy of "penetration",

"break", strategy of differentiated prices, strategy of preferential prices, strategy of discrimination prices, strategy of uniform prices, strategy of flexible, elastic prices, strategy of competitive prices.

### Tasks for the independent work

Task 1. The manager of ice cream cafe "Balmuzdak" can put one of the following purposes for some goods:

- a) to maximize the current profit;
- b) to provide survival;
- c) to win a big market share.

What, in your opinion, the price policy of these goods will be pursued by the cafe manager in each of these cases?

Task 2. When pricing, it is important to be guided only by problems, which the firm solves in target market. Comment this statement.

Task 3. "The General Electric" corporation invented unprecedented earlier household electric bulb, which serves five times longer than usual, maintains one thousand hours of operation and spends three times less energy. The firm wants to establish on it the price at 10 dollars (that in terms of service life of usual bulbs will provide total economy in the sum of 20 dollars). What problems can face "The General Electric" when implementing such price policy? What offers you could make in return?

Task 4. In 1981 – 1982, auto makers resorted to aggressive programs of discounts cash for consumers in attempts to sell more cars. What dangers are concealed in this price strategy?

Task 5. The prices of goods sold in foreign markets, as a rule, are lower than their prices in domestic market. Why?

### Test questions for self-examination of knowledge.

**1. Problems of price policy are connected with price reduction in the presence in the market:**

- a) excessive demand;
- b) latent (hidden) demand;
- c) changeable demand;
- d) all answers are right; e) there is no correct answer.

**2. The temporary form of price differentiation is used by the producer in what cases:**

- a) load of production has uneven character;
- b) there are no other producers for this period of time;
- c) the enterprise has limited production capacities and cannot increase the offer;
- d) all answers are right; e) there is no correct answer.

**3. The price policy of the enterprise does not include:**

- a) determination of basic prices;
- b) calculation of leasing payments;
- c) determination of the prices taking into account terms of goods delivery;
- d) all answers are right; e) there is no correct answer.

**4. How demand volume will change if it is known that the coefficient of elasticity is equal to 1 and the price will increase by 10%?**

- a) will decrease by 10%;
- b) will increase by 10%;
- c) will decrease by 1%;
- d) will increase by 1%;
- e) will not change.

**5. What factors define price strategy of the producer in market conditions?**

- a) solvency of demand;
- b) business objectives;
- c) competitive situation in the market;
- d) costs of the producer;
- e) all answers are right.

**6. What price discrimination consists in?**

- a) in the government pricing;
- b) in granting goods of identical character at various prices;
- c) in use of discount system;
- d) in control of a big market share by the producer;
- e) in need to correspond to the prices of competitors.

**7. What forms of the government pricing can be used for market regulation?**

- a) fixation of the prices;
- b) indirect change of price by means of taxes, subsidy and other additional payments;
- c) privatization of producers;

- d) nationalization;
- e) price discrimination.

**8. The producer usually raises the prices if:**

- a) has unoccupied production capacities;
- b) cannot complete all orders;
- c) seeks to increase the volume of orders;
- d) considers demand elastic;
- e) there is no correct answer.

**9. What the difference between pricing strategy directed to sale of goods at low prices and sale?**

- a) action duration;
- b) the price value at which the product is sold;
- c) no difference;
- d) all answers are right; e) there is no correct answer.

**10. If the price of butter sharply raises, then buyers:**

- a) will begin to buy significantly more margarine;
- b) buy significantly less margarine;
- c) as much as before;
- d) the rich will buy less, the poor will buy more margarine;
- e) it is impossible to predict.

## Part 12. MARKETING STRATEGY PLANNING.

### Purposes:

Having studied material of this section, students have to:

- to be able to explain what is strategic planning and what its main stages;
- to know types of a marketing strategy;
- to be able to list and describe sections of marketing plan.

### 12.1. Stages of strategic planning

Activity of firm constantly is under the influence of various factors, controllable and uncontrollable by firm. To coordinate them and to create a basis for decision-making, it is useful to use consecutive process of strategic planning.

Strategic planning is an administrative process of creation and maintenance of strategic compliance between the purposes of firm, its potential opportunities and chances in marketing sphere.

From the point of view of marketing, the strategic plan specifies what marketing actions the firm has to take, why they are necessary, who is responsible for their realization, where they will be undertaken and how will be completed.

Strategic plan defines activity of the organization and allows it to understand better structure of market research, processes of product planning, promotion and sale, provides to each division of the organization the accurate purposes; stimulates coordination of efforts of various functional directions. Strategic planning forces the organization to assess its strengths and weaknesses, threats and opportunities; defines alternative actions or a combination of actions in various situations. Marketing plans can be classified by activity, scale and methods of development.

Usually the companies make annual, long-term and strategic plans:

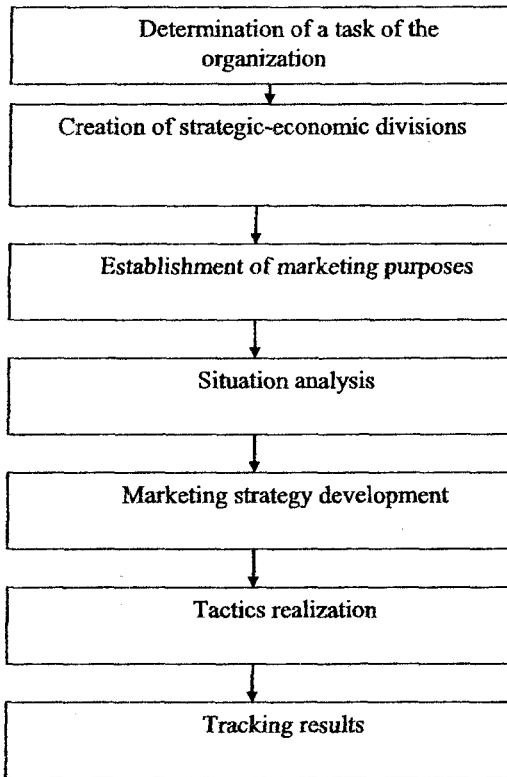
-the annual plan represents the short-term plan describing the current situation, the purposes of company, strategy for the forthcoming year, the action program, the budget and forms of control;

-the long-term plan describes major factors and forces which will influence the organization for the next several years. It contains long-term goals, the main marketing strategy which will be used for their achievement and indicates necessary resources. Such long-term plan is

annually updated for the purpose of introduction of amendments according to the happened changes. Annual and long-term plans are connected with the current activity of the company, help with its implementation;

-the strategic plan is developed to help the company to exploit opportunities in constantly changing environment. It is a process of establishment and preservation of strategic compliance between the purposes and opportunities of company, on the one hand, the changing market requirements– with another. Strategic planning is fundamental for other types of planning in the company.

Process of strategic planning consists of seven interconnected stages:



**Figure 28. Process of Strategic Planning.**

Determination of a task of the organization. The task of the organization concerns its long-term orientation to any kind of activity and the appropriate place in the market. The task of firm can be defined through what groups of consumers are served, what production and technology are used.

Tasks of firm can concern entering into the market with new products, terminations of release of former goods and services, gains of new groups of consumers, etc.

After defining the task, the organization forms the strategic economic divisions (SED). SED - the independent offices or divisions which are responsible for assortment group or for commodity department within the organization with concentration in the concrete market. SED has the managing director who bears responsibility for strategy of firm.

SED are basic elements for creating marketing strategic plan. Each SED has a concrete orientation; target market control over the resources; its strategy; competitors; its distinctive advantage. The quantity of SED depends on tasks of the organization, its resources. Too many SED can make the organization uncontrollable. The specialized firm can have just one SED.

Establishment of marketing purposes. Each SED has its own marketing purposes: achievement of sales volumes, percentage of revenue growth, market share, situation in branch, creating a product image of goods, company image, etc.

During situation analysis, the organization defines marketing opportunities and problems which it can face. Situation analysis answers two general questions: what current situation of firm? In what direction it moves?

During deep situation analysis, the firm reveals what strengthens and weaknesses of its activity, what goods (services) it should remove from the market. For such analysis, environment, competitors, their reaction to this or that strategy of firm, is deeply investigated.

Marketing strategy defines how it is necessary to apply marketing structure to attract, meet the needs of target markets and achieve the objectives of organization.

The main thing in decisions on marketing structure— product planning, sale, promotion and price.

The firm chooses strategy from two or several options (for example to achieve a goal of getting more market share, it is possible to do it by several ways: to create attractive product image through intensive



advertising, to increase efforts on sale or to present new model, to lower the prices, etc.

Each of alternatives opens different opportunities for the market figure. The main thing is that strategy should be clear, flexible, adaptable to environmental changes.

## 12.2. Types of marketing strategy

Firms can use four approaches in strategy planning:

- matrix of goods and markets opportunities;
- "Boston consulting group" matrix;
- impact of market strategy on profit (PIMS);
- general strategic model of Porter.

1. The matrix of goods and markets opportunities provides use of four alternative marketing strategies for preservation and increase in sale: market penetration, market development, development of goods and diversification (the grid on goods and the markets was given in the subject "Process of Marketing Management").

Penetration strategy into the market is effective for SED, when the market is not sated yet, the firm finds ways of sale increase of its existing goods in the existing markets by means of aggressive marketing.

Development strategy of the market consists in attempts of firm to increase sale through introduction of nowadays existing goods into new markets. It can be a new geographical markets or new market segments, demand for which is not satisfied yet; it is possible to reveal new scopes for well-known products.

Diversification strategy is used in order that the firm do not become dependent on one SED or on one assortment group. There are three kinds of diversification.

1. Concentric diversification, i.e. replenishment of its nomenclature with products, which from technical or marketing point of view are similar to already existing goods of firm.
2. Horizontal diversification, i.e. replenishment of its range with products, which are not connected with the goods released now by firm in any way, but can cause interest of today's clients of firm.

3. Conglomerate diversification, i.e. replenishment of its range with products which do not have relations neither to the goods released by firm, nor to the used technology, nor to the markets.

II. "Boston consulting group" matrix allows the company to classify each SED by its market share relatively to new competitors and to rates of annual growth in branch.

At the heart of a matrix, the assumption on production of a product unit that the more SED share in the market, the is lower relative costs and is higher profit as a result of economy on production scales. The matrix allocates four SED types: "stars", "double cows", "difficult children" and "dogs".

Relative share in the market.

		High		Low	
I N D U S T R Y G R O W T H	H I G H	Designation of strategic economic division	Marketing strategy	Designation of strategic economic division	Marketing strategy
		"Star"	Intensification of marketing efforts for maintenance or increase in the market.	"The difficult child" ("Question mark")	Intensification of marketing efforts for the market or leaving the market
	L O W	Designation of strategic economic division	Marketing strategy	Designation of strategic economic division	Marketing strategy
		"Double cow"	Use of profit for helping growing strategic-economic divisions and maintenance of current situation	"Dog"	Reduction of efforts or sales

Figure 29. "Boston consulting group" matrix.

"Star" holds a leading position in branch. It has a big market share, the branch, in which it functions, develops high rates. Marketing strategy of SED is directed to maintenance of distinctive advantages of firm in the conditions of growing competition. "Star" gives considerable profits,

but demands large volumes of resources for financing the continuing growth. The market share can be supported through price reduction, advertising or more extensive distribution. When there is a delay in development of the branch, "star" turns into "milk cow".

"Milch cow" holds a leading position in rather mature or reduced branch. SED has stable sale, without considerable marketing costs. It gives more, than it is necessary for maintenance of its market share, cash and profits. These means support growth of other SED of the companies.

"Difficult child" has a small share in the market, slightly affects the market. Support from consumers is insignificant, distinctive advantages are not clear, the forefront in the market is come by goods of competitors. Marketing strategy is directed to an intensification of the marketing efforts directed to product promotion, increase in sale or quit the market.

"Dog" is SED with limited sales volume in the mature or reduced branch. "Dog" does not manage to attract to itself enough consumers and it significantly lags behind competitors on sale, structure of costs. Excessive costs and insignificant growth rates are characteristic for "dog". Such SED can try to enter the specialized market; to profit by means of elimination to the minimum providing service or leaving the market.

The program of impact of market strategy on profit (PIMS), offers data collection from a number of corporations for establishment of interrelation between various economic parameters and two characteristics of functioning of the organization: income from investment and movement of cash.

The specified program was carried out by Institute of strategic planning. According to results of this program, the strongest factors influencing on income were connected with marketing: a market share concerning three leading competitors; the cost added by company; growth of branch; product quality; level of innovations. As for cash flow, data of PIMS shows that growing expenses connected with growing markets; high market share improves receipt of money, and high level of investment absorbs money.

The general strategic model of Porter considers two main concepts of marketing planning and alternative inherent in each of them: the choice of target market (within all branch or separate segments) and strategic advantage (uniqueness or the price).

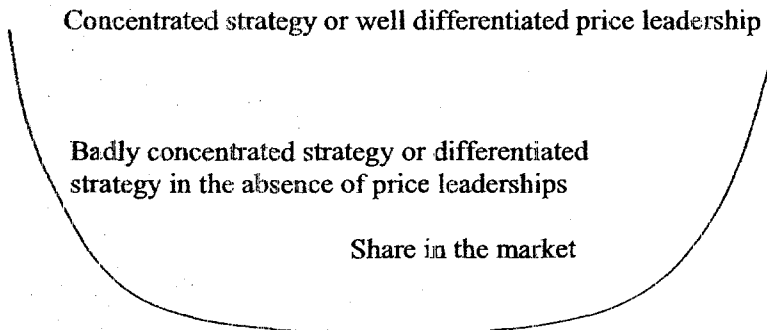
Uniting these two concepts, the model of Porter identifies strategy: advantage on costs, differentiation and concentration.

Using *strategy of advantage for costs*, the firm is guided by the wide market and makes goods in a large number.

Using *differentiation* strategy, the firm wants to enter a big market, offering goods, which are considered as allocated.

Within *concentration* strategy, the company allocates a specific market segment through low prices or unique offer. It can control costs by means of concentration of efforts on several key goods intended for specific requirements, creation of special reputation when serving the market, which can not be satisfied by competitors.

According to Porter model, dependence between a market share and profitability carries – a U figurative form.

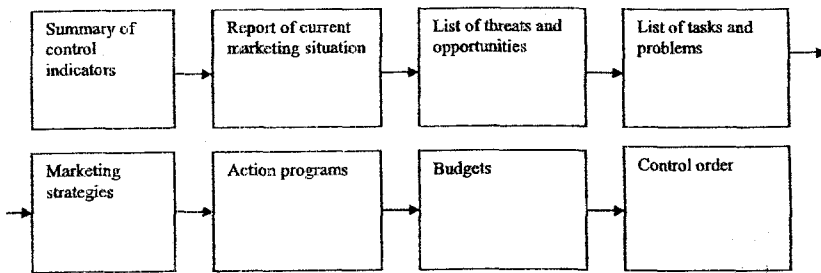


**Figure 30. Connection between market share and investment income in the general strategic model of Porter.**

The firm with a small market share can succeed by means of development of accurate concentrated strategy. The company having a market big share can succeed in result of advantage on total costs or differentiated strategy. However, the company can "stuck in the middle", if it has no effective and unique product or advantage on total costs.

### 12.3 Marketing planning

After developing general strategic plans, each production should develop own marketing plans for goods, brands and markets. The main sections of marketing plans are shown in the next picture:



**Figure 31. Components of marketing plan.**

Summary of control indicators. In the beginning of the plan, there has to be a short summary of main objectives and recommendations.

Report of current marketing situation is reduced to description of target market character and analysis of firm's position in this market.

The market is analyzed from the point of view of size, the main segments, factors of environment, competitors, existence of distribution channels.

Threats and opportunities. Any firm in the market various surprises and dangers can trap. Plan developers list all threats and opportunities to expect or predict their management. Threat can be defined as a complication, which arose in connection with an adverse situation or a tendency and could lead to survivability of goods or its extinction.

Marketing opportunity – attractive direction of marketing efforts on which the firm can achieve competitive advantage.

Tasks and problems. Having studied the current marketing situation and also threats and opportunities, the managing director forms tasks and problems arising at the same time. Tasks have to be formulated in the form of purposes (for example, to win 20% of market share, 25% profit, etc.).

Marketing strategy – rational and logical construction, being guided by which firm expects to solve its marketing problems. It includes concrete strategy for the target markets, marketing mix and level of marketing costs. Target markets – market segments on which the firm will concentrate the main efforts. The managing director in general states concrete strategy concerning such elements of marketing mix as product, price, place and promotion. It is desirable to consider each strategy from the point of view threats and opportunities. At the same time, the

managing director has to specify precisely the sizes of marketing budget necessary for implementation of the planned marketing actions.

Action program. Marketing strategy needs to be turned into the specific program of actions giving answers to the following questions:

- 1) what will be made?
- 2) when will it be made?
- 3) who will do it?
- 4) how many will it cost?

Budgets. After drawing up the action program, the managing director develops the budget, which is a forecast of profits and losses.

In the income, the number and the average price of commodity unit registers. In expenses specified costs of production, product distribution and marketing. Their difference gives the sum of expected profit. Development of marketing budget is carried out on the basis of planning of indicators of target profit.

Control order. In the last section of the plan sets out the procedure for monitoring the implementation of all planned.

The organizations apply three types of marketing control of its market activity: control over the implementation of annual plans, control of profitability and strategic control.

Control over the implementation of annual plans consists in tracking current marketing efforts and achieved results.

Control of profitability requires identification of all costs and establishment of actual profitability of firm's activities for goods and market segments.

Strategic control is an activity with the purpose to be convinced that marketing tasks, strategy and programs of firm conforms to requirements of existing and predicted marketing environment.

Such control by means of marketing audit is exercised. The purpose of audit of marketing consists in identification of opening marketing opportunities and arising problems.

## Summary

In market conditions, not all firms have approved plans. However, correct approach, formal planning gives a number of advantages. Companies develop three types of plans: annual, long-term and strategic.

Process of strategic planning consists of interconnected stages and prospect oriented.

Firms can use four approaches in strategy planning: a matrix of opportunities on goods and markets, a matrix of opportunities "Boston consulting group", the impact of market strategy on profit (PIMS) and general strategic model of Porter.

After developing, general strategic plans each production concretize them on goods, brands and markets.

**Test questions for self-examination of knowledge.**

**1. What plans make companies?**

- a) annual;
- b) long-term;
- c) strategic;
- d) all answers are right; e) there is no correct answer.

**2. Process of planning consists of the following stages:**

- a) task determination, creation of SED, strategy of product development;
- b) establishment of purposes, situation analysis, strategy of market penetration;
- c) task determination, creation of SED, establishment of purposes, situation analysis, development of strategy, tactics realization, tracking result;
- d) all answers are right; e) there is no correct answer.

**3. Types of marketing strategy:**

- a) a matrix of opportunities on goods and markets;
- b) a matrix "Boston consulting group", impact of market strategy on profit (PIMS);
- c) general strategic model of Porter;
- d) all answers are right; e) there is no correct answer.

**4. The matrix of opportunities on goods and markets provides:**

- a) strategy of market development, "difficult children"; "star";
- b) strategy of market penetration, strategy of market development, strategy of product development, diversification strategy;
- c) "milch cows", "difficult child", diversification;
- d) all answers are right; e) there is no correct answer.

**5. The matrix "Boston consulting group" allocates the following SED types:**

- a) diversification strategy, strategy of product development, strategy of market development;
- b) stars, "milch cows", "difficult children", "dogs";
- c) concentric, horizontal, vertical;

d) all answers are right; e) there is no correct answer.

**6. Marketing strategy needs to be changed:**

- a) depending on forecasts of market changes;
- b) according to changes in demand conditions for goods;
- c) taking into account interests of possible new partners of firm;
- d) if it is required by specific consumers;
- e) all answers are right.

**7. Marketing plans include the following sections:**

- a) summary of control indicators; tracking results; development marketing strategy;
- b) list of threats and opportunities; situation analysis, establishment of marketing purposes;
- c) summary of control indicators, report of current marketing situation, list of threats and opportunities, list of tasks and problems, marketing strategies, action programs, budgets, control order;
- d) all correct answers.

**8. Marketing environment represents:**

- a) a complex of businessmen behaviour in the market;
- b) a complex of plans studying the market;
- c) the embodiment of principles complex by means of which specific marketing goals for a certain period are formed and will be organized achievement of these purposes taking into account a possibility of the specific subject of the market;
- d) result of purposeful work of marketing specialists in firm;
- e) all answers are right.

**9. Marketing plan budget is:**

- a) forecast of profits;
- b) forecast of losses;
- c) forecast of sale;
- d) all answers are right; e) there is no correct answer.

**10. Types of marketing control:**

- a) control over the implementation of annual plans;
- b) profitability control;
- c) strategic control;
- d) all answers are right; e) there is no correct answer.



## Part 13. INTERNATIONAL MARKETING

Purposes:

Having studied the material, a student has to be able:

- to describe international marketing environment;
- to be able to characterize the main methods of an entry into the international market;
- to be able to tell about features of international marketing mix.

### 13.1. International marketing environment

The international marketing is a marketing of goods and services outside the country. Despite the fact that the basic principles of marketing, considered earlier, extend to international marketing, there are significant differences between internal and external markets, which need to be considered.

The firm, aiming to work abroad, has to understand both organization and opportunities inherent in international trade system – the most widespread restriction is a customs tariff representing a tax with which foreign governments assess some goods imported into its country. Customs tariff can pursue the aims of increase revenue in the budget (a fiscal tariff), or protection of interests of domestic-owned firms (a protectionist tariff). Besides, the exporter can face a quota, i.e. a quantitative limit of goods of certain categories allowed for import to this country. The purposes of quota are preservation of foreign currency, protection of local industry and employment protection. Embargo at which separate types of import are completely forbidden acts as a limit form of quota. Currency control through which cash volume in foreign currency, and its exchange rate on other currencies is regulated does not favour to trade. There is also a number of non-tariff barriers such as discrimination of its offers and existence of production standards discrimination against entered tractors. For example, the Dutch government forbids import to the country the tractors capable to move with a speed more than 10 miles an hour.

At the same time in the system of international economic relations there are economic communities (the Common market, the Latin American association of free trade). Entering foreign markets, the figure of international marketing has to study also economic, political and cultural environment of each country.

In economic environment distinguish: the countries with economy of subsistence farming where are made mainly agricultural products. These countries make what they generally consume or exchange. Limited opportunities are presented to exporters in these countries;

countries exporters of raw materials, rich with any natural resources. These countries are good markets for sale of extracting equipment, tools, trucks, consumer goods and luxury, cars;

industrial developed countries – are the main exporters of industrial goods. They have developed and diverse branches, the population with high solvency and therefore they are rich sales markets for any goods;

industrial developing countries are the countries where 10-20% of GNP gives manufacturing, for example, India. In process of development of manufacturing industry such country relies more upon import of textile raw materials, steel and products of heavy mechanical engineering and less upon import of finished textile products and cars.

Political stability plays an important role in international trade cooperation. To figures of international marketing, perhaps, will be favourably act in business activity even in the country with an unstable political situation. However, the existing situation will affect nature of their approach to financial and business matters.

Cultural environment. Each country has its own customs, rules and bans. Ignorance of cultural environment reduces firm's chances to succeed. For example, Germans and French eat more the packed-up pasta than Italians. Uzbekistan consumes more rice, Kazakhstan-meat, Japan - fish.

Interpersonal communications in international trade also have features. For example, the Japanese businessmen during business negotiations do not tell the word "no". It causes despair in Americans who like to pass quickly to the main point, and for Japanese – an insult.

### 13.2. Main methods of entering into international market

Having decided to be engaged in sale in this or that country, the firm has to choose the best way of entering into the elected market. There are three forms of international activity:

- export
- joint venture
- direct ownership

In case of export the company enters the international market by means of direct sale through own trade personnel or through foreign dealers or agents.

In the first case, the firm places the trade personnel either in national office or in the certain countries. This method is widely applied when it is easy to determine consumers or they contact the seller. Indirect sale is applied when it is difficult to determine consumers, the exporting company possesses limited resources or when local customs are unique.

During creation of joint venture, the firm agrees to unite some parties of the activities for production and marketing with the foreign company to share experience, communications and to divide costs. Joint ventures can exist in the form of licensing (grants to the foreign enterprises the rights for production process, trademarks, patents in return for royalties). Or, this activity can be carried out in the form of contracts for production, – the firm agrees that the foreign company produced the production in this country. The firm carries out marketing of products and provides administrative personnel.

At joint ownership, costs and enterprise risk are distributed between production and product sales partners.

Direct ownership provides full implementation and control over the international activity. It can be assembly or manufacturing enterprises. In this international activity, an opportunity for receiving profit are big, though costs too considerable. Nationalist actions, government and, obviously, big risk are probable.

### 13.3. Features of international marketing mix

Features of international marketing mix consist in the following:

a) International product planning can be based:

- on strategy of simple expansion,
- adaptations of products,
- "reverse invention"
- and new inventions.

At strategy of simple expansion, the firm makes the same goods for a domestic and foreign market.

Within strategy of adaptation of product, firm's product is modified taking into account language requirements, flavouring preferences and conditions abroad, distinctions in electric power supply, water supply or precepts of law. In cases of "reverse invention", firms orient to

developing countries, making production simpler than sold in the national market. For example, manual cash registers and not electrical sewing machines can be produced for the countries without branched systems of power supply.

At new inventions, the firm develops new goods for foreign markets. This approach is more risky and demands big financial expenses and time. At the same time, it creates the potential for receiving enormous profit by firm, and in certain cases - the world recognition.

b) Realization planning internationally includes the choice, use of sales channels and physical movement of goods. The firm can sell the goods directly through own trade personnel or employ external intermediaries. When making decisions on sales channels, the company has to study traditional interrelations, presence of suitable intermediaries, differences in structures of wholesale and retail trade from the existing in the country, government restrictions. For example, in Brazil the Pepsi-cola firm realizes the drinks through the Brahma national company, which making beer and sparkling drinks and having extensive sale network.

Physical movement of goods in international markets also has the features. Documentation processing, insurance requires more time and expenses.

#### 13.4. Promotion planning

Means of promoting can be typical, atypical and combined.

Use of atypical instruments of promotion is explained by distinctions in culture, religion, customs, language, knowledge of colours, symbols, literacy level. Necessary communication means can be inaccessible or inadequate. In some countries there are not enough TVs, advertising is forbidden, etc.

Price planning in foreign markets. The main thing is to determine in what currency to establish the prices and what conditions of sale.

It is difficult to standardize the prices if, of course, the firm is not included into any economic community. Among additional costs, which are incurred by firm in the international marketing, are taxes, tariffs, changes in exchange rates and so forth.

When establishing the prices, the firm has to consider local economic conditions, for example, the size of a gross national product per capita. For this reason, many firms try to keep low prices in

developing countries, selling the simplified options of products or using less expensive labor. At the same time, product prices for developed countries reflect high quality and added costs for international marketing.

Some marketing specialists quote lower prices abroad to increase a market share or to clean the excessive offer from domestic market and to keep in it structure of the prices.

If the firm sells goods abroad at the prices, is much lower prevailing in domestic market or below costs of production, then the dumping takes place. For example, in 1986, The Ministry of Trade of the USA found out that in their market the dumping of the Japanese semiconductors at the prices is carried out, is much lower than fair market value. As a result, Japanese had to raise the prices.

The third main decision on the prices is connected with that currency in which they are established. If the firm determines the prices in national currency, it is easier to control them and devaluation risk of foreign currency passes to the buyer. However, this strategy has the restrictions. For example, the consumer can be not able to transfer the price to its own currency or the foreign government can insist on transactions in particular currency.

At last, it is necessary to define terms of sale: to make the decision on what discounts are required for intermediaries, when there is a transfer of property, what firms will be gradually required, etc.

The organization, which decided to work in a foreign market, needs to create effective organizational structure focused on activity in international markets. The majority of firms begin with the organization of export department and finish with creation of the international branch. However, some go further and turn into the multinational companies, which top management is already engaged in marketing planning and its management in the world scale.

## Summary

The international marketing is a marketing of goods and services outside the country. Despite the fact that the basic principles of marketing, considered earlier, extend to international marketing, there are significant differences between internal and external markets, which need to be considered. Entering foreign markets, the figure of international marketing has to study also the economic, political and cultural environment of each country. Having decided to be engaged in

sale in this or that country, the firm has to choose the best way of an entry into the elected market. There are three forms of the international activity: export, joint venture, direct ownership.

Features of development of international marketing mix assume:

a) the international planning of production which can be based on strategy of simple expansion, adaptation of products, "reverse invention" and new inventions.

b) the realization planning internationally including the choice and use of sales channels and physical movement of goods

c) search of means of promoting which can be typical, atypical and combined.

### **Tests for self-examination of knowledge**

**1. What definition is adequate to modern understanding of the international marketing:**

- a) the international marketing involves different types of activity abroad;
- b) marketing of goods and services between countries;
- c) marketing through national borders;
- d) all answers are right; e) there is no correct answer.

**2. The organization and methods of carrying out the international marketing have to consider such factors as:**

- a) independence and economic policy of the country;
- b) national currency systems, national legislation;
- c) language, cultural, religious, household and other customs;
- d) all answers are right; e) there is no correct answer.

**3. What reason does not induce a firm or individuals to apply international marketing:**

- a) emergence of the possibility of doing business abroad;
- b) presence of not used production capacities in view of new undeveloped markets;
- c) creation of foreign branches, subsidiaries;
- d) a possibility of access to certain know-how in the foreign markets;
- e) high purchasing power in domestic market.

**4. What relates to the tasks of international marketing:**

- a) creation or expansion of a sale network;
- b) possibility of elimination of import restrictions;
- c) increase of reliability of business activity in the conditions of an unstable exchange rate;
- d) stimulation, encouragement and advance of foreign investments;

e) all answers are right.

**5. The international marketing activity has to provide:**

- a) detection of existing or potential foreign demand;
- b) creation of a product (service) which is most fully meeting requirements of the international market;
- c) rational product distribution in the international market;
- d) all answers are right; e) there is no correct answer.

**6. The purpose of international marketing development in Kazakhstan is:**

- a) realization of advantages from international division of labor;
- b) obtaining income from foreign economic activity;
- c) to attract foreign capital in order to increase the efficiency of social production;
- d) achieving a product (services) competitiveness in the world market;
- e) all answers are right.

**7. To what factors could be considered attempts of the local government to influence on business activity, using economic, industrial and other levers:**

- a) political factors;
- b) economic factors;
- c) competitive factors;
- d) factors of cultural environment;
- e) structure of distribution.

**8. To what environment of the international business belong indicators of a standard of living and a gross national product?**

- a) economic environment;
- b) political and legal environment;
- c) cultural environment;
- d) technological environment;
- e) competitive environment.

**9. What elements are a part of cultural environment influencing the international business:**

- a) language;
- b) education;
- c) religion;
- d) values and relations;
- e) all answers are right.

**10. To what environment of the international business belong morals, laws and customs:**

- a) economic environment;
- b) political and legal environment;
- c) cultural environment;
- d) technological environment;
- e) competitive environment.



## Part 14. SERVICES MARKETING

### Purposes:

Having studied this section, the student has to:

- to know what the essence of studied course;
- definition of services, distinctive features. Classification of services;
- to be able to mark out features of marketing services;
- to tell about marketing services in the sphere of non-commercial activity.

### 14.1. Essence and classification of services

Services sector is extremely various. The government sector treats branches of services industry: labor exchanges, Savings Banks, military services, consumer services, health care, social security, education, culture and art, fire protection, post and others. Services are provided by commercial organizations – airlines, banks, hotels, insurance companies, etc., and by non-profit organizations: museums, hospitals, charity foundations (Red Cross, children's fund "Bobek").

Service is any action or benefit which one party can offer to another. Services are intangible and do not lead to taking something. Production of services can be and can be not connected with goods in its material look.

Services have four main characteristics which distinguish them from products: intangibility, perishability, inseparability from a source and variability in quality.

Intangibility means that services cannot be seen, tasted, felt, heard or smelled before they are bought. It is only possible to describe advantages, which will appear as a result of rendering service.

Perishability means that services cannot be stored for later sale or use. For example, some private doctors and dentists charge patients for missed appointments because the service value existed only at that point and disappeared when the patient did not show up.

Many types of service are inseparable from the one who provides them. It cannot be separated from their providers, whether the providers are people or machines. Contact with consumers often is considered as an integral part of providing service. That is, spectacular-entertaining

services cannot be realized without presence of the actor or show group, hairstyle service and hairdressing without a hairdresser.

Service *variability* means that the quality on who provides them as well as when, where, and how they are provided. For example, quality of refrigerator repair depends on the master, the level of business consultations - on the expert realizing this service. For ensuring quality control of services, the rendering services, are made careful selection of workers, trained in skill and ethics of service, watch degree of customer satisfaction by means of complaints system and offers, polls and carrying out comparative purchases for identification of unsatisfactory service cases and correction of the situation.

Services marketing needs to be considered from the point of view of classification, a role of services in economy and use of marketing by service firms.

Services considerably differ from each other on the type. They can be classified by different signs.

1. Who or what is a service source – people or machines. A psychiatrist practically does not need the equipment and a pilot needs the plane. For rendering the services demanding high qualification: business services, legal services and others, consumers show big selectivity when choosing. For this reason, experts often reach the loyal relation of consumers. For the services, which are not demanding high qualification, the gardener, the set of possible alternatives is much wider.

2. Necessary presence of the client at the moment of rendering service to him or her. For car repairs – no, for doctor services or hairdresser – yes. If presence of the client is obligatory, then the supplier of service has to consider inquiries of this client. So, owners of beauty salons beautifully design their places. In salons quiet music sounds, and masters carry on easy talk with clients.

3. Based on acquisition of service by the client. Alternatively, it for personal needs or for business needs. Doctors raise a different payment for appointments of the patients and employees of firm with which the relevant agreement on the centralized service with the centralized payment is concluded. As a rule, service providers develop different programs of marketing for the services markets of personal consumption and the markets of business services.

## 14.2 Scales of distribution and features of marketing in a services sector

The volume and a variety of service types have a steady tendency to growth. The main reasons for growth of services are following:

- growth of population welfare;
- existence of difficult goods requiring specialized installation and repair;
- increase of free time

In the industry, business and repair services, also experience for many years rapid growth. Most dynamically repair of computers and computer courses, accounting and engineering services, marketing, administrative and legal consultation develop.

Use of marketing in a services sector is developed insufficiently. The reasons for that are different. Many firms of services are small by the sizes and marketing seems to them expensive or insignificant occupation. The great popularity, lack of the competition, great social demand for some services explain absence or weak practical use of marketing functions in services industry.

However, separate branches of service where there is a competition have already showed interest in marketing. These are such services sectors as banks, insurance companies, repair services.

Features of marketing in a services sector follow from features of services. Not keeping services offers a number of special aspects of coordination of supply and demand. Firms of services have to change time of demand and control the offer, avoid excessive demand which remains unsatisfied and also excessive capacities which generate unproductive use of resources. There are several ways of demand coordination with the offer:

- to carry out marketing of similar services to the consumer segments having various demand structures;
- to realize the new services differing in structure from existing;
- to intentionally promote demand during the periods of its recession;
- to train personnel to combine functions;
- to hire temporary employees in the period of demand peak;
- to offer incentives and discounts from the prices during the periods of not maximum demand.

Intangible nature of services complicates pricing. For example, to determine the price of the problem analysis and service. Service prices,

which are based on use of the equipment and are standard by the nature, can be defined based on costs. The prices of other services have to have competitive character and depend on a demand condition.

As a rule, in product promotion, emphasis is placed on tangible parameters and the analysis of consumer behaviour before purchase commission of at promotion; in services it is impossible because of intangibility of its character. There are three main approaches to promote services: creation of material representation of service. For example, the credit card though is not in itself financial service, but acts as a physical product with an own image and advantages; association of intangible service with the tangible object, which is easily provided to consumers. For example: "You are in good hands, using services of "Tair" insurance company;

Sell competence, qualification and care of the employee providing services for creation and consolidation of relationship with clients.

Many types of service are characterized by high costs and low reliability. For overcoming of it, industrialization of services is necessary. Establishment of higher standards and coordination of payment of employees with the level and quality of service can increase reliability of services. For addition of basic services, many firms offer additional services which allow to create and maintain competitive advantages of the main services.

### 14.3. Marketing in the sphere of non-commercial activity

Non-commercial marketing is carried out by the organizations and individuals, who act in public interests or support any idea, and do not seek financial profits.

Non-commercial marketing has similarities and distinctions in comparison with the marketing focused on profit or so-called commercial marketing.

In non-commercial and in commercial marketing consumers can choose offers of various organizations. The main distinctions between non-commercial and commercial marketing are a difference of the purposes. The success or failure of non-profit organizations is not measured by financial performance because the purposes of these organizations have difficult character. So, for example, marketing of the political candidate can aim at advance and election of his voters in the local government. People often expect from non-profit organizations or

even require service of market segments, which the commercial organizations consider unprofitable. Therefore, the majority of them does not gain income from daily activity, and relies on infrequent efforts on fund raising. Non-profit organizations can be unprofitable, if render services or sell goods at the prices below cost. Practically, all non-profit organizations exist more at the expense of sponsors and charitable means. They have tax benefits, reduced rates for separate services (mail, transport, a tenancy and others).

The organizations, individuals, places in housing buildings, recreation areas, ideas and other objects can be an object of marketing.

Marketing of the organization is the activity undertaken for the purpose of creation, maintenance or change of positions of target audiences in relation to the concrete organizations. Marketing of the organization demands an assessment of its existing image and development of the marketing plan for improvement of this image. Image is called the idea of object which is available for group or the individual. The organization can be satisfied by its image in the eyes of public or dissatisfied. The last one demands development of the marketing plan for creation a desirable image. For example, university which wants to look as the large, progressive, higher educational institution training highly qualified specialists. The main steps which the university has to make is a careful selection of the teachers, encouragement of their creative growth, holding open seminars, conferences on practical and scientific problems, promotion of university activity through mass media, improvement of training methods, etc.

The organization has to conduct periodically a survey of the consumers in order to establish whether there is a progress in improvement of the image or not. Naturally, it is a long process which demands considerable efforts and means.

Marketing of individuals is the activity undertaken for creation, maintenance or change of a position in relation to particular persons. The most common forms of this activity are marketing of celebrities and marketing of political candidates.

Marketing of celebrities has the longest history. The idea of this marketing is the eminence of "a star image" of the actor. For this purpose in mass media place materials about a "star", plan the schedule of emergence in places to which the broad attention is drawn, organize performance, interview, participation in the advertising of popular company, place photos on posters, magazines, etc. Managers of

celebrities cannot work wonders and realize that "star" has the life cycle, which depends on his/her talent.

Marketing of political candidates became especially popular in connection with strengthening of society democratization in recent years. The population regularly participate in elective on holding the posts in the local, regional, and also supreme bodies of management. Political campaign includes the visit plan by the candidate, use of market research and advertising for providing a maximum level of "purchase" of the candidate by voters.

*Marketing of places* is the activity undertaken for the purpose of creation, maintenance, change of the relations concerning concrete places. Distinguish four types of marketing of places – marketing of housing, vacation spots, zones of economic construction and investments into the landed property.

Marketing of housing includes building and the offer of houses, flats in sale or for rent. Market research of need for housing, feature and preferences of separate market segments are conducted. Marketing of vacation spots aims at involvement of tourists to resorts of concrete regions of the country. Travel agencies, airlines, hotels and other institutions are engaged in similar activity.

Marketing of economic construction includes economic development, sale or rent of sites, territories of shops, plants, factories, warehouses.

Marketing of investments into the landed property includes arrangement and sale of land as an object of the capital. The marketing program includes advertising, promotion, activities of sales agents for trade in real estate.

*Marketing of ideas* is activities for advancing ideas into the market. For example, the idea "Smoking – is unhealthy". The ideas on environment protection, ideas of racial and national equality, etc.

Such activity is also called public marketing. For achieving a positive response of target group, carry out market segmentation, studying consumers, development of communications means and other marketing actions.

Figures of public marketing can pursue the most various aims:

- 1) achievement of understanding by target group (knowledge of nutritional value of foodstuff);
- 2) motivation to single action (participation in petition for protection of the progressive independent journalist);

3) aspiration to change behavioural habits (use of automobile seat belts);

4) change of fundamental representations (belief about the voluntary right of children in the choice of the nationality of father or mother).

Naturally, to carry out by means of marketing social shift always very difficult. Nevertheless, public marketing already found successful application in such spheres as family planning, environment protection, fight against smoking, drug addiction and the solution of other problems of public life.

## Summary

The services sector is extremely various. For implementation of effective market activity of firm, the rendering different services have to use marketing approach in the activity.

Service is any action or benefit which one party can offer to another. Production of services can be, and can be not connected with goods in its material look.

Features of services marketing are connected with characteristics of services: intangibility, perishability, inseparability, variability of quality and continuity of production and consumption.

Intangibility of services means that services cannot be seen, tasted, smelled, heard, felt before they are bought. It is only possible to describe advantages, which will appear as a result of rendering service.

Many types of service are characterized by high costs and low reliability. For overcoming of it, industrialization of services is necessary. Reliability of services can increase establishment of higher standards and coordination of payment of employees with the level and quality of service.

### Tests for self-examination of knowledge.

#### 1. What of the listed characteristics are inherent in services:

- a) intangibility, inseparability, variability, perishability;
- b) intangibility and perishability;
- c) intangibility, inseparability, variability;
- d) all answers are right; e) there is no correct answer.

**2. Marketing specialists understand services as:**

- a) actions which one party can offer to another and which are generally intangible and do not lead to taking something;
- b) the actions rendered to the buyer to provide effective use of the bought goods;
- c) goods which are inseparable from the source;
- d) goods which cannot be stored;
- e) all answers are right.

**3. In what services sector the intangible actions directed to consciousness of the person take place:**

- a) radio and television broadcasting, restaurants, cafe;
- b) legal and consulting services, education, health care;
- c) operations with securities, education, theatres, museums;
- d) all answers are right; e) there is no correct answer.

**4. Specify the correct definition of the concept "service":**

- a) "this expression means is general no other than the special consumer cost which is delivered by this work"
- b) "all this types of the useful activity which is not creating material values"
- c) "it is a change of person's condition or goods belonging to any economic unit, resulting from activity of other economic unit from a prior consent of the first;
- d) all answers are right; e) there is no correct answer.

**5. Intangibility of services means that they are impossible:**

- a) to see, try;
- b) to transport, show;
- c) to store, pack;
- d) all answers are right; e) there is no correct answer.

**6. For building customer trust, the firm rendering services can take the following measures:**

- a) to emphasize the importance of service;
- b) to focus attention on benefits from service, to increase tangibility of the service;
- c) to involve some importance in promotion of the service;
- d) all answers are right; e) there is no correct answer.

**7. For whom intangible nature of services causes problems:**

- a) sellers;
- b) buyers;
- c) intermediaries;



d) a) and b);

e) there is no correct answer.

**8. In what services sector the tangible actions directed to goods and physical objects take place:**

a) repair and maintenance of the equipment, veterinary services, maintenance of clean and order;

b) education, cargo transport, laundries, dry-cleaners;

c) banks, passenger transport, hairdressing salons, museums;

d) all answers are right; e) there is no correct answer.

**9. Services marketing is:**

a) the human activity directed to satisfaction of customer needs by means of an exchange;

b) the analysis, planning, implementation and control for carrying out actions with target buyers;

c) the process of development, promotion, realization of services focused on identification of needs and requirements;

d) all answers are right; e) there is no correct answer.

**10. What is classification?**

a) it is process of division something on parts and development of the further plan;

b) it is a process of market division into target groups for definition of classes and categories among consumers;

c) it is a process of phenomenon division and division of its parts into certain groups;

d) all answers are right;

e) there is no correct answer.

## GLOSSARY

Activities for product sales – the activity including trade negotiations, transactions, advertising and sales promotion.

Advertising – any paid form of personal presentation and promotion of ideas, goods or services on behalf of the specific designated sponsor.

Agent – a wholesale dealer who represents buyers or sellers on a relatively permanent basis, performs only a few functions does not take the goods.

Analysis of market opportunities – is to identify attractive directions of marketing activity of the enterprise on which it can achieve competitive advantage based on the analysis of the results of consumers, sales markets, competitors, tendencies of demographic and social-economic development of society.

Award – the goods offered at low price or it is free as encouragement for purchase of other goods.

Award for purchase – is paid to the buyer on presentation of product packaging as the proof of made purchase.

Buyer's market – the market conditions favourable for the buyer.

Checking product idea – a test on appropriate group of target consumers, to whom is presented developed options of all product ideas.

Commercial investigation – studying, analysis of competitors, one of the types of marketing research.

Company – a set of actions in a particular field of activity of marketing of goods or services: advertising, sales promotion, public relations, etc., as well as supporting actions reflected in a common plan graph.

Concentrated marketing – the concentrated marketing efforts on narrow group of consumers/segment of the market on the basis of the specialized marketing plan, basing on requirements of this segment.

Consumer – the consumer can act as an individual, family, people, enterprise, organizations of commercial and non-commercial nature.

Consumer inquiries – a development stage during which the goods will be tested in reality for the purpose of clarification of operating features and use of goods, and eventually for the purpose of determination of the market sizes.

Consumer survey – is used to determine the attitude of consumers to the product, shop, firm, inquiries, sequence of customer satisfaction, frequency of purchases and other indicators.

Coefficient of elasticity of demand – the indicator reflecting relative change of demand when income changes.

Coupon – a voucher entitling the holder to a discount off a particular product.

Customer service– is the provision of service to customers before, during and after a purchase.

Dealer – the retail or wholesale reseller, usually leading business-related sales.

Demand – an economic principle that describes a consumer's desire and willingness to pay a price for a specific good or service. .

Demographic segmentation – dividing the market into segments based on variables such as age, gender, family size, family life cycle, income, occupation, education, religion, generation and nationality.

Direct marketing – means sale of goods directly to consumers through parcel, delivery trade or through own shops without a help of wholesale or retail dealers.

Direct-sales representative – one of the trade firm personnel and performs one or several operations: identification of potential clients, sale implementation, organisation of services, information collection and distribution of resources.

Distribution – activities for physical movement of goods from the producer to the consumer, includes transportation, warehousing, processing of freights, packaging, processing of orders, etc.

Distribution of samples – it is the offer of goods to consumers for free or on test. Can be carried by the principle "to each house", sent by mail, and distributed in stores.

Diversification strategy – expansion of the range of goods as deep into, due to creation of new goods-substitutes, and in breadth, through the organization of new productions which are not connected with the available technologies, raw materials and sales markets. Diversification strategy is used to ensure that the organization does not become too dependent on a single product line of goods focused on the new markets.

Elasticity of demand – demand which value depends on change of the value of series of factors (price earnings), etc.

End user – a family or the person who buys goods or services for personal, family or domestic consumption.

**Feedback** – the information on object behaviour to control body.

**Inelastic demand** – demand for goods is considered inelastic if a change in its price per unit, demand increases less, than one unit does.

**Inquiries** – the needs supported with purchasing power.

**Inspection of consumers** – is used for clarification of consumer relations to goods, shop, firm, inquiries, sequence of requirement satisfaction; purchase frequencies and other indicators.

**Inspection of shops** – inspection of stocks, the analysis of consumer preferences concerning various brands of goods, packaging, ways of calculation, etc.

**Internal information** – information which is only available to the business. This information will be private and accurate. Internal information may take the form of sales figures, personnel records, customer records, and financial documents such as trading, profit and loss accounts and the balance sheet.

**Interview** – conversation with the respondent, carried out by the interviewer according to a certain plan at direct contact or by phone with obligatory record of answers.

**Marketing** – a human activity directed to satisfaction of needs and requirements of the person by means of an exchange.

**Market analysis** – the research activity aimed at identifying and assessing the sales prospects of company's products. It is intended for identification of opportunities, characteristics, size, market location and the position of the company in the market.

**Marketing concept** – the integrated target philosophy of firm focused on the consumer. It consists in the fact that all activity of firm is based on knowledge of consumer demand and its changes in the long term as a basis for achieving the organisation's objectives.

**Market information** – reflects the characteristics of the market, assess potential market opportunities, market distribution of roles between competing firms.

**Marketing information system** – a set of the procedures and methods developed for creation of the analysis and distribution in the sphere of marketing. It includes four systems: internal reporting, collecting external current marketing information, marketing research, analysis of marketing information.

**Marketing management** – the analysis of planning, implementation and control for carrying out the actions calculated on establishment and

maintenance of favourable exchanges and target buyers for the sake of achievement of the organization's objectives.

Marketing mix – refers to the set of actions, or tactics, that a company uses to promote its brand or product in the market. It includes basic elements: product/service, place, price and promotion.

Method of an expert assessment of sale forecasting – executives and specialists act as experts.

Market capacity – quantity of goods and services that can be realised within a certain period of time at the prevailing prices in the market.

Marketing opportunity – the attractive direction of marketing efforts on which a particular firm can gain a competitive advantage.

Marketing philosophy – coordination of firm's activity directed to satisfaction of consumer inquiries.

Marketing plan—it includes the list of problems and tasks, marketing strategy and the program of its realization, the budget of marketing actions and procedure for controlling the process of plans implementation.

Marketing research – market research, including studying sale, consumer properties of goods, advertising research, efficiency of sales promotion and so on.

Method of solving tasks – the solution of problems of marketing means research of ways of gradual reduction of elements of uncertainty and risk in the estimates, hypotheses, decisions and actions connected with economic activity.

Marketing service – deals with all issues entering the area of marketing activity.

Marketing strategy – determines the direction of marketing mix use for attraction, target markets satisfaction and organization's success. It includes concrete strategy for the target markets, marketing mix and level of marketing costs.

Need – a shortage felt by person. Requirement – a need which took the specific form according to the cultural level and the identity of the individual.

Non-price competition – a form of competition in which two or more producers use such factors as packaging, delivery or customer service rather than price to increase demand for their products.

Novelty – new products.

New product – include any serious changes in a form, maintenance or packaging of a product which matter for a consumer and can form a basis for formation of preferable relation of consumers to it.

Organizational structure of marketing – the structural division for management of marketing functions of firm establishing subordination and responsibility for performance of these or those tasks.

Personal selling – a promotional method in which one party (e.g., salesperson) uses skills and techniques for building personal relationships with another party (e.g., those involved in a purchase decision) that results in both parties obtaining value.

Product idea - the worked option of product idea expressed in significant concepts for a consumer.

Product life cycle (PLC) - the course of a product's sales and profits over its lifetime. It involves five distinct stages: product development, introduction, growth, maturity and decline.

Primary information – represent the information for solution of specific studied problem.

Propaganda – stimulation of demand by promoting goods, service or organization by means of information distribution. It is free of charge.

Range of goods – group of goods similar in their functions, character met consumer needs or the nature of their distribution channels.

Realization – includes introduction negotiations, transactions, demonstration of goods, and also actions for advertising and sales promotion.

Realization methods – activity which concludes advertising, sales promotion, demonstration of goods, etc

Requirements – a need, feeling of the shortage felt by man.

Retail trade – any activities for sale of goods, services directly to consumers for their personal non-commercial use.

Sale agent – wholesale company, which is responsible for sale of all products of the producer, includes all wholesale functions, but has no property right to products.

Sales forecasting method estimated by sales agents – a survey of sales agents about the offered sale volumes in the territories served by them with the subsequent summation.

Sales promotion – use of short-term incentive measures to encourage the purchase or sale of goods (service). It is subdivided into stimulation of consumers, stimulation of the sphere of trade, stimulation of own trade personnel.

Secondary data – information that already exists somewhere, having been collected earlier for another purpose.

Selection – the population group urged to present the general population on geographical or socio-demographic signs.

Seller's market - the market conditions favourable for the seller.

Short-term marketing plan – the expanded version of bastings of the long-term plan for the first year of its implementation.

Stimulation – any form of communication, used by company for information or reminder people about the goods, services, images, ideas, public work.

Strategic planning – administrative process of creating and maintaining a strategic fit between the company's purposes and its potential opportunities and chances in the marketing sphere.

Survey – gathering information from respondents by means of contacts with them personally, by phone or by mail.

Test coupon – a type of an award that can get consumers when shopping and that they can exchange for goods in special exchange offices.

Test marketing - realization in one or several regions (test markets) during which new goods and marketing strategy pass approbation in real market conditions.

Undifferentiated marketing – the address to consumers with one general marketing plan. It is supposed that consumers need goods and services with similar characteristics.

Uniform market – the market presented by buyers with similar requirements to these goods, for example the market of sugar unlike the market of clothes.

Unstable demand – dependences of consumer expenses on the income at different levels of security.

Wholesale trade – any activities for sale of goods or service for intermediate consumers, i.e. who gets them for the purpose of sale or professional use.

Wholesaler - the person or organization engaged in wholesale trade.

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