

## Chapter 2 :: Business in our Economy

### Section 2.3 ~ Effective Marketing

#### Jump Start

Brianna, Brittney, and Emilio decide to rename their bakery. They are now The Triad Bakery. To keep their business growing, they decide to develop a formal marketing strategy. The target market for their products includes heads of households—people who buy bakery goods for their families. Three basic marketing objectives they set for the next 12 months are (1) to get 40 percent of all households in the community to try a cookie or cake from their bakery, (2) to obtain 20 percent of the market for fresh-baked cakes and cookies, and (3) to achieve net sales of \$250,000. Given their target market and these marketing objectives, describe each element of the marketing strategy you would recommend for the Triad Bakery.

#### Marketing Basics

*Marketing* is the process of informing the general public about goods and services that are available for sale at a convenient location or online. Marketing is an important part of doing business. If potential customers don't know about a business's products or services, who will buy these items?

All businesses get involved in developing a marketing strategy in one way or another. In developing the marketing strategy, businesses must identify their target market, consider the needs and wants of customers when planning their product or service, determine what price to charge, promote the product or service, and plan the channels of distribution.

#### Marketing Strategy

The plan that a company develops to show how it will use marketing to achieve its goals is called its **marketing strategy**. In developing the marketing strategy, marketers must decide whose needs or wants the business will try to satisfy and then develop a marketing mix to satisfy those needs and wants.

**Target Market** Marketers must identify a group of consumers whose needs or wants can be satisfied by the business's products or services. A group of individuals or businesses that has similar product needs is called a **target market**.

In the area of food service, for example, different retailers have identified different target markets. If a restaurant's target market is families who have young children, it may feature special meals for children and may have playgrounds. Other restaurants target an adult market and may have a more upscale interior and offer menus that appeal to this clientele.

**Marketing Mix** A second step in developing marketing strategy is to create a marketing mix. A *marketing mix* involves a blend of four elements: product, distribution, price, and promotion. A business must make many decisions to ensure that a product's benefits are communicated to customers and that the product is available in the location and at the price that meets the customers' needs. The right marketing mix can result in a profitable business.

## Marketing Orientation

Businesses that have a **marketing orientation** consider the needs of customers when developing products and services. Businesses cannot assume that they know everything about what potential customers want. As they seek new markets, businesses conduct research studies to determine consumers' desires for goods and services, their ability and willingness to pay for those goods and services, and other factors that affect their potential as future customers. A business might have researchers on staff, or it may employ research companies to do this research for it. The results of the research are used in designing a product or service that will meet the desires identified by consumers.

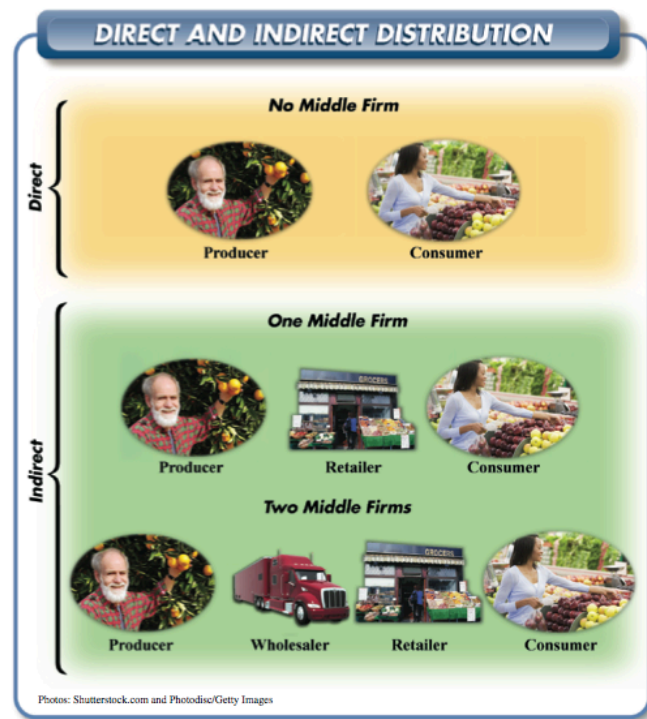
## Marketing Channels

When a product or service is ready for market, it must be made available. Few products are sold directly by the producer to the consumer. The path that a product travels as it goes from producer to consumer is called a **channel of distribution**. There are two basic channels of distribution, direct and indirect.

A *direct channel* brings the product to the consumer directly from the producer. Farm products are among those that are marketed in this channel through roadside stands and farmers' markets. Some manufacturers of household goods, such as cosmetics and kitchen products, market their products through direct selling as well.

However, most products go through an *indirect channel* of distribution. The indirect channel consists of one or more businesses that come between the producer and the consumer. These middle businesses, intermediaries, are necessary for the marketing functions to be completed.

A wholesaler often buys large quantities of a product and breaks them down into smaller quantities that are suitable for retailers to sell to consumers. Wholesalers also store and transport products. A retailer then sells products directly to consumers at a place of business. The retailer gets many different products from wholesalers, displays them, and makes it convenient for consumers to shop and make purchases. Shopping malls are popular because they bring together a variety of retailers in one place, making shopping even more convenient for consumers.



## Functions of Marketing

To be successful as a marketer, a business must perform seven marketing activities. The activities performed are called *marketing functions*. These functions must be performed for every product or service in order to produce a sale for the business. It is important to understand what is involved in each of the seven functions.

1. **Product/Service Management** Marketers assist with the design, development, maintenance, improvement, and acquisition of products and services that meet consumer needs. Information and test results related to a new product or service are gathered and utilized.

2. **Distribution** There are many steps taken to get the product or service to potential customers in the most efficient manner. Distribution involves giving careful consideration to such things as shipping, handling, and storing products and getting them to the desired locations in a timely manner.

3. **Selling** Communicating directly or indirectly with potential customers to learn about their needs and wants and then trying to satisfy those needs and wants is part of the selling function. When a salesperson meets face-to-face with a potential customer and discusses the customer's desires and the features of the product or service, it is a direct sale. It is indirect when it is sold through e-commerce, telemarketing, videoconferencing, or instant messaging. Whatever mode is used, it is important that the message is clear and understood by the seller and the buyer so that the transaction can be made successfully.

4. **Marketing-Information Management** Important marketing decisions must be based on reliable information, such as information about the target market and customer needs. This information can come from a company's own customers or from more generalized data. The gathering and using of marketing data is important because it can be used to improve decision-making. Computer technology and the Internet are important in the management and gathering of data needed for this function, especially when global markets are involved.



5. **Financial Analysis** A business must budget to support the purchase of products and services needed to produce and market the products or services it sells. Customers must have the resources and methods to pay for their purchases, so a business may offer financing options for its customers and assist them in finding the best way to handle their payments. Businesses must be paid in a timely manner to meet their expenses and continue to operate.

6. **Pricing** This process sets and communicates the value of products and services through an established price. Consumers want to know that they are getting a fair value for the money they are spending. Setting a price too low may cause a business to lose money. Setting a price too high may cause customers to buy a competitor's product or service. There are three goals of pricing: (1) to cover costs and generate a profit, (2) to set a price that consumers will consider to be a good value, and (3) to be competitive. The amount that is added to the cost of producing a product or service is called a **markup**.

7. **Promotion** Marketers search for effective ways to communicate with consumers and encourage the purchase of their goods and services. Advertising and other promotional methods have to compete with those of competitors, which often challenges the creativity of marketers. Many forms of advertising appear in newspapers, magazines, and other print media. In addition, other methods, such as radio, television, the Internet, contests, product displays, and sponsorships, are used to expose a business and its products to the public. One of the main goals of promotion is to communicate the advantages and benefits of a business's products and services.

### Think Critically

1. Explain why it is important for all businesses to be aware of the importance of marketing and what it involves.
2. How do middle businesses (intermediaries) in an indirect channel of distribution benefit customers?
3. Which of the three goals of pricing do you think has the needs of the consumer most in mind? Explain your answer.
4. Do you think there should be some controls on the amount businesses can mark up their goods and services? Why or why not?
5. **Business Math** Calculate the markups, rates of markup as a percentage of cost, and selling prices for the missing items in the chart below. In working this problem, be careful that your decimal points are correct.

ITEM	COST	MARKUP	RATE OF MARKUP	SELLING PRICE
A	\$50	\$5	_____	_____
B	\$66	_____	33%	_____
C	\$15	\$2.75	_____	\$17.75
D	\$110	_____	4%	_____
E	\$6	\$0.90	_____	_____