3.5.1 / 2 - Identifying & understanding customers & Segmentation

A **Market** consists of all the sales of one particular group of goods or services. For example, the grocery market, the housing market, or the stock market.

In every market, businesses must identify and satisfy customer needs. This is the purpose of **Marketing**. All businesses work hard to identify and satisfy customers needs in order to:

- Provide a product or service that customers will buy
- Select the correct **Marketing Mix**
- Avoid costly mistakes
- Be competitive and increase sales

The same way we would break up an orange, we **segment** a market.

Segmentation allows businesses to focus on individual groups, such as men/women, age groups, geographic location, levels of income.

By doing this, we can better understand the different groups of consumers we might be targeting. That way we can design products, pricing, advertising, and ways of delivering the product, that suit each group.

Benefits of accurate segmentation	Drawbacks of segmenting / risks of doing it badly
Businesses design better products, advertising, and prices, and promotions, which lead to more sales.	Detailed research will be required – this can be expensive
Understanding our customer better, we can predict what they may want in the future.	It can be very difficult to accurately predict what a customer will like or dislike
We can maximise the profit from each group – for example, knowing that some people have no choice but to use the train at a set time, means we could charge a higher price.	All of our competitors will be trying to do the same thing, meaning that if we don't do it well they will be able to gain a significant advantage over us.

3.5.3 - The purpose and methods of market research

Market Research is the process of a business collecting information that will help it to better compete with its opposition. It enables them to gain a better insight into their customers, and their wants and needs, and their competitors.

Purposes of Market Research – businesses collect information about:

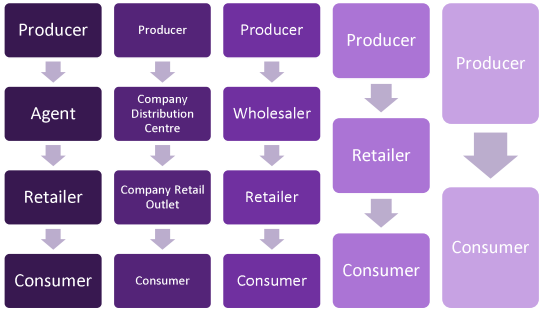
Demand	Competition	Target Market
How much/which products do consumers want/need? What features should their product have and what price should they set?	How are the competitors in the market operating? How are they different to us, and how are they innovating?	Who are our customers? What specific wants/needs to they have? Can we improve how we deal with them to increase sales?

Primary	Secondary	Quantitative	Qualitative
Research I design and conduct specifically for my business	Research someone else has designed and conducted	Data that is numerical / can be counted	Information that is descriptive and cannot be easily counted

Method	Advantages	Disadvantages
Questionnaires & Surveys	Easy / cheap to produce	Difficult to get responses May be leading questions
Interview	Detailed information as more time to ask further questions	Time consuming and so expensive
Focus Group	Opportunity for discussion More detailed responses	Time consuming Groups may not be representative
Internet Research & Printed Media	Lots of information available Cheap (Secondary Research)	Information can be misleading Others designed the research / may not be suited to your purpose

3.5.4 - The Marketing Mix: Place

Place refers to the different channels of distribution a business uses to get their products to the customers.



In each of the possible scenarios show above, the seller might choose a range of ways to sell to the buyer:

- Traditional – via a shop / office
- Modern retail – using technology to improve the process (i.e. self-scan/checkout)
- Telesales – sales made by phone direct to the customer
- E-commerce / M-Commerce – sales via a website or app

Choosing the right method of getting the product to the customer is vital.

AQA GCSE Business 9-1: 8132

Marketing

Unit 5

Appears in:
Paper 2

3.5.4 - The Marketing Mix: Promotion

Promotion is the name given to all of the business activities that encourage the customer to buy a product.

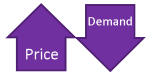
Why we promote	How we choose a method
It's important to promote a product, especially when it's new or if it is in a market where there's lots of competition. It's used to: - Inform/remind customers about the product - Create or increase sales - Create or change the image of the product - Persuade customers to buy or try the product	What a businesses chooses to do to promote their product is influenced by both internal and external factors: - Finance available to spend - What the competitors in the market are doing - The type of good or service the product is - The nature of the market and how competitive it is - Who the target market are

Advertising	PR	Sales Promotion	Sponsorship	Social Media
These are the types of adverts you would be familiar with on TV, Radio, in newspapers, on the internet and on billboards	Public Relations events and activities are the ones that change how we think about a business. For example, some give to charity.	Special offers and displays. 2 for 1 and BOGOF, free gifts, coupons, samples, competitions.	Businesses often sponsor football teams or sporting events. The same as they might sponsor a good cause such as a school.	Interacting with customers via social media is increasingly important to modern business. It involves the customer in the brand.

3.5.4 - The Marketing Mix: Price

Businesses set prices for their products based on a range of **internal** and **external** factors.

- Costs associated with the product
- Nature of the market
- Degree of competition in the market
- The stage a product is at in its lifecycle



Skimming	**Description:** Setting a higher price when a product is released **Potential Impact:** The company can try to take advantage of excitement around the release of the product – with customers willing to pay more to get the product sooner the company can recover some of its Research and Development costs
Penetration	**Description:** Setting a price lower than the competition for a short time **Potential Impact:** By pricing below the competition a company can attempt to increase their share of the market. If their product is new, or if they are entering this market for the first time, it could encourage customers to try the product or switch from a competing product.
Competitive	**Description:** Pricing alongside or similarly to the competition **Potential Impact:** By pricing alongside our rivals, customers will see our price as the "going-rate" – the normal price. We shouldn't be seen as expensive, and so customers are less likely to go elsewhere simply because of the price.
Loss Leader	**Description:** Setting a price for a product that means a loss is made on each sale **Potential Impact:** A very low price on a product may encourage people to visit the shop, and subsequently buy other items that do make a profit. An example of this is fuel at supermarkets. Their prices are lower in the hope that while filling up with fuel you will also shop in the store.
Cost-Plus	**Description:** Adding a percentage profit to the cost of producing/selling a product **Potential Impact:** Provided we sell enough units for us to cover our fixed costs, each unit we sell should make us a profit. We have set the price so that each sale covers its own variable costs.

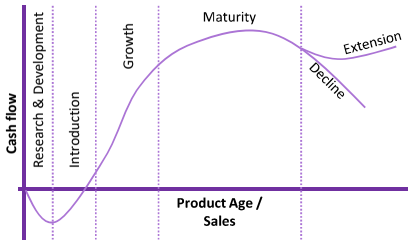
3.5.4 - The Marketing Mix: Product

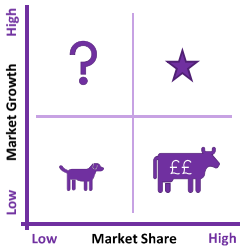
Deciding which products to offer is a marketing activity. There are risks and benefits of releasing new products and discontinuing old ones. Which products are sold and their quality, will affect **brand image**.

Having a **unique selling point** can improve sales in competitive markets.

The **Product Lifecycle** shows the stages that a product is likely to go through during its lifetime. The line shows how cashflow falls initially due to the high cost of R&D.

It also shows how decline is not inevitable, and that **extension strategies**, such as adding new features, could be used to maintain a products' popularity.





The **Boston Matrix** is a tool for analysing a business' **Product Portfolio**. This is the collection of products they offer.

Where a product appears in the matrix might help us to decide what to do next to improve our profitability.

Businesses often assume that spending money on marketing will help us to improve market share and move **dogs** to become **cash cows**, and **question marks** to become **rising stars**.