Pearson LCCI Level 3 Certificate in Modern Marketing Principles
CHAPTER 1
UNDERSTANDING MARKETING

Learning Objectives

1.1 The nature of marketing
Understand what marketing activities are and their importance to a business.

1.2 Marketing and the nature of business
Understand that marketing activities may be affected by the type of business, its aims and objectives, markets and stakeholder interests.

1.3 How and why a business markets internationally
Understand how and why marketing can take place in international markets and the impact this has on marketing activity.
1.1 The nature of marketing

The marketing of a business is thought to be a key factor in a business’s success strategy. Without marketing, who will know about the business or what it offers? Marketing is possibly the most important activity in a business because it has a direct effect on an organisation’s profitability and sales. Larger businesses will dedicate specific staff and departments to marketing activities.

Marketing attracts customers and manages the relationship between the customer and the business. It identifies consumer demand relative to a good or service and develops ways in which customers can purchase these in the optimum amounts to make a business profitable.

The elements of marketing activities

Marketing activities incorporate a number of elements:

- Identifying opportunities in the market
- Creating and maintaining a brand and brand image
- Selecting appropriate parts of the market to align with business capabilities
- Satisfying and retaining existing customers
- Attracting new customers
- Creating an advantage over competition
- Identifying changing trends in the market

![Figure 1.1 The elements of marketing activities](image)

Attracting new customers

Trying to win new customers in your local area, nationally or internationally. This can be done by:

- asking customers to recommend the business to their friends and colleagues
- advertising in local media
- using other forms of marketing, including online/digital methods.
Satisfying and retaining existing customers
Focusing on customers who have already bought from you to ensure you are meeting their needs. Businesses can also increase sales by:

- selling more of the same goods or services to regular customers
- persuading customers to become repeat customers
- finding customers who have stopped buying from the business and trying to win them back
- talking to potential customers who do not buy from the business at the moment to find out what it would take for them to switch from the competition.

Creating an advantage over competition
A business can build an advantage over its competitors by making sure its products match its customer needs and are a better solution than those offered by its competitors. This can be done by:

- using customer service to ensure all customer concerns are dealt with promptly
- having a person available to speak with customers directly, taking the time to get to know them as individuals
- finding out how the company can improve its good or service offering.

Identification of changing trends in the market
Businesses need to keep on top of trends. They do this by identifying the most important trends they think are most likely to impact their market. This is often done through a STEEPLE analysis to identify the external factors impacting on a business.

Identification of opportunities in the market
To be successful, businesses need to identify opportunities in the market. This is often done through a SWOT analysis where external opportunities (as well as threats) are analysed.

Businesses may also carry out market mapping. This allows them to identify where there are ‘gaps’ in the market and where customer needs are not being met.

Businesses may also carry out a competitor analysis to assess the strengths and weaknesses of its competitors, helping to identify new opportunities for the business.

Selecting appropriate parts of the market to align with business capabilities
This can be done using a SWOT analysis of the internal strengths and weaknesses of the business, as well as looking at the core competencies, production capacity, branding, product portfolio and staff skills of the business.

Creating a strategy and plan to target markets
Businesses create target markets to use in its strategic planning. This means targeting specific customers who have similar needs and wants with the same message, products, pricing and through the same distribution channels.

To create a target market, businesses take their customers and segment (group) them. This creates groups of customers based on similarities, and each group becomes a target market.

Creating and maintaining a brand and brand image
Branding can be defined as a name, term, design, symbol or any other feature that identifies a seller’s goods or services as distinct from those offered by other sellers. It is what makes a business recognisable and memorable.
Branding and image affects the way a customer views a business and will influence their attitudes towards the business. All brands, no matter how big or small, need to maintain a consistent brand image.

**Examination Tip**

You need to be able to understand the marketing activities that make up marketing, their elements and why they are important to a business.

### 1.2 Marketing and the nature of business

**Types of business**

Businesses operate in either the **private** or the **public** sector.

![Diagram of Businesses]

The private and public sectors include both profit and not-for-profit businesses. Not-for-profit business would include charities, social enterprises, voluntary and community organisations, public arts organisations and housing organisations.

**Business aims**

A business aim is a statement of what a business is trying to achieve; it is also known as a ‘goal’ or ‘target’. For example, a business can set itself aims such as:

- Survival
- Growth
- Social well-being
- Increased profit
- Increase in market share
- Improved corporate image
- Meeting government standards
- Reduced impact on the environment
- Corporate social responsibility (CSR)
Different types of business may have different aims and objectives. For example, businesses in the public sector are set up with the aim of providing a public service rather than to make a profit or increase sales.

**Business objectives**

Business objectives are stated, measurable targets of how a business achieves its aims. Having an objective is useful because it helps staff to focus on shared aims. An example of an aim could be to achieve a market share of its sales of 45% in 2018.

Businesses may have alternative objectives, for example, such as ethical and socially responsible objectives, that are based on their beliefs on how businesses should treat the environment and people who are less fortunate.

**Types of market**

The place where buyers and sellers come together is called a ‘market’. Not all markets are the same; some are large, some are small, some are focused on one location, while others operate around the world. To measure a market, we talk about market size. This means the number of customers in the market (either current or potential buyers) and the amount (value or volume) that they buy.

**Mass and niche markets**

In most markets, there is one main (mass) market made up of products with mass appeal (for example orange juice and soft drinks). A niche market is the opposite of this. It is a focused, targetable part of the market. In a niche market, goods or services focus on specific customer needs which cannot or are not being met by mainstream businesses.

**Mass marketing** is a marketing strategy that uses mass distribution and mass media. This means that businesses are trying to market across all demographics. Businesses and companies with products that cater to almost all age groups typically use mass marketing.

**Niche marketing** focuses on a smaller market segment with specific definitions. It focuses on a smaller group of people with easily identifiable preferences, wants and needs. Businesses with limited marketing budgets often employ niche marketing, although there are also large companies with established brands that use niche marketing successfully.

**Consumer and capital goods markets**

**Consumer goods** (sometimes called ‘final goods’) are goods that are used for final consumption. Consumer goods include food products, household appliances, electronic items, furniture and cleaning products. These can be classified into groups:

- **Services** – These are things done to you or for you (for example a car wash).
- **Fast-moving consumer goods (FMCGs)** – These sell in high quantities but at a low unit price. They are purchased frequently (for example loaves of bread).
- **Consumer durables** – These have a high unit price but sell in lower quantities (for example games consoles, microwaves and personal computers).

**Capital goods** are goods that are used for future production by manufacturers. These include plant and machinery, computing technology, software, furniture and vehicles. Businesses do not sell capital goods which means capital goods do not directly create revenue.

The difference between consumer goods and capital goods are based on how they are used. This is because a physical good could be classified as either a consumer good or a capital good. For example, an orange bought
at a supermarket and eaten is a consumer good. An identical orange bought by a company to make orange juice is a capital good.

**Business-to-Business (B2B) and Business-to-Consumer (B2C)**

**Business-to-Business (B2B)** involves the sale of one company’s good or service to another company. B2B can offer the raw materials, parts or services businesses need for their production process. B2B also describes one business buying the services of another for operational reasons (for example a business employing an accountancy firm to audit their finances). B2B can also be a business reselling goods and services provided by others (for example a retailer buying the end product from a manufacturer).

**Business-to-Consumer (B2C)** involves selling goods or services directly to the consumer (for example, someone buying a computer from an electronics retailer).

For example, think about a television set. The purchase of components, screens and plastics by the manufacturer, and the sale of the television set from the manufacturer to the retailer would both be B2B transactions. Whereas, a customer buying the television set from an electronics retailer would be considered as a B2C transaction.

**The difference between customers and consumers**

Although the terms are often used interchangeably, by strict definition customers purchase goods and services, whereas consumers use the goods and services; the consumer may not have paid for the good or service.

A customer can be a consumer but a consumer does not necessarily need to be a customer. For example, a child could be a consumer of breakfast cereal, whilst the child’s parent could be the customer and the consumer. Another example would be someone receiving a gift of a box of chocolates. The person who buys the chocolates is the customer and the person who eats them is the consumer.

**Business stakeholders**

Stakeholders are the people who have an interest in a business and are affected by what it does and the way it operates. They may have a direct or indirect interest in the business and may be in contact with the business daily or only occasionally.

All businesses have stakeholders, although larger businesses are likely to have more stakeholders than small businesses. They can be split into two groups:

- **Internal stakeholders** – owners/shareholders, managers, directors, departments, employees
- **External stakeholders** – shareholders, customers, creditors, suppliers, distributors, government, local community, pressure groups.

Stakeholders have different interests in a business. These may or may not be financial.

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Interests and influence</th>
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<tbody>
<tr>
<td><strong>OWNERS / SHAREHOLDERS</strong></td>
<td>• They have time and money invested in the business.</td>
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<td></td>
<td>• They want the best return on investment (ROI).</td>
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<td></td>
<td>• They want the business to survive.</td>
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<td></td>
<td>• They have a direct influence on a business (for example, they can decide to expand the business).</td>
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| **MANAGERS / DIRECTORS** | • They seek a good salary and benefits, good working conditions, and future job opportunities and security.  
• They can influence the pay, security and job prospects of employees whom they manage.  
• They can influence the business by assisting the owners/shareholders in increasing the size/scale of the business. |
|---|---|
| **EMPLOYEES** | • Employees work for the business.  
• They seek a good salary and benefits, good working conditions, and future job opportunities and security.  
• They can influence the business (for example, on staff needs and wants which can include working conditions). |
| **LOCAL COMMUNITY** | • People that live in the local community often want jobs as well as minimum pollution and damage to the area. They want local jobs, a clean environment and support for local projects.  
• They can influence the performance of the business (for example, they can bring positive or negative press coverage). They may try to influence where a business is located by petitioning for or against a business coming into their locality. |
| **SUPPLIERS / DISTRIBUTORS** | • They provide goods or services to a business.  
• They want to build long-lasting relationships with a business to allow them to continue trading with them. They want large and regular repeat orders to ensure revenue coming into their own businesses.  
• They want reliable and on time payment of invoices.  
• They can influence the performance of the business (for example, they can stop supplying products to a business). |
| **PRESSURE GROUPS** | • They are people who are interested in whether the business is acting appropriately.  
• They attempt to influence the way in which a business operates through lobbying, picketing or boycotting products. They create publicity, circulate petitions and conduct research. |
| **customers** | • They are people or businesses who purchase products (goods or services) from a business.  
• They want choice and value for money.  
• They can influence the performance of the business (for example, they can stop buying their products). |
| **GOVERNMENT** | • These could be local or national.  
• They want businesses to provide jobs and tax revenue, and to help the economy grow.  
• They can influence the performance of the business. For example, through changing tax rates, interest rates and the amount the government spends (government expenditure), as well as how much financial support and advice they offer.  
• They also implement and uphold laws and regulations, for example, employment laws. |
| **FINANCIERS / BANKS** | • They provide loans to a business.  
• They want reliable and on time payment of invoices. |
The impact of corporate social responsibility (CSR)

Corporate social responsibility (CSR) aims to ensure that companies conduct their business in a way that is ethical. This means taking account of their social, economic and environmental impact, and consideration of human rights. CSR can refer to a wide range of actions that businesses may make from donating to charity to ethical trading. Businesses may work with its stakeholders in a number of ways.

Demonstrating commitment to the local community can impact on a business through improving its reputation and so make it easier for it to recruit and retain employees. For example, a business may choose to:

- volunteer in local schools or community projects
- sponsor a local event
- organise clean-up events
- support a local charity.

For example, a builder may provide free materials and labour to community projects, and supermarkets and restaurants may provide food to local homeless groups.

Many businesses include their employees in decisions about CSR activities. For example, they work with employees to nominate and support charities, encourage them to volunteer for community activities and charitable activities and give them paid time off for this. They may also help employees to make tax-free donations to charity through ‘payroll giving’. This can impact on the business by improving the relationship it has with the community, and can help motivate employees.

Another way to demonstrate CSR is through ethical trading. This focuses on protecting workers’ rights throughout the supply chain by making sure that it treats its own employees, it suppliers and their workers fairly and ethically. This can impact on the business as customers of a business will want to know that it does not exploit the people who make and sell its products, and so this can improve the reputation of the business and customer loyalty.

A primary focus of CSR is the environment. Environmental CSR aims to reduce any damaging effects on the environment from the activities of a business. This can impact on the business as it can reduce business risk, improve reputation and provide opportunities for cost savings. Caring about the environment can also increase revenue as many customers prefer to buy from responsible businesses. For example, a business may focus on:

- reducing emissions
- reducing energy and water use for example, switching off lights and equipment when not in use and reducing the use of water
- efficient recycling and waste management
- reducing packaging
- having eco-friendly office and business travel policies
- buying locally to save fuel costs
- working with environmentally-conscious suppliers and distributors
- sourcing materials responsibly such as using recycled materials and sustainable timber.
Case Study 1.1 An example of corporate social responsibility (CSR) (Starbucks)

Starbucks is a well-known American coffee house chain that has a ‘Shared Planet’ slogan. It states that this is its commitment to do business in ways that are good for people and the planet. It publishes its commitment to purchasing only the highest quality, ethically sourced and responsibly grown coffee, to reduce its own environmental footprint and fight climate change, and to give back to the neighbourhoods and communities it is a part of.

Examination Tip
You need to be able to link the type of business, its aims and objectives, markets and stakeholder interests to the marketing activities of different businesses. You will need to understand the different types of businesses (public, private and not-for-profit), markets, stakeholders and the difference between a customer and consumer. You will also need to understand corporate social responsibility (CSR) and its importance in meeting the needs and interests of stakeholders.

1.3 How and why a business markets internationally

Reasons for entering international markets

The global economy brings many opportunities but also significant challenges for businesses.

Opportunities

Globalisation gives access to more consumers and customers. It can result in an increase in sales revenue as well as an increase in profits. It provides access to resources and raw materials that a business may not have been able to obtain in its own country, plus access to a greater supply of skilled labour through an increase in the international mobility of labour. It is now easier for people to work in different countries throughout the world. This increases the availability of skilled labour and provides greater opportunities for organisations to develop new products, create extension strategies for existing products and increase output.

Challenges

Globalisation leads to a greater level of competition from businesses in other countries. Although it provides access to a bigger market, this market will contain businesses from other countries across the world, therefore increasing competition. Any business operating in the global economy must place a high priority on competitive prices, quality and service otherwise it will lose sales to its international competitors.

Factors to consider when selecting an international market

Many businesses expand their markets to give them additional security as well as increased sales revenue but there are many considerations to be made. Before a business decides on an international market, it is important to know that there is a clear and growing demand for the type of goods or services it offers and a base of potential clients with the interest and money to buy it.
It is important when selecting an international market to keep in mind the customers’ needs, cultural differences and different business etiquettes. For example, the preferences of a young customer in Singapore will differ from that of a young customer in Greece or Malta.

Market research is key to understanding differences between countries as different cultures respond differently to products and marketing. International customers may not have the same needs as they do in domestic markets and some markets may actually use products in a different way. A business needs to carry out research to know exactly how each market will respond to the product, the business and its marketing.

Marketing must be carefully considered to ensure that the business does not make any expensive mistakes because of a difference in language and/or culture when packaging and marketing a product. Businesses will need to consider adapting or customising its offering, including packaging, labelling and promotion, according to regulatory requirements, consumer tastes, tradition, religion, gender and cultural preferences. This will incur an additional cost to the business.

Businesses operating globally will need to decide whether to maintain an international (or global) marketing strategy, where they deliver a similar product and marketing message in each country or a targeted approach, where marketing is unique to each market.

They will also have to consider the political climate as this can affect the economic environment of the country. The economic environment, in turn, affects the performance of all organisations trading within it. The government of a country will decide on factors such as taxes and government spending, and these will have a direct impact on the country’s economy. For example, a higher level of government spending tends to stimulate an economy.

Methods of entering international markets

Once a business decides to enter an international market it will need a plan for how it will reach this market; it needs a market entry strategy. There are number of strategies to choose from:

- Exporting
- Agents and distributors
- Licensing
- Joint ventures
- Strategic alliances

Exporting is selling into a chosen market.

Many businesses, once they have established a sales programme, turn to channel partners (agents and/or distributors) to represent them further in that market. Agents and distributors work closely with businesses to represent their interests. They become the face of the company and so choosing the right agent and/or distributor is very important.

Licensing is an arrangement where one business transfers the rights or the use of a good or service to another business. This is a particularly useful strategy if the purchaser of the licence has a relatively large market share in the same market that the business wants to enter.

Joint ventures are a form of partnership that involves the creation of a third independently managed business. Two businesses agree to work together in a particular market and form a third company to undertake this. Risks and profits are normally shared equally. This type of partnership usually offers great advantages, but it can also present certain risks, since this type of arrangement can be highly complex.
Strategic alliances are partnerships in which two or more businesses work together to achieve objectives that are mutually beneficial. The businesses may share resources, information, capabilities and risks to achieve this. Strategic alliances are often, but not always, in the form of a joint venture. A strategic alliance is less involved and less permanent than a joint venture. In a strategic alliance, each company maintains its independence while gaining a new opportunity.

The importance of ‘glocalisation’

In a marketing context, glocalisation is the method of maintaining a global image and brand while adapting goods and services to local preferences and tastes. It can be described as ‘thinking globally and acting locally’.

Businesses do this because customers are more likely to respond to marketing messages which they feel are specifically speaking to them. By focusing on a local area, the business creates an impression of being more ‘personal’ to someone in that area.

On the other hand, the business will be competing with other local businesses in that area and so it is important that a business has an advantage that will help it to compete with these local businesses and make glocalisation worthwhile.

Examination Tip

You will need to understand the different reasons why and how businesses enter international markets, the factors to consider when doing so and the importance of glocalisation. You also need to be able to relate marketing activities to a business’s decision to trade in international markets.

Chapter 1 Summary

What you have learned:
• What marketing activities are, their elements and why they are important to a business.
• How marketing activities may be affected by the type of business, its aims and objectives, markets and stakeholders.
• What corporate social responsibility (CSR) is, and its importance to a business, including how it meets the needs and interests of stakeholders.
• How and why marketing can take place in international markets and the impact this has on marketing activity, including the different methods of entry, the factors to consider when entering international markets and the impact of glocalisation.

Activities

1.1 Identify two kinds of customer that a marketing department has a relationship with.

1 ............................................................................................................................................................................

2 ............................................................................................................................................................................
1.2 What are business objectives?

1.3 Circle the four mistakes in the following text:

In a marketing context, glocalisation is maintaining a local image and brand while adapting goods and services to international preferences and tastes. Customers are less likely to respond to marketing messages which they feel are specifically speaking to them and focusing on a local area also creates an impression of being less personal to someone in that area.

Practice questions

1.1 Which one of these is an external stakeholder of a business?

☐ A Employee
☐ B Manager
☐ C Director
☐ D Supplier

1.2 Define the term ‘mass market’.

1.3 Explain why market research is important to a business wanting to trade internationally.