

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
- 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:

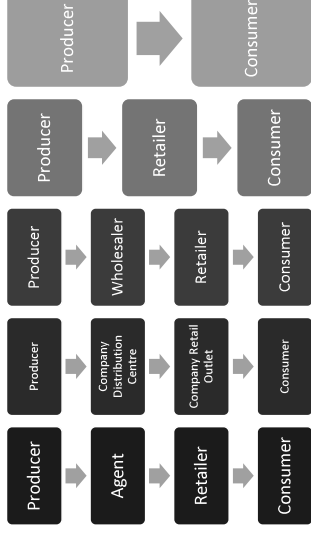
Method	Advantages	Disadvantages
Questionnaires & Surveys	Easy / cheap to produce	Difficult to get responses May be leading questions
Interview	Detailed information as more time to ask further questions	Time consuming and so expensive
Focus Group	Opportunity for discussion More detailed responses	Time 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

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	Qualitative
Research I design and conduct specifically for my business	Research someone else has designed and conducted	Information that is descriptive and cannot be easily counted

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.

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3.5.4 - The Marketing Mix: Price

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

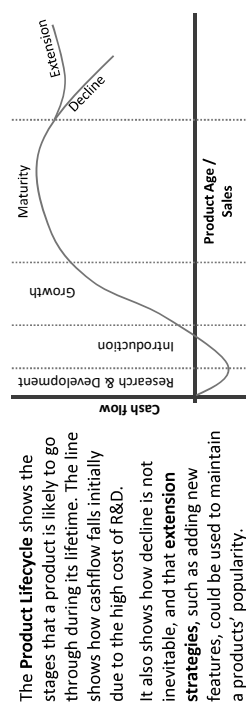


Skimming	Description: Setting a higher price when a product is released Potential Impact: The company can try to take advantage of excitement around the release of the product – with customers willing to pay more to get the product sooner the company can recover some of its Research and Development costs
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**.

Key Term	Definition
Advertising	Communicating with the customer to inform them about / convince them to buy a product
Boston Matrix	A tool that allows a business to analyse the value / prospects of each product in their portfolio.
Brand Image	How the brand is seen by the customer, their perception of its strengths, weaknesses, personality. It changes over time and all of the customers' interactions with the brand will inform it.
Competitive Pricing	Setting a price to be in line with a competitors' price for the same or similar products.
Complementary Product	A product that is sold alongside another that may be of use or interest to a customer. For example, extended warranties alongside the checkouts at Currys PCWorld.
Cost-Plus Pricing	Adding a percentage to the cost of producing a product so that a profit is made.
Customer Engagement	How the business tries to build a relationship with the customer in order to build loyalty.
Direct Marketing	Manufacturers speaking to customers without intermediaries. Often with leaflets or door-to-door salespeople.
Distribution Channels	How the product gets from manufacturer to the customer. Whose ownership does it pass through? Manufacturer > Wholesaler / Distributor / Agent > Retailer, etc.
EPOS	Electronic Point of Sale. A till / checkout that will automatically update stock / print coupons and vouchers etc.
Extension Strategies	Methods that extend the lifecycle of a product. Such as, updated packaging, adding new or different features, changing target market, special offers, advertising, and price reduction.
Focus Group	A group of people chosen from the target market to discuss a product. Provides the business with qualitative data relating to their opinions.
Intermediary	The businesses in the middle of the distribution channel between manufacturer and the customer.
Loss Leader	A product sold for less than it costs in order to encourage more customers. For example, fuel at supermarkets.
Market Research	Collecting information about customers, competitors, and the market that a company operates in.
Marketing	The activities within a business that combine to ensure the customer gets what they want, in the quantities they want, at a price they are willing to pay.
Marketing Mix	The four areas of marketing, and how a company uses them in combination to meet the needs and wants of customer while maximising sales, revenue and profit.

Key Term	Definition
Penetration Pricing	Setting a low price in order to establish a new product in a market, or to quickly gain market share.
Point of Sale	The place in a store, or webshop that the customer buys the product. Often an opportunity to attempt to sell complementary products.
PR – Public Relations	The act of managing the relationships between the business and wider groups. For example, environmental groups, pressure groups or investors. All with the aim of improving brand image.
Primary Research	Designing your own research, then collecting the information first-hand.
Product Differentiation	Developing features within a product that set it apart from other products in the same market. Using these differences to help promote the product and convince customers.
Product Lifecycle	The stages a product goes through from initial idea to removal. Research and Development > Introduction > Growth > Maturity > Decline (> Rejuvenation / Extension).
Product Portfolio	The range of products offered by a company.
Promotion	Communicating with customers in order to inform / remind them about a product or persuade them to buy.
Qualitative Market Research	Collecting information about customers' thoughts/opinions about a product – customers are able to explain in detail.
Quantitative Market Research	Collecting information in a numerical manner – less detail is possible, but statistical analysis is easier.
Retail	A business that sells goods.
Sales Value	The revenue generated from sales.
Sales Volume	The number of items sold.
Secondary Research	Using sources of information that have already been collected / published. Also called 'desk research.'
Segmentation	Dividing a market into groups that can be more easily targeted with specific products / adverts / prices. It enables the business to meet the needs of a specific group more easily.
Skimming	Setting a higher than usual price when a product is first released to capitalise on early adopters being willing to pay more. For example, Xbox 'Day One Edition.'
Telesales	Attempting to sell products by phone.
Unique Selling Point (USP)	The main benefit / key feature of a product that differentiates it from the other products in the same market.
Wholesaler	A business that sells in large quantities, usually buying them from manufacturers, then selling to retailers.