Marketing to South African Consumers

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UCT LIBERTY INSTITUTE
of strategic marketing

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First Edition

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Foreword

This is a textbook on marketing to South African consumers. The aim of the textbook is to provide a backbone of foundational marketing theory with an emphasis on meeting the needs of South African business. The textbook is, however, relevant to any marketer or business owner who would like to gain more understanding of marketing in general and South African consumers in particular.

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James Lappeman, Paul Egan, Gillian Rightford and Thabang Ramogase

Part 1:

Marketing and Marketing Strategy

Part 1 of this textbook provides a background by which to understand the rest of the contents. Marketing has many tactical components, like pricing and advertising, but these must be understood in the context of an overall strategy. When a marketer is focused on tactics without a strategy ('tactification'), focus and effectiveness are lost.

Chapter 1: What is Consumer Marketing?

This chapter defines marketing and helps to build fundamental knowledge of the discipline. As part of defining marketing, the chapter looks at how marketing has evolved. The chapter also outlines the process of creating a marketing strategy, which includes diagnosis, strategy, tactics and feedback. The South African marketing environment is briefly discussed.

Chapter 2: The Role of Marketing in Delivering Corporate Strategy

Marketing strategy is a crucial tool in executing corporate strategy, but only if the relationship between these two is understood. This chapter discusses the role of marketing strategy in delivering corporate strategy and uses some generic corporate strategy models as examples.

Chapter 3: Sustainability in Consumer Marketing

As part of its very definition, marketing emphasises the need to value society at large to meet needs in the long term. While not always complied with, this view of sustainability has become core to marketing. This chapter frames sustainability in marketing and provides an understanding of sustainable consumption. The idea of 'greenwashing' one's marketing strategy is also discussed. The chapter is a call for marketers to think ahead and have the long-term interests of consumers at heart.

Chapter 4: The Marketer's Micro-Environment

As a consumer marketer, effectiveness comes from multiple considerations. Some factors are outside of the marketer's control (the macro-environment is discussed in Chapter 8). This chapter discusses the marketer's world in the form of the company, consumers, competitors, suppliers, intermediaries and other stakeholders with which they interact. These components form the basic marketing micro-environment and are within the marketer's direct sphere of influence.

Understanding the basics of marketing, marketing strategy and the influences of the micro-environment is the starting point of marketing to South African consumers.

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What is Consumer Marketing?

CHAPTER

1

James Lappeman
Vimbai Malandu

Introduction

The purpose of commercial business is to find and retain customers by creating a compelling value proposition. Marketing is at the very essence of this purpose, and this chapter provides a holistic view of the marketing concept specifically related to consumers. Not all marketing is commercial; the principles in this book can therefore be applied to marketing many things, like ideologies or not-for-profit organisations. Similarly, not all marketing is directly related to consumers (for example, a company can market nuts and bolts to another company that makes cars). This book, however, is about marketing to consumers.

Before we get into chapters on the fundamental principles of marketing, this chapter provides a broad strategic overview of what marketing is, and how to think about consumer marketing. A clear understanding of this chapter is required before the rest of this book's contents can be fully understood. In fact, some of the best marketers in the world do not have formal marketing training, but understand the principles of this chapter and have built great business empires around this thinking.

Definitions of marketing

In order to **define marketing**, let us look at two definitions from key sources. According to Kotler and Armstrong marketing is defined as:

> *A social and managerial process by which individuals and businesses obtain what they need and want through creating and exchanging value with others.*[1]

According to the American Marketing Association:

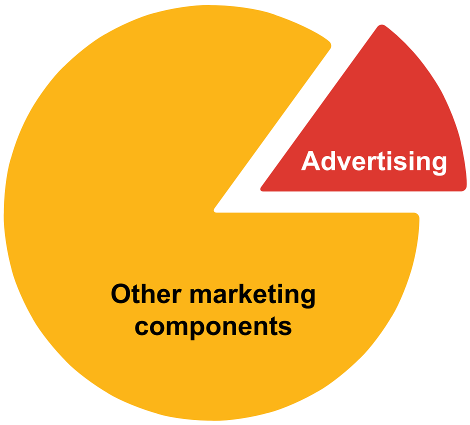
> *Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.*[2]

The role of marketing is to be the link between the consumers (that pay money for goods and services) and companies (that produce goods and services). There is no formal function in business that fulfills this crucial role in the same way (See Figure 1.1).

Figure 1.1: Marketing's role in connecting production to consumption

Different companies may have an inaccurate internal definition of marketing. For example, an industrial refrigeration company may define marketing as the function of creating advertisements in industry publications. This is a misleading use of the term marketing since consumer needs are not met through advertising. Advertising is a component of marketing used to communicate a brand's value proposition, to create awareness, or to impart information. These are done with a view to create an action (maybe a sale) or behaviour change (like recycling). Advertising, however, is only one of many marketing-related tools at a company's disposal. These marketing tools (or tactics) are small pieces of a larger whole (see Figure 1.2) that include other tactics, such as pricing strategy or product design.

Figure 1.2: Advertising as a component of marketing



The role of advertising as part of marketing strategy is explored later in this book when we look at the marketing mix (also known as the Four Ps) in Chapters 13–16.

Creating value propositions

At the very heart of marketing is the idea of a value proposition. A value proposition is an offer (or promise) made by the marketer to the potential consumer. The consumer then decides whether they would be willing to part with their money in order to receive the offering. While not made as mathematically as the equation below, the essence of value comes from understanding the benefits (or perceived benefit) on offer minus the cost (or perceived cost) involved.

Value = Benefit – Cost

While the process is far more organic and complicated than the equation suggests, understanding value propositions is crucial to successful enterprises. Consumers are constantly choosing between alternatives based on what they get (benefit) and what it will cost. Note that costs can also include aspects like time and missed opportunities (known as opportunity cost). For example, a consumer may consider buying groceries at their nearest shopping centre. Benefits of this choice could include a saving of time (close proximity) and money (saving on transport costs). Costs could include the fact that they don't stock the consumers preferred brand (which is available at a shopping centre at the other side of town). The consumer makes a calculation over the trade off between benefits and costs. Consumers will make different decisions based on their wants and needs (for example, is their brand preference as important as the cost in time and money?). Companies that understand consumer behaviour and make strong value propositions have a good chance of success.

In the 1980s, Mr Price was formed in South Africa, building its success on one of its premises: fashionable clothes don't need to be expensive. Before that, the options in clothing were mostly either expensive-fashionable or cheap-unfashionable. The fact that you could buy lower-quality clothes that were fashionable was a new proposition was a new proposition that had relevance in many markets across the world, including South Africa.

The exchange process

The exchange process occurs when two or more parties give something of value to each other to satisfy their perceived needs. In a marketing context, it is typically manifested in terms of a buyer-seller relationship. The seller offers goods and services desired by possible buyers. In return, the consumer (buyer) returns something of value to the seller (generally money). Both parties receive something of value in the exchange process. The marketer makes money and the customer receives goods, services or ideas that satisfy their needs. This exchange process is the very basis of marketing.

In order for an exchange to occur, at least two parties are needed. The following conditions also need to exist:

- Both parties must have something of value to exchange.
- Both parties need to be able to communicate. The South African clothing manufacturer mentioned in the example above must have a means to let people know that they exist and the products they offer (for example, by purchasing advertising space on Instagram).
- Both parties must be able to exchange something. For example, the manufacturer must meet the physical and legal requirements for production and the consumer must be able to buy the product with their money (or on credit).
- Both parties must be willing to exchange (based on perceived equity in the transaction).

The role of marketing is to create the environments in which these exchanges that satisfy the perceived needs and wants of individuals and organisations can take place. These exchanges are facilitated by marketing through the distribution plan, the pricing model, the development of products and services that people want, the communication process to communicate benefits. It is marketing's role to facilitate the delivery of the total package that will hopefully achieve a satisfactory exchange.

It is important to note too that this exchange is not always immediate. One of the key roles marketers play is building the brand so that the value is understood and can be acted on when the time is right for the purchase to be made.

A marketing concept related to value is that of **utility**. Utility is the state of being useful, profitable or beneficial. In a marketing context, this is any quality or status that provides a product with the capability of satisfying the consumer's wants and needs.[3] Utility is used to define the degree to which a product can satisfy a **functional or emotional need-state**. Within the framework of functional or emotional need-states, there are five types of utility that a consumer marketer must take into consideration when creating a strategy:

- **Form utility:** The process of increasing the attractiveness of a product to a group of consumers by altering its physical state.

- **Place utility:** Making the product available where consumers will buy it. Chocolate manufacturers, for example, secure shelf space for their chocolates at a wide variety of retailers, including supermarkets, cafés, cinemas and garage convenience stores.

- **Time utility:** Making the product available when consumers want to buy it. An example of this is ensuring that convenience products are placed in garage convenience stores, which are often open 24 hours a day.

- **Possession utility:** Once a consumer has purchased a product (for example, a software product that may have restricted usage permission), what rights do they have to use the product?

- **Image utility:** This is the satisfaction acquired from the emotional or psychological meaning attached to products. For example, when buying a gift, some people pay more for a chocolate perceived to be of better quality.

The outcome of a positive exchange is mutual satisfaction (utility) and, hopefully, a loyal consumer. The next subsection briefly discusses some of the terminology used in consumer marketing and provides a framework for terminology.

Marketing to consumers

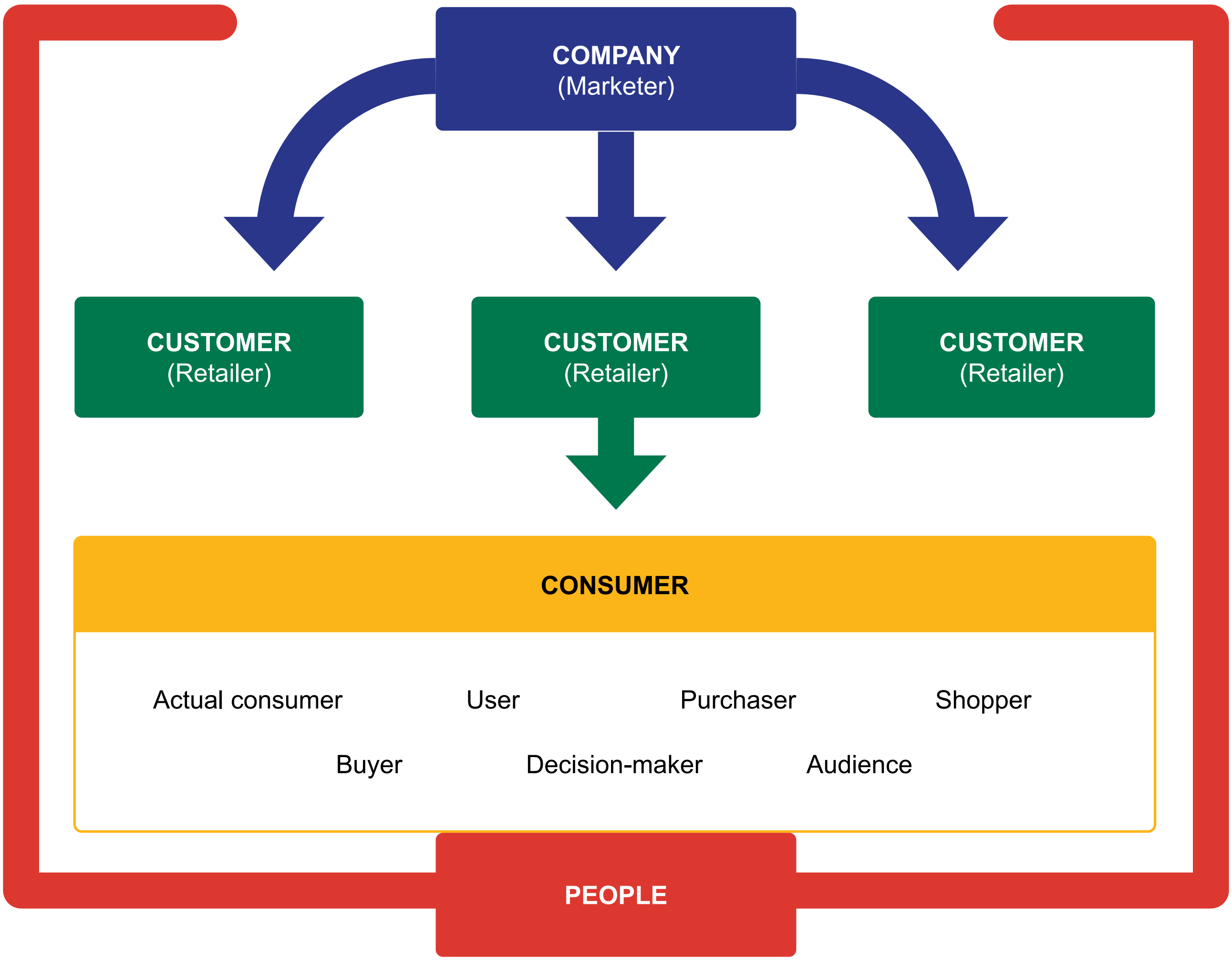
This book is about marketing to consumers and does not include other subsets of marketing that may be included in the above definitions. For example, marketers may sell their products and services to companies (and not end consumers). This form of marketing is called business-to-business (B2B) marketing and it carries a different set of theoretical and practical principles. In discussing consumer marketing, however, there are a number of challenges in the way consumers are described in the marketing literature. The terms 'shopper, 'buyer', 'user', 'customer', 'target market', and 'audience', to name a few, may be used to refer to a consumer. In order to provide some clarity, Table 1.1 provides a framework and definitions to better understand the terminology used in the field to describe consumers. In many cases the same person can occupy multiple roles (shopper, decision maker and end-user). In other cases, the person may only fulfil one role in the ultimate consumption of the product.

Table 1.1: Definitions of terms used to describe consumers

Term found in marketing literature	Definition for the purposes of this book
Actual consumer or end consumer (also user)	The person in a household who consumes a product or service. For example, a child will consume a bowl of breakfast oats that they did not shop for nor pay for. They are, however, the end consumer.
Decision-maker	The person in a household that decides which product or service to buy. For example, a father may decide that, if his child is going to eat oats, then it must be a specific brand. He may not be the shopper or consumer, but he is the decision maker.
User (online usage)	The person who uses a service or platform. For example, a family might start using Ecommerce to shop for non-perishable groceries. While everyone agrees with the benefits, only one member is tasked with the shopping. They would be the user of the Ecommerce platform, but not necessarily the end consumer of the product.
Shopper	The person who makes the retail transaction but is not necessarily the consumer. For example, a child may be sent to a spaza to buy hand cream for a parent. The child was the shopper, but not the end consumer. Sometimes a retailer might refer to shoppers as 'customers' since they may not be the end consumer.
Purchaser/buyer	The person who pays for the product or service but does not always consume it. One partner in a household may purchase an item for the other. They pay for it but don't necessarily consume it themselves. A purchaser might be differentiated from a shopper in that this role is usually assigned to more complex decisions than retail shopping (for example, purchasing a car).
Audience	A term used to describe a consumer of media (for example, a television advertisement). Often the audience and target consumer are the same, but one can also be part of the audience but not be a consumer of the product or service promoted.
Customer	A term sometimes used interchangeably with consumer, but best used to describe an intermediary relationship. For example, Coca-Cola deals with many customers (shopping outlets) in order to supply its product to the end consumer. Most often used in B2B (business-to-business) marketing. Some institutions, like banks, also refer to the end customer as the *client*. In hospitality and retail, sometimes the term *patron* is used.
People	Aside from all of the above terms, it's important to remember that marketers work with people.

In contemporary literature, some of these terms are used interchangeably. This can be confusing. A business may refer to a customer as the company that it supplies products to (for example, a shampoo brand may supply to customers like Pick n Pay, Checkers and hair salons). These customers then sell the shampoo to consumers. A similar article describing this might, however, say that the shampoo brand sells to intermediaries that then sell to customers. Since there is no universal convention, reading marketing literature can be confusing. Figure 1.3 is an attempt to distil the various consumer definitions under the umbrella of 'consumer'. While the terminology landscape is not so clearly defined and there is much overlap in terminology (even when their meanings are clearly different), for the purposes of this book we group the purchaser/buyer (financing the exchange), decision-maker (choosing the brand), audience (consuming messages about the brand), user (using the product/service, but not necessarily paying for it or even choosing it), and shopper (the person who visits the retail outlet) under the umbrella of 'consumer' unless clearly explained (for example, the use of 'audience' in media planning).

Figure 1.3: Understanding some of the complexity and interchangeable terminology that we find in marketing literature



The term 'customer' (while often used interchangeably with 'consumer' or 'shopper') is used to represent an intermediating business that the marketer sells to, for example, a distributor or retailer (see Chapters 6 and 15). In all cases, from the company to the consumer, marketers work with people, so understanding people is crucial to any marketing activity.

In a narrower consumer business context, marketing involves building and managing profitable relationships with consumers. Consumer marketing is, therefore, the process by which companies create value for consumers and build strong consumer relationships in order to capture value from consumers in return. Alternatively phrased, the goal of consumer marketing is to attract new consumers (consumer acquisition) by promising to deliver superior value and to keep and grow a current consumer base (consumer retention) by delivering satisfaction.[4]

Understanding what a consumer needs or wants is fundamental to marketing. The next section unpacks a foundational principle in strategic marketing based on the work of Theodore Levitt (1960).

The marketing concept

As with many other areas of management, marketing has evolved over the last century. In particular, a few authors have shaped how we understand marketing. This section summarises the evolution of modern marketing from a field that was orientated around manufacturing towards a field that is far more consumer focused. While many of these ideas are decades old, businesses still make mistakes based on an unevolved view of the marketing concept.

Marketing myopia

Marketing Myopia is a paper written by Theodore Levitt in 1960.[5] In this paper, he suggested that businesses thrive when their focus is on consumer needs and wants, rather than selling products. The paper addresses the blind spot (myopia) that entire industries experienced as a result of a short-sighted view of their business. In one of his more famous examples, Levitt asked why the railroad industry of old was not more instrumental in the development of the motor car or commercial aircraft. His conclusion was that the railroad industry defined their business according to the product they made (trains and tracks), as opposed to the need that they were fulfilling (mass efficient transport). While they focused on making better and safer railroads, others were looking at how transportation could be revolutionised. In time, the railroad industry declined as the main mass transportation business because they were 'railroad oriented instead of transportation oriented; they were product oriented instead of customer oriented'[6]. The major railroad industry declined not because of the invention of cars, trucks, and aeroplanes, but because of its own shortsightedness. The same principle applied to Hollywood, which almost imploded when television was launched. Television became a bigger commercial engine than 'big screen'' movies ever were. Levitt said:

> *Had Hollywood been customer oriented (providing entertainment) rather than product oriented (making movies), would it have gone through the fiscal purgatory that it did? I doubt it.*

The problem with being too product-orientated is that the focus moves to incremental improvements, and the needs of the consumer are assumed. Another more recent example of marketing myopia is Encyclopaedia Britannica. Britannica was a huge company ($650 million annual revenue in 1990[7]) that prided itself on selling the best reference books. It quickly lost out to companies like Encarta (that were CD-ROM based) and, eventually, Wikipedia (and arguably the internet) which were better at meeting the need for knowledge (in terms of both format and cost).[8]

Some of the consequences of defining your business according to your product, as opposed to needs, are:

- Intense focus on incremental improvements.
- Arrogance regarding smaller companies meeting the same needs in different ways.
- Over-focus on competitors' actions rather than on changing consumer needs.
- Complacency during times of success.

The publication of Levitt's paper marked a new era in marketing, often referred to as 'modern marketing'. Marketing managers were urged to re-evaluate their vision and redefine the businesses they were in. At this point, companies began to develop more consumer-orientated marketing strategies, phasing out product-orientated ones.

A key question faced by many older companies is: to what extent can an industry change its production model? Can a petrol company become a solar or electric company, thus satisfying the consumer need for energy in a different way? Consumers do not buy petrol for its taste, colour or smell; they buy the ability to drive their cars. The future is not about technology for its own sake but seeking a new means to satisfy consumer needs. This process may lead companies to see the need to dispose of profitable assets in order to survive in the long term. Examples of companies that are accused of missing this principle include Kodak (a camera film producer that lost out when photography digitised) and Blockbuster (a DVD rental store that lost out when internet streaming started). An industry is a consumer-satisfying continuum of transactions.

Understanding marketing management orientations

In the light of Levitt's marketing myopia principle, a set of management orientations are observable in various companies. Knowing the reality of a company's management orientation can assist in shaping long term strategic direction. The key concepts associated with understanding management orientation are as follows:

Production concept. This is the notion that consumers will give preference to available and highly affordable goods. It follows that management should emphasise improved production and efficient distribution. Although this concept is a useful one, it can result in marketing myopia, by which companies will focus on the product rather than customer satisfaction.

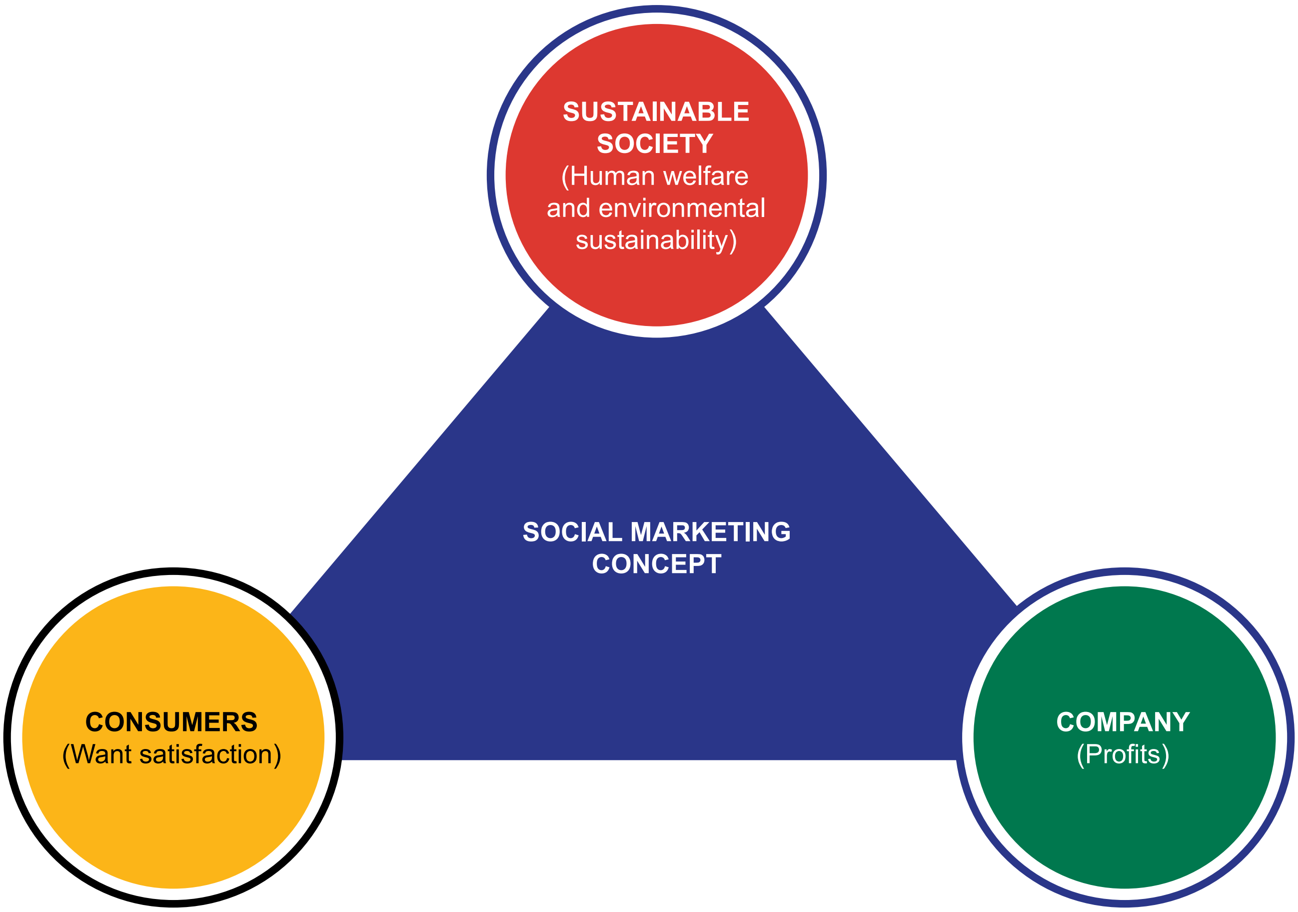
Product concept. This is the notion that customers will give preference to products that offer the highest quality, performance and innovative features. This concept directs the marketing strategy at product improvements and can lead to marketing myopia if the company neglects consumer needs and relationships.

Selling concept. This is the notion that unless a company invests largely in selling and promotion, it will not make sufficient sales. This concept refers mainly to goods that are not necessarily sought-after. This type of good would usually require companies to direct their strategies to consumer recruitment through special promotions (for example, the use of call centres) in order to boost sales. However, this concept focuses on making sales rather than consumer retention, through the creation of long-term and profitable relationships. The main aim of the concept is not to please the consumer, but to make them buy what the company has to offer. This concept makes a poor assumption that the recruited consumers remain loyal to the product, regardless of any disappointments, which is not always true.

Marketing concept. This is a marketing management philosophy that a company's goal achievement relies on the knowledge of the needs and wants of the target market and satisfying the consumer more than do competitors. The marketing concept is consumer-orientated and focuses on matching the right product to the consumer, in contrast to the selling concept, which matches the consumer to their product. This concept seeks to offer the consumer exactly what they are looking for; in return, the company generates profits by creating long-term relationships based on consumer value and satisfaction. The marketing concept also includes research on current consumers to acquire accurate knowledge of their desires, as opposed to giving a simple response to their obvious needs. This enables companies to explore new product and service ideas and to evaluate new suggestions.

Societal marketing concept. This concept holds that a company should not only consider the consumer and company's immediate desires, but the consumer's long-term interests and a sustainable society at large. This concept suggests that a marketing strategy should deliver consumer value in a manner that is sustainable to the consumer, the environment and society as a whole. The societal marketing concept is linked to the idea that building goodwill through ethical practices and doing good will promote loyalty to the company. Figure 1.4 illustrates the relationship between company, consumers and society, in the context of the social marketing concept.

Figure 1.4: The societal marketing concept

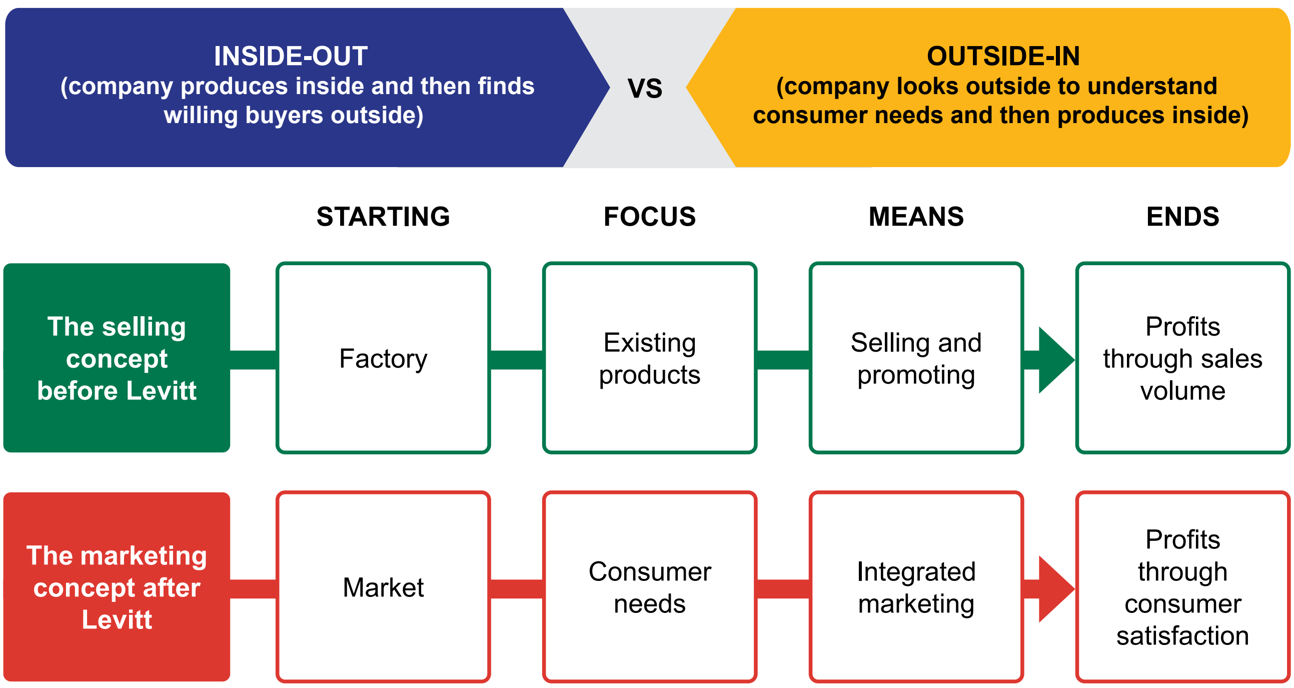


Signs of danger are when the marketing effort is still viewed as a 'necessary consequence' of the product. Companies and industries are in danger of having a product orientation (marketing myopia) instead of a market orientation in the following business environments:

- Where growth is assured by an expanding and affluent population.
- Where there is no competitive substitute for the company or industry's major product.
- Where too much faith is placed in mass production and in the advantages of rapidly declining unit costs as output rises.
- Where there is a preoccupation with a product that lends itself to carefully controlled scientific experimentation, improvement and manufacturing cost reduction.

Marketing myopia is the legacy of mass production, with its narrow view that profit resides essentially in low-cost full production.[9] Selling (the selling concept) focuses on the needs of the seller while marketing focuses on the needs of the buyer. Selling consists of tricks and techniques focusing on the seller's need to convert the product into money (starting on the inside of the company). Marketing is dedicated to the idea of satisfying the needs of the consumer by means of the product or service (starting with the outside consumer). Figure 1.5 provides a comparison between the selling concept and marketing concept models. The selling concept model depicts a process by which the factory creates products in order for marketers to sell (Inside-out). The marketing concept model depicts the market and consumer needs at the start of the process (outside-in). Production is then included in an integrated marketing design that comes after needs are understood. Market (consumer) orientation is the start of the value creation process.

Figure 1.5: Comparing the selling concept to the marketing concept



A natural consequence of marketing myopia is paying too much attention to research and development without enough consumer understanding. While innovation is crucial, there can be an illusion that a superior product will sell itself (especially when this seems to be happening). Today, too many engineers, accountants and scientists fill management positions as they create increasingly complex and sophisticated products and systems to track wealth creation. The marketing function can be reduced to advertising the products developed. When consumer needs are brought to the discussion, it is often without the controllable and concrete variables that satisfy engineers and scientists.

Here are some questions to help your management team avoid marketing myopia:

- What need is being met and are there ways for that need to be met by companies outside the industry?
- When decisions are made, is the consumer represented in the discussion? If not, what pitfalls could result?
- What emerging technologies could make your product obsolete in the long term (for example, compact cameras becoming obsolete as mobile phone companies improve their product)?
- Is innovation internally defined as incremental improvement? If so, how could innovation be expanded to engage with a broader context?
- Have we become so focused on cost cutting and technological development that we are missing some obvious ways to better meet fundamental needs?

The new marketing myopia

During the past half century, marketers have heeded Levitt's (1960) advice to avoid marketing myopia by focusing on consumers. Smith et al. (2010)[10] argued that marketers have learned this lesson too well, resulting in a new form of marketing myopia. The hyper consumer focus in many firms 'causes distortions in strategic vision and can lead to business failure'[11]. As marketers have moved away from the 'old myopia', a new myopia has emerged, by which short-sightedness limits the company to only considering itself and its consumers, ignoring other stakeholders and society. There are three states of this new myopia. First, to only focus on the consumer. Second, to have too narrow a definition of consumers' wants and needs. Finally, ignoring societal changes and the existence of multiple stakeholders, for example, the impact a company may have on climate change. As a result, many companies have become so focused on their own company and consumers' needs that they ignore society as a whole.

Here are two examples of the new marketing myopia that illustrate the complexity and importance of an expanded view of marketing:

The obesity crisis
For generations, food marketers catering to children have focused only on satisfying the short-term appetites of young consumers, with little thought given to their longer-term well-being. These marketers have excluded other stakeholders' concerns about health and nutrition. What if they had led the way by recognising the long-term needs of consumers and collaborating with, rather than resisting, stakeholders who are championing healthy eating?

South Africa has recorded accelerated obesity statistics, with 70% of women and 40% of men obese or overweight. Furthermore, for ages 2-14, one in five boys and one in four girls are either obese or overweight. These statistics have seen obesity-related diseases accounting for significant numbers of deaths in South Africa.[12]

The plight of the auto industry

Likewise, with their narrow reading of consumers' preferences, large automobile manufacturers have largely ignored pleas from scientists, environmentalists, politicians and journalists to attend to the problems posed by the oil industry and to develop the potential of alternative energy sources. They have held fast to their long-held emphasis on large, fuel-guzzling cars, trucks and sport utility vehicles. Lured by large margins on big vehicles, they have catered to only one component of consumer preference and have ignored the need for cleaner, fuel-efficient vehicles.

There are many other examples of the new marketing myopia in marketing practice and marketing research. Attention to stakeholders beyond the consumer often means engaging with groups that managers sometimes view as adversaries. These stakeholders include activists, scientists, politicians and members of the local community. However, such collaboration provides many benefits, which include helping marketers develop foresight regarding the markets of the future and providing the impetus for innovation.

As marketing evolves, marketers that give insufficient attention to all stakeholders are likely to be adversely affected in the long run. Here are five activities that can help marketers correct marketing myopia:

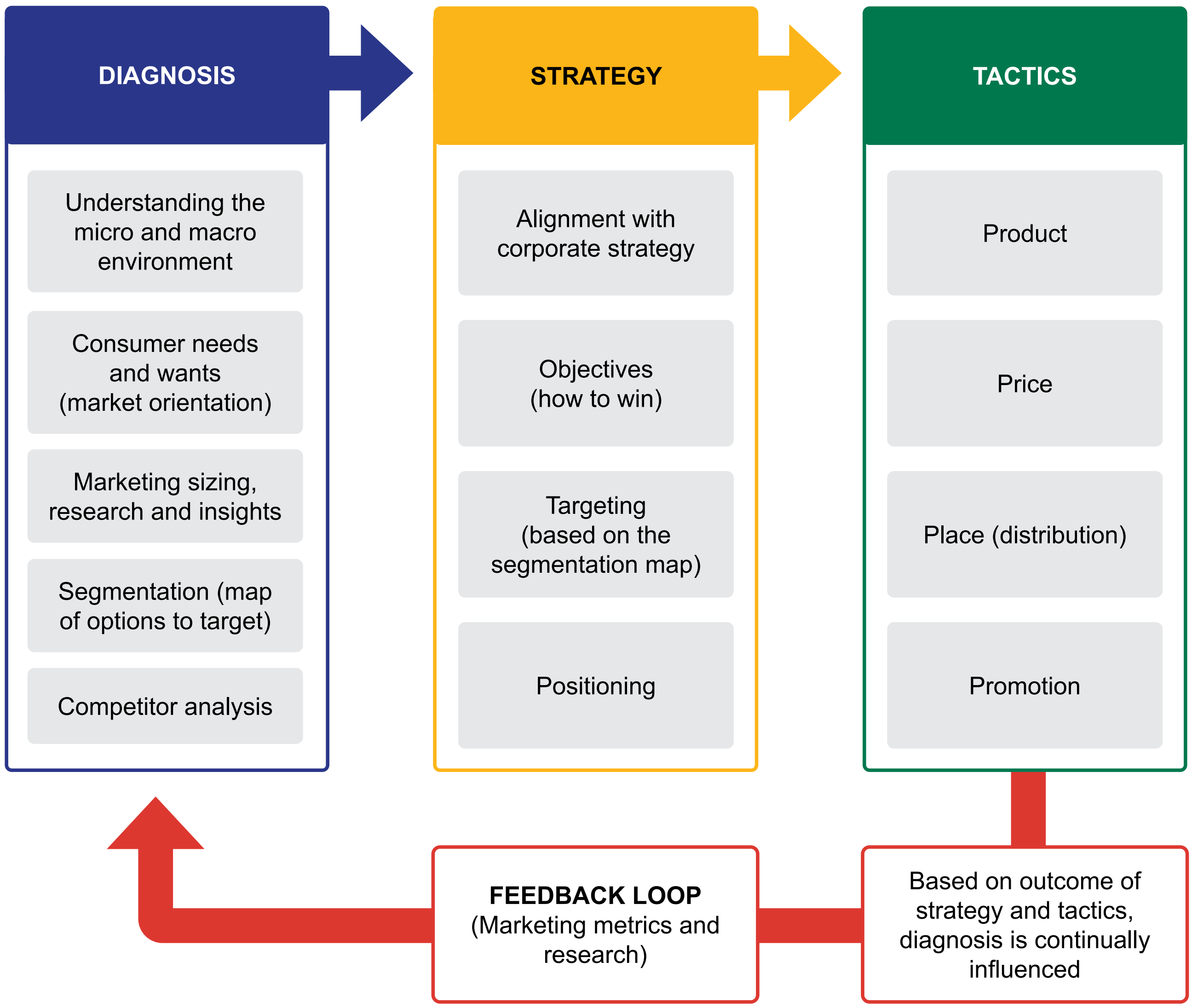
1. Map all the company's stakeholders
2. Determine stakeholder importance
3. Research stakeholder issues and expectations and measure impact
4. Engage with stakeholders
5. Embed a stakeholder orientation

These activities suggest many avenues for research, from researching communication practices to developing metrics for the measurement of stakeholder orientation. Both marketing practitioners and researchers need to better comprehend the company's deeply embedded position in society and shift from a narrow focus on consumers to a stakeholder orientation, if companies are to prosper in the unpredictable business environment of the 21st century.

What is a marketing strategy?

Up until this point, we have discussed marketing as a concept that centres around meeting consumers' needs. A full history of the development of marketing strategy is beyond the scope of this book. Implementing a marketing strategy, however, is a skill that requires a combination of theoretical understanding and tactical application. A key point came in the 1930s when Neil McElroy, an employee of Procter and Gamble (P&G), recommended dividing brands into separate teams (at the time marketers would work with product categories rather than individual brands). A brand is a unique design, sign, symbol, words or a combination of these, employed in creating an image that identifies a product and differentiates it from its competitors.[13] McElroy suggested splitting the P&G soap brands (Camay and Ivory) into two entities that should be built separately. In a famous memo (you can still find a typed copy on the internet), he outlined a process for marketing strategy that is just as valuable today.

Figure 1.6: Summarised overview of marketing strategy[14]



In summary, marketing strategy entails brand teams studying the past to uncover weaknesses and opportunities. They then develop a detailed tactical plan and prepare the necessary resources to carry it out while keeping records to measure whether the plan has been successful. Figure 1.6 provides a summarised approach to marketing strategy.[15] The summary includes phases of diagnosis, strategy and tactics.

All three elements of a strategy must work together. Making errors in just one area can cause problems for a company. Some elements of this perspective on strategy are summarised in this next section, with chapter references for more detail.

Diagnosis component

Before crafting a strategy with true market orientation, marketers must understand consumer needs and wants as well as all the micro factors (Chapter 4) and macro factors (Chapter 8) that impact on the marketing environment. Research is a crucial component in diagnosis (Chapters 17-18). In addition, any understanding of consumer behaviour (Chapter 9) and decision-making (Chapter 10) in the category of interest is important. Before devising a strategy, the market (all possible consumers) must also be segmented into identifiable groups with similar characteristics (Chapter 11). This segmentation provides a 'map' of the market. Finally, a competitor analysis will help marketers understand the other companies (and other forces) that do or will compete with the eventual value proposition (Chapters 4 and 18).

Strategy component

Before designing marketing tactics like advertising or pricing, the strategy component must be created. Unfortunately, some untrained marketers implement tactical decisions without a clear strategy. This may work in the short or medium term, but even successful companies can be outmanoeuvred by competitors with a clearer strategy. The building blocks of strategy include questions like: What brands should the marketer focus on (in large multi-brand companies) in the next year? Which consumers should the marketer target?

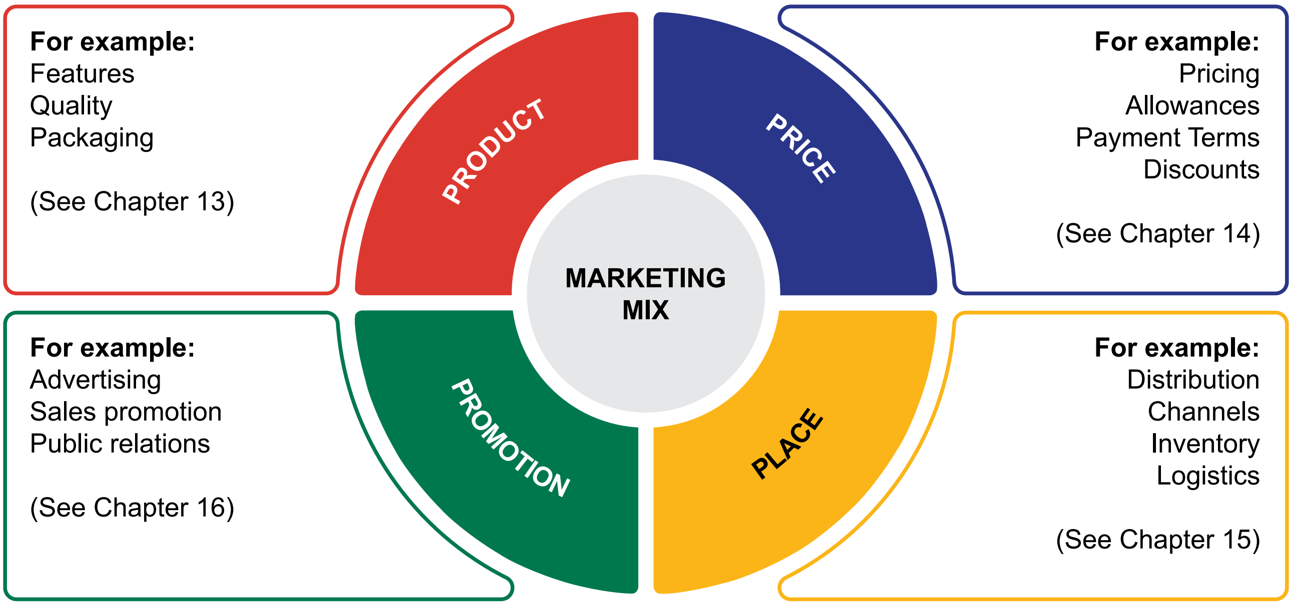
A crucial component of marketing strategy is positioning. In asking how brands should be positioned, the marketers are asking about what space the brand takes up in the mind of consumers relative to various competitors (Chapter 12). Positioning strategy is about key benefits, perceptions and value (intrinsic and extrinsic). Many categories are hard to differentiate on product attributes, price or availability. For this reason, communicating a clear and distinctive brand position is crucial. Finally, what are the actionable and measurable objectives for the brands in question? All of the above need to align with an overall corporate strategy, as discussed in Chapter 2.

Tactics component

Marketing tactics are the elements of marketing with which the end consumer is most familiar. These are essentially the means by which a company implements its strategy. While there are a number of views on what makes up a tactical toolbox, the most common approach is known as the *marketing mix*.

This set of tactical tools is often mistaken for strategy, but is actually at the tactical end of the strategic process discussed above. The marketing mix (Figure 1.7) is also known as the Four Ps (Produce, Price, Place and Promotion), each of which is summarised in the figure.

Figure 1.7: The marketing mix (or Four Ps)



Product

This is a summary term for the actual offering of the company. The product may be a physical product, service or even an idea. Once a strategy has been designed, marketers can work on creating the features, quality levels, packaging and so on that match the strategy. Notice that if a product is produced before appropriate diagnosis and strategy, there is a danger of marketing myopia (i.e., the selling concept is being followed, not the marketing concept). See Chapter 13 for a detailed overview of product tactics.

Price

This is the cost of the transaction to the consumer. Often price is about perception as much as anything else; hence understanding consumer behaviour is key to pricing strategy. Price should also account for other hidden costs, like the cost of public transport to the point of sale. Notice that it may be tempting to view price as a financial function (i.e., determined by cost plus desired profit margin), but seeing price this way will severely limit strategy, as many consumers are more swayed by price than any other marketing mix elements. See Chapter 14 for a detailed overview of pricing tactics.

Place

This is a general term for the distribution and physical availability of the product. A product may meet a specific consumer's need and be well priced, but if it is not available from a local retailer (or through eCommerce) it cannot be sold to that consumer. Place includes decisions about where a product is sold, how it gets there and any elements connected to the point of purchase. See Chapter 15 for a detailed overview of place tactics.

Promotion
Promotion is the communication of the value proposition in the form of advertising, public relations or any other promotional activity. Essentially, a compelling offering needs to be communicated in order for it to get into consumers' minds and to eventually translate into a purchase decision. Promotional activity is often the most visible of marketing tactics and is therefore sometimes seen as marketing. This is an error that must be corrected in order to produce strategy that delivers holistically in the long run. See Chapter 16 for a detailed overview of promotional tactics.

Feedback loop

Finally, measurable results from the implementation of tactics must be used to inform future changes in the strategy. These measurements, known as marketing metrics, are discussed in Chapter 17.

Overall, a robust marketing strategy will have synergy between all of these elements; with diagnosis informing strategy, strategy informing tactics, and measurable outcomes feeding back into diagnosis. Most companies will have an annual strategic planning session. Arguably, any timeline beyond a year is too far in the future to account for rapidly changing conditions. The next section gives some very brief historical insight into dynamics and shifts in the South African consumer landscape.

Consumer marketing in South Africa: Past and present

The comprehensive history of marketing in South Africa is a story that is yet to be written. Nevertheless, we have attempted to provide some insight into the history of marketing in South Africa in order to provide the background to the phenomena that you will encounter in this book. This section is divided into two sub-sections: Apartheid (1948–1994) and Democracy (1994–present).

Marketing in South Africa during Apartheid (1948–1994)

In 1948, the National Party came to power in South Africa and began to formalise existing racial oppression in a way never experienced before. Apartheid laws were implemented that suppressed the majority of South Africans on the basis of race and provided extreme privilege to the white minority (who were mostly Afrikaans and English speaking). Legislation such as the Group Areas Act and the Bantu Education Act restricted movement of everyone except white citizens and downgraded the education of everyone except the white minority. The full consequence and incredible nature of Apartheid is better understood by knowing that South Africa is 80% Black and only 9% white (See Chapter 5). This oppression continued until the first democratic election in 1994, when, for the first time, all South Africans of voting age could choose their government. The African National Congress won the election and Nelson Mandela became the first Black, democratically elected president of the country.

While this book is not a comprehensive history book, some historical facts are important to appreciate when understanding past and present consumer marketing in South Africa. A few of these are summarised below:

Majority of Black consumers excluded from the formal economy

The segregated and oppressive Apartheid system gave the white minority access to a rapidly industrialising economy that grew in sophistication. The financial services sector, for example, was highly regulated and mirrored many top global trends. Formal retail (big chain stores) were restricted to outside of the impoverished township areas, leading to a growing informal sector (see chapters 5 and 6). The majority of the population was excluded from many aspects of the economy, like bank loans and upmarket shopping malls. Most brands targeted at the middle class and above would, therefore, only cater to white consumer needs and tastes. Despite the skewed allocation of resources by marketers, many of today's strongest brands across all segments did emerge during South Africa's Apartheid years. Some of these legacy brands (pre-1994) were Pep Stores, Tastic Rice, Sunlight, Lifebuoy, Black Label, Omo, Oxo, Iwisa, Bovril, Joko and Nugget.

Migrant labour

While the majority of South Africans were excluded from the benefits of South Africa's economic engine, many people were used as cheap labour. Since segregation meant that homes were often far removed from places of work (often mines or urban areas), many nuclear families were broken by the fact that income-earners often needed to travel great distances and live in other provinces in order to be closer to work. The impact on the size and makeup of the South African household was catastrophic, with deep socio-economic and personal consequences.

Townships

Because the middle class was almost exclusively white, and because legislation, such as the Group Areas Act, meant Black South Africans were confined to living in townships, suburban South Africa was exclusively white. Townships (and informal settlements), were therefore created as residential areas for the Black population. White-owned businesses were not permitted to operate in these areas and basic groceries were supplied to wholesalers on the fringes of townships. Small informal retailers (spaza shops) would purchase from wholesalers and sell goods in the townships.

Sanctions

In the latter years of Apartheid, there was growing pressure from the international community for South Africa to abandon Apartheid for democracy. Part of this pressure came from trade sanctions whereby some countries and multinational organisations refused to trade with South Africa due to Apartheid. A number of global brands that South Africans are familiar with today were not available during Apartheid. This phenomenon allowed some brands that remained after the transition to democracy to entrench themselves, while brands returning after democracy were initially at a disadvantage.

These phenomena, and many like them, have shaped the consumer landscape to make South Africa unique among developing nations.

What has shifted in South Africa post-Apartheid (1994–present)?

Following the first democratic election in 1994, South Africa witnessed significant shifts in the demographic landscape, specifically in the majority Black population. Some of these shifts are briefly explained below.

The impact of Apartheid lingers
While Apartheid ended in 1994, the impact continues to be felt. South Africa remains a deeply divided country with huge inequality and structural racism. From a marketing perspective, the same retail outlet may serve one extremely poor consumer and at the same time a very wealthy consumer. In many cases, they may be purchasing the same brands. The impact of migrant labour on the nuclear family is still ripping apart families in South Africa, many years after democracy. Only 33,8% of households have children with both biological father and mother living in the home and there are tens of thousands of child-headed households.[16] The remnants of Apartheid spacial planning still place the Black poor (those that were disadvantaged most by Apartheid) far away from commercial hubs, while the privileged few (many of whom benefitted directly from Apartheid) continue to benefit from the country's economic core (See Chapter 5). The impact of Apartheid on marketing could be a whole book on its own, and must always be considered in the South African context.

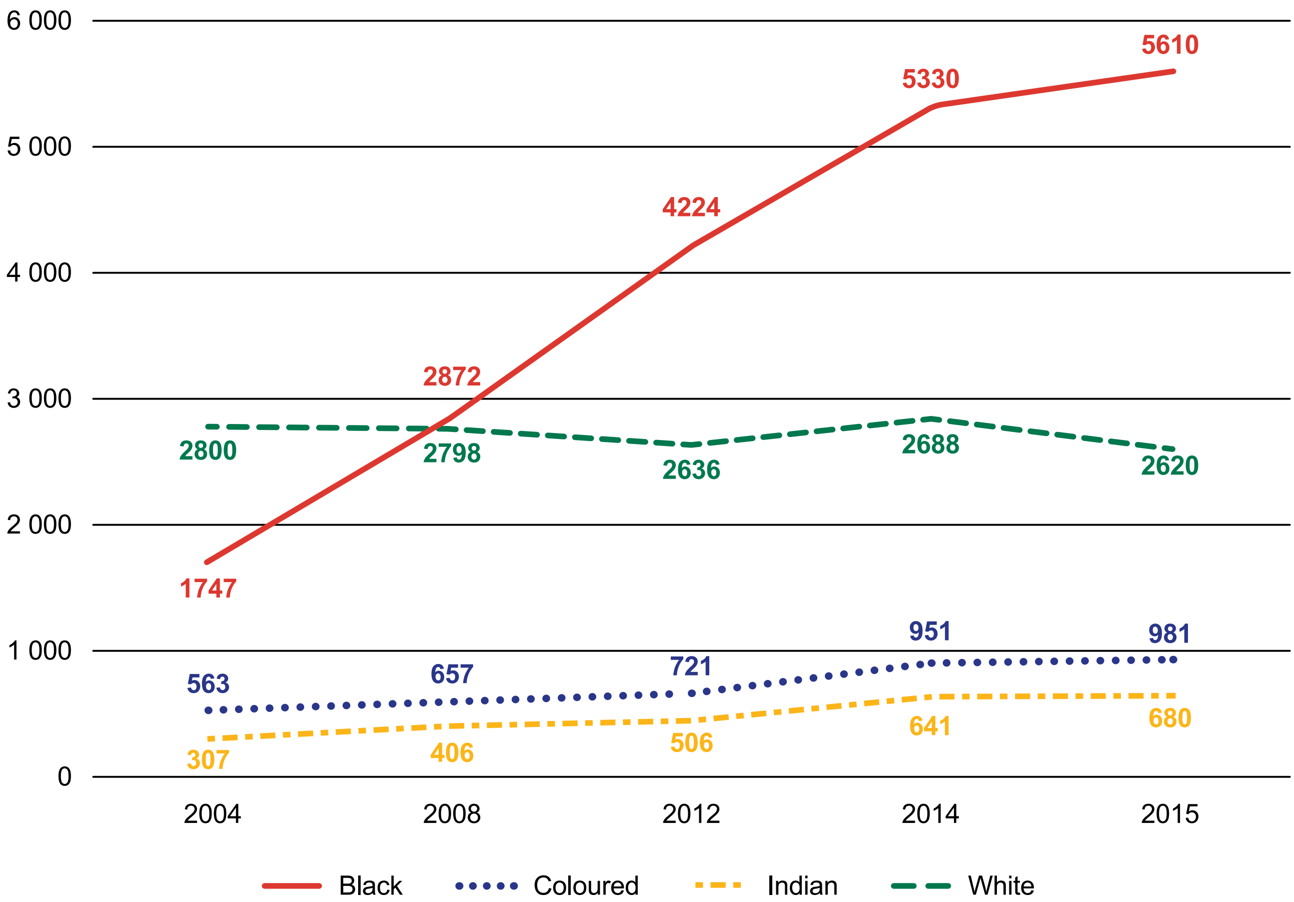
Significant inequality
South Africa is recognised as one of the world's most unequal countries.[17] The wealthy and middle class form less than 10% of the population. The poor, middle and wealthy segments display unique characteristics, but often coexist in similar contexts, with the lives of the rich and poor separated by only a few hundred metres. This consumer heterogeneity makes marketing to South African consumers a complex task.

A growing Black middle class
After 1994, millions of Black households gained middle class status and joined a consumer class with significantly more disposable income. Seeing South Africa's Black majority start to have fair compensation, better access to jobs and more financial inclusion was crucial to marketers, as it indicated a major change in the consumer landscape, with fundamental changes to the nature of large scale middle-class consumption. After a long period of there being a predominantly white middle class, the Black middle class began to significantly outgrow the white middle class, as can be seen in Figure 1.8.

Social grants
By 2022, the South African government is set to spend annually over R200 billion on social grants for the millions of households that did not migrate out of poverty after 1994.[18] These grants are given to poor households (primarily in child support, but also pension and disability grants). In addition, many poor households also receive free housing, subsidised electricity and free water. The injection of a stable household cash income (social grants) and the subsidy of certain living expenses means that South Africa's low-income majority has more income stability than most other low-income segments around the continent.

Myopia still exists in South Africa, as many companies do not comprehend the needs and desires of their market. Many still tend to make assumptions about their potential customers and do not realise that each segment can be further segmented, helping to differentiate needs of one segment from another.

Figure 1.8: Growth of the Black middle class in South Africa (2004–2015)[19]



In the next section, developments in the global marketing landscape are discussed. While these developments will differ in significance between sectors, understanding these trends is crucial to developing a strategy in most areas of marketing.

The new global marketing landscape

Marketing is a continuously changing discipline. The core principles or marketing, however, do not change. Changes mainly occur in the shifting set of tools, environments and consumer trends that marketers apply the marketing concept. Some of these are detailed in this next section.

Digitisation of channels

Growth in digital technology has had a significant impact on how companies deliver superior value to their consumers. Digital technology has revolutionised the way marketers produce, communicate, price, research, service and distribute their products and services. Of note is the shift to an internet enabled omnichannel experience. Omnichannel is an approach that integrates different marketing channels. Instead of multiple channels working independently, omnichannel seeks to integrate the consumer experience. For example, a consumer may search for a product on social media and then receive a promotion specific to their local retail outlet.

Globalisation

The world has become more integrated, with marketers making global connections with their consumers and marketing partners. In this age, companies face global competition within their domestic boundaries. As a result, some companies take both a local and global outlook on their market, industry, competitors and opportunities. Not all businesses, however, are able to compete in the global market. Companies need to evaluate the risks and rewards of being a global player in order to make informed decisions. Companies also need to evaluate whether they can operate within the context of challenges presented by different languages, laws and cultures.

Ethics and social responsibility

As social and environmental awareness prevails, companies are under pressure to take responsibility for their actions. Companies are urged to strike a balance between making profit and doing what is best for society in the long run. With the increasing number of cultural and socio-political movements, making decisions to do good can be complicated for commercial entities that have profit as a goal. Those that embrace the importance of social responsibility view it as an opportunity to do good, and many are rewarded by the consumer.

The rise of data-driven approaches

The increase in information and communication technology use has led to an upward spiral of more data-driven marketing tactics. Marketers use various methods to collect data on their consumers in an attempt to understand wants and needs. Many companies employ data professionals to analyse consumers in an attempt to deliver superior value. An example of this might be what is called 'social listening', by which social media data is collected on what consumers say about a brand and its competitors.

Data can also be sourced from purchase transactions and can be used by marketers to make assumptions about purchases and the reasons behind the purchase of particular products. Marketers increasingly try to use focused or targeted marketing in order to ensure that relevant content is marketed to the right consumer at the right time, in an attempt to persuade them to buy their product instead of just irritating them. Most companies today use cookies on their websites to track their consumers' online movement and to gather data on who they are, what they are interested in and where they are from. This gives companies an idea of which markets to target with which products. Companies also collect data through online surveys and sales records in particular places. They do this to gauge trends in consumer behaviour and to predict future trends. This enables them to identify new opportunities and threats. Although strong data-driven marketing is reliable, consumers change over time (for example, lifestyle shifts, changes in financial status). If a company emphasises data-driven marketing, it needs to be up to date with data and have a deep understanding of consumer behaviour. There is still much room for growth in this area with the growth of big data (the use of huge data sets) in order to drive customisation and the fact that data driven personalisation is far from perfect (for example, promoting products that have already been purchased).

More innovation

Influenced greatly by the digital age, modern consumers are comfortable with change and well informed about trends. Marketers are therefore required to be more innovative in order to position themselves in these consumers' minds. Innovation drives competitiveness, increases sales and boosts product development. Companies are required to respond to consumers in a timely fashion and take advantage of the technological and social changes brought about by technological developments. Online and social marketing comprise significant innovations.

More strategic (in some places)

A consumer-orientated marketing plan is, in general, a strategic marketing plan. Today, most companies engage in more strategic marketing, whereby they identify the needs and wants of their target consumers to achieve consumer satisfaction. In return, they capture consumer value to increase business operations and sales. Companies are increasingly able to access consumer data (feedback loop) and identify their competitive advantages (and those of competitors).

Conclusion

This chapter introduced the main principles and definitions of consumer marketing. By exploring a combination of history and core theory, the chapter surveys the content that is explored in more detail throughout this book. Each of the main concepts introduced in this chapter has been aligned to a chapter later in the book.

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The Role of Marketing in Delivering Corporate Strategy

CHAPTER 2

Martin Neethling

Introduction

In this chapter, the role of marketing in delivering corporate strategy is explored, particularly in terms of high-level decision-making processes which take place in the boardroom. The chapter will begin with an overview of corporate strategy and then discuss the role that marketing plays in delivering on a company's broad strategic plans.

As discussed in Chapter 1, a marketing strategy is about delivering consumer value and creating exchange with consumers. Both of these aspects are key to the ability to drive corporate strategy, as a strong value proposition that is accepted by consumers is at the heart of any successful organisation. This chapter will also present generic corporate strategies as models to show the alignment that is required between marketing strategy and corporate strategy in order for a company to succeed.

What is corporate strategy?

Companies operating in a competitive economy are faced with an ever-changing set of external and internal variables with which they need to contend. In order to focus resources, which are by definition limited, business leaders develop strategy to guide and direct managers in the application of these resources. Strategy can be defined as:

> *the direction and scope of an organisation over the long term, ideally, which matches its resources to its changing environment, and in particular its markets, customers and clients so as to meet stakeholder expectations.*[1]

Formulating a competitive corporate strategy requires a company to consider both the consumer and the competitive context in which the company operates, and then to honestly assess its own ability to respond to these. In this next section, we will unpack some of the key concepts implicit in the definition of strategy.

Direction

The first key aspect of strategy is that of 'direction'. Strategy is not, in the first instance, a destination or a vague set of hoped-for outcomes. Crucially, strategy is neither the vision of an organisation, nor an articulation of its purpose (sometimes referred to as 'mission'). While the articulation of vision and purpose is a necessary pre-condition for effective strategy formulation, they are insufficient without further components. Strategy expert Richard Rumeld, in his book *Good Strategy Bad Strategy*, clarifies the confusion around ambition as a substitute for strategy. He states:

> *Despite the roar of voices wanting to equate strategy with Ambition, Leadership, Vision, Planning … strategy is none of these. The core of strategy work is always the same: discovering the critical factors in a situation and designing a way of coordinating and focusing actions to deal with those factors.*[2]

Scope

The next aspect of strategy to be considered is that of 'scope'. In the context of strategy, *scope* refers to the breadth of activity the company intends to undertake or participate in. Scope may refer to products and services a company contemplates offering over a specific period. It may also indicate where and to which target markets these products and services could be offered. Scope provides the parameters of where the business aims to compete, taking into account the probable competitive response.

Time frame

The strategy formulation process must always take a long-term view and this sets it apart from short-term planning or budgeting processes, which are usually aligned to financial reporting periods. Strategy, by its very nature, is multi-term and, depending on the industry, usually defines the marketing approach for three- to five-year periods, or possibly longer, depending on product and market development timelines.

Matching resources to a changing environment

The process of 'matching resources' roots the strategy development process within the company's current reality. Strategy development is based on a company's conception of what it is, what it has or what it can practically aspire to. As such, there are many examples of when a rigorous approach to strategy development has resulted in a decision to pivot away from a legacy or core competency, or to vacate a legacy market or product category; but in every case the starting point is what is real, now, today. Strategy development is never wishful thinking. Jim Collins, in his famous book *Good to Great*, states that companies must 'have the discipline to confront the most brutal facts of your current reality, whatever they might be'.[3] Evaluating internal resources within the context of a changing market environment requires honesty and courage.

Defining markets, customers and clients

Strategy expression should define or explain the market within which the company wishes to compete, and the group of customers or consumers or clients it intends to target within it. The concepts of segmentation and targeting explained in Chapter 1 are fundamental to strategy formulation.

Meeting stakeholder expectations

As discussed in Chapter 1, meeting stakeholder expectations requires business leaders to engage with their stakeholder environments beyond investors or shareholders, and to understand the landscape in which they operate. This engagement includes the company's role as a corporate citizen, the relationship it may have with legislators or governments, its link with suppliers and customers, the role and place of staff within the company, and so on. Strategy cannot be developed in isolation, or, worse still, with a single narrow metric as its guiding principle.

Almost all strategy development starts with a desire or belief that the company can and must grow, but this departure point requires a nuanced understanding of a broader set of variables. Some examples of corporate strategy may include:

- **Diversify the business:** Move away from a legacy or stronghold market into an adjacent market that has developed or opened up and in which the company believes it can secure a competitive position.
- **Grow into other countries/regions:** Move away from an existing market into other geographies where the company believes its existing product mix can compete.
- **Focus:** Increase focus on existing product or service categories in existing markets by explicitly choosing a few areas at the expense of others.
- **Merge:** Work with other players in a product market to unlock an efficiency or advantage that the combined entity would have.
- **Blended approach:** Combining some of these variables (or others) into an effective approach.

A well-articulated strategy will provide the company with direction, internally regulate that activity, and honestly consider and then match the company's internal capabilities with an ever-changing marketplace. It will do so with consideration for the broader stakeholder group relevant to that company's operation.

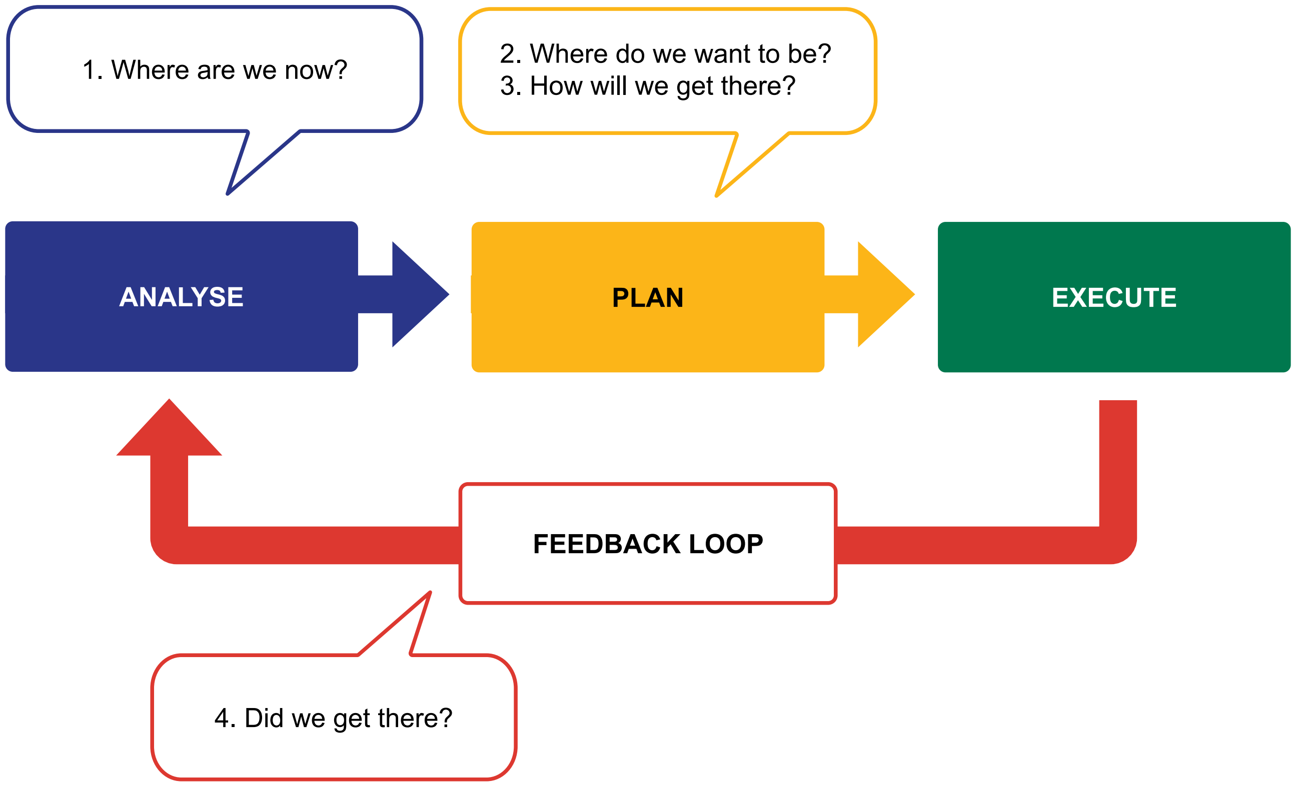
Steps in strategy development

Most conventional strategy development models follow a linear but iterative approach to the crucial strategy development process and attempt to answer four deceptively simple questions: Where are we now? Where do we want to be? How are we going to get there? Did we get there?

Some marketing texts may refer to this process as a 'strategic marketing funnel'.[4] It requires that the strategist starts the process with as broad and externally oriented a view as possible, eliminating options in each progressive step.

This process is represented diagrammatically in Figure 2.1 and elaborated upon in the section below.

Figure 2.1: The corporate strategy process



Analyse

The strategy development process is always rooted in and begins with an analysis of the current reality in which the company finds itself. The 'Where are we now?' question requires an honest and frank review of the size, shape and changes occurring within the markets in which the company competes. This step involves a thorough situation analysis that considers the macro environment, the competitive environment and the internal environment.[5]

Plan

The 'plan' step demands that companies make trade-off decisions. It cannot do everything. This addresses the 'Where do we want to be?' question. Far too many strategy development processes flounder here as companies articulate an idealised future state in which everything is possible. Best prices, highest market shares, market leader in everything, most loved brands, never-ending growth... it is all possible. What is required is for companies to make strategic choices. At its essence, this is strategy. Willie Pietersen, in his book *Strategic Learning*[6], argues that all companies, regardless of industry, life stage or context, are faced with two realities: limited resources and inevitable competition. He states: 'These stark realities force organisations to make choices on how best to use their scarce resources for the achievement of competitive advantage. The purpose of choice making is to create an intense focus on the few things that matter most to an organisation's success.'[7]

Execute

The 'execute' step in this conventional model implements the 'How are we going to get there?' question, and deals with the allocation and deployment of scarce resources, the organisational design best suited to harnessing these resources, and how they are going to be controlled and managed. Strategic implementation also embraces plans and budgets, as well as pre-determined critical factors for success.

Feedback loop

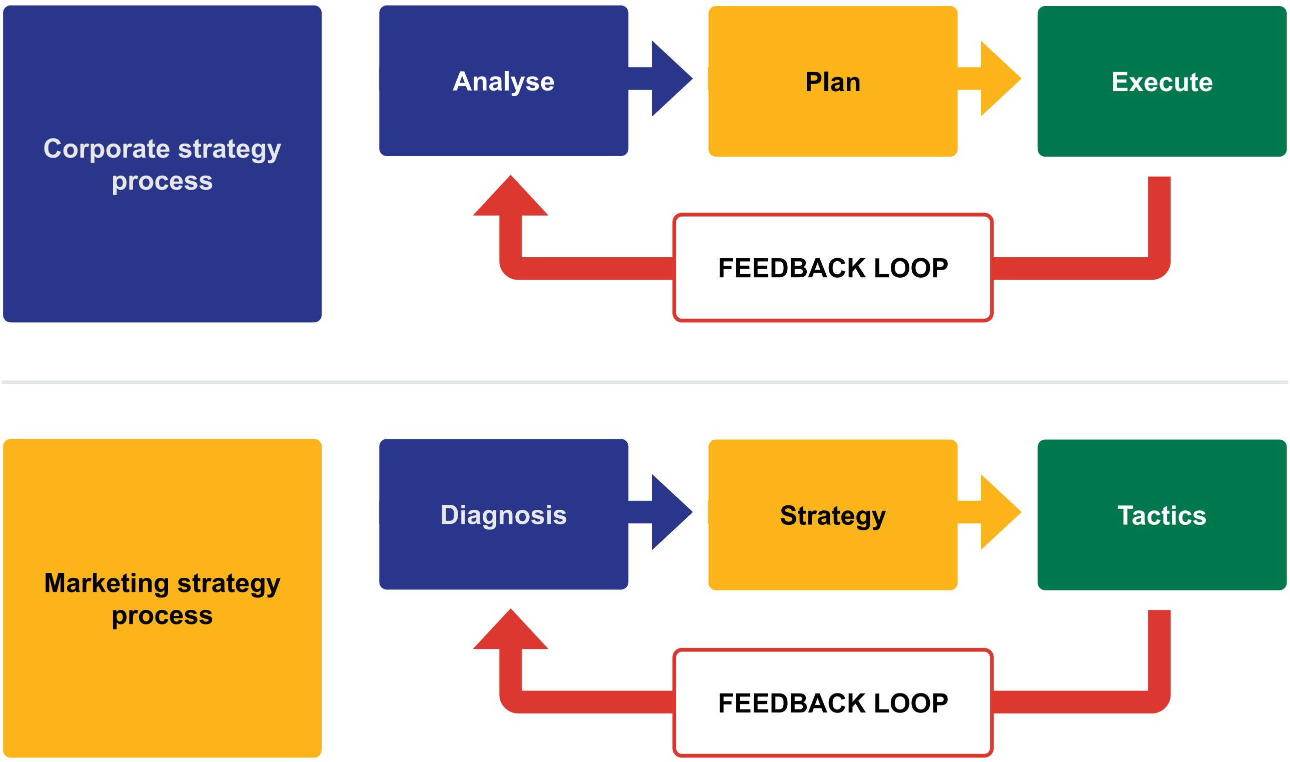
The feedback loop answers the 'Did we get there?' question. This is fundamental to the process, as strategy development is by its very nature measurable and iterative. As companies act, so too do competitors. These changes therefore need to be monitored, measured and fed into the next strategy planning cycle. In reality, almost every strategy cycle starts with feedback from previous experiences, including the results from the past financial cycle, competitors' performance, the reality of the economy and the impact on household consumption expenditure, the success (or lack) of innovation attempts, and so on. This implies that detail relating to how the success of the plan's execution will be measured and what exactly those metrics will be should be clearly articulated before the execution of the plan starts.

This deceptively simply strategy framework challenges companies to face up to and 'confront the most brutal facts of your current reality,'[8] and then to make tough choices. 'Strategic choice involves generating a well-justified set of interrelated strategic alternatives and choosing from them the ones that will contribute to the achievement of the overall corporate goals and strategic objectives.'[9]

Corporate strategy and strategic marketing

Strategic marketing is the aspect of marketing concerned with decision-making and resource allocation, and hence is inexorably intertwined with corporate strategy development. It shares many of the terms and concepts used when talking about strategy, and many of the world's most respected marketing academics and practitioners straddle the fields of corporate strategy and strategic marketing. Notice in Figure 2.2 how corporate strategy and marketing strategy essentially follow the same process (see Chapter 1 for a deeper explanation of marketing strategy).

Figure 2.2: Similarities between corporate and marketing strategy processes

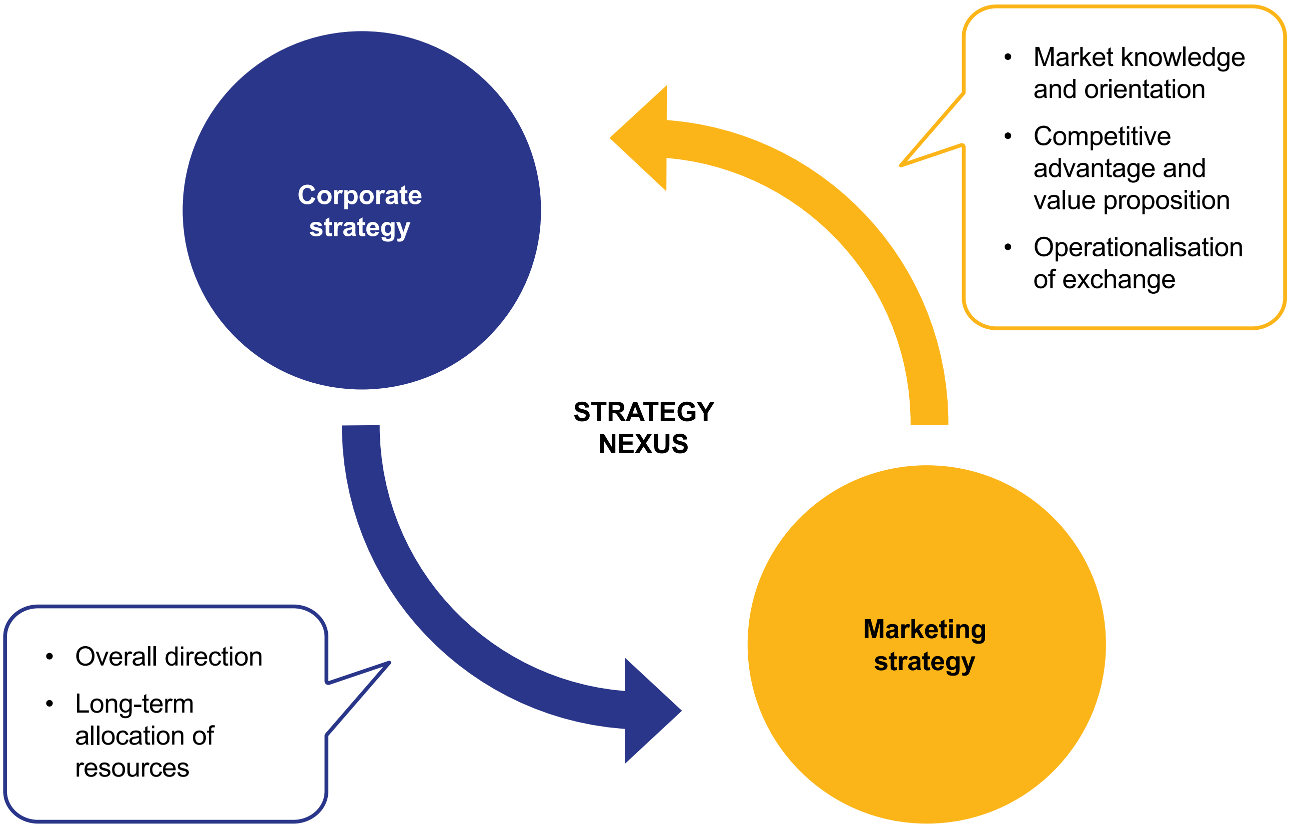


It is important to consider how marketing strategy fits into corporate strategy. From this perspective, marketing strategy is not only a tool that is used to execute corporate strategy, but is intrinsically linked to corporate strategy, for two important reasons:

- Corporate strategy can ultimately be distilled down to driving the company's position and competitiveness in the market, and marketing is about the same thing. As a board member of Unilever (one of the world's largest consumer good companies) once said, 'The reality is that Unilever is and always has been a marketing company.'[10]
- The strategies and tactics of marketing (product design and innovation, pricing strategy, distribution networks, competitor analysis, communication, among others) are crucial tools embedded in corporate strategy execution.

So how do corporate strategy and marketing strategy fit together? Understanding the nexus (connection) linking these two strategy processes requires consideration of what information a corporate strategy process requires (see Figure 2.1). How, for example, does a company expect to grow market share or expand geographically without appreciating the concept of customer value and the intricacies of consumer behaviour (see chapters 1, 9 and 10)? Without consumers willing to part with their money, there are no 'satisfying exchange relationships'[11], and there is therefore no company. Meeting 'the changing needs of the customer or the consumer on whom the organisation depends'[12], is fundamental to corporate strategy (and not just marketing). Consumer insight (usually under the marketing umbrella) helps the company to understand the complexity of operationalising exchange (and delivering value), without which the company would not be able to deliver on corporate strategy. The nexus of corporate and marketing strategy is depicted in Figure 2.3.

Figure 2.3: The corporate and marketing strategy nexus



The 'Analyse' step in the corporate strategy development paradigm (presented in Figure 2.1) is not possible without input related to market knowledge, customer or consumer understanding and what it is that buyers seek. When business leaders spend time on strategy development and consider the macro and competitive environments (see Chapters 4 and 8) in which they are operating, they depend on the insights provided by marketers to adequately answer the 'Where are we now?' question.

Figure 2.4: Illustration of a corporate strategy translated into marketing strategy

Translate corporate strategy into marketing strategy

Corporate strategy (3 years)

Objectives
Increase gross operating profit by 30%

Strategy
By becoming the market leading luxury hair salon chain in Johannesburg with 20% market share.

Feedback and new insight

Translate marketing strategy into actionable marketing tactics

Marketing strategy (1 year)

Objectives
Achieve 7% growth in share of Johannesburg luxury hair salon market for each of the next 3 years

Strategy
- By improving salon facilities in key areas
- By providing the best standards of service and using the best products
- Reposition the salon chain as the premium luxury hair salon in Johannesburg.
- Creating a major promotional campaign to build awareness and brand equity

Feedback

Marketing tactics (1 year)

- **Product:** Upgrade 5 salons and headhunt popular hair stylists from competing salons (offer a pay premium). Stop using low quality products and negotiate better deals from premium suppliers (source elsewhere if needed). Retrain staff for better customer experience.
- **Price:** Do not drop prices when promoting (no eroding of premium brand equity). Offer a free add-on service if a client brings a new friend (once off).
- **Place:** Open 1 new flagship salon in Sandton (walking distance from Sandton City and surrounding offices). Implement online booking system (downloadable app).
- **Promotion:** Major campaign on Facebook (older demographic who can afford). Strategic billboard campaign and use of Pearl Thusi – a well known South African celebrity – as brand ambassador. Limited (but targeted) television commercials.

When the 'Plan' (or 'choosing') step in corporate strategy development is undertaken, companies need to evaluate the merits of various alternatives in terms of the extent to which each of the options enhances or diminishes customer or consumer value. Choices that enhance value will drive sales, increase market share, expand margins and result in greater profits. Conversely, when poor choices that do not account for consumer needs and wants are taken, the opposite can happen. 'Marketing enables a management orientation that helps companies answer the most fundamental question: What consumer value do we deliver, with which capabilities?'[13]

Marketing puts the consumer into the corporate strategy. The marketer is thus inexorably involved in the corporate strategy development process, and it is marketing strategy that shapes these aspects of corporate strategy development. Without marketing strategy, corporate strategy is devoid of market and consumer context, weakening its likelihood of competitive success. Figure 2.4 illustrates corporate strategy being translating into marketing strategy and then into marketing tactics. The illustration is for a luxury hair salon brand that wants to increase its gross operating profit by 30% by becoming the market leading luxury chain of hair salons in Johannesburg with a 20% market share (corporate strategy). This three-year objective is distilled into a one-year marketing strategy and set of tactics (to be reassessed every year for three years).

Figure 2.5: Marketing strategy as part of a larger corporate strategy portfolio

Once the company moves from corporate strategy development to execution, marketing strategy occupies a place alongside other functional strategies that together assist in furthering the execution of overall corporate strategy. Figure 2.5 illustrates how the operational strategy (manufacturing, supply chain or procurement), human resource strategy and financial strategy may work in a parallel coordinated way (although there is always a danger of creating silos).

Marketing operates at different levels and in different ways depending on the size, complexity and the leadership style of an organisation. At the one extreme, some companies understand 'marketing' as the communications and advertising wing of the organisation (see the problems with this definition discussed in Chapter 1). The other extreme is the view that marketing tactics are the only tool a company has and they can be implemented without a unifying strategy (corporate or marketing).

The best businesses have a culture that navigates the nexus of corporate and marketing strategy in a way that drives the goals of the organisation and meets the needs of stakeholders and the long-term good of society. Note though that even when companies exhibit a limited understanding of marketing, that does not mean that marketing does not exist there. If a company is growing and successful in competing for consumers, then marketing is being practiced. For example, if the company is owned and run by its entrepreneurial founder, who doesn't immediately see themselves as a 'marketer', in all probability it is this leader within that company that is driving the marketing agenda.

Aligning marketing strategy with generic corporate strategy

Chapter 1 defined the fundamentals of marketing strategy and the first part of this chapter defined corporate strategy. These two should work in a coordinated way with the nexus (described above) seeing all the organisation's goals achieved. In this section, we will illustrate the alignment between corporate and marketing strategy by looking at two generic models of corporate strategy. In each case, the corporate strategy will be presented and then the role of marketing strategy in formulating this strategy or achieving the outcomes, will be illustrated.

Porter's Generic Strategies

Michael Porter argued that a company's strength is ultimately derived from one of two areas: cost advantage or differentiation (product uniqueness).[14] By applying these strengths in either a broad or narrow scope, three generic strategies result: cost leadership, differentiation and focus. These strategies are applied at the business unit level and are sources of competitive advantage. They are called generic strategies because they are not company (or industry) dependent. They are also macro strategies in as much as the final corporate strategy for each company will still be developed within that company's specific product, market and competitive context.

Figure 2.6 provides an overview of Porter's generic strategies, followed by further detail.

Figure 2.6: Summary overview of Porter's Generic Strategies

Target scope	Source of competition advantage	
	Low cost	**Product uniqueness**
Broad (Industry wide)	Cost leadership strategy	Differentiation strategy
Narrow (Market segment)	Focus strategy (Low cost)	Focus strategy (Differentiation)

Cost leadership

Cost leadership is based on the idea that lower costs and lower prices will increase the chances of gaining market share (given a reasonable quality). A low-cost strategy works best when price competition is common, the product is a commodity or is widely available, and when consumers have low switching costs and look for best price. Cost leadership can be sought through characteristics such as size (economies of scale), low-cost production, greater labour efficiency and effectiveness and reduction in waste. While there are disadvantages to a low-cost strategy, many companies have become successful using it as a foundation. Walmart is an example of a global company that has utilised this strategy to good effect. In South Africa, Pepkor (which owns Pep) is an example.

Marketing strategy and tactics: A low-cost strategy is associated with a low-cost positioning and brand strategy (Chapter 12). The entire marketing mix is crucial in a cost leadership strategy. Price tactics are obviously crucial, but so are product design and distribution.

Differentiation

Differentiation strategy is about creating unique offerings that differentiate the company (or its brands) from competitors. Differentiation can be advantageous if brands can command a price premium or create prestige or exclusivity. Sources of differentiation include unique features, rapid innovation, new systems and processes, better customer service, enhanced convenience, and wider choice. Examples include supermarket chain SPAR and many fashion retailers like Zara (global) or Truworths (local).

Marketing strategy and tactics: At its heart, positioning (Chapters 1 and 12) is crucial to effective differentiation. Differentiation is also found in product design (Chapter 13) and distribution (Chapter 15). A differentiation strategy is only truly effective with a clear segmentation and targeting strategy. The effectiveness of a differentiation strategy can grow out of value chain activities, when the source of differentiation (on which consumers place value) is found and sustained.

Focus

Focus is a corporate strategy based on selecting a small market that is underserved or poorly served by large players. This can be done through cost or differentiation. While focus is a powerful force in business, there are challenges with limiting a company's market options. One disadvantage is that a company might be 'out focused' by a competitor, or a large competitor might set its sights on this particular niche market.

The preferences of a niche market might also change to match those of broad market. An example of a focus but low-cost strategy would be a small home repair business that only operates in one area, with a small team. An example of a focus but differentiated strategy would be a local fashion boutique, or small local bakery selling its signature products to a small but loyal base.

Marketing strategy and tactics: As with differentiation, focus is applied to corporate strategy through positioning and to each element of the marketing mix. In fact, in such a saturated consumer market (in almost every product category), focus is only achievable with strong brand positioning. In the case of small owner-run businesses, this often manifests itself in a clear authentic personal promise.

Porter stated that:

> *[A] firm must make a conscious choice about the competitive advantage it seeks to develop… if it fails to choose one of these strategies, it risks being 'stuck in the middle', trying to be all things to all people and ending up with no competitive strategy at all.*[15]

In order to avoid being 'stuck in the middle', a company needs to align its corporate strategy to its marketing strategy.

Ansoff Matrix

The Ansoff Matrix, also called the Product/Market Expansion Grid, is a corporate strategy tool used by companies to analyse and plan their growth trajectory. The matrix shows four strategies that can be used to enable a company grow as well as analyse the risk associated with each strategy. The matrix was developed by applied mathematician and business manager H Igor Ansoff and was published in the Harvard Business Review in 1957. Its enduring appeal is in its clear way of considering growth, specifically as opposed to, for example, differentiation.

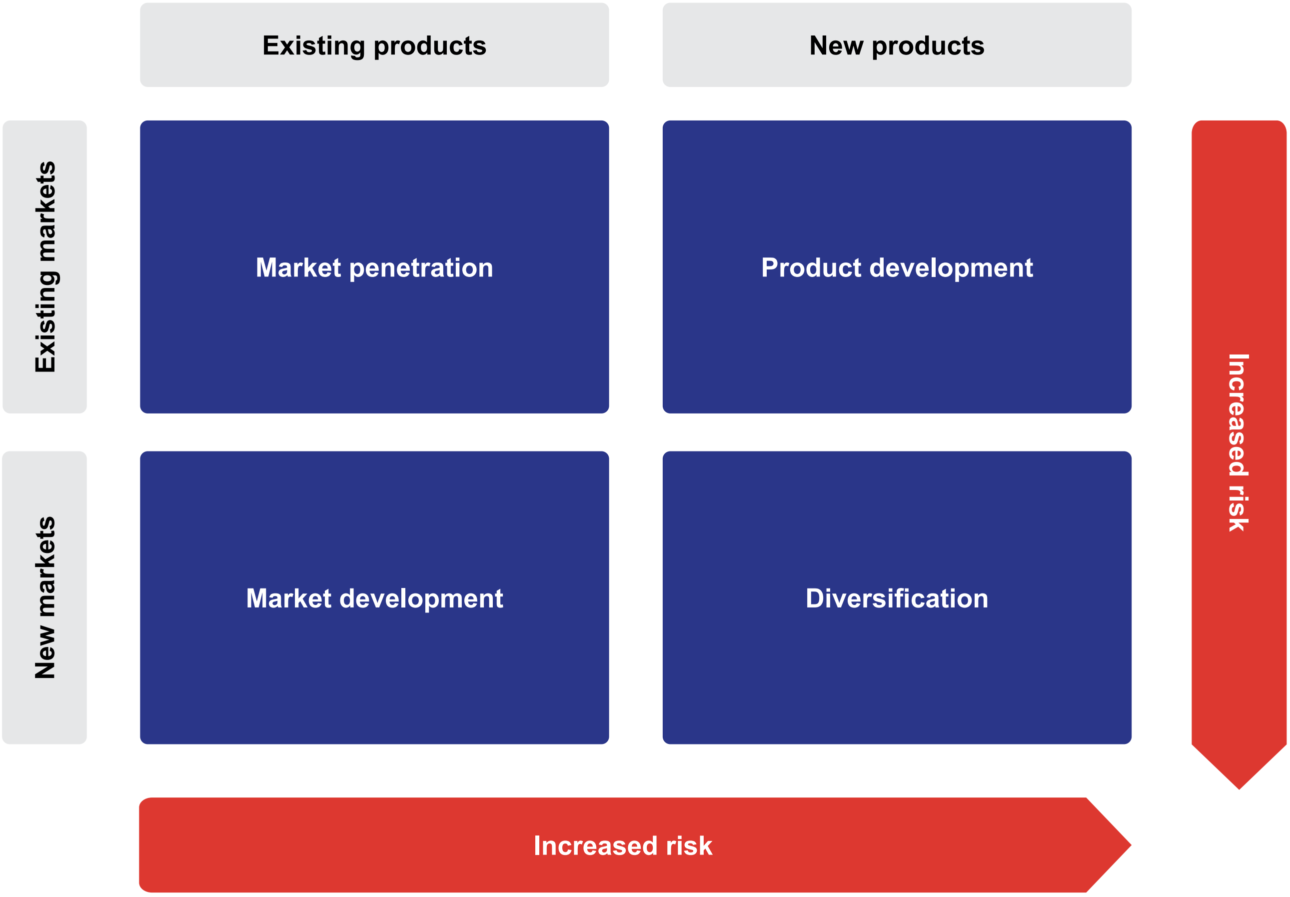
The four generic strategies of the Ansoff Matrix are:

- Market penetration: Focuses on increasing sales of existing products (or services) to an existing market.
- Product development: Focuses on introducing new products to an existing market.
- Market development: Focuses on entering a new market using existing products.
- Diversification: Focuses on entering a new market with the introduction of new products.

Figure 2.7 shows the four strategies in the matrix as well as the risk differential between them. Each of Ansoff's corporate growth strategies is briefly described below and, as with Porter's generic forces described in the previous subsection, the marketing strategy implications of each quadrant is discussed.

Market penetration
In a market penetration strategy, the company markets its existing range of products in an existing market. In other words, a company is aiming to increase its market share with a market penetration strategy. While market penetration is a corporate strategy, the implementation is achieved through marketing strategy.

Figure 2.7: The four strategies in the Ansoff Matrix



Marketing strategy and tactics: The market penetration strategy can be implemented in a number of ways:

- Decreasing prices to attract existing or new consumers.
- Increasing promotion and distribution efforts.
- Acquiring a competitor in the same marketplace.
- Deepening availability within an existing channel.

For example, telecommunication companies may all cater for the same market and could employ a market penetration strategy by increasing their promotion and distribution efforts.

Product development

The product development strategy is used when companies have a strong understanding of their current market and are able to provide innovative solutions to meet the needs of the existing market. In a product development strategy, the company develops a new product to cater for the existing market. These new products usually leverage an existing capability (brand, product or supply) and extend into an adjacent market or category. An example might be the expansion of a cereal brand into individual bars (moving from the breakfast category to the snack category).

Marketing strategy and tactics: The move to product development typically involves extensive research and development and expansion of the product range to cater for the existing market (see Chapter 13). The strategy is also implemented by acquiring a competitor's product and merging resources to create a new product that better meets the need of the existing market or even through strategic partnerships with other companies to gain access to each partner's distribution channels or brand. For example, automotive companies are creating electric cars to meet the changing needs of their existing market as current market consumers in the automobile market are becoming more environmentally conscious (see Chapter 3).

Market development

In a market development strategy, the company enters a new market with its existing products. In this context, expanding into new markets may mean expanding into new geographies or consumer segments, and regions. The market development strategy is most successful if:

- The company owns proprietary technology that it can leverage into new markets.
- Consumers in the new market are profitable (ie, they possess disposable income).
- Consumer behaviour in the new markets does not deviate too far from the existing markets.

Marketing strategy and tactics: The market development strategy can be implemented through marketing in a number of ways, including targeting different customer segments (see Chapter 11), entering into a new domestic market (expanding regionally) or entering into a foreign market (expanding internationally). Sporting companies such as Nike and Adidas recently entered the Chinese market as part of a market development (expansion) strategy. The two companies are offering the same products to a new market.

Diversification

In a diversification strategy, the company enters a new market with a new product. Although such a strategy is extremely risky, as market and product development is required, the risk can be mitigated through related diversification. Invariably, however, this involves a pivot into a product market that the company is not very knowledgeable about at that point in time. There are two types of diversification a company can employ:

- Related diversification: This is used when there are potential synergies to be realised between the existing business and the new product or market. For example, a leather shoe producer that starts a line of leather wallets or accessories is pursuing a related diversification strategy.
- Unrelated diversification: This is used when there are no potential synergies to be realised between the existing business and the new product or market. For example, a leather shoe producer that starts manufacturing phones is pursuing an unrelated diversification strategy.

Marketing strategy and tactics: Diversification comes from product (Chapter 13) and place (Chapter 15) decisions, as well as from positioning and branding (Chapter 12).

As illustrated by these generic corporate strategies, marketing strategy is inseparable from corporate strategy if both are to be done well.

Even companies that do not call their strategy 'marketing strategy' are often essentially using the same ideas under a different name. The nexus of both types of strategy is an interlinked fusion of decisions and priorities, which leads to the conclusion below.

Conclusion: Strategy is about choosing

In this chapter, we considered the role of corporate strategy and utilised a conventional model to understand the four main steps in the process. We then discussed the nexus between corporate and marketing strategy in driving organisations towards their goals. This showed both how marketing strategy provides inputs into corporate strategy and how it sits alongside other organisational strategies in executing it. We then considered two macro corporate strategies that are useful to a company in either understanding where its source of competitive advantage is rooted or where and how it might chart a future growth path. In each case, we surveyed the marketing strategy implications of each.

A central recurring theme of this chapter is the idea that strategy is about choices. This also provides a warning regarding a common trap that leaders fall into. It is natural to want to do it all, and often companies feel that, by forgoing an opportunity in one place in order to gain the requisite focus in another, they are simply forgoing growth, but this is not the case. Business leaders are naturally reluctant to limit activity or to forfeit opportunities in the faint hope that these may just provide the next big growth opportunity for the company. Consequently, companies often fail to choose and attempt to do too much.

Michael Porter famously stated that competitive strategy is about 'deliberately choosing a different set of activities to deliver a unique mix of value'.[16] This chapter has contextualised this statement within a strategic marketing framework.

The next chapter introduces the marketing micro-environment and concludes the first part of this book by unpacking elements of the marketer's immediate world, such as competitors, suppliers, intermediaries, consumers and other stakeholders.

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Sustainability in Consumer Marketing

CHAPTER

3

Titi Kabi

Introduction

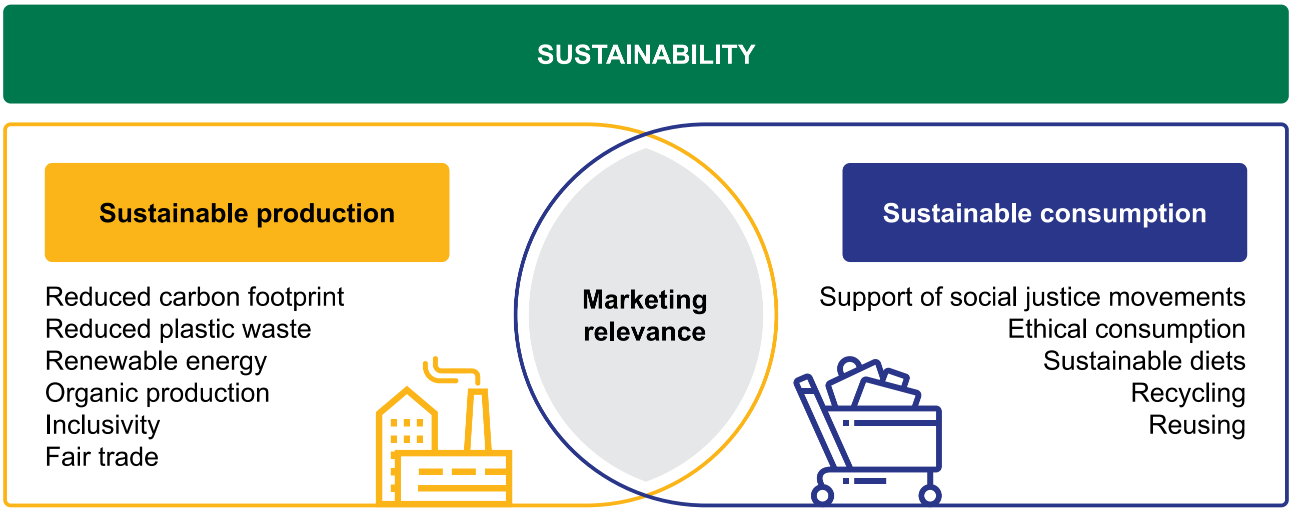
In this chapter we will discuss some of the concepts related to sustainability in marketing. While the topic of sustainability is broad and crosses the whole business value chain, this chapter will focus on some of the key issues around sustainable consumption while providing broad context to sustainability in general. The chapter will define the core concepts of sustainability marketing as well as define the triple bottom line of planet, people and profit that need to co-exist in order to pursue the sustainability agenda. The chapter focuses on topics that consumer marketers need to be aware of in their strategic thinking. These concepts include understanding advantages and challenges in sustainability marketing as well as the dangers of falsely promoting a sustainable image. The next section will provide core definitions as well as a model to help understand the role of marketing in sustainability.

Sustainability and sustainable consumption

Sustainability is broadly defined as 'meeting the needs of the present without compromising the ability of future generations to meet their needs[1]. For many years, consumers have accepted the behaviour of companies without questioning the negative impact that a company's actions may have on the environment and society. The primary objective of the company was to serve the needs of shareholders; everything else was secondary. In recent years, amplified by social media, consumers have started to speak up and voice their opinions about companies' unsustainable practices. This has forced many companies to look inward and review their strategies and practices.

The concept of sustainability is very broad and encompasses a variety of production and consumption related themes, with consumer marketing placed at a crucial nexus in driving the agenda of sustainability as depicted in Figure 3.1.

Figure 3.1: Marketing relevance at the nexus of sustainable production and sustainable consumption



Sustainable consumption is 'the consumption of goods and services that have minimal impact upon the environment, are socially equitable and economically viable whilst meeting the basic needs of humans, worldwide.'[2] While both the company's approach and consumer attitudes towards sustainability are important, both are evolving in their own way. For example, in some industries much of the sustainability agenda has been driven by stakeholders other than the consumer. Government legislation and sugar tax, for instance, have forced many soft drink companies in South Africa to produce more sugar-free product options. On the other hand, a growing wave of sustainable consumerism has advocated a reduction in meat products in diets and forced more plant-based alternatives in many South African restaurants and consumer packaged goods.

Three key pillars broadly make up sustainable consumption: **1) ethically conscious consumption**, **2) socially conscious consumption** and **3) environmentally conscious consumption**. Ethically conscious consumption is practiced through consumers' consideration of ethical principles (aimed at preventing harm) when making purchasing decisions. An example of this may include the purchasing of goods that benefit small scale farmers and local artisans[3]. Socially conscious consumption, also referred to as socially responsible consumption, is practiced through consumers using their purchasing power to express social concerns and bring about social change[4]. This may include consumers being intentional about the consumption of goods or services from brands that take a stand for social justice concerns like racial equity. Lastly, environmentally conscious consumption, sometimes referred to as green consumerism, is practiced through the purchasing of products or use of services that minimise harm to the natural environment. Environmentally conscious consumer behaviour includes actions such a recycling, taking public transport to minimise carbon emission and paying more for environmentally friendly products[5].

With all three pillars of sustainable consumption on the rise, businesses are experiencing increased pressure from their consumers, competitors and legislators to incorporate sustainable business practices into their strategies. The expectation is for businesses to focus on more than just the short-term profit goals, but also on longer-term sustainable growth initiatives which include factors such as reducing their carbon footprint, ensuring improved livelihoods for their consumers and fostering a diverse, inclusive and equitable workplace.

Figure 3.2: Sustainable Consumption

SUSTAINABLE CONSUMPTION

Ethically conscious consumption	Socially conscious consumption	Environmentally conscious consumption
Practiced through consumers' consideration of ethical principles when making purchasing decisions in order to prevent harm. E.g. purchasing goods that benefit small scale farmers and local artisans.	Practiced through consumers using their purchasing power to express social concerns and bring about social change. E.g. being intentional about the consumption of goods or services from brands that take a stand for social justice concerns such as racial equity.	Practiced through the purchasing of products or use of services that minimises the harm to the natural environment (including the treatment of animals, climate change and promoting biodiversity).

The triple bottom line

Sustainability has been a goal for many businesses over the past few decades and can be defined in many ways. One popular framework to assess the sustainability of a business is the triple bottom line (TBL). The TBL is a framework that recommends for companies to focus on social and environmental concerns just as much as they do on profits. The goal is to develop strategies that preserve the long-term viability of the people, planet and profit (the three entities that make up the *triple* in TBL), essentially ensuring that a business operates in a manner that is environmentally friendly, socially responsible and economically viable. The term *TBL* was coined by John Elkington in 1994[6] and has since grown in popularity across the business world.

As seen in Figure 3.3, these three aspects of the TBL are interrelated and depend on each other to achieve sustainability

A 2009 analysis conducted by A.T Kearney[7] on over 90 sustainability-focused organisations in various industries revealed that businesses with practices that are aimed to operate in a way that protects the environment and improve the well-being of society whilst adding value to shareholders outperformed their industry peers. Many other studies have been conducted to illustrate the financial benefit of sustainable business practices. The following sections will dive deeper into each of the three pillars of the TBL.

Figure 3.3: The TBL framework

Social sustainability (People)

Social sustainability is about understanding the impact that businesses have on people and the society. In his book, *Cannibals with Forks*[8], Elkington defined the social line of the TBL as a business operating in a manner that benefits human capital, the labour force and the community. The idea is that the business balances profit-making activities with activities that add value to society and communities.

Social sustainability takes on different meanings within different markets, industries and companies. For example, the Woolworths MySchool Programme focuses on raising funds for schools through a card system that allows Woolworths shoppers to donate funds to a school of their choice every time they shop at partner stores. Small local wine businesses, such as Palesa Wines, have a strong focus on Fair Trade. Fair Trade is the trading between companies in developed markets and producers in developing markets. The aim is to promote equality and sustainability in the farming and agricultural sectors of developing markets by paying small farmers fair prices to ensure that farm workers earn a stable income that can improve their livelihoods. All products that are supported by the Fairtrade International organisation have a Fair Trade sticker on them to communicate certification to consumers. Other ways in which businesses can get involved in social sustainability include philanthropy, volunteering and advocating for human rights.

Social sustainability is generally more effective when a business participates voluntarily, rather than doing so because it is required through regulation. Businesses that get involved in activities that benefit society tend to perform better financially and encounter other benefits, such as improved reputation, increased employee morale and improved relationships with shareholders.

Environmental sustainability (Planet)

Environmental sustainability is the second pillar of the TBL framework. Elkington defines environmental sustainability as the commitment to practices that do not compromise natural resources for future generations[9]. Natural resources are becoming increasingly scarce as consumers continue to consume goods at an exponential rate, a phenomenon known as *overconsumption*. A continued pattern of overconsumption leads to environmental degradation and the eventual loss of a resource base. It is important, now more than ever, to encourage businesses to adopt practices that preserve the environment and natural resources.

Popular business practices that contribute to environmental sustainability include reduction of carbon emissions, efficient use of energy resources, production of goods made with recyclable packaging[10]. Similar to social sustainability, environmental sustainability ideally has a positive impact on brand reputation and preserves the long-term viability of the business.

As environmental sustainability continues to become a topic of discussion, more and more companies will be encouraged and incentivised to participate in environmental sustainability practices and comply with the necessary standards. In South Africa, the Department of Environment, Forestry & Fisheries has set up a Green Fund to support organisations with the transition to a low carbon, resource efficient and climate resilient development path delivering high impact economic, environmental and social benefits.[11]

Economic sustainability (Profit)

The economic line of the TBL framework refers to the business's financial performance and the impact that its practices have on the economic system[12]. A business that is economically sustainable is one that is financially profitable and connects its performance to the long-term growth of the economy and contributes to supporting it. In other words, it focuses on the economic value provided by the business to its shareholders and the surrounding system in a way that makes it prosper and promotes its capability to support future generations.

When discussing economic sustainability, it is also important to discuss shared value. Shared value is a business concept that was first introduced in 2011 by Michael E. Porter and Mark R. Kramer and is defined as 'creating economic value in a way that also creates value for society by addressing its needs and challenges.'[13] In their report, Porter and Kramer discuss how businesses need to link their successes to the progress of the society in which they operate. It should not be at the peripheral of business strategies, but at the centre; the primary purpose of businesses should be redefined as creating shared value, not just profit.

Sustainable Development Goals

A more recent framework in the world of sustainability is the Sustainable Development Goals (SDGs). The SDGs are a collection of 17 goals designed to address the global challenges we face, including, but not limited to, hunger, gender equality, poverty, climate change, justice and peace. The SDGs were set in 2015 by the United Nations General Assembly and are intended to be achieved by 2030.[14]

With increased focus on sustainable business practices and the introduction of the SDGs, many organisations, globally and locally, have aligned their business ambitions to the SDGs. A year after the public announcement of the SDGs, Woolworths amended what they call their Good Business Journey Strategy to reflect the SDGs[15]. This strategy highlights Woolworths' commitment to ethical sourcing, sustainable farming, social development, transformation etc. It illustrates how their strategy aligns to the global SDGs and showcases the importance for partnership on their journey. Each year after that, Woolworths have reviewed this strategy and made necessary amends, still in line with the SDGs.

Sustainability marketing

The concept of sustainability has continued to gain attention in the global marketing sphere over the past few decades. We have seen large and small businesses get involved in sustainability marketing practices as many organisations start to realise that the sustainability component of a marketing strategy is no longer an option, but a requirement to remain competitive and impactful.

Sustainability marketing has been studied through different perspectives over the years. Today, a common definition that is used to define sustainability marketing is the process of promoting a product or service to meet the needs of present consumers without compromising the ability of future generations to fulfil their own needs. The intention is to build sustainable relationships with consumers, society and the natural environment whilst delivering financial business targets. Sustainability marketing is strongly focused on the long term.[16]

The evolving relationship between marketing and sustainability

Marketing has continuously evolved over the years, from the simple trade era of pre-industrial artisans through to the modern digital, social media and relationship-based marketing as we know it today. Towards the end of the 20th century, 'mainstream' marketing was being criticised on numerous fronts for its failure to address its socio-environmental impact. Many people believe that marketing's primary objective to drive sales is a key driver for overconsumption; and challenge the system with the notion that marketing is causing more harm than it is doing good. It is these challenges that led marketers to reconsider the traditional ways of marketing and start integrating elements of sustainability in their strategies.

Belz and Peattie list some of the previous marketing concepts that have been developed over the years: social & societal marketing, ecological marketing and green marketing[17]. Building on these earlier approaches, sustainability marketing represents a logical progression, and further integrates them all into one broad marketing approach.

The concept of social marketing was first introduced in 1971 by Kotler and Zaltman[18]. The initiatives within social marketing are intended to influence the behaviour of communities to improve their well-being. Fisk then introduced the concept of ecological marketing in 1974 as an acknowledgement of an impending ecological crisis and the willingness and ability of marketers to assume responsibility for avoiding this crisis[19]. During this period, some organisations proactively embraced environmental values as central to their business strategies. Green marketing differs from ecological marketing in that it is based more on legislative factors and regulations. According to Dam and Apeldoorn, 'Green marketing focuses on market pull and legislative push towards improved, environmentally friendly corporate performance.'[20] Sustainability marketing was the next logical step forward. As mentioned in the previous section, sustainability marketing focuses on achieving the TBL which delivers environmentally and socially sustainable solutions whilst continuing to create economic value for key stakeholders.

Sustainability marketing in practice

Although sustainability in marketing is an evolving concept, there are numerous organisations and brands that have pioneered the practice. Two of these examples are The Body Shop and Unilever as briefly illustrated below.

The Body Shop
Dame Anita Roddick believed in businesses being a revolutionary force for good and founded British beauty and personal care company, The Body Shop, in 1976.[21] One of Roddick's famous quotes is: 'The business of business should not be about money. It should be about responsibility. It should be about public good, not private greed.'[22]

Today, The Body Shop has over 3 000 stores in 66 countries, including South Africa. The Body Shop aims to be the world's most ethical and sustainable global business. It intends to achieve this goal through initiatives such as its 'Enrich Not Exploit' commitment. This initiative is a commitment from The Body Shop to enrich its products, people and the planet. This means Fair Trade with its farmers and suppliers, helping communities thrive through its Community Trade Programme, producing products that are environmentally friendly, and being firmly against animal testing.

In 1989, The Body Shop started its first campaign to end animal testing in cosmetics – the first global cosmetics company to do so – and has continued this journey since. In 2013, The Body Shop started its relationship with Cruelty Free International, an animal protection and advocacy group. Together, the two organisations have gathered over eight million signatures for a petition to the United Nations to ban animal testing in cosmetics globally.

Unilever/Lifebuoy
Unilever has been a global leader in the production of consumer goods since 1929. The company began when the Dutch company Margarine Unie and British soap maker Lever Brothers merged their operations and has since developed into a global giant.[23] Throughout its growth, the company has maintained excellence and as stated on the corporate website, has a simple but clear purpose – to make sustainable living commonplace. Since its inception, Unilever has taken a decisive stance in support of sustainability and recognised the need to give back to both the environment and the society, whilst still delivering economic value for its shareholders.

Unilever has over 400 brands in over 190 countries and on any given day over 2.5 billion people use Unilever products. Unilever has a strong presence in South Africa, with over 40 brands in the country. Lifebuoy, a germ protection soap brand that is well known in the country, is on a social mission to improve the health and hygiene of school children in South Africa. According to research, every year over half a million children under the age of five die due to infections such as diarrhoea globally[24]. However, a simple act like washing hands with soap could protect one in three children who get sick with diarrhoea. Despite its life-saving potential, many people and children still fail to adopt a healthy hand-washing routine, mainly due to lack of education around the topic.

This research is what inspired the launch of the Lifebuoy 'Help a Child Reach 5' campaign in South Africa in 2012. The programme intends to educate children and their families about the importance of handwashing with soap as this is one of the most effective and low-cost ways to prevent health infections[25]. Lifebuoy is also a part of the Unilever Brightfuture Schools Programme, in partnership with the South African Department of Basic Education (DBE) and the United Nations Children's Fund (UNICEF). This is a 21-day schools programme that aims to educate children on hygiene and sanitation habits[26]. The public-private partnerships between Unilever, UNICEF and the DBE cannot be ignored as a key success factor for this initiative. Forming such partnerships assists in achieving a common target and ensures the necessary investment into the issues at hand.

Besides the positive impact that Lifebuoy made on the lives of millions of South Africans, implementing a social mission into the marketing strategy also resulted in improved financial performance for the brand. Unilever reported that on average, their purpose-led brands such as Lifebuoy grew 69% faster than the rest of the business in 2018 and 49% faster in 2017[27]. Lifebouy was also one of the first brands to use their platform as a means to educate on the benefits of hand washing during the COVID-19 pandemic in 2020.

False sustainability: Greenwashing and woke-washing

The word *sustainability* has fast become one of the most overused buzzwords in the business world. While it is important that companies are starting to speak up about the importance of sustainability, misuse and misunderstanding of the concept has caused some businesses to lose sight of what sustainability truly means and why it is important for businesses to adopt sustainable business practices in the first place. Many organisations have jumped onto the sustainability bandwagon, but not all of them have necessarily implemented sustainable models and practices that genuinely do good for the environment and society.

The environmental movement gained momentum in the mid-1960s and prompted many businesses to create a new environmentally sustainable image through their marketing efforts. As more and more companies realised the profitability benefits of 'going green', the risk of greenwashing increased. 'Greenwashing' is the use of marketing to make misleading or unsubstantiated claims about the environmental benefits of a business's products or services[28]. The general intent behind greenwashing is for a business to create a benefit by appearing to be environmentally responsible, even though it is not.

With climate change and environmental sustainability being a hot topic in business today, greenwashing is something that we see many brands partake in. In 2015, the German car manufacturer Volkswagen was implicated in one of the decade's biggest greenwashing scandals, 'Dieselgate' also known as 'Diesel Dupe'[29]. For many years, Volkswagen promoted 'clean diesel' in their marketing campaigns, an alternative to hybrid and electric vehicles. However, in September 2015, the Environmental Protection Agency in America found that Volkswagen had installed software devices in many of their vehicles.

These software devices enabled the rigging of vehicle carbon dioxide emission test results and reflected levels that were regulatory compliant, even though the vehicles emitted nitrogen oxide pollutants up to 40 times above the US federal limit. Volkswagen deployed this programming software in roughly 11 million vehicles globally.

Repercussions for Volkswagen after this scandal have been severe. The brand lost the trust of many of its consumers. Financial implications included legal fines, the cost to recall affected vehicles, and the stock price plummeted after the scandal. The scandal also had a negative halo effect on other German car brands in America[30]. Up until that point, German car manufacturers had routinely advertised the benefits of 'German engineering' in their U.S. marketing campaigns, creating a reputation group in consumers' minds. When the Volkswagen scandal broke, consumers associated German-made vehicles such as Mercedes-Benz and BMW with those made by the Volkswagen Group. It was reported that the sales of other German car brands decreased by approximately USD 26.5 billion due to this spillover effect.

A newer term that has gained popularity in the business world is 'woke-washing'. As conversations on sustainability marketing and brand activism advance into wider spaces such as politics and social justice, we start to see more brands release socially and politically aware advertising focused on gender equality, racial equity and Lesbian, Gay, Bisexual, Transgender, Queer, Intersex and Ace (LGBTQIA+) justice, to name a few. The term 'woke-washing' is derived from the slang word 'woke', which can be defined as 'being conscious of racial discrimination in society and other forms of oppression and injustice'[31]. Woke-washing resembles the concept of greenwashing in that it is the dissonance between marketing and a company's behaviour. Instead of environmental issues, woke-washing focuses on businesses' use of marketing to make misleading or unsubstantiated claims about social justice-related matters. As a myriad of social issues consume the global dialogue currently and predictably in time to come, brands are trying to figure out how they fit into the discussion. Some brands get it right, but many do not.

June is globally recognised as Pride Month, a month where the impact and fight of the LGBTQIA+ community is recognised and celebrated across the globe. As the support for LGBTQIA+ rights has increased over the years, so has the incentive for brands to position themselves in alliance with the cause. Over the past few years, we have seen a rise in rainbow flags (a symbol of the LGBTQIA+ community) across various marketing campaigns in the form of branded merchandise, public storefronts, company brand logos across social media, and so much more. However, this is continually raising the question: Are these organisations truly supporting and contributing to the LGBTQIA+ community, or is it all just branding? Whilst some of the profits generated during these campaigns do go to LGBTQIA+ non-profits, many brands don't necessarily support the LGBTQIA+ community but still benefit from consumers who purchase their goods under the notion that that their purchase contributes to the LGBTQIA+ community. Apparel brand, H&M launched its first Pride collection in The US in 2018 and donated a percentage of the proceeds to a non-profit organisation focused on LGBTQIA+ rights. Although a portion of these proceeds were going to a LGBTQIA+ non-profit, H&M was later criticised for working with suppliers in countries that criminalised homosexuality and transgender individuals[30].

While it can be argued that these marketing campaigns are successful in bringing awareness to the cause, many activists in the LGBTQIA+ movement and other social justice movements have challenged brands to graduate their actions and intentions from awareness to institutional reform and abolishment. They feel that the involvement of brands in movements like Pride Month have become less about inclusivity and fighting for the cause and more about a marketing opportunity.

The rise in greenwashing and woke-washing by brands has increased consumers' scepticism of brands, especially amongst younger consumers[31]. Consumers are much more aware that they are being marketed to and are quick to recognise and call out when a brand is being inauthentic in its marketing campaigns. Criticism of the impact of sustainability marketing and brand activism has also grown amongst marketers themselves. While some case studies indicate that brands can achieve success by having a greater purpose than just achieving sales (eg., Dove, Lifebuoy, Patagonia and the like), marketers are also realising that not every brand needs to embrace a 'sustainable purpose'. It is more important that brands are straightforward and clear about their vision and mission than to force-fit a purpose that the brand does not live up to and is not part of the wider company values and culture.

The advantages and challenges of sustainability marketing

When engaging in any sustainable business practices, it is important that businesses focus not only on the brand advantages, but also on the actual impact that the business will have on the environment and society at large. A business that practices sustainability marketing could have a competitive advantage over one that does not.

Advantages

Besides the external positive impact on the economy, society and environment, incorporating sustainable practices into the business strategy can also benefit the company itself. Below are some examples of the advantages of implementing sustainability into the business strategy.

Improved brand image
A good brand image is arguably one of the most valuable assets a business holds and maintaining it is a key priority for many businesses. Over the years, consumers have become increasingly invested in knowing more about the products that they use. They want to know whether brands are contributing to the improvement of the environment and the societies in which they operate. Younger generations have been known to express interest in making a positive impact in the world and they find that using brands with sustainable practices allows them to do this in some small way. Implementing sustainable business practices helps boost an organisation's reputation amongst these consumers and builds a stronger long-term relationship with them, as they are more inclined to identify with and support brands that are operating with an objective beyond generating profits.

Possible cost saving
Cost saving is one of the biggest motivators for organisations. Integrating sustainable practices into the business model can lead to efficient operations and reduced costs, even though it might require a large capital investment. Cost saving can be derived from limiting the use of natural resources (such as water and electricity), reducing and recycling waste, and signing up for energy-saver incentives. The cost savings from these initiatives tend to actualise in the long run, not immediately.

Attract new employees and retain existing customers and investors
Employees want to be associated with businesses that are 'doing good' and are intentional about their involvement in social and environmental initiatives. Some research shows that younger generations, which make up more than 30% of the working population globally, have high expectations for the actions of businesses when it comes to social and environmental matters and they want to work for companies that uphold these values[32].

Responsible innovation
Innovation is key to remaining competitive in the marketplace. Customers are interested in businesses that are creating products and services that positively impact the environment and society at large. By being intentional about their involvement in sustainable practices, businesses are forced to innovate in a responsible and creative manner.

Challenges

Although sustainability marketing creates a competitive advantage, organisations also face challenges when it comes to the topic. Below are a few challenges businesses face when implementing a business plan that encompasses an element of sustainability.

The switch can be expensive
It takes time for businesses to change their strategies and the development of a new strategy usually translates into increased initial costs. Although sustainable practices are recognised as long-term cost-saving initiatives, the upfront implementation costs are usually high. For example, choosing to transition to solar energy to replace electricity generated from a coal-fired power station would require the installation of solar panels which can be costly.

Increased product prices
In some cases, the switch to more environmentally friendly products can lead to higher production costs such as paying more for fair labour and using sustainable material that costs more to grow and manufacture. The increase in costs can either be absorbed by the business in terms of accepting lower profit margins on the products produced, or they can be passed along to the consumer in the form of higher product prices. The increased production costs and subsequent price increases could result in decreased demand and product sales as consumers switch to more affordable alternatives.

Difficulty fulfilling all three TBL pillars
Although sustainability is on the rise, profit generation remains a key objective for several businesses. Many people believe that by including a social and environmental improvement goal to the strategy takes the focus off the purported main economic goal – to generate profit.

Not all companies can adequately satisfy all three pillars of the TBL. In most cases, when put in this position, companies tend to prioritise economic profitability over environmental and social sustainability practices.

Consumer scepticism due to greenwashing and woke-washing
As increasing numbers of companies realise the benefits of implementing sustainable practices into their business strategies, the risk of greenwashing and woke-washing increases. Due to the false-sustainability claims made by brands, many consumers have grown sceptical of brands that claim to be environmentally or socially sustainable. Consumers, especially younger generations, are scrutinising all sustainability marketing campaigns and are quick to spot when a campaign is authentic or merely a brand awareness initiative.

Educating consumers about sustainable products
Education is crucial in facilitating the shift towards sustainable consumption. However, this can be a challenge, especially in markets where conversations around sustainability are still in their infancy stages. Even though consumers might want to adopt sustainable consumption behaviour, they are often unsure of how and where to begin. This is where companies play a big role in facilitating this move towards sustainability and ensuring that consumers are educated on the topic. Ways that companies educate consumers include information on product packaging, on digital platforms and in advertising messages. The increased focus on sustainability and shift towards sustainable practices highlights the importance of such topics being taught in schools and earlier in people's lives.

Sustainable consumption in South Africa

As discussed throughout the chapter, sustainable consumption, whether it be ethical, social or environmental, simply means engaging in the economy and consuming goods and services with more awareness around how your consumption impacts the environment and society at large. When discussing sustainable consumption in South Africa, several factors need to be considered.

With a Gini Coefficient of 0.63, South Africa is a country with one of the highest levels of economic inequality in the world[33]. Inequality manifests itself through skewed income distribution and unequal access to opportunities. The high unemployment rate of 27% (as of 2019) continues to heavily contribute to the persistence of inequality in the country[34]. The median wage in South Africa is reported to be R3,300, and supports on average 3.5 people, meaning that the average South African household can barely afford expenses which low income households may typically be expected to cover e.g. food, transport, burial insurance etc.[35]

Affordability and education levels around sustainability are factors which cannot be ignored when discussing sustainable consumption in the South African context. Sustainable products tend to be more expensive, and consequently aren't necessarily a feasible option for most South African consumers.

It is important to note though, that even though poorer households can't always afford sustainably produced products or aren't always aware of the technicalities around sustainability, it is these communities that tend to lead the most sustainable lives in the country (e.g. low carbon footprint and low water usage). Unfortunately, though, these are the communities that are disproportionately impacted by the negative side effects of unsustainable business practices. In most countries, low income communities depend heavily on natural resources for their livelihoods and survival and are most vulnerable to environmental changes. As a result, continued degradation of the environment due to unsustainable business practice impacts theses communities most.

Any misconceptions around South Africans not caring about sustainability fail to acknowledge the economic reality of the country. With pressing issues such as poverty, unemployment and inequality on the rise, it becomes very difficult for the average South African consumer to fully engage in sustainability topics that do not tackle some of these urgent matters. Several sustainability initiatives are designed for the wealthier, more privileged consumers in the country.

A big responsibility lies with large organisations to encourage sustainable consumption across all consumer segments in the country. Furthermore, South African organisations need to aim for better sustainable business practices; too many firms still rely heavily on fossil fuels and do not positively contribute to the society in which they operate. Additionally, organisations need to explore innovative ways to make sustainably produced goods and services more affordable and accessible for the average South African consumer.

Conclusion

Often business growth is framed around consuming (and hence producing) more. This dynamic involves the consumption of resources. Sustainability principles are however rooted in conserving the resources and consuming less. It is critical that companies find the balance between the two imperatives so that profits can be made whilst protecting the environment. Businesses also need to recognise the role that they play in the society in which they operate. If brands are going to have marketing campaigns that speak out against social injustices, the brands need to play a role larger than just building awareness on the issues – they need to start acting on important matters that will have the needed positive impact.

Implementing a marketing strategy that focuses on sustainability has several advantages for the brand and business, but not all brands need to be 'purpose-led'. The desire to have a purpose when it is not authentic is a key driver in greenwashing and woke-washing, which has evidently tainted the reputations of legacy brands and lost the favour of their consumers.

As discussed earlier, an increasing number of consumers have begun to question a brand's motivation for engaging in environmental and social issues and will look for the actions that support the marketing communication and claims. If brands are to target these consumers and speak out about environmental and social sustainability, they need to ensure authenticity, transparency with their consumers, and consistency with their wider company values and culture. Furthermore, they need to keep in mind the economic nuances that hinder sustainable consumerism in the South African context and not apply a blanket approach. It is more important that brands communicate a straightforward, clear and accurate vision and mission than to force-fit and falsely communicate a sustainability message that is not true and genuine.

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GABORONE
PRETORIA
JOHANNESBURG
MASERU
DURBAN
CAPE TOWN

The Marketer's Micro-Environment

CHAPTER

4

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Introduction

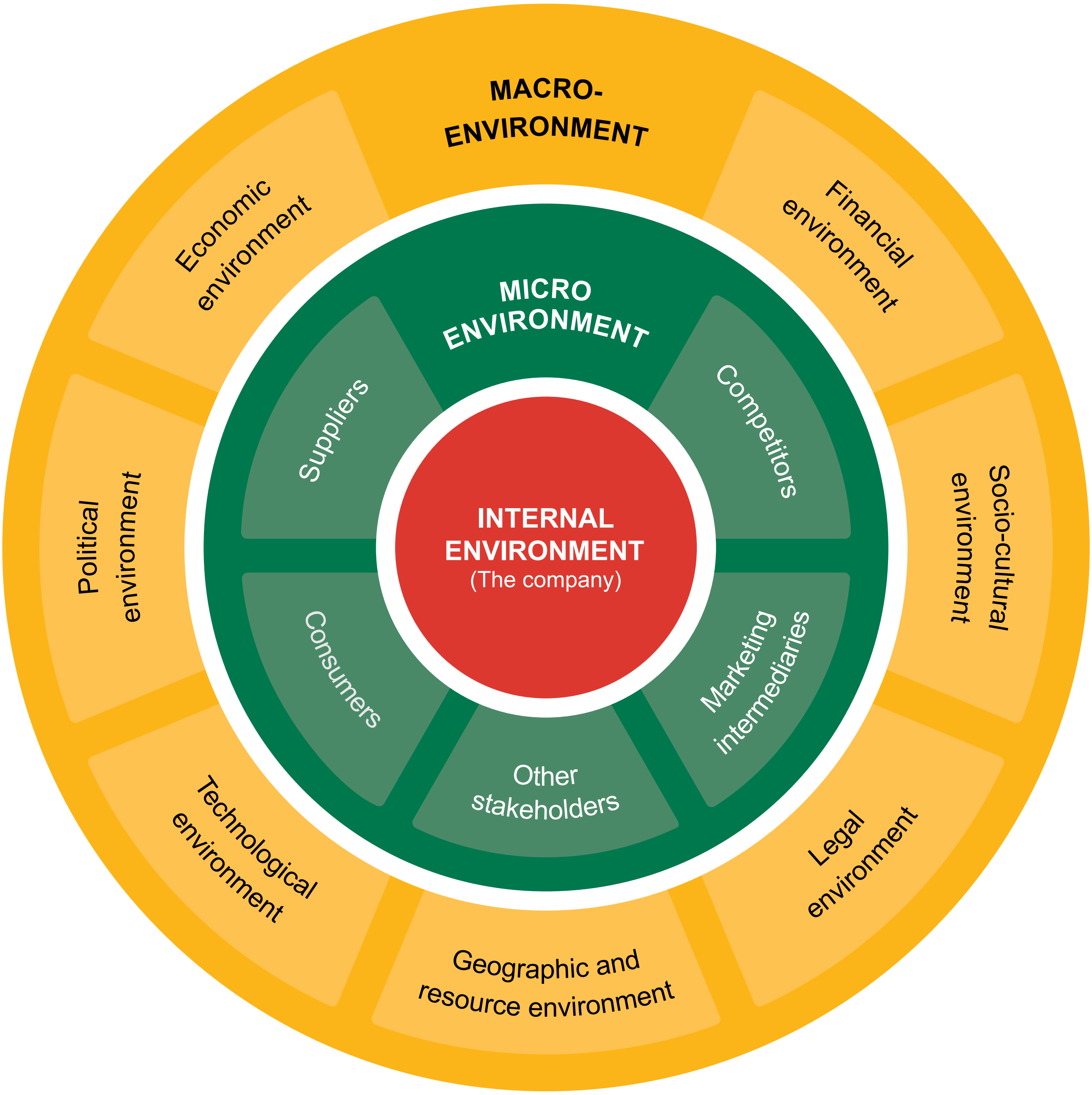
In this chapter, we discuss the marketer's world, also commonly known as the marketing micro-environment. The marketing micro-environment comprises various factors that a marketer has some influence over (to varying degrees). This environment includes the business itself as well understanding the surrounding components that are crucial to building a strong strategy and gaining competitive advantage.[1] The micro environment is often discussed in conjunction with the macro environment (Chapter 8) and consumer landscape (Chapter 5), which consist of factors that influence the marketer, but are largely out of the marketer's direct control. The components of the marketer's micro-environment are the company itself (also called the internal environment), consumers, suppliers, marketing intermediaries, competitors of the company and other stakeholders. In this chapter, each component of the micro-environment is briefly discussed and the macro environment is discussed in Chapter 8. Figure 4.1 shows both the micro and macro environment.

Internal environment (the company)

The company consists of all the departments within the organisation at which the consumer marketer works. The company has the potential to positively or negatively influence a marketer's ability to provide customer satisfaction. Examples of departments within an organisation include finance, research and development, accounting, human resource management, and production.[2] All the departments are interrelated and are designed to work together in order to achieve the company's mission, objectives, strategies and policies.

Synergy must be created between the various departments in a company, by which the collective effort of working together creates a greater impact than if each part worked in isolation. When designing a marketing strategy, marketing management is required to incorporate other departments, as they also have a significant influence on marketing decisions. Under the marketing concept (Chapter 1), all departments within a company should be consumer-oriented to enable the delivery of superior value and satisfaction.

Figure 4.1: The internal environment, micro-environment and macro-environment



Consumers

At the end of every value chain is a consumer willing to make an exchange (usually money for product). Consumers are, therefore, central to the success or failure of a business. The business needs to ensure that consumers are satisfied. This satisfaction can then build towards repeat purchases (generally referred to as loyalty) and, ideally, positive word-of-mouth referrals. The five different types of customer markets that a business can operate in are basic consumer markets, business markets, reseller markets, non-profit/government markets and international markets.[3]

Basic consumer markets

Basic consumer markets consist of individuals and households who purchase goods and services for personal use, such as toothpaste or a family car.

Business markets

Business markets consist of businesses which purchase products with the intention of further processing or use in their production process. An example is when a farmer sells its crop to Pioneer Foods, which then makes White Star maize meal to sell through retail outlets such as Spar and Pick n Pay. The only transaction between a business and consumers is the final one; every other transaction is a business-to-business (B2B) or reseller transaction (see next point).

Reseller markets

Reseller markets consist of businesses that purchase goods and services in order to resell them for profit-making. An example of reselling would be a spaza shop that purchases washing powder (in bulk) from a wholesaler in order to resell it to consumers.

Non-profit/government markets

Non-profit/government markets consist of governmental departments and non-profit organisations that purchase goods and services in order to provide public services. An example of a government market transaction is when the police department purchases a car from a car dealership.

International markets

International markets consist of buyers in other countries who take the form of consumers, producers, resellers and governments. An example of this is iron and steel exported from South Africa to other countries in order to be manufactured into finished products like cooking utensils.

Understanding consumer needs and wants is the focal point for every business, as it is the consumers who make purchases, contributing to profits. It is therefore vital to gain insight into consumer buying behaviour and purchasing patterns in order to ensure that your business remains relevant and provides value. Given that South Africa is a middle-income country, the needs of consumers vary significantly from the rest of the world. South Africa has one of the highest Gini coefficients in the world, which means that vast income inequality exists between its consumer markets. The upper-income consumers are very wealthy, but only make up a small proportion of the consumer market.[4] Most South Africans live in households with very low incomes and are heavily dependent on state support.[5]

Competitors

Competition can be defined as the relationship between your organisation and other organisations which market products that are similar to or can be substituted for your products. There are very few companies that operate free from competition; this is therefore a vital factor in the market analysis. Companies need to identify who their competitors are and what they currently offer to consumers. A strong understanding of competitors will allow the company to position itself in the mind of the consumer (see Chapter 12) and ensure that it has competitive advantage.

There are five types of competitors that a company should be aware of at all times in order to fully understand their competitiveness in the market: direct competitors, indirect competitors, replacement competitors, distant competitors and potential competitors.

Direct competitors

Direct competitors are companies that sell very similar products or services to the same target market. Two different brands of locally packaged rice would be direct competitors. This kind of competitor is also called a *brand competitor*. An example of this is a consumer looking to purchase an energy drink and having a choice between Red Bull or Play. Usually direct competitors need to be in a similar price range to be considered direct.

Indirect and trade-off competitors

Indirect competitors are companies whose products or services are not identical, but satisfy the same consumer need. A consumer may decide to buy maize meal instead of rice. These products would compete in the starch or staple food category, even though they are substantially different products. Similarly, a consumer may want a snack and decide between a soft drink and a packet of chips. These are different products, but compete for the same snacking need. Indirect competitors are sometimes called *product competitors*, since they often fall into a similar product category but vary in features, benefits and prices. A sub-section of indirect competitors are 'trade-off' competitors. This kind of competition comes from completely different categories of product or service that compete for share of expenditure but do not fill the same direct need. For example, in resource scarce households, a family may choose between food and airtime for their mobile phone. While not substitutes in nature, they act as substitutes for share of expenditure for that household (See Figure 4.2).

Replacement competitors

Replacement competitors are companies that sell different products or services to your company, but the result of the product is similar. Large gym and fitness brands will know that people deciding to buy gym equipment for the home or those who start training outdoors (mountain biking or jogging) could replace a consumer's need for a gym subscription. In this case, a mountain bike shop or home gym manufacturer would be a replacement competitor. This kind of competitor is sometimes called a *generic competitor*, as it offers very different products that are able to solve the same problem or satisfy the same consumer need. Another name for this type of competitor is a *total budget competitor*, as they compete for the limited financial resources of the same consumer's entire budget.

Distant competitors

Distant competitors are companies selling similar products or services to different location demographics. This kind of competitor could be a direct or indirect competitor that has not entered the local company's market. For many years, Pepsi withdrew from South Africa (as a sanction against Apartheid) and remained a distant competitor to Coca-Cola in the country, even though they were a direct competitor in most other countries.

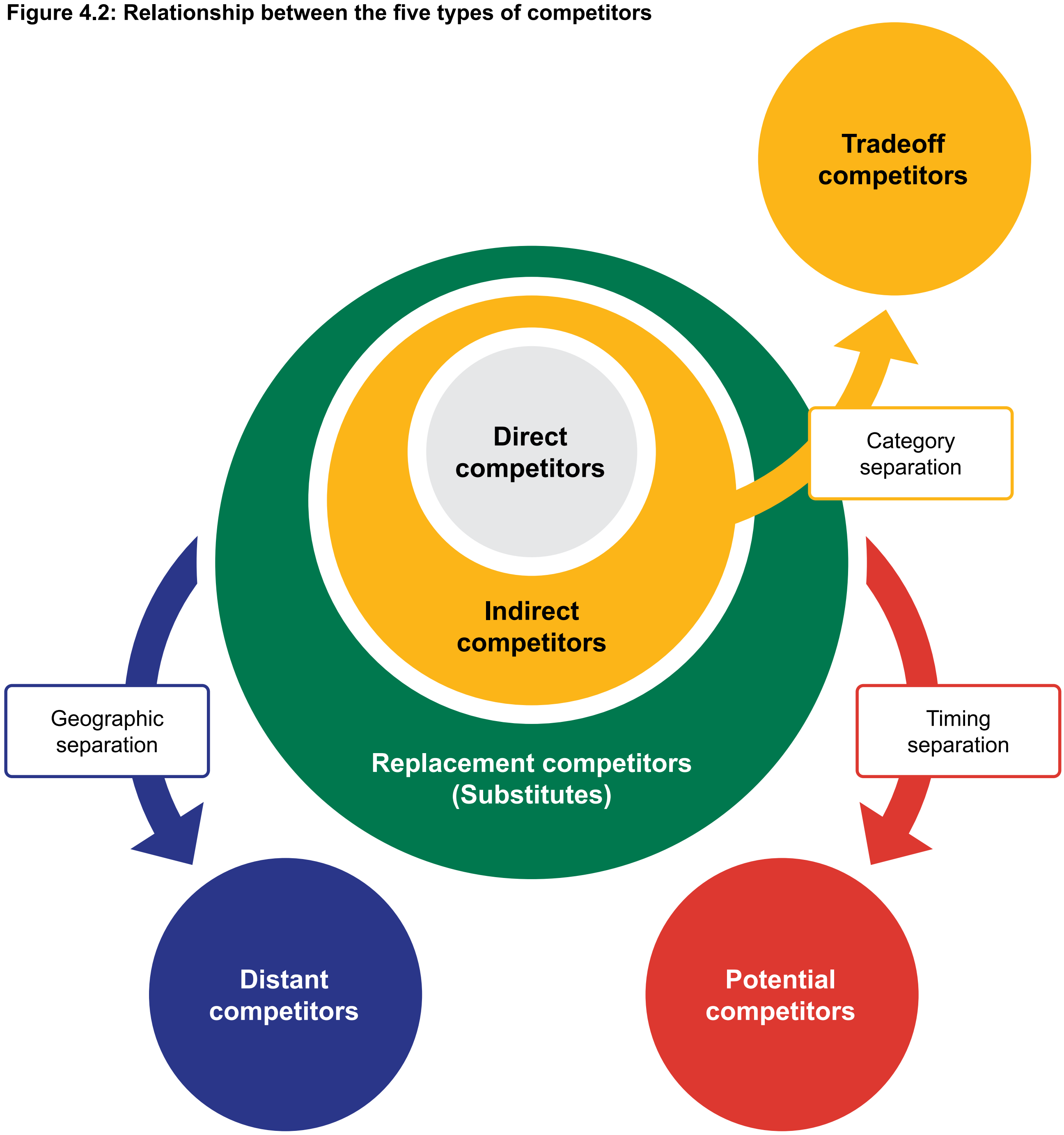
Potential competitors

Potential competitors are companies that are not any of the types of competitors mentioned above, but could become them in the future. An example is Apple Inc., which has expressed a possible desire to produce cars in the future. This is not a current threat to motor manufacturers, but they will be watching these potential competitors carefully.

Figure 4.2 shows how the first three types of competitors are an immediate threat, while the other two are threats that are separated by geographic distance and time.

When discussing these various competitors, marketers sometime talk about 'share of wallet'. A share of wallet is the monetary value that a business captures from a consumer's total spending when obtaining products and services. Share of wallet accounts for both direct and indirect competitors. Many large companies try to build a portfolio of products that aim to capture more consumer expenditure (share of wallet). For example, a breakfast cereal producer may want to expand their product range to include snacks and meals for other times in the day in order to capture a larger share of wallet from their existing consumer base. In analysing your competitors, it is helpful to understand the different types of competitive structures.

Figure 4.2: Relationship between the five types of competitors



Types of competitive structures

Monopoly

A monopoly is a company that has no competitors. This form of company or organisation is the sole supplier of a product or service and almost no close substitutes exist. Monopolies often exist due to financial, regulatory or resource barriers to market entry. Eskom is an example where government ownership has created a monopoly in South Africa. In a monopoly, the company can set higher prices as there is little to no competition to put downward pressure on prices. In a monopoly, the consumer usually loses out; some governments therefore create legislation to prevent monopolies (as is the case in South Africa).

Oligopoly
In an oligopoly there are a few competitors which offer homogenous or slightly differentiated products and some barriers to entry exist. An example of this is the cellular network industry in South Africa. A few competitors in this industry, such as MTN, Vodacom, Telkom and Cell C, offer the same product (i.e., cellular contracts, data packages and airtime). Some entry barriers for new networks would include mobile network infrastructure like signal towers, creating national awareness, call centres and the legal costs of starting a communications business. When a new competitor enters the market, most people are aware as the competitive landscape is generally well known when only a few brands exist (like when Rain entered the South African cellular network industry in 2019).

Monopolistic competition
Monopolistic competition is a type of imperfect competition with differentiated offerings in the same category (for example, differentiated branding or quality). An example of monopolistic competition is that of major pharmacies in South Africa (for example, Clicks Pharmacy and Dis-Chem). Although the products sold by different companies (in monopolistically competitive markets) are similar enough to one another to be considered substitutes, they are not identical. This feature is what sets monopolistically competitive markets apart from perfectly competitive markets.

Perfect competition
Perfect competition has an unlimited number of competitors with homogenous products and low barriers to entry. While pure competition is more hypothetical, spaza shops and street car wash services in many areas display elements of pure competition, as there is often little difference in product or service offering and price.

The existence of competition can have a positive effect on companies as they have to continuously innovate and stay current in order to provide value to consumers. Competition also ensures that companies offer affordable prices, otherwise they will lose their market share to other companies. Competitor analysis allows a company to make adjustments to their marketing strategy, where needed. Suppliers are discussed in the following section as the next component of the marketing micro-environment.

Suppliers

Suppliers are individuals or businesses that provide the necessary resources required by a company to produce its goods and services.[6] Think of a South African fast food outlet like Chicken Licken. While a consumer may think of purchasing a chicken burger or a half chicken meal, the franchise needs to consider how it will get supplies of chicken, bread rolls, soft drinks, tomatoes, salt, sauces, plates, containers, cleaning services and ice creams. All these products fall under the supply chain (see Chapters 6 and 15 for more detail on supply chains).

The ideal situation for any company is to have efficient suppliers to help ensure that goods and services are produced and delivered efficiently and at a good price. Consumer marketers therefore need to monitor availability, quality, and delays and to ensure a timely response in the event of a crisis. Marketing managers are also required to watch their input prices closely, as an increase in input price will trigger an increase in selling price (affecting both profit and consumer satisfaction). Most consumers prefer affordable prices, and if prices rise above their means, they shift their loyalty to a similar but cheaper product. As a result, the company will make less sales than anticipated. A company needs to monitor the following factors when conducting business with suppliers:[7]

- Quality of products
- Reliability of individual suppliers
- Flexibility of suppliers in response to unforeseen demands from the company
- Bargaining power of suppliers
- General business ethics and conduct

It is vital to maintain a good relationship with suppliers in order to obtain a win-win situation for both parties. A company should aim to have its suppliers as business partners to ensure that the entire production process makes a joint effort to provide value and satisfaction to consumers. Companies also need to carefully vet their suppliers as any breach in ethics and conduct by a supplier may have an impact on the company's own reputation. Intermediaries are discussed in the following section as the next component of the marketing micro-environment.

Intermediaries

Market intermediaries are entities that help a company to promote, sell and distribute its products to consumers. In a similar way to suppliers, intermediaries are role players that ensure delivery of value to consumers. It is difficult for large manufacturers to interact with their final consumers individually; thus distributors are used to bridge this gap.[8] The distributors are individual companies that assist in the flow of goods and services from manufacturers to final consumers. A company's effectiveness often relies on their partnership with intermediaries. The main kinds of intermediaries are resellers, dealers, physical distribution enterprises, communications and market research agencies, and financial intermediaries.

Resellers

Resellers are distribution channels that help companies to locate consumers and sell goods to them. Primary examples include wholesalers and retailers (see Chapters 6 and 15). Wholesalers often purchase products directly from manufacturers and resell these products to smaller retailers who supply these items to end consumers. Large South African retailers (for example, Pick n Pay and Shoprite) source their products directly from manufacturers, which reduces the final selling price and provides greater value to consumers. Smaller informal retailers (for example, spaza shops or street traders) usually purchase from wholesalers and therefore struggle to compete with retailers on price.

Dealers

Dealers are similar to retailers and wholesalers, but they usually provide a narrower assortment of products. Dealers generally provide after-sales services to consumers on behalf of manufacturers. An example is a Toyota dealer that sells both new and used cars and provides workshop services to consumers.

Physical distribution enterprises

Physical distribution enterprises are concerned with the logistics of goods for sale. Companies must determine the fastest, cheapest and safest ways to store, and transport goods from their original location to their final destination. Distributors often do this as a specialised service for companies that are too small to own their own distribution networks. A company may, for example, import razor blades from Korea by the container load, but still need help to distribute these around the country to resellers (retail outlets). They may make use of an established distributor (for example, Barloworld) or may plan their own logistics through a transport and warehousing company (for example, Maersk). Building strong relationships within the supply chain can provide a powerful advantage in delivering value to consumers.

Communications and market research agencies

Communications and market research agencies are tasked with functions such as advertising, package design, media, public relations and research for a company. While some larger companies may have internal capacity within their organisation to complete these tasks, most companies will outsource these functions. Many marketers use advertising and research agencies. A big company like Shoprite may use an advertising agency to help design promotional material, or Nissan South Africa may use a research agency to find out more about the car retail market in Gauteng.

Financial intermediaries

Financial intermediaries include banks, insurance companies and credit enterprises that aid the company in financial management or insurance. A company like Old Mutual may provide insurance, among other services, while Nedbank may provide companies with business banking facilities. Access to credit in South Africa is important for small and medium-sized enterprises looking to grow.

In recent years, there has been a trend towards reducing the use of intermediaries between producers and consumers, with footwear companies like Hi Tech offering sales direct to the consumer (online through their website) in addition to retail intermediaries. Maintaining a good relationship with intermediaries is vital to ensure that goods and services are available to consumers at the right place, in the appropriate quantity and at the right time. Other stakeholders are discussed in the following section.

Other stakeholders

There are other kinds of stakeholders that have an impact on the consumer marketer and their ability to achieve objectives. These stakeholders (sometimes known as publics) fall into the definition of the micro-environment, but not into any of the categories above. Some examples of these stakeholders include media public, general public, local public and citizen action publics.

The media

The media includes newspapers, blogs, magazines (print and digital), radio (broadcast and internet) and television outlets (broadcast and digital). They carry news, features and editorial opinion that may impact the company. The media can be extremely valuable or a burden, since they typically carry news, features and editorial opinions, delivering them to consumers and other publics. Public relations agencies can be hired to help use the media to the marketer's advantage. Having a good relationship with the media can be particularly helpful during crises.

General public

An enterprise should consider the general public's attitude towards its products and services. The public perception of the business, its brands, and products and services directly impact consumers' buying habits. Marketers can keep track of public opinion through opinion polls and social media sentiment analysis.

Local community

The local community comprises neighbourhood residents and community organisations. Large businesses may appoint a community relations officer to meet with the community, answer questions and manage contributions to worthwhile causes.

Citizen action and public interest groups

The decisions a marketer makes will sometimes be questioned by citizens, environmental groups, minority groups, and others. A public relations department can help a company stay in touch with citizen action and public interest groups. A business can construct strategic marketing plans for some or all of these stakeholders. Marketers need to make judgements on where to spend time and resources. It is to be noted that some of the actions of the public may create problems for the business while others may create opportunities.

Conclusion

In this chapter we surveyed the micro-environment of the marketer. The chapter introduced the concept of both the micro and macro environment, but then focused on the former. The concepts of the company, competitors, suppliers, intermediaries and other stakeholders were introduced, defined and contextualised. In Chapter 8, the macro-environment, which largely lies outside of the direct influence of the marketer, is explored.

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Part 2:

The South African Consumer's World

This textbook is about marketing to South African consumers and understanding that the South African consumer reality is unlike any other in the world. By better understanding the South African consumer, marketers are able to shape strategy and tactics that match reality. It also enables them to tailor an international strategy to suit the South African market. This part not only looks at the consumer landscape, but also three crucial influences on communicating and delivering value, namely the retail and media landscapes. While both retail and media are general marketing concepts, South Africa is unique and any South African marketer should understand these landscapes. In addition, the macro-environment may be out of both the marketer and consumers' control, but it has a large impact on both.

Chapter 5: The South African Consumer Landscape

This chapter provides insight into South Africa's demographic heterogeneity, as well as the hybrid economy in which consumers and marketers exist. The inequality in South Africa is contextualised by providing a continuum of five consumer segments from the Poor to the Top end.

Chapter 6: The South African Retail Landscape

Most consumer marketers need to understand retail, since most transactions happen in this sector (services and business-to-business sectors' excluded). Retail in South Africa epitomises the divide between the formal and informal economy and must be understood in order to market consumer goods. This chapter is a partner to Chapter 15, which goes into more detail about distribution (place) tactics.

Chapter 7: The South African Media Landscape

Consumer marketers communicate their offerings through various forms of media. The changing shape of media consumption in South Africa has been driven by technology and changes in socioeconomics. In addition, a country with so much cultural and linguistic diversity has media nuances that consumer marketers must understand and be able to measure.

Chapter 8: The South African Macro-Environment

In part 1 of this textbook, the micro-environment was discussed (Chapter 4), including environmental factors that are influenceable by the consumer marketer (for example, suppliers). The South African macro-environment comprises the broader forces that impact marketing, but are generally not influenced by the marketer. These forces include the economic environment, the financial environment, the political environment, the legal environment, the socio-cultural environment, the geographic and resource environment and the technological environment.

An understanding of the South African consumer's world is key to creating a strategy that meets the needs of the marketer's target market.

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The South African Consumer Landscape

CHAPTER

5

Paul Egan

Introduction

In this chapter, we survey the South African consumer landscape from a demographic and consumer segment perspective. For marketers, it is always good practice to try to understand the consumer landscape in a particular country. This can help provide answers to some important questions, such as, what is the size of the market? How many consumers can afford to buy a certain product or service? Where are consumers located?

Understanding the consumer landscape in South Africa is a big challenge for marketers. Our ever-changing consumer market is unique, often bearing only a limited resemblance to the rest of the world. In this chapter, we provide a window on how the South African consumer landscape is structured as well as some of the key developments over recent years.

Basic demographics

South Africa's population is the 24th largest in the world[1] with approximately 58 million people.[2] We rank just below Italy and just above Tanzania. The country's population continues to grow, with around 2000 new babies born every day. Unlike many other developing countries, the rate of population growth is slowing (highlighted by a decline in the fertility rate). In 2009, South African women bore an average of 2.66 children. By 2018, this had declined to 2.4.

Over recent decades, life expectancy in South Africa has increased dramatically. In 2006, life expectancy for South African men was 52 years, but by 2018 this had risen to 61.[3] Similarly, in 2006 the life expectancy for women was 62, but by 2018 this had risen to 67.[4] There are a number of factors driving this dynamic, including better healthcare, which has resulted in both a reduction in infant mortality and HIV/AIDS-related deaths. Figure 5.1 shows a comparison of median ages (i.e. 50% of the population will be older and 50% of the population will be younger) for Nigeria, South Africa and Japan. The graphic shows that South Africa has a relatively young median age (26) compared to Japan (46), but not as young as Nigeria (18).

Figure 5.1: Median ages of Nigeria, South Africa and Japan[5]

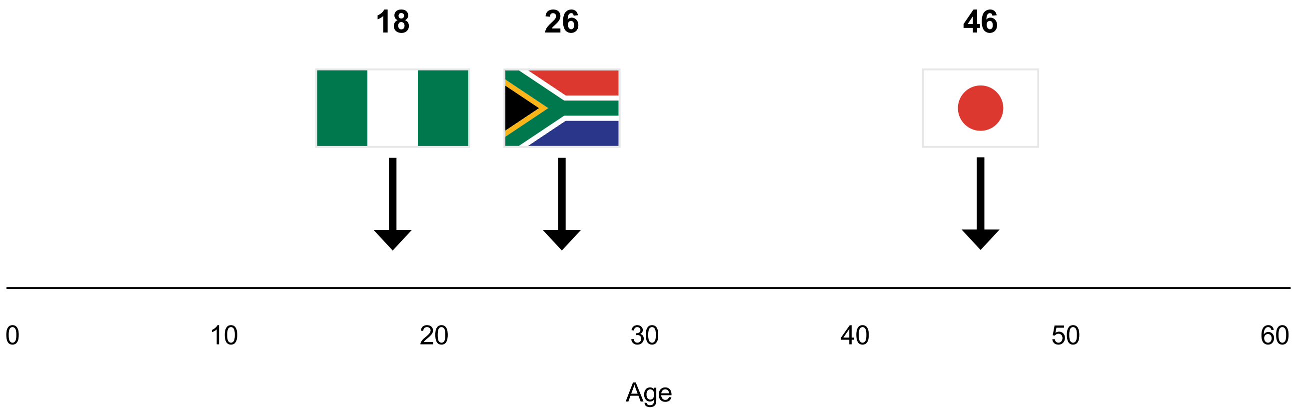
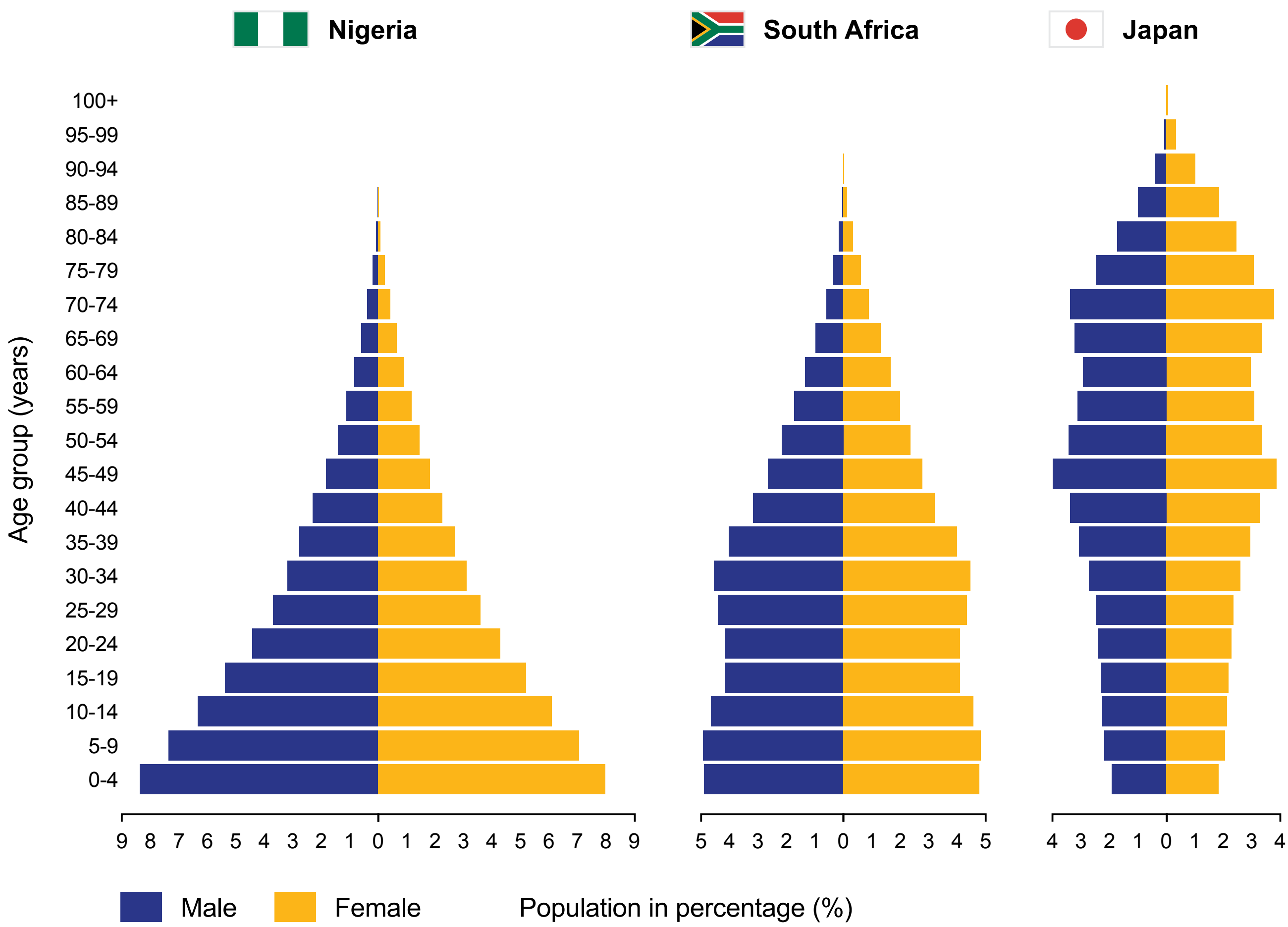


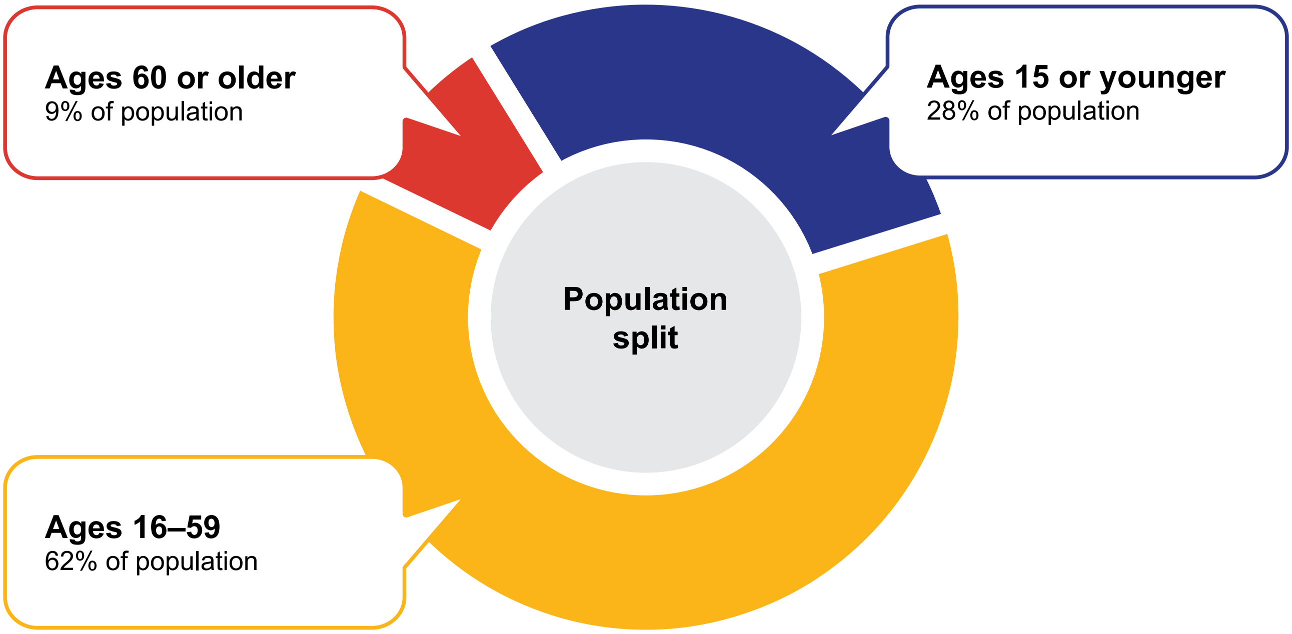
Figure 5.2 shows a population pyramid for the same three countries (Nigeria, South Africa and Japan). These three pyramids show that most of Nigeria's population is very young and the opposite is true for Japan. South Africa has a similarly young 'bulge' at the bottom of the pyramid.

Figure 5.2: Population pyramid for Nigeria, South Africa and Japan[6]



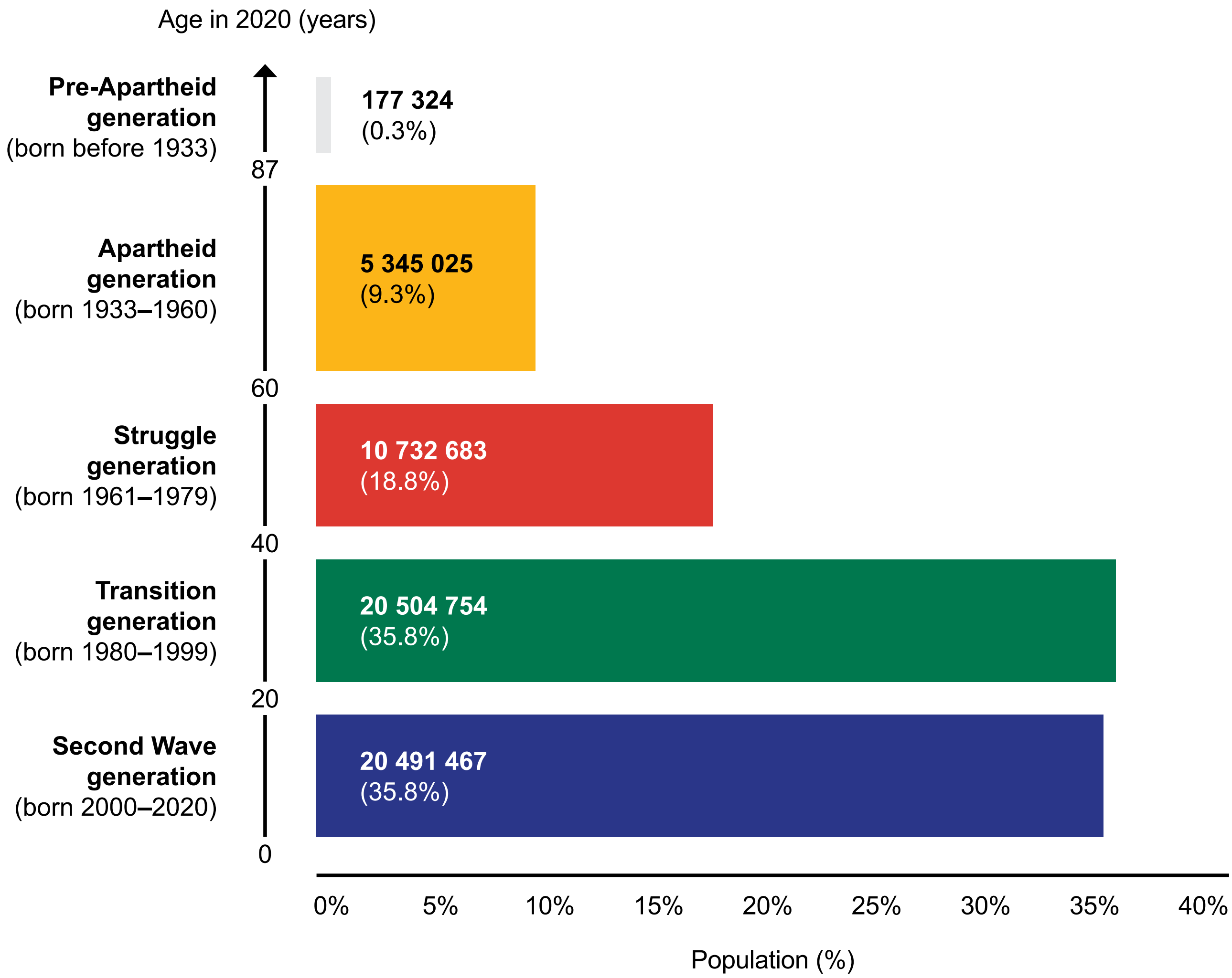
A more detailed population split of the South African consumer landscape is shown in Figure 5.3. The figure shows that 28.8% of the population is 15 years old or younger (a 'child', according to the United Nations classification); while 9% of the population is over 60 and the balance (62.3%) are working age.

Figure 5.3: Population split of South Africa[7]



The use of generational cohort theory is common in marketing in order to separate one generation from another. Many marketers will use terms like *baby boomers, Generation Z* or *millennials* to describe their target markets. Most of these terms do, however, have strong roots in historical events which took place in the Global North. The term *baby boomer*, for instance, comes from the generation that was born post-World War II, after millions of families had lost members during the war. In South Africa, we have our own history. World War II ended at the same time that the National Party took power in South Africa and Apartheid officially started. Using terms from the Global North to describe the South Africa context can therefore be problematic. Figure 5.4 provides a South African framework for segmenting by age cohort.

Figure 5.4: South African age cohorts[8]



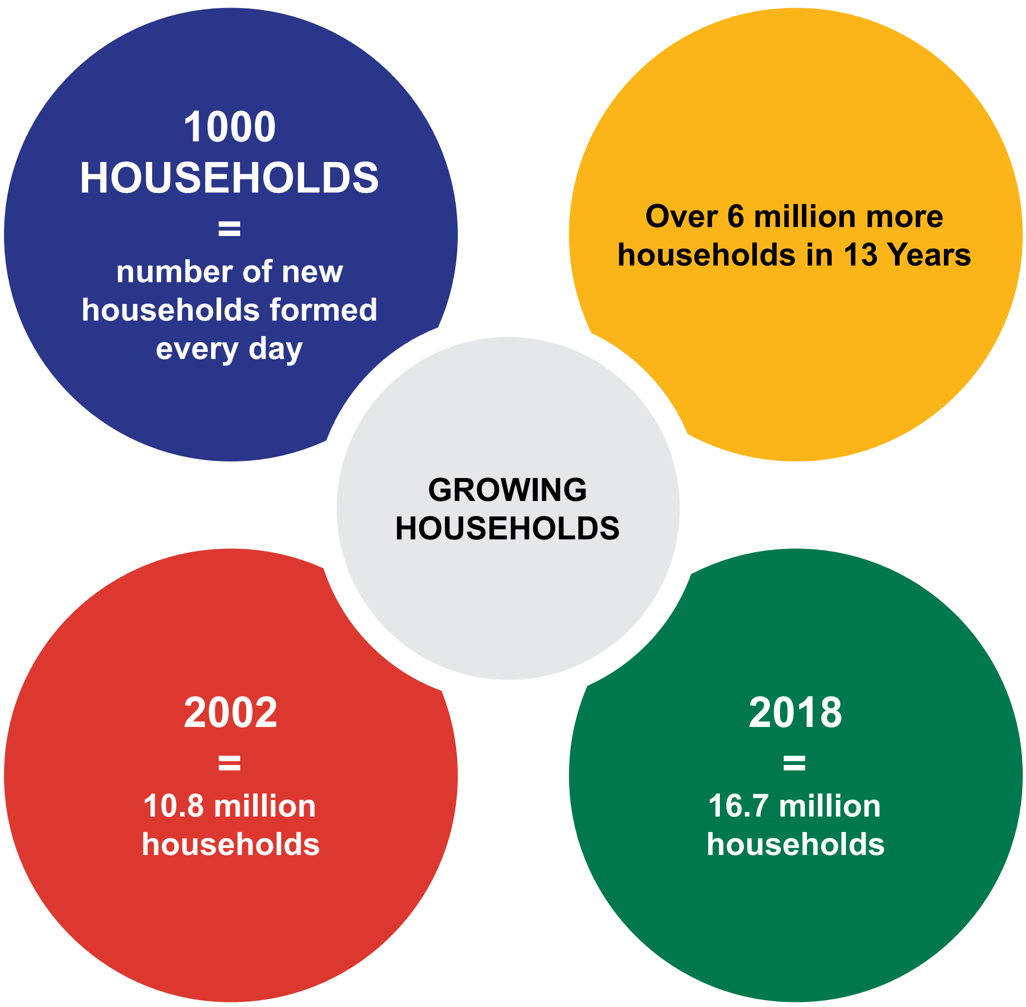
Each of these cohorts can be described as follows:

- **Pre-Apartheid generation:** Born before 1933 and grew up in the pre-Apartheid era. Racial segregation existed, but was not codified to the extent that it was under formalised Apartheid.
- **Apartheid generation:** Born between 1933 and 1960, this generation grew up in the early, core Apartheid regime (before the tide started to shift due to the Sharpeville massacre in 1960).
- **Struggle generation:** Born between 1961 and 1979. After Sharpeville, the struggle for democracy shifted and a more coordinated effort was sustained to push for reform.
- **Transition generation:** Born between 1980 and 2000. Growing up during the twilight of Apartheid and transitioning into an official post-colonial South Africa. The latter group in this cohort was born during democracy.
- **Generation second wave.** Born after 2000. Having never seen Apartheid first-hand, this generation is the second wave of youth born into democracy.

While age is a useful segmentation tool, the model presented here needs further exploration in order to account for economic inequality and differences between population groups. For example, the past and current lived experience of a Black member of the struggle generation is very different to a white member of the same generation. Inequality and racial differentials must always be applied to understanding South Africa, given the county's past and current population composition.

South Africa's population is expected to increase to 65–67 million people by 2030, and to 75–78 million by 2055.[9] Due to the growth in population over the last two decades, the number of households has increased by around 1000 per day, with over 6 million households being added from 2002 to 2018, as illustrated in Figure 5.5.

Figure 5.5: Growing number of households in South Africa



While demographics can be more granular, the data presented here provide a broad overview of how large the South African consumer population is. The next section provides some context in terms of where South African consumers live.

Where do South Africans live?

As a developing country, South Africa has seen rapid urbanisation over recent decades. Roughly 63% of South Africans now live in urban centres and this is expected to rise to over 70% by 2025 as more people flood into the cities in search of work opportunities and better facilities, such as schools for their children.[10]

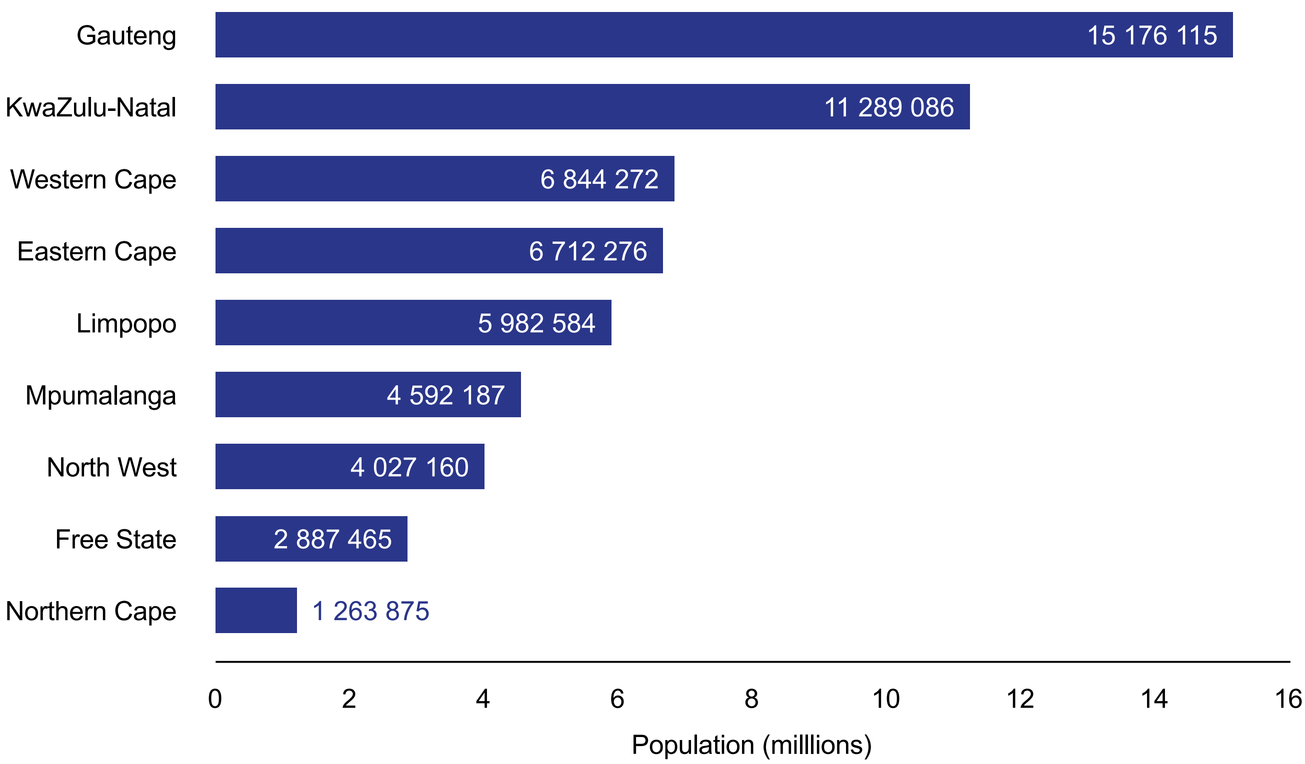
With a gross domestic product that is larger than that of most African countries, Gauteng is South Africa's economic hub. Unsurprisingly, it is also the most populous province, with one in four South Africans living there. In contrast, despite being larger in size, the Northern Cape is the least populated province, with just 2% of South Africans living there.[11] Figure 5.6 provides a full provincial population breakdown.

When categorising where people live, there are a number of terms used in the study of populations and urbanisation. Major categories include:

- **Urban:** A heavily built up area, such as a city or town.
- **Peri-urban:** An area immediately next to a city or town.
- **Rural:** Refers to the countryside and an area away from a city or town.

Each of the above types of setting provides different opportunities and challenges for consumers and those attempting to meet their needs. For example, distributing food to rural areas is much more expensive because of the distances that need to be travelled. Urban areas are usually higher in population density and consumers are better positioned to access a wider array of products and services.

Figure 5.6: Mid-year population estimates for South Africa by province[12]



South African consumers by race and language

Over 80% of South Africa's population is Black. Table 5.1 shows the breakdown of population groups, with around 81% of South Africa's population being Black, 9% Coloured, 8% white and 2% Indian/Asian.[13]

Table 5.1: South Africa by population group[14]

Population Group	Total	
	Number	% distribution of total
Black	47 443 259	80,7
Coloured	5 176 750	8,8
Indian/Asian	1 503 007	2,6
White	4 652 006	7,9
Total	**58 775 022**	**100**

South Africa is over 80% Black

There are 11 official languages in South Africa and isiZulu is by far the most spoken home language. Table 5.2 shows some of the more prominent first languages in South Africa. Note that less than 10% of South Africans have English as their home language in spite of it being the dominant language for formal business.

Table 5.2: Most prominent home languages in South Africa[15]

Language	% of South Africans who speak the language at home
isiZulu	25%
isiXhosa	15%
Afrikaans	12%
Sepedi	10%
Setswana	9%
English	8%

The breadth of home languages provides marketers with a challenge when it comes to marketing communications (see Chapter 16). South Africa does not just have a disparate language landscape, but there is great economic disparity, as discussed in the next section.

Economic disparity

Inequality is arguably the most glaring characteristic of the South African consumer landscape. According to the United Nations, South Africa is regarded as one of the most unequal countries on earth. Income disparities are measured using a formula called the Gini coefficient. South Africa has a Gini coefficient of over 0.60, which is one of the highest in the world. Inequality in terms of wealth is even higher. In 2015 the richest 10% of South Africans held around 71% of net wealth, while the bottom 60% held a mere 7% of the net wealth.[16]

For marketers, this presents a unique challenge. The head of a large consumer-facing company recently stated that marketing in South Africa is like operating in Bangladesh and Australia at the same time. This means that marketers need different strategies for the different consumer markets in South Africa. Most South Africans cannot afford iPhones, so there is little point in spending money advertising iPhones to the so-called mass market. On the other hand, there are millions of poorer South African households who do not have electric stoves or microwaves. Marketers selling food products to this consumer segment therefore have to think about the conditions under which food is prepared. Getting to grips with such diverse markets is crucial for marketers in understanding consumer behaviour.

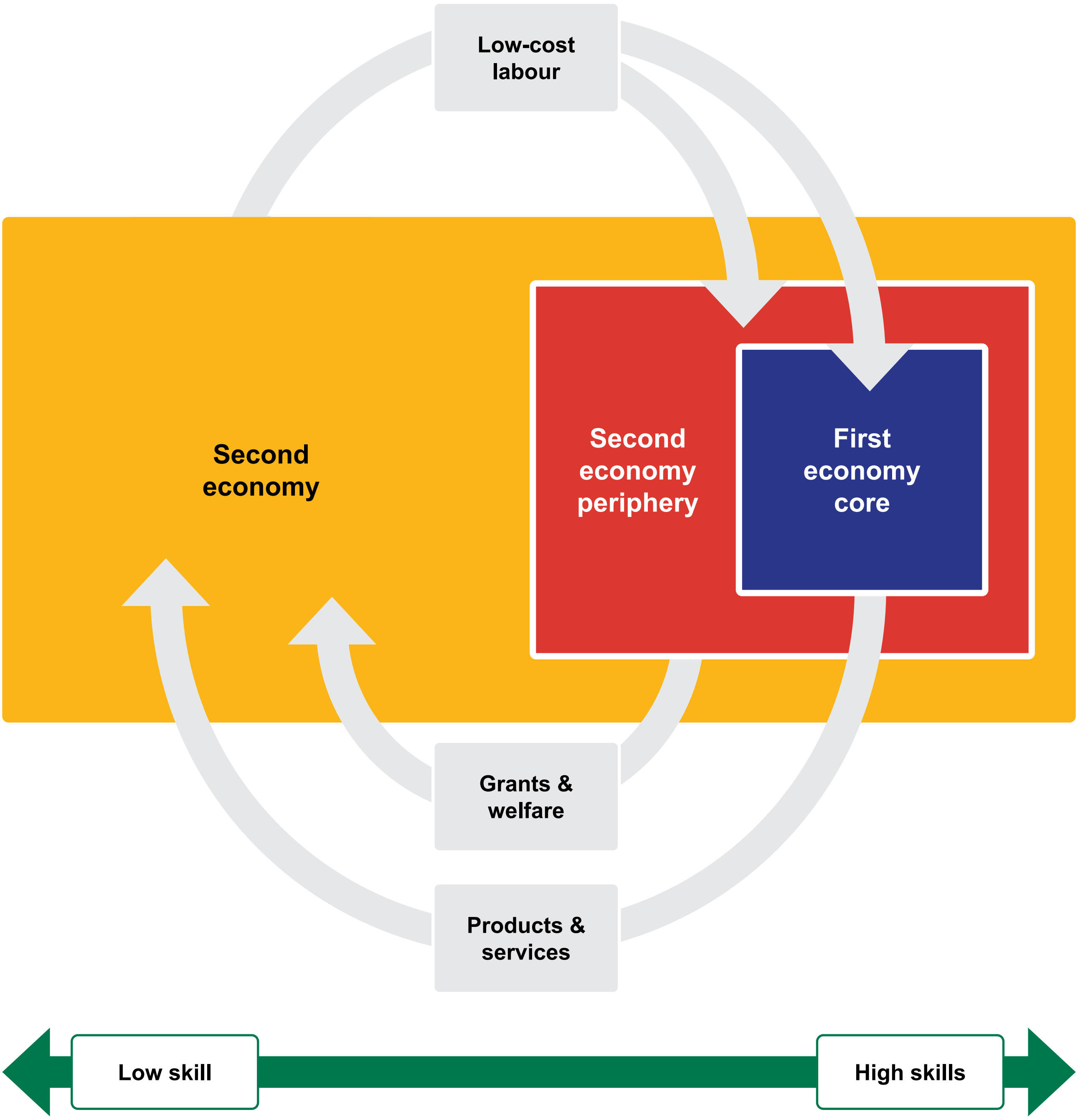
Segmenting the South African consumer landscape

Former South African president Thabo Mbeki argued that South Africa had two economies.[17] On the one hand, South Africa possesses a sophisticated formal economy dominated by large corporations, similar to what one would find in the United States or Europe. At the same time, there exists a second economy, which is dominated by the informal sector. The informal sector includes everything from spazas to hawkers and employs more people than mining.

Both sectors are connected (see Figure 5.7). For example, goods and services produced in the formal sector are sold in the informal. What is clear is that those South Africans who work in the formal sector are typically much more skilled and are therefore inevitably much better off financially. At the other end of the spectrum are South Africans who are below the poverty line and are largely marginalised, with much lower incomes.

A powerful way to get a picture of the South African consumer landscape is to break up the South African population by household income. Using one simple variable, we are able to access a picture of the consumer landscape using the National Income Dynamics Survey (NIDS) data.[18] Figure 5.8 presents the household income of South Africa's population in six groups. The segment titled Poor shows that 18 million people live in households earning less than R3500 per month. The segment titled 'Top end' shows there are 600 000 people living in households earning over R75 000 per month.

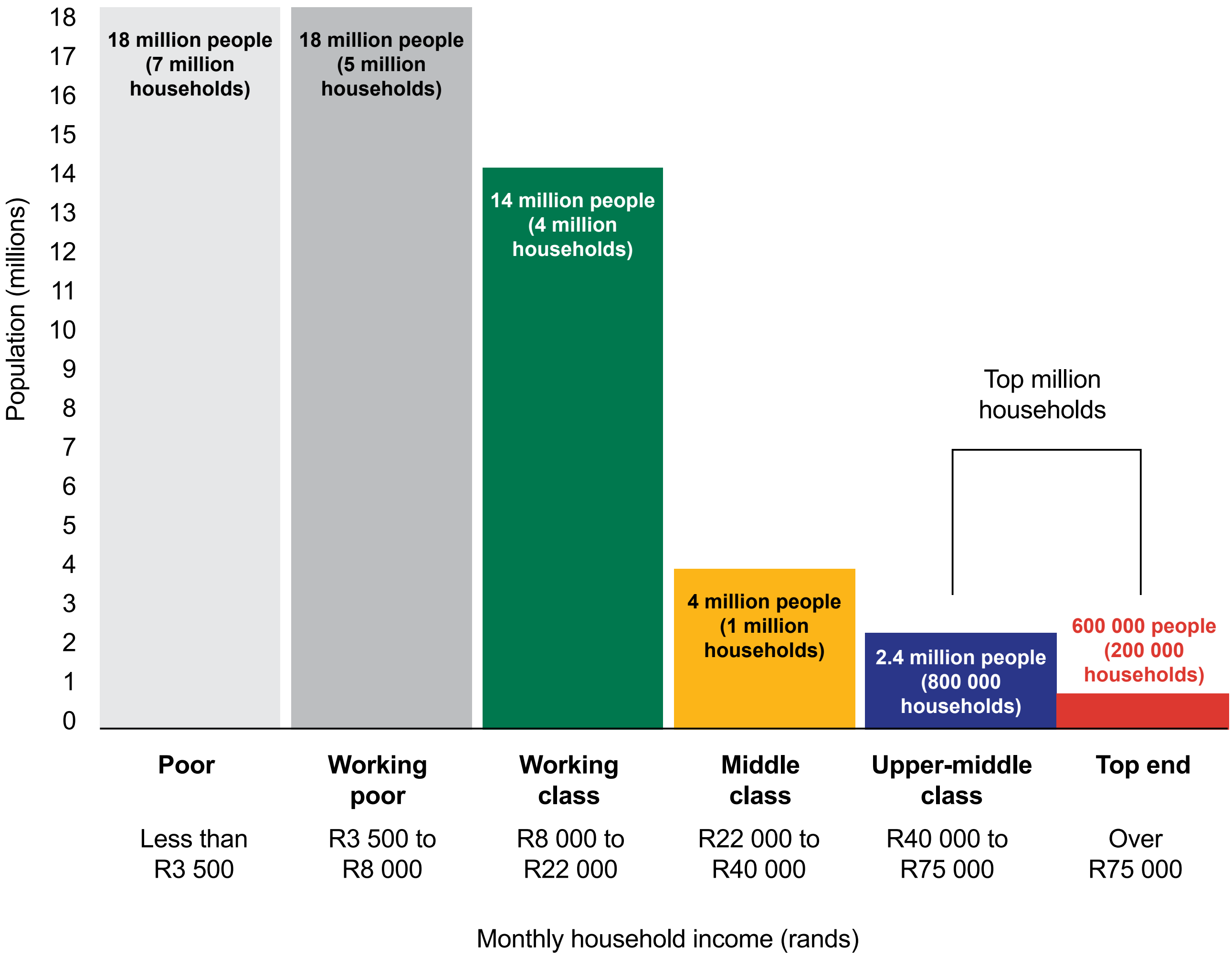
Figure 5.7: The two different, but connected, economies in South Africa[19]



In the same way that each of the segments has a different size, they also have a different proportion of South Africa's total consumer expenditure. In Figure 5.9, each segment is shown in proportion to total consumer expenditure.

Even though the Poor households include nearly a quarter of South Africans, these households only account for 6% of overall consumer spending power. This is in sharp contrast to the 'Top end' who only make up just over 1% of the entire population, but account for 13% of all consumer spend.

Figure 5.8. The South African consumer landscape by segments based on household income[20]



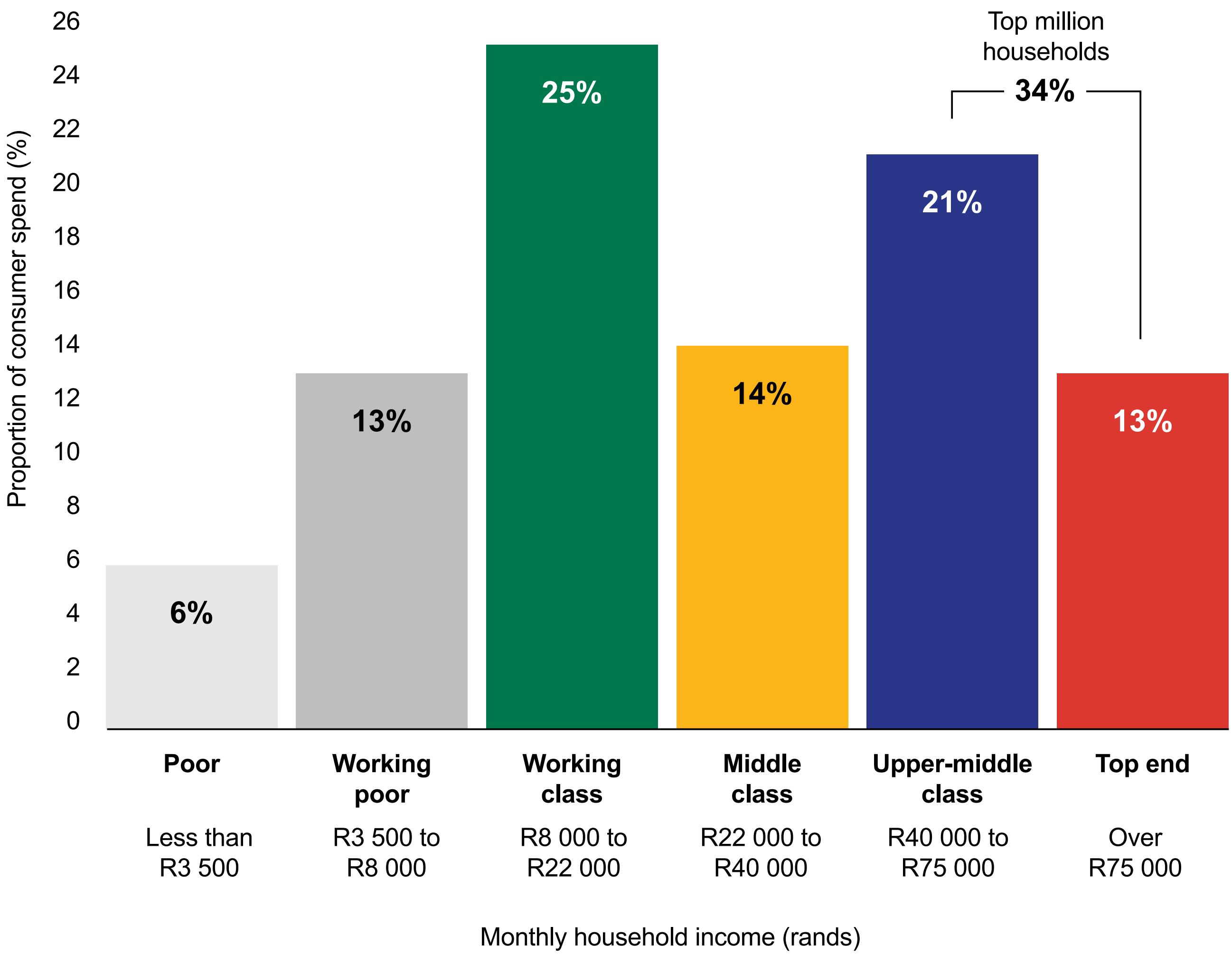
In the next sub-sections, each of the household income segments in the figures above is explained and defined. This provides a foundation for further segmentation, as discussed in Chapter 11. All the data for these segments is sourced from NIDS (2019).[21]

Poor

The 'Poor' segment includes everyone living in households earning less than R3500 per month, which is the threshold to qualify for a government RDP house or housing subsidy. Over 7 million households, around a third of all South Africans, can be defined as Poor. Despite being the second-largest consumer segment, the Poor only account for 7% of all South African consumer spend.

Unemployment is endemic, with over half of all Poor households being without an adult who is employed. This means that there is a heavy reliance on government grants, especially child-support grants and old-age pensions. Those who are working typically work in the informal sector where wages are low and the practice of workers' rights is largely non-existent.

Figure 5.9 Proportion to the total consumer expenditure by segment[22]



The Poor also represent the biggest segment in every province except Gauteng. However, there are more Poor households in Gauteng (South Africa's most populous region) than any other province. Due to the heavy reliance on grants, much of the spending by this segment occurs at month end. Indeed, buying behaviour varies significantly throughout the month, with bulk buying typically concentrated at the end of the month and top-up purchasing of basics being more common throughout the rest of the month.

Working poor

The 'Working poor' group comprises those South Africans living in households earning R3500–R8000 per month. R8000 is the cut-off point for qualifying for a child support grant in South Africa. This group constitutes the biggest consumer segment, with over 18 million people. Although the group make up nearly a third of all South Africans, they only are only responsible for less than 15% of all consumer spend. Levels of unemployment are significantly lower than the Poor, with 20% of households being without an adult who is employed. However, of those working, most are employed in low-skilled positions. Despite earning more than the Poor, the Working poor segment is still under immense financial pressure. This means that prices are scrutinised and budgets carefully managed. Many households closely examine specials in advance of carefully planned month-end shopping trips.

Working class

The 'Working class' earn R8000–R22 000 per month. They account for about 20% of all South African households and for a quarter of all consumer spend. This segment is often referred to as the 'Gap Market'. This is because people in this group fall into the gap between qualifying for a traditional government housing scheme and having sufficient income to secure loans from the private sector to buy property.

The government has tried to address this problem by implementing a Gap Market Housing Subsidy to help households which earn less than R22 000 per month. Unemployment in this group is relatively low (14%), with nearly 40% of those working in positions that require a high level of skill. It is not only in the context of housing in which this group falls into the proverbial gap. Medical aid and education are other categories where a large portion of this segment is not able to afford private-sector alternatives. However, there are many examples of businesses developing affordable medical and education products for this market.

Middle class

The 'Middle class' group includes households earning R22 000–R40 000 per month. Although the group is four-and-a-half times smaller than the Working poor segment, their combined spending power is greater. This group also has a greater likelihood of having more than one earner in the household (42%). A characteristic of this group, compared with poorer segments, is that they are likely to possess a high level of education. Over 50% of households contain an adult with a tertiary qualification.

Furthermore, while poorer segments are overwhelmingly Black African, nearly 50% of this segment is made up of other races. This group is more likely to have access to private vehicles than the poorer segments, which means that they have more choice and flexibility in terms of where they shop and the entertainment opportunities available to them. This also has all sorts of other implications for marketers who need to be cognisant of the ability of consumers in this segment to transport goods, shop around and explore locations beyond traditional public transport routes.

Upper-middle class

The 'Upper-middle class' group comprises households earning R40 000–R75 000 per month. There are only 800 000 households in this segment, which is equivalent to around 4% of all South African households. This segment exposes the huge disparities in income inequality. With an average household income of over R60 000, the Upper-middle class account for nearly a quarter of all consumer spending power. Over half of this segment is white and nearly 70% of households include at least one adult who has a tertiary qualification.

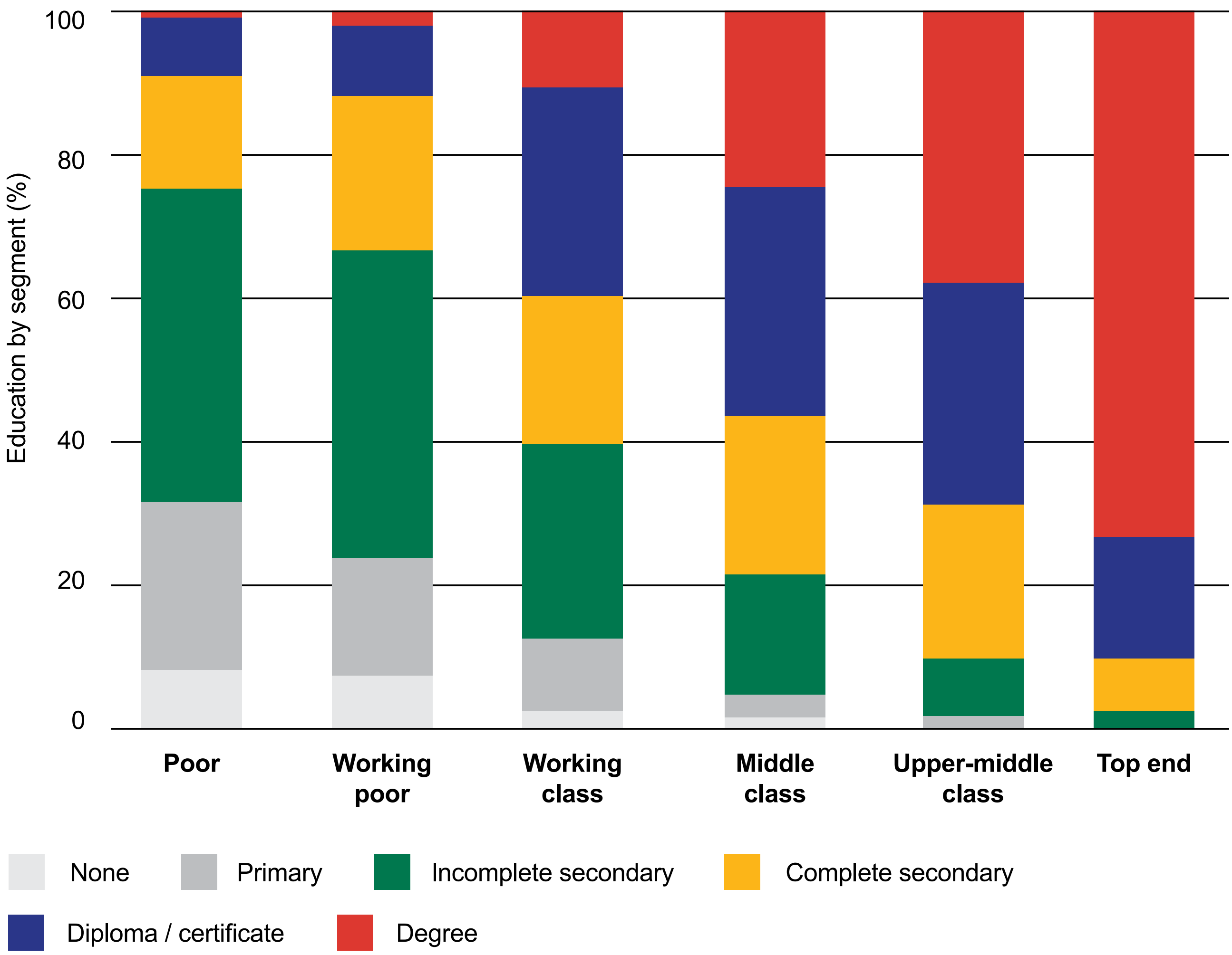
The racial breakdown of this segment has shifted over the last decade and the proportion of Black African households has increased significantly. Marketers targeting this segment have to continually shift their focus and strategies to ensure they also appeal to new entrants in the segment.

Top end

'Top end' households earn over R75 000 per month and account for just over 1% of all South African households. In addition to income inequality, this group highlights the correlation between educational attainment and income. Nearly 80% of all Top end households include an adult who has at least an undergraduate degree. With an average household income of over R140 000, this segment accounts for around 14% of consumer spend. Over 60% of this segment is white and the most spoken language in the home is Afrikaans. Members of this segment often regard themselves as continually under time pressure. Indeed, a common desire is to eek out more time to pursue interests and commitments outside of work. As a result, they are likely to be receptive to products and services that offer a seamless experience and save time.

In the next section, these different segments are compared in order to help understand both inequality and the need for deeper thinking on development. If marketing's long-term goal is to provide for long-term societal needs (Chapter 1), then situational analysis is important.

Figure 5.10 Education by segment[23]



Comparing segments

Each of the consumer segments described in the previous section is unique, but also forms part of a larger narrative around economic opportunities and outcomes. In addition, there is much income mobility between segments. Upward mobility between segments appears to be closely related to education. In Figure 5.10, it is clear that individuals in the Top end and Upper-middle class are much more likely to have a university degree than the poorer segments. On the other end of the spectrum, the majority of those in the Poor and Working poor segments have not completed high school.

Similarly, economic outcomes are also closely related to race. Although the picture is continually changing and has moved significantly since the days of Apartheid, White households still dominate the wealthier segments such as the Upper-middle class and Top end (see Figure 5.11).

Figure 5.11 Race by segment[24]

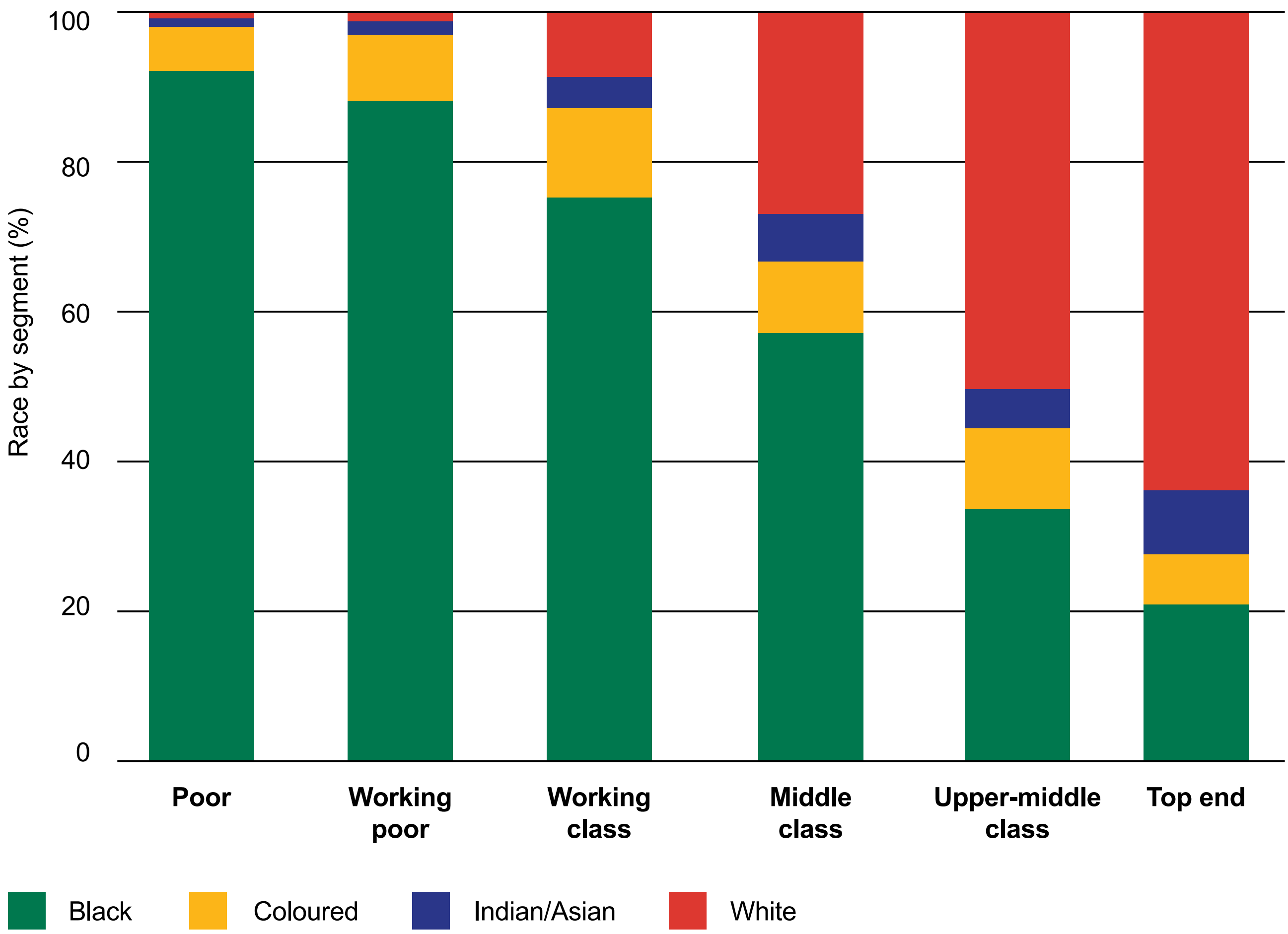


Table 5.3 shows the proportion of each of South Africa's age segments that fits into each income segment. Although the table contains a lot of information, the fact that most consumers in each age group are relatively poor is particularly relevant.

Table 5.3: Proportion age segments in corresponding income segments[25]

	Poor	Working poor	Working class	Middle class	Upper-middle class	Top end
0–14	33.2%	33.7%	23.3%	6.2%	2.8%	0.8%
15–24	33.6%	32.1%	22.5%	7.0%	3.9%	0.8%
25–34	28.5%	34.6%	25.0%	7.9%	3.6%	0.5%
35–44	29.4%	30.5%	24.4%	8.3%	5.4%	2.0%
45–54	30.3%	25.9%	24.6%	9.3%	8.0%	2.0%
55–64	29.2%	26.7%	26.1%	9.5%	6.2%	2.2%
65+	30.2%	31.3%	26.9%	7.6%	3.1%	0.8%

Finally, Table 5.4 provides an aggregated view of each segment by metrics that would be of interest to consumer marketers in South Africa. First, there is a breakdown of households per segment. Note that the Top end only has 200 000 households in South Africa. The row showing aggregate income for each segment shows the aggregate share of the country's overall consumer income. Finally, the segment's share of population and average income is reported.

Table 5.4: Various approximate aggregations of South Africa's consumer segments[26]

	Poor	Working poor	Working class	Middle class	Upper-middle class	Top end
Number of households	7 million	5 million	4 million	1 million	800 000	200 000
Aggregate Income	R140 billion	R250 billion	R520 billion	R290 billion	R480 billion	R280 billion
Share of SA consumer income	7%	12%	25%	14%	23%	13%
Share of population	31%	32%	24%	8%	4%	1%
Average income	R2 000 pm	R5 000 pm	R13 000 pm	R29 000 pm	R60 000 pm	R140 000 pm

The provided data show that South Africa's population is highly income mobile (both upwardly and downwardly). This means that these data will be highly variable over time. Nonetheless, consumer marketers should have a good grasp of these figures in order to understand the markets that they serve.

Conclusion

While there are many ways to segment consumers, this chapter provides a survey of South Africa's 60 million people in six major segments. This does not mean that people living in these segments are the same. They may live in similar economic circumstances, but they inevitably have different tastes, desires and behaviours. For marketers, understanding the consumer landscape is only one step when it comes to understanding consumer behaviour. Understanding differences within each segment and identifying needs and wants are just among some of the additional steps required if one is to truly connect with individuals in the various segments.

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The South African Retail Landscape

CHAPTER

6

Maryla Masojada

Introduction

This chapter aims to provide an overview of South Africa's consumer goods retail environment and why it is so important for marketers to understand. The chapter looks at the formal and the informal retail sectors (both bricks-and-mortar and online) and the key role that each play in the market. The chapter is underpinned by the unique nature of South African retail, the history behind it, the forces that have shaped it, and the prevalent trends at play.

What is retail and why is it important for consumer marketers?

Every day, millions of consumers across the country visit retail stores, either physical ones (known as bricks-and-mortar stores) or digital ones, using the internet or cellular networks (e.g. USSD enabled transactions). They visit these stores to buy food and household goods (groceries), clothing, hardware, health and beauty products, and so the list goes on. Think about all the different types of stores you visit every week to buy the range of products that you need.

In formal terms, **retail** is defined as,

> *the activity of selling goods to the public, usually in small amounts, for their own use, including the resale (sale without transformation) of new and used goods and products to the general public for household use*[1].

In the early days of the internet the line between 'pure-play'(Chapter 15) internet retail and bricks-and-mortar retail was much clearer. Today, most if not all major retailers trade across both, facilitated by continually improving IT systems and processes.

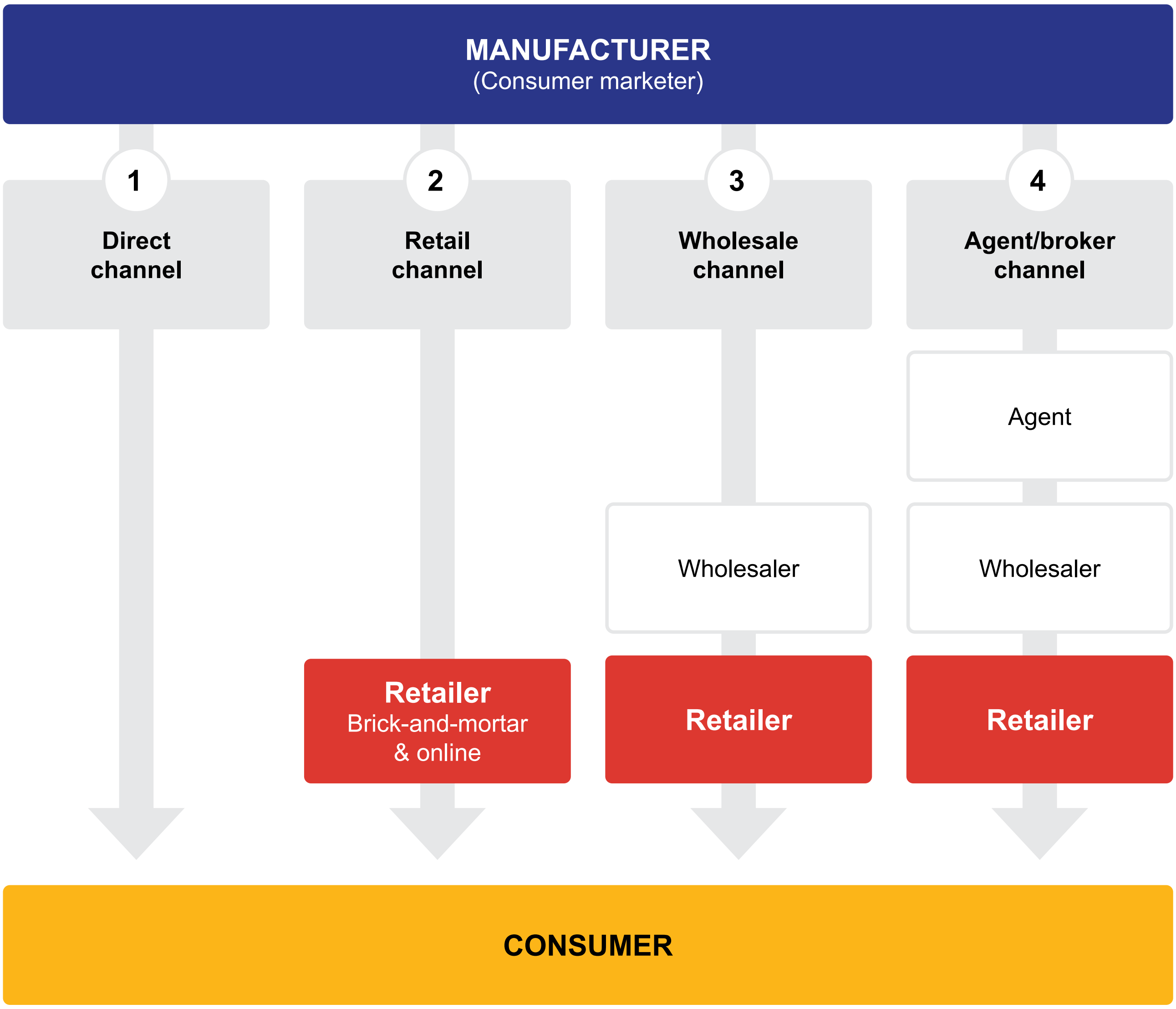
Retail is distinct from the business of **wholesale**, which is defined as:

> *an enterprise deriving 70% or more of its turnover from sales of goods to other businesses and institutions.*

For example, a hair-care product such as a 'Black Like Me' hair conditioner purchased for a consumer's personal use is a retail sale, whereas a 'Black Like Me' hair conditioner purchased in bulk by a hairdresser to use in their beauty salon on a client's hair is a wholesale transaction. Both are product distribution and marketing channels, and both are important for consumer marketers to understand and engage with to achieve effective distribution and sales of their product to the end consumer. Marketers need to ensure that the right product variants and pack sizes are available in the right retail formats (whether physical or digital), at the right price, to appeal to the consumer who shops at that type of store (Chapter 15).

A manufacturer, unless selling directly to their end-consumer, needs to work with different networks of retail, wholesale, distributor and other organisations to bring their product to market. Figure 6.1 shows the primary distribution channels available to consumer goods manufacturers, but it is the retail channel that is most visible to the consumer. According to Mucuk, 'Retailers work as buying agents for consumers and as sales agents for their suppliers[2].

Figure 6.1: Where retail fits into product distribution channels



The retail store is the place where consumers are able to buy a wide range of different manufacturers' products in one place, from paint and garden equipment at Builder's Warehouse or Sizwe Paints to a fresh lettuce or cabbage at Makro or the spaza store down the road, to different types of speciality cheeses at Checkers or Pick n Pay. Figure 6.1. shows where retailers fit into product distribution networks. We explore the subject of product distribution channels and the role of these intermediary businesses in more depth in Chapter 15; however, because retailers have a direct influence on the manufacturer's product visibility, pricing, profitability and brand positioning in the market, it is very important for a marketer to understand the retail landscape in which they are working. In this chapter, we focus specifically on consumer goods (grocery) retail in South Africa.

The South African retail landscape

South Africa is a large, complex and dynamic country with almost 60 million diverse people of varying races, cultures and incomes, spread across nine provinces and speaking 11 official languages[3]. Vastly differing South African consumer needs and expectations along with unique political and socio-economic forces have resulted in a retail landscape that spans from sophisticated modern 'formal retail' chain stores, such as Woolworths, Checkers and Pick n Pay, largely serving upper-income consumers, to big-box cash-and-carry and hybrid stores such as Makro, to neighbourhood convenience stores like SPAR, to thousands of informal retail spaza shops selling food and grocery products in townships and poorer communities.

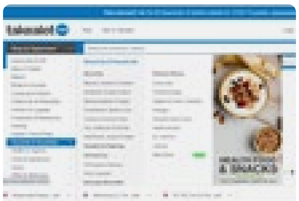
This mix of formal and informal retail businesses serves the cross-section of South African consumers; both play an integral role in the retail and consumer goods economy. Online retail can span both formal and informal retail operations. The differentiation between formal and informal retail is a natural place to start when looking at the different kinds of retailers in South Africa. It is also our first example of retailer classification, a process similar to consumer segmentation, but one which is done by marketers when selecting which retail channels to use to distribute their brand/product (Chapter 15).

Figure 6.2: Examples of consumer goods retail formats in South Africa

Formal retail

Informal retail

Supermarket retailer
(e.g. Checkers)



Online retailer
(e.g. Takealot)

Retail hybrid
(e.g. Makro)

Spaza store
(e.g. Halleluya Supermarket)

The differentiation between formal and informal retail is important for a few reasons. The formality of a business and its ownership structure will affect how a manufacturer (consumer marketer) sells to and services the retailer and how much it costs to get their product onto that retailer's shop shelf. This cost is known as 'cost-to-serve'.

To be classified as a **formal retail** business,

> *a business must be operating within the official legal framework (of South Africa) and be registered with the South African Revenue Services, paying the relevant taxes on all generated incomes.*[4]

Within the formal retail sector, there are different types of retail business ownership structures ranging from corporate retailers listed on the JSE, such as the Shoprite Group and the Pick n Pay Group, to voluntary buying organisations such as SPAR and Unitrade Management Services (UMS) to small independent supermarkets operating as a sole proprietor. We look at formal definitions of these terms later in the chapter.

The definition of **'informal retail'** varies across academic texts and between organisations, but essentially consists of small, unregistered businesses operating as street vendors and in-home businesses established on residential sites (often termed spaza shops or tuck shops in South Africa).[5]

The informal economy in the South African retail context plays a vital role in employment, food security and income generation and it is an important contributor to business development. While the informal sector businesses usually lack formality in terms of business licences, VAT registration, operating permits and accounting procedures[6], these stores are not necessarily illegal operators. Trade Intelligence (Ti) reports that the relative size of the formal versus informal retail sectors is approximately 70:30, as shown in Figure 6.3. This 70:30 ratio will vary significantly depending on the manufacturer's product. Omo handwashing powder or White Star maize meal, for example, will have a far heavier informal retail sales weighting compared to basmati rice or olive oil, which would sell predominantly through formal retail stores to largely middle- to upper-income consumers.

Formal retail

The formal retail sector in South Africa can be, at its broadest level, categorised into **corporate retail** and **independent retail**. Within these classifications, there are different kinds of business-ownership models. This is important for marketers to take into consideration when working with their chosen retail channel partners (Chapter 15) because the business ownership model will impact and inform how the manufacturer engages and services that retailer. Examples of these are shown in Figure 6.4 and include public and private companies, franchises, voluntary buying groups, partnerships and sole proprietorships. Franchise and voluntary buying group structures can be corporate, listed businesses, such as SPAR and OK, or they can be independent, private companies, such as Unitrade Management Services (Pty) Ltd.

Figure 6.3: Formal versus Informal consumer goods retail in South Africa (rand sales)[7]

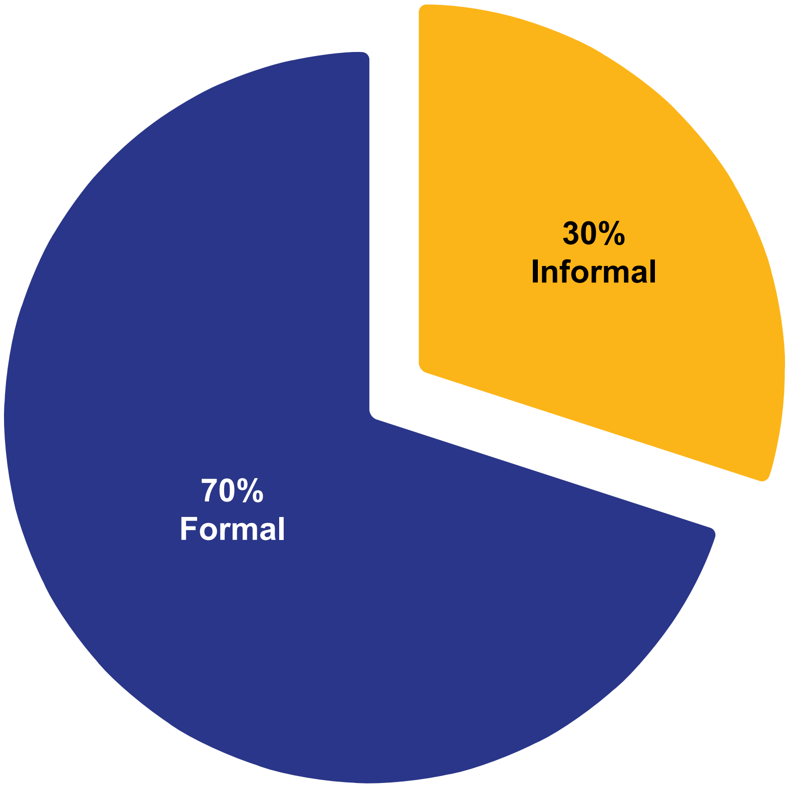
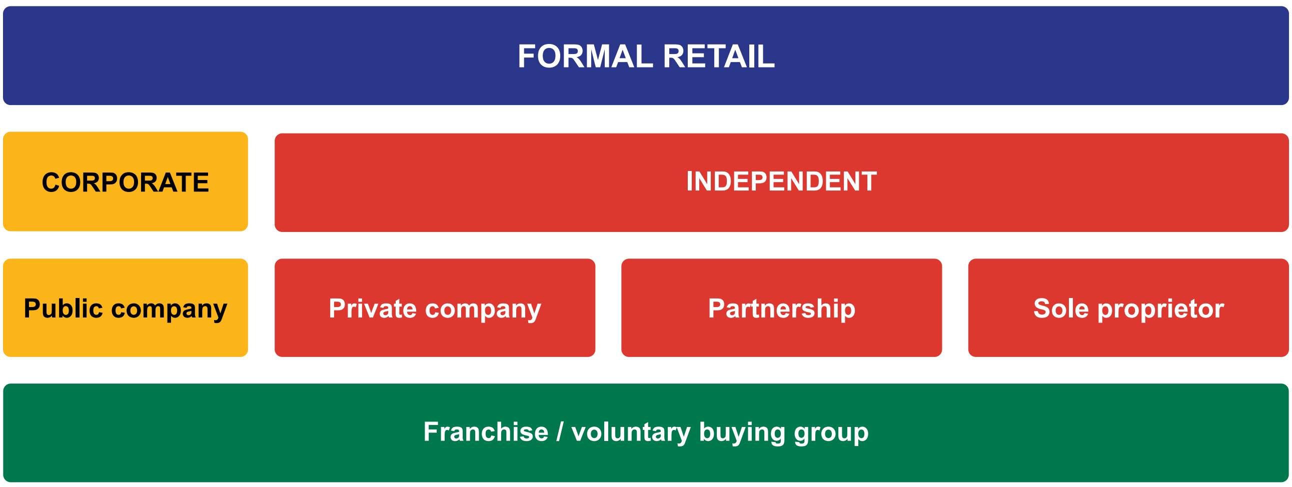


Figure 6.4: Forms of retail business ownership



Forms of business ownership

The following are short definitions of some of the business ownership models prevalent in South African consumer goods retail:

- **A limited liability company (Ltd)** is a company established according to the Companies Act 71 of 2008. They can be either public or private companies.

- A **public company** is a business that is listed on the stock exchange and issued shares of company stock that may be bought and sold by the general public. The buyers of those shares become shareholders of the company and all shareholders have limited liability. The daily trading of the public company's stock by its shareholders determines the value of the business. All listed businesses are public companies but not all public companies are listed businesses. An example of a public company retailer is Shoprite Holdings.

- A **private company (Pty Ltd)** or proprietary limited company is treated as a separate legal entity. The owners of a Pty Ltd are also known as the shareholders but shares are not publically traded. A private company must comply with a large number of legal requirements with financial statements needing to undergo annual auditing. An example of a private company retailer is Food Lover's Market.

- A **partnership** has two or more owners and a written partnership agreement. Partners will also pool their money towards a common goal, share specialised skills and resources and share in the ups and downs of business success.

- A **sole proprietor** is a business owned and managed by one person. It is the simplest form of business entity because the business is not separate from the owner.

- **Franchise businesses and voluntary buying organisations** are kinds of purchasing platforms which combine the needs of many independent businesses to secure lower prices. Whilst the franchise or buying group could be a public or private company, the franchisee or member is an independently owned business run as a private company, partnership or sole proprietor.

- A **franchise** is when a franchisor (the owner of a business) licenses their business to a third party. For example, OK Foods (Shoprite Holdings) licenses the rights to its name, operating procedures, branding, business expertise and other services to the franchisee, an independent retail business owner. The franchisee pays franchise fees and other agreed costs to the franchisor. When working with franchise retail organisations, manufacturers need to engage with the franchisor and the franchisees to make sure their product is well represented on the shop shelves.

- A **voluntary buying group** is a business that operates as a wholesaler to a group of independently owned businesses. These are smaller retailers who undertake to place a certain amount of their product orders through the voluntary group in return for better pricing and various back-up services (such as promotions).

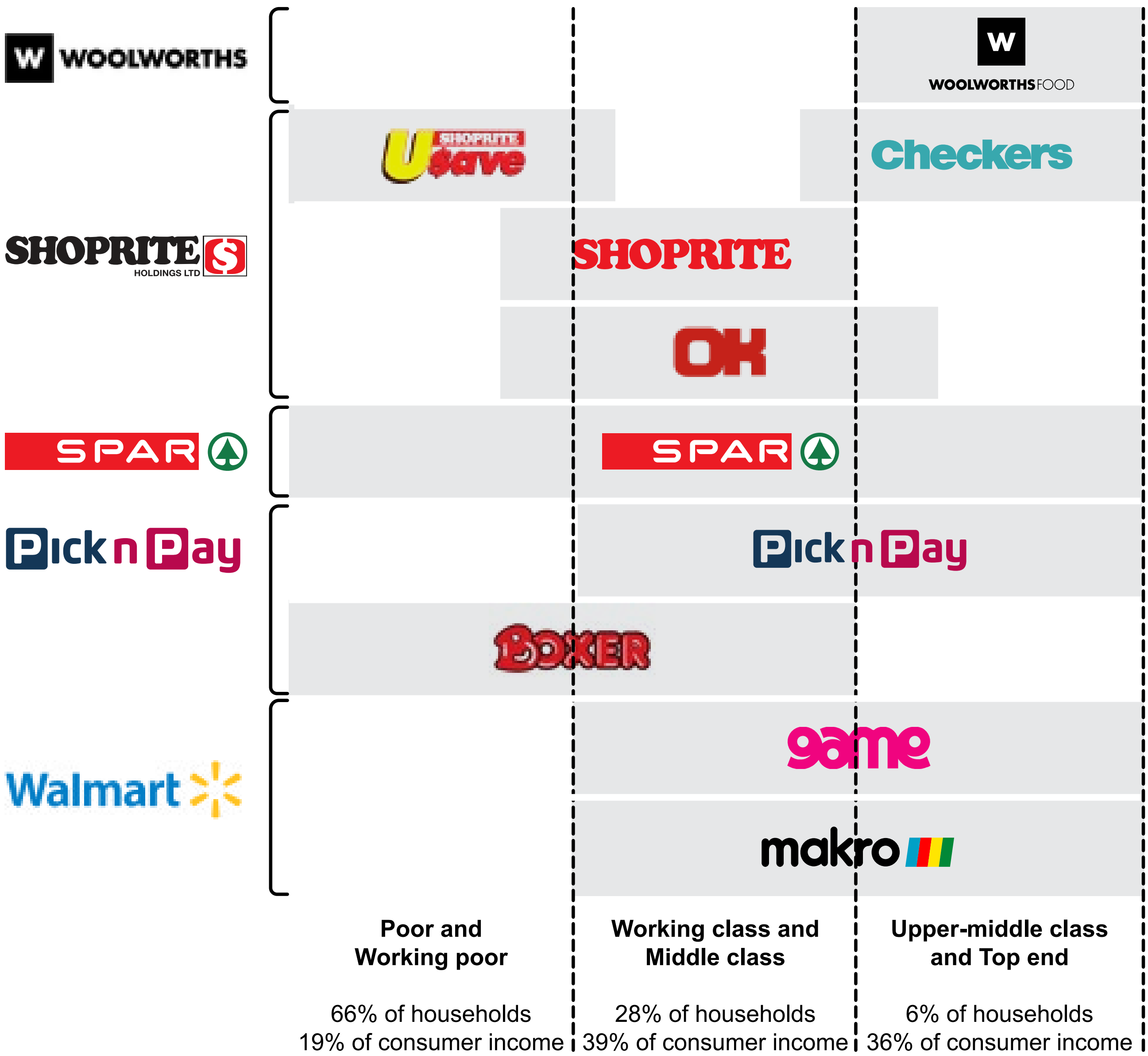
Corporate Retail

The corporate retail sector consists of listed public companies such as Pick n Pay Stores Limited or Shoprite Holdings. The corporate retail sector is also sometimes referred to as *modern trade*, as stores generally have sophisticated fittings and fixtures, are part of a branded retail chain and have a formal supply-chain infrastructure. It is important to note that the term *modern trade* can be misleading as there are independent retail businesses which operate as modern trade retailers, Food Lover's Market being an example. A **retail chain** is where two or more retail outlets share common ownership, brand and standardised business practices.

Corporate retail is dominated by five companies: Shoprite Holdings Ltd., Pick n Pay Stores Ltd., Massmart Holdings Ltd., (51% Walmart owned), The SPAR Group Ltd. and Woolworths Holdings Ltd., (Figure 6.5). In response to South Africa's high levels of income inequality, formal retailers have adapted with relevant formats and ranges to meet the needs of a shopper base which extends from the very poor to the extremely wealthy. Woolworths Food, Checkers and upper-income SPAR and Pick n Pay stores serve the wealthier segments with stores that can compete with the best in the world in terms of shopping experience and product range. Discounters and no-frills supermarkets, such as Shoprite, Boxer, Usave and Cambridge, bring mid- to lower-income shoppers quality food at low prices in a pleasant and clean shopping environment.

Figure 6.5 is indicative of how some of South Africa's corporate grocery retailer's serve the cross-section of South Africa's consumer's with their major trading brands. The profile of the shoppers has been segmented according to the National Income Dynamics Survey (NIDS) data.[8]

Figure 6.5: Corporate retail players, their trading brands and the profile of their shoppers



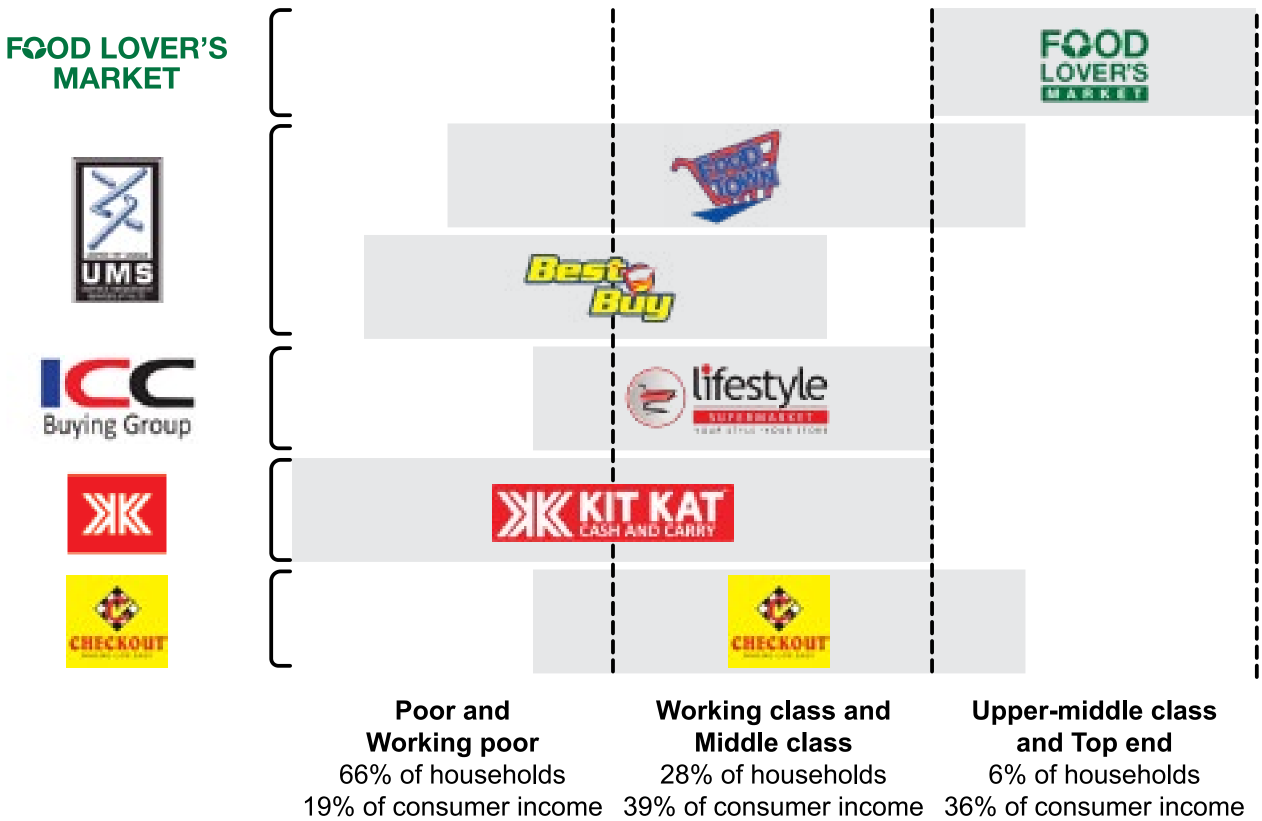
Formal independent retail

Formal independent retail businesses range from a sole proprietor owning and managing a single store to a private company owning a chain of stores (Figure 6.4). The line between a voluntary trading organisation, buying group and franchise operation is dependent on how formal and how strict the terms of the contractual agreement between the member retailer and the principal company are. The principle company provides some or all of the following services to their franchisees or members:

- Centralised price and trading term negotiation with manufacturers
- Economies of scale achieved through collective buying
- Retail business skills support
- National or regional promotional programmes

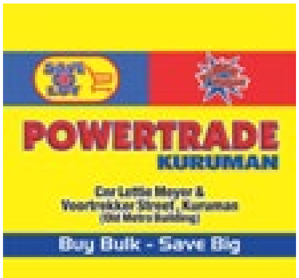
The independent retail sector in South Africa is characterised by strong regional independent chains such as Chamberlains (a hardware store focused in the Gauteng province) or Checkout (a supermarket chain trading in seven provinces) and small operators that may be operating independently or as a member of a franchise, buying group or voluntary trading organisation. Buying groups and voluntary trading organisations play an important role in this sector. Companies such as Unitrade Management Services (UMS), the Independent Buying Consortium (IBC), Shield (owned by Massmart Walmart) and the ICC Buying Group are largely unknown entities to the general public, as their business names bear no resemblance to their retail brands. For example, the ICC Buying Group's retail brand is Lifestyle Supermarket. Figure 6.6. shows some of South Africa's major formal independent retail businesses and the target consumers that shop in their stores.

Figure 6.6: Examples of independent retail players, their trading brands and the profile of their shoppers[9]



South Africa's major buying groups, because of their historical membership profile (of predominantly wholesale cash-and-carry stores) are often classified as 'general trade' or as a part of the wholesale channel by consumer goods marketer's and are serviced as a wholesaler. This means manufacturers sometimes miss the product distribution and consumer marketing opportunities that these stores present. Examples of South African buying groups with retail and retail hybrid members are Unitrade Management Services (UMS), with Powertrade stores such as Powertrade Kuruman, Shield Buying and Distribution, with members such as Mambha Cash & Carry, and the Independent Cash & Carry Group (ICC Group) with its Lifestyle Supermarket stores. Corporate retailers who operate in the main market selling to lower-to middle-income consumers compete with these formal independent retail businesses (see Figure 6.7).

Figure 6.7: Main market retail stores often mistaken as wholesalers



The shopping centre phenomenon in South Africa

South Africa has the sixth most shopping centres in the world, with over 2000 shopping centres spanning around 23 million square metres of formal retail space.[10]

A **shopping centre** is,

> *a group of retail and other commercial establishments that is planned, developed, owned and managed as a single property, with on-site parking provided.*[11]

South Africa has a range of different kinds of shopping centres ranging from massive regional centres, such as the Mall of Africa in Gauteng or Gateway in kwaZulu-Natal, to relatively small neighbourhood and community shopping centres. Examples of these are shown in Table 6.1.

The acceleration of shopping centre development in the late 1990s and 2000s, including Maponya Mall in Soweto and Gateway Theatre of Shopping in Umhlanga, had a significant impact on the retail landscape. As well as serving the middle-to upper-income consumer in major cities, new centres provided corporate retail access into areas which they previously did not service and were largely the domain of informal retail and strong, regional independent retailers. In some cases, the pace of new shopping centre development put pressure on corporate retailers to open stores where they otherwise may not have; if they did not, another corporate retailer would.

Table 6.1: Types of shopping centres in South Africa[12]

Type of shopping centre	Size in square metres	Examples
Super-regional centre	> 100 000m² > 250 stores	Mall of Africa, Midrand Canal Walk, Century City, Cape Town
Regional centre	50 000m² - 100 000m² 150 - 250 stores	Maponya Mall, Soweto Galleria, Amanzimtoti
Small regional centre / large community centre	25 000m² - 50 000m² 75 - 150 stores	Soshanguve Crossing La Lucia Mall, Durban
Community centre	12 000m² - 25 000m² 50 - 100 stores	Mtuba Mall, Mtubatuba Cosmo Mall, Randburg
Neighborhood centre	5 000m² - 12 000m² 25 - 50 stores	Checkers Centre, Kathu Kyalami on Main, Midrand
Local convenience centre	500m² - 1 000m² 5 - 25 stores	Parktown Quarters, Parktown North, Jhb Addys Plaza, Botshabelo
Lifestyle centre	13 000m² - 50 000m² 50 - 125 stores	Lifestyle Garden Centre, Randburg Lifestyle Centre, Polokwane
Value centre	7 000m² - 52 000m² 20 - 40 stores	Menlyn Retail Park, Pretoria Capegate Value Centre, Cape Town

There is a strong view that the rollout of shopping centres negatively impacted independent and informal retail. With shopping centre developers favouring major (corporate) retailers, it created a barrier to entry for strong regional independent retailers and significantly impacted South African spaza retailers.We explore this in more detail later in the chapter.

In recent years, a struggling Middle class, the consumer demand for convenient shopping solutions and online shopping have negatively impacted the number of consumer's visiting shopping centres, with many shopping centres looking at alternative ways to attract consumers, such as offering small craft markets on weekends or live entertainment.

Informal retail

Informal grocery retail in South Africa ranges from hawkers and table-top operators to fixed structure, hole-in-the-wall stores, known as spaza stores, to small supermarkets referred to as spazarettes. In Chapter 15, we study the formal definitions of these terms. This chapter focuses only on fixed structure consumer goods retailers, but manfuacturers should not ignore hawkers and table-top operators or other 'informal' channels such as pharmacy (informal chemists), fast-foods and liquor (shebeen's), which are also important distributors of consumer goods such as confectionary (sweets and chocolates) and personal care products to township, rural and peri-urban areas.

The term *spaza* originated during Apartheid when trading restrictions were placed on Black people running businesses. It is not a direct translation of any South African language and there are different views regarding where the term originated, but in essence it means 'hidden', with stores hidden from authorities, trading from a roadside shack or from someone's bedroom window.

A spazarette store is larger than a spaza with a small supermarket-style offering (Chapter 15). Other terms sometimes used by manufacturers when referring to this sector of retail are *General Trade* (GT) or *Traditional Trade* (TT).

Few studies of the spaza trade at national scale have been made and the value of the sector differs depending on the chosen data source. Nielsen Holdings Plc (2016) have suggested that there are about 134 000 'traditional trade' outlets, worth R46 billion in trade per annum, whilst Trade Intelligence (2020) value the informal retail sector at R158 billion.[13]

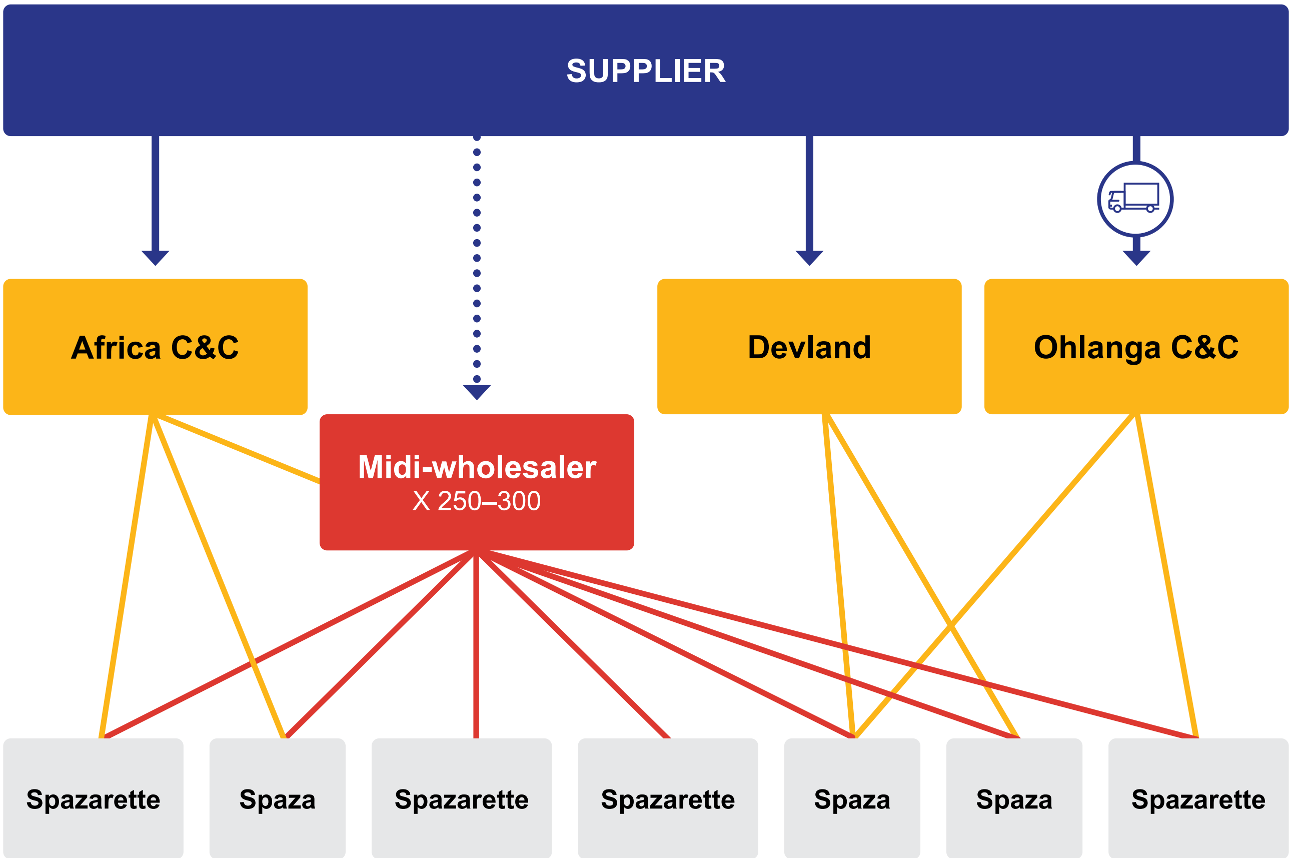
Since the early 2000s the face of spaza shop owners has gone through significant change. We look at this evolution in more detail later in the chapter. It is estimated that 70%-85% of the approximately 100 000 spazarettes are run by immigrants, with four groups dominating – Somali, Ethiopian, Bangladeshi and Pakistani – with the first two being dominant in terms of numbers.[14] Many have permanent residency and hold a South African identity document, so are able to open a bank account, register for VAT and claim to pay tax. There are misconceptions about the spaza sector: that they are 'hole-in-the-wall', expensive, dirty and stock counterfeit brands. This may be true for some, but most spazas and spazarettes today offer relevant products in a convenient location, often with prices on par or cheaper than corporate retailers.

Informal retail operators can be grouped into two categories:[15]

- **Survivalist**
  These are owner-operated spazas, mostly trading from the owner's home. These stores resemble the spaza stores of the 1980s and 1990s and are largely owned and run by South African traders. These businesses are informal because they have no choice.

- **Networked**
  These are spazas and spazarettes that belong to a broader trader community network which facilitates more effective trading. Today, about one-third of spazas have evolved into spazarettes, most with brightly painted, branded store murals offering a clean, pleasant shopping environment to township consumers. The immigrant retailer community has grown to know South African township and poorer community needs and set up a network and informal collaborative trading infrastructure that has facilitated the growth of these stores into the significant players they are in the convenience distribution channel providing a viable alternative shopping destination for township and rural shoppers.A survey by marketing agency Minanawe, in conjunction with Standard Bank, in 2016, found that informal retailers were on average 7% cheaper than formal retailers on a basket of branded groceries. Adding transport costs to that saving, it gives consumers a strong incentive to shop at the local spaza or spazarette down the road. Within the Somali community, rather than being owner-operators, spaza store managers tend to work for those who own the larger upstream midi-wholesaler that supplies their stores with stock. Some of these upstream midi-wholesalers operate in networks with significant turnovers, sometimes travelling long distances to buy product at the best available price, whether it is from a large wholesaler, such as Devland or Ohlanga Cash & Carry or Shoprite or Boxer (Figure 6.8).

Figure 6.8: Building supply and distribution networks

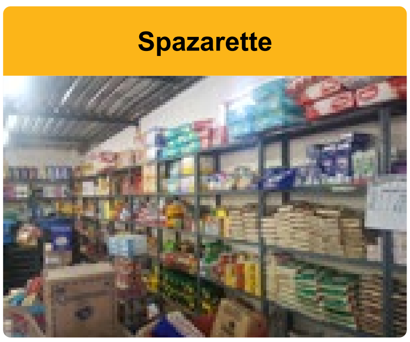


The definition of a midi-wholesaler is:

> *a small wholesaler which carries a narrow range of their spaza and spazarette customers' most popular product lines. They are located close to the spaza and spazarette customers they serve.*[16]

The outlets have remained largely hidden from manufacturers because they buy their stock from South African wholesalers (or retailers, depending on where they get the best bulk price). This is because most big brand manufacturers are not set up to transact with informal businesses such as these which predominantly trade in cash.

Figure 6.9: Examples of types of informal retail stores



Challenges faced in measuring the informal retail market include the ongoing lack of official data, the frequent relocation of foreign immigrant spaza shopkeepers, the context of fear and violence and privacy concerns relating to the disclosure of personal income levels and shops' legal compliance.

Online retail

Ecommerce refers to commercial transactions conducted online. This means that whenever you buy and sell something using the internet, you are involved in ecommerce.[17] Ecommerce has transformed the process of buying and selling goods and its continued rapid growth is changing the nature of both business-to-business (B2B) and business-to-consumer (B2C) commerce, influencing product availability, inventory (stock holding), transportation patterns, pricing, and consumer behaviour worldwide.

For the purposes of this chapter, we will focus on a narrower definition of ecommerce known as **e-retail** (sometimes referred to as *e-tail*). E-retail is,

> *the sale of retail goods electronically via the internet.*[18]

Some definitions of e-retail exclude the sale of services, such as travel, eventing, accommodation and tourism.[19]

Globally e-retail (or online retail) is unquestionably a growing force. Shopping online can make it easier and more convenient for consumers to purchase goods and services, eliminating the extra time and effort needed to visit a store and to be limited to shopping during regular shopping hours. However, despite predictions that it would lead to the end of bricks-and-mortar retail, across all product categories, pre-COVID total online retail sales only accounted for 1.4% of South African retail sales.

The growth of online retail (e-retail) in South Africa has been hindered by the following factors:

- **Access and usage divide**[20]
  Of South Africa's population of nearly 60 million, 36 million belong to households earning R8 000 or less per month.[21] The high price of data and internet services creates an access divide across the population. The usage divide in the context of online retailing refers to those internet users who do not participate in online shopping. Of the approximately 28 million South Africans who have access to the internet, 21 million access the internet via their cellphones and only around 3.5 million engage in actual online shopping.

- **Reliability and cost of delivery mechanisms**
  When data access and costs come down, delivery logistics improve and consumer trust grows, e-retail growth will accelerate.[22] Each of these levers are key for the growth of online retail, particularly in grocery's fresh and frozen food categories. The most popular online categories in South Africa include clothing, footwear, electronics and downloadable digital entertainment. In these categories online sales have put enormous pressure on bricks-and-mortar retailers. DionWired (owned by Massmart Walmart) is an example of an electronics retailer which had to close its doors in March 2020 as a result of competition from the likes of Takealot.

The category that has been the last frontier in terms of online sales growth has been fresh and dry (single unit) groceries. There is no app that can squeeze an avocado to check it is ripe. Until 2019, the only retailers that attempted to sell perishable (fresh and frozen) food online were Pick n Pay (launched in 2001) and Woolworths (launched in 2011).

This is largely due to how complex and costly it is to deliver small units of relatively low margin items to individual consumers. Providing a fresh offering requires a well-managed cold chain with refrigerated delivery vehicles or a short distance (travel time) between product picking and delivery point, with someone physically present to accept the delivery. This last stage of the delivery of the product into the hands of the consumer is known as 'the last mile'. For retailer's the term 'last mile' is defined as,

> *the end-stage logistics involved in getting orders to customers, as well as accepting returned goods.*[23]

In their efforts to grow sales and improve the profitability of online grocery sales, e-retailers have explored a range of last mile delivery solutions. We look at these trends in more depth later in the chapter and in the supply chain discussion in Chapter 15.

Figure 6.10: A snapshot of e-retailers in South Africa[24]

Key online retailers in SA
There are two types of e-retailers in South Africa: pure-play e-retailers, such as Takealot.com: Zando.co.za and NetFlorist.co.za, and 'bricks-and-clicks' e-retailers such as Makro.co.za and Picknpay.co.za. We look at the definitions of these terms in more depth in Chapter 15. Figure 6.8 shows some of the e-retailers that sell consumer goods online. These range from multi-category retailers, such Takealot.com, bid-or-buy.co.za and Makro.co.za, to specialist e-retailers which focus on selling products in specific categories, such as pet care or health and wellness.

In the **'pure-play'** arena, Takealot.com (established in 2011) is the largest e-retailer in South Africa and one of the largest on the African continent.[25] It trades across multiple categories, including electronics, lifestyle, media & gaming and fashion products. Since inception, Takealot has invested significantly in developing its logistics and distribution infrastructure.

In the (formal) **bricks-and-clicks** arena, retailers include Pick n Pay, Makro, Woolworths and Checkers. All offer home or selected drop-off point deliveries and click-and-collect services, where the consumer opts to collect the product in-store. Makro added conveniently located locker pick-up points as additional convenient solutions for their online shoppers. We explore these innovative solutions in more detail in Chapter 15.

The shaping of South Africa's retail landscape – looking back

The South African retail sector is an example of how significantly an industry can be shaped by a political context. In Chapter 1, we looked at consumer marketing in South Africa and explained the background to some of the consumer phenomena that were shaped by the South African consumer's context. Similarly, each of these phenomena had a fundamental impact on consumer goods retailing in South Africa. This section is divided into subsections Apartheid (1948─1994), democracy pre-financial crisis (1994─2008) and democracy post-financial crisis (2008─present) where we explain the impact of these phenomena on retailing and the retail landscape in the 2020s.

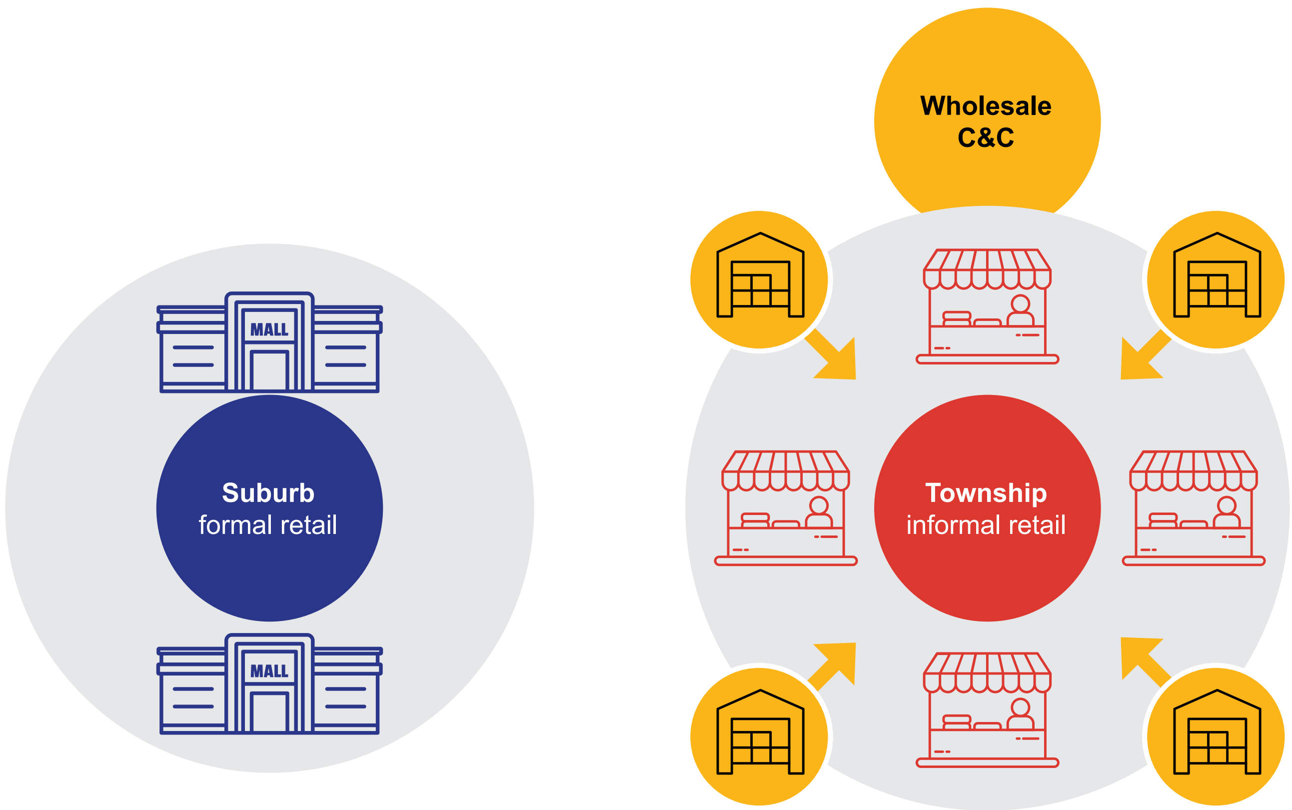
Retail landscape in South Africa during Apartheid (1948–1994)[26]

During the Apartheid era of 1948 to 1994, the majority of SA's population endured an enforced process of segregation, with white people living, for the most part, in suburban enclaves and Black people being removed to high density townships or quasi-independent rural homelands. Townships were essentially sleeper suburbs for a cheap labour force, and as such had no commercial districts.

Corporate retailers such as Pick n Pay (founded in 1967) and Shoprite (established in 1979) focused on trading in major cities and upper income (white) suburbs. South Africa's Black consumers were served in homelands, smaller towns and outlying rural areas by licensed white-owned or Indian-owned shops,[27] such as KwaZulu Cash & Carry (later to become Boxer Cash & Carry, then Boxer Superstores) and SPAR member stores trading in places such as Empangeni, Nqutu and Mandeni, while township consumers were served by a vast class of township entrepreneurs running informal retail stores which became known as spaza stores. These South African owned spazas, which operated from the roadside or from a window in someone's home, carried a limited range of essential commodities and household products. They were generally more expensive than the formal supermarkets, but their location worked in their favour, saving township consumers money on transport costs.

To service these informal independent retailers, wholesale cash and carry stores such as corporate wholesale chain Metro Cash & Carry (no longer in existence) and independent wholesalers, such as Africa Cash & Carry and Kit Kat Cash & Carry, established themselves on the periphery of township areas and in commercial nodes to serve the thousands of spaza stores (Figure 6.11).

Figure 6.11: Pre-1994 structure of the South African consumer goods retail market



During this period consumers' shopping habits revolved around monthly bulk destination shopping at larger stores such as hypermarkets and supermarkets, with emergency top-ups and the 5 Cs (Cigarettes, Cellular, Cold Beverages, Confectionery and Chips) purchased during the week at smaller local supermarkets, corner cafés, garage forecourt retail shops or township spazas.

Retail landscape in South Africa post-Apartheid (1994–2008)

Between 1994 and 2008, the lifting of trading restrictions resulted in significant shifts in the retail landscape. Two main phenomena occurred. First, corporate retailers such as Shoprite and Pick n Pay identified the significant untapped township market and moved into the townships, key commuter nodes and former homelands. Second, regional malls opened in most major townships (for example, Maponya Mall in Soweto and Umlazi Megacity in Umlazi, south of Durban). The resulting **impact on informal retail** in the townships was significant. Unable to compete with these supermarket chains, the South African owned **spaza stores** either went out of business or shifted their focus to sub-leasing their premises. Another factor that hit informal retail hard was the shift in 2005 of social grant pay points from cash pension days in communities to SASSA pay points at corporate retailers such as Shoprite and Boxer. This shifted significant amounts of money out of the township communities into the formal retail sector.

The **knock-on impact on wholesale cash and carry** businesses led some to believe that the wholesale channel was under serious threat of disappearing. Some manufacturers withdrew their investment from wholesale and informal retail, redirecting their trade spend to formal corporate retail. At the time corporate retailers were regarded as easier and more cost-effective to service and they were rapidly providing alternative means of selling to low income, main market consumers. It was during this time that the first wave of consolidation of the wholesale channel took place. A number of medium to large independent wholesale businesses banded together to establish buying groups to improve their buying power in an attempt to compete with the major corporate chains. The Buying Exchange Company (Pty) Ltd was established in 1999 as a buying support group for both independent retailers and wholesalers.[28] Similarly, Unitrade Management Services (UMS), Independent Buying Consortium (IBC) and the Independent Cash and Carry (ICC) Group were established in 2001, followed later by Tradeport Distribution (Pty) Ltd (2003) and Elite Star Trading Africa (EST) (2007). The demise of Metcash, South Africa's biggest corporate wholesale business with its Metro and Trade Centre wholesale chains in the 2000s can, in part, be put down to the evolution and consolidation of the independent wholesalers and the near demise of township spazas.

The real boom for growth in **formal consumer goods retail** came post-2001, with major GDP growth and the continued rise of a new Black Middle class. Consumer demand for convenience accelerated during this time and shopping habits began to shift from monthly 'big shops' to daily and weekly shopping. For corporate retailers it was a time when just selling food and groceries was no longer enough and growth could no longer only come from new stores (there were over 300 new store openings across corporate retailers in 2006 alone). Corporate retailer began a race to differentiate from one another using various means including offering a growing range of lifestyle services, such as Shoprite Group's Money Market offering and home meal replacement counters, to focusing on building the equity of their brands. From retail to wholesale, PnP to SPAR, Shoprite to Boxer, retailers focused on their brand identity, each striving to establish that brand as the most desirable to a shopper who has an increasing number of choice shopping destinations. For South African middle- to upper-income consumers, this meant access to world-class retail offerings at a rapidly increasing number of conveniently located stores.

The **forecourt retail convenience channel** transformed in the ten years from 2000, with partnerships established between petroleum companies and corporate retailers. This transformed the face of forecourt retail convenience stores. Woolworths Foodstop at Engen garages opened in 2000, the first Pick n Pay Express store at BP in 2008 and, in 2009, FreshStop at Caltex, a partnership between Fruit & Veg City and Chevron SA.[29]

By the end of this period, most of the corporate retailers in South African had expanded into new markets **beyond South Africa's** borders across Africa, where rapidly expanding economies were demanding retail solutions to match their aspirations. They had also expanded into **new retail formats** outside of their core grocery offerings, opening liquor stores such as Tops at SPAR, DIY stores such as SPAR Build-it and pharmacy outlets, such as MediRite. The Shoprite Group illustration (Figure 6.12) shows the number of trading brands that this retail group offers consumers. Within their grocery portfolio the group uses different brands to target different consumer segments. For example, Checkers is positioned as the upper-income supermarket brand targeting the upper income consumer and Shoprite is the main market supermarket brand targeting the lower- to middle-income shopper (see Chapter 11 and 12 for a discussion on segmentation and positioning by using different brands).

Figure 6.12: Retail brands under the umbrella of Shoprite Holdings

Online retail emerged in South Africa in 1996. Kalahari.com, which was to become one of the biggest players in the early 2000s, was launched in 1998[30]. Over this time, because of the relatively low barriers to entry, the market saw a number of online retailers enter the market. Many of these focused on specific categories, operating as specialist e-retailers (see Figure 6.10) and many have remained relatively small in terms of traffic

Retail landscape in South Africa post financial crisis (2008–present)

When the global financial crisis hit in late 2008 it had a major effect on consumer confidence, particularly when it became apparent that South Africa, despite a sound banking sector, was not immune from the fallout. The South African economy has bucked the global trend since the great recession of 2008 by remaining stagnant while the world recovered its economic momentum pre-COVID. Gross Domestic Product (GDP) growth fell below 1% in 2019 and the economy dipped in and out of recession.[31]

The current retail reality is no longer a case of 'managing through tough times'; these tough times are the new normal. The question is how to thrive in this economic reality of low growth, high competition and significant pace of technological change. The competition for every shopper at every shopping occasion is intense and retail businesses have had no choice but to evolve in response, bringing a greater focus on the (product) mix in store and on disciplines within retail businesses and in the supply chain. Making a profit as a consumer goods retailer or wholesaler today is more challenging than ever.

In the following two sections, we discuss some of the trends that are evident in formal retail (including online) and in informal retail:

Formal retail

Channel blurring

In a tough trading environment, businesses will look up and down the value chain for opportunities to increase their sales and profit margins. This means that lines between the distribution channels can become blurred (Chapter 15). Wholesale cash and carry stores have extended their retail offering to attract consumers; large wholesalers have established their own franchise retail chains and corporates like Pick n Pay are operating some of their hypermarkets as wholesale outlets selling to smaller independent retailers. This **channel blurring** has been a feature of the South African retail marketplace for the past 20 years.

Best price and what it takes to get there

More than ever, **product selling price** is a primary determinant of where consumers will shop for food and groceries. For a retailer to sell at the best price it can, while still running the business at a profit, it needs to have the buying power to negotiate with manufacturers and it needs to run efficient business operations (in other words, manage its costs). The success of the discounter retail model (Chapter 15) has seen a number of full range supermarkets begin to reduce the number of product lines they carry. The more product lines a retailer stocks, the more complex it is for the retailer to manage its stock. Boxer led the way, shifting from a supermarket to a soft-discounter model and cutting the number of product lines from around 15 000 to 1 500–2 000. The impact this has on trading efficiency and ability to keep operational costs down is significant.

Private label is another means by which formal retailers (both corporate and independent) achieve better selling prices and, in most cases, better profit margins. With the strength of many South African retailer's brand equity, consumer's trust in these brands means that formal retailers' private label products have become an increasing threat to brand manufacturers.

The biggest recent development on the retail calendar is Black Friday which has shifted the centre of gravity for retail from December festive season trading to late November (now sometimes lasting the whole of November) in both online and bricks-and-mortar retail, To compete for a share of the consumers wallet, manufacturer's and retailers now need to have a Black Friday strategy.

Margin through efficiencies and environmentally sustainable solutions
With increasing pressure from consumers and the impact that sustainability initiatives can have on efficiency and cost saving, there has been a realisation that integrated sustainability is a critical conversation and an important route to margin. Sustainable power supplies and smaller carbon footprints, for example, have transitioned from being nice to have to an essential part of doing business.

Growth in convenience retailing and value-added service offerings
In broad terms, convenience retailing is not just about the size of the store and the range of products it carries. It includes those things that retailers do to meet the consumer's ongoing demand for convenient shopping solutions. It has led to significant innovations among consumer goods retailers over many years. Some of these convenience-driven trends are:

- **Value added services**
  Value-added services (VAS) became a focus across food and grocery retailers in the 2000s. This trend accelerated when the Shoprite Group acquired Computicket in 1995. The growth in VAS was driven by the consumer's demand for convenience and by the retailers' race to differentiate from each other, striving to be the consumer's shopping destination of choice. By 2015, money-transfer VAS such as cash withdrawals, payment of utility bills and buying airtime at your local (formal) retailer were the norm. The trend continues as retailers expand their lifestyle services whether it is in healthcare, nutrition, beauty advisory services, parenting support, hospitality or banking.

- **Cashless transactions / payment solutions**
  The acceleration in cybercash (cashless payment) solutions range from the mobile payment technology and digital payment apps offered by Woolworths to those used by informal traders, such as iKhokha. At formal retailers, the acceptance of card payments has been the norm for decades. However, in poorer communities cash has remained king despite many attempts by businesses to promote cashless payment solutions to informal retailers. COVID-19 saw the acceleration of online and alternative payment solutions in the marketplace. An example is Shoprite's virtual grocery voucher service launched in April 2020. Within an hour a grocery voucher can be sent to a recipient's cellphone.[32] This type of grocery voucher solution presents the government and businesses with the opportunity to distribute food parcel funds in a secure way for example. The question is whether 'pushing public funds into a food voucher system redeemable only at corporate supermarkets only aggravates economic exclusion as it forces people to spend their money at (corporate) supermarkets bypassing informal traders, further pushing poor people out of economic activity'.[33]

Growth of consumer goods e-retail with innovation in last mile delivery mechanisms
The year 2011 saw the launch of Takealot, which, along with Kalahari and Bid-or-Buy, became the biggest multi-category e-retailers in the South African market. The 2014 acquisition of Mr Delivery, South Africa's largest restaurant food delivery service, gave Takealot ownership over its own logistics network and resulted in their on-demand food delivery service. Although still small, it means Takealot began to compete with South Africa's major bricks-and-mortar grocery retailers.

The first food and grocery retailers to launch online grocery shopping (including fresh and frozen goods) were Woolworths with IntheBag in 2000 and Pick n Pay which launched online in 2011. In 2014, Naspers-owned Kalahari.com and Takealot (including the newly acquired Superbalist) merged and in 2018 Naspers upped its ownership in Takealot to 96%.[44] Its significant shareholding in Chinese giant Tencent, first acquired in 2001, gives it access to cutting edge online retail strategic thinking.

Major factors in the growth of e-retailing are logistics capabilities (getting the product into the hands of the consumer at their home or workplace) and technology capabilities (the digital capability to do it). We look at these in more detail in Chapter 15, but the note to make here is that innovation and development in logistics infrastructure and last mile delivery solutions with services such as pargo.co.za's click and collect and product returns solution for retailers and manufacturers and delivery solutions such as Checkers Sixty60 and eButler will mean accelerated growth in consumer goods e-retailing across formal and informal retail businesses.Technology literacy, data quality and accuracy (of both product master data and inventory data) and the right systems architecture are key to effective delivery of online retail.

Growth in online subscription models and mealkit solutions
Subscriptions services are growing in popularity in categories such as health supplements, dog food and high value personal care items, such as razor blades. Categories with regular cyclical orders and where consumers tend to stick to one brand are excellent targets for the subscription sales model. The risk for consumer goods retailers is that products where they make higher margin, such as razor blades, could fall out of the bricks-and-mortar retail basket as subscription services grow.

Mealkit solutions are another growth area on online convenience retail. This too is a threat to supermarkets as it is the high margin goods, such as fresh produce, deli, buthery and bakery lines which are included in the UCook mealkit offering

Continued challenge of data management and insight generation
The digitisation wave over the past 20 years means higher and higher volumes of data are being shared, captured and stored. Consumer buying patterns and habits produce data which inform decision-making across the grocery channels and the retail players, from Shoprite and Makro to Jumbo, Tradeport and other formal independent retail operators. Many formal retailers have their own data departments as well as employing third-party data analytical services to assist with turning the volumes of available data into meaningful business decision-making tools. An example of an area where data management and reporting are very important is in the management of the product ranges that the retailer carries in stores.

A Boxer or Shoprite in Khayelitsha cannot carry the same product lines as a Shoprite or Boxer in Nqutu. They might both be stores that sell to lower-income consumers, but the demographic and brand preferences of their consumers are different. It is the point-of-sale data that will tell the retailer and the supplier which stores should carry which products, variants or pack sizes (Chapter 15).

Informal retail

Providing healthy competition to corporate retail but with xenophobic challenges
Most South African owned spaza stores did not survive the onslaught of corporate retailers into townships and commuter nodes. However, as discussed earlier in the chapter, from around 2009/10 a new shape of spaza store took shape, with the entry of immigrant retailers.

The result has been a resurgence of informal retail as these immigrant-run spaza stores compete with the corporate retailers on the selling prices of products, providing a viable alternative shopping destination for township and rural shoppers. In the last decade, the growing realisation of the importance of the informal retail sector for product distribution to manufacturer's has led to greater efforts to access this market, measure it, gather data from it and sell products to it. Xenophobic violence is an ongoing threat to immigrant retailers, whether they are operating legally or illegally, often because of the belief (and in many cases,misconception) that they have taken business and jobs from South African's. This is a contentious issue which impacts the stability of the grocery retail sector and township communities.

Cashless Payment solutions
The number of South Africans with access to formal banking products has grown significantly through the likes of Capitec, Thyme Bank and distribution of SASSA cards, but the number of card acceptance locations, especially in rural and peri-urban areas, has not grown in tandem.[45] Since around 2014, there have been a number of efforts to provide cashless payment solutions for spazas and spazarettes. Pre-paid services terminals and voucher services such as Kazang, Flash and Blue Label Telecoms are accelerating the scope and scale of value added services (VAS) that informal retailers can offer, however this has not yet evolved to acceptance of card payments or cash withdrawals.

Conclusion

This chapter provided an overview of the consumer goods retail landscape in South Africa. We looked at the formal sector across bricks-and-mortar, online and omnichannel retail and the informal retail sector and the key role that each play in the market. The chapter was underpinned by the unique nature of the South African retail market, the history behind it, the forces that have shaped it and some of the prevalent trends at play.

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The South African Media Landscape

CHAPTER

7

Gordon Muller

Introduction

In this chapter, we explore the media landscape of South Africa. Consumers are constantly consuming media in various forms. Whether watching a movie on Netflix, reading a copy of the Soccer Laduma newspaper, seeing an Instagram post or listing to Umhlobo Wenene FM radio, we experience multiple forms of media all the time. Media are a crucial component of consumer marketing because most marketing communication is delivered through some form of media platform. As a marketer, understanding the basics of media planning can help to create a competitive advantage and reduce wasted advertising expenditure.

While there is some fairly complicated terminology in this chapter, this overview will help equip you with a basic understanding of media and media planning in South Africa. Below are a few key definitions when discussing media, which will be helpful in reading this chapter:

Audience[1] is the total number of reported individuals who are exposed to any given media platform, often referred to as listenership (radio), viewership (television) or readership (newspapers and magazines) and usually forms the basis for the pricing of advertisements sold by commercial media.

Media reach[2] refers to the number of households or people within your target market, who are exposed to the advertising message at least once. This is usually reflected as a percentage and is often referred to as coverage or cover.

Media frequency[3] is the number of times, on average, that a person within the target market is supposed to have been exposed to the advertiser's message.

Media planning[4] refers to a specific and detailed process of reaching the right number of appropriate people (reach), the right number of times (frequency), in the right environment at minimum cost, to achieve the brand's marketing objectives.

Media planning: Content, channels, context and consumers

The primary objective of successful advertising is not creative expression and aesthetic appeal as an end in itself, but rather the contribution to powerfully persuasive and commercially rewarding communication. Creativity awards may remain highly prized decorations on the walls of advertising agencies from Madison Avenue to Sandton, but the real contribution of creative advertising is increasingly being measured in the marketplace.

In order to maximise the effectiveness of any commercial communication, we need to take cognisance of, not only the advertising ***content*** (the message), but also the ***channel*** (the medium) and the ***context*** through which that content is delivered to ***consumers***. It is this last perspective which underpins the advertising discipline of media planning.

The World Federation of Advertisers[5] (WFA) Media Charter defines the term 'medium' as:

> *Any kind of vehicle through which commercial communication may be expressed, conveyed or exchanged, or which may enable interaction with the relevant audience.*

In 1964, Marshall McLuhan[6] famously stated that 'the medium is the message'. This has been widely misinterpreted by many advertisers as meaning that merely exposing consumers to a message carried by a medium is the primary catalyst for successful advertising. As a consequence of this, much of the focus in media planning over the past few decades has been directed at optimising the volume of communication exposure, rather than maximising the impact of the content and the subsequent return on media investment (ROMI).

McLuhan, however, went on to clarify that 'the content of any medium is always another medium'; in other words, content, context and channel are symbiotically fused elements in any communication outcome. In a world where media and content distribution are ubiquitous, we are increasingly coming to understand that, in practice, the idiom should instead be that the message is the medium, or at least that it is the message that should determine the right medium, or mix of media channels, for inclusion in a campaign.

These principles are clearly articulated in the WFA Media Charter:[7]

> *Advertisers expect their messages and advertisements be planned and executed in the right media, at the right moment in time and space, to reach the agreed target effectively and efficiently.*

There is a growing awareness that it is the context in which consumers are exposed to both channel and content that is most often the catalyst for consumer engagement. In this sense, consumer engagement, rather than nominal exposure, is the true measure of effective communication. It is increasingly being recognised that one of the most critical factors in generating engagement and breaking through the general advertising haze, is relevance.

Quantum leaps in digital technology and predictive algorithms, which process massive amounts of big data at unfathomable speed, now make it possible to deliver unique messages to the consumer's own preferred media device (a practice sometimes known as *hyper-personalisation*) at the right moment in time and space to maximise the probability of engagement.

Growing concerns about the abuse of personal data and the infringement of consumer rights have led to restrictions being put in place to govern this practice. In South Africa specifically, the purpose of the POPI[8] Act of 2013 (Protection of Personal Information) is, inter alia, to give effect to the constitutional right to privacy by safeguarding personal information and to regulate the manner in which personal information may be processed.

Beyond external legislation, today's media consumer increasingly self-regulates the media platform and content interface and exhibits low tolerance for commercial communication that interrupts or impedes access to any chosen content. This is encapsulated in the advertising adage, *don't interrupt the thing I'm interested in, be the thing I'm interested i*n, and is often manifested in ad-avoidance techniques, also known as *ad-blocking*, such as fast-forwarding through television advertisements, switching radio stations or subscribing to premium advertisement-free platforms.

In 2015, Microsoft[9] reported that the average human exhibits an attention span of eight seconds. This represents a decline from 12 seconds in 2000. At first glance, this might challenge the viability of advertising as a marketing tool, but the report goes on to clarify that consumers have become far more adept at extracting information and encoding it to memory in shorter bursts of focused attention. In other words, what used to take the consumer 12 seconds to evaluate for relevance and response, now takes eight seconds.

This is particularly evident among digitally connected consumers (digicons)[10] aged 15–24 in South Africa. In this group, total online television and video viewing (81%) exceeds traditional live television viewing (57%) and 89% watch some form of time-shifted television or other user-generated online VOD (video on demand) content or TVOD (television on demand). In this segment, while 58% still claim to watch DSTV, 44% claim to stream an advertising-free platform such as Netflix.[11]

This growing focus on media selection is aimed at not only generating the optimal volume of campaign exposure, but also delivering that exposure in the right context. The South African media and marketing landscape is dynamic and constantly evolving. Marketers use technological advancement to drive quantum innovation in consumer interface. Consumer behaviour is also constantly responding to that change. The media planner of the future will not only be required to measure the number of consumers a campaign reaches, but also the number of consumers who are reaching out to that campaign.

Media channels: The POE model

In the pre-digital era, brand communication and promotional advertising were heavily reliant on what is often referred to these days as 'traditional' or 'mainstream' media. In 1994, when the first cellphone was launched in South Africa, television (39%), radio (13%) and print media (magazines 16% and newspapers 23%) accounted for over 90% of all advertising investment.

Today, 92% of adult South Africans have a cellphone[12], and traditional media now account for only just over half the total communication investment (see Table 7.4). In many instances, advertising has been supplemented, or even replaced, by a range of digital communication platforms and offerings from websites and mobile apps, to social media, such as YouTube, Facebook, Instagram and Twitter.

The **POE** (Paid Owned Earned) model (Figure 7.1) is widely used to classify and position the various media channels and platforms. The model also reflects the shift from traditional media offering, by which media owners dictate the parameters of the advertising exchange through static *advertising units* (AU) such as a page in a magazine, or a 30s television or radio commercial.

In this *Paid Media* scenario, the media planner would determine the viability of the advertising channel by computing the cost of the AU relative to the reach offered by the audience. The relationship between the cost of an advertisement and the size of the audience is referred to as the *cost-efficiency of the medium*. The cheaper the AU, or the larger the audience, or both, the more cost-efficient the media channel becomes.

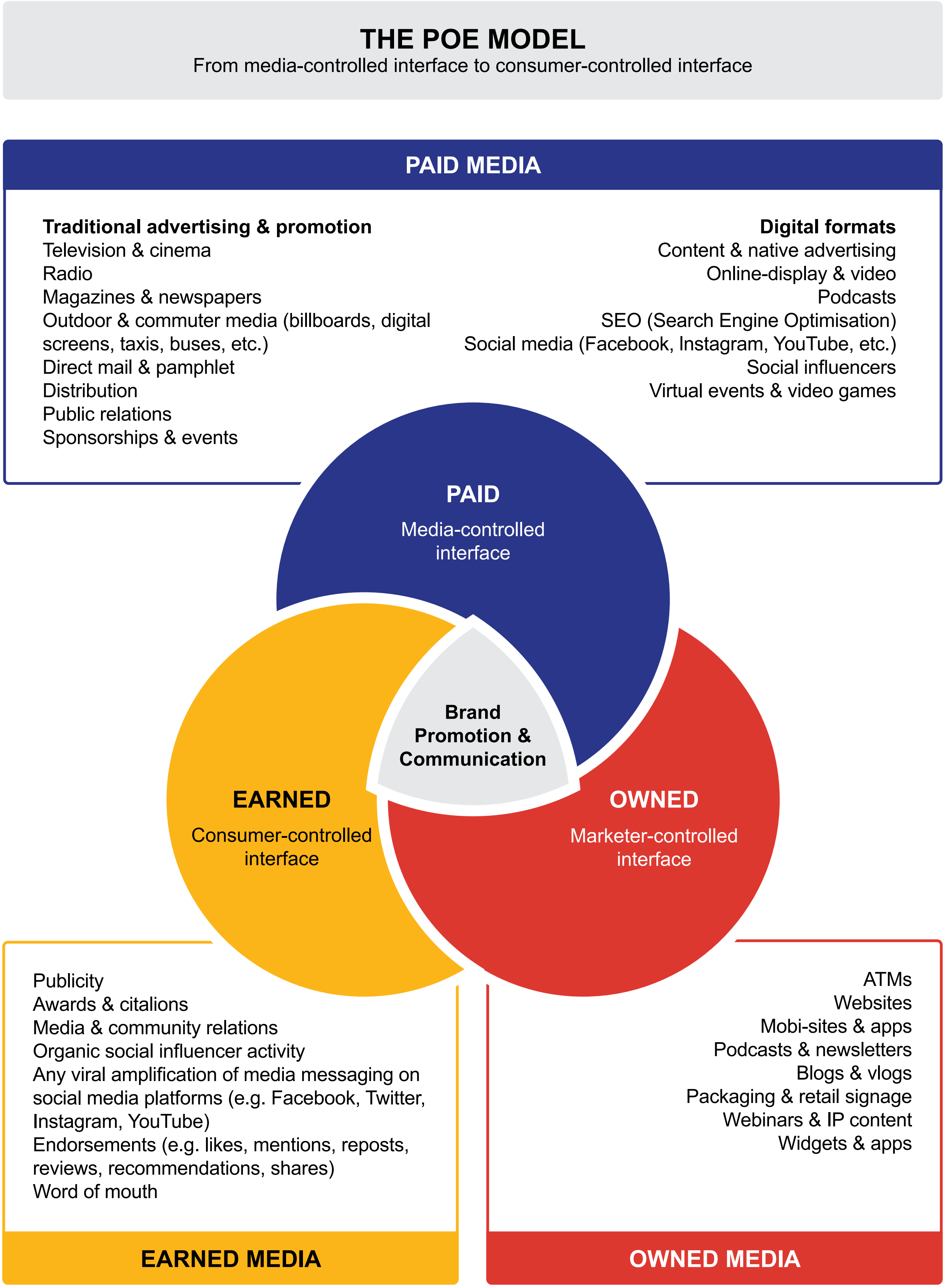
Marketers are no longer reliant on only traditional media channels to communicate with consumers or customers. All advertisers have a range of established promotional assets, many of which are powerful communicators. These are collectively referred to as ***Owned Media***. Every time a customer uses an ATM or a banking app, the bank is presented with a unique opportunity to communicate with its customers. Every time someone visits a website or goes into the retail store, the branded marketer has a unique opportunity to reassure an existing customer or persuade a potential customer.

These ***Owned Media*** options are significantly more cost-efficient than reaching these same consumers via paid traditional media.

Consumers can search, research and plan their own holiday destination online, and then take a virtual walk through their accommodation before booking directly online on Airbnb. Potential new-car purchasers can take for a virtual test-drive the vehicle they have just seen driving down the road or download an app and opt-in for new product alerts and special offers. In this scenario, marketers control the consumer interface to a far greater degree than was the case with traditional media exposure.

Earlier in this chapter, it was noted that media planning is evolving beyond merely measuring the number of consumers a campaign reaches, towards the measurement of a campaign's in-market stickiness and impact, towards measuring the number of consumers who are reaching out to that campaign.

Figure 7.1 The POE (Paid Owned Earned) model



It is in the ***Earned Media*** category that this strategic orientation is manifested. Paid Media are traditionally evaluated in terms of their ability to cost-effectively deliver exposure to audiences. That is, to deliver the proverbial *eyes on screen or ears on the radio*. Earned Media reflects the degree of momentum, beyond the initial reach, that a campaign is capable of generating without additional cost to the marketer.

Initial infatuation with massive numbers of browsers on the internet, and the high reach implicit in those numbers, was soon replaced with redirected focus evaluating interaction with internet advertising, or the number of clicks that a campaign generates. A campaign with a high click ratio (i.e., the number of people interacting with the advertising as a proportion of the number of browsers incidentally exposed to the advertising) would be deemed successful. A campaign with a high purchase-to-click ratio, even more so. The most successful media campaign will always be the one that produces an in-market response and generates a positive return on media investment (ROMI).

From a campaign audience perspective, the perceived contribution of *Earned Media* on digital media platforms has moved beyond clicks, and positive contributions are increasingly being measured in terms of other metrics such as the number of likes or shares. Such unsolicited endorsement from a relevant and trusted social influencer, whether it is a positive product review or a simple thumbs-up, builds campaign credibility and overall positive brand attribution.

The more of this positive organic or viral amplification a campaign generates, even from the general public (making the communication go viral), the more effective it is perceived to be. The media landscape never remains static and is rarely, if ever, linear in terms of the way it plays out. Many, if not most, of the established social media platforms, like Facebook, Twitter, Instagram and YouTube, are now trying to monetise their content by offering a range of paid advertising formats. Skippable and now even non-skippable pre-roll videos are ubiquitous on YouTube and most social media platforms. The Carousel ad-format on Facebook lets you show two or more images, videos, headlines and links or calls to action in a single paid ad. Promoted tweets and interactive ad-polls abound on Twitter. Increasingly, social influencers will charge advertisers for endorsements and tweets.

In view of this significant trend, we can now reflect many digital media channels, previously reflected exclusively as *Earned Media*, as the new form of *Digital Paid Media*.

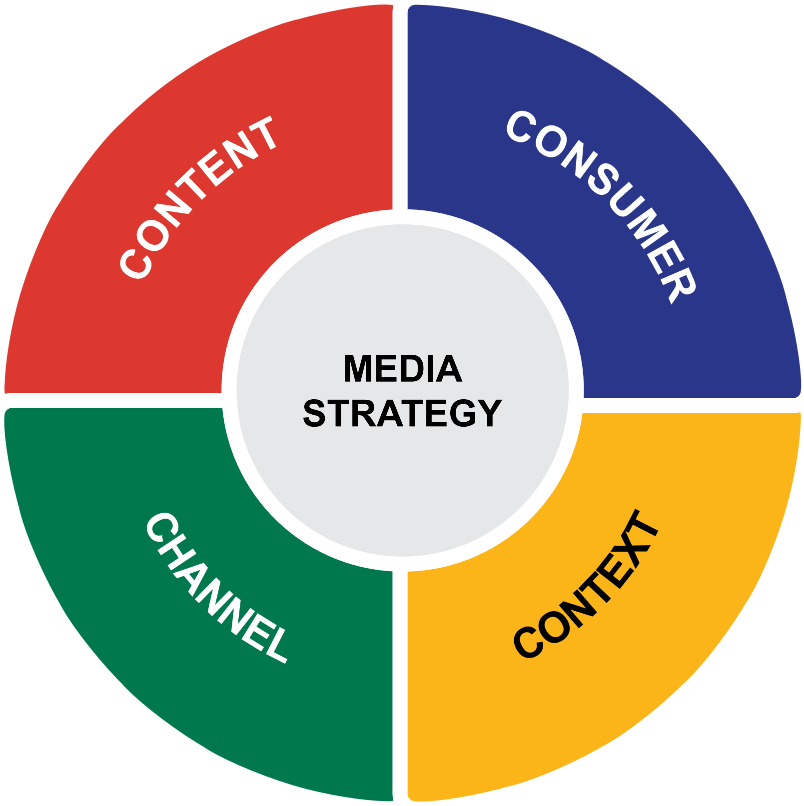
The four Cs of media strategy

Traditionally the focus of media planning has been on measuring the output of the medium in isolation; that is, the size of the audience delivered. This audience currency is often reported as media reach against a specified market segment.

As the divide between digital media and traditional media closes, that narrowing will further dictate that, when planning a media campaign, we need to always apply four simple considerations for ensuring the media mix goes beyond delivering impressive volumes of audience and also enhances and amplifies the creative content.

The four Cs is a framework designed to maximise the effectiveness of any commercial communication by integrating the advertising ***content*** (the message), the ***channel*** (the medium) and the ***context*** through which that content is delivered to ***consumers***, as depicted in Figure 7.2.

Figure 7.2: The four Cs of media strategy



Content: Always assess the message that is being communicated and the content space into which the message is being placed. Far too many media plans are being developed without the media strategist even having sight of the creative messaging.

Channel: Develop a media mix that will enhance the impact of the creative content and, where possible, heighten the consumer's sense that the message has been personalised (that is, that the desired response is 'this message is really being directed at me').

Context: Go beyond measuring the number of people who are nominally exposed to a medium and evaluate the context in which the advertising content is being consumed. Consider not only what media is being consumed, but also the *when* and *where* of the medium under consideration (the right moment in time and space).

Consumer: Understand the consumer and understand not only *what* media the consumer utilises, but *why* it is being consumed. Recognise that consumers are incredibly adept at simultaneously managing channel platforms and content. Cost-efficient delivery is always a desirable procurement consideration, but ultimately the efficacy of a campaign is measured in terms of a positive in-market outcome.

In short, the media strategist is trying to model holistic **consumer** engagement with hyper-personalised campaign **content**, which is delivered in the appropriate **context**, not just quantitatively measuring the volume of audience by any media **channel**.

It is often said that 'for whales, there is only one ocean'. Equally, it might be said that, for consumers, there is only one campaign.

Media segmentation in South Africa

In order to maximise returns from media expenditure, the consumer landscape is usually segmented into a number of pre-determined groups against which media consumption is measured (See Chapter 11 for more detail on segmentation). Such segmentation can be conducted using any number of criteria considered relevant to the marketer. For instance demographic criteria, such as age, income level or gender.

Geographical distribution is also widely used to create such segmentation. This type of segmentation allows for marketers to decide how much money to spend targeting each form of media (consumed by certain consumers). For example, a local radio station like Alex FM (focused in and around the Alexandra community in north-eastern Johannesburg) has a particular reach (listenership) and marketers wanting to target that community would like to know details about who listens to the station and when.

In South Africa, there have been a number of transitions in the way that the media landscape is researched and segmented from a macro socio-economic perspective. Currently, a segmentation tool known as the Socio Economic Measure (SEM) is widely used as a benchmark for broad socio-economic segmentation.

The SEM measure is based on a weighted analysis of 14 key household attributes, ranging from size of house and type of building materials used in construction, to number of appliances in the household and access to amenities such as running water and flushing toilet. Other lifestyle indicators, such as home security systems and ownership of a motor vehicle, are also built into the segmentation model. The SEM model has increasingly displaced the Living Standards Measure (LSM), which has been widely used in South Africa over the past few decades.

At a statistical level these specific SEM household attributes differ from the variables used previously to create the LSM model but, as the South African market evolves and changes in the coming years, these criteria will in turn be adjusted to accommodate the new market realities. At a functional level then, SEM merely represents the most recent iteration of a national socio-economic segmentation model.

Table 7.1 reflects data from the Establishment Survey 2019AB and maps out the SEM model by way of five clusters (broad segments). The top portion of Table 7.1 gives a per-cluster view of the national distribution of households, adult population (15+ years) and average household income. The segments range from the SEM cluster_1 (average household income of R5058) to the top-end SEM cluster_5 (average household income of R32 188).

Table 7.1: Weekly reach by media channel[16]

Socio Economic Measure (SEM) segmentation clusters						
	Total	**SEM C_1**	**SEM C_2**	**SEM C_3**	**SEM C_4**	**SEM C_5**
Households	16 422 000	2 960 000	3 164 000	5 847 000	2 750 000	1 702 000
Adult population	40 716 000	7 613 000	8 075 000	14 446 000	6 685 000	3 897 000
Household profile %	100%	18%	19%	36%	17%	10%
AV HH income monthly	R12 338	R5 058	R6 819	R9 887	R19 430	R32 188
Weekly media reach by SEM cluster						
TV	95.0%	86.9%	94.4%	97.5%	97.9%	98.2%
Radio	87.7%	87.6%	88.2%	85.8%	88.5%	92.0%
Newspapers	37.5%	21.3%	28.0%	36.2%	54.0%	65.7%
Magazines	17.5%	8.3%	11.7%	16.2%	26.0%	38.0%
Cinema	1.1%	0.3%	0.3%	1.0%	1.7%	3.6%

The lower portion of Table 7.1 reflects weekly reach, per cluster, of a typical set of media channels.

The data in Table 7.1 show that so-called traditional media (magazines, newspapers, radio and television) continue to offer high levels of reach across the full spectrum of the South African market. Reach by radio and television, in particular, remains substantial across the board, while magazines and newspapers still offer viable and focused market penetration from SEM Cluster_3 upwards. Cinema, on the other hand, remains an increasingly niche offering at the Top end of the SEM segmentation scale. In fact, in many respects it is increasingly more useful to think of cinema attendance as an activity rather than a medium in the traditional sense.

While not represented in Table 7.1 (because the Establishment Survey (ES) does not research this specific advertising format) marketers are also able to measure the reach parameters for out-of-home (OOH) media formats, such as billboards or street poles. AMPS2015 (All Media and Product Survey) demonstrates the OOH medium's ability to reach all sectors of the South African marketplace.

The OOH format reach-distribution represented in Table 7.2 shows that major metropolitan areas are the strongest delivery points for OOH; 70% of consumers in these areas are exposed to billboards and 75% to street-pole advertising, but this reflects the concentration of advertising activity rather than any latent communication deficiency in each platform. There are more OOH sites and opportunities in metropolitan areas than in rural areas, where development may be stifled by a lack of advertising investment.

Table 7.2: Weekly reach by OOH format[15]

Out of Home primary formats: Weekly reach					
OOH format	**Total adults**	**Metro areas**	**Cities & large towns**	**Small towns & villages**	**Rural**
Billboards	60%	70%	67%	56%	46%
Bus shelters	29%	45%	30%	18%	13%
Buses	32%	47%	34%	22%	18%
Taxis	59%	68%	65%	54%	49%
Street poles	61%	75%	73%	61%	41%

The diminishing reach offered by transport media from metropolitan to rural areas is a function of the concentration of typical commuter populations in urban areas. In recent years, a growing amount of the advertising placed in these transport media channels has been directed not at external vehicle signage visible to passers-by, but towards passengers, through in-vehicle commuter radio, television and other content initiatives which are increasingly enabled by the rollout of wi-fi infrastructure.

The media mix

Historically, most media research in South Africa has been directed at unpacking the unique contribution of each medium in isolation, so that each media channel could map its own unique audience and maximise the supposed commercial benefit. Until 2017, newspapers and magazines measured readership of printed copies only. Radio stations only measured listenership to broadcasts on a radio set. Television stations measured viewership on a television set.

In practice, this has tended to maintain inflated audience estimates for traditional media channels (or *media platforms*, as they are increasingly being referred to). These traditional media channels are, however, rarely used in isolation and would typically be combined in varying ratios (known as the *media mix*) to create a media plan or media schedule. The **media mix** is the combination of communication channels used in any given advertising or marketing campaign and typically includes a variable selection of television, radio, newspapers and magazines, out-of-home (OOH) media, such as billboards or taxis, as well as websites, email, digital and social media.

The **media schedule** is the detailed flow plan of all activities collectively comprising the **media plan**, and which would typically include the date and cost of planned advertising events as well as the anticipated audience delivery for each element of the campaign (see Figure 7.3 for an example of what a basic media schedule might include).

Figure 7.3: An example of a media schedule

Brand X Media Touchpoint Activity Schedule														
Media Channels	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	Budget	Media Mix %
TV	Awareness: Launch		Awareness: Maintain							Awareness (Maintain)			R14 500 000	42%
	Generate Reach		Maintain Frequency							High Reach & Impact				
Radio	Awareness & Amplify Social Media								Awareness & Amplify Social Media				R4 120 000	12%
OOH Signage				Awareness									R2 900 000	8%
InStore Activation										Trial & Purchase Incentive			R2 250 000	7%
Promotion Prizes										Seasonal On-Pack Promotion			R350 000	1%
Cinema											Persuade & Trial		R1 000 000	3%
Local Newspapers										Retail Discount Incentive			R1 100000	3%
Display & Video SEO	Always On - Maintain Awareness through Search Engine Optimisation												R2 500 000	7%
Social Media		Engage & Amplify			Awareness					Engage & Amplify Promotion			R5 750 000	17%
Total Media Budget													R34 470 000	

Each additional medium might be utilised, not only to build additional reach (referred to as *cumulative reach*) or frequency of exposure against a predetermined market segment, but also to unlock the inherent qualities of the medium in order to amplify the communication content. For instance, cinema might appear to offer little by way of cumulative reach to a television campaign, but when combined with television, it might allow cinemagoers to sample the television-advertised product or even receive geo-located mobile messaging for a future purchase. In this sense, it facilitates personalised engagement.

In an increasingly digital media landscape, however, in which both media channels and content are ubiquitous, we need to shift the emphasis from measuring traditional media outputs in silos to measuring holistic consumer media behaviour. We need to be platform agnostic in understanding how unique media habits shape a consumer's interface with content. It is of no particular significance whether a consumer hears a radio commercial on Metro FM or whether that same audio commercial is flighted on Spotify, Google Play or Soundcloud. The message is the medium and the medium is merely the distribution channel.

Often an analysis of the time spent with each medium can provide significant insights into the consumer's predisposition towards the various media channels. Some consumers tend to read more content; we can refer to them as *reading imperatives*. Some consumers prefer to listen; they are *listening imperatives*. Other consumers are relatively heavy watchers of content and are considered to be *viewing imperatives*.

Some market segments have a higher level of OOH mobility, such as people who have cars or people who are employed and commute to work on a daily basis. These segments have a higher probability of being exposed to OOH. The vast majority of consumers do everything. They read. They watch. They listen. They engage. Moreover, very often they do it all at the same time, or at least with no behavioural consciousness of shifting across channels.

Smartphone penetration and cross-platform media

The single biggest contributor to the availability of content across platforms is probably smartphone penetration and access to internet data (see Table 7.3). On average, 97% of adult South Africans make regular use of a cellphone and 67% use that device to access the internet at least on a weekly basis. Even more remarkably, 96% of adults in SEM cluster_1, a market segment which is 70% rural, make use of a cellphone on a weekly basis, while 46% use their cellphones to access the internet weekly.

For those consumers who do use a cellphone to access the internet each week, online activity is not just restricted to search (63%) and encompasses a wide range of other activities, ranging from banking (28%) to gaming (28%) and social media (81%). In total, 41% of digitally connected consumers (digicons) download music each week, with podcasts (11%) becoming an increasingly significant media platform. In South Africa, 90% of all digicons make use of **over-the-top** (OTT) services, such as WhatsApp. OTT media services are streaming services that offer audio, video, and other media content to viewers, listeners or cellphone users via the internet. OTT bypasses traditional broadcast, satellite or cellular delivery platforms.

Considered collectively, these data highlight the growing importance of media consumption occurring at the time and place, and on the platform, of the consumer's choice. Each one of these consumer activities represents a specific media communication opportunity for the media planner.

Advertising investment telling a story

The high incidence and usage of cellphones to access the internet does not mean that the so-called traditional media no longer have a significant contribution to make to media strategy. Most consumers maintain a balance between traditional and digital media formats. Analysis of advertising investment in South Africa highlights the central role of traditional media channels in the media mix (see Table 7.4).

In South Africa, the top 10 advertisers alone invest in excess of R8 billion annually out of a total advertising expenditure of R40 billion in traditional media.[18]

It is worth noting not only the volume of advertising spend, but also the variations in the media investment patterns (the media mix) across a selection of the top 10 advertisers in South Africa. Given that advertising budgets generally remain fixed, they represent a restraint on total media investment and the final media mix always reflects some level of trade-off between media channels competing for that advertising investment.

An analysis of ad spend for South Africa's top spenders across three major categories in 2018-2019 (Figure 7.4) reflects the dynamic tension which exists inherently in every media campaign.

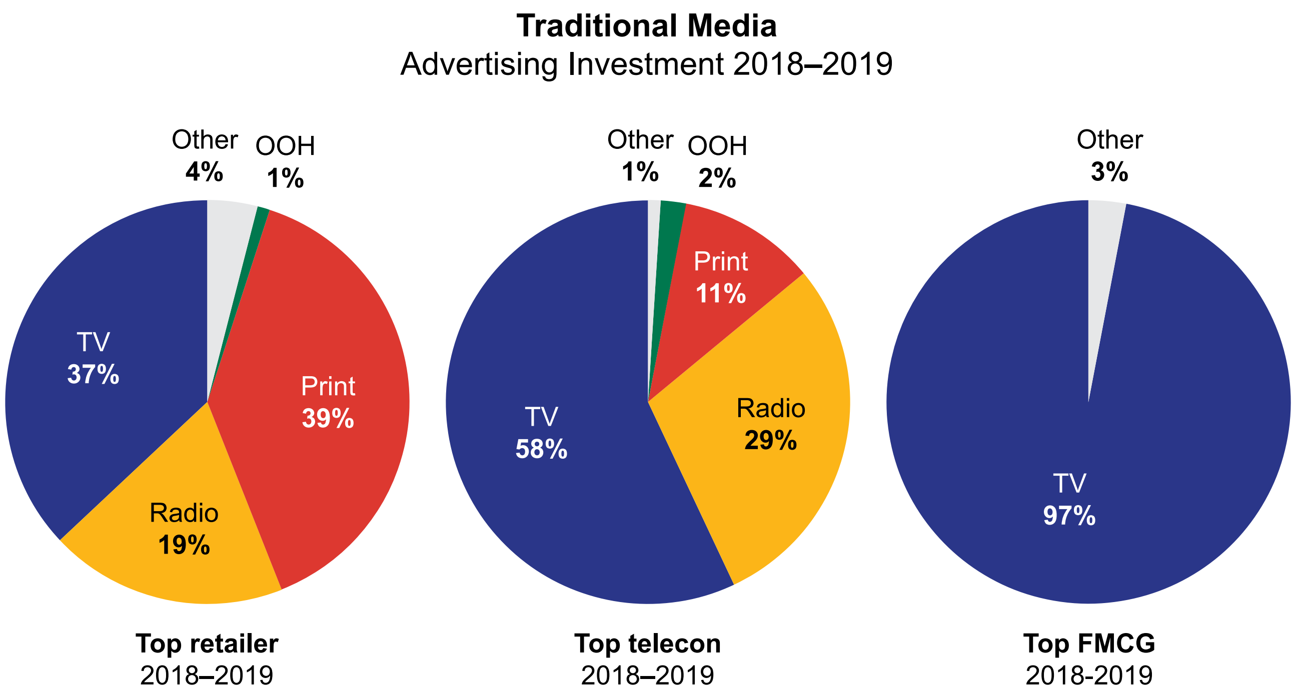
Table 7.3: Cellphone penetration and usage by SEM Cluster[16]

Socio Economic Measure (SEM) segmentation clusters						
	All adults 15+	SEM C_1	SEM C_2	SEM C_3	SEM C_4	SEM C_5
Adult population	40 716 000	7 613 000	8 075 000	14 446 000	6 685 000	3 897 000
% Population: Metro	41%	14%	22%	46%	62%	77%
% Population: Rural	31%	70%	53%	18%	4%	1%
% Population: Urban	28%	16%	25%	36%	34%	22%
Weekly incidence of cell phone usage						
Use a cellphone	97%	96%	98%	97%	98%	99%
Use cellphone to access the internet	67%	46%	59%	70%	80%	89%
Cellphone internet users: Weekly incidence of activities						
Banking	28%	9%	15%	25%	41%	57%
Search activity	63%	62%	61%	60%	68%	69%
Play games	28%	23%	25%	26%	32%	34%
Social media	81%	80%	81%	80%	81%	85%
Instant messaging	90%	87%	88%	90%	91%	93%
Download use apps	40%	35%	35%	38%	46%	51%
Check weather	22%	10%	14%	19%	28%	43%
Download music	41%	39%	40%	41%	44%	42%
Download podcasts	11%	7%	10%	10%	13%	14%

Table 7.4: Media channel advertising revenue (Source: PWC Entertainment & Media Outlook)[17]
Source: Entertainment & Media Outlook: 2019-2023 An African Perspective

South Africa: Advertising E&M spending 2013–2023 (R millions)						
	2013		2018		2023 [Projected]	
	Rands	% Share	Rands	% Share	Rands	% Share
Business to business	R4 277	13.4%	R5 059	16.1%	R5 607	14.8%
Cinema	R522	1.6%	R428	1.4%	R543	1.4%
Internet	R2 474	7.7%	R4 873	15.5%	R8 746	23.1%
Magazines	R3 685	11.5%	R1 936	6.2%	R2 213	5.9%
Music & podcasts	R226	0.7%	R437	1.4%	R842	2.2%
Newspapers	R6 644	20.8%	R4 179	13.3%	R3 873	10.2%
OOH	R4 105	12.8%	R2 735	8.7%	R3 019	8.0%
Radio	R3 755	11.7%	R4 368	13.9%	R4 844	12.8%
TV & video	R6 269	19.6%	R7 232	23.1%	R7 903	20.9%
Video games	R33	0.1%	R70	0.2%	R95	0.3%
E-sports	R2	0.0%	R38	0.1%	R114	0.3%

Figure 7.4: "Big Three" ad spend 2018–2019[19]



The top retail spender shows elevated levels of investment in print relative to the top FMCG (fast moving consumer goods) advertiser. Much of this investment is clearly visible in the form of loose inserts in major and local newspapers at month-end.

The FMCG spender's relatively light investment in other media channels, on the other hand, facilitates an 'always-on' approach to television with 97% of advertising budget invested in that medium. The top telecon advertiser maintains a far more balanced media mix, with a notably higher investment in radio. This is not surprising, when one considers the role of the cellphone in listening behaviour in South Africa.

Each one of these variations in the media mix represents a unique strategic interpretation of the media landscape by advertisers and a unique media response to a set of marketing and communication objectives.

For instance, there is no doubt that the impact of the COVID-19 crisis has shaped the global marketers response to media investment. Many marketers responded to the global pandemic by dramatically reducing or even cutting advertising budgets completely. Others adhered to the traditional view that advertising investment during a downturn is the catalyst for rapid recovery.

Consumers, many of them restricted in their social movements or working from home during lockdown, reflected sharp increases in consumption of digital media, and this may well continue into the future. *Warc*[20] *(World Advertising Research Center)* reports that globally the amount of time spent watching online video content quadrupled during the COVID-19 outbreak.

A global average of four hours and three minutes per day was spent watching online videos in April and May 2020 (the peak of COVID-19 for many countries), compared to just 58 minutes in August 2019. What did, however, remain constant throughout this disruptive period was the need for a strategic response to advertising in an ever changing marketplace. The Warc *Future of Strategy 2020* report[21] highlighted that 68% of advertisers claim to need strategists more during times of uncertainly. Correspondingly, 94% of strategists claimed that their clients commissioned new strategic work during the COVID-19 crisis: an even higher proportion than those who looked to new creative content as a response to an advertising need.

Even prior to COVID-19, the media landscape had changed inexorably. To talk about the digital landscape to the exclusion of other traditional media platforms is, however, premature and ignores the layered and increasingly holistic reality of the South African consumer's media-consumption habits.

Digital engagement blurring between channels

Digital media do not exist as an alternative to traditional media, but to an increasing degree represent the primary platform for facilitating consumer engagement across all established media channels. As indicated previously, this engagement takes place in the form of simultaneous media channel consumption and, in itself, represents a significant form of embedded ad-avoidance. In total, 92% of all digicons claim to engage in social media activity while watching television and 67% claim to do this on a regular basis (daily or almost every day). South African media research conducted by Nielsen[22] also confirms that the concept of the 'lean-in' viewing experience on television, when every advertisement flighted is an opportunity to see the message, is obsolete.

This growing realisation that media strategies should be developed from a holistic perspective is clearly reflected in significant changes to the parameters of media audience research in primary industry studies, such as ES (Establishment Survey), PAMS[23] (Publisher Audience Measurement Survey) and BRC_RAMS[24] (Radio Audience Measurement Survey).

The revised definitions used by these studies to define reading, viewing and listening audiences reflects an evolution in the way in which the industry views and plans traditional media. For instance, PAMS no longer restricts research to the readership of printed copies of a publication, whether it be a magazine or newspaper, but has widened the scope to include readers who view or otherwise engage with the published content online.

The same applies for listening and watching that is now researched from a behavioural perspective, rather than being restricted to a traditional media platform. Listening audiences include all forms of listening, whether that occurred via a traditional radio broadcast or a streaming digital platform on a cellphone. Viewership is no longer measured in terms of exposure to a television set but includes all digital media platforms capable of delivering video content.

There is a significant growth in ad-avoidance behaviour and time-shifted viewing, often in the form of binge viewing, and this is the new normal. In a digital landscape, viewers can determine for themselves when it is the right moment in time and space to indulge their viewing preferences.

In a media landscape in which a publication and a radio station might both be consumed simultaneously on the same mobile device, or where proximity to a billboard might trigger a hyper-personalised content offering on a linked digital platform such as Facebook or Instagram, the traditional media-silos approach becomes irrelevant. In reporting viewing audience, globally and in South Africa, accepted best practice is now to aggregate audiences for any video content. In other words, not to only report on how many people saw the television commercial on SABC, DSTV or eTV, but also how many people saw the video on Facebook, YouTube, Twitter and Instagram.

Conclusion

In this chapter, we briefly surveyed some core concepts related to the media landscape in South Africa and globally. Consumer marketers and media strategists need to keep tearing down the silos that continue to represent media consumption as a series of disconnected events and recognise the seamless reality of media consumption in a digitally driven landscape. This phenomenon can only accelerate as we increase the bandwidth of the data pipeline into the country and reduce the cost of accessing those data.

Both of these initiatives are very much part of the planned medium-term economic revival of South Africa and these are the infrastructural catalysts which will begin to eradicate the digital divide between all communities in South Africa.

The smart cities of the future, which are already being conceptualised as key drivers in the renewal of the South African economy, will use big-data-derived information and communication technologies to improve service delivery, disseminate information to the public and generally improve the welfare of all its citizens. In the future, unrestricted access to affordable data will have the same status in the South African constitution as every citizen's inalienable right of access to education and water.

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Arnold / stock.adobe.com

The South African Macro-Environment

CHAPTER

8

Megan Swartz

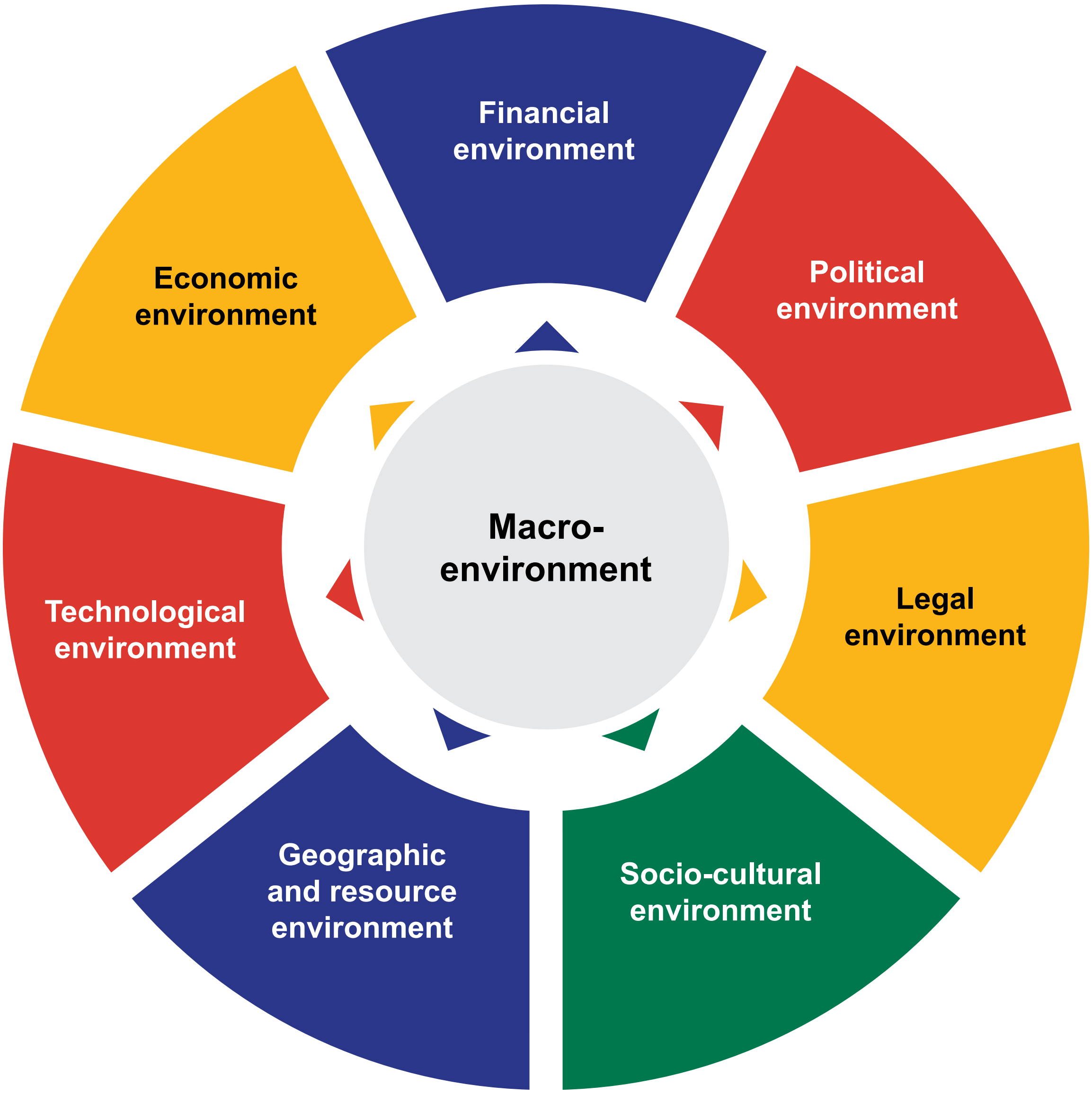
Introduction

In this chapter, we survey the macro environment, which refers to the external factors that affect a marketer's decision-making and company performance strategies. The marketing micro-environment (Chapter 4) is a set of elements that are generally under some form of influence by the marketer (for example, suppliers). The macro-environment, however, consists of environmental elements that are out of the marketer's general day-to-day control (for example, the legal environment of a country). These macro environments may be influenceable from the marketer's perspective (for example, a single registered patent will make a small shift in the legal environment), but they are generally more likely to be forces that act on the company. While there are multiple definitions for what components make up the macro environment, this chapter focuses on seven environments: the economic environment, the financial environment, the political environment, the legal environment, the socio-cultural environment, the geographic and resource environment and the technological environment (see Figure 8.1).

Marketers need to have an understanding of the macro-environment in order to know how businesses perform and make decisions. This is so that they may assist these businesses in ultimately attracting a loyal customer base by way of developing winning marketing strategies.

The chapter begins with an overview of an economic environment, followed by an explanation of economic indicators and the recent features of South Africa's economic history. After a brief history of South Africa's economic environment, the chapter describes how the economic environment can influence the buying behaviour of consumers. Following on from this, a brief description of the South African financial environment is made. In keeping with South African relevance, the financial environment's influence on the buying behaviour of cash-strapped South African consumers is outlined. Thereafter, a similar pattern is adhered to when the political environment, legal environment, geographic and resource environment, socio-cultural environment and technological environment are covered, all within the context of South African consumers and consumer behaviour.

Figure 8.1: The marketer's macro-environment



Economic environment

An economy is comprised of a set of institutions that facilitate the production, distribution and consumption of goods and services. The way in which resources are distributed among members of a society is determined by the economy that governs it. The economy influences the value of these goods and services, as well as the type of goods and services that can in turn be traded for them. How an economy is structured also governs how wealth is accumulated and to whom it is distributed within a market. This is where the everyday consumer plays a role, since consumers are one of the primary participants in the economy. The market for any commercial resource relies on consumer demand; in reaction to this demand, the supply of the resource is decided upon by the businesses that offer it. Thus, economies impact consumers because consumers' spending habits are altered by the changes that take place within them.

For example, in an economic downturn, consumers have less disposable income to spend, and prices tend to fall and create a recession. The economy and its markets therefore need to assess the behaviour of consumers in such a way as to maintain a balance between demand and supply of resources, in order to avoid economic extremities.

Kinds of economies and economic indicators

There are four main types of economies: traditional, command, market, and mixed.

Traditional economies exist predominantly in rural and other economically developing areas and are often dominated by the use of land, especially in the context of farming. A surplus rarely occurs and consumers in such an economy play a defined role in the management of key resources. This is in contrast to a command economy, in which a centralised agency, such as a government, controls most of the economic system. In contrast, a **market economy** is an economic system in which production and prices are determined by unrestricted competition between privately owned businesses. A **mixed economy** is a blend of market and command economies.

When trying to forecast where an economy is headed, economists use two types of indicators. These are classified as 'leading' or 'lagging' indicators.

- **Leading indicators** change prior to prominent economic adjustments and can therefore be used to predict future economic trends, the changes of which are made most evident only after an economic pattern has been established. Examples of leading indicators include housing prices, the frequency at which new business start-ups emerge, and retail sales activity.

- **Lagging indicators** reflect past economic performance. Changes in a country's gross domestic product (GDP), unemployment rates and interest rates are examples of lagging indicators that may inform long-term trends.

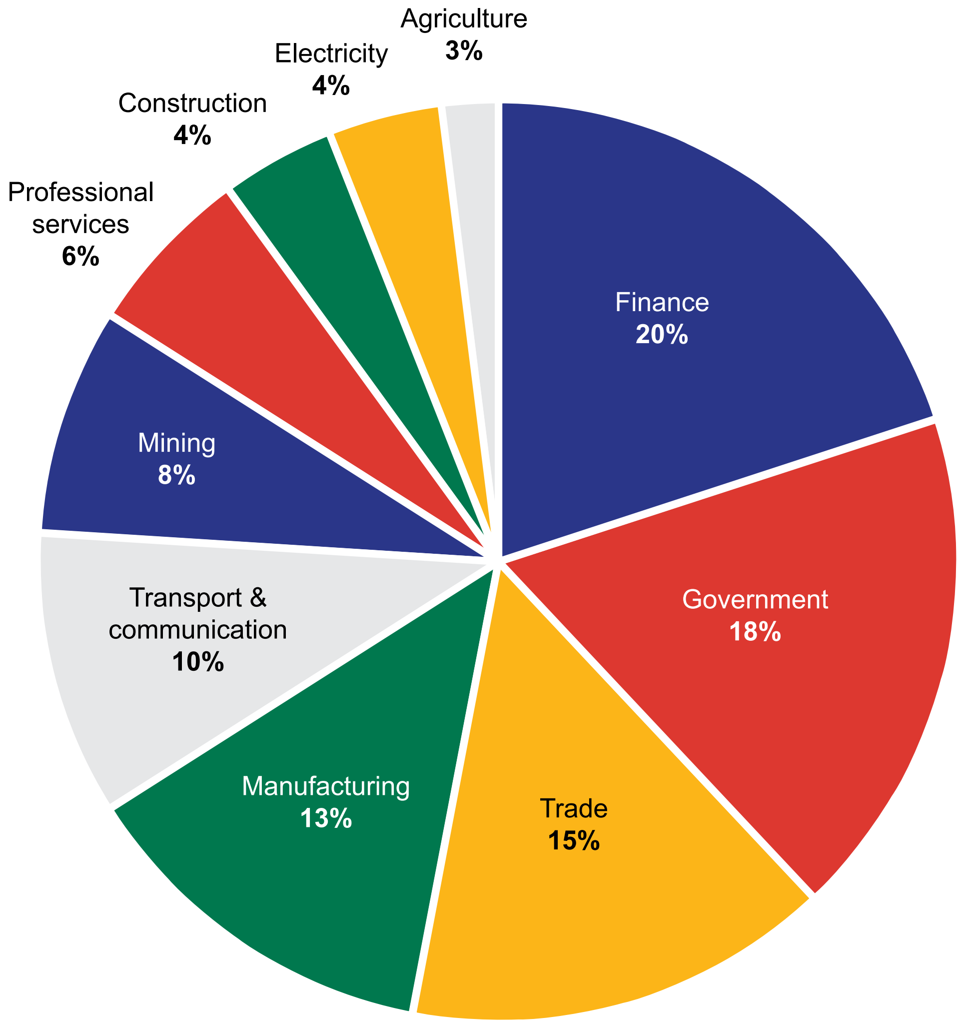
It is helpful to marketers to have an understanding of these leading and lagging indicators as this gives them an idea of where the economy is headed and therefore likely changes to consumer-spending patterns.

Recent features of South Africa's economic environment

Among the key sectors that maintain and contribute to South Africa's GDP are manufacturing, financial services, wholesale and retail trade, mining, agriculture, tourism and transport (Figure 8.2).

Traditionally, South Africa's economy has been rooted in the primary sectors, which are industries that entail the extraction and production of raw materials, for example, mining. In recent decades, there has, however, been a structural shift with the economy increasingly dominated by the tertiary sector or service sector. This sector includes wholesale and retail trade and tourism. More recently, South Africa has been shifting towards a knowledge-based economy, with increased attention being focused on ecommerce, technology and financial services[1].

Figure 8.2: Economic sectors that contribute to South Africa's GDP



However, since the global financial crisis of 2008, the South African economy has struggled to grow. As a result, decision-makers are faced with massive challenges, which include massive unemployment and growing inequality.

How does the economic environment influence the buying behaviour of consumers?

The economic environment affects consumer behaviour in a corresponding relationship centred around business cycles. These business cycles are considered in terms of business sectors in the economy, and consumers' money flows to different business sectors as the economy fluctuates between recessionary and growth states. During weakened economic periods, consumer spending drops. As the economy reaches a recovery, employment rises and consumer behaviour, for those with disposable income, can shift in favour of increased spending on items such as clothes, vehicles and technological gadgets. Choices in consumption therefore change as confidence in the economy changes. When consumers expect high returns on savings investments and greater disposable income levels, they may change their behaviour correspondingly so as to evade future debt and improve their standard of living, where possible.

Financial environment

The financial environment comprises public-sector enterprises, as well as monetary and fiscal institutions, both of which directly and indirectly affect financial systems. Furthermore, it includes markets such as forex markets, stock markets and bond markets, all of which play a role in accumulating finances and profits for companies (both public and private) and investors. Major players that form part of the financial environment thus include firms that offer goods and services to consumers, investors who contribute capital into other enterprises for financial return, and markets that enable these exchanges to happen.

South Africa's financial environment

For most South Africans wanting to improve their financial status and well-being, it is rarely possible to take advantage of investment opportunities because of limited savings. This is particularly relevant when one considers that under Apartheid previously disadvantaged South Africans were excluded from financial markets. Inclusion in financial markets through investment is made more difficult when the concept of the intergenerational distribution of wealth is introduced. Wealthy South Africans are more likely to have access to inheritances that they can invest, whereas the poorer majority of South Africans typically have little to no surplus income to invest, let alone pass down to their children.

With limited resources and a history of financial exclusion, many South Africans have resorted to other forms of financial management such as stokvels and mashonisas.

- **Stokvels** are traditional savings societies in which members each contribute fixed monetary contributions to a common pool on a weekly, fortnightly or monthly basis in return for a lump-sum payment at a time in the future. This lump sum is received on a rotational basis among members.[2]

- **Mashonisas**, in contrast, are individuals in South African townships who informally provide loans to consumers in their community (also known as 'loan sharks').

The financial environment's influence on the buying behaviour of cash-strapped South African consumers

Millions of poorer South Africans depend on government grants mostly in the form of child support grants and pensions. These are paid out at the same time, usually at the end of the month. This results in a consumer spending spike. Indeed, it is common for retailers to report a large portion of their sales occurring in the days after government grants are paid. By mid-month, many South African consumers struggle to make ends meet; they are often forced into borrowing from friends, family, neighbours, or mashonisas or banks in order to buy basics. Debt is a huge problem for many consumers. According to the National Credit Regulator, there are around 20 million credit-active consumers in South Africa, who have borrowed money from a financial institution, such as a bank, or a retailer. Around half have what called *impaired records*, which means they have fallen behind on repayments.

Political environment

The political environment encompasses the decisions made by the government of a country which in turn fuels actions that affect businesses.

For example, when the government decreases taxes, the economy is stimulated, since consumers who are working and paying taxes have more disposable income on hand and their ability to purchase goods and services is improved. On the other hand, if the government decides to increase its spending, it will likely need to increase taxes. These taxes could be placed on businesses or individuals, which will ultimately mean they have less money to invest or spend. The political environment can thus help to stimulate or constrain the general running of a business.[3]

South Africa has a spirited multiparty political system, with representation by 13 parties in the National Assembly of Parliament. All citizens 18 years of age or older are eligible to vote in democratic elections held every five years. This has been the case since 199. Thus, South Africa is one of the youngest democratic countries in the world, following nations such as Myanmar, Burkina Faso and Tunisia.[4]

Legal environment

The legal environment of an economy within a business context encumbers all the acts, regulations and precedent institutions that outline what business and firms can and cannot do. Therefore, the decisions made by the government pertaining to the operations of businesses create a legal environment when said decisions are dictated to the businesses as laws and regulation. These must be adhered too, lest businesses can afford facing legal repercussions. All firms and businesses should therefore have a comprehension of policies relating to the legal environment, since non-compliance result in fines and penalties.[5]

Geographic and resource environment

The geographic and resource environment describes the ecological factors pertaining to the physical elements of the world we live in, for example, local and global climate change, pollution, consumer health, temperatures, and natural calamities and the direct implications thereof. From these ecological factors, we can deduce that, since they influence the environment, the marketing relevance thereof becomes increasingly more important when understanding industries such as tourism, farming, and agriculture.

Natural disaster cycles such as monsoons or hurricanes, for example, increase the risk of operating in one region all year round, which leads to irregular business sales patterns. Similarly, the physical condition of a country's infrastructure can cause high costs to an organisation needing to operate efficiently and in turn reduce profit margins. A business therefore needs to ensure that the production of the good or service they wish to provide is compatible with the environment in which it operates, so that the risk of losing both sales and a loyal customer base is minimised.

South Africa's geographic environment

South Africa's expanse of land comprises a surface area of 1 219 602 square kilometres, which is about eight times smaller than North America. Its physical features vary from bushveld, forests, grasslands and mountain peaks, to wetlands and wide beaches.

South Africa is well endowed when it comes to minerals and also possesses ideal conditions for livestock farming and the growing of fruit and vegetables. South Africa is the second-largest producer of palladium, zirconium, ilmenite and rutile and the second-largest exporter of gold in the world. It is also the world's third-biggest exporter of coal and a leading manufacturer of platinum. Additionally, other chief exports include sugar, wool and corn, and the country's top fruit exports are oranges, grapes, apples, lemon, mandarins, pears, and grapefruit seeds.

Why is the geographic environment relevant to business?

Upon initial thought, it might seem like environmental factors have no real relationship with the operations of a business. On the contrary, however, they can affect numerous business aspects: consumer willingness to buy, resource availability, brand reputation, employee efficiency and equipment efficiency, to name a few.[6]

Environmental regulation in South Africa

Issues of past poorly regulated economic activities have shown detrimental effects on the natural environments, as seen today. Furthermore, globalisation has meant that the actions of one organisation in one country can have repercussions that are felt outside of its borders. As with any other environmental factor relating to the performance of a business, both direct and indirect, one would also assess changes in, for example, climate cycles and the effect it could have on your business's performance. It is worth noting that such an ecological factor has both social and economic consequences. For example, choosing to operate in an area that experiences unpredictable or cyclical weather patterns means that you are most likely only able to satisfy the needs and wants of your target market periodically. Your business would then only generate sufficient revenue in phases and you run the risk of losing consumers to competitors that had the forethought to operate in a region with year-long favourable conditions. The cost of maintaining your business's assets and inventories during down seasons may also outweigh the benefit of the sales you make during the up seasons. In terms of social effects, one should further consider how well the citizens of the region in which you chose to place your business approve of how you have erected your buildings, particularly if said citizens are green-conscious.[7]

Socio-cultural environment

Socio-culture commonly describes an environment in terms of the values held and behaviours conducted by the population of that environment. Socio-culture therefore refers to the population itself by referencing the social and cultural norms of the people that comprise it, with special attention being paid to common traditions, habits, patterns and beliefs. The term is most frequently used in marketing contexts to describe the key behavioural drivers of consumer decision-making in a society[8].

Since understanding consumer decision-making is vital in ascertaining how well the performance of a product or service will fair in an open market, it follows that understanding socio-culture factors is key for business as well. This is because, when a company is deciding on a particular target population to focus the advertising efforts of its product or service on, knowing how willing the potential consumer group will be to accepting it will determine how well the sale of the product or services fairs. How well the consumers react is largely determined by the prevalent socio-culture norms that they follow[9].

Types of socio-cultural factors

The list of socio-culture factors influencing consumer behaviour is long, and includes aspects like consumer lifestyle, culture, social class, family size and education. Within a South African context, however, a first port of call would be to consider ethnicity, age, disposable income and education. Perhaps the most used variable to differentiate South African consumers is income. With 46% of South African's bringing home less than R1000 per month, choosing to advertise luxury items to consumers residing in underprivileged areas would not be a sound decision[10]. Rather, directing the advertisement of necessity items aimed at attaining basic human comfort (food, water, shelter, clothing, etc) would be a more informed decision.

How does socio-culture impact marketing in South Africa?

Since a business cannot operate in a bubble if it wishes to succeed, societal changes can influence how the target consumer's attitudes shift over time. Socio-cultural factors include attitudes, political ideologies, and beliefs, and – while a business would not need to entirely overhaul its mission statement or values – it would be wise to assume the responsibility of adapting to these socio-cultural changes so as to remain relevant to your buyers and to perform better than your competitors.

Questions of socio-cultural factors linked to heritage and identity are not straightforward. In a country such as South Africa, there exists more than one type of heritage, which cannot necessarily be distinguished in terms of distinct identities. They are diverse and dynamic! It is highly inadvisable to categorise different South Africans according to race alone; intersectional distinctions of gender and ethnicity are making it increasingly important to be aware of how and what they choose to identify as. This is most relevant if advertisers do not wish to offend anyone and inadvertently tarnish the reputation of a brand.

In South Africa, the idea of defining its citizens according to culture and race carries with it some controversy. Contention around such definitions is primarily due to historical Apartheid policies which aimed to segregate along racial lines. Thus, any current attempt to define South Africans in terms of race alone may be unintentionally accompanied by unpleasant connotations of past categorisation. That being said, South Africa is wonderfully diverse in values and practices and so a business would stand a greater chance of success by defining consumers along these lines and then targeting them accordingly.[11]

Culture is important in understanding the needs and behaviours of consumers. Throughout their life, an individual will be affected by the people that form their cultural environment. In South Africa this environment shapes consumer preferences, habits and expectations. Culture is crucial for a marketer to consider in devising brand strategy.

Technological environment

Technology is the application of scientific knowledge for practical purposes, especially in industry. Within the context of consumer marketing, technology relates to those innovations that impact the operations of both marketers and consumers. Technology influences the way businesses supply, distribute and advertise products and services. Innovation also impacts research and development, automation, and the perceptions of consumers.

Technology influences decisions pertinent to entering a new industry and launching a new product. For example, disruptive and rapid technological advances in one industry could impact the general brand competitiveness. In photography, for example, photographic specialist brands like Kodak and AGFA were replaced by consumer technology brands like Sony and then eventually by major mobile phone brands like Apple and Samsung. The shift from film to digital and then phone integration completely changes the brand landscape in a period of just two decades. The internet has created similar disruptions in many industries like film (Netflix), hospitality (Airbnb) and retail (Takealot). Marketers have also attempted to use technology to build stronger bonds with consumers through the use of personal data in order to devise personalised marketing messages. This use of personal data has been met with mixed responses from consumers.

Questions that would then be useful to ask for businesses wishing to remain relevant within the ever-changing technological spheres are:[12]

- What technological advancements and innovations are eminent?
- How will this new technology affect our operations?
- How can we adapt to these without losing relevance?

How does the technological environment influence the buying behaviour of consumers?

Technology has changed consumers and their buying behaviour and businesses need to revamp marketing strategies to keep up with them. One aspect of consumers' behaviour that needs to be considered is that of their expectations. Consumer behaviour is most easily influenced by smartphones and other internet-enabled devices. Thus, in a way, everything that is implied by these devices – fast service, prompt response, personability, and continuous communication – is automatically expected to be adhered to should a business wish to keep up with expectations.

Consumer desire has changed in the sense that they have become aware of the power they hold; online business means that, should a query not be tended to regardless of the time of day, they can simply access a different and similar provider that is more responsive. This consumer conduct needs to be known and adapted to if a business wishes to remain in operation, especially with the countless platforms available on which to express their disdain at poor administration and service, mistaken or not. Consumers also want access to all content related to a product or service of interest. They find partial fulfilment in knowing all there is to know, in being educated on alternatives, inherent product or service value, quality and much more.[13]

Consumers' attention spans, however, with all the content overload provided from so many internet access points, are decreasing. There is too much content for consumers to assess, and so while they do wish to remain informed, they also need to have their attention arrested quickly. A business needs to then retain that attention for long enough to present an offer and then induce an easy sale.

Consumer behaviour concerned with feelings of trust, too, has changed. With countless product and service alternatives available to them, courtesy of the way in which any person can affordably start up a company online, a consumer's decision to buy will rely on their degree of likability and trust in the brand of the product or service. Consumers develop trust in a brand by assessing the strength of online reputation, online presence, social proof of quality and person-to-person word of mouth. Maintaining positive reviews and ratings is thus another important aspect to consider when adapting to changing consumer behaviours. There is a fine line, however, between the positive and negative impacts of this technological environment we find ourselves in.

Negative impact of technology

Technology undoubtedly fuels efficiency, and yet it is important to ensure that the negative social impact of technology does not outweigh the positive efficiency benefits. Job automation, for example, may lower distribution, manufacturing and process costs, but it may also mean job losses for those persons who had not been given the opportunity to advance their skills but can do the menial tasks that have been automated, in exchange for remuneration to at least ensure a comfortable standard of living.[14]

Internet connectivity, as previously mentioned, may extend a business's reach to more consumers, but it also entails less frequent need or desire to engage in traditional forms of communication. This in turn can negatively impact the running of telephone service providers, paper and ink companies, survey conductors, etc. While data was previously manually stored in cabinet systems, technology has now enabled the access and storage of this data much more easily, but it also means that breaching of this data is a possibility among hackers wanting to abuse people's and businesses' personal and system information. Staying cognisant of the negative effects of technology in business can help them plan for how to handle any issues that may result in communication delays, breakdowns and poor social reputation.[15]

Conclusion

In this chapter, we looked at seven macro-environments which affect a business or firm's decision-making, performance strategies and development. We looked at the economic environment, financial environment, political environment, legal environment, geographic and resource environment, socio-culture environment and technological environment.

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Part 3:

Consumer Behaviour

Consumer behaviour is a broad and complex topic with much associated literature. The discipline is also evolving as we learn more about why people act the way they do. This part of the book underscores the basic principles of consumer behaviour.

Chapter 9: Drivers of Consumer Behaviour

This chapter describes some elements that underpin the consumption decisions that consumers make. The drivers of behaviour can include personal and psychological factors and social influences. In addition, situation plays a role, as well as the efforts of marketers. Although it is impossible to pinpoint exact drivers of every decision, understanding these elements helps consumer marketers develop better strategies.

Chapter 10: Consumer Decision-Making

Related to the previous chapter, this chapter focuses on the stages of decision-making. While not always linear, these stages usually include problem recognition, information search, evaluation of alternatives, purchase and post-purchase behaviour. Being able to understand these stages and models can help marketers to understand where to influence consumers in their purchase decisions.

Understanding consumer behaviour theory will help consumer marketers build strategy and deliver tactics that meet needs and accounts for changes in the market.

Drivers of Consumer Behaviour

CHAPTER 9

Gillian Rightford

Introduction

In this chapter, we discuss some of the theory behind the drivers of consumption behaviour. In a country of close to 60 million people, there is no easy way to summarise why people make the choices that they do. Researchers, however, have spent years studying consumer behaviour in order to better understand people's choices. This chapter, in which we explore some of the basics of consumer behaviour theory, partners with the next chapter, where we unpack the actual decision -making process in detail.

Consumer behaviour

Marketers typically define consumer behaviour as the mental and emotional processes and physical activities of people who buy products or services. The key to building a lasting and loyal relationship with consumers is to find the consumers who want and need your products and are prepared to buy them. Even if one looks at groups of people who are not completely brand loyal, but will be occasional or repertoire buyers of the brand, marketers need to understand what will move them from consideration to conversion (from thinking about it to buying it).

As part of the segmentation exercise, marketers determine the size of the brand opportunity (or size of the prize, as some like to say), and which segments will best deliver. Some opportunities will be easier to convert than others and some will be more attractive (from a margin or volume point of view).

Once you know which group or groups hold the most purchasing potential for your product, you can make informed choices about which media channels would be best to reach them and what type of messaging will be most relevant to these selected groups. Therefore, your ability to identify prospective consumers is vital. Marketers should have a holistic understanding of the purchasing patterns and drivers of competitive choice, of pricing factors and other buying influences.

It is insightful to look at why consumers would not buy too: is there something we could change in order to change their minds (for example, pack size, flavour, price, or method of buying)? Under what conditions might consumers change their behaviour, either from being loyal to being semi-loyal or from not buying your brand to always buying it? As marketers grow better at understanding consumer behaviour, they will be better at creating a strategy around meeting needs.

In summary, when developing a marketing strategy, a key component for consideration is your target market (Chapter 11). You must go through a process of investigating all the possibilities of who might comprise your target market (segmentation), so that you can define the most profitable groups of consumers who you should target with your activities. To help you make this decision, you need to understand your consumers, their behaviour, their need-states and the phenomena that influence them, in order to understand their purchasing behaviour.

Each person's consumer behaviour is driven by a complex set of internal and external factors. These factors will be discussed in the following section.

Factors affecting consumer behaviour

While behaviour is very complex, we have divided the drivers of consumer behaviour into five broad factors (Figure 9.1):

1. Personal factors
2. Psychological factors
3. Social factors
4. Situational factors
5. Marketing mix factors

While consumer behaviour is generally much more complex, these factors are a useful tool to help marketers develop a consumer orientation and a marketing strategy.
Each of these factors is briefly defined in this section.

The marketer must be aware of these factors in order to develop an appropriate marketing strategy for the identified target market.

Personal factors

Personal factors relate to the factors that make up an individual or group of individuals, such as their demographics, stage of life, and lifestyle.

Demographics
These include the person's demographic factors, such as their gender, race and age. It may also include aspects such as individual or household income and which family member is responsible for decision-making. A number of these demographics have been outlined in Chapter 5, where the South African consumer landscape was surveyed.

Figure 9.1: Factors affecting consumer behaviour and purchase decisions

Age and life stage are key demographic factors that influence decision-making. Preferences may be influenced by the stage of life a consumer is in (for example, child, young single, married with children, empty nester, or pensioner). For example, a 14-year-old will likely be financially dependent on a caregiver although they may have already developed strong preferences that could continue into adulthood. A single student would have very different consumption characteristics when compared to a new parent.

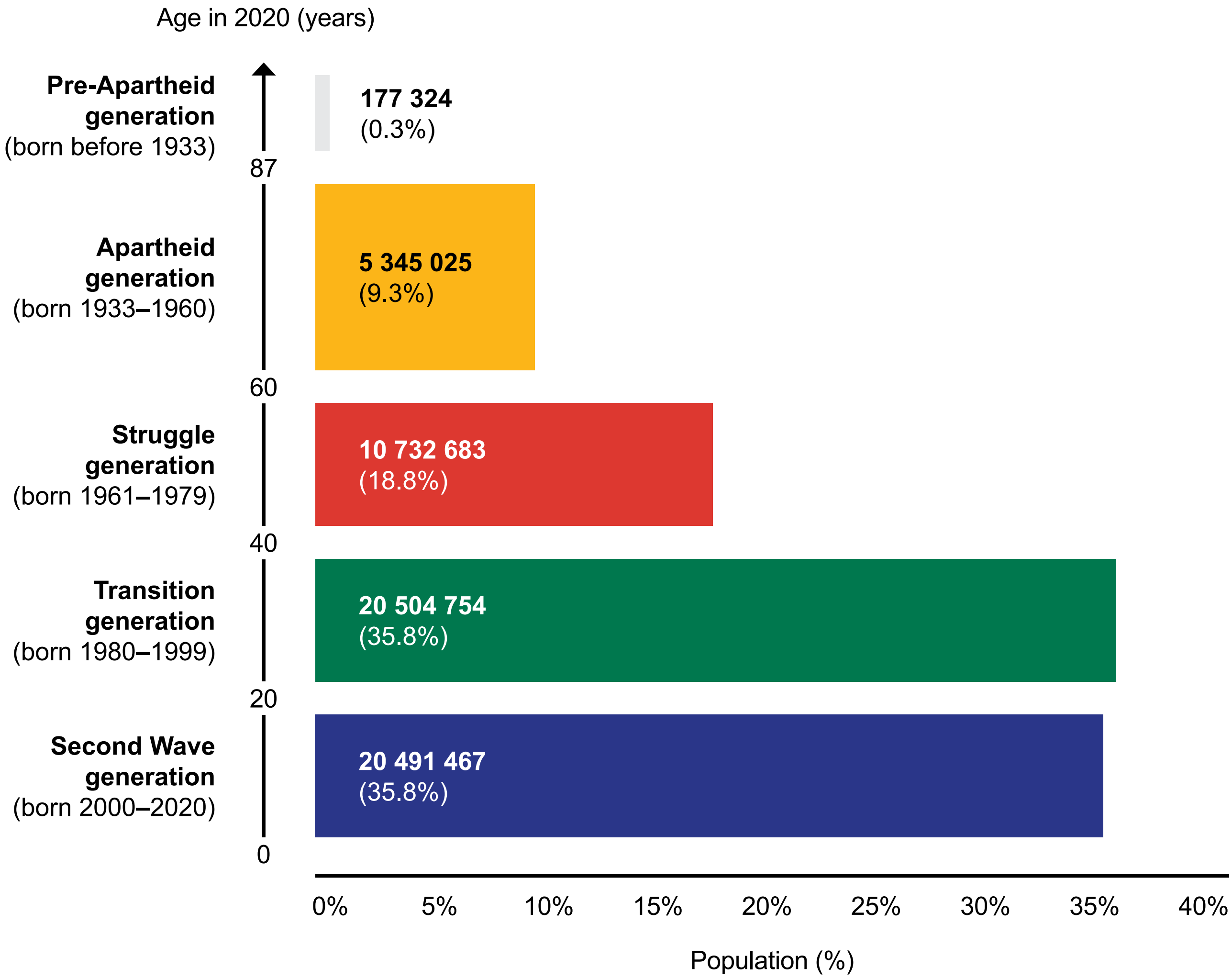
It has been long accepted that younger and older people have different preferences based on when they were born. A generational cohort is a group of people born during a similar time and, due to similar social circumstances, will share certain worldviews. As discussed in Chapter 5, in South Africa, those born during the Apartheid Generation (1933-1960) would have a different perspective than their children, who may have be born in the Transition Generation (1980-1999).[1] Figure 9.2 gives a perspective on how many South Africans fall into each age cohort.

Sometimes, demographics can only provide a limited view of a person. Two people with similar demographics may have different lifestyles.

Lifestyle

Lifestyles are defined by the consistent patterns that people follow in their lives. Recent trends in lifestyles indicate a shift towards personal independence and individualism, the busy-ness of being on-the-go, and a preference for a healthy, natural lifestyle. People may share the same demographics but have very different lifestyles. In South Africa, rural and urban lifestyles differ considerably.

Figure 9.2: A model of generational cohorts in South Africa[2]



Psychological factors

Psychological factors are internal factors that develop over time and have a major impact on consumer behaviour in spite of external circumstances. The core portfolio of psychological factors include motivation, perception, learning (ability and knowledge), personality and attitudes.[3]

Motivation

A motive is an internal energising force that causes behaviour aimed at satisfying a need or achieving a goal. Actions are generally affected by a set of motives, not just one. If marketers can identify motives, they can better develop a marketing strategy. Motives do, however, often operate at an unconscious level, and therefore are difficult to measure. Motivation underlies and drives decisions and actions and can be prompted through appealing to human need-states.

Motivation can also be connected to promotional messaging by using either negatively or positively originated motives. **Positively originated motives** offer a bonus, reward or benefit from the offering; while **negatively originated motives** offer the eradication of a problem, or a means to avoid a problem through the offering.

Perception

Perception is the process of selecting, organising and interpreting information to create an image of the world. People choose what information they pay attention to and how they organise and interpret it. It is also important to understand consumers' perceptual screens, as people modify how they receive messages based on many things (for example, experience, needs, and habits).

Learning (ability and knowledge)

Learning is the process through which a relatively permanent change in behaviour results from the consequences of past behaviour or thought. Therefore, to change consumers' behaviour about your product, you need to give them new information about the product (in the form of a free sample, for example). Learnt behaviour is the behaviour that results from repeated experience and from thinking.

Marketers need to understand potential consumers' capacity to learn, as learning can play an important role in changing a person's behaviour through the input of new information and experience. Learning relies on stimulus and derives from direct experience as well as thinking. Information inputs are the sensations received through sight, taste, hearing, smell and touch.

When making buying decisions, buyers must process information. In this context, knowledge is the familiarity with the product and experience using it. Inexperienced buyers often use prices as an indicator of quality more than those who have knowledge of a product. In this sense, a lack of knowledge can lead consumers to assume that a higher price indicates greater quality.

Personality

Personality is a person's consistent behaviours or responses to recurring situations that can have an impact on a purchase decision. These may be consistent with a national character (a distinct set of personality characteristics common among people of a country or society), or a self-concept (the way people see themselves and the way they believe others see them). This may relate to all the internal traits and behaviours that make a person unique as a result of their upbringing and personal experience. Examples include:

- Workaholism
- Compulsiveness
- Self-confidence
- Friendliness
- Adaptability
- Ambitiousness
- Dogmatism
- Authoritarianism
- Introversion
- Extroversion
- Aggressiveness
- Competitiveness

All of these traits affect the way people behave. In many categories, consumers buy products that are consistent with, enhance or remedy their self-concept, so marketers may want to align their brand image to the perceived image of their consumers.

Attitudes
Attitudes are learned predispositions to respond to an object or class of objects in a consistently favourable or unfavourable way. These are based on a person's values and beliefs (which are learned). **Values** can either be core values (for example, material well-being or humanitarianism) or can respond to personal values (for example, thriftiness or ambition). Personal values affect attitudes by influencing the importance assigned to specific product attributes. **Beliefs** equate to a consumer's subjective perception of how well a product or brand performs on different attributes. These are based on personal experience, advertising, and discussions with other people.

Individuals learn attitudes through experience and interaction with other people. Consumer attitudes towards a brand and its products greatly influence the success or failure of the brand's marketing strategy. However, there is also still a difference between an individual's attitude and intention or ability to buy. Just because someone has a positive attitude towards your brand, it does not mean that they have the money to buy it.

Social factors

There are many social factors that influence the purchase decisions of a consumer. These include people and groups that a consumer knows (for example, family and friends) or even social groups that they relate to without necessarily knowing everyone personally (for example, hip hop subculture). Some of these social factors are listed below.

Family and friend influences
Family and friend influences are very important as a source of social referencing. Family and friends are the source of children learning the art of 'consumer socialisation', the process by which people acquire the skills, knowledge and attitudes necessary to function as consumers. Research has shown that children show brand preferences from two years old, and these preferences often last a lifetime. Throughout our lifetime, however, we continue to be heavily influenced by friends and family.

Society / social class
Social class is a term used to define relatively ambiguous divisions in a society based on the apparent sharing of similar lifestyles, values and behaviours. These divisions can be determined by occupation, education, and source and level of income. While contested as a reliable measure, social class is said to influence the types, quality and quantity of products that a person buys or uses. Though family and social classes are all social influences on consumer behaviour, it is important to remember that they all operate within a larger culture.

Culture and subculture
Culture refers to the set of values, ideas and attitudes that are accepted by a homogenous group of people and which are transmitted to the next generation. Culture also determines what is acceptable in terms of product advertising, in that it determines what people wear and eat, and where they reside and travel. Culture affects what people buy, how they buy and when they buy.

Subculture defines subgroups within the larger (or national) culture with unique values, ideas and attitudes. These groups could share a similar age, or come from a similar area, or belong to the same ethnic or language groups who have the same values, traditions, and languages, etc.

Other reference groups

Reference groups are people to whom an individual looks as a basis for self-appraisal or as a source of personal standards. These reference groups influence the information, attitudes and aspiration levels that help set a consumer's standards. They could be a membership group (social clubs, sports club, or family), an aspiration group (a group that a person wishes to be a member of or wishes to be identified with), or even a dissociative group (a group that a person wishes to maintain a distance from because of differences in values or behaviour). A consumer's purchase decisions are often influenced by the views, opinions or behaviour of others. This takes many forms, including:

- **Opinion leaders** who exert direct or indirect social influence over others. There are very few true opinion leaders, but they can be sports figures, celebrities, community leaders or business executives. These individuals are typically revered and hold relevance in terms of products that are status- and image-led, such as cars, clothing, club membership, audio-visual equipment and computers. Marketers try to attract opinion leaders as spokespeople paid to market their products. This can obviously be risky if that spokesperson suffers setbacks in terms of their popularity.

- **Word-of-mouth (WOM)** activity provides a mechanism through which people are able to influence each other in everyday conversation. A typical example of this is friends sharing recommendations and tips, a practice which is prevalent in this age of social media, and is therefore important for marketers to pay attention to. This information tends to be more trusted than advertising. Marketers try to promote positive word of mouth through developing ads that they hope will go viral. However, not all word of mouth is positive. Marketers try to prevent negative word of mouth (nWOM) through supplying factual information, toll-free numbers, providing product demonstrations and staying abreast with rumours.

Situational factors

Situational factors are temporary or 'in the moment' influences that affect the behaviour of consumers. These range from physical factors (like how much you can carry, or how much it will cost to transport your purchases by taxi), to social factors (who is with you and where you are), and even to the consumer's mood or financial status at the time of potential purchase. For example, bad weather conditions could mean that a low-income day wage farm worker has a bad month from an income perspective. This situation has a temporary impact on income and may impact short term brand choice far more than attitude or past loyalty.

The relevance to the marketer is that we need to understand how these factors may influence the decision, and we may want to try and control some of these factors to influence a positive purchase decision. Let us explore a few in more detail.

Purchase task
The reason the consumer is shopping is one of the major influences. Are they buying for themselves or their family? Are they buying in an emergency (consider the COVID-19 stockpiling of toilet paper)? Are they buying a gift and, if so, for who? Our decision making will be very different if we are buying an engagement ring or a thank-you box of chocolates for our child's teacher.

Immediate social setting
The consumer's immediate social setting can significantly influence what they will buy and why. A consumer may feel peer pressure to buy a different brand or type of drink to what they would usually consume when out with friends (for example, in the liquor industry, 'badging' is a way of communicating your desired self-concept). A first date will probably not be in the usual fast food outlet that you frequent, because you want to impress. Brands like Almay and Tupperware use this to great effect; the consumer feels both obligation and social pressure to buy in a house-party environment.

Time
Media planning for certain channels breaks time slots into day parts, because consumers are likely to be in different places, doing different things, at different times of the day, allowing us to buy media that will talk to them in relevant situations, for example, the transport we use to get to work will affect what media we are exposed to and our frame of mind. The same applies to decision making; what time of day, what time of year, how much time we have to shop, are all influences of what we might buy, where and when. Celebrations such as the festive season (December) or national holidays also influence buying behaviour. Another trend that currently influences behaviour is around convenience – people are rushed for time and are actively looking for brands that can help them do things more quickly – for example, instant maize meal.

Physical surroundings
Physical surroundings could be the area in which the store is situated; it could also relate to the size and layout of the store. Is it conducive to getting what you need or is it intimidating? Is it far from home, which could mean, for a low-income consumer, that the costs of transport make it unaffordable? Is it a small spaza shop, which offers the benefit of being close by and no transport, but may not offer the brand range and pack sizes of a bigger store? Factors like the weather can be included under physical surroundings too.

Marketing mix factors

These factors are mostly under the control of the marketing team and are discussed in detail in chapters 13-16. The below points provide a brief survey of how these factors impact the consumer.

Product: the physical product or service intended to offer utility to the consumer. Aspects that may influence behaviour might be size, appearance and aesthetics (packaging), added value (either intrinsic, for example, an ingredient, or extrinsic, for example, status), after-sales service (essential in the car industry), and guarantees or warranties.

Price: pricing strategy is a very strong driver of consumer behaviour. Too cheap in some categories will create distrust. Too expensive when your competitor offers the same perceived utility will result in the consumer choosing them, not you. Pricing will include ideal retail price points and discounts (trade and consumer), as well as financing options. At certain times of the year, and in certain market circumstances, pricing can be used as a promotional and competitive lever.

Place: place refers to where the purchase is made (bricks and mortar or online) and can be a significant influencer of choice. In the case of brick and mortar, an actual store, aspects such as the location, size of shop, atmosphere, staff, and layout can influence consumer behaviour and choice. Consider the different choices you might make at a convenience store on your local garage forecourt versus a large supermarket versus a boutique deli. In the online environment, the ease of finding what you want and checking out impacts on whether a consumer will make a purchase.

Place also refers to the methods of distribution used to get the product to the customers, either off a shelf or otherwise. Distribution decisions include market coverage, logistics, and levels of service. This aspect became a critical area in the COVID-19 retail landscape, where companies had to quickly change their methods to continue trading. For example, big retailers were unable to cope with ecommerce demand. Companies selling alcohol, which were prohibited from trading, often pivoted their business to online deliveries.

Promotion

Promotion decisions are those related to communicating with the target customer. The communication needs to inform, remind or persuade and so may be benefit-driven, offer driven or simply an announcement. The promotion aspect includes everything from logo design to packaging to advertising, to social media to PR to sales promotion. The intention of the promotion piece is usually to change behaviour (buy for the first time, use more or more often, buy earlier than planned due to the offer) and induce a sale.

Conclusion

Marketers should always strive to put the consumer at the centre of their efforts, in order to ensure success. By having a deep understanding of how consumers buy and the mental and emotional processes and physical activities taking place when people buy products or services, marketers can more accurately manage the circumstances in order to successfully convert a consumer from interest to purchase.

[1] Lappeman, J., Egan, P. & Coppin, V., 2020, Time For An Update: Proposing A New Age Segmentation for South Africa, *Management Dynamics*, 29(1).
[2] Lappeman, J., Egan, P. & Coppin, V., 2020, Time For An Update: Proposing A New Age Segmentation for South Africa, *Management Dynamics*, 29(1), 12.
[3] Schiffman, L., and L. Kanuk., 2014, Consumer Behavior. 10th ed. Cape Town, South Africa: Pearson Education.


Wynand / stock.adobe.com

Consumer Decision-Making

CHAPTER

10

Ana Carrapichano

Introduction

In this chapter, we cover the basics of consumer decision-making. While decision-making is a component of many disciplines, consumer marketing is fundamentally underpinned by consumer behaviour and their decision-making processes. The chapter discusses various models of decision-making and the role that understanding plays in consumer marketing. The chapter also covers fundamental decision-making models and some different types of consumer buying decisions. The chapter then discusses the emerging concept of micro-moments and neuromarketing advances in the discipline of decision-making science.

Fundamental decision-making models

Decision-making is a fundamental part of human behaviour. We all make decisions daily that influence our health, well-being, finances and future prospects among many other things. Decision-making in marketing is about understanding what consumers buy, when, where and how they buy; and how much they are prepared to spend. Most importantly, it is about why they buy. Understanding why they buy involves knowing the social and mental processes within that decision. This is a difficult thing to do, which is why companies invest so much in research and development around their offerings.

Every marketers' aim is to figure out how a consumer makes a decision and how they can influence that process in order to have their product or service considered and ultimately purchased. Campaigns are designed to drive consumers through the decision-making process (often depicted as a marketing funnel or a purchase decision journey), providing the correct information at the right time, depending on the stage the consumer is at.

The Five-Stage Decision-Making Process

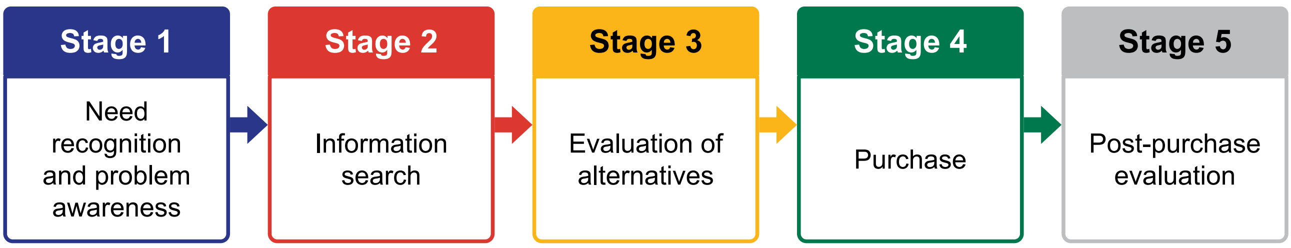
Most marketers recognise that consumers have choices. The study of consumer behaviour includes the attempt to understand how people decide what to buy, so that you can make objective and informed decisions about key marketing variables. Thus, understanding the relative importance of each component of a decision-making process can help consumer marketers to offer products and services with more utility (functional or emotional) than competitors' products and services (see Chapter 1 on value propositions).

The Five-Stage Decision-Making Process model is a hierarchical model, implying that consumers move through steps or stages when they make purchase decisions. This kind of model is sequential and built on an assumption that consumers move through a series of cognitive (thinking) and affective (feeling) steps, culminating in a behaviour for example, purchase or trial. When consumers plan to buy a certain product, many of them will generally (although not always in a linear fashion) follow the five-stage purchase decision-making process (Figure 10.1), which includes:

- Problem recognition (unsatisfied need)
- Information search
- Evaluation of expected outcome
- Purchase
- Post-purchase behaviour

This process is an outline of the way consumers make decisions. Of course, it can have different outcomes - consumers can abandon the whole idea at any stage and they do not necessarily always continue with the process that leads to a purchase. This is not necessarily a bad thing. The objective of some communication is simply to ensure that the brand is added onto a mental shopping list, for a time when the need arises. The stages of the buyer decision process were first introduced by John Dewey in 1910[1], and have since been expanded upon.

Figure 10.1: The five-stage purchase decision-making process



The Purchasing Decision-Making Model (also sometimes called the consumer buying process) helps marketers identify how consumers complete the journey from knowing about a product to making the purchase decision. Each stage is discussed below.

Stage 1: Need recognition and problem awareness
The first stage of the consumer decision-making process is recognition of a problem, which in turn creates a need or a want that must be satisfied. As marketers, we must determine what our customers' problems are and make them aware of the solution. It is important to understand when our audience segments' needs or wants arise, so that we can find ideal times or moments to advertise to them.

In today's information age, we have 'micro moments' (small momentary instances when we are influenced) in which preferences are quickly shaped. These moments generally occur when people reflexively turn to a connected device, such as a cellphone, to further research and gather information. These micro-moments play an important role throughout all the stages of the decision-making process.

Many advertising campaigns start off by trying to generate high awareness levels within their core audience segments in order to entice potential consumers into the next step of decision-making, thus driving customers down the funnel towards making a purchase.

Stage 2: Information search
This stage is when the consumer will do a certain amount of research, although this will vary depending on whether the intended purchase is a high or low-involvement product. A high-involvement product includes more mental engagement and often more pre-purchase research, such as buying a car. A low-involvement product is often a high-frequency purchase, such as buying milk. This stage is forever evolving and encompasses everything from visiting a store and chatting to a salesperson, to online investigation and sourcing reviews. Many factors are considered to ensure the right choice is being made, minimising risk throughout the process.

Social media and online reviews are an extremely influential factor within this step of the decision-making process. Consumers may not call their friends for a recommendation; instead, they post questions on their social networks and crowdsource unconstrained responses from family, friends and strangers. The following insights were established in 2017[2] by using various research studies. While not representative of the whole South African consumer landscape, they do show the growing importance of connectivity and how social media content influences the decision-making process:

- 81% of consumers' purchasing decisions are influenced by their friends' social media posts.[3]
- Facebook accounts for 50% of total social referrals and 64% of total social revenue.[4]
- 31% of consumers say they are using social media channels to browse for new items to purchase.[5]
- Conversions from interest to purchase increase by 133% when mobile shoppers see positive reviews before buying.[6]

Social factors have always played a part in consumer buying habits, but the prevalence of smartphones and social networks have taken word-of-mouth referrals to new levels.

The role of memory in the search process should not be overlooked. The mind stores a great deal of information and often a consumer will recall a previous experience with the brand, a memory of someone else's experience with the brand and even previous advertisements for the brand. This too aids in the search process. Brand building over time contributes to these memory structures and enables the brand to be top of mind.

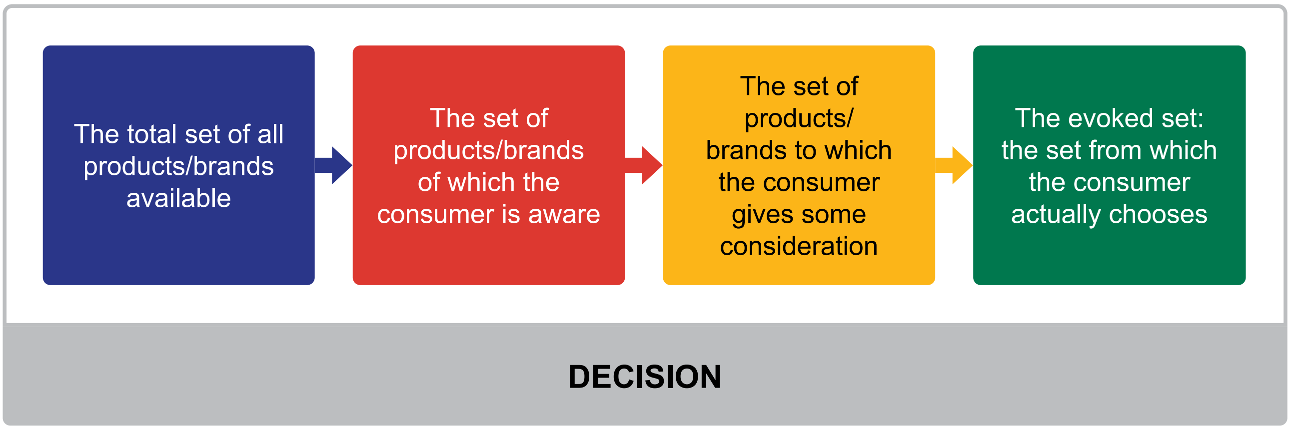
Stage 3: Evaluation of alternatives

In this stage, the consumer begins to ask questions about whether it is the right product or if they need something different to satisfy their recognised problem. Stages 2 and 3 happen in conjunction with one another and the consumer can transition several times between them before moving on to the next stage. In evaluating alternatives, consumers will read various reviews comparing benefits, price and the best or easiest place to purchase the product.

Once a consumer has decided what they require, they begin a search for the best deal based on all their influential external and internal factors to satisfy their desired parameters (the mental list of viable alternatives is called an *evoked set*). Inherent in this phase of the decision-making process is the element of elimination. Once your brand has been eliminated, it is incredibly difficult and expensive to re-penetrate the consumer's decision-making process so that your product can be considered.

Figure 10.2 shows a process of elimination from all possible alternatives to the final evoked set and possible decision.

Figure 10.2: Moving from all possible alternatives to the final decision



The process moves from a set of all products or brands down to those that the consumer is aware of. Then the set is further reduced to those that the consumer is considering and finally to the evoked set from which they might actually make a final decision.

Stage 4: Purchase decision
Based on Stages 2 and 3, the consumer decides what and where to purchase the desired product. At this stage, a customer has weighed up all the factors and come to a reasonable conclusion based on a combination of both functional and emotional experiences, coupled with the influence of some sort of advertising at some point in time (whether it be a television ad or a webpage found via an online search).

The entire sale can be undone at this stage if the customer's experience does not match or exceed their expectations. The experience we are referring to is that point when the customer hands over money for the desired product, whether it be in-store or online. This moment aids in contributing to a positive experience, reinforcing the consumer's purchase decision, and contributes towards building brand loyalty for repeat purchases as well as promoting your product to new potential customers.

Post-purchase behaviour/evaluation

Once the consumer has made a purchase, certain outcomes are expected. The level of satisfaction that consumers experience depends largely on how many of their expectations are met. The term *cognitive dissonance* is used to describe this stage. The standard definition of cognitive dissonance is: 'The state of having inconsistent thoughts, beliefs, or attitudes, as relating to behavioural decisions and attitude change.'[7] In marketing terms, this means that consumers seek to justify their purchase afterwards, and might even continue to consume advertising for the product to confirm their choice. This is especially so in the case of high-involvement purchase decisions for expensive items like cars and expensive technology products, when people try to justify to themselves that they have made the right decision.

When the experience is negative, a psychological process called *cognitive dissonance* creates a feeling of emotional discomfort, caused by feelings of inconsistency in the person's beliefs, attitudes or actions. These vary in intensity based on the importance of the issue and how inconsistent it actually is with those beliefs, attitudes or actions. The need to reduce dissonance is then created (sometimes called a *drive state*), when you try and bring the purchasing action in line with your beliefs and attitudes.

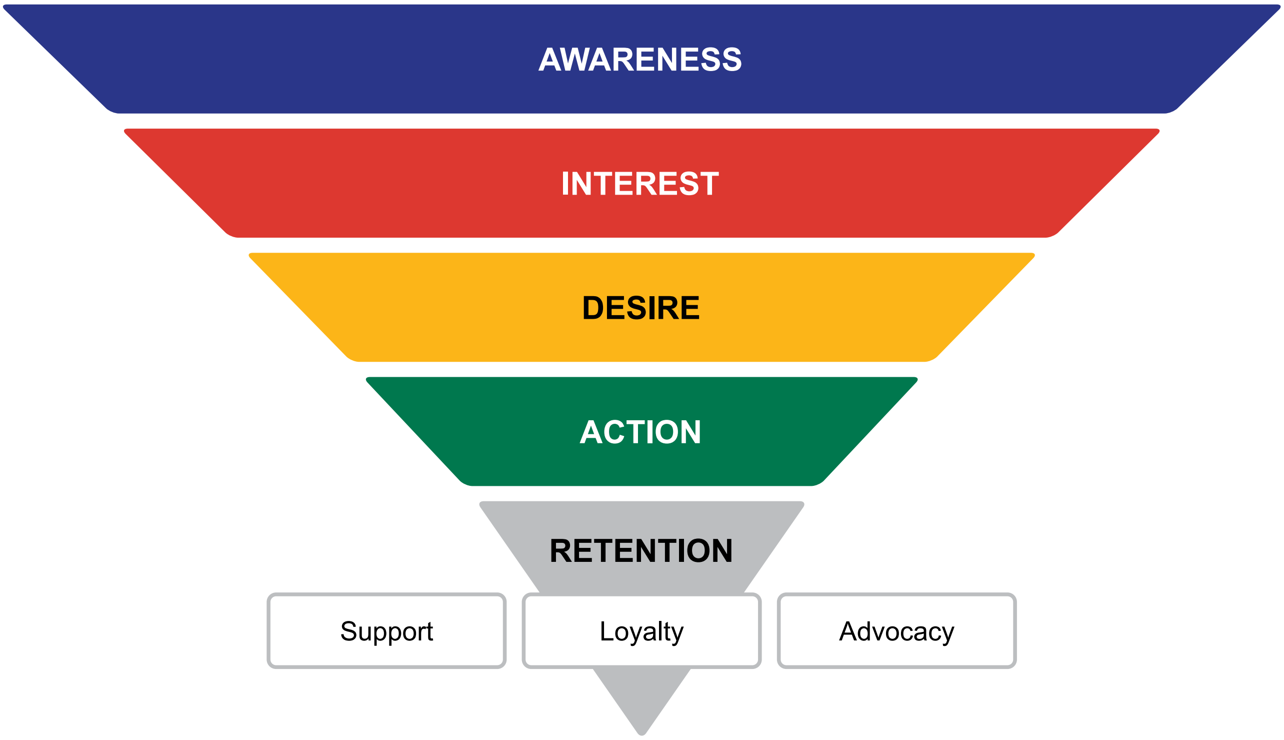
Throughout this process, both external and internal factors influence the decision being made (see Chapter 9). Factors such as price or promotion, place of purchase, brand positioning, customer's life stage and social standing all play a part in influencing the outcome. The consumer then makes the decision and acts, by purchasing the now desired product. This is a crucial time in the process, as this experience can entrench brand affinity or create tension, when a part of the process does not deliver as expected, all of which play a role in ultimately moving the brand forward or not. Post-purchase evaluation also continuously takes place as new offers come and go, influencing consumers to make new choices.

The following section describes a related process used to complement the five-stage decision-making model and help with marketing strategy.

Attention-Interest-Desire-Action-Retention (AIDAR)

The Attention-Interest-Desire-Action-Retention (AIDAR) model (shown in Figure 10.3) is also widely used to understand consumer decision-making and includes the following five stages: awareness (knowing that the offering exists), interest (acknowledgement that the offer might be wanted), desire (feeling of want for the offering), action (making a purchase) and retention (keeping a consumer in a cycle of repeat purchases).[8]

Figure 10.3: The AIDAR model

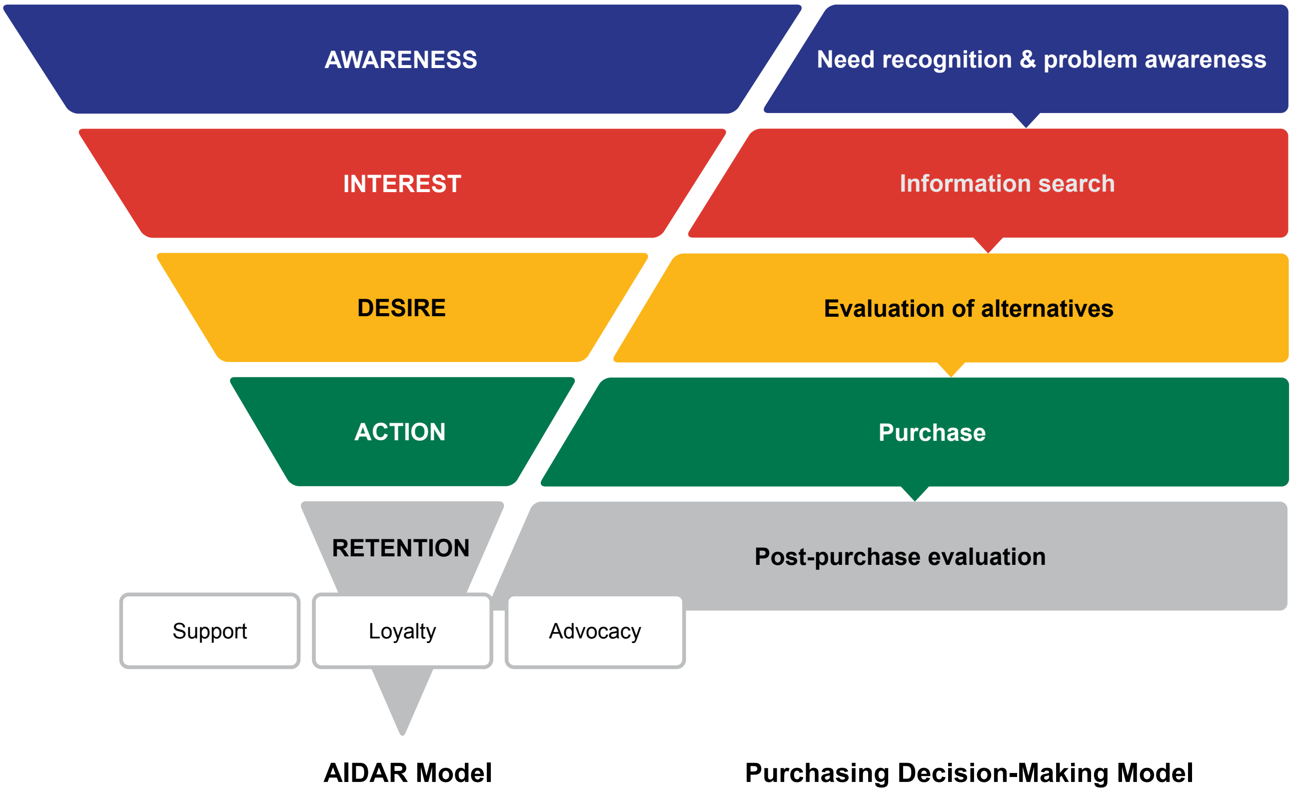


When it comes to retention, aspects like ongoing support, building long-term loyalty and promoting advocacy (telling others) are sub-components that consumer marketers will be aware of and use to build their brands.

The AIDAR model and the purchase decision-making process should always be aligned to ensure that communications have the correct messaging in order to keep consumers within the offering's ecosystem. Figure 10.4 depicts the relationship between the AIDAR model and the basic purchase decision-making model.

For example, a brand could generate awareness utilising advertisements that recognise a problem for the defined target market (for example, instant meals for people always in a rush). A potential consumer within this market segment may see this advertisement and realise that they have a problem that the offering is promising to solve (skipping meals due to lack of time). The consumer is now interested in the offering and seeks out further information via various platforms (for example, online reviews) in order to assist them in making the decision to address their newly established need state. Alternatives are evaluated and the desire for a specific product begins to form.

Figure 10.4: The basic AIDAR model and purchase decision-making process (adapted by the author)



Consumer marketers need to understand this complexity and be aware that many decisions are made unconsciously. In Malcolm Gladwell's book *Blink: The Power of Thinking Without Thinking*,[9] the author explains how intuition is involved in our decision-making and describes what he refers to as 'thin slicing' - the ability to make snap decisions based on a few aspects of perceived reality. This perceived reality is influenced by our environment, which consists of multiple factors of varying degrees of importance over a consumer's lifetime. The various models proposed in this chapter are helpful tools to understand this complex process, but can never fully explain why consumers make the choices that they do.

Involvement and the Feel-Think-Do model

In order to successfully influence a decision, marketers must understand how much effort and time consumers put into making their decisions. This concept is called **involvement**. Consumers can research and review multiple offers before making the purchase decision or they can purchase a product on impulse, based on their current emotional or functional need.

The Feel-Think-Do model is a common approach marketers use to identify the primary driver in the decision-making process and is often determined by how much mental involvement is needed in a purchase. Often this involvement is connected to cost of purchase (for example, a house) and cost of making a mistake (for example, getting the correct birthday gift). This model places the emphasis on the key driver, whether it be cognitive (think), emotional (feel) or active (do). Understanding this model can help marketers to tailor their communication accordingly, 'think' being a more rational and logical driver, 'feel' being more emotive, and 'do' being action focused.[10]

Involvement in the decision has an impact on the order of the decision-making process. An array of thought goes into making the simplest purchase decisions. Another way to think about types of decisions is to categorise them as nominal, limited or extended.

- **Nominal decisions** are made on low-involvement products. These kinds of decisions are involved in frequent purchases of familiar brands and products, used often. This is the **'do-think-feel'** approach.

- **Limited decisions** are made on products not bought regularly, but which are neither high-cost nor high-involvement products. Customers will take some time to consider their memory of the product and make decisions based on logic. Limited decisions generally come from a lack of brand loyalty within the category, the novelty of purchasing something new and different, or boredom with a previous shopping habit. This is the **feel-do-think** approach.

- **Extended decisions** are made on high-involvement products that are not purchased often (such as a car). These decisions require MUCH consideration and research, often around unfamiliar brands or products. These purchases generally come with more risk, so more in-depth analysis needs to take place. This typically involves reading reviews, speaking with friends and family, and comparing specifications. This is the **think-feel-do** approach.

Micro-moments in the decision-making process

Life is lived in moments, and it is these moments that create needs or desires. Today's technology-enabled world gives us access to increasing amounts of information and potential to experience brand-related micro-moments. Think with Google describes micro-moments as intent-rich moments when needs or wants are recognised and preferences are shaped for a decision that is made within seconds. They are critical touchpoints within today's consumer journey, which, when strung together, ultimately influence how that journey ends. The experience is leveraged off the need or want to learn something, do something, discover something, watch something or buy something.[11]

According to *Think with Google*, there are four key moments that influence the decision-making process, as depicted in Figure 10.5. These are:[12]

- **"I want to know" moments.** These moments occur when someone is exploring or researching, but is not necessarily in purchase mode.

- **"I want to go" moments.** These moments occur when someone is looking for a local business or is considering buying a product at a nearby store.
- **"I want to do" moments.** These moments occur when someone wants help completing a task or trying something new.
- **"I want to buy" moments.** These moments occur when someone is ready to make a purchase and may need help deciding what to buy or how to buy it.

It is in these different moments that consumers may be drawn to brands that help meet their immediate needs.

Figure 10.5: Think with Google's four key micro-moments that influence key decision-making stages

In order to use micro-moment theory effectively, brands must be aware of the following three factors when influencing the decision-making process at micro-moment levels:

- **Be there.** Anticipate what these moments may be so that you are there to respond to target audience queries with the answers they are looking for.
- **Be useful.** Provide an experience that is relevant to your consumers' needs at that moment so that you become a brand that is a part of the consumer evaluation process.
- **Be accountable.** The journey must be seamless across all touchpoints, ensuring that the customer fully understands what your offering is about. Do not over-complicate the experience.

Before developing a strategy that influences a consumer's decision, it is critical to understand the key micro-moments in their journey. This will enable you to ensure that the correct message is delivered at the most relevant moment, drawing consumers into your brand's consumer journey and, hopefully, convincing them at every step to becoming a loyal customer.

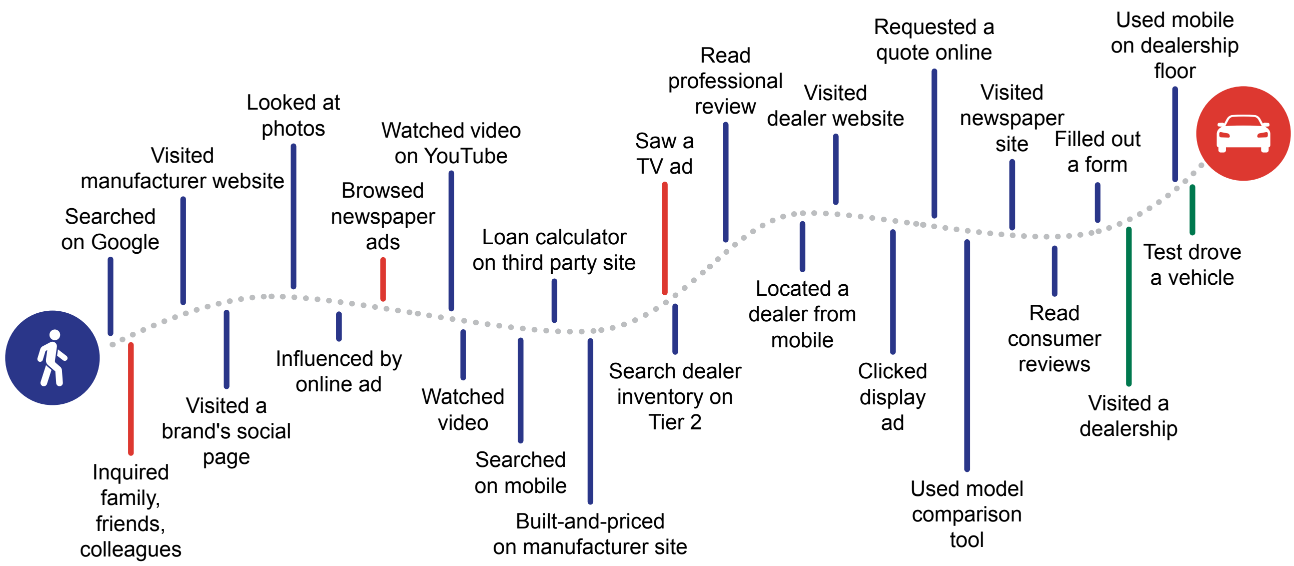
There are five simple steps a company can take to better reach consumers in these micro-moments:

1. Anticipate the micro-moments that are relevant to your target audience.
2. Create content to directly address the needs of those micro-moments.
3. Make sure your content is optimised and tailor-made for mobile device access.
4. Make a strategic effort to connect with micro-moment searchers.
5. Use search engine optimisation to rise to the top.

Let's consider targeting micro-moments through the decision-making process of buying a car. How many micro-moments and questions need answering when buying a car, and at which point is each of the moments relevant within someone's day?

Figure 10.6 shows an illustrated **consumer journey**. A consumer journey is a sum of experiences that consumers go through when interacting with a company and brand. Instead of looking at just a transaction, consumer marketers like to map and document the full experience of being a consumer. The illustration shows 26 touch points (points of physical or emotional contact between consumer and brand) as a consumer goes on a hypothetical journey to purchase a used car. Note that in this example, 21 out of the 26 **touch points** in the car-buying journey are digital (therefore having a higher-than-average relevance). This means that consumer marketers need to create content and ease of access to potential customers at all of those points.

Figure 10.6: Of the 26 average touch points, 21 are digital (in blue)



Through specific keyword targeting and understanding the types of questions being asked throughout all those moments, one can create and serve content that is highly targeted and extremely relevant. Understand that the content must be served and received in many ways. From simple search to expert video reviews to social media influencing, each platform needs to work to its strengths and serve readily available information in order to positively influence the purchase decision. Those thinking moments and searched for terms could be:

- **"Which car is the best?" moments**
  Search:
  - Best car brands of year (X)?
  - Most fuel-efficient sedans?
  - Safest family car?

- **"Is it right for me?" moments**
  Search:
  1. What are the specific models?
  2. What are their specifications?
  3. Fuel efficiency / luggage capacity / safety ratings / 4x4 capabilities?

- **"Can I afford it?" moments**
  Search:
  - How much does this car cost?
  - Does it have financing available?
  - What are the warranty and service plans like?

- **"Am I getting a deal?" moments**
  Search:
  - Are there any deals on this specific model?
  - What incentives do they offer?
  - What is the resale value?

- **"Where should I buy?" moments**
  Search:
  - Is there a dealership close to me and does it have stock?
  - What has its' service been like?
  - What has my experience been like?

Those are just a few of the top searches car buyers undertake when looking for information and evaluating alternatives. The key is to find out what your customer is searching for throughout their decision-making process and then help them along by serving valuable, relevant content. This will help to make your brand a brand they continually engage with in their decision-making process.[14]

Before concluding the chapter, the following section will briefly explain some of the neuromarketing advances in understanding decision-making.

Neuromarketing advances

New research is being conducted in a field of neuroscience known as *neuromarketing*. It uses similar methods and procedures to that of psychology, economics, statistics, behavioural theory, decision theory and other cognitive sciences and disciplines. The term neuromarketing was introduced in 2002 by Dutch marketing professor Ale Smidts, but research in the field dates back to the 1990s.[15]

Neuroscience looks at the structure, function and development of the nervous system and brain. Cognitive neuroscience studies show how behaviour and the nervous system work together. Neuromarketing, therefore, seeks to reveal insights on neural functioning associated with consumers' behaviour and to answer questions about decision-making, choice, preference, risk and happiness.[16]

In neuromarketing, brain imaging techniques such as functional magnetic resonance imaging (FMRI) and other brain activity measurement technology tools are used to measure a subject's response to specific products, packaging, advertising and other marketing elements. These techniques are used to reveal how humans use the neural substrates of the brain to process and evaluate decisions, weigh risk and reward, and learn to trust others during transactions. In some cases, the brain responses measured by these techniques may not be consciously apparent to the subject; this research can therefore be more revealing than self-reporting on questionnaires.[17]

Neuroscience has helped marketers gain a better understanding of how consumers use their minds when responding to ads and how this influences their decision-making.[18]

Neuromarketing has multiple benefits for marketers, such as:

- **Fresh viewpoints.** This new perspective on marketing provides new explanatory frameworks that shine light onto consumers' cognitive processes.
- **Increased insight into consumer behaviour.** Looking at the gap between customers' minds and their actions reveals many inconsistencies between what they think and what they say.
- **Insight into emotional and non-conscious responses.** Uncover triggers to the emotional responses which a consumer survey cannot always do.
- **Consumer feelings measurement.** Any level of emotional attachment is difficult to measure.
- **Measurement of priming effects.** To measure the feelings that an ad or brand logo may trigger.

As neuromarketing helps marketers better understand the mechanisms of decision-making, marketers can use the mechanisms as cues to influence consumers to purchase their product. It is important to keep in mind that while neuromarketing is a valuable tool in understanding human behaviour, it is not universally used. There has been some scepticism in the marketing community regarding whether this approach can deliver insights beyond traditional market research methods.

Conclusion

Making a purchase decision is often a short-listing process, rather than being about arriving at a final decision or outcome (at least in the initial phases). If you look at a brand's transition through the marketing funnel, the aim is essentially to survive elimination and to be a contender in the final purchase decision.

Influencing a buyer's decisions as a marketer and a business can be an extremely difficult process, but it is one that is of utmost importance in impacting and enhancing your bottom line. The key thing to remember is the more you understand who your customers are, and what prompts them to purchase your products, the more of an impact you can have on their buying journey.

It is critical to understand and target key consideration moments throughout the consumer journey and know which platforms (online or in-store) they go to, to get them answered. Marketers need to focus on the entire buying process, which starts well before the actual purchase is made and continues long after. It is about understanding who your core audience is, how internal and external differences affect your consumers' buying behaviour, and how you as a marketer can influence that process.

Acknowledgements

Special thanks to Michael Pearce and Sue Rooney for their contributions to this chapter.

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Part 4:

Consumer Marketing Strategy

A sound marketing strategy is underpinned by a strong understanding of the needs of consumers. Ultimately, it is the consumers themselves who will decide whether to make a purchase. Creating strategy that meets consumer needs usually starts with segmentation and targeting. This process is followed by positioning and developing a brand. The two chapters in this part cover these subjects.

Chapter 11: Market Segmentation and Targeting

Segmentation involves creating a map of all possible consumers by identifying segments with relevant, unique characteristics. The marketer will choose one or more of these segments as a target market. This chapter discusses how to segment a market and why a strong segmentation approach is important to an effective strategy.

Chapter 12: Positioning and Branding

In a saturated market, many companies may compete for the same target market. Marketing strategy involves positioning and brand building in order to create a unique position in the mind of consumers. This chapter presents the core theory of positioning and shows the basic theory of how brands are built.

Before implementing any marketing decisions, a sound strategy must be developed based on robust marketing strategy principles. The two chapters in part 4 provide this foundation.

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Market Segmentation and Targeting

CHAPTER

11

Ana Carrapichano

Introduction

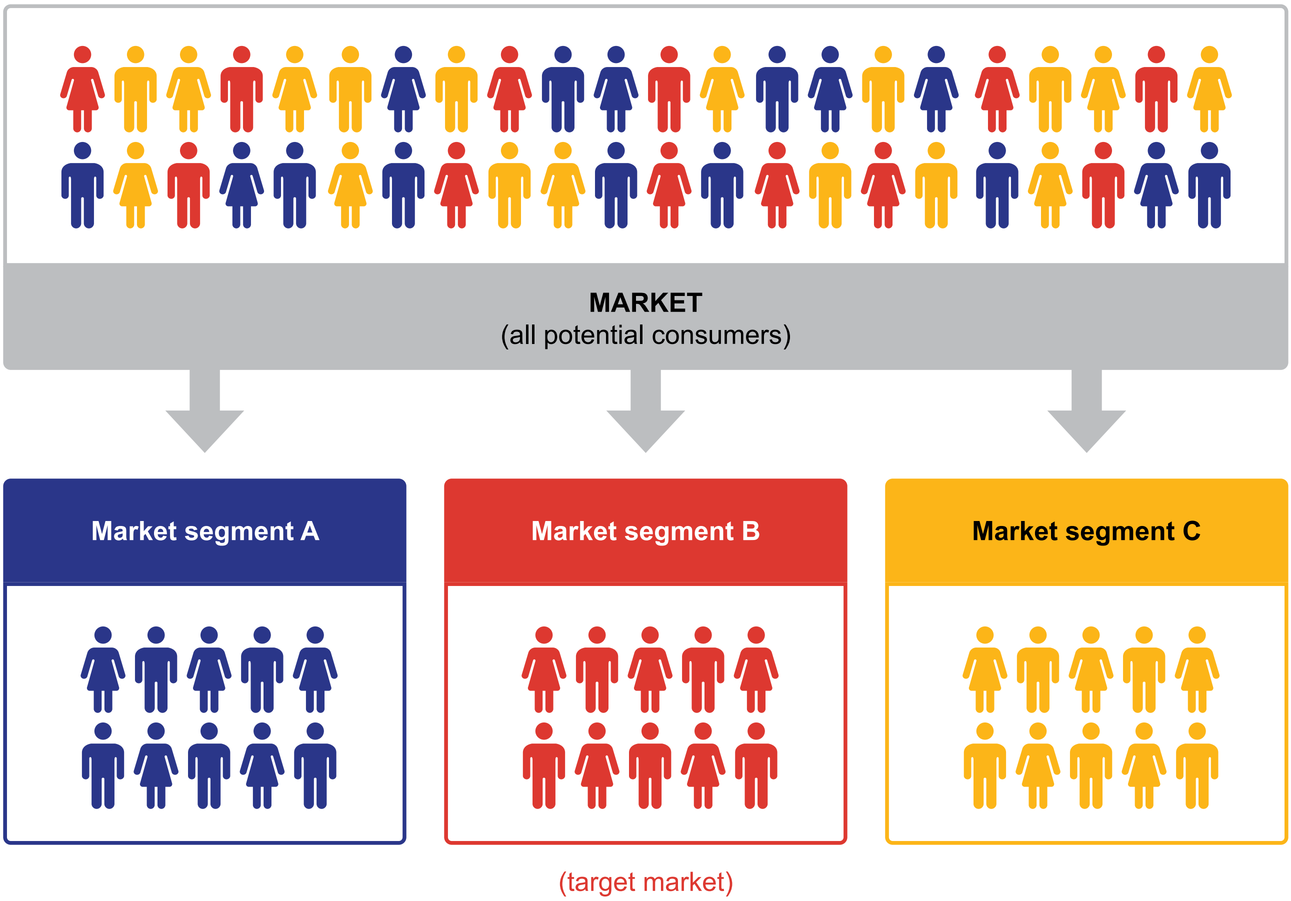
In this chapter, we will discuss the various aspects of target market segmentation and how it fits into overall consumer marketing as defined in Chapter 1. Specifically, the chapter defines markets and market segmentation and the role of market segmentation in marketing strategy. The explanation of the role that segmentation plays includes advantages of effective segmentation and how to approach and implement segmentation. Identifying and meeting consumer needs is not possible unless consumer marketers are able to define who their target market is, as well as who is not a target. Similarly, branding and positioning (see Chapter 12) are not possible without clear segmentation.

Markets and market segmentation

A market is all the possible consumers who could purchase your offering. This includes people who do and do not purchase, as well as those who *could* purchase but do not know about the offering[1]. Market segmentation is a process of dividing a broad consumer or business market into subcategories of consumers based on shared characteristics. As consumers become more savvy, more fickle and more demanding, understanding exactly who your audience is and how you can speak to them as a marketer has never been more important.

It is important to note that there are several markets which marketers can pursue. Some are more commercially valuable than others, so marketers need to analyse each of them to determine which is viable in order to grow sales and be more profitable. Using local market data, we are able to segment audiences by product consumption. Marketers may then choose a specific segment to target (this is known as a *target market*). The example below illustrates the differences between low, medium and high consumers of maize meal in South Africa.

Figure 11.1: Market segmentation illustrated (market, market segments, target market)



Not all companies will segment their market in the same way. Segmentation requirements depend on business objectives and requirements for growth. Some firms may be looking for a competitive advantage or to meet a need in the marketplace, while others may just want to grow their market shares.

The degree to which companies segment their markets also depends on their level of access to market data, as well as the level of market fragmentation in their specific product categories, as some product categories are a lot more complex than others. Financial services, such as banking and insurance, are examples of complex product offerings that require more sophisticated segmentation, in comparison to mass-market product offerings, such as fast food and telecommunications, which will have more basic segmentation requirements.

Example: Segmenting maize meal eaters

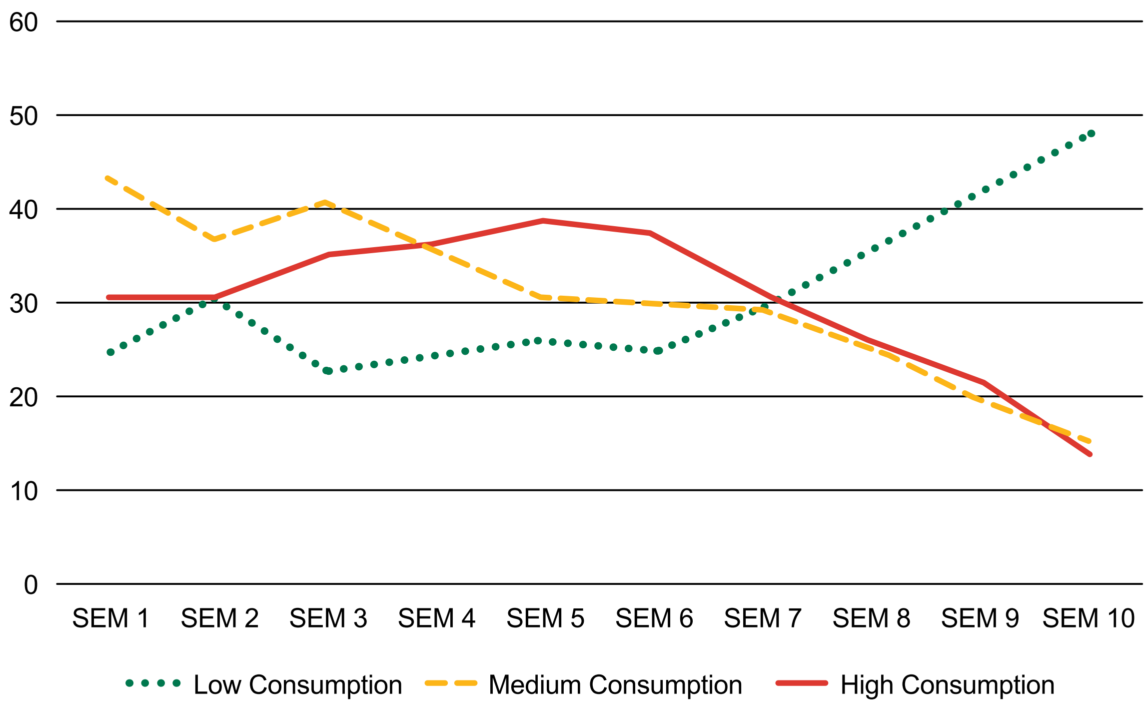
By using the South African Social Economic Measure (SEM) set of studies, based on household structure and community infrastructure, we are able to establish and segment by demographics, psychographics, consumption of products or brands and media types, thereby creating target markets. See Chapter 7 for more detail on SEMs.

To establish what SEM the consumer falls into, each person is given a score between 0 and 100, depending on what items are in their household and what public services to which they have access. This is then regrouped into SEMs 1-10 to assist with targeting. SEM 1 generally has extremely low income, high unemployment rates and essentially live below the breadline, whereas SEM 10 is the complete opposite.

To put things into perspective, maize meal forms part of many South Africans' staple diet, particularly those who rely on this product for their daily nutritional survival.

The graph below clearly depicts how medium and high consumers of maize meal fall primarily within SEM 2-6, showing a significant reduction from SEM 7-10 (low consumers of maize meal). This may be because these households are more affluent and other food types are included in their daily meals.

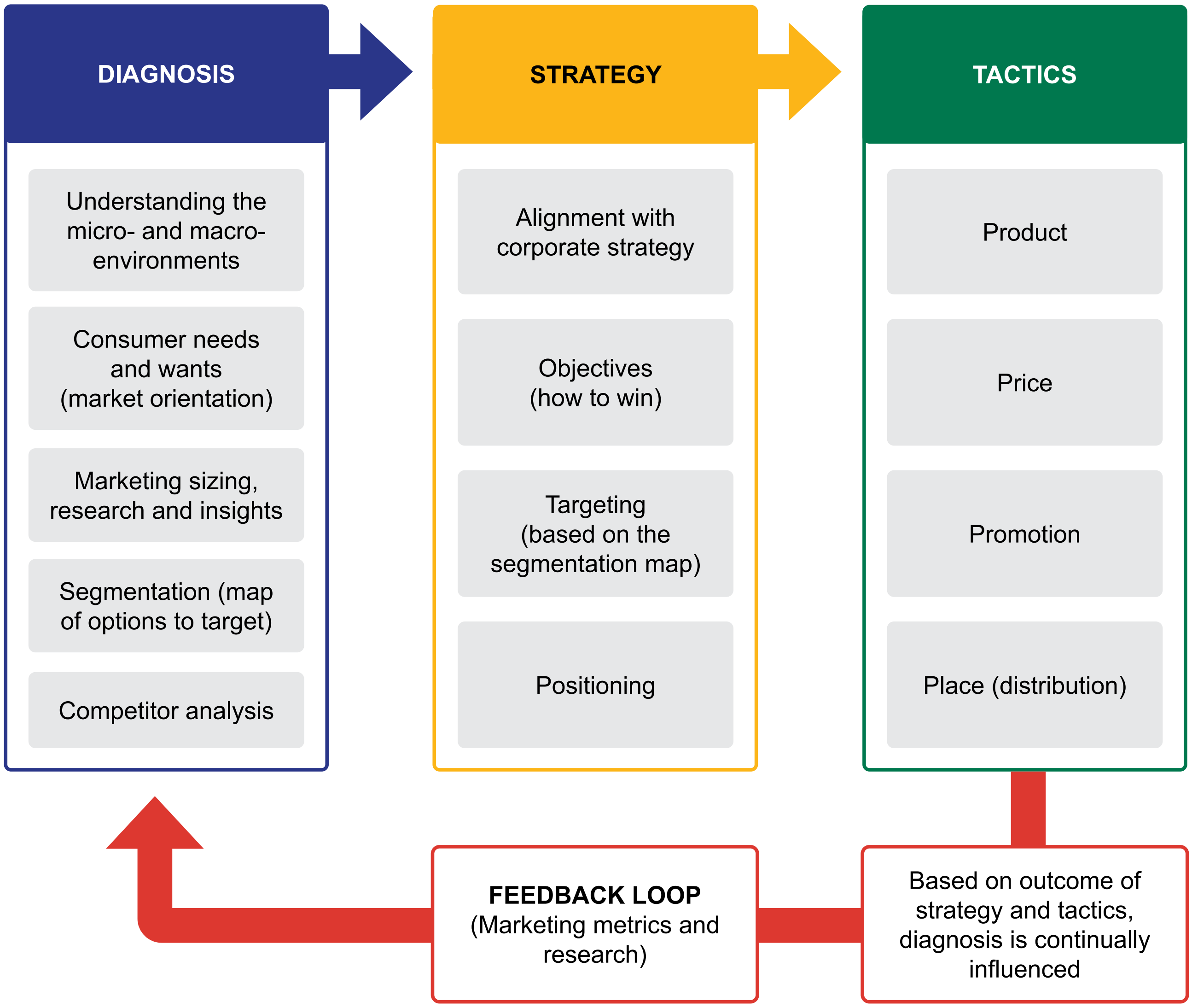
Figure 11.2: Low to high maize meal consumption, segmented by SEMs[2]



The role of market segmentation in marketing strategy

The segmentation, targeting and positioning (STP) process defines the link between an overall potential market and how the company decides to compete in that market (it's marketing strategy). The goal of the segmentation process is to help guide a company in the development and implementation of the most appropriate marketing mix to influence a desired segment. As outlined in Chapter 1, consumer marketing strategy involves three phases: diagnosis, strategy and tactics (see Figure 11.3). Segmentation is part of the diagnosis component and is needed before targeting takes place.

Figure 11.3: Segmentation and targeting in the context of marketing strategy



In the process of segmentation, the market is sized and divided into homogeneous groups or grouped according to shared values. This forms a map of possibilities for consumers to target based on specified characteristics. The better the segmentation, the clearer the map becomes. The marketer will then move into a process of strategising about which segments to target and how to position the product in the mind of consumers (usually relative to the position occupied by competitors), as discussed in Chapter 12. The marketer can then choose appropriate tactics (the marketing mix) based on the chosen strategy. The success of tactical implementation can be traced back to segmentation strategy.

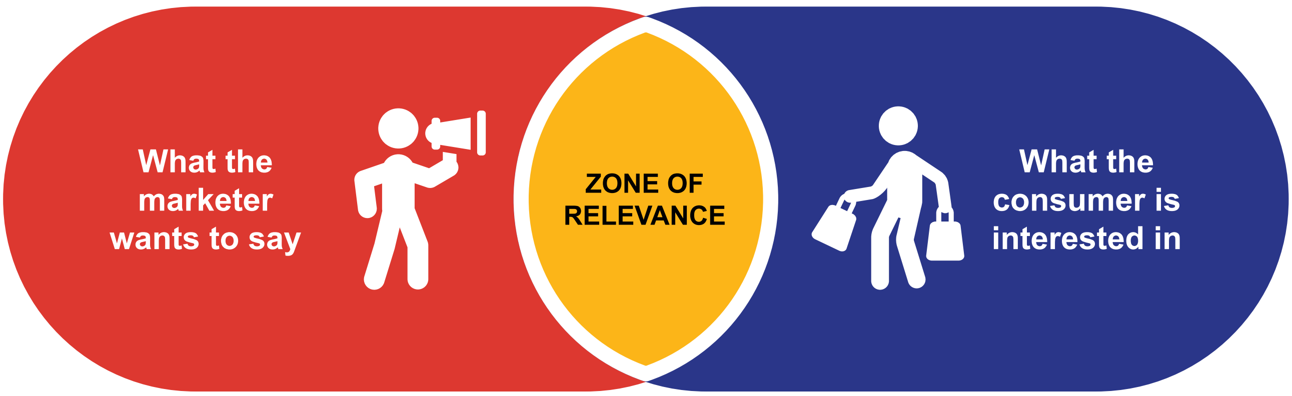
Advantages of segmentation

There are several advantages to segmentation. This next section outlines some of the core reasons segmentation is important in gaining a deeper understanding of consumer behaviour and why it is crucial to marketing efforts.

Relevance and focus

The fundamental job of a marketer is to drive stronger and more meaningful connections between consumers and brands. Most of this connection (physical and emotional) is aimed at increased sales. Arguably, the most important reason to segment a market is to obtain optimal levels of relevance, that is, the ability to match the message to the right market (see Figure 11.4). If this matching is achieved, and the message is well constructed, then promotion is more likely to be noticed and remembered and your product will stand out from competitor clutter. The result will be increased levels of effectiveness and efficiency. Sending messages to consumers who do not form part of a specific target market can be considered wasteful, as media messaging is often very expensive. There is, however, another view that sometimes light users from outside of the direct target market can form a useful revenue stream.

Figure 11.4: Overlap between marketer and consumer interests, showing zone of relevance



While focus makes a lot of sense in today's marketplace, there has been an evolution in thinking around the subject in the last 60-70 years.

Mass marketing in the 1960s and 1970s
Mass marketing was popular in the 1960s and 1970s, when marketers focused on mass production to drive volumes by creating items with mass appeal. During that period, all the focus was on the product and increasing scale.

The rise of segmentation in the 1980s
Segmentation gained popularity in the 1980s, with more marketers conducting market research and getting to understand the consumer journey. Most of the marketing focus was on setting up distribution channels for better accessibility and creating opportunities to purchase.

More meaningful relationships in the 1990s and 2000s
In the 1990s, there was a shift in terms of a greater focus on the consumer to create more meaningful consumer relationships. This evolved into loyalty-based marketing efforts to drive consumer retention and ushered in the era of relevance, which is all about personalisation and experience.

The post-2010 debate around mass versus targeted communication
Since 2010, the debate around mass versus targeted communication has been reopened with proponents emerging on both sides. There is evidence that mass communication is not as ineffective as originally thought and that being too focused on targeting may lead to overpromising on returns.[3] There is evidence that, in some categories, most users are in fact light users. In this case, an over reliance on tight segmentation can be limiting. Tight segmentation can help in crafting resonant communication with a core audience, but the media net often needs to be thrown wider. There needs to be a balance, and available resources must also be considered in terms of budget.

Despite the current discussion around the effectiveness of mass versus focused messaging, the need to segment remains.

How to approach and implement segmentation

This next section looks at how to go about segmenting a market by discussing various segmentation criteria (variables). Understanding and using these variables effectively will help with creating a relevant segmentation strategy.

Segmentation variables

Audiences can be segmented simplistically or the segmentation approach can be complicated including variables such as product consumption, demographics, psychographics, and behavioural and media consumption. Figure 11.5 provides some examples of segmentation variables, each of which is explained below.

Figure 11.5: Examples of variables that can be used for segmentation

Product consumption	Demographic	Psychographic	Behavioural	Device/media channel usage
User Non-user	Gender Age	Political affiliation	Level of physical activity	Tech savvy, early adopters
Heavy Medium Light	Race Income	Views on the environment	Socialisation	Heavy, medium, light TV viewers; radio listeners
Specific brands Own brand Competitor brand	Geography Life Stage	Religious affiliation	Modes of transport	On-the-go

Product consumption
Product consumption is a natural segmentation variable for any product or service. By way of example, let us look at the health and fitness world. Virgin Active's potential segmentation strategy could look very broadly at the gym-goer versus the non-gym-goer; or within the gym-goer market there would be regular/weekly visitors who are very health conscious or people who are trying to lose weight, moderate/monthly visitors who are trying to stay relatively healthy and maintain their weight, or light/pre-Summer visitors who are wanting to get into shape for the holidays. They could also look at the Virgin Active member versus the Planet Fitness member to try and understand what the differences are between the two and what their competitive advantage could be.

Marketers can also commission segmentation studies to derive market-specific segments based on their product category and user profiles. These studies are paid for and will result in a set of market segments specifically designed around users or non-users within their category. In terms of our health and fitness example, a commissioned study could come up with the following audience segments:

- **The health fanatic.** Typically, higher income, skewed towards males, who enjoy going to the gym almost daily. They take vitamin and sport supplements, follow a healthy eating plan and have an active lifestyle. They are younger and are either single or newly married with no children.

- **The continuous dieter.** Moderate to high income, skewed towards females, who find going to the gym a chore, but it is a means to an end as they need to lose weight. They have possibly followed a number of fad diets, with poor results. They would typically follow a healthy eating plan during the week, but tend to binge over the weekend or treat themselves to some delicious food as a reward for 'being good all week'. They tend to be middle aged, with families and have school-going children.

- **The moderate lifestyler.** Moderate to high income, with an even male/female split, who go to the gym regularly to maintain a healthy lifestyle. They have busy lives and work hard and play hard. Their eating habits are fairly good with a focus on having a balanced diet. They tend to be married with young families.

Demographic
Demographic segments are the most used variable in segmentation and are based on the premise that consumer needs and wants are closely aligned with demographic factors. For example, cosmetics, sanitary protection, and baby products would more than likely be targeted at women, as opposed to men. Within this broader segment, and depending on the product, other demographic filters can be added. For example, women with young children would, likely, be in the market for baby products and African women would, likely, be interested in products that are made specifically for ethnic skin and hair care.

Another example of this is, if a brand does not have a national distribution system or is only available in a certain region, the segmentation process would reveal a target market of people who live in that corresponding region.

Psychographic
Psychographics further filter your market into segments based on how your consumer sees the world and takes into consideration different personality traits, values, attitudes, interests, and lifestyles factors. These measures can give great insight into how to address your market and which messages will resonate best, as well as ideas on new product development areas and new designs to meet specific needs.

Behavioural
Behavioural segmentation looks at specific groups of people based on activities. Virgin Active, for example, would segment the market into non-active, moderately active, and heavily active people. Depending on their business objectives, they would select one or two segments to target with focused advertising activity. Castle Lite would look at the socialising market and potentially target people who like going out but are conscious of their physical appearance. FlySafair would look at the travel market and segment into business and leisure travellers, and in the leisure travellers' market, they may want to target single people, young families or pensioners, depending on the market potential that each segment could deliver.

Device and media channel usage
Device and media channel usage can also be used to segment audiences. Technical products would want to target the tech savvy or early adopter markets; a television broadcast channel would want to target heavy television viewers, and convenience products may want to target an on-the-go market.

Segmentation criteria and implementation

To complete a market segmentation process, there are a number of criteria that need to be fulfilled in each segment in order to make the segmentation useful and actionable for consumer marketers. Marketers also need to be aware of pitfalls and have a clear plan of how to implement a segmentation.

Criteria for assessing segment validity
Table 11.1 provides a useful reference to check if your segments are valid and useable. The table is divided into criteria, what each criterion means and why they are important.

Table 11.1: Segmentation criteria[3]

Criteria	What is it?	Why is it important?
Homogeneous	This means that the consumers allocated to each segment should be similar in some relevant way.	This is the basis of market segmentation, that the consumers in each segment are similar in terms of needs and characteristics.
Heterogeneous	Each segment of consumers should be relatively unique as compared to the other segments that been constructed.	This demonstrates that the consumers in the overall market have been effectively divided into sets of differing needs.
Measurable	Some form of data should be available to measure the size of the market segment.	Measurements are very important to be able to evaluate the overall attractiveness of each segment.
Substantial	The market segment should be large enough in terms of sales and profitability to warrant the firm's possible attention.	Each form will have minimum requirements for the financial return from their investment in a market, so it is necessary to only consider segments that are substantial enough to be of interest.
Accessible	The market segment should be reachable, particularly in terms of distribution and communication.	Each segment needs to be able to be reached and communicated with on an efficient basis.
Actionable / practical	The firm needs to be able to implement a distinctive marketing mix for each market segment.	The range of segments identified generally need to be defined for the capabilities and resources of the organisation so very specialised segments may not be appropriate.
Responsive	Each market segment should respond better to a distinct marketing mix rather than a generic offering.	The key outcome of the STP process is to develop a unique marketing mix for a specified target market. If the segment will not be more responsive to a distinct offering then the segment can probably be combined with another similar segment.

It is important that each individual segment is distinctive in some way and differentiated from all the other segments. This allows us to create meaningful groups of people that can be analysed for potential targeting ability. The segments must also be quantified. This allows for easier assessment with regards to market potential and viability. There is much debate around which markets are better to target, and many factors need to be considered. For example, is it more lucrative to select a high-volume segment who loves the brand in the hope that they will become brand advocates or to convince harder-to-convert markets that could potentially grow into loyal consumers? Or do we look at mass segments to drive volume in one push or personalised targeting with lots of separate groups of people to build up critical mass?

'Long-tail' marketing refers to the strategy of targeting many niche markets with a product or service and is mainly used by businesses that are dominated by a huge market leader.[12] These companies battle to grow and often choose to shift their focus to multiple niche markets that have less demand. This might sound counterintuitive, since those low-demand markets will not be as lucrative individually, but they might be when their total reach is combined. In short, the product category, product life cycle, marketing budget, business growth targets and competitor landscape (among others) will all come into play when selecting specific target markets.

Implementing segmentation

There are five steps involved in implementing a successful segmentation process:

Step 1: Set clear goals. Goals can be both quantitative and qualitative. Understanding what success looks like is critical in setting achievable goals. An example of this could be to increase your share of market by 10% or increase engagement. Goal setting is a vital first step to implementing your segmentation. What are the objectives of the business? Do you want to identify cross-sell opportunities, increase your conversion rate or improve the average order value of your current consumers? It may be that your business has multiple objectives it wants to achieve through segmentation but these need to be agreed upon and prioritised properly. Having clear goals will determine everything that follows in your approach to segmentation. So, it is worth spending time getting it right.

Step 2: Gather data. Gather data from a variety of sources that will inform your approach and allow for clear targeting and measurement. Data is at the heart of all good segmentation processes; thus, it is essential to gather as much data as you can on your consumers. Ideally this should be a combination of your own internal data sources and external market research. Bringing together data from multiple sources adds to the layers of detail you can drill down to with your segmentation and creates a much fuller picture of what your consumers look like in your chosen segments.

Step 3: Analyse. Interpreting and analysing all available data will unpack insights that aid in the strategic approach and target market segmentation. Once you have set your goals and gathered your data, it is time to analyse what you have got and identify the key variables that are going to define your segments. This can be quite simple and led by your goals. For example, if your goal is to target young people whom you want to nurture as long-term consumers, then grouping your segments by age and targeting people between 18 and 25 is a starting point. On the other hand, if your goal is to increase the average order value, then you might want to analyse those consumers who visit your website more than three times a month. What are the behaviours of this segment that you could identify to inform your digital marketing strategy to encourage more sales?

Step 4: Test. To determine the viability of your approach, it is important to test, so as to refine learnings and define a way forward. Segmentation strategies need to be tested to prove the worth of each segment and to refine the strategy as time goes on. The more you test, the more data you have available to make informed decisions on improving your segmentation and your marketing campaigns. Proving the benefit of incremental sales generated by using a good segmentation can help to prove ROI. Taking the learnings from the test phase and applying them to future campaigns will enhance their performance.

Step 5: Improve. Using the results of your testing, you can change your segmentation and strategy to deliver the optimum results. Segmentation is not a static process. Rather it is one that is continually evolving. It is important that you go through a thorough review of your segmentation regularly to make sure it is working to its peak efficiency. Have your goals changed? Is your database clean and up to date? Has the market focus shifted recently? These are all questions you need to bear in mind to improve your segmentation and constantly refine it.

There are also a number of pitfalls to be aware of when segmenting.

Pitfalls when conducting a segmentation process

Segmentation is a complex process and it can be easy to fall into some common pitfalls, namely:

- **Dirty data.** Ensuring you are working with the most current data source is a vital starting point. The data scientist needs to be well trained in data analysis and interpretation. Understanding the value and insights in trended data and compounded data is essential in deriving an accurate field of data to inform your strategy.

- **Concise definitions.** Accurate segmentation is only possible if the characteristics you use to define a segment are clearly laid out and applied consistently. What does a loyal consumer look like to your organisation? What does a heavy user look like?

- **Timing.** Ensure you are constantly adapting and innovating based on new circumstances or data available to you. Eliminate lag time between strategy development and implementation.

There are more possible challenges when segmenting and, as a consumer marketer, being aware will go a long way to preventing these problems.

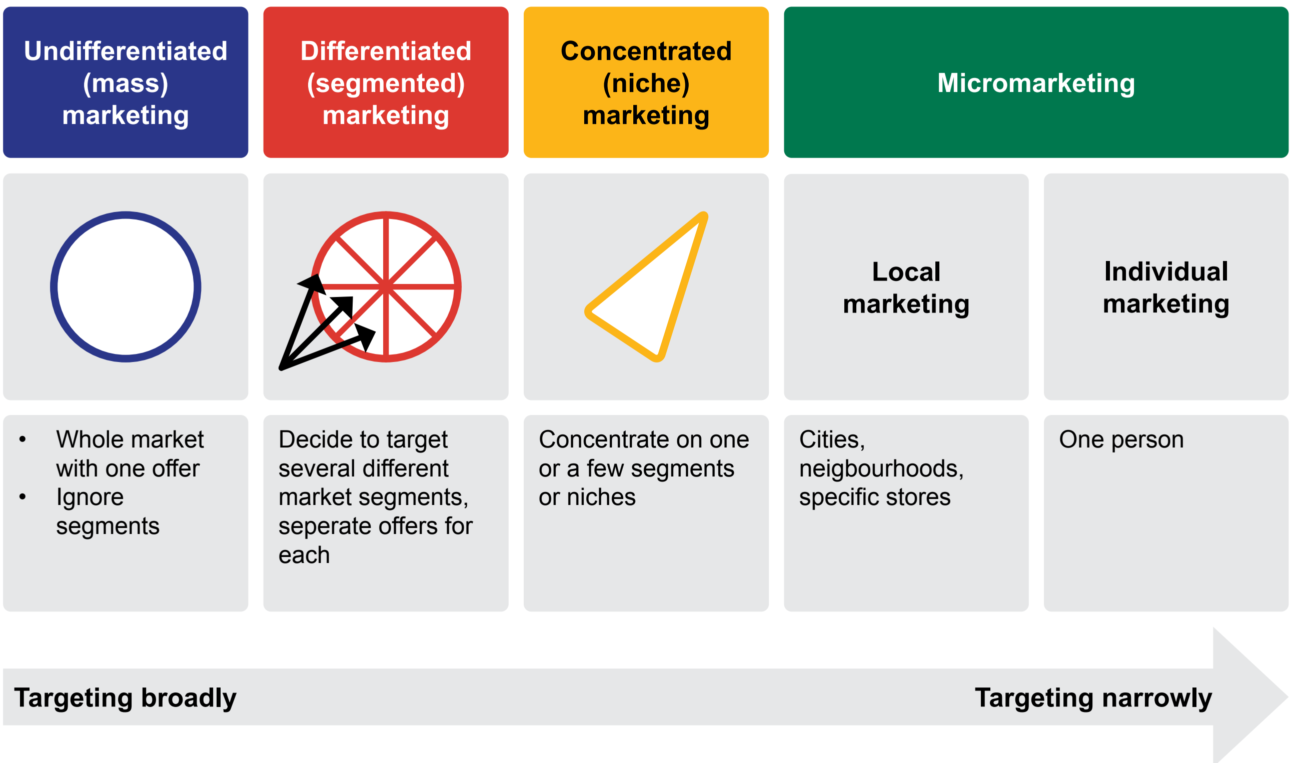
Understanding the value of targeting

Unpacking your target market and understanding who your consumer is (individuals, households or common groups) is vital to ensuring that you develop a suitable marketing mix. Once all stakeholders are in agreement that the correct target market has been identified, the business will ensure that all elements of the marketing mix (4Ps) are tailored accordingly. It may be necessary to carry out additional bespoke research to gain a deeper understanding of the consumer's habits, media consumption and purchase motivations. The selection of a target market is one of the final steps in the market segmentation process, relying heavily on the marketer's judgement and understanding of the research to identify segments with the greatest potential for the business. Figure 11.6 demonstrates the approach taken to define the target market, whether it is broad or a concentrated niche market.

It is not uncommon for more than one market to be defined, which would result in a primary target and a secondary target. Primary target markets are segments to which marketing efforts are primarily directed and towards which more of the business' resources are allocated. Secondary markets are often smaller segments or have less business viability. Target marketing is the antithesis of mass marketing, requiring research and insights to splice the market into smaller, viable segments.

One of the major considerations in selecting a target market is whether the markets are significantly different enough to warrant a segmented approach. If there is no clear differentiation, the marketer may decide to use an undifferentiated or a mass-market approach. In certain circumstances, once the research and data analysis has been conducted, the business may deem the market segment not viable and choose not to enter the market.

Figure 11.6: Market targeting strategies



Competitive advantage and optimal media mix

Understanding your target audience will give any marketer the upper hand in today's competitive marketplace. A better understanding of how consumers can be divided and how each segment behaves provides invaluable insights into tactical decisions (the marketing mix).

In media planning, discussed in Chapter 7, the media consumption behaviour of different market segments is analysed in order to try and map the consumer journey throughout the purchase cycle and to determine the best media channels to use. Depending on the marketers' objectives and their available budgets, they would choose an optimal media mix that will deliver the maximum reach potential at the required frequency of message delivery. In some instances, especially when budgets are tight, a single media channel is suggested to get maximum impact within the environment without spreading the budget too thin. However, given the way that most people consume media, dipping in and out of various channels, a multi-media mix is preferred.

Table 11.2 shows how the number of media options (media brand per medium) has increased dramatically in South Africa in the last 30 years. For example, in 1991 there were seven TV channels for consumers (and marketers) to choose from. In 2020, that number has increased to 300.

Table 11.2: The digital explosion and increasing media fragmentation (1991–2020)[5]

	Dec	Mar	Mar	Oct	Oct	Oct	Oct	Jul
	1991	2008	2010	2012	2014	2016	2018	2020
TV channels (pay and free-to-air linear)	7	85	100	180	300	320	300	300
Radio stations	34	135	138	215	245	270	260	240
Daily newspapers	22	21	21	22	22	22	20	19
Major weeklies	25	29	26	28	27	27	27	26
Consumer magazines & newspapers	250	690	655	600	590	525	420	310
Business-to-business periodicals	300	775	700	650	630	550	480	395
Community/local newspapers & magazines	N/a	475	470	480	495	500	490	410
Internet websites[4]	1	172m	207m	698m	969m	1.046bn	1.630bn	1.784bn

It is interesting to note that the top three categories are retail, financial services and fast-moving consumer goods (FMCG). These three categories account for more than 50% of the total advertising expenditure. Understanding the category you are operating in is critical to understanding the competitive pressure you are up against.

Table 11.3: Summary of advertising expenditure in South Africa by media channel (January 2015 - December 2019)[6]

	2015 million	2016 million	2017 million	2018 million	2019 million
Total	**R352 000**	**R373 000**	**R389 000**	**R40 000**	**R411 000**
Cinema	R433,4	R435,5	R396	R400,6	R632
Direct mail	R125,6	R126,4	R162,8	R163,3	R154,1
Internet	R1 000	R550,3	R94,6	No data from AdDynamics for 2018/19	
Out of home	R13 000	R14 000	R12 000	R13 000	R14 000
Print	R79 000	R75 000	R81 000	R78 000	R72 000
Radio	R55 000	R61 000	R68 000	R72 000	R77 000
Television	R188 000	R212 000	R22 000	R23 000	R238 000

Looking at the three-year trend displayed in Table 11.3, we can see that total advertising expenditure in 2019 amounted to just over R41.1 billion, reflecting a marginal year-on-year increase of 3%. Television's dominance is evident with a 58% share of voice (a brand or category's share of total media expenditure). As a marketer, emphasis needs to be placed on segmentation and targeting to ensure your communication breaks through the clutter.

Advertising efficiency and return on investment

Advertising efficiency is the ratio of advertising cost to the number of targeted audiences reached.[7] Media agencies use predefined metrics to determine advertising efficiency across the channels. For traditional channels, including television, radio, print and outdoor, media agencies use cost per point (CPP) or cost per thousand (CPT) to calculate advertising efficiency.

- **Cost per point (CPP):** CPP is the average cost of achieving one commercial rating point with a 30-second advertising spot[8] (or another standard unit of airtime) for a given target audience. CPPs are widely used to measure the cost efficiency of advertising campaigns or for comparing price differences across different television stations. The alternative widely used measure of cost efficiency is advertising cost per thousand (CPT).

- **Cost per thousand (CPT):** The average cost of achieving 1000 commercial impacts or impressions against a specified target market. The formula is as follows: CPT = Cost / Reach in Thousands.

- **Gross rating point (GRP)**: GRP is the representation of the total number of exposures to a schedule of advertisements, expressed as a percentage of all possible listeners, viewers or readers, often calculated as reach % x average frequency = GRPs.

For example, if you reach 30% of your target market and give them an average of four exposures to your advertising message, you would have 120 GRPs. The formula is as follows: **CPP = Cost / GRP**

For digital channels (See Chapter 20 for an introduction to digital tools), we typically look at cost per impression (CPM), which is calculated by dividing the cost of your campaign by the number of impressions that the campaign generates. It follows that the higher your reach or impressions on a given budget, the lower your CPP, CPT or CPM and the better your return on investment (ROI).

To calculate ROI, which is the benefit (or return) you receive on an investment, the benefit is divided by the cost of the original investment. The result is expressed as a percentage or ratio.[9] In other words, you take the sales growth from that business or product line, subtract the marketing costs and then divide by the marketing cost. For example, if sales grew by R1000 and the marketing campaign cost R100, then the simple ROI is 900%. Marketing ROI isn't always that easy to measure, however, as a sale might not take place within the reporting period.

Notice how there were seven television channels in 1991, while in July 2020, there were 300 (an increase of over 4000%). This excludes video-on-demand opportunities, such as Netflix, Showmax and YouTube, but includes commercial and non-commercial free-to-air, DSTV, local, StarSat and OpenView stations. Similarly, radio grew from 34 stations in 1991 to 240 stations in 2020 (an increase of over 660%).

Despite these trends, daily and weekly newspapers have shown stagnation because of the shift to online media.

Consumer and business-to-business print media increased from 1991 to 2020 but has now dipped (as expected) with the growth of online media and, most recently, the impact of COVID-19 on the economy. Print includes dailies and weekends and excludes regional supplements/business editions. Print also includes editions by which publishers are partially or totally bypassing regular printing and distribution. But numbers of periodicals, to use an old term, still fall because advertising support for the sector has fallen. Again, we see a consistent picture across the years. The real change has happened in the number of websites.

With such a vast and fragmented media landscape, it is becoming increasingly difficult to reach people, and it follows that we would need to segment our markets very carefully for better media targeting.

Increasing advertising clutter

Along with the shifting and fragmenting media landscape, there has also been an increase in advertising. AC Nielsen's AdDynamix is used to measure advertising expenditure in South Africa. In 2019, South Africa spent R41,1 billion on advertising excluding agency commission and discounts.[10] Figures are based on rate card amounts and exclude discounts. Please note that there is no longer agency commission in media figures (all media figures are net).

Conclusion

Segmentation is arguably one of the most critical aspects in marketing strategy. Without a solid understanding of who you are talking to, their habits and behaviours and the environment you are talking to them in, any investment is wasted.

In this chapter, we have covered the importance of market sizes, goal setting, target market efficiencies, competitive advantages (such as an understanding of the competitive landscape and media consumption habits of the target market) and advertising clutter. We have also outlined approaches and pitfalls to derive optimal return on investment and to ensure that learnings are understood and applied to future campaigns. After these phases are completed, positioning and deployment is addressed.

Acknowledgements

Special thanks to Claire Herman and Sue Rooney for their contributions to this chapter.

1 The Market Segmentation Study Guide, n.d. *What Is The STP Process?*, viewed 11 July 2020.
2 *People Products Platforms: Fusion Survey 2019*, Sample: 17 386
3 Xero, 2012, *Small business marketing: Introducing the 4 P's*, viewed 11 July 2020 from https://www.xero.com/blog/2012/03/small-business-marketingintroducing-the-four-ps/ and The Market Segmentation Study Guide, n.d. *What Is The STP Process?*, viewed 11 July 2020.
4 According to InternetLiveStats the number of websites has increased from 1 in August 1991 (the founding website) to almost 1.8bn in Dec 2019, estimating over 75% being inactive parked domains. According to the same source there were 4.6bn internet users worldwide (meaning an average of 2.8 users per registered domain) and 32.6m internet users in South Africa of which 21.3m are active Facebook users.
5 https://www.mediamanager.co.za
6 AC Nielsen AdDynamix
7 Internet Live Stats, n.d., Total Number of Websites, viewed 11 July 2020, from https://www.internetlivestats.com/total-number-of-websites/
8 AMASA, 2011, The Nuts 'n Bolts of Media Planning: A Comprehensive Industry Guide, AMASA
9 IAB South Africa, 2016, *IAB South Africa Internet Advertising Revenue Report 2016 Study*, viewed 11 July 2020.
10 AMASA, 2011, *The Nuts 'n Bolts of Media Planning: A Comprehensive Industry Guide, AMASA*

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Positioning and Branding

CHAPTER

12

Gillian Rightford

Introduction

In the last chapter (Chapter 11), we looked at choosing how to divide a market (segmentation) and then how to choose the segments on which to focus marketing efforts (target market). In most industries, however, there are multiple companies competing for the same target market in the same product and service categories (think of how many cars there are in each car category). For this reason, marketers use positioning and branding to help differentiate their brands from their competition. Each of these concepts is explained in this chapter. While the topics are discussed separately, they are actually part of a single phenomenon that has to do with creating distinctiveness. The chapter starts with positioning and then discusses branding.

What is positioning?

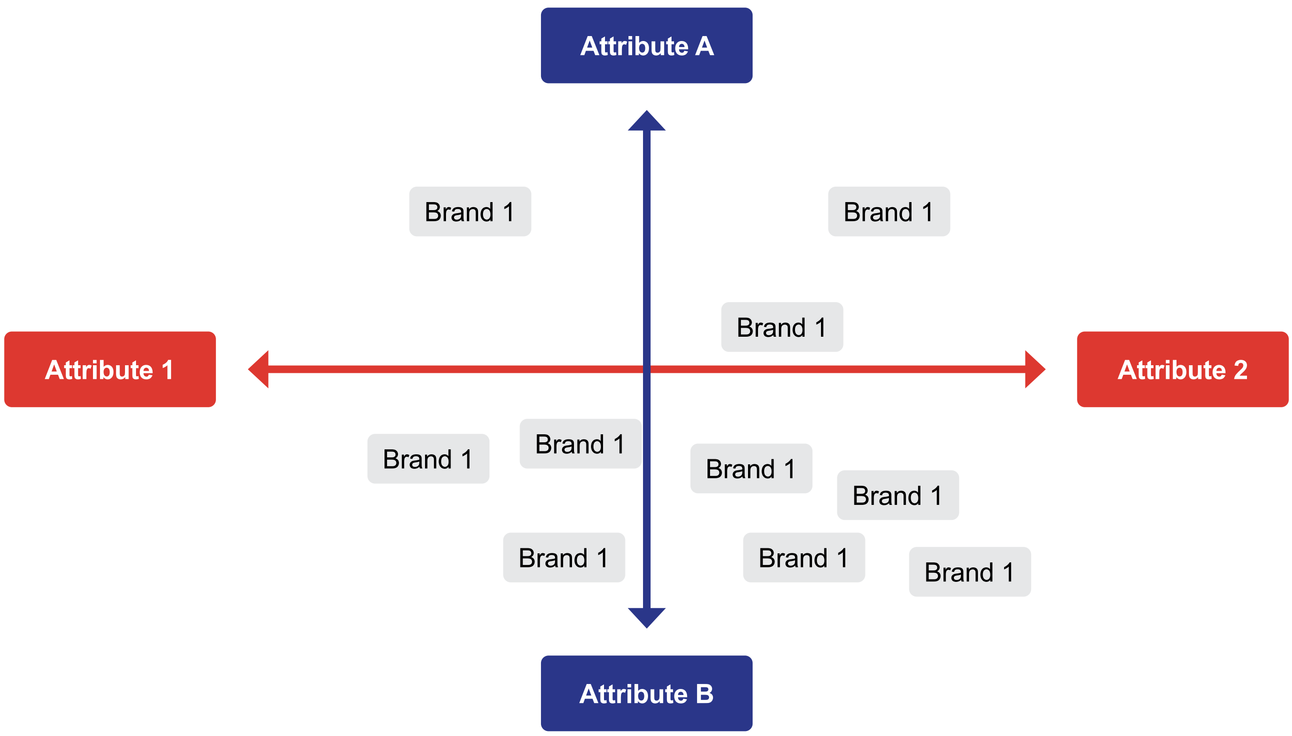
Positioning aims to set your product and brand apart from your competitors. The positioning of a product or brand is used to describe the mental point that it occupies on a competitive grid inside your consumer's mind.[1,2] This is a key part of turning a product into a brand. What is your promise to your consumers, and how will the shortcuts your brand provides help your targeted consumer believe your product is number one on a mental shopping list of the competitive products available? Marketers, primarily through their marketing communication efforts, aim to get consumers to associate an attribute, ethos, personality and product category with a product or brand. This helps consumers to easily recall the brand and understand its benefits at the moment that they need to make a decision between competing brands. This is what marketers call the *consideration set*: there will always likely be several brands that can deliver the required benefit. Marketers must make sure their brand is, at least, on the list.

The question to ask is: what is the one thing the brand should be known for? If you are looking for jeans, what is the first product or brand name that comes to mind? How do you create that mental connection with your product in the mind of the consumer? These questions may be answered by a combination of product and service messages. What positioning attempts to do is to allow the consumer the ability to rank the product or brand against competitors. It aims to try to 'own' a word or phrase that lives in consumers' minds and that ranks the product against competitors. Think of the following: Levi's = jeans; Absolut = vodka; and Volvo = safety. In many parts of South Africa, when a person talks about Omo they really just mean washing powder. Similarly, Colgate is often used as a generic term for toothpaste. These brands have created strong and clear positions in many consumers' minds through consistent marketing efforts over time.

Using a positioning grid

A positioning grid is a perceptual map on which important aspects of a category of products can be drawn and individual brands within the category can be understood in relation to each other. Positioning grids can be used for every product category and you can use them to create a competitive view based on the attributes that you determine are most relevant to your consumers. The axes of positioning grids typically use opposites along a spectrum of choices that consumers use to weigh up their attitude or purchase intention towards a brand.

Figure 12.1 A positioning grid



From Figure 12.1, some observations can be made about which positions are more crowded and where possible gaps exist. A challenge with perceptual maps like this is that many brand categories are complex and two-dimensional maps are not able to bring sufficient understanding to the complexity of the category. This kind of grid is just a tool to help and is not meant to be conclusive. Below are some examples of attributes that could be plotted on a grid:

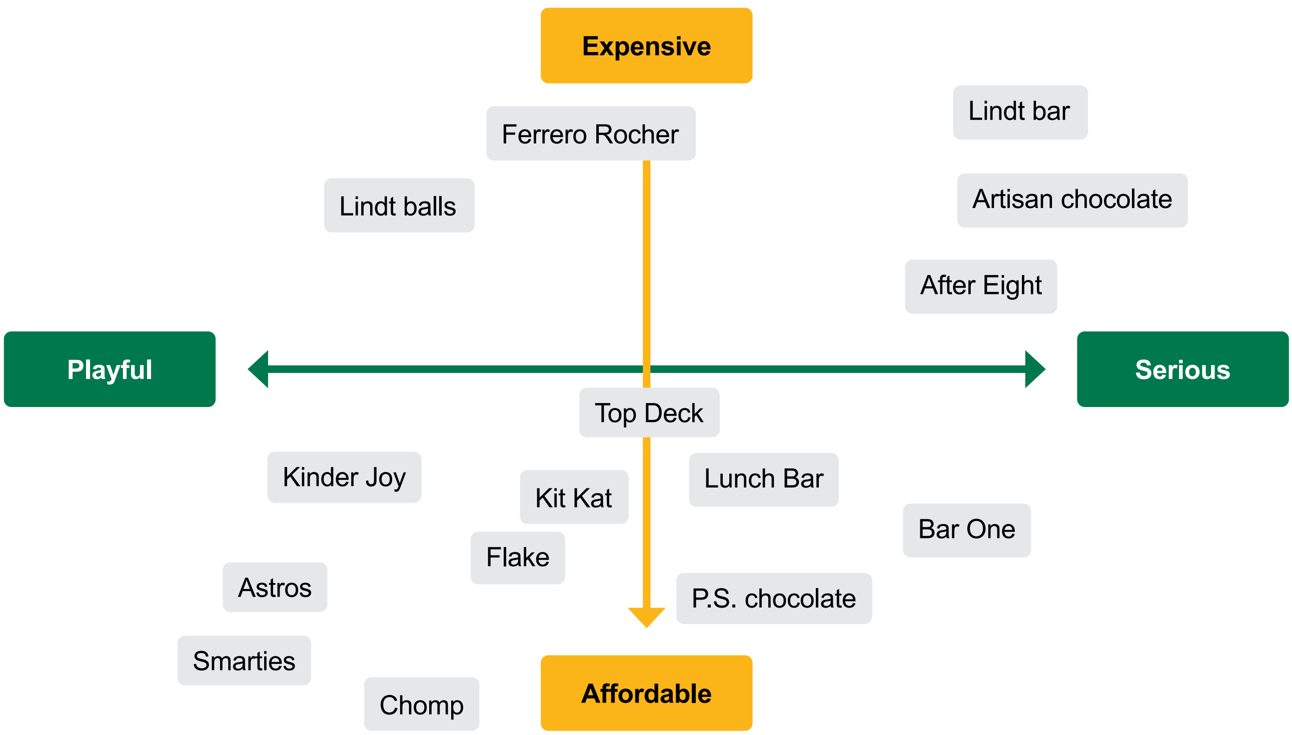
Traditional ⟷ Exciting
Cheap ⟷ Expensive
Everyday ⟷ Special treat
Playful ⟷ Serious
Low risk ⟷ High risk
Youthful ⟷ Mature
Old fashioned ⟷ New
Sporty ⟷ Luxurious

Think about the example of chocolates in South Africa. The ingredients in a range of chocolate bars might be similar, but the brands work hard to position themselves in a unique position. Figure 12.2 shows an example of a hypothetical positioning grid using the South African chocolate market. In the example, one axis has a continuum from *affordable* to *expensive.* Notice that no exact prices are given as this is about perception and not necessarily fact. The other axis has a continuum from *playful* to *serious*. As mentioned, in order to create a positioning grid, all kinds of axes can be used to create a better understanding of existing perceptions and positions that occupy consumers' minds. A crucial role that these grids play is to understand where possible positioning gaps may lie.

From the example in Figure 12.2, you can see that the affordable–playful quadrant is quite crowded, but that there is definitely room for growth in the playful–expensive quadrant. However, people may associate high price with a more serious, indulgent chocolate, which is perhaps why the market is as it is. In that case, there may be more of a niche in the serious–expensive sector. Once the market is mapped out with competitive positionings, the marketer could do further research to test some concepts in the areas of opportunity to see what the viability of each segment is.

These grids are ideally drawn up through research but even an intuitive understanding of the market will allow a marketer to determine whether they have a sufficiently differentiated position in their consumer's minds or whether there is a gap that is currently unfilled that they could occupy. This then forms the basis of a communications strategy.

Figure 12.2: A hypothetical example of a positioning map for the South African chocolate market



Differentiation or distinctiveness?

One of the fundamental ways that marketers create a positioning strategy is to differentiate their offering. In differentiating a product, it becomes easier to occupy a position. A classic older example is Volvo cars that initially invested heavily in safety features. They then communicated consistently about these features and occupied the safest car position in people's mind. In this case, product differentiation was a means to create a position. Over the last 30 years in South Africa, there has been a major increase in competition in most sectors. With so many, often sophisticated, brands competing for similar positions, marketers have to question whether it is possible to differentiate products and brands sufficiently enough to create a strong position, whether there is actually a more important need to be distinctive or to recognise the role both differentiation and distinctiveness play in creating competitive advantage.

Much marketing theory on brand differentiation takes the perspective that achieving strong differentiation from competitor brands is necessary for consumers to have a reason to buy the brand. In research done by the Ehrenberg-Bass Institute, they found that buyers often do not explicitly state that they perceive their brand to be differentiated from other brands.[3] The main implication of this research was that differentiation plays a role, but it is certainly not all that marketers must do to persuade customers. Ehrenberg et al. (1997) and Romaniuk and Sharp (2004) suggested that 'awareness and salience' play an important role. In other words, if a brand is distinctive, it stands out, and allows a consumer to instantly recognise and identify it, without confusion. Given that so much buying (especially in the FMCG sector) is done habitually, this is a critical job for marketers to achieve.

The job of a brand is to provide a shortcut for what the product or service is, does, or represents, so that the consumer can easily notice and recall the brand when the need for a relevant product arises (I'm thirsty: Coca-Cola).

Distinctive elements can include brand names (Nando's), logos (KFC), colours (Nivea), payoff lines (Nike – Just Do It), symbols or characters (Nike swoosh), and advertising assets (campaign ideas, celebrities, and sponsorships), essentially anything that communicates the brand name and identity. Consistent use and application of these core brand assets will over time 'create, refresh or reinforce consumer memory structures in order to build consumer-based brand equity'.[4] In summary: Professor Byron Sharpe wrote, in his research article titled It is Not a Choice: Brands Should Seek Differentiation and Distinctiveness, that:

> *A brand achieves distinctiveness when it has a unique and unmistakable identity, which could be based on a number of things: brand name, logo, packaging, colours, advertising style, etc. It is all about identity. Differentiation, on the other hand, is grounded in how a brand is experienced. 'Experience' includes both tangible and intangible brand assets as well as the context in which a brand is encountered. In reality, meaningful differentiation is related to distinctiveness. They are not exclusive. They might better be thought of as a continuum.*[5]

Branding and brand building are a crucial way to create positioning and distinctiveness. The next section defines and briefly explain brands and branding.

Developing a positioning statement

Developing a positioning strategy requires the marketer to associate the product or service with a set of particular needs that rank high on the consumer's priority list. One way of achieving this is developing a positioning statement. This statement will guide all communication to ensure that the voice of the brand is consistent throughout any marketing tactics. However, the process of writing a brand positioning statement is difficult, as there are few words and positions that have not already been used.

A brand positioning statement should be a summation of everything a brand stands for. It should clearly identify the audience the brand is targeting and the promise it is making to consumers. The brand positioning statement is what the creative brief (for communication tactics) is based on, and everyone involved with the brand should always make decisions based on what the positioning statement says.

A brand positioning statement includes the following four components:

- A description of the **target market**
- A definition of the **category** the brand falls into
- The brand **promise**
- A **reason to believe** the brand promise

In order to crystallise their thinking, marketers sometimes make use of a template, such as the one below, which helps to distil the brand's benefit and what it can actually offer the selected target group:

For [target market], [your brand] is [category], that [promise], because __________.

Example of a fictional brand positioning statement: Woolworths Food

For people who want to feel like a real chef with quality food that is consistently innovative and easy to prepare [target market], Woolworths [your brand] is the food retailer [category] that provides a sense of true satisfaction [promise], because only Woolworths combines the best in quality, freshness and convenience, to turn a home cook into a home chef.

A successful brand positioning statement is always very specific in its claims. It is important that the target market is as narrow as possible, that only one brand promise is stated, and that the reasons to believe the brand promise are convincing and to the point.

Example of a fictional brand positioning statement: Capitec Bank

To young adults who are in the process of establishing their own financial identities, Capitec is the bank that understands where they are on their life journey because its disruptively honest attitude and straight-talking way combined with its simplicity and low costs are exactly what they need.

The fictional example above shows the target market as 'young adults, in the process of establishing their own financial identities' who need a bank that understands their life and their needs. This positioning statement refers to Capitec's promise to be straight-talking, in a way that other banks are not (disruptively honest attitude). The main benefits of Capitec to this market is that they operate in a simple way, with low costs.

Well-crafted brand positioning can lead to the development of a descriptive sentence or slogan with which the brand becomes associated. This is the one specific idea that first comes to mind about the product or the one characteristic that sets the service apart from its competitors. In the case of Capitec, it might be simplicity or the anti-bank. This positioning idea would drive everything from store location and layout, to product development to communication. It is a way of keeping the brand and the business true to what they stand for and creating consistency and distinctiveness.[6]

In order for a positioning to be good it should:

- Be real and credible
- Reflect the way people really think and use real language
- Be simple, specific and consistent (while still being competitive)
- Say something that indicates how you can offer a solution to your target group
- Be ownable (just because a competitor can make the same claim, it does not mean that you cannot)
- Avoid generic words that are really quite meaningless (for example, unique)
- Be tangible, vivid, snappy and specific

Closely intertwined to positioning is the concept of branding. While the term brand is used often in many contexts (including earlier in this book), the next section gives a more detailed definition and analysis of branding in consumer marketing.

Branding

A brand is an identifying symbol, mark, logo, name, word or sentence that companies use to distinguish their products from others. A combination of one or more of those elements can be utilised to create a brand identity. The legal protection given to a brand name is called a trademark.[7] Ultimately, what a consumer marketer wants to achieve through the marketing process is the transformation of a product or service into a brand.

There are a number of benefits of branding for both consumers and marketers. For marketers, the benefits of building a brand are to:

- Clearly differentiate the brand from competitors, through positioning and distinctiveness
- Appeal to different segments (for example, Toyota and Lexus both owned by Toyota Motor Corporation).
- Build loyalty and trust
- Gain a competitive advantage
- Justify a price premium
- Launch new product variants leveraging off trust in the mother brand
- Improve communication effectiveness (better ROI on ad spend) through memory structures from consistent messaging
- Have legal protection of ideas and distinctive brand assets (for example, colour, pay-offline, and shape of bottle)
- Build the value of the intangible asset (brands can be bought and sold and can build significant value for a company).

For consumers, the benefits of branding are:

- To simplify choice
- To reduce search costs and time
- To minimise risk (financial, social, physical, etc)
- To express a desired self-image
- To build trust (based on experience or word-of-mouth referral)

Branding helps a consumer to make a purchase decision and, when done correctly, will guide consumers to your product instead of others. Brands are built on differences in images, meaning, and associations. Marketers need to try and have clear differentiators so that consumers can instantly comprehend the offer and have faith in the promise.

The four points to remember about a brand are that:

- A brand is more than a name or symbol.
- Creating a consistently good customer experience is the essence of branding.
- Perceptions of a brand can be measured.
- Brands are a form of shorthand communication with the consumer about what they can expect.

Building brands can take years and require the application of a consistent and intentional strategy. The turnover of senior marketers means this is often neglected. Done correctly, brand building leads to tangible financial benefits for the company, as discussed in the next section.

Brand equity

Brand equity is a term used to describe the total picture or rather what everyone who comes into contact with the brand thinks and feels about it over time. This represents the true value of the brand. The question is: what do your consumers, competitors, suppliers, retailers and distributors feel about your brand? One definition is: 'A brand's power is derived from the goodwill and name recognition that it has earned over time, which translates into higher sales volume and higher profit margins against competing brands.'[8]

Another definition is that brand equity is 'the value of brand recognition increases the value of an otherwise indistinguishable product.'[9]

A simplistic way to illustrate brand equity is to think of a white T-shirt. Brand equity is the reason why a consumer is willing to pay a high price for a white T-shirt with a Gucci logo on it, compared the same shirt with no logo.

Brands that manage to achieve high levels of brand equity experience benefits in terms of long-term loyalty and price inelasticity. People will be willing to pay more for the product than for competitors' brands and they will stick to that specific brand. Apple Computers has perhaps achieved perhaps the highest level of brand equity ever recorded. Woolworths is a South African example of a company with a high level of brand equity.

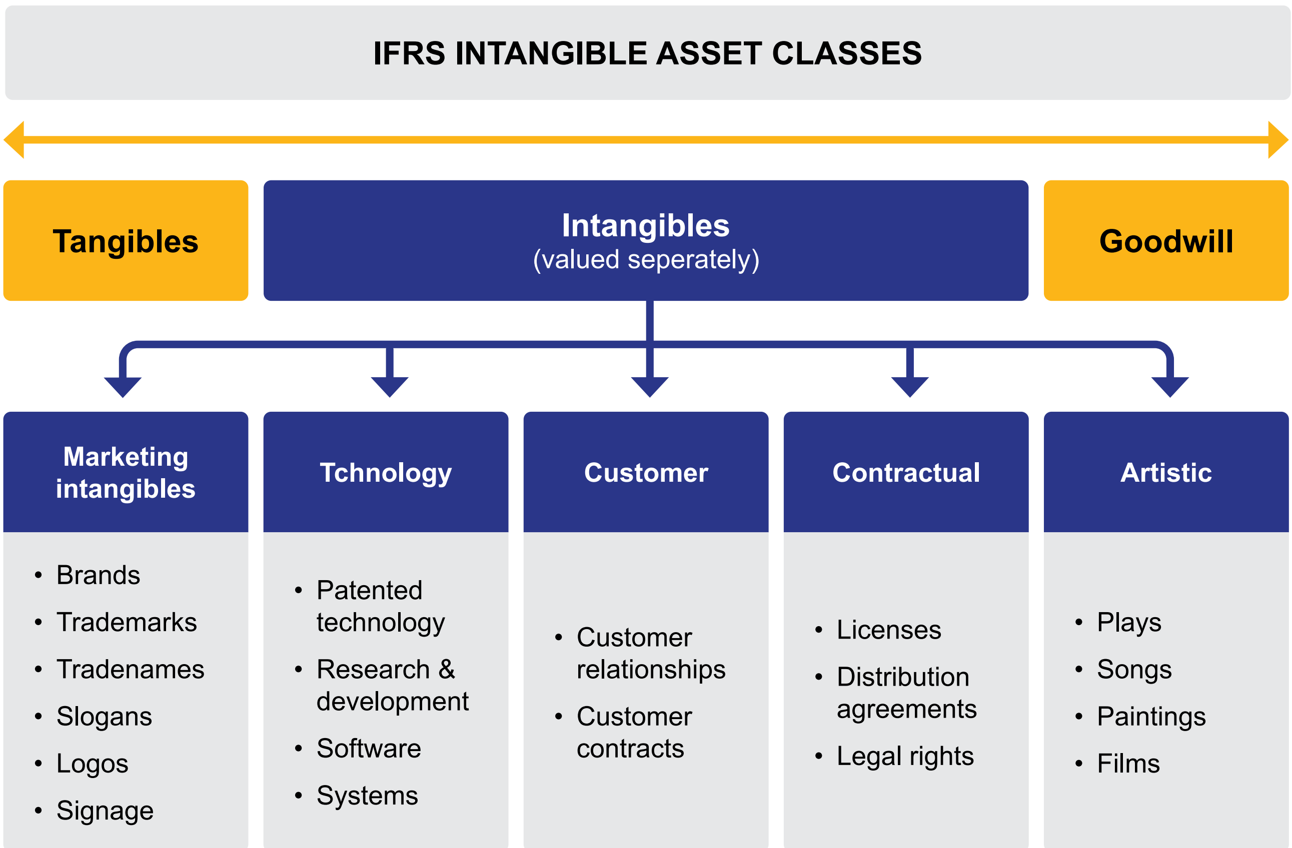
Brand equity translates into profit for the business but, as mentioned before, this takes time and money. This is why there is so much value in the notion of achieving consistency through the careful management of a brand. This concept is sometimes called brand stewardship. The foundation of effective *brand stewardship* or communication is crystal clear positioning that is consumer-based and competitive.

The financial value of building brand equity means that brand building should have the full attention of the board of a company and is not just relevant to marketing activities. The growth in intangible assets and the changing role of marketing means senior executives need to understand the role of brands in creating value for shareholders and businesses. It is important to note that brand equity and brand value are both indicative of income-earning potential in the future, so they can help determine the health and prospects for a business (traditional accounting, which gives a historical perspective of an organisation's performance).[10]

According to BrandFinance, a company specialising in brand equity and determining the value of brands, international accounting standards define an intangible asset as an 'identifiable non-monetary asset without physical substance'[11]. It must also be identifiable, result in a flow of future economic benefits and be controlled by the entity (demonstrated by the power to obtain future economic benefits from the asset or to restrict the access of others to those benefits).

Furthermore, an intangible asset meets the identifiability criterion only if it is separable (i.e., capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability). Another criterion could also be that it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Figure 12.3: Intangible asset classes[12]

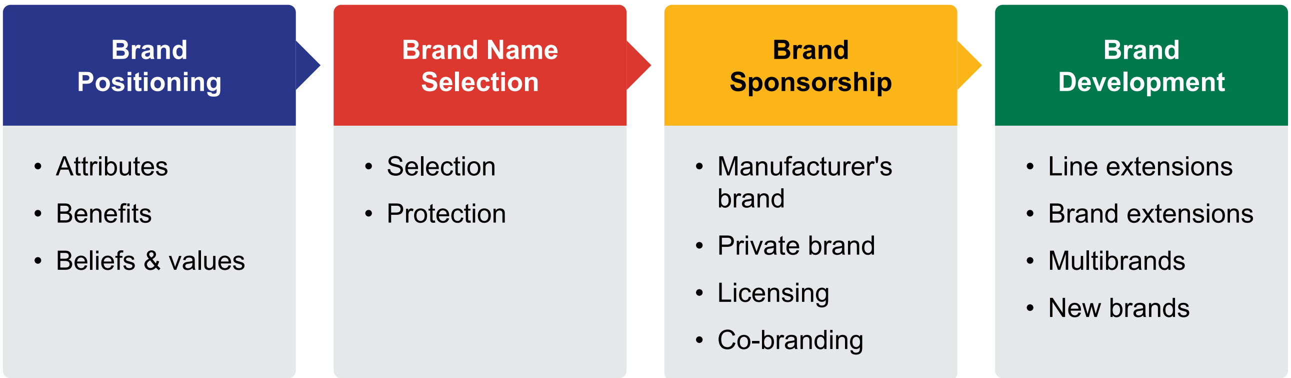


Brand value is equal to a net economic benefit that a brand owner would achieve by licensing the brand. Brand strength is used to determine what proportion of a business's revenue is contributed by the brand. Some of South Africa's most valuable brands include: Capitec Bank, Castle Lager, FNB, Sasol, Telkom and Discovery.[13]

Brand development

In order to develop a brand from the beginning, there is a general process that involves four steps: brand positioning, brand name selection, brand sponsorship and brand development (Figure 12.4). Each of these steps is described below.

Figure 12.4: Process of developing a brand



Brand positioning

Brand positioning has been described in detail in the previous section. It is very important that positioning happens relative to competitors. What does a brand have that sets it apart from similar products or services?

Brand name selection

Brand name selection involves finding a name that carefully considers the product and its benefits, the target market and the marketing strategies that follow. A good brand name has the following qualities:

- It can be easily pronounced (for example, White Star and Omo).
- The name is unique and distinctive (for example, Spur, Avis, Simba, and Clicks).
- The name can be easily extended (for example, Virgin Atlantic, Virgin Active, Virgin Mobile, and Virgin Money).
- The name can be registered and legally protected (i.e., it does not interfere with existing registered brand names).

Brand name selection will also take into account whether the brand is sold under its own individual brand name, such as White Star or Omo; under a family or umbrella brand name, such as Virgin; or as a company brand name, such as Nando's.

Brand sponsorship
Brand sponsorship is the decision that takes into account the investment required to launch a new brand into the market, the company's financial resources to support the launch, the competitive arena, and determines the most advantageous way to sell the brand into the market.

Examples of brand sponsorship options are the manufacturer's brand (or individual brand), private brand (or store brand), licensed brand or co-branded product.[14] These will be discussed in greater detail in the section on brand architecture, but some definitions are included below.

- **Manufacturer's brand or Individual brand.** With a manufacturers brand, the products found on the store shelves are packaged with branding that identifies the manufacturer. This manner of branding is common in the fast-moving consumer goods category and includes examples like Kellogg's cereals, Coca-Cola beverages and Clover dairy products. An **individual brand** is another strategy used by FMCG companies and others: the manufacturer is not identified and the brand is self-standing. An example of this is Coca-Cola. Its brands of water, coffee, iced tea and energy drinks are promoted individually under their own brand names, with scarce mention of the manufacturer (see Figure 12.8 for examples).

- **Private brand.** Private brands are a brand created and owned by a reseller of a product or service. This approach is increasingly popular. Examples include the Ritebrand products in Shoprite stores, No Name products in Pick n Pay stores and Woolworths branded products.

- **Licensing is when a company makes use of a name or symbol for a fee.** Licensing is also done with celebrities and characters from well-known movies and books. Examples include children's clothing that features Marvel Comics characters and Disney shampoo for kids.

- **Co-branding is the practice of using the established brand names of two different companies on the same product.** Co-branding benefits the companies in that the combined brands create broader consumer appeal and greater brand equity. This provides companies with an opportunity to expand into foreign markets. An example is when Simba co-branded its chutney-flavoured chips with Mrs Ball's chutney.

All of these options have benefits and costs and need to be considered carefully. Large companies with multiple brands need to make decisions based on the larger brand architecture of the company, as discussed below.

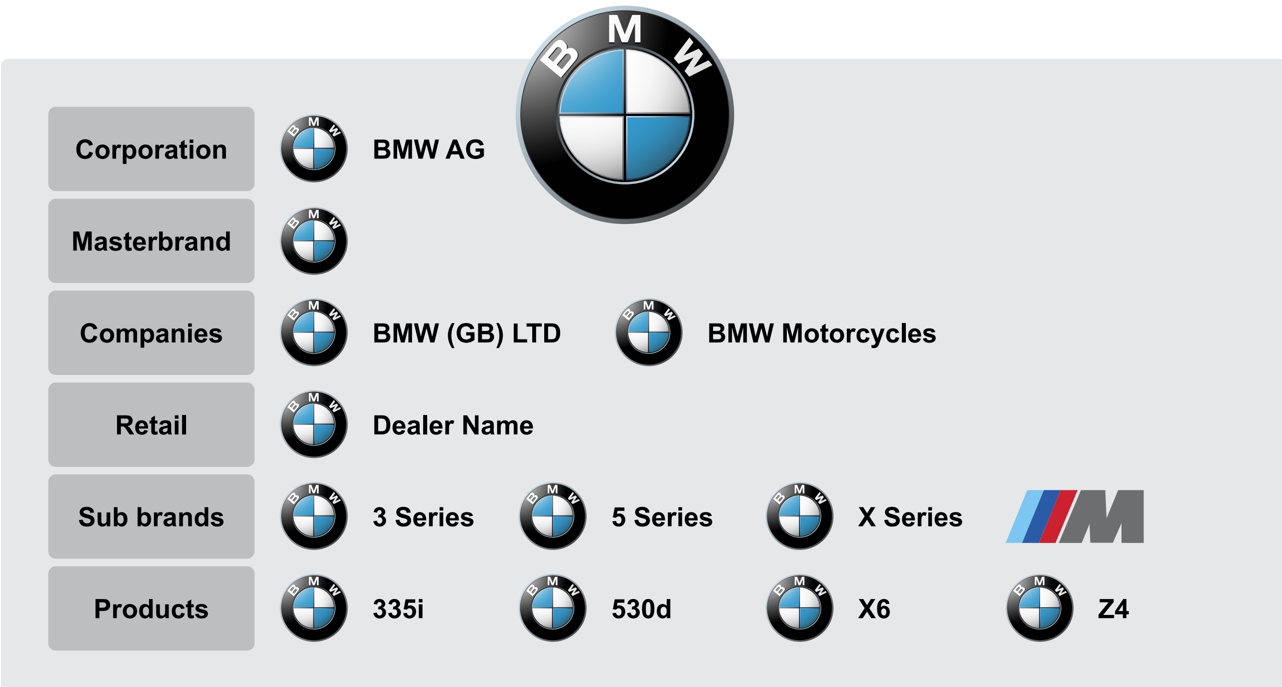
Brand architecture

Most companies have more than one product in their portfolios. Having multiple products brings new branding questions. Should all the products be under the same brands or should they have their own separate brands? These issues are discussed under the topic of brand architecture.

Brand architecture options

Brand architecture is the structure of brands within and organisational identity. It is the way in which the brands in a company portfolio are related to – or differentiated from – one another. The architecture should define the hierarchies within an organisation: how the parent, umbrella, master or corporate brand works in synergy with the sub or endorsed brands; how they support or detract from one another; and how the sub or endorsed brands reflect or strengthen the strategic objectives of the corporate brand to which they belong.

Figure 12.5: Examples of a branded house



Brand architecture can be summarised as such:

- Branded house
  - Monolithic (master brand)
  - Endorsed (sub-brands connected to the master brand)

- House of brands
  - Branded (free-standing brands)
  - Hybrids (combination)

Branded house

In a monolithic structure, everything is unified under a **single master brand**. Thus, there is one brand name and logo, one visual brand identity (colours, typeface, etc), and all variants, no matter the features or benefits, exist under the overarching brand promise. Brand extensions may be built using simple descriptors or codes. Think of Bokomo Corn Flakes, Oats, All Bran, and the BMW range.

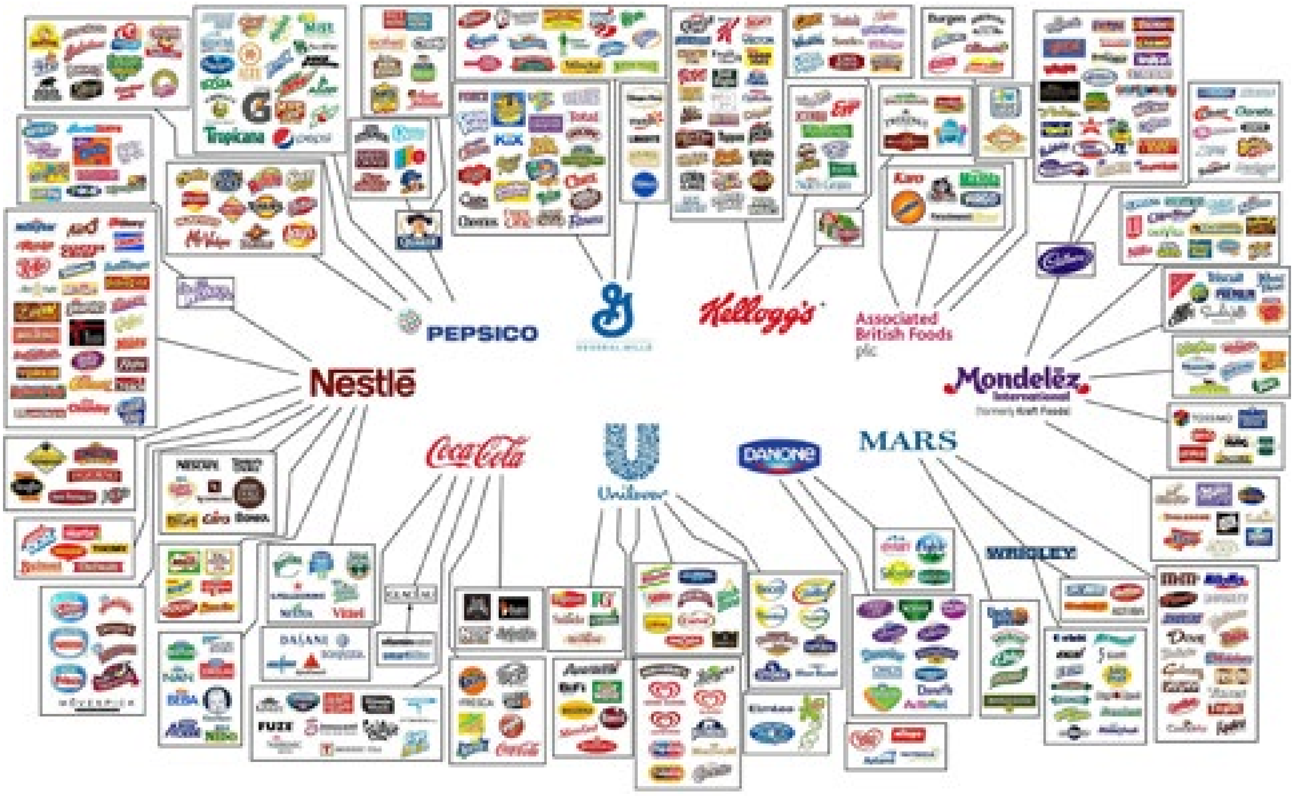
Endorsed sub-brands are when marketing synergy is created between product and service name and the master brand. In other words, when either the product or the parent brand adds value to the other. Usually, the sub-brand has a clear market presence and will benefit more from the master brand association than if it were a free-standing brand. The master brand endorses the sub-brand, so it is critical that there is an alignment of values. Often this strategy is chosen for communication budget efficiency. Below is an example from Virgin, the master brand of which is represented across many business categories.

Figure 12.6: Example of a branded house with a monolithic master brand[15]

House of brands

A house of brands as a collection of individual free-standing brands that have a separate identity from their parent company. These brands have names, lifecycles, personalities of their own and often compete with each other within the same company and sometimes within the same category. This is called a portfolio of brands and necessitates a portfolio strategy, so that each brand has a clearly demarcated position. Examples of this are often found in fast-moving consumer goods (FMCG) companies, like Unilever, which has Omo, Surf, and Sunlight, all in the detergent category. It is said that ten food companies account for almost all the branded food products in the world.[16]

Figure 12.7: Example of companies with a house of brands approach[17]



Lastly, there is the hybrid approach, which is a mixture of all the above, monolithic, endorsed and individual/branded. These are often the result of mergers and acquisitions, when the brand owners see value in preserving the goodwill associated with the acquisition.

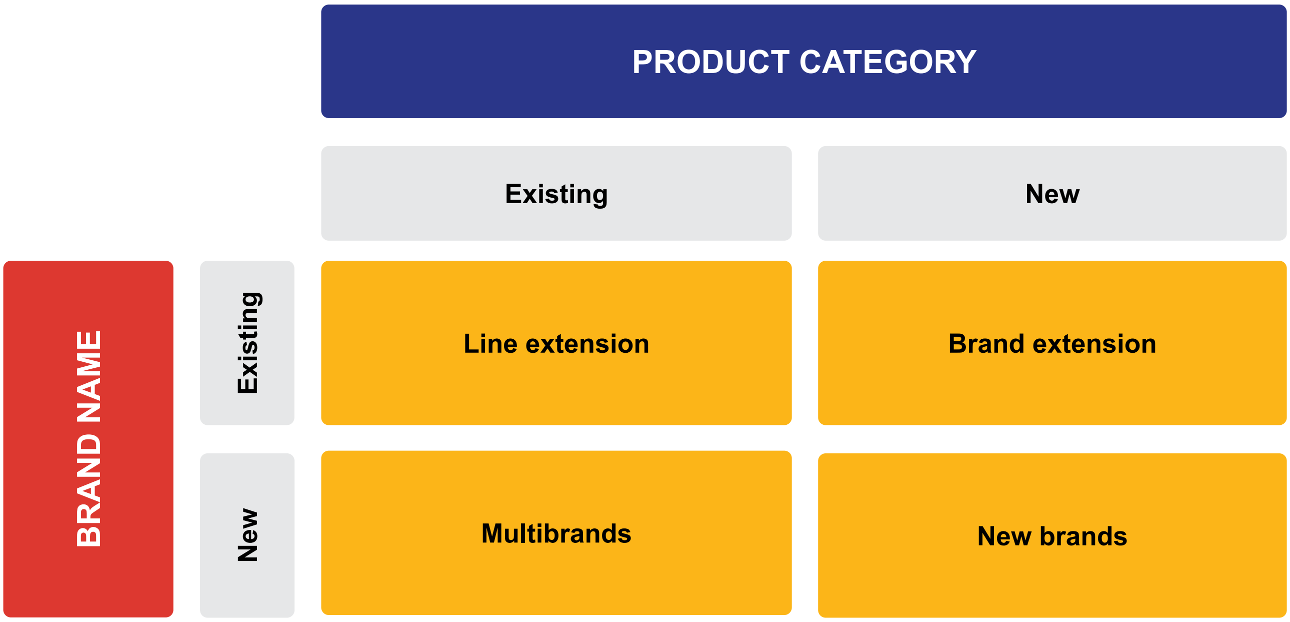
Microsoft uses a multiple brand architecture. Its master-branded products, like Microsoft Teams, Microsoft Project and Microsoft Internet Explorer, use descriptive product names under the Microsoft master brand. Its sub-brands include Microsoft Windows and Microsoft PowerPoint. It has endorsed brands like XBox and Bing, which target more defined target audiences and it has individual free-standing brands through acquisitions like Minecraft, Skype and even Nokia.[18]

The hybrid brand architecture of master brand and sub-brand strategies uses the power of the corporate name to advantage in some categories and industries, and uses endorsed and individual brands for audiences who may view the corporate brand negatively.

Brand development

When making brand architecture decisions, a company has various options, among which are line extension, brand extension, multi-brands and new brand. These decisions are based on whether the brand name is new or existing and whether the product category is new or existing (Figure 12.4).

Figure 12.8: Brand development strategies



- **Line extension** means extending an existing brand name to new forms, colours, sizes, ingredients or flavours of an existing product category. This method offers a low-cost and low-risk way to develop your brand, and helps meet consumers' desire for variety. The risks of an over-extended brand include causing consumer confusion and brand *cannibalism*. An example of line extension is how the Coca-Cola Coke product extended into Coke Light, Coke Diet and Coke Zero.

- **Brand extension** means extending an existing brand name to new product categories. This strategy gives a new product instant recognition and faster acceptance. It also allows the company to avoid the high advertising costs that would be incurred if a new brand was launched. The risks of this strategy include introducing confusion around the image of the main product. Moreover, should the product fail, it will likely harm consumer attitudes towards the brand. An example of this is Caterpillar, manufacturer of earthmoving equipment, who introduced a range of footwear and fashion accessories. Victorinox, formerly only a knife and pocket tool manufacturer, moved into fashion and luggage production.

- **A multi-brand strategy** is when companies introduce additional brands within the same product category. This strategy allows companies to establish different features and appeal to different buying motives. It also allows the company to acquire more shelf space in stores. The risk behind this strategy is that a company may end up spreading its resources over many unprofitable brands instead of building a few brands to a profitable level. Examples include Procter and Gamble's shampoo product ranges, which includes the Pantene and Head & Shoulders brands.

- **With a new brand strategy**, a company creates a new brand name as it enters a new product category. Companies do this when their existing brand name is weakening and a new brand name is necessary or when it enters a new product category for which none of its existing brands is appropriate. An example is when South African Breweries introduced Bacardi Breezer as a new brand to target younger generations of the beer market.

Conclusion

Positioning and brand strategy are ultimately about managing perception and creating value. Externally, it helps your consumers easily navigate your offerings in a way that is relevant to their needs. Internally, having a well thought through brand strategy helps optimise marketing efficiency and performance and helps determine your innovation opportunities. It enables the company to target and meet the needs of specific target markets in a way that clearly separates its brand from its competitors, through differentiation and distinctiveness, and helps determine relevant messaging and communication platforms. All of this done well will build the brand's equity and value.

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Part 5:

Consumer Marketing Tactics (Strategy Implementation)

Marketers have a set of tactical tools they use to build brands and reach target markets. This part of the book discusses the four main tactical tools at the marketer's disposal. These tactical tools are known as the *marketing mix* or Four Ps (for Product, Price, Place and Promotion). The ability to align tactics to a brand position and to execute these tactics effectively creates a competitive advantage.

Chapter 13: Product Tactics

Once consumers' needs are better understood, marketers can facilitate the design of products and services in order to best meet those needs. This chapter explains the basic theory of product-line development and product lifecycles. In addition, the chapter explains how to develop new products and how services differ from tangible products.

Chapter 14: Pricing Tactics

Many consumer decisions are based on price. The exchange between marketer and consumer is based on a value equation and price is at the very heart of these decisions. This chapter discusses basic pricing theory as well as how pricing tactics have changed due to digitisation.

Chapter 15: Place (Distribution) Tactics

In Chapter 6, the South African retail landscape was explained. This chapter builds a more comprehensive view of channels and supply chains. A consumer may desire a specific product, but without effective distribution the marketer cannot meet their needs. The way marketers physically get their products to consumers is constantly changing, with more channels available and the growth of ecommerce. This chapter provides a unique picture of the various distribution channels and formats in South Africa.

Chapter 16: Promotion Tactics (Integrated Marketing Communications)

Marketers may provide excellent products that meet needs and are priced and distributed correctly, but if the consumer is not aware of the brand they are unlikely to transact. Marketing communication (promotion) tactics vary and must be considered in an integrated way. This chapter explains the role of promotion and the basic tools at marketers' disposal.

To implement marketing strategy, these marketing tactics must be used in a way that aligns with the brand and positioning. The chapters in part 5 explain these core marketing tactics.

Product Tactics

CHAPTER

13

Gift Phala

Introduction

In this chapter, we look at how product-related tactics form a crucial part of the overall marketing mix. As outlined in the definition of marketing (Chapter 1), the chances of success in any venture are increased when products (or services) are designed with consumer needs at the forefront. Today, however, there are still many examples of product designs that focus on incremental or disruptive technology without considering needs. As a consumer marketer, the ability to understand and design products around consumer needs is a crucial skill. The chapter begins by surveying some basic definitions and product theory, followed by insights into product and brand development.

What is a product?

As we said in Chapter 1, consumer marketers may have many types of offerings. For example, they may be marketing a tangible good, a service, a person or an idea. Each of these offerings has its own approach but, for the purposes of this chapter, we use the term *product* in a more generic way. To this end, the term *product offering* is anything that can be offered to the market for attention, acquisition, use or consumption that might satisfy a need or want. On a broader scale, products are both tangible and intangible and include physical objects, services, events, persons, places, organisations, ideas and a mixture of these. A service is a form of a product offering that consists of activities, benefits or satisfaction offered for sale that are intangible and do not result in the ownership of anything. All services are products, but not all products are services.

Table 13.1 is a list of offerings that have significant marketing budgets. Notice how certain product-related rules may or may not apply in each instance. For example, a shoe can be sold in stores globally but a hike up Table Mountain can only be consumed by being in Cape Town and being able to participate in a long hike.

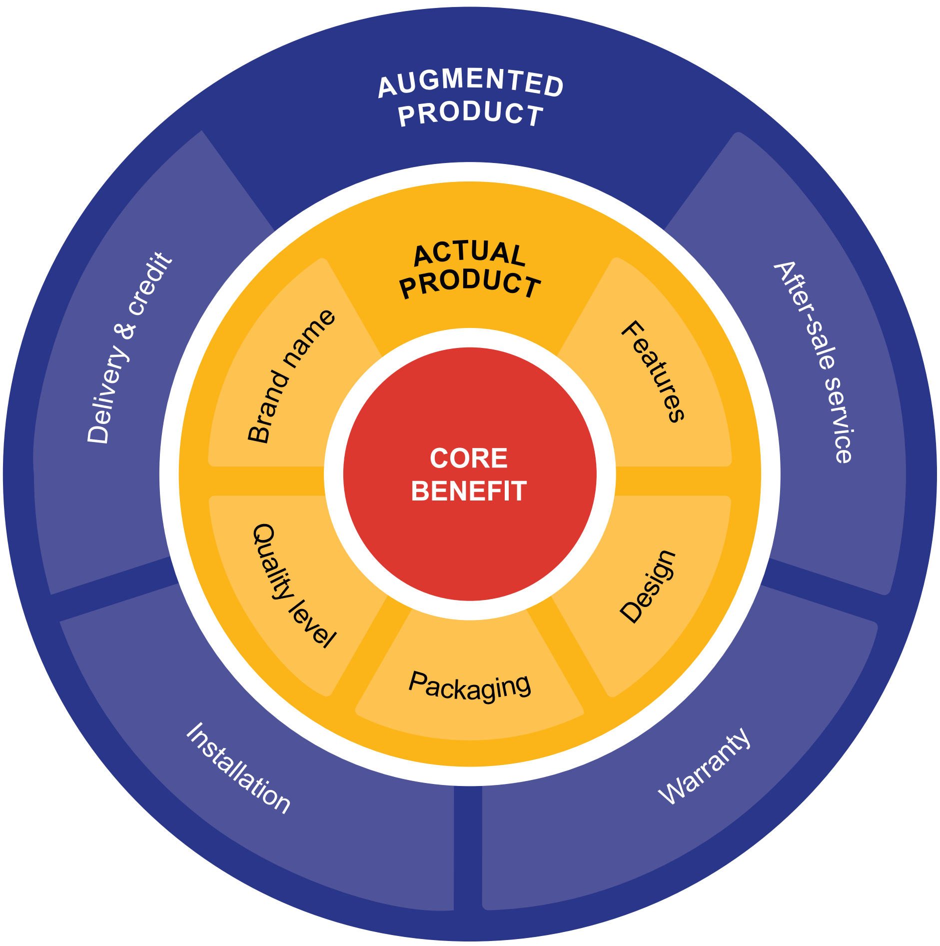
Table 13.1: Examples of products under the broad definition

Product	Example
Physical object	Pair of shoes
Service	Taxi
Event	Chiefs vs Pirates soccer match
Person	Bonang Matheba (a well known celebrity)
Place	Table Mountain (Cape Town)
Organisation	The United Nations
Idea	Climate change

A holistic view of product offerings

When understanding a product offering, it can be helpful to take a holistic view of its different components. According to a basic product model (Figure 13.1), there are three components to a product. The components are the core benefit, the actual product and the augmented product.

Figure 13.1: The three levels of a product[1]



According to the holistic three-component view of a product, the most basic level constitutes the core benefit of the offering. This aligns closely with the marketing concept, according to which people spend to meet their needs. An example is a person buying coffee. Such a person may be seeking caffeine or energy, rather than just a hot beverage. The actual product is the second component and constitutes the product features (for example, design, quality level, brand name, and packaging). An example is a medium-sized Seattle Coffee cappuccino. Finally, the augmented product is the additional services and benefits that accompany the purchase of a specific product (for example, a coupon from Seattle Coffee that entitles you to a free cup of coffee after every ten purchases).

Classifying consumer products

Consumer products are bought by consumers for personal, non-business use. Consumer products can be classified as convenience, shopping, specialty or unsought products, depending on how consumers use them[2]. Each of these is explained below.

- **Convenience products** are products and services that consumers buy frequently, immediately and with minimum effort required to compare and make the actual purchase. They buy these products regularly, without too much planning, information gathering or comparison between brands. These goods are therefore low-priced and suppliers make them available in many locations to make them easily accessible for customers. Examples of such goods include soap, sweets, cigarettes and toiletries.

- **Shopping products** are consumer products that are purchased less frequently, after the consumer has compared the price, quality, style and the suitability of different brands. They are purchased after the consumer has spent much time and effort gathering information and exploring the different options, so they are distributed through fewer locations. Examples include furniture, clothing, appliances and airline services.

- **Specialty products** are consumer products with unique traits and brand identification for which a specific and limited group of buyers are willing to make a special purchasing effort. Buyers normally do not compare speciality products and are willing to travel great distances and pay great prices to buy the products. Examples include specific types of cars, designer clothes and services from certain medical and legal specialists.

- **Unsought products** are products that the consumer either does not know about or knows about but does not normally think of buying. Consumers must therefore be made aware of the products through intense advertising, personal selling and other marketing efforts. Examples include life insurance, funeral cover and printers.

Product decisions

Once a marketing strategy has been considered, there are some product-related tactics that can be implemented in order to further the consumer marketer's strategic goals. These decisions can be made on an individual product level or collectively in product line or mix decisions. Each of these is explained below.

Individual product decisions

Individual product decisions are decisions relating to the product's attributes, branding, packaging, labelling and support services.

Product attributes
A product designer needs to decide what attributes a specific product needs to have in order to meet strategic objectives. These attributes may be divided into topics like quality, features and style.

- **Product quality** can be defined as the characteristics of a product that result in its ability to satisfy the customer's direct and indirect needs. Factors used to determine quality of a product include its physical, sensory and chemical properties, as well as its size and shape, and how these compare to competitors' products.

- **Product features** are the qualities of the product that set it apart from the competitor's products or other products in a company's range. Companies can offer the same product with varying features, for example, starting with a stripped-down car model at a lower price, and then increasing the price as the car's features are improved.

- **Product style and design** is the outward appearance of the product. The aim is generally for products to be eye-catching and to draw the attention of consumers away from competitors' products. One aspect of product design is the composition of the product that contributes to how useful and easy-to-use it is.

Branding
Branding is a name, term, sign, symbol or design, or a combination of these, which tell us who the maker or seller of a product is, and thus differentiates it from competitor offerings. Brands say a lot about the product quality, in that consumers who buy a brand trust that they will get the same quality, features and benefits with every purchase. Brand strategy is discussed in Chapter 11.

Packaging
Packaging refers to the activities entailed in designing and producing a container or wrapper for a product. The primary function of a package is to encase and protect the product, but packaging is also used to attract attention and describe the product. As such, it can play an important role in determining the sale. Creative packaging can provide an advantage over competitors and bolster sales. An example of successful packaging is the All Gold inverse tomato sauce bottle. Requirements for good packaging may include meeting some of the following criteria:[3]

- It should be distinctive, so it is easily recognised and helps the product stand out on the shelves.
- It needs to be able to fit on retail shelving.
- It should allow consumers to best use the product.
- It needs to follow strict measures of safety.
- It is preferable to have environmentally safe packaging.

Labelling

Labelling is the inclusion of certain information about the product on the outside of its packaging (usually). Product labelling has three main objectives.[4] First, the branding and qualities of the labelling help customers notice and identify the product. Second, labelling describes the product and provides information regarding the product, such as ingredients, package contents, user recommendations, safety, manufacturer details, when and where it was made, expiry dates and consumption suitability. Third, labelling is used to promote the product and can serve as a final promotional effort to persuade consumers to buy the product or to support its positioning.

Product support services

Product support services are additional services that a marketer can use to make a product offering attractive and enhance its value. In order to determine which support services to provide, the marketer needs to survey customers regularly and determine the value of current services, as well as generate ideas for new services. This will allow the company to determine the cost of providing these services and to determine whether they are viable.

Examples of support services include:

- Delivery or installation
- Credit facilities or lay-buy purchasing
- Customer support or consultation
- Product returns and replacement
- Warrantees and free repairs

Product line and mix decisions

A product line is a group of products that are closely related because they function in a similar manner, are sold to the same customer groups, are marketed through the same types of outlets, or fall within given price ranges. For example, Colgate produces several lines of dental products (toothpaste, dental floss, toothbrushes, mouthwash). Product line decisions often relate to the product mix, that is, the product width, depth, length and consistency.

- **Product line width** is the number of product lines that a business has in its product portfolio. An example is the way that Colgate has a product line for toothpaste, toothbrushes, flosses and mouthwash.

- **Product line depth** is the number of variations that the company has within the product lines. The Colgate toothpaste line has Colgate Maximum Cavity Protection toothpaste, Herbal toothpaste, Total 12 Pro Breath toothpaste and Triple Action toothpaste.

- **Product line length** is the total number of products a business has within all product lines. In the Colgate example, this is the summation of all the Colgate toothpaste, toothbrushes, flosses and mouthwash variations.

- **Product consistency** speaks to how closely related the product lines are. For instance, it can be said that Colgate is consistent in that it produces dental products. This would not be true if it were to start producing clothing.

Figure 13.2: A generic product mix[5]

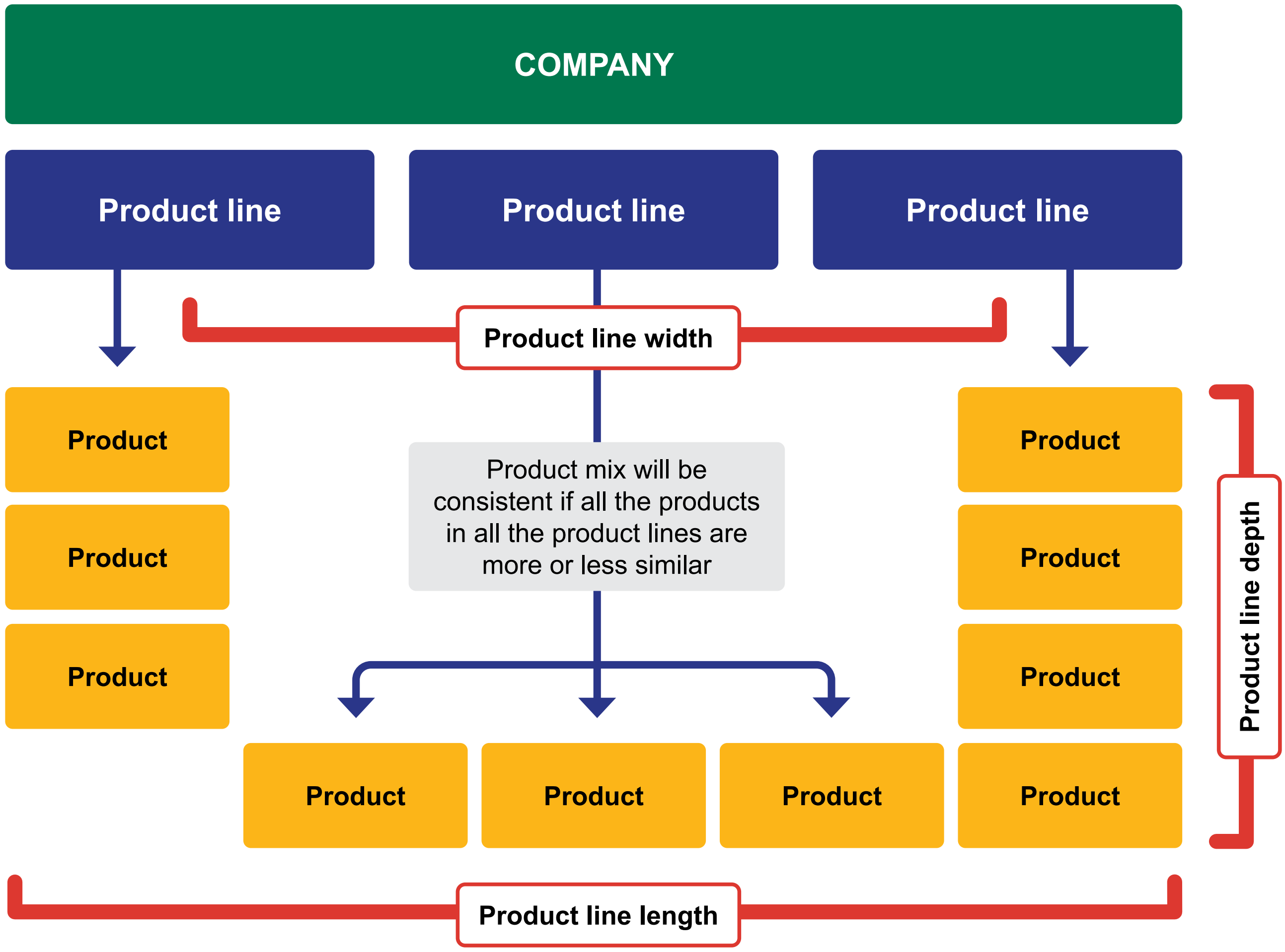
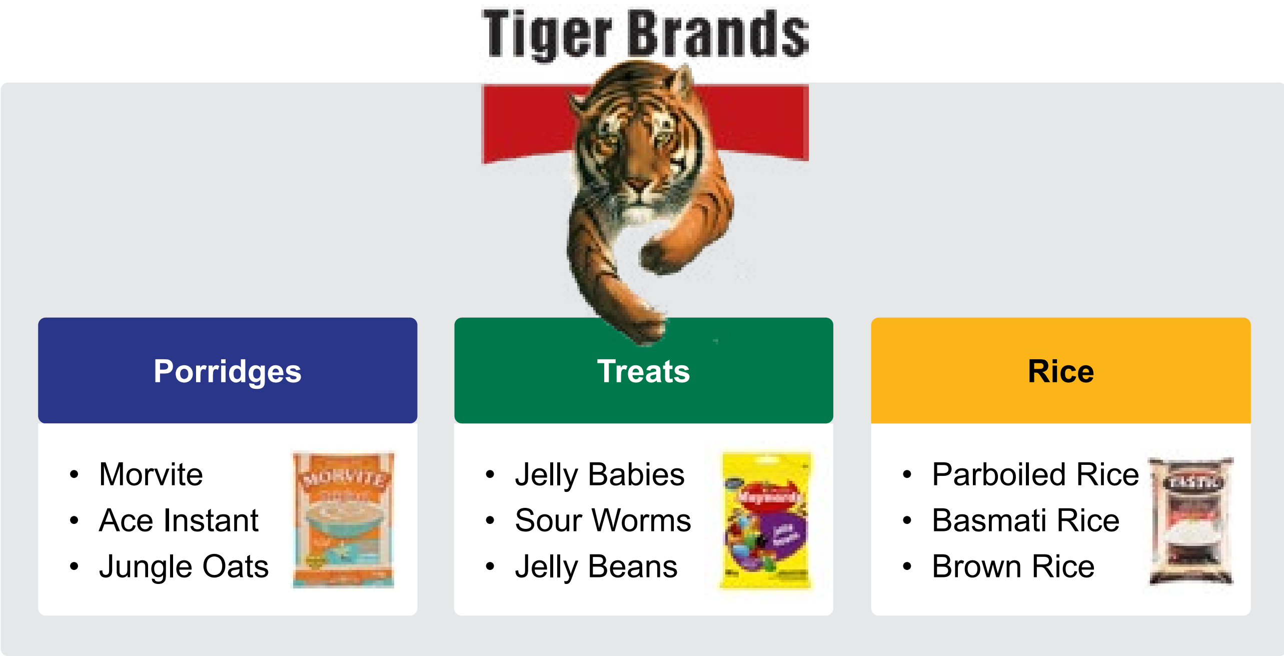


Figure 13.2 is a theoretical product mix that shows how individual products can fit into a larger product mix with different product lines. Figure 13.3 uses some examples from Tiger Brands, a large consumer goods company in South Africa, that has multiple product lines in its product mix.

Figure 13.3: A sample product mix from Tiger Brands[6]



Adjustments to a product line include a number of tactics like product line stretching, shrinking and filling. Each of these is defined below.

- **Product line stretching** takes place when you add additional products to your product line (or increase product length and width) in order to fill market gaps, create competitive advantage and ultimately increase profits. Stretching is usually done to reach segments of the market not currently accommodated. An example is Tiger Brands first introducing its Jungle Oats snack bars product line, building on the success of the Jungle Oats brand in the porridge category.

- **Product line shrinking** involves removing products from product lines when they are not profitable or when the company needs to cut costs. This is the opposite of stretching. This strategy can be used to become more focused on a specific segment and hopefully become a market leader.

- **Product line filling** is adding more items into the range of a product line (or increasing the product depth). It is done to offer more variety, to increase market share, competitive advantage and, ultimately, profit. An example was Coca Cola introducing Coke Lite, Coke Zero and Coke Life (see Figure 13.4). Marketers must be careful not to cannibalise their existing products with the new products when line filling. Cannibalising takes place when products decrease consumers' demand for the company's existing products.

For companies with multiple offerings, a well-considered product mix can create competitive advantage and growth. The converse is true for building a product mix without consideration of brand building (Chapter 12) and the fundamentals of consumer marketing.

Figure 13.4: Coca-Cola brand with multiple line extensions[7]

New product development

New product development takes place when a company develops original products, improves products and develops new brands through research and development. New products are beneficial in that they bring customers new solutions and variety, and they are a key source of growth for companies. Key drivers of new product development include:

- Consumers' changing needs and desires
- Existing technology becoming obsolete
- A product reaching the end of its life cycle
- Attempting to gain competitive advantage when competition is intense
- An existing product is declining in popularity
- A company's desire to pursue specific corporate strategy objectives, for example, diversifying the business by entering an adjacent category or a new market (Chapter 2)

The new product development process

New product development initiatives typically follow an eight-stage procedure, the purpose of each stage being to determine whether the product idea should be pursued or abandoned. These eight stages are illustrated in Figure 13.5. Note that, in some cases, this linear approach may not apply (especially in entrepreneurial ventures where implementing new ideas does not always follow a formal approach). This process, however, is a helpful way to think about developing new products.

The phases of new product development begin with idea generation. Idea generation is when new ideas are gathered from various sources, including the organisation's research and development department, market research activities, employees, customers and consumers. Ideas are then screened and unrealistic ideas are excluded from the shortlist so that the company does not waste resources on ideas that are unlikely to succeed in the marketplace. Concept development and testing involves developing a sample of the product and making decisions about the design, features and benefits of the product, as it is tested. Business analysis is when the company considers operational factors, such as achievable selling price, estimated number of sales and projected profitability (while these are projected at the start of the process, they can be solidified here). Next, the product is developed and the final product may once again be tested in the market to identify problems or further design opportunities. Eventually, the product is released into the marketplace, accompanied by advertisements and promotions **(commercialisation)** and the success of the launch is then reviewed and tracked.

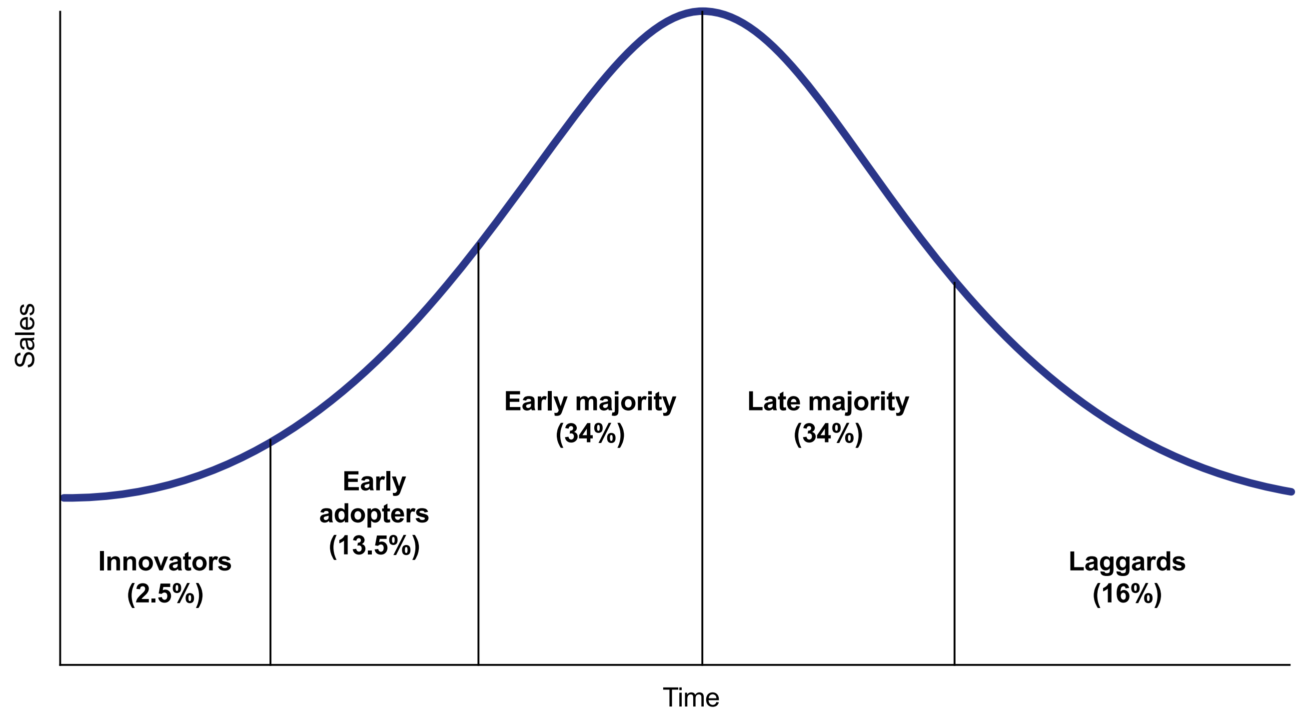
Figure 13.5: Eight phases of the new product development process[8]

1. Idea generation
2. Idea screening
3. Concept testing
4. Business analyses
5. Product development
6. Test marketing
7. Commercialisation
8. Review of marketing performance

The adoption of new products

Among consumers, you find those who are willing to adopt new products, those who are undecided and those who are not willing to adopt. Figure 13.6 shows Rogers's adoption curve[9]. This diagram shows that new products need to go through a set of phases before they are able to generate maximum sales.

Figure 13.6: Phases of new product adoption[10]



Innovators are consumers who are usually willing to try something new and will seek out new products just to be the first to own or use something. They have a high tolerance for risk, uncertainty and ambiguity. They are usually a relatively small group. **Early adopters** are the people who are first among the average consumers to try a product. The **early majority** is a group that usually waits for some momentum to be built in the diffusion of a new product and their purchase is usually preceded by information gathering, evaluating and deliberate, careful decision-making. The **late majority** are often socially influenced by the early adopters. They will take the time to evaluate the product with careful thought and consideration, and by nature they are sceptical until social pressure gets them past the tipping point. **Laggards** are slow to buy any new product because they are generally uninvolved with the product category. They tend not to have much information, not be socially influenced and purchase the familiar rather than the unfamiliar.

New product adoption can be influenced by these five phenomena:[11]

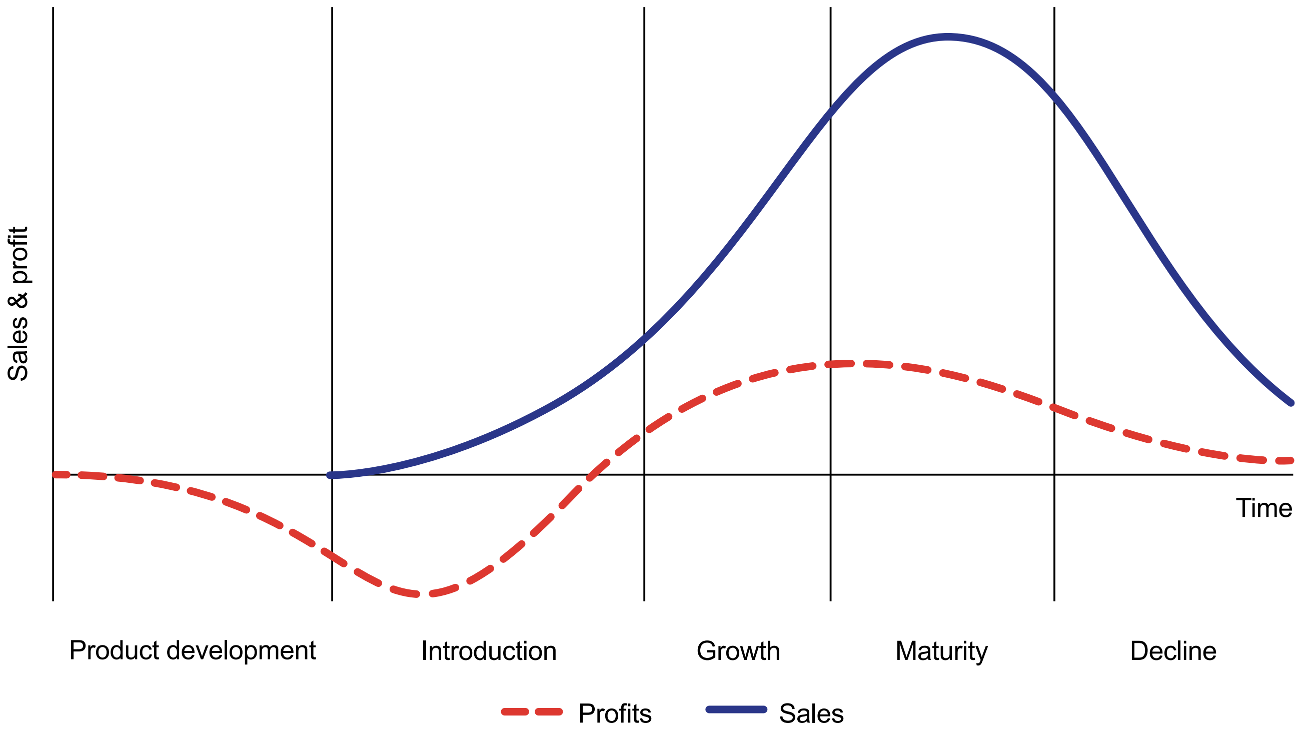
- **Relative advantage** is the degree to which the new product appears better than existing products
- **Compatibility** is the degree to which the new product fits the values and experiences of potential customers
- **Complexity** is the degree to which the new product is easy to understand or use
- **Trialability** is the degree to which the new product may be tried on a limited basis
- **Communicability** is the degree to which the results of using the product can be observed or described to others

The product life cycle

The product life cycle refers to a product's sales and profits trajectory over its lifetime once it is launched. It involves five stages: product development, introduction, growth, maturity and decline. These five stages are illustrated in Figure 13.7.

The stages of the product life cycle start at the product development stage. This is when the company finds and develops a new product idea. During this stage, sales are zero and profits are negative as the company's costs increase. At the introduction stage, the new product is introduced to the market. Production and marketing costs are high, the company's market share is minimal, sales are limited and the price is often high. The growth stage is when the demand for the product increases, resulting in a steady growth in both sales and profits. The company benefits from economies of scale in production (where the set-up costs have been covered and the per-unit costs go down due to larger volumes). The result is increased profits. During the maturity stage, the product is established and the company aims to maintain market share. At this stage, it becomes necessary to consider modifications and improvements as well as intense marketing and promotions, as competition is often high. Finally, many products go into a decline stage when the market demand for the product begins to decrease, either because all the customers who are going to buy the product have done so already or because a new product has been launched by the company or competitors that makes it redundant. Product life cycles can vary in duration.

Figure 13.7: The five stages of the product life cycle[12]



Differentiating services from physical products

At the start of this chapter, we introduced the broad use of the term *product* to include things like ideas, places and services. In this section, we build a deeper understanding of services and how they differ slightly from physical products when it comes to a consumer marketing approach. A service is an act or performance that one party can offer to another that is intangible and does not result in the ownership of anything. Examples are hotel, retail and banking services. According to Expert Program Management (n.d.), services have four main characteristics that set them apart from physical products: intangibility, inseparability, heterogeneity and perishability.

Intangibility

A service cannot be seen, tasted, felt, heard or smelled before it is bought. For example, you cannot see the result before you go in for a surgical operation or that your train will get you to your destination before you climb on board. This makes it hard for consumers to determine the quality beforehand, and so they often look to other indicators, such as price and equipment.

Inseparability

A service is produced and consumed simultaneously and so a service consumer and service provider cannot be separated. This results in an interaction known as 'the service encounter', which will determine the satisfaction level of the customer. An example is the way a customer must come into contact with a barber when getting a haircut and the fact that the manner in which the barber conducts themselves during the encounter will have an effect on the overall satisfaction level.

Heterogeneity

The quality of each service encounter will vary, as each takes place in real time with little scope for quality control before the service is experienced by the customer. For example, as you go to Nando's to place your order, the cashier you happen to get may be unpleasant and slow, while the cashier your neighbour gets is cheerful and efficient.

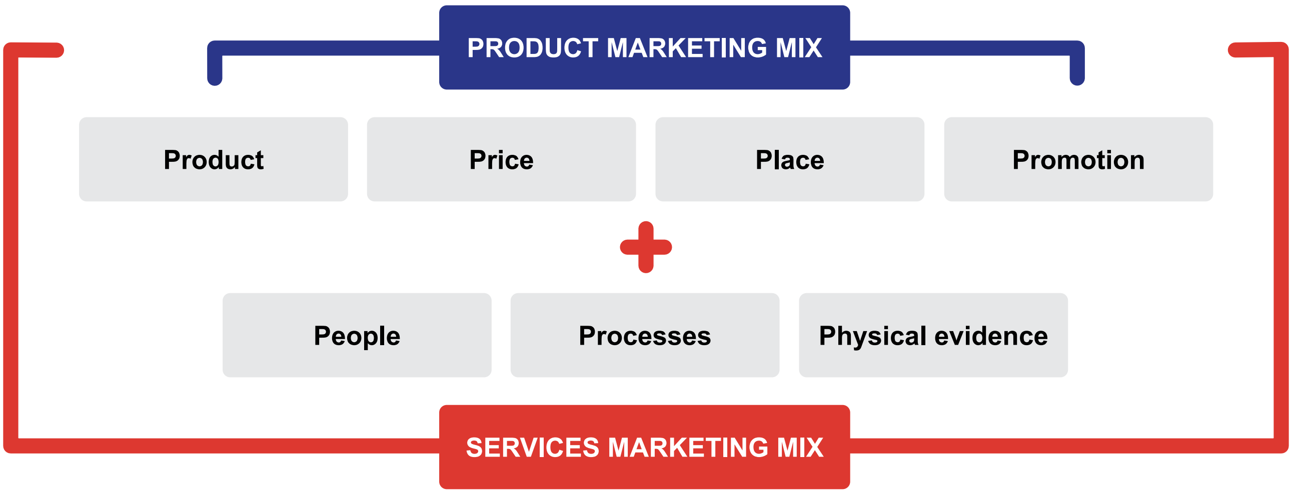
Perishability

Services cannot be stored for later use and sale. This is seen in the way that once a flight takes off, all the empty seats are income lost that cannot be retrieved.

The services marketing mix

Services have the usual four elements of the marketing mix (product, price, place and promotion), but include three additional elements: people, processes and physical evidence (Figure 13.8). These additional elements account for the intangibility of the offering and are sometimes referred to as the Seven Ps of services marketing.[13]

Figure 13.8: The services marketing mix[14]



While Chapter 13-16 of this book explain the details of the product marketing mix, the three additional elements of the services marketing mix are defined below:

- **People.** Service offerings rely heavily on employees to deliver the service, communicate information, handle reception activities and manage the entire process. As a result, employees need to be given due attention to ensure they are properly recruited, trained and motivated to deliver a quality service successfully.

- **Processes** includes the actual procedures, mechanisms and flow of activities by which the service is delivered. It is important that all aspects of the business function smoothly in order to ensure that the appropriate level of service is delivered, as failure to do so may result in delays that will result in unhappy customers and consequently a negative image of the brand.

- **Physical evidence** is making use of the organisation's tangible environment and facilities to create an atmosphere and image for the business. Physical evidence helps to give the client an indication of the quality and reliability of the service and helps to assure them that their expectations will be met. Examples of physical evidence include the general state of the office, employee dress codes, reports, business cards and the surrounding environment.

Conclusion

This chapter surveyed a number of tools available for implementing product tactics as part of a consumer marketing strategy. This chapter did this by firstly discussing product decisions that are made at an individual product level and expanded this to product decisions that are made at a product-line and product-mix level. The chapter then looked at the process that a company takes when introducing a new product. Lastly, the chapter briefly discussed how the marketing strategy would differ for a service product offering instead of a physical product offering.

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Yulia / stock.adobe.com

Pricing Tactics

CHAPTER

14

Nevo Hadas

Introduction

In this chapter, the concept of pricing tactics is unpacked in the context of consumer marketing. Pricing is, at the most simplistic level, the amount of money charged for a product or service, but it is also the sum of all the values that consumers exchange for the benefits of having or using the product or service[1]. This exchange of value is at the heart of commerce and underpins the global economy. At a fundamental level, however, price is a crucial lever in the marketing mix as it has a large influence on consumer choice.

Effective pricing is a combination of science and art. The science is understanding the impact changes in price can have on a company's profitability, while the art is choosing the right price point and tactics to maximise company profits. Price is an area of business strategy that has an immediate financial impact for any business. Determining the price of a product or service is a complex process. Thus, it is important to understand the different decisions you will need to make along the way, many of which are introduced in this chapter.

Although other elements affect consumer choice, price is the ultimate element facing a consumer when they decide whether to buy a product. Price is, therefore, the final barrier or incentive to purchase. With its huge influence over consumer choice, price and pricing strategy are vitally important to any business, and should be treated as such. Pricing is also the key element of the marketing mix that produces revenue, which means that prices and pricing strategy must remain flexible and ready to adapt to changes in the market if businesses want to maximise profit.

Pricing in South Africa

South Africa's consumer market is undeniably different to many other parts of the world due to South Africa being one of the most unequal countries with regards to the distribution of wealth. This means that pricing can vary hugely in South Africa, with one end of the spectrum meeting the demands of the country's elite and the other meeting the demands of the poorest of the poor.

A common example of this is the pricing of foodstuff. The cost of chicken in upmarket shops like Woolworths differs markedly from the chicken offcuts sold in townships on street corners or even in lower-cost stores like Shoprite. It is this vast divide in the South African consumer market that makes finding a clear target market and paying close attention to pricing strategies imperative to the success of any business.

In a developing country like South Africa, there are many factors that result in an environment of such diverse and unequal prices between different industries and areas. This poses challenges for marketers, who need to pay close attention to the value of the product they are selling, the price it sells for in South Africa compared to other parts of the world, how the product appeals to different socio-economic groups, and how to maximise both business revenue and customer satisfaction based on all of this.

The fundamentals of pricing strategy

Pricing strategy provides a long-term view of how your price point will impact your market share and profitability. Intentional strategy examines a customer's lifetime value (the total value that a customer has for the company over their life) versus value at a single point in time (the value of a single transaction). In addition, market share will be considered in relation to individual sales. For example, a mobile provider's pricing strategy may be to give you basic data at a low cost while charging a premium rate for additional data purchased on an ad hoc basis. The firm may also choose to give you a new cellphone and bundle that cost into the price of a contract to lock you into a relationship with them.

As a strategy, price can be optimised for short-term gain (by discounting products to achieve immediate revenue growth), or it can be carefully designed for long-term goals (by building brand reputation or avoiding a price war with your competition). As such, designing a price strategy is often far more complex than just testing prices to see what works. Most of the time, it is about finding a way to sell to price-sensitive customers who may represent your primary source of revenue, while still charging premium prices to customers who are willing to pay more.

There are three primary approaches businesses usually take to define the price of their products: cost-based pricing, value-based pricing and competitor-based pricing. Each of these is discussed below.

Cost-based pricing

Cost-based pricing combines the cost of all the components required in production, distribution, sales and support, along with a mark-up. This pricing model needs to consider volume shifts (i.e., cost changes with volume), as they can dramatically affect the actual cost of the final product. Often cost-based pricing relies on a basic mark-up without considering the consumer's perception or positioning (for example, cost + 20% = price).

Competitor-based pricing

The price point in competitor-based marketing is set based on what existing competitors charge. This strategy is often used in undifferentiated product categories, or where gaps in pricing ranges are identified as potential segments (for example, there is soap on supermarket shelves at R5 and R15, so you price at R10). A danger in this form of pricing is that the corporate and marketing strategy can be hijacked by trying to align with what competitors are doing. While this is an important part of understanding consumer marketing strategy in the bigger context, it can lead to marketing myopia (see Chapter 1) as the focus moves onto the competitors and not the consumer. The importance of competitor-based pricing strategy becomes clear when you see a competitor discounting heavily (threatening your market share if you do not follow suit).

Value-based pricing

Value-based pricing examines the product from a customer (business or consumer) point of view. This pricing strategy tries to understand what customers feel is valuable and to align accordingly. This is an ideal pricing strategy for differentiated products or new markets. Value-based pricing can therefore be described as the process of setting your price based on the perceived value of your product and service in the minds of your customers, as opposed to factors such as your costs. Within value-based pricing, there are two possible sub-strategies. Good-value pricing tries to balance price and quality and value-added pricing justifies higher prices by adding more features (see Figure 14.1).

Figure 14.1: Value-based pricing

Consumer value-based pricing

This type of pricing uses consumers perception of the value of a product to figure out how much they would be willing to pay rather than using the costs of the seller as a base and adding a mark up. There are two types of consumer value-based pricing:

Good value pricing

Good value pricing involves creating just the right balance between quality and good service at a fair price. E.g. Ouma rusks, affordable and consistently good quality.

Value-added pricing

Adding additional features to products and services in order to substantiate charging a higher price. E.g. Sunlight charges a higher price for a bottle of dish washing liquid that has an added benefit of now being anti bacterial.

While value-based pricing is common, there are some misconceptions about the approach:

- **Value is based on features:** Value is based on what the benefit (or utility) is to the customer and not based on the features provided. This means that, even if you have ten unique features, if the benefit they provide is not significant to the consumer, it has, it has no value and thus no impact on price.

- **Value-based pricing is based on the product alone:** Pricing for a product that is similar to existing offerings in the market requires you to work within a comparable framework. If competitors price a similar product for the same segment at X, it is hard to re-price the product to double X using the same pricing variables without significantly changing the quality of the product.

While a broad strategy may be in place, short-term tactics are usually needed to adapt to different market conditions or stages in the product life cycle (see Chapter 13). The next section considers some generic pricing-strategy decisions.

Generic pricing tactics

Once the pricing model is in place, tactics often need to be used to implement the pricing on the ground (or in the shopping aisle). Pricing does not exist in a vacuum; there are competitors whose prices you need to work against or seasonality you need to allow for. Some of the more frequently used tactics include:

Product line pricing
Consumers interpret a sense of value and quality from product pricing. This means the same or a highly similar product can be priced across a continuum. This is known as choice architecture, by which the marketer creates a set of market prices that lead customers to purchase a specific option as 'best value'. In this way, manufacturers introduce higher priced options just to indicate that the product the consumer chose is the best value.

Optional product pricing
The pricing of optional or accessory products along with a main product. In this context, low prices are used to entice the consumer, but the product is often the base model and excludes extras that a consumer really wants or needs. It is also a way of breaking up the price into multiple components, thereby reducing the mental 'sticker price' consumers pay.

Captive product pricing
Setting a price for products that must be used along with an ancillary main product. In this situation, the base product is cheap, but hooks the customer who must pay more for the main product. A good example of this is a Nespresso machine, which is relatively cheap but requires expensive pods to operate.

By-product pricing
Setting a price for by-products to make the main product's price more competitive. If a by-product has no value and disposal is expensive, you have to take that into consideration in your pricing strategy.

Product bundle pricing
Selling products as a bundle (for example, McDonalds combo meals), thereby making it difficult for consumers to evaluate the price for any one component. This is also useful to solve a 'whole need', for example, a burger and a drink.

Discount pricing
A straight reduction in price on purchases made during a stated period of time. Many retailers also use discounted goods to increase store traffic and thus drive additional sales.

Segmented pricing
Selling a product at two or more prices, when the difference in price is not based on a difference in manufacturing cost but rather in targeting different markets.

Location pricing
Differentiated pricing based on the geographic location. This occurs in both physical retail and online stores. This may happen due to differing tax rates, shipping costs and other product cost influences or due to the differing affluence of locations. Razors and batteries have different prices in different locations.

Time-based pricing
Time based pricing differences are made for high demand and low demand periods, for example, train tickets during peak times are higher than at low demand times. They can also be used to expire products, such as airtime, when the longer period you buy the airtime for, the higher the price.

Psychological pricing
An approach that considers the psychology of prices, using price to say something about a product, such as high quality (for example, a Rolex watch) or value (half-price pizza).

Promotional pricing
Temporarily pricing products below the list price (and sometimes even below cost price) in order to stimulate sales. This kind of pricing does have problems. For example, price promotions are easy to get into and hard to get out of. Once the brand and its customers are addicted to the short-term high of a price cut, it is hard to wean them off the promotional price.

New product pricing
When introducing a new product to the market (or an existing product to a new market), marketers sometimes choose to adopt either market-skimming or penetration-based pricing approaches

- **Market (price) skimming:** Involves setting a high price for a new (or much anticipated) product to skim maximum revenues from those who can afford it or have the highest demand. This may occur when a product is launched and marketers often reduce the price over time. Fans of a particular brand or early adopters of new technology may be willing to pay a high price to be first to access the product. Price skimming is often used to recover research and development costs for a new technology that is brought to market. This is often done because the product does not have volume production in place or (as is often seen in technology start-ups), needs considerable customisation for the first customers.

The following conditions must be in place for market skimming to be successful:

- The quality of the product must support a higher price.
- Costs cannot be so high as to counteract the benefit of higher prices.
- Competitors should not be able to easily enter the market and charge lower prices.

- **Market (price) penetration:** Involves setting a lower price for a new product in order to attract a large number of customers and a large market share, resulting in more sales at a lower price.

  The following conditions must be in place for market penetration to be successful:

  - The market the business is selling in must be price-sensitive, so that a low price will lead to market growth and increased revenue.
  - There must be economies of scale, meaning that costs must fall as sales increase.
  - The low price must function as a barrier to entry in order to keep competition from entering the market.

While pricing involves numbers, it is a mistake for consumer marketers to think of pricing like an accountant. Great pricing strategy involves understanding the combination of business, marketing, consumer behaviour and psychology. In the next section, we explore price and perception.

Managing price perception

Most consumers are not aware of how much something costs to produce. Much of their decision-making is anchored in their perception of value and the cost/benefit equation in their own minds. Someone might, for example, find R24 expensive for a bag of rice while another person may see it as being cheap. This could be based on any number of variables, such as whether there are other brands of rice on the shelf (to compare against) or whether the person regularly purchases rice, how wealthy they are and whether they have been shopping around. As consumer marketers, understanding the power of perception can help in building a robust pricing strategy. This concept we explore further in this section.

The expectation of utility/value/happiness

At its core, price is an emotive experience rather than a logical one, with factors like affordability, desire and fear clouding how the purchase decision is made. Price decisions are often rationalised after the purchase as justification, especially with first-time purchases. You therefore cannot explore a pricing strategy without taking the behavioural psychology of the consumer into account.

In economics, *utility* refers to the benefits (satisfaction or happiness) that consumers get from a decision or purchase. Economists try to measure the utility of different alternatives, believing that humans want to maximise utility based on the belief that we can effectively compare the utility of different products and services. There are many ways a customer can look at utility or value that do not reflect the constraints of economics.

In fact, following the economic thinking model would be unusual for a customer. If you ask a consumer why they made a particular purchasing decision, it would be highly unlikely that they would say that it was to 'maximise their utility at that moment'.

Even though logical maximising of utility fits neat economic graphs, behavioural economists have questioned past assumptions that decisions are made in order to maximise utility. According to Herbert Simon, people tend to make decisions by 'satisficing' (a combination of sufficing and satisfying), rather than optimising[2]. In this sense, most decisions are 'good enough' in the customer's context and various trade-offs that they are constantly making with other decisions. Satisficing individuals will choose options that meet their most basic decision-making criteria.

A key component of effective pricing is understanding that, in a consumer's mind, the price only exists as a perceived value (i.e., the amount they *think* they paid and the actual price of what something costs are not always aligned). This can be clearly seen in pricing strategies that rely on anchoring. For example, a low-cost airline will provide a ticket that has a low cost, but then increase it via additional fees at the booking stage or provide additional services that are important to the trip but not included in the anchor price. The consumer wants to believe they have paid less and is anchored on the ticket price versus the final price.

Value-based pricing sets the price based on the benefit or utility provided to the customer and not on the cost of producing the item or service. To do value-based pricing effectively, a marketer must:

- **Know what problem they are solving:** Understand the value of the problem you are solving or its utility to your customer and price accordingly.

- **Understand their customer's affordability segments:** Know who your customer is, how they buy and what the limits are of their budgets. If there is more than one customer segment, be able to identify those.

- **Understand the substitutes:** What does it cost the customer to currently solve this problem and how does your offering do it better (faster or safer, etc) to demand a higher price or lower price?

In the airline ticket example, there is great strategic power in understanding what price customers are willing to pay as core value and what their affordability constraint is (how much they have available to spend). You then need to understand the key factors surrounding the decision (time of flight, class of travel, and urgency). Inducements such as discounts or special offers can be provided to close a deal while value-adds (insurance, seat selection, etc) can be used to increase the ticket price.

Using behavioural economics in pricing

Behavioural economics is the study of how people make decisions. While traditional economics assumes that decisions are rational, behavioural economics shows through experimentation how the context and limitations of our brain influence our decision-making ability, leading to decision errors. As Daniel Kahneman put this, 'It seems that traditional economics and behavioural economics are describing two different species.'[3]

Our learning from behavioural economics clearly demonstrates how powerful the situation (inclusive of the environment) in which the purchase decision takes place can be[4]. A critical component of this situation is framing. In psychology, Lewin framed the basic formula that explains behaviour is the outcome of an interaction between an individual and a situation[5]. In marketing, we have traditionally neglected the situation and solely focused on the target customer, neglecting the fact that the situation provides the context for decision-making and therefore affects behaviour.

Framing is focused on how we contextualise our customers' buying experiences, not by changing our product, but rather by changing customers' perception of the options available to them. It is important to understand what can be achieved at a point of sale by controlling customers' choice options versus a long-term attitudinal or preference change. Point of sale is the location at which the purchase takes place. This could be online, via a retailer or via a salesperson or agent. The point of sale often provides the relevant context for the behaviour and can change the price perception in the customer's mind.

We can change customer perception of price by the pricing choices we show them. This is known as **choice architecture**. By showing three options and indicating the *best* or *most popular* option, our framing does two things:

1. It reduces the cognitive load (amount of thinking) of the customer trying to make the decision, that is, it gives them a clear idea of which option is best and reduces the chance that they will leave without acting.

2. It provides the opportunity to move them to a slightly higher price-point by limiting the choices that they have available.

In this last section, we focused on some of the many aspects of psychology and perception when it comes to pricing. Building on this, the next section looks at the impact that digital channels have on pricing, specifically personalised pricing.

The impact of digital channels on pricing

Marketers are excited about the affordances that digitally enabled products, services and channels provide to maximise revenue. Digital channels particularly allow the opportunity to find the right price for each customer. This panacea of pricing is known as *personalised pricing*. **Personalised pricing** is the offering of different prices and promotions at the individual level based on behaviour such as purchasing patterns or data about the consumer. In some instances, personalised pricing may have legal and compliance implications related to privacy rights and consumer protection regulations[6].

In an ideal world, this would mean implementing personalised pricing, by which each customer is charged an individual price to maximise both profit and customer satisfaction. In reality, however, the time and effort needed to implement this strategy mean that it has not been feasible for the majority of goods and services. Furthermore, consumers, unsurprisingly, do not like the idea of personalised pricing and the OECD (Organisation for Economic Cooperation and Development) considers it potentially illegal due to possible abuse[7].

The idea that somebody will charge you exactly what you are willing to pay versus a transparent and fair value is unappealing to consumers. This is why the potential of digital channels and how we approach our pricing strategy in a new paradigm must be carefully considered.

In the final section below, we look at some of the dynamics in pricing theory and what we can expect as more things change.

A fork in the road of pricing theory

Pre-digital pricing theory attempted to explain large market behaviour. Demand elasticity was touted as the answer to creating the perfect price, and, in the pre-digital world when it was developed, held some truth. Digital transformation has, however, superseded this theory and many pricing models built with it as a logical foundation.

How markets have shifted

Digital disruptors have one thing in common: they have priced in a way that destroys their information age competitors. Their pricing models do not necessarily deliver a lower cost to the customer, but they do reduce the perceived price. They have aligned the value of what they provide with the customer payment more effectively.

Spiderman's Uncle Ben famously said, 'With great power comes great responsibility.' This is true for modern product managers. Digital channels and product extensions allow marketers to increase the number of pricing variables. However, without a sound understanding of how our customers perceive value, this is a dangerous exercise.

How do you navigate this new reality in a digital era? What have the winners like Google, Slack, Salesforce and Uber done that has been so successful, and how do you develop a pricing strategy in a changing marketplace?

Media shifting from intangible to tangible
Google' and Facebook's scalable business models are based on an auction versus a price list approach. For those not familiar with the pricing model, it works like this: advertisers bid for certain keywords (for example, car insurance) based on their value to the advertiser. The advertiser with the highest bid wins the top ad position and pays the second-highest bid price plus 1c. The second highest bidder pays their price and gets the second ad position, and so on.

Traditional media companies based their pricing on a cost per mille (CPM) ('mille' is a thousand in Latin), basically the number of individuals reached in their target audience. They would then have a slight variation of the CPM based on the specialist area it spoke to, for example, an ad in the motoring section of the newspaper has a different price to an ad in the lifestyle section. As many of the people who read the motoring section may not be in the market for a new car at that exact time, a car company placing an ad has to choose the value not based only on direct sales opportunities (people looking for a new car) but potential future sales.

Unlike traditional media pricing approaches, Google supports your pricing decision, in that:

- You only pay for a result, a click, that you can measure.
- The price is based on what the competitor is willing to bid; you can choose to pay more if you want, but you know what everyone else is paying, so the price must be right. The price is set by demand, not supply.

Table 14.1: Comparing old and new advertising pricing models

Old model	New model	Fundamental shift
Pay per thousand opportunities to view	Pay per click	Identifiable event that you are paying for
Fixed price	Auction	You pay not what the media owner charges, but what your competitors are saying that it is worth for your (search) keywords
Discount for loyalty and volume	Quality score increase for loyalty	The discount was provided to entice purchase. The quality score entices long-term commitment by providing an algorithmic 'discount' based on long-term spend.

Boom or bust for airlines

The airline industry is a prime example of hiding in plain sight. With so many price comparison options, you would think that prices are easier to understand and compare, but the opposite has happened.

Beyond getting rid of the travel agent channel and eliminating a part of the value chain, digital transformation has created a range of new pricing models for airlines to boost their revenues and attract more customers. Previously, pricing was based on an 'all baked in' model that simplified comparison: a seat was a seat, and they all came with the same built-in inclusions (such as luggage and meals). By moving to an *à la carte* pricing model, airlines can now attract customers with a low-cost ticket and claw back the margin through luggage, priority boarding, SMS reminders, insurance, snacks, seat selection, etc, many of the elements that were included as standard before as well as some new ones.

The taxi industry versus Uber and surge pricing

Ride-hailing services (Uber, Bolt, and Lyft) all provide a low cost and convenient transport service that is usually cheaper than taxis. However, their model includes surge pricing, which is based on demand and means that a trip to a concert that cost you R100 one way could cost you R300 on the way back when everyone is leaving. This level of price elasticity was not possible with traditional taxis that were regulated on price per kilometre and had no (legal) way to increase their fares when demand was highest.

Table 14.2: Comparing old and new airline pricing models

Old model	New model	Fundamental shift
One price that includes everything	*À la carte* pricing, disaggregating each component of the service	Moving away from a single price point entices travellers with a 'cheap' ticket and makes comparison on the overall price very difficult
	On-board services	Pricing for additional services on the flight, from catering to onboard Wi-Fi
	Price derivatives (hold prices, price auctions)	Allowing customers to secure pricing for a fee or auctions for upgrades to business class

Table 14.3: Comparing old and new taxi pricing models

Old model	New model	Fundamental shift
Fixed rate regulated by the government irrespective of demand. Supply-side constraint via taxi licensing.	Surge pricing to increase normal rate if there is high demand. Demand-side expansion via lower everyday costs.	Rate increase to match demand dynamically without impacting overall low-cost service perception.

Marketplaces

Marketplaces commonly charge a fee based on the value they deliver to the seller. The greater their market power, the more they charge. In physical markets, stallholders would pay a fixed fee to be at the market because you could not track sales made by stallholders. In a digital world, we can track sales easily. Apple and Amazon both have marketplaces as central components of their business models, leveraging their extensive customer base. In these instances, marketplace revenue comprises a share of the revenue the sellers make. This revenue share is fixed, so Amazon does not decide what each product should sell for, only how much it will earn from each sale.

In the Amazon Kindle books pricing model, the author chooses between two revenue share models and sets the price within the range provided by Amazon. By limiting choice, Amazon ensures uniformity in its marketplace and simplifies decisions for its customers.

Table 14.4: Comparing old and new marketplace pricing models

Old model	New model	Fundamental shift
Set a fixed fee for access to the marketplace not based on sale value.	Set a price for access to the marketplace based on a percentage of sale value.	Incentivise buyers and sellers by reducing barriers to entry. Increase sales volumes by reducing consumer pricing through increased competition by sellers. Increases revenues by linking to actual sales generated by sellers.

The rise of subscriptions

Subscriptions, such as Netflix or Spotify, are more desirable to companies than a once-off fee as they enable a higher price to be charged to consumers over a long period of time. This makes sense when considering consumer affordability. However, getting a customer to commit to a service for a long period of time is not easy. Many of the pricing tactics of subscription models are in inducing trial and first purchase.

The 'freemium' model, which provides a range of free services but with limited functionality, is one approach adopted by subscription services. Another is the 30-day free trial. Both approaches aim at getting customers over their initial perceived risk (new software/service: will it meet my needs and expectations?) or their inertia (I already have something that does this, it would be a pain to switch).

Table 14.5: Comparing old and new subscription pricing models

Old model	New model	Fundamental shift
Pay for the service before obtaining access.	Obtain access to a limited component of the service free of charge or for a limited time. Pay for more functionality or greater usability as you are more comfortable with the service.	The low marginal cost of providing the service allows companies to promote limited usage as a form of marketing.

Online gaming changes the rules

It may seem like the gaming industry has always been digital, but, much like commercial software and hardware industries, it was initially restricted to the physical retail realm. When computer games first came out, the marketing approach was highly skewed towards enthusiasts known as 'first release players' in a process known as **price skimming** (defined earlier). These players would buy the product at a once-off price as the game was released and pay a premium for it. As the games were physical cartridges or discs, the limited amount of oversupply would be sold over time through sales and by bundling the product with other less popular titles.

While console games still have a fixed-unit model and follow the same once-off purchase model as gaming did in the 1970s, digital distribution of games has changed the sales pattern. Non-subscription games still focus on first-release buyers as the cornerstone of their sales; however, the power of the long tail is increasing dramatically, as price discounts (usually timed with school holidays) are used to increase sales. With zero marginal cost per unit due to online distribution, the profitability of games increases over time and incentivises the production of sequels.

Online games have distinctly become the primary business model for the computer game industry. Early attempts to commercialise online gaming, like with Neverwinter Nights, charged an hourly fee (US$6/hour) to play due to the associated telephone costs. As internet pricing changed, the model could transform. Everquest, a game launched by Sony in the late 1990s, created a new genre of games that had a low once-off purchase price and a monthly cost to play on their interactive worlds.

Steam, World of Warcraft and many others adopted these models, but eradicated the one-time purchase fee to increase the number of players. In-game currency, a key component of online worlds, was used to regulate access to valuable items inside the game, rewarding the players as they progressed and incentivising long-term playability. It did not take long for those 'in-game' items to be sold online via eBay for real money by enthusiasts.

In-game revenues have become increasingly important and drive much of the casual gaming plays seen on cellphones and provided via app stores. Here, players pay for items or additional lives using their app store payment gateways to master games. In China, Tencent (China's version of Facebook, which now owns many Western gaming companies) has leveraged this insight for many years, creating robust gaming revenues from micro-payments on its platform.

This insight sparked a new model used by League of Legends and Fortnite. With over 27 million daily players, League of Legends is generating growing revenues based on item/personalisation sales, as is Fortnite, which made an estimated US$2.5 Billion (2018)[8] from these purchases. The shift is moving from 'fee to play' to 'free to play, but fee for mastery'.

Table 14.6: Comparing old and new gaming price models

Old model	New model	Fundamental shift
Pay for the physical game with decreasing price over time as the game gets older. Premium for new releases.	Premium fee for first access to the game with long-tail discounting and bundling of digital units. Monthly subscription to access platform or specific game. In-game purchases of items, lives and skills that change in value in the game.	The zero marginal cost of delivering the same game means that long tails can be lengthened (resulting in more units sold). The online, connected nature of the games increases the lifetime value of players. Players need to differentiate (through skins) or master a game (by gaining items or lives) creates a market for players.

Algo-commerce boosts dynamic pricing

Dynamic pricing is the process of changing prices in real time in response to data. This is typically done by automation such as business rules, algorithms (hence algo-commerce or algo-pricing) or artificial intelligence. Human judgement may also be involved. While dynamic pricing has been practised by the airline industry for many years, ecommerce has advanced to the point at which players like Amazon are repricing their online inventory as much as 2.5 million times per day based on competitive data. This data-driven approach is known as *algo-commerce*. The aim is to keep your products competitive based on real-time data from the market, which allows you to change the price as needed. In theory, each person would have a unique price point when they accessed your site based on prior shopping behaviour, though the practice is in pricing buckets or steps that are set for consumers.

Algo-pricing is said to have achieved over 20% revenue growth for Amazon. The challenges of algo-commerce due to frequent price changes, however, mean that customers may pay a higher price for the same product from the same platform. Amazon has enabled a price matching guarantee that will allow customers to request a refund up to seven days after the purchase if the same product is sold for less on Amazon or a different platform.

Table 14.7: Comparing old and new price adjustment models

Old model	New model	Fundamental shift
Re-price products at regular intervals or seasonally.	Re-price products multiple times per day based on real-time market data and personalisation to optimise competitiveness.	The ability to collect data in real time and act on it due to the digital nature of sales platforms has enabled retailers to implement personalised price shifts and identify base performing prices more quickly.

Common types of dynamic pricing include:

- **Revenue management:** Setting prices at a fine-grained level based on data related to competition, demand and inventory levels. For example, airlines may set prices at the seat level and use a variety of sales channels and policies to optimise revenue using data such as demand forecasts.
- **Supply and demand:** Estimating supply and demand in real time to set prices. In some cases, this can be unpopular with customers or be prohibited by law. For example, raising prices during a natural disaster is typically considered to be 'price gouging'.
- **Sustainability:** Dynamic pricing may be used to manage cities to improve the quality of life or the environment. For example, tolls for emitting air pollution that go up when air quality drops.
- **Competition:** Adjusting prices in response to competition in real time. Common in highly competitive market places long before automation existed.
- **Inventory:** Adjusting prices in response to low or high inventory levels. Common in industries where inventory occurs at a point in time, such as an airline seat or a hotel room.
- **Price sensitivity:** Pricing set using algorithms that detect price sensitivities in real time. This requires careful attention to laws, regulations, business ethics, reputational issues and customer experience. Generally speaking, customers want pricing to be equitable, transparent and predictable.

Conclusion

In this chapter, we surveyed a combination of classic pricing theory and some fundamental shifts in the way that pricing tactics can be and are implemented. As you grow as a marketer, keep learning about pricing being more than just numbers. Learn about perception, consumer psychology, behavioural economics and all the innovations we are seeing in the various digital categories and channels.

At its core, pricing is more complex and prone to fluctuation than is possible to cover in one chapter, but it is a concept that is vital to understanding the modern-day marketing landscape.

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Place (Distribution) Tactics

CHAPTER

15

Maryla Masojada

Introduction

In this chapter, we will explore the theory that underpins the **place** component of the marketing mix (or Four Ps), which we introduced in Chapter 1 and why this is important for marketers to understand. The chapter will provide an overview of the four major distribution channels used by manufacturers to get their product into the hands of the consumer, focusing in particular on the consumer goods (food and grocery) retail channel. The chapter provides important introductory retail channel and format definitions (terminology) which every consumer goods retail marketer needs to know when making decisions about what products to sell in which retail stores.

The chapter also looks at how the product travels to market, providing a basic overview of the consumer goods supply chain in South Africa, with a view of some of the key developments and trends to watch.

What are place (distribution) tactics and why are they important?

The term **Place** refers to the distribution and physical availability of the product, in other words, where a product is sold and how it gets there. The goal is to make the product available where consumers will buy it in the quantities and pack sizes they need. For example, a chocolate manufacturer such as Nestlé sells its products at a wide range of outlets, including supermarkets, cinemas, garage convenience stores, vending machines, wholesalers and online.

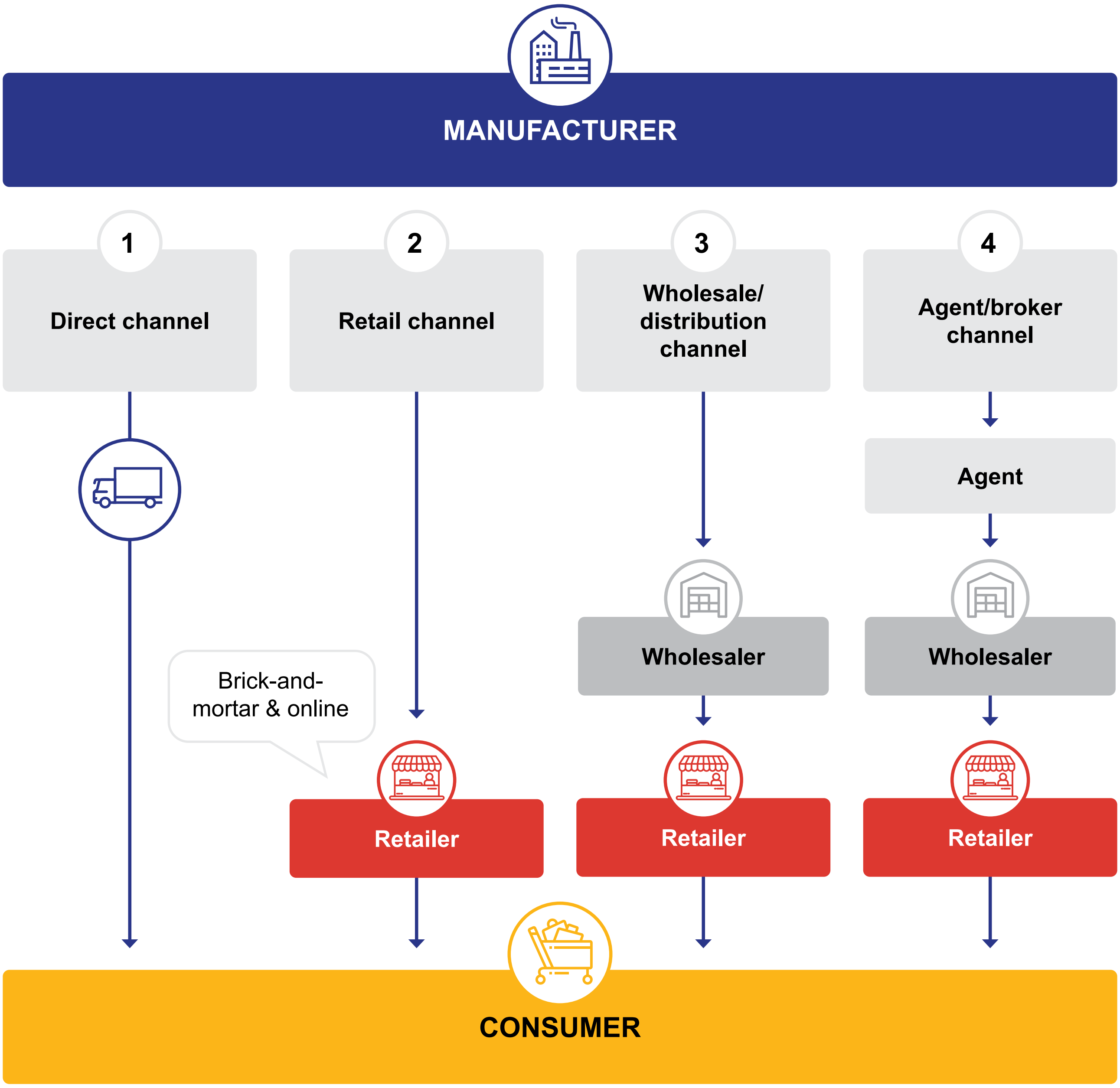
The different avenues available for a manufacturer to make their product available to consumers to buy are known as distribution (or marketing) channels.

> *A distribution channel is made up of interdependent organisations, (referred to as intermediaries or marketing intermediaries), that help to make a product (or service) available for use or consumption by the consumer or business user.*[1]

Figure 15.1 shows the four principle distribution channels available to consumer goods manufacturers. The direct channel, the retail channel, the wholesale/distributor channel and the agent/broker channel.

Choosing the right distribution channel or combination of channels for a product will affect the success or failure of that product. Most large consumer goods manufacturers will choose a combination of distribution channels to get the best sales results for their products. This is known as a *multi-channel* strategy.

Figure 15.1: Product distribution channels



The marketer needs to weigh up a number of factors to make sure their product gets to their target consumer in the most efficient, cost-effective way and which is also in line with the brand's objectives Whichever the route (or routes) adopted, the relationship between the manufacturer and its channel partners, whether retailers, wholesalers, distributors, logistics businesses or agents, and how well they work together to meet the consumer's needs, will directly impact a product's success.

Why manufacturers use distribution channels

Why do manufacturers (producers) choose to work with channel partners when it would appear to be more complicated than simply selling directly to their target consumer? The selling direct route might make sense when you are selling a service such as a haircut, but what if, when you were doing your grocery shop, you had to contact and buy the products from all the different manufacturers who make the products in your shopping basket? It would be a very inefficient way to shop.

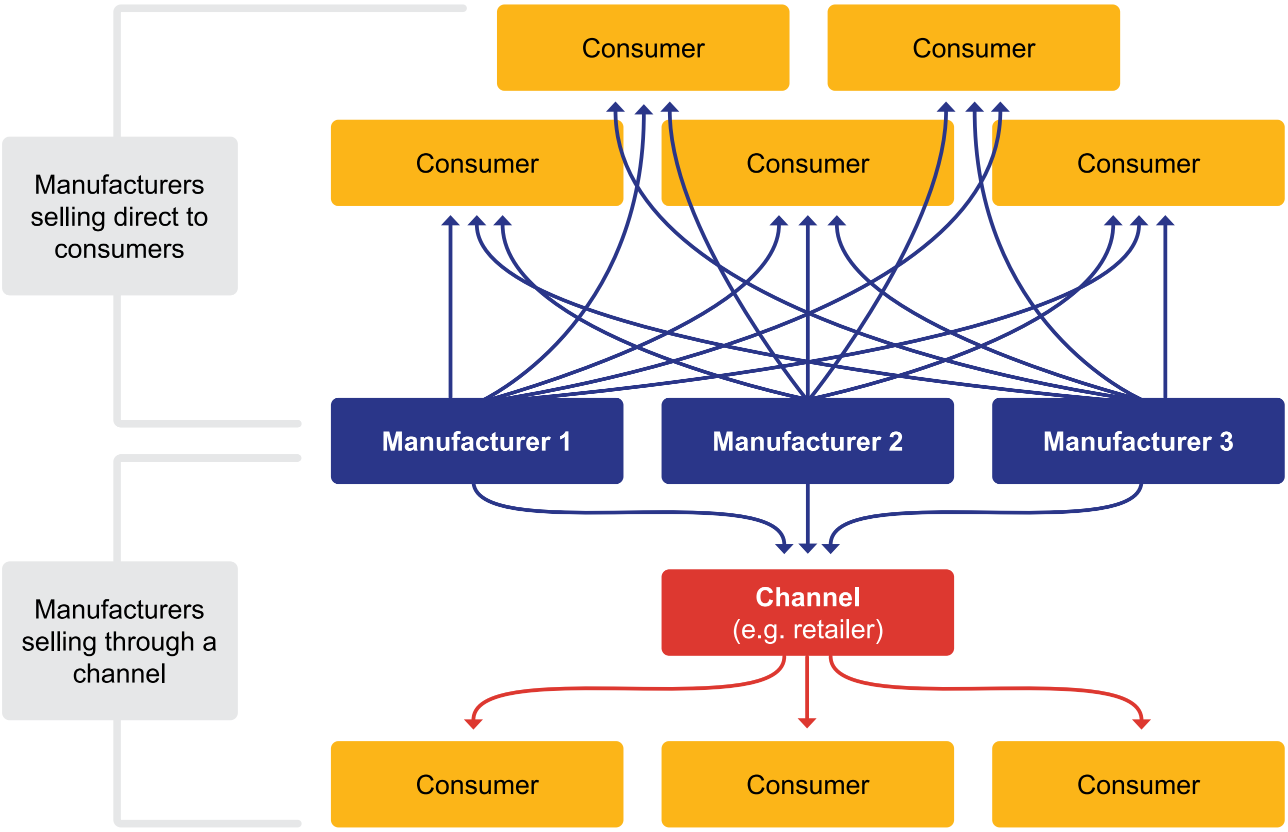
Figure 15.2 illustrates this principle. The first part of the diagram shows the direct-to-consumer route, with each manufacturer selling individual products to each individual consumer. Here, each manufacturer must sell and deliver to five consumers and those consumers needing to buy a range of household and personal care products, such as a bottle of shampoo, a can of deodorant and a tube of toothpaste would need to buy from three different manufacturers to get the range of products they need. With the introduction of a retailer as a channel partner, as shown in the second part of the diagram, the manufacturer needs to sell a box of deodorants to only one retailer to reach five consumers and those five consumers can buy the range of products they need from one retailer. So instead of Unilever selling individual boxes of Skip or Omo to consumers, it sells many boxes to a supermarket nearby, which sells Omo to many consumers.

Companies partner with intermediaries not because they necessarily want to (ideally, they could sell their products straight to users) but because the intermediaries can help them sell the products better than they could working alone.[2]

- It allows for specialisation and division of labour which in turn should allow for improved efficiencies and lower average production costs. It means manufacturers can focus on the job of manufacturing and retailers the job of retailing. This principle however is shifting with the increasing disintermediation in the market. We will look at this later in the chapter.

- It enables consumers to buy single units of wide range of products in one place instead of having to deal directly with many manufacturers.

Figure 15.2: Comparing the reduced number or relationships when adding a retail channel[3]



Route-to-market and choosing the right distribution channels

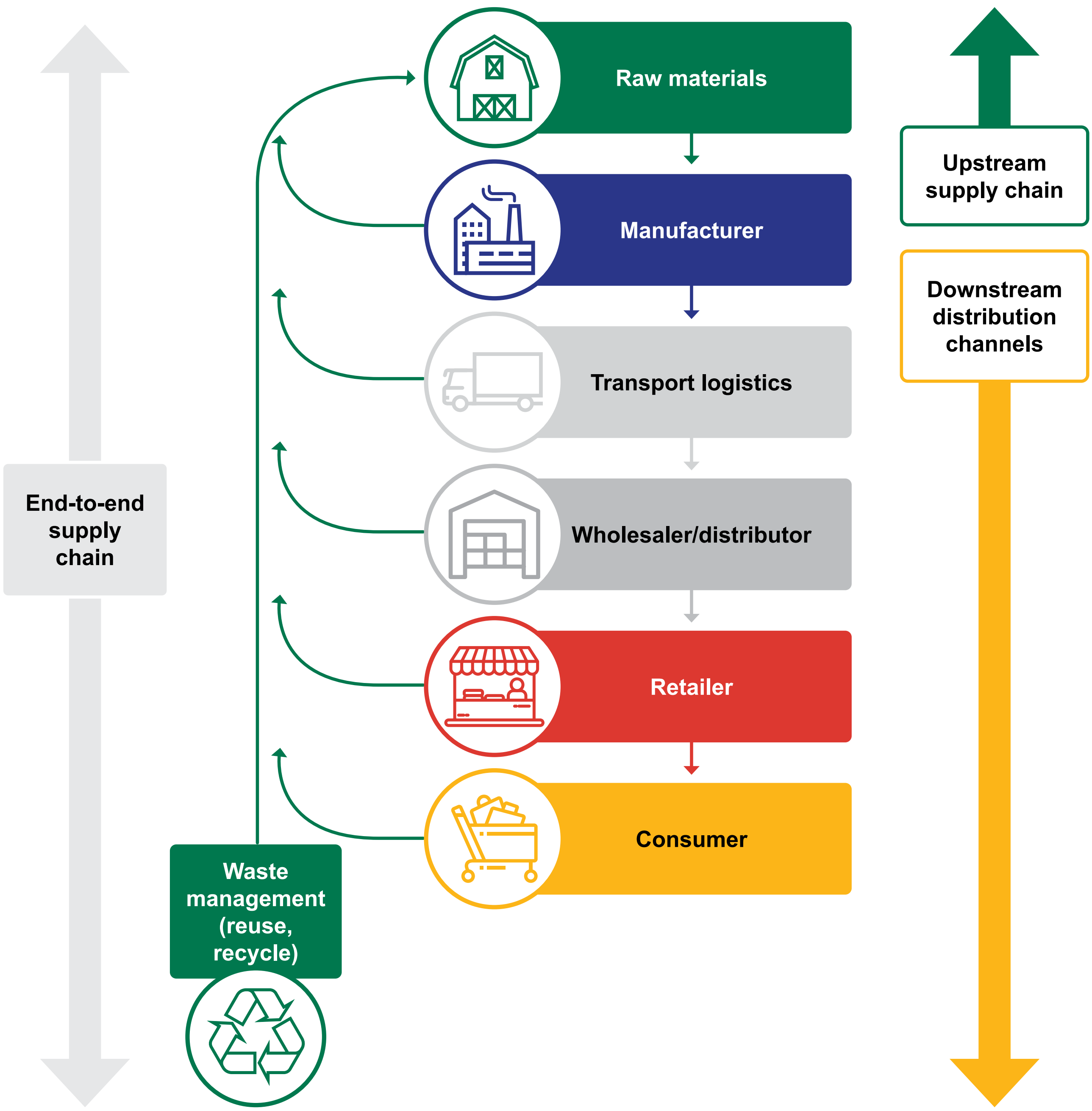
A traditional, linear view of a product's route-to-market from the product source to the consumer is shown by the blue arrows in Figure 15.3.

This end-to-end supply chain includes primary-sector businesses (raw materials),for example, farmers, mining companies and forestry, secondary-sector businesses, predominantly manufacturers and tertiary-sector businesses, (services sector) for example, banks, wholesalers, retailers, distributors, and transport companies, known as third-party logistics or 3PL. As the world shifts to a circular economy construct (Chapter 3), waste management businesses and 'reverse logistics' play an increasingly important role in the supply chain, illustrated by the green arrows in Figure 15.3.

Integrated Waste Management (IWM) is a comprehensive waste minimisation, handling and disposal approach. An effective IWM system considers how to avoid producing waste in the first place, how to re-use and recycle waste materials and how to store, collect, transport, treat and dispose of the waste in the most efficient ways possible, to protect human health and the environment.[4]

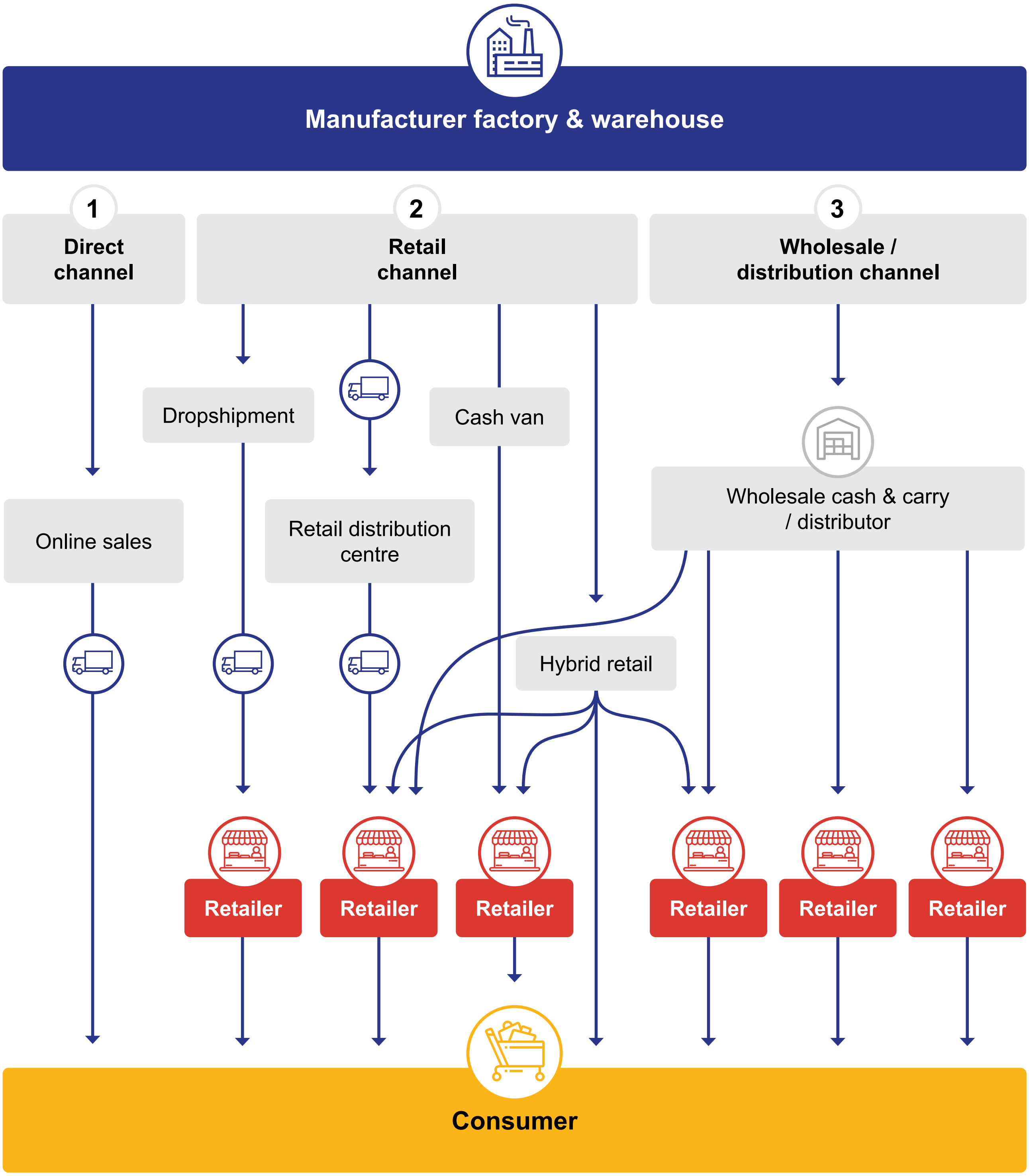
In the case of consumer marketers, the focus is usually on the downstream distribution channels which we look at in the next section rather than the upstream supply chain, which we will look at in more detail later in the chapter.

Figure 15.3: A product's "route to market" (RTM)



A product's route to market, however, is very seldom as linear as the diagram in Figure 15.3 and distinctions between the channels are not as clear-cut as we may like them to be. Figure 15.4 shows how businesses sell across the channels. For example, a product can be sold by a retailer to another retailer as opposed to directly to the consumer; or a wholesaler will sell to a distributor who then sells to an informal retailer who sells to the consumer. Wholesalers may sell to consumers as well as to independent retailers. This trend is referred to as *channel blurring* (Chapter 6).

Figure 15.4: Distribution channel blurring



Consumer marketers need to know the distribution channels available to them in order to:

- Prioritise the best channels to connect with target consumers.
- Focus resources and time on the channels with the biggest potential for profit and growth.
- Manage resources in channels with limited future growth.
- Maintain business in channels where products are performing well.

The marketing environment is always changing, so understanding and tracking channel trends is important for marketers - what was a great channel or channel partner yesterday might not be a great channel partner today or in the future. Changes in technology, production techniques, and the customers' needs mean manufacturers must continually re-evaluate marketing channels and the channel partners with which they ally.

The decision regarding which distribution channels to use will depend on the answers to some key questions, including:

- What is the total value of the channel in the category in which the manufacturer trades (measured in rand sales)?
- How profitable is the channel to the manufacturer and what is the 'cost-to-serve'? (a profitability calculation based on the actual business activities and overhead costs incurred).
- Supply chain and distribution costs
- Trading terms, which include costs such as new product listing fees, promotional fees, and distribution centre costs.
- Is the channel growing or declining overall, and in the manufacturer's categories?
- What is the future expected growth from the channel and the targeted categories?

Defining consumer goods distribution channels

The following section takes a more in-depth look at some of the primary consumer goods product distribution channels in South Africa.

Direct to consumer (D2C) channel

The direct channel is one in which the manufacturer chooses to sell directly to the consumer. It is also referred to as the *direct-to-consumer* (D2C) channel or *non-store retailing* channel. Manufacturers use different methods (platforms) for direct sales such as selling products online or via home party selling, like Tupperware, Avon and Herbalife, catalogue selling, vending machines and telesales.

There are a number of advantages and disadvantages for marketers in using a D2C channel. **Advantages** include being quicker to market when launching a new product and having control over brand image, pricing and profitability. Advantages also include direct access to consumer data such as demographics, shopping habits, interests and preferences for better selling and servicing of customers. D2C also facilitates a direct relationship with the target consumer. **Disadvantages** of D2C channels include the high cost of multiple distribution (delivery) points and (mostly) limited assortment of products available for sale (so not a convenient grocery shopping solution). In addition, D2C lacks the personal interaction present at bricks-and-mortar retailers and the consumer is unable to experience the product before buying it. Whether the advantages outweigh the disadvantages varies significantly between different kinds of products, whether it is high priced article of clothing or a can of deodorant.

Retail channel

The retail channel involves the introduction of the retailer as an intermediary between the manufacturer and its targeted consumer. Retailers purchase products directly from manufacturers or from wholesalers and sell directly to end consumers. In Chapter 6, we explored retail in South Africa in some detail.

In the consumer goods sector, there are different kinds of retail channels (we explored two key retail channels in Chapter 6, formal and informal retail). Each retail channel is made up of different retail formats.

> *A format is a group of similar retail businesses, with similar attributes, which target a similar shopper profile and fulfil a similar shopping mission.*

For example, Pick n Pay Express and Woolworths Foodstop are convenience format stores. They have the same attributes; a small trading area with a limited range of products catering for shoppers doing a pop-in or top-up shop. On the other hand, a Pick n Pay Hypermarket and a Checkers Hyper are large format stores with a big trading area and much wider range of products, usually catering for shoppers large monthly shopping needs.

Marketers need to ensure that the right product variants and pack sizes are listed (stocked) not only in the right retail channels, but also in the right retail formats, at the right price to appeal to the consumer who shops at that store format. Later in the chapter, we look at formal definitions of the consumer goods retail formats in the South African market.

There are advantages and disadvantages of the retail channel to the consumer marketer. **Advantages** include aspects like location and shopper access. Bricks-and-mortar retailers are situated in locations that are convenient for shoppers, whether in their neighbourhood or in the local or regional shopping centre or in outlying rural areas. Retailers operating online offer shoppers the convenience of grocery basket or trolley deliveries to home or work. Other advantages include access to a wide product range and assortment available in a single location. Retailers will buy large quantities of product (packed in bulk) from a range of manufacturers, giving the manufacturer the economies of scale they need. The retailer will break the bulk packs (known as cases or shrinks) into single units or smaller multi-packs at their distribution centre or at the store to suit the shopper's needs.

Some **disadvantages** to the brand marketer include limited control over product selling price, positioning and visibility in-store. In addition, there is no direct access to consumer shopping data and no direct interface with their target consumer. These advantages and disadvantages need to be weighed up by marketers and will differ depending on the product and product category.

Wholesale/distributor channel

The wholesale channel is also referred to as the *distributor* channel, not only because it includes distributor-focused businesses, but also because wholesalers play a key role in distributing manufacturers' products to market. The line between wholesalers and distributors has become increasingly blurred.

Wholesaler

A wholesaler is primarily engaged in buying and usually storing as well as physically handling goods in very large quantities, which are then resold (in smaller quantities) to retailers or to industrial or business users.

For a business to classify as a wholesaler, at least 70% of sales must be to commercial customers buying goods for resale.

In the South African consumer goods marketplace, wholesale cash-and-carry and distributor businesses play a significant role in the distribution of products to the formal and informal independent retailers across the country. In Chapter 6, we looked at the major buying groups that make up a large part of the formal independent retail sector. The majority of these buying groups also operate in the wholesale/distributor channel. They began as organisations with predominantly wholesale cash-and-carry members, but, as a result of the channel blurring trends we looked at in Chapter 6, many of the members of these buying groups shifted their businesses from predominantly wholesale trading, selling to commercial customers, to retail or retail hybrid trading, selling to both business customers (products in shrinks or cases) as well as household or individual customers (single units of product). Examples of some of the big South African wholesale players are Continental C&C, Favours C&C (part of the Independent Buying Consortium, IBC) and Cosmo Cash & Carry. A business that has stores which fall into both the retail hybrid classification and wholesale cash-and-carry classification is Makro, part of Massmart Walmart.

Distributor

A distributor is an entity that buys noncompeting products or product lines, warehouses them, and resells them to retailers or direct to the end users or customers.[7]

A local example is Bacher and Co, a distributor which offers manufacturers a range of services that extend up and down the value chain. Bacher and Co will hold manufacturer's stock at a warehouse and handle distribution to retailers' warehouses, as well as handle direct-to-store deliveries, using advanced technology to facilitate the ordering and delivery processes.

Bacher and Co employs a countrywide network of merchandisers and sales managers who call on all major retailers, pharmacies, and fashion and jewellery chains (such as Foschini, Woolworths, Busby, Dis-Chem and Clicks), as well as a large number of independent retailers.

Just as wholesalers have been shifting increasingly into retail to chase higher margins, distributors have been shifting into wholesaling as a means of capturing more business from the value chain. An organisation such as The Diplomat Group, a sales and distribution company in the FMCG sector and agent for P&G in South Africa, has expanded its distribution capabilities to include distributing to small, informal independent retailers on behalf of a number of manufacturers. This puts the distributor and the wholesaler in competition for the same commercial shopper.

Tradeport, a member of the Independent Buying Consortium (IBC), is an example of a business which operates both as a wholesaler selling goods to commercial customers and a distributor with a fleet of trucks, some of which are owned and some of which are independent, which are used to distribute goods to thousands of independent retail stores.

Agent/broker channel

The Agent/Broker channel involves the product passing through a number of intermediaries (middlemen) before it reaches the consumer. Agents and brokers are different from wholesalers in that they do not take title to the product. In other words, they do not own the product because they neither buy nor sell. Instead, brokers bring buyers and sellers together and negotiate the terms of the transaction. Agents represent either the buyer or seller. For example, a manufacturer can engage an agent to obtain new wholesale customers or a wholesaler can engage an agent to look for new retail business accounts. Another example, in a different field, is a residential estate agent. The agent does not buy the home and then sell it to someone else; they market and arrange the sale of a home and take a commission on the cost of the sale.

Disintermediation

The process of cutting intermediary businesses, or middlemen, out of the chain is a process marketing professionals call *disintermediation*[6]. The channel blurring trend we discussed in Chapter 6 is a result of disintermediation. Grocery retailers, such as Shoprite, with its Ritebrand private label, or Massmart Walmart, with First Choice private labels, are bypassing branded manufacturers and setting up their own product sourcing and branding departments supplying their retail stores. The subject of private label is covered in more depth in Chapter 12. Manufacturers who make the decision to sell their products directly to informal independent retailers, using their own distribution centres and 'last mile' transport solutions, are disintermediating wholesalers. Cutting out the intermediary business is sometimes desirable but certainly not always.

Understanding consumer goods retail channel terms and definitions

Marketers need to ensure that the right product variants and pack sizes are available for shoppers to buy in the right retail formats, at the right price to appeal to the consumer who shops at that retail format. Targeting the right retailers with the right products requires a sound understanding of retail channel and retail format characteristics and attributes.

South African retail channel and format definitions were developed by Trade Intelligence (Ti) in partnership with Nestle South Africa in 2017 and validated against valuable work done by global and local consumer goods manufacturer's such as Unilever, Tiger Brands and Kellogg's on the subject.

These definitions have been adjusted for application to the 2020 retail landscape. The differentiating characteristics and attributes have been chosen to provide an introductory understanding for marketer's. There are many others which manufacturers will consider when grouping retailers, such as ownership (Chapter 6) or operating methods (which helps with understanding your cost to serve), Here we define the retail formats according to:

- **Shopping mission.** Shoppers use different stores for different reasons. The shopping mission is the primary reason or purpose of a shopping trip from the shopper's perspective. Shoppers visit different retail outlets (formats) for different reasons and marketer's need to understand the shopping mission to make sure the right product and pack size are available to satisfy the shoppers need on that shopping mission. Some examples of shopping missions are shown in Figure 15.5.

Figure 15.5: Examples of Shopper Missions

On-the-go	Top-up	Stock-up	Occasion-based
For immediate consumption, for example a pie or a sandwich at lunch.	Often reactive based on a particular immediate need, for example bread and milk.	Main household shop, usually planned, often at the weekend, usually monthly.	Shopping for a particular occasion, such as a dinner party or a children's party.

- **Shopper profile.** It is important to know the demographics of the shoppers who shop at a particular retail format or store. For example, a low-income shopper will often shop at a different store to a high-income shopper.

- **Product range.** How many SKU's does the store carry? Does the store carry a narrow or wide range of products?; SKU is an acronym for stock keeping unit. This is a unique code consisting of letters and numbers that is created by retailers to identify each product the store carries.[8] Product characteristics such as manufacturer, brand, variant and pack size are reflected in the SKU number and are used by retailers to identify and track their sales, inventory, or stock levels. An SKU is an internal code created by the retailer and is not the same as the UPC bar code on a product, which is the same no matter who sells the product.

- **Price positioning.** Is it a discount store or a premium-priced store?

- **Store location.** Is it in an urban or rural area, is it a standalone shop or in a shopping centre?

Table 15.1 is a snapshot of the consumer goods retail channels and retail formats in South Africa. It is important to note this does not include the speciality retail or pharmacy channels which are important for marketer's working in the health and beauty (personal care) categories for example, so it is important to make sure you know the full breadth of retail channels relevant to the product categories you work in.

Table 15.1: Consumer goods retail channels and retail formats in South Africa

Retail channels	Retail formats	Trading space	Primary shopper mission	Number of SKU's
Big-box retailers / Mass merchandisers	Hypermarkets (Hypers)	6 000m^2–20 000m^2	Planned stock-up	15 000–60 000
	Retail Cash & Carry / warehouse store	6 000m^2–20 000m^2	Stock-up for personal or household use. OR Commercial stock-up for re-sale	15 000–60 000
Supermarkets	Premium / luxury supermarkets	Small: 400m^2–1 000m^2 Medium: 1 000m^2–3 000m^2 Large: 3 000m^2–6 000m^2	Daily top-up, larger weekly or monthly stock-up	10 000–25 000
	Value / discount supermarkets			
Discounters	Hard discounter	300m^2–1 000m^2	Daily top-up, larger weekly or monthly stock-up	500–1 500
	Soft discounter	300m^2–3 000m^2		1 500–3 000
Formal convenience	Superette / small local super	50m^2–1 000m^2	Pop in, top up, emergency or larger weekly shop	500–1 500
	Forecourt / garage shop	25m^2–150m^2		1 000–3 000
Informal convenience	Spazarette	30m^2–500m^2	Pop in, top up or larger weekly shop	1 000–3 000
	Spaza (walk-in)	10m^2–30m^2	Pop in, top up or "to eat now" shop	1 000–1 500
	Spaza (counter)	2m^2–10m^2		Up to 500
Online	Pure play	Endless aisles	Stock up for personal or household use OR Commercial stock up for resale	Endless aisles
	Bricks & clicks			

Omnichannel is a term that is increasingly prevalent as online (e-retail) grows and shopper's interact with the products they are looking to buy across a range of platforms such as Facebook, Instagram or customised apps. It refers to a way of selling products that is the same and equally good for the customer whether they are buying from a physical shop, a computer, a mobile phone app, etc. In an omnichannel environment, channels are used seamlessly and interchangeably during the shopper's search and purchase process.[9] For the sake of the terms and definitions below online (e-retail), is treated as a retail channel although there is some debate whether online retail is a retail channel of its own or if online is simply another kind of retail format.

In the following subsections, South Africa's main retail channels are defined at a channel and format level using selected characteristics and attributes.

Big-box retailers and mass-merchandisers

These are large destination stores, which sell a very wide range of product categories, in bulk (whether single units or shrinks), at competitive prices. They cover a floor space of 6 000 to 20 000 m^2, and stock anywhere between 15 000 and 60 000 SKUs (stock keeping units).

Hypermarkets (Also referred to as *supercentres*)

Shopper profile: A one-stop-shop for middle- to upper-income shoppers for their personal or household shopping needs. **Shopping mission:** Planned stock-up shop. **Range:** Stores sell a wide range including food (dry, fresh and frozen), and household products and general merchandise. Stores also carry specialist categories, such as appliances, kitchenware, pool accessories, home improvement tools and in many cases, an extended health and beauty section. Service counters, such as a deli, bakery, butchery and hot foods are common. **Location:** Stores are located in urban areas, either as a standalone store or in a shopping centre. Large standalone hypers often have small sub-let stores inside, such as a MediRite or a hair stylist. **Corporate retail examples:** Pick n Pay Hypermarket and Checkers Hyper. **Independent retail examples are**: President Hyper and Save Hyper.

Retail cash-and-carry / warehouse store
(Also referred to as *warehouse club stores or supercentres*)

Shopper profile: A one-stop-shop. positioned as a no-frills shopping experience targeting consumers buying for their personal or household needs, as well as commercial shoppers, such as spaza stores or franchisees who are buying for resale. **Shopping mission:** Bulk stock-up shop. **Range:** Stores sell in single units and bulk packs (shrinks and full cases), with products ranging from food (fresh and frozen), dry groceries and household products to general merchandise. There is generally a greater emphasis on staple (commodity) products to cater for retail (trade) customers selling to lower-income consumers. Location: Stores are located in urban areas, mostly as standalone stores. **Corporate retail example:** Makro. **Independent retail example:** Mambhas C&C, a member of Walmart Massmart's Shield buying group.

Supermarkets

Size & Range: These are grocery self-service stores, which sell a range of food (fresh and frozen), household with some general merchandise products to shoppers for individual and household use. The range is often complemented by service counters, such as butchery, bakery, deli and hot food. **Shopping mission:** Daily top-up, larger weekly or monthly food and grocerystock-up needs. Size: Stores range from small neighbourhood supermarkets (400 –1 000 m^2) to medium (1 000 – 3 000 m^2) and large (3 000 – 6 000 m^2) stores situated in shopping centres or as a standalone outlets, stocking anywhere between 10 000 and 25 000 SKUs. **Shopper profile:** Supermarket shoppers fall across the income spectrum, with stores which serve low-income shoppers carrying more basic necessities (commodity) lines than stores serving middle- to upper-income shoppers, which will carry speciality food counters such as sushi or pizza bars.

In the South African context, because of the income disparity between shoppers and the impact of shopper income on the store's product range, these outlets are most often segmented according to shopper income profiles.

Upmarket / luxury supermarkets (Also referred to as *Specialist supers or Supers A*)

Shopper profile: Upper-income shoppers in stores that, in terms of shopping environment and range of products, compete with the best grocery retailers in the world. Stores aim to offer value as opposed to the absolute best price. **Corporate retail examples:** Pick n Pay Select stores, Checkers FreshX stores, and Woolworths Food stores. **Independent retail examples:** Food Lover's Market and Checkstar stores. **International example:** Carrefour Market (France).

Value supermarkets (Also referred to as *Supers B, discount or cheap supermarkets*)

Shopper profile: Lower- and middle-income shoppers who are looking for the best price on basic food and household products. **Range:** Stores carry core service counters, such as butchery, bakery, deli and hot foods; the product lines will simply differ, with delis and hot food counters selling under R5 meals as opposed to sushi. **Corporate retail examples:** Shoprite, Pick n Pay, SPAR. **Independent retail examples:** Big Save supermarket, Checkout.

Discounters

The discounter business model was developed in post-war Germany and was focused on selling a limited range of absolute necessities at very low prices in a sparse, no-frills store environment. The model is based on leveraging buying power with suppliers, selling a high proportion of private label lines and keeping logistics simpler and cheaper than a supermarket. The model has evolved over the years and in South Africa certain retailers have drawn on aspects of the model and depending on the extent of the application, they are classified as hard or soft discounters. Discounters were originally designed to cater for lower-income consumers but have increasingly captured middle-income consumers looking for a good deal.

Hard discounters (Also referred to as *limited-range discount stores)*

Range: Limited range of basic food and household product lines (from 500 to 1 500 SKUs), sold at very low prices and comprising mainly private-label lines. **Size:** Stores are relatively small, ranging from 300 to 1 000 m^2 and have very basic store interiors. Products are often merchandised on pallets and crates. **Corporate retail example:** Usave (part of the Shoprite Group).

Soft discounters (Also referred to as *limited-range discount stores)*

Range: Soft discounters carry a broader range of product lines (from 1 000 to 3 000 SKUs) than do hard discounters. **Size:** Their store size is often slightly bigger, ranging from 300 to 3 000 m^2. These stores also carry fresh lines and service counters, such as a butchery and bakery. **Corporate retail example:** Boxer, part of the Pick n Pay Group and the Usave 'superstore' format.

Convenience retail (formal)

Location: By their nature, a convenience store must be conveniently located for the consumer (or must have the ability to deliver the product to the consumer as conveniently as their visiting the local store). **Shopper mission:** Stores serve shoppers pop-in, daily top-up or emergency shopping needs. **Size:** Convenience stores can be as small as an informal retail spaza store of 2 m^2 to a Woolworths Food neighbourhood store of 1000 m^2 and carry a much smaller range than a traditional supermarket. The shopper profile and the location of the store will impact the kinds of product lines the store will carry. For example, a Woolworths Food neighbourhood convenience store in Sandton will stock a different range of products to a peri-urban KwikSpar trading in Mthatha or a spaza in Alexandra.

Chain store convenience / superette
(Also referred to as *small local supers, neighbourhood stores, or mini-markets)*

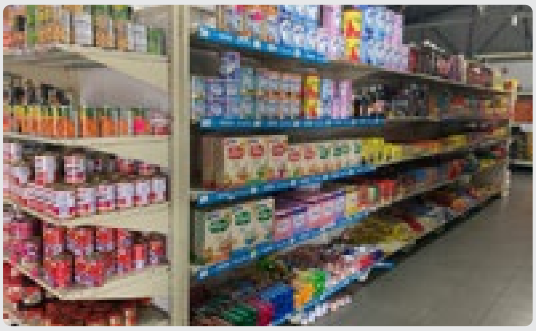
Range: Focus on fresh and convenience lines and often have multiple service departments (bakery, fresh produce and butchery, homemade fast food, etc). Deli and food-to-go service counters are often given the primary position. **Shopper profile:** Stores serve shoppers across the income spectrum, depending on the store location. Product lines vary to suit the needs of the shopper. **Corporate retail examples:** KwikSPAR OK Express. **Independent retail example:** Dino's cafe.

Forecourt retail (Also referred to as *C-stores)*

Location: Petrol-station forecourts, are open 24-7 and can be part of a petrol company franchise chain (such as BP Express) or a petrol company-retailer franchise (such as Pick n Pay Express at BP petrol stations) or can be owned by an independent. **Shopper profile:** Middle- to upper-income consumers who are filling their motor vehicle or walking by. **Size:** Stores are usually small (25–150 m²). **Range:** Traditionally carry a core range of products, often referred to as the 5Cs (cigarettes, cellular, cold beverages, confectionery, and chips), although in recent years, stores have increasingly become destination stores for fresh food and grocery lines, coffee, bakery, food-on-the-go and convenience meals. **Corporate retail examples:** BP-Pick n Pay Express, Engen Quickshop.

Convenience retail (informal)

Spazarette



Size: Relatively small (30 - 500 m²), independently owned, self-service stores which operate from a standalone fixed structure. Sometimes belong to a banner group. **Range:** Basic (commodity/staple) food and household products. High value products are often sold from behind a counter and bulk packs of staples (such as rice, maize meal, canned goods and cooking oil) are often displayed on pallets on the floor. Some stores operate as mini-wholesalers too, selling bulk goods to hawkers and local food outlets. **Shopper profile & Location:** Stores operate in townships, peri-urban and rural areas serving mostly lower income consumers.

Spaza – Walk-in

Size: These are small (10-30 m²), independently owned stores which operate from a fixed structure, which is either standalone or attached to someone's house or from a (shipping) container. Location: They are found in township main streets, CBDs, peri-urban and rural areas. Range & Shopper profile: Limited range of basic food and household necessities to mostly lower income consumers. Bulk packs of staples are sometimes displayed on pallets on the floor. Stores are often cramped.

Spaza – Counter-service

This kind of spaza store is also known as a hole-in-the-wall spaza or tuckshop. Size: These are very small (2-10 m²), independently owned, with counter-service generally operating from someone's room, yard or garage. Consumers cannot actually touch products before purchase. Range & Shopper profile: Small range of basic products, from sweets and cooldrinks to basic groceries serving the needs of lower income consumers.

e-Retail

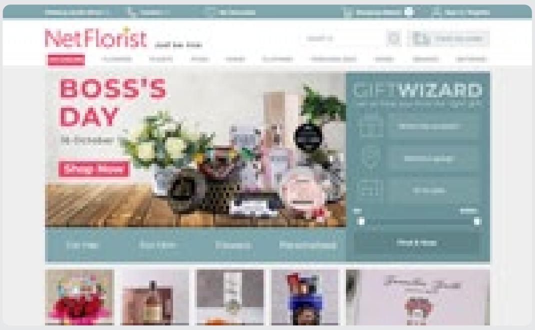
In Chapter 6, we defined the term e-retail. e-Retailers can be classified according to attributes such as the supplier model used, whom they sell to (business-to-business or business-to-consumer), the delivery models used or payment processing methods. Examples of different supplier models are as follows:

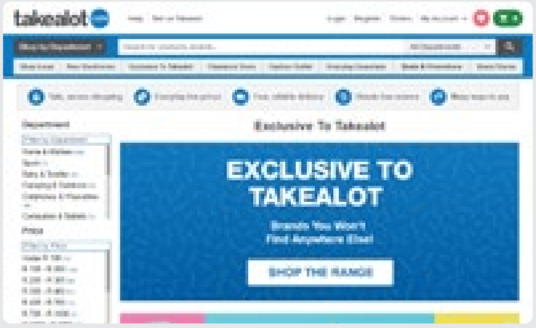
Full-service model: e-Retailers which purchase the stock from various suppliers, pay for the stock and store it in their warehouses (distribution centres). These e-retailers add a mark-up, sell and deliver the product to consumers.

Marketplace model: Some e-Retailers offer suppliers and other retailers a **marketplace** from which to sell their products. The consumer buys the product on the e-retailers online store and the supplier holds the stock and is responsible for delivery of the product directly to the consumer. Here the e-retailer acts as an agent, providing the supplier with the online sales platform and consumer traffic. It works particularly well for specialist retailers who would benefit from the traffic visiting retailer sites such as Takealot.com and Makro.co.za.

The two primary e-retail format classifications are **pure-play** and **bricks-and-clicks**.

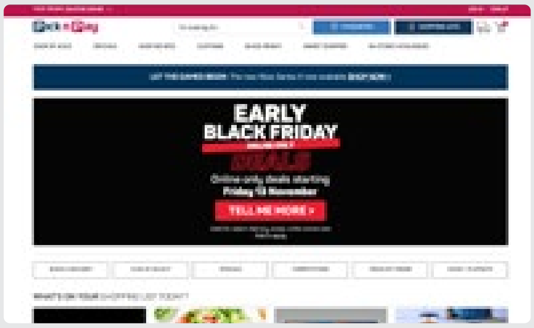
Pure play e-retailers





These are online-only retailers. In consumer goods categories there are some successful pure-play retailers in high margin categories, such as pet food, health supplements, prepared meals and shaving products. Examples of pure-play retailers operating in South Africa include Takealot.com, Zando.co.za, NetFlorist.co.za, Bidorbuy.co.za and Amazon.com.

Bricks-and-clicks retailers



These are retailers which sell goods through physical, bricks-and-mortar, stores as well as through an online shop. Bricks-and-clicks retailers receive orders directly from consumers, via their own website or via social media platforms, for home delivery or to pick up in-store or at an allocated pick-up point, for example, a coded locker. Examples include Woolworths.co.za, Makro.co.za and DisChem.co.za.

The right in-store location

The final step in the product's journey to the consumer is where it sits inside the retail store. The term point of purchase is used by manufacturers to refer to the place where the product is presented to the consumer for purchase, it can be a shop shelf, a promotional display or on a website. It is at the point of purchase that the 'moment of truth' happens – the customer makes the decision to buy the product.

Although shoppers are all different, they can be influenced to buy certain products at the shop shelf using effective merchandising techniques. *Merchandising* is a term that is used differently by different organisations, but in the context of a consumer goods manufacturer, the term merchandise means:

> *products available for sale, typically in a retail setting. Merchandising is everything you do to promote and sell your products once the potential customer is in your store.*[11]

Merchandising typically involves presenting products in a visually favourable light, with the intention of encouraging the consumer to buy. Good merchandising is a critical part of successful retailing. As a marketer, some of the **most important merchandising considerations are:**

- The product's location in the store
- The amount of space that is allocated to the product on the shop shelf
- How well the shelves in the store are stocked
- The point-of-sale material used to highlight or promote the product in the store

Effective merchandising can have a significant impact on the success of a product. It drives higher sales, encourages shoppers to spend more time in the store and makes the shopping decision easier. An important merchandising tool is a planogram, which is shown in Figure 15.6 and is formally defined as 'a schematic drawing or plan for displaying merchandise in a store so as to maximize sales.'[12]

The planogram shows where and how many units of product are displayed on the shop shelf. The intention is to optimise the selling potential from every bit of space in the store and it provides an easy reference guide to product merchandisers who would be packing the products from various suppliers onto the store shelves. The planogram is an important tool as it helps with stock control, making the ordering of stock much easier for the retailer, which will help reduce out-of-stock situations, which lead to lost sales.

It is important for marketer's to focus on the performance of their products across a range of measures at the point of purchase. Some of these measures are listed below and many manufacturers refer to performing well against these as 'winning at the point of purchase (PoP)'.

Figure 15.6: A sample of a planogram[13]

Table 15.2: Consumer goods retail channels and retail formats in South Africa

PoP measures		Explanantion
Availability	On-shelf	Is the product available on the shelf?
Shelf health	Share of space	How much shelf space has been allocated for my product? This is measured in product facings.
	Shelf standards	Is the shelf clean and neat?
Pricing	Price accomodation	Is the price clearly visible to the shopper?
	Price strategy	Is the product being sold at the right price?
Promotion	Promotional price compliance	Do the products on the price promotion have the correct price tag?
	Promotional support	Are the price cards and promotional posters in place?
New products	New listings	Is the newly launched product available on the shelf?

The supply chain (how the product gets to market)

In the first part of this chapter, we looked at where the manufacturer's product is sold and in particular the retail channels and retail formats available to marketers. We now look at ***how it gets there***. This is the **end-to-end supply chain** (Figure 15.3). and consists of a system of organisations, people, activities, information and resources involved in moving a product or service from the product source to the target consumer.

Supply chain and logistics management in South Africa is a challenge for businesses from the perspective that, as the 26th largest country in the world, the country spans 1.2 million square kilometres, roughly the same area as France, Germany and the United Kingdom combined. For example, if a product is manufactured in Cape Town and requires transporting by road to a retail operation near the Zimbabwean border in the north, it is the equivalent of driving from Paris, France, to the Russian border, almost the complete width of Europe. This has big cost implications. In the consumer goods retail industry in particular, low operating profit margins necessitates sharp focus on logistics cost whilst maintaining acceptable customer service standards.

The importance of the supply chain in manufacturer and retailer competitiveness

Historically, supply chains and distribution centres were viewed as cost centres by many organisations. Today, across each of the distribution channels, the supply chain has become a key competitive factor (and will differentiate between the winners and the losers). The growth in online retail and developments in technology mean that retailers and manufacturers have had to elevate the importance of their supply-chain capabilities to be able to serve the needs of the modern consumer, while efficiently managing the costs required to do so.[14] Manufacturers and retailers have had to look at new ways of getting products into the hands of consumers. This has meant new supply chain and logistics models and there is a delicate balance between service, speed and cost.

A **distribution centre** is a *centralized warehouse to which many different manufacturers deliver their goods. These goods are consolidated into different delivery loads for each store or area leading to a transport efficiency for the retailer or distributor.*

Some of the trends that are evident in the consumer goods retail supply chain are:

Supply chain infrastructure and logistics investment

As the complexity of the supply chain increases and the number of distribution points (final product drop off point) grows, so do the costs of distribution. Investment in supply chain infrastructure and distribution centres has been a strategic priority across the major bricks-and-mortar and online retailers for the past 15 years.

In their 2019 financial year, (February 2020), the Shoprite group alone invested R7 billion into centralised warehousing facilities and information systems. Takealot has invested heavily in its logistics and distribution infrastructure, with warehouses in Johannesburg, Durban and Cape Town, to support the online store. The discount retailers such as Boxer and Shoprite Usave rely on their supply chain efficiencies to get the product to the consumers at best price.

As discussed, online grocery retail (B2C) remained relatively small and unprofitable for a number of years but COVID-19 may have been the tipping point with bricks-and-mortar and pure-play e-retailers well set to benefit from these investments.

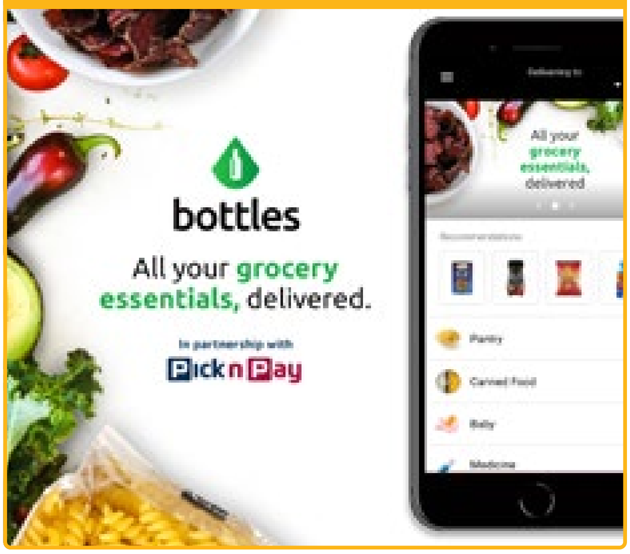
The changing roles of distribution centres and retail stores

As online retail grows, there is increasing realisation of the distinction between distribution centres and fulfilment centres. Distribution centres are focused on delivering full pallets and mostly full trucks to the back of retail stores and are not consumer facing services. **Fulfilment centres** are about picking, packing and shipping single product units to consumer's homes or places of work. These respective services require very different skill sets. The delivery arm of the online shopping fulfilment is key for marketer's as it is a consumer facing service which has significant impact on purchase satisfaction.

It is emerging that bricks-and-clicks retailers may be better positioned with local infrastructure and existing store networks to fulfil online sales orders in the centres in which they operate than their pureplay competitors. Retailers such as Pick n Pay and Checkers are increasingly using their physical stores as fulfilment points where online orders are picked, packed and shipped (transported) to consumers, using their own or the services of third-party logistics service providers. The use of physical stores as distribution facilities is not a new concept; it is something that has been practised by many of South Africa's strong independent wholesale cash-and-carry stores for many years.

Figure 15.7: South African retailers looking to conquer the last mile

www.bottlesapp.com



www.checkers.co.za/sixty60

Conquering 'the last mile'

The last mile has remained the holy grail in consumer goods retail. However, COVID-19 may have been the tipping point in the shift to online grocery shopping. In the formal retail market, innovations such as the Checkers Sixty60 product delivery service, Pick n Pay's delivery partnership with alcohol delivery app Bottles and the likes of Wumdrop e-hailer delivery services emerged. In just two months of the lockdown, PicknPay.co.za saw more than 144 000 new customers register for online shopping. This was eight times more than the previous full year and turnover (sales) growth was double the previous year. Currently these last mile services only operate in major CBDs but are expected to grow quickly as each business keeps honing its online retail delivery infrastructure.

Conclusion

This chapter introduced the theory behind the place component of the marketing mix, looking specifically at where products are sold and how they get there. Focusing on the retail channel, the chapter provided the channel and format definitions and characteristics that marketers need to know to ensure the right product, pack size and product variant are available to the right consumer at the right time.

Acknowledgements

The author would like to thank Trade Intelligence and Nestle South Africa for their permission to use the 2017 South African Channel Definitions to inform the above terms and definitions and GG Alcock for the work done in the area of informal retail terminology and associated photographs.

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sas / stock.adobe.com

Promotion Tactics (Integrated Marketing Communications)

CHAPTER 16

Gillian Rightford

Introduction

In this chapter, we explore promotion tactics used by consumer marketers as part of the marketing mix. This aspect of consumer marketing is the most visible, which is probably why people often confuse marketing (as a whole) with promotion (which is a tactical subset). While *promotion* is a common term for the phenomena we discuss in this chapter, the phrase we use to describe promotional tactics is termed *marketing communication* (later discussed as *integrated marketing communications*). In South African consumer marketing, this is the naming convention that is used most often. The term advertising is also often used to group promotional activity.

Many people get caught up in thinking that advertising is primarily about the creative images and slogans that catch their eye as they scroll through a website or pass a billboard. Advertising is, however, a highly strategic field of great value to businesses and involves a significant amount of analysis and high-level skills in numerous areas. Today's consumers face a point of near saturation when it comes to advertising messaging, so advertisers have to become more creative and strategic in order to gain and keep the attention of their target audience.

This chapter starts by defining marketing communications by looking at the theory of communication in general, so we get a better understanding of the job that our marketing communication needs to do. We then look into the various marketing communications at a marketer's disposal, how to select them and the need for integration in order to amplify the brand's messaging effectiveness.

What is marketing communications?

To understand what advertising is, you need to understand the term *marketing communications*. Marketing Communications (or *MarCom*) is a term used to describe the tools and techniques used to communicate with a target market.

Integrated marketing communications is a communication process that entails the planning, integration and implementation of the various forms of communication tactics used in implementing a marketing strategy. The field of marketing communications includes specialised areas, such as advertising, branding, design (for example, graphic design and packaging), direct marketing, sponsorship, public relations, publicity, online marketing (including social media) and sales promotion. Marketing communications practitioners use strategic elements of branding to ensure the consistency of message delivery throughout an organisation, resulting in the consistent look-and-feel of a brand, no matter where and how the message is delivered. This consistency is one of the objectives of integrated marketing communications and is essential in the implementation of differentiation and distinctiveness (discussed in Chapter 12).

Product or brand information is typically delivered via some form of media channel in exchange for payment, but can also be 'delivered' by a salesperson, a call centre operator, or by the way the truck carrying the product from the factory looks and is driven. The fact that there are so many opportunities for a consumer to receive and interpret a message makes it important for marketers to manage this process as much as they can, so as to ensure that the message remains true to the marketing and corporate strategy.

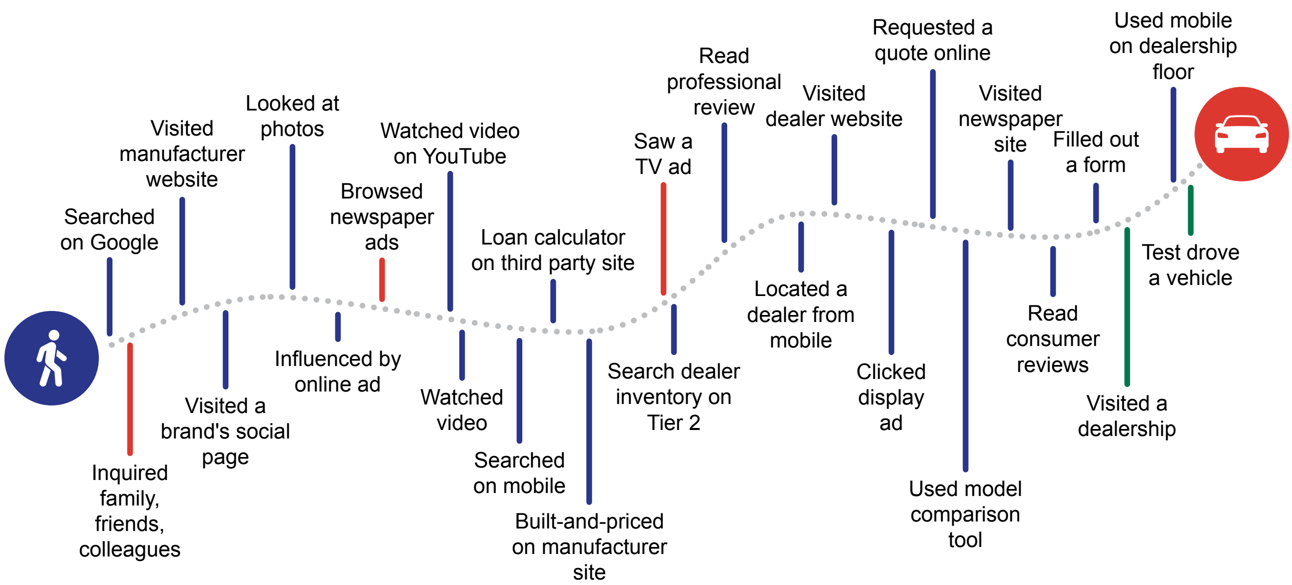
Brand touch points

Every opportunity of engagement between a brand and a customer or a potential customer is called a *brand touch point*. Examples of touch points include everything from a television or radio advertisement (or an advertisement in any other form of media), the brand's Facebook or Twitter profile, personal selling (as is the case with car dealerships, office equipment, insurance, etc), collateral (brochures), sales promotion (buy one, get one free, etc), public relations, sponsorship (for example, of sports events), the brand's website, trade show presentations, the product's packaging, and even the company's receptionist.
Regis McKenna once said that,

> *'Marketing is everything and everything is marketing. Marketing today is not a function; it is a way of doing business. Marketing is not a new ad campaign or this month's promotion. Marketing has to be all-pervasive, part of everyone's job description, from the receptionists to the board of directors. Its job is neither to fool the customer nor to falsify the company's image. It is to integrate the customer into the design of the product and to design a systematic process for interaction that will create substance in the relationship'.*[1]

Every experiential opportunity (any opportunity for the consumer to physically or emotionally experience some aspect of the brand) that an organisation creates for its stakeholders or customers is a brand touch point. It is vital for brand strategists and managers to survey all of their organisation's brand touch points and manage these for the stakeholder's or consumer's benefit. Figure 16.1 illustrates brand touch points along a consumer journey (in this case purchasing a used car). The illustration shows 26 touch points with 21 of the touch points being digital. From the illustration, one can clearly see that different types of communication, messages and media channels can be used at different places in the decision making journey to influence the consumer.

Figure 16.1: Of the 26 brand touch points, 21 are digital (in blue) and only 2 are on premises (in green)



Marketing communications is therefore concerned with the promotion of an organisation's brand and products or services to stakeholders and prospective customers through critical touch points. Most importantly, these are planned messages that a business uses to support its marketing activities.

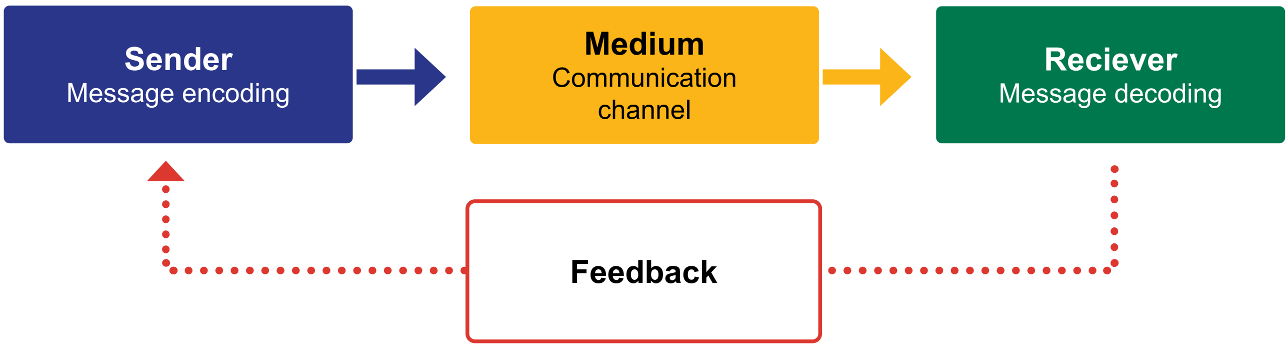
Marketing communications is focused on the product or service, as opposed to corporate communications, for which the focus of communications work is the company or enterprise itself. Marketing communications is primarily concerned with demand generation and product or service positioning (against competitors).

The marketing communication process

To understand the job of marketing communications, it is helpful to take a step back and look at how communications works in general. In any type of human communication process, the source (person communicating) formulates an idea, encodes the idea as a message, and sends the message via a medium or communication channel to another person. This other person, known as the receiver, decodes the message and sends feedback. Figure 16.2 illustrates this very simplified process of communication.

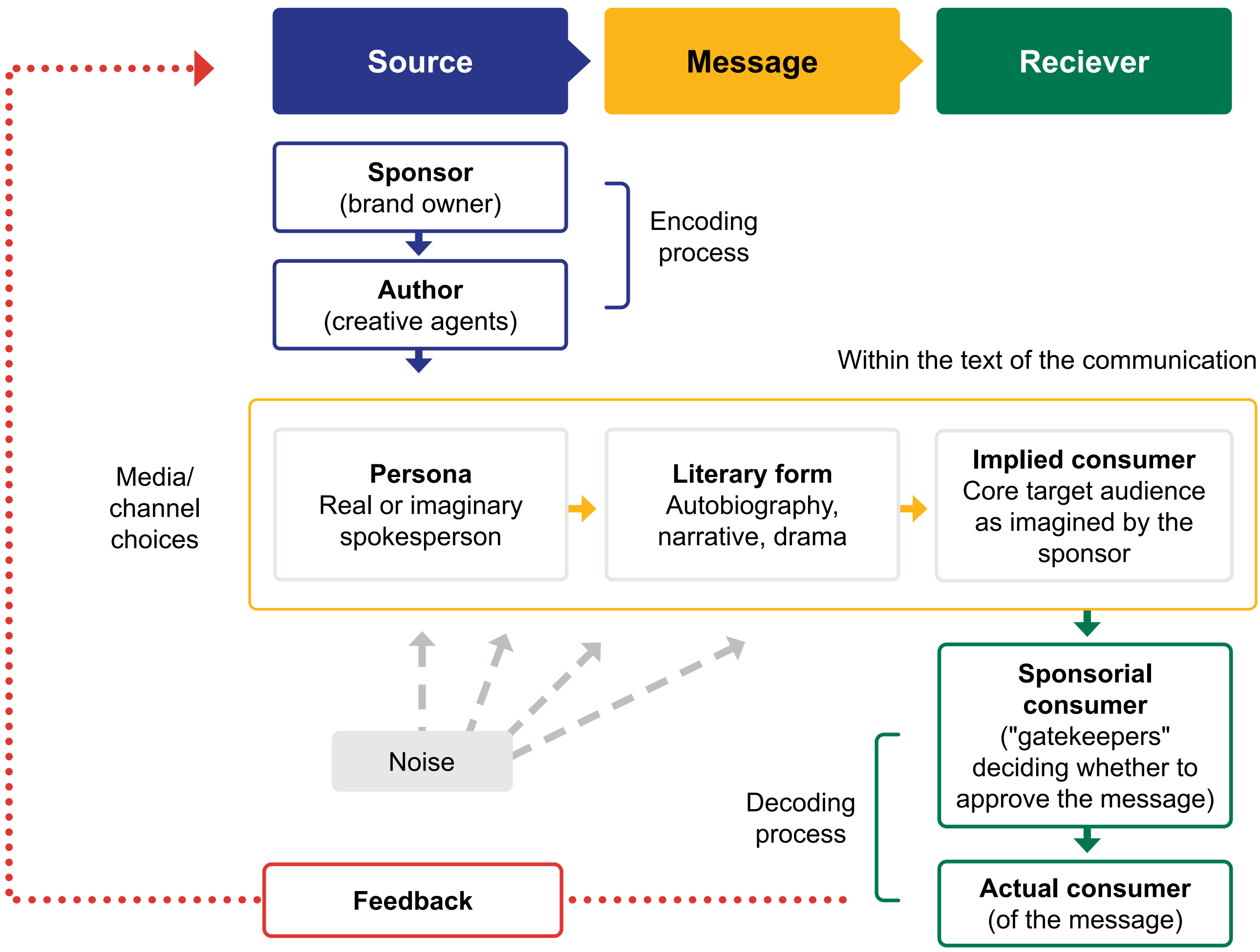
The marketing communication process is slightly more complex. Prof Barbara Stern at Rutgers University in the USA developed a more sophisticated communication process model for advertising, known as the Stern model[2]. She defines advertising as composed commercial 'text', rather than informal speech, and recognises that, in advertising, the source, message and receiver all have multiple dimensions. Some of these dimensions exist in the real world, while others exist in a virtual world within the text of the advertising message itself. Figure 16.3 depicts the Stern model. Notice that the overall process is similar to the basic model in Figure 16.2, with a source, message and receiver. The model has a number of added layers to show the fact that a commercial message has multiple layers.

Figure 16.2: A simple depiction of the human communication process



When applying the Stern model to advertising, the **source** is ultimately the **sponsor** (brand owner), the **message** is the advertisement (in whatever form) and the **receiver** is the consumer or potential consumer, or even influencer. The message (text) is relayed via a chosen channel or medium, often obstructed or buried by **noise** (the term used for the clutter of competitors' messaging and other entertainment in the media). Some specific points related to each component of the Stern model are described below.

Figure 16.3: The Stern model of communication (adapted by author)



Source

The Stern model illustrates that the source is not always the author of the message, and the creator of the message is in fact often invisible to the receiver. A sponsor (or brand owner/advertiser) often communicates the objective of a message to an advertising agency (author), which creates the message (such as an ad, website, or brochure) on the sponsor's behalf. The sponsor has a legal obligation to be truthful, and to ensure that the message is carefully designed for maximum effectiveness.

The advertising agency aims to transform the sponsor's required message into attention-grabbing advertisements designed for various media (television, radio, social media, etc). These creators might be art directors and copywriters, web designers or graphic designers: they are the authors, in what is known as the **encoding process**, and **remain unseen to the consumer**.

The Stern model developed the idea of a message being encoded in various forms, and being delivered by a persona who becomes a real or imaginary spokesperson for the sponsor. Within the ad, there is a real or imaginary spokesperson (a persona) who creates a voice or tone for the commercial. To the consumer, this persona, who represents the sponsor, is the **source** of the message. The persona's views and statements are, of course, not real; they are crafted by the ad's creators and authors for the sole purpose of getting a message across and this view exists only in the virtual world of the ad.

Message

There are different methodologies for getting a message across, from the source to the receivers. Stern identified three styles (or message dimensions) that rely on their literary forms:

- **Autobiography.** In autobiographical messages, 'I' tell a story about myself to 'you', the imaginary audience eavesdropping on my private personal experience. In the video advertisement in Figure 16.4, the model (Eva Longoria) acts as the 'I', telling 'you', the consumer, about the product through her experience of the product.

Figure 16.4: Eva Longoria in a 2018 autobiographical video message sponsored by L'Oréal[3]

- **Narrative.** A narrative style is when a third-person persona tells a story about others to an imagined audience. Figure 16.5 shows an example of a television ad that employs this technique, a 2012 Santam commercial, in which Ben Kingsley addresses the audience.[4]

Figure 16.5: Santam advertisement using a narrative message[5]

- **Drama.** An advertisement that uses drama attempts to use storytelling techniques to deliver a message (sometimes explicitly and sometimes in a more subtle way). Allan Gray's 'Beautiful' advertisement (Figure 16.6) demonstrates the wisdom of staying true to something (or in this case, someone), as a metaphor for their investment philosophy. The story is entirely dramatic, even to the extent that is in a language unfamiliar to most South Africans.

Figure 16.6: Allan Grey's 'Beautiful' advertisement using drama as its message[6]

A key factor determining how a message is received is the choice of channel or media platform through which the message is relayed. Media are chosen based on the target audience's media habits, and the best way to reach them (see Chapter 7 and 11). With the multiple media channels available today, the message may be screened on a television, be read on a cellphone, heard on a podcast, or accessed in different ways, at different times of the day, across a variety of media.

Receiver

The receivers of a message are not limited to actual consumers. According to Stern, receivers (consumers) can be divided into three categories:

- **Implied.** Implied consumers are those who are imagined by the advertisement's creators to be ideal consumers who will relate to the message and be persuaded to behave in the way the advertisement requires them to. This is most likely the group of consumers who have been identified as the core target audience in the creative brief from the sponsor to the agency authors.

- **Sponsorial.** Before a message is released, the first audience may include the key decision-makers at the sponsor's company or organisation. These sponsorial consumers are the gatekeepers who decide whether to approve the message.

- **Actual.** Should the message get approved, the message is finally exposed to the actual consumers (after production and media choices have also been approved). The message is then released to people in the real world who hopefully comprise the sponsor's target market. The message may also reach those it had *not* intended to reach (for example, alcohol brands that sponsor sports teams may see their brand being exposed to children, technically something that they have to avoid).

Decoding occurs when the message reaches one or more of the receiver's senses. Most consumers both hear and see television or video ads (on YouTube, Facebook, Instagram and other platforms). Other consumers may handle (touch) and read (see) a brochure. The advertiser's objective is made harder by the fact that the message is not always decoded by the receiver in the manner intended. The way in which the actual target audience encounters and decodes an advertisement is what ultimately determines the degree to which the advertiser's objectives are fulfilled. In other words, if the message is correctly decoded in the manner in which the advertiser intended, there is a good chance that the objectives for the campaign will be achieved. A challenge for consumer marketers (sponsors or authors) is that actual consumers often do not usually think or behave the same as the implied consumer, or even the sponsorial consumer. All elements of the message sender team must apply their thinking to how the actual consumer will decode, or interpret, the message. This is where understanding decision making (Chapter 10), consumer behaviour (Chapter 9) and research (Chapter 18) are helpful.

Noise and feedback

All along the process of sending and receiving messages there is the phenomenon of noise. This noise is the clutter of competitors' messages and other forms of attention taking entertainment. There is also noise from other people you trust (people you know well and whose opinions you value), when they dispense their advice or suggestions. Because of this internal and external noise, the advertising agency aims to eclipse these noise sources through techniques that make the consumer focus on the actual advertising message. This is often referred to as 'breakthrough' advertising.

Feedback is essential in the advertising process because it provides the sponsor with an indication of whether the message has been received and decoded correctly, and whether their original objectives have been achieved. Even if the feedback is negative or disappointingly low, it enables the sponsor to adapt the messaging and to try again. Feedback employs a sender–message–receiver pattern, and is then directed from the receiver back to the source. In advertising, feedback can take many forms, including:

- Increased or decreased sales
- Phone/website/social media enquiries or complaints
- Communication with the product dealer
- Requests for more information
- Viral chat (positive or negative)

Although marketing communications and advertising were traditionally one-way conversations (with the only feedback being sales, orders, redemption of coupons, etc), new technologies mean that audiences are no longer just passive receivers of impersonal mass messages. With the growth of interactive media, such as the internet, consumers can give instant, real-time feedback on the same channel used by the original message sender. It is expected that advertising will continue to evolve away from a one-way communication model to one that is highly interactive.

Integrated marketing communications

The goals of all marketing communications are to inform, remind or persuade consumers about goods, services or ideologies available to satisfy their needs or wants. Integrated marketing communications (abbreviated as IMC) refers to the:

> *process of building and reinforcing mutually profitable relationships with employees, customers, stakeholders and the general public by developing and coordinating a strategic communications program that enables them to have a constructive encounter with the company or brand through a variety of media and other contacts.*[7]

To understand IMC, one has to look through the consumers' eyes to understand how they see advertising. In many studies, the average person is estimated to be exposed to anywhere between 500 and 5000 advertising messages per day. These brand contacts, sponsored or not, create an integrated message in the mind of the consumer. IMC gives the company the chance to manage these perceptions in a positive way.

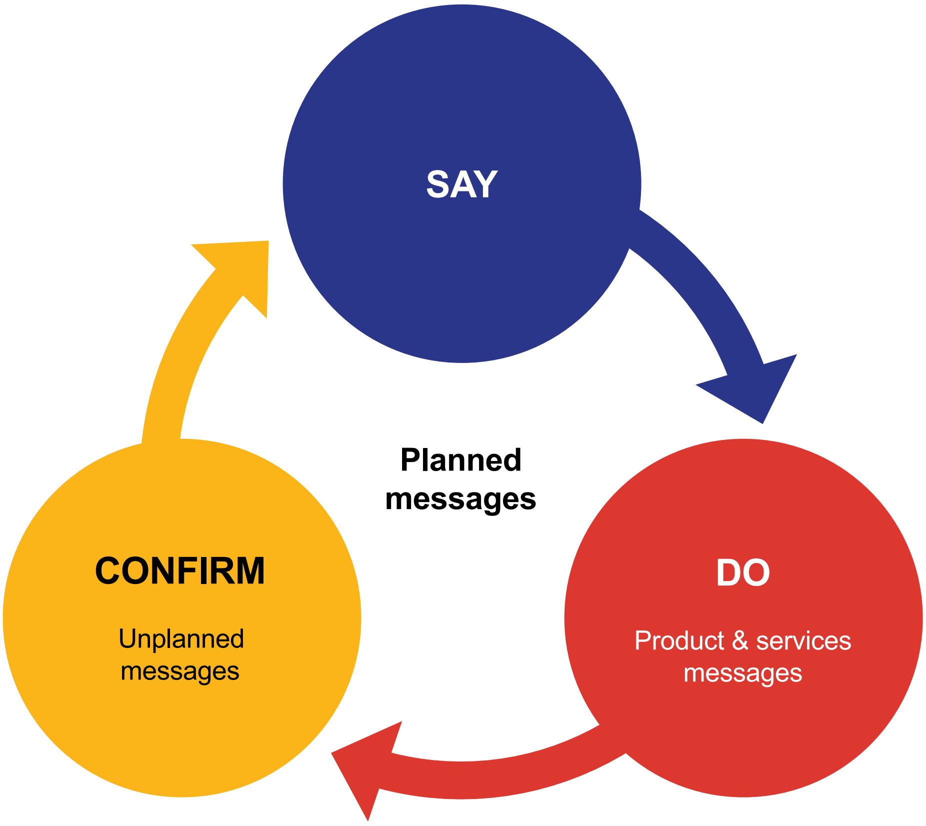
The fragmentation and innovation of media has led marketers to realise that the efficiencies of mass media are not what they used to be. In the by-gone era of a small number of traditional media channels, you could easily reach your consumers through a simple combination of television, radio and print. Now, your consumer may be picking up a newspaper in the morning, reading an iPad at lunchtime, viewing outdoor ads and posters on the taxi ride home while surfing his mobile, and downloading a series to watch on a laptop. No matter who the marketer is talking to, it is more essential than ever to maintain the consistency of brand messages and brand behaviour through all channels. Consumers are more savvy, cynical and distrusting of advertising, and brand schizophrenia (when a brand constantly changes its voice or message, or its delivery is out of sync with its message) or worse, brand non-delivery, are easily picked up. Figure 16.7 summarises some of the points raised above.

Figure 16.7: The need for integrated marketing communications

The Strategic Consistency Model, developed by Prof Sandra Moriarty , shows us that people, from staff to consumers to shareholders, interact with a company or brand through four major sources: planned, product, service, and unplanned (see Figure 16.8). **Planned messages** are the marketing communication messages, strategically designed and disseminated through selected media channels. **Product messages** are inferred from engaging with the product itself (example, product design, performance, features and benefits, price and distribution experience). **Service messages** occur through interfacing with company representatives, such as sales reps, call centre operators, customer service agents on social media, and even receptionists, delivery people, messengers and drivers. **Unplanned messages** are the result of news stories (or chatter on social media), word of mouth or gossip, and can be positive or negative. The model suggests that there are three aspects at play: say, do and confirm.

What a brand says (packaging, advertising, sales force, PR, social media, and brand positioning) and what a brand does (product performance, executive and business performance and ethics, where the product is made, etc), are its so-called planned messages for product and service. However, if they are out of alignment (example: brand X is manufactured in sweat shops in Bangladesh), it creates unplanned messages (confirm) in the form of negative feedback and word of mouth. This is accelerated with the use of social media. The key relevance of this model is that integration is about consistency.

Figure 16.8: The Strategic Consistency Model (say, do and confirm)



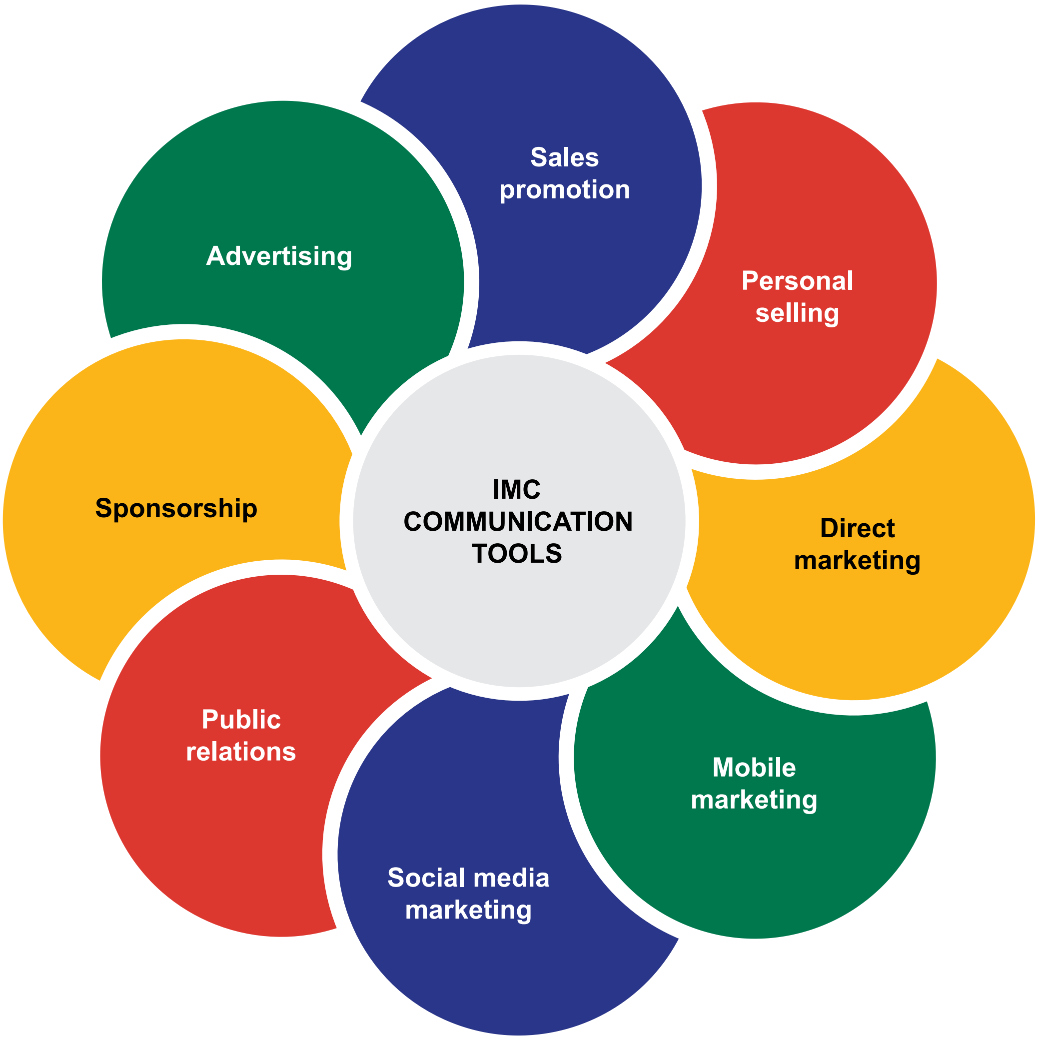
So, IMC is both a concept and a process. Synergy is the principle benefit of IMC, because each element of the communications mix reinforces the other for greater effect. The process of IMC means communication becomes the driving force of the marketing mix throughout the organisation. It also means that the consumer is at the centre of all planning.

Marketing communication is the driving methodology behind creating a unified, integrated message. We discuss briefly some of the different types of marketing communication tools listed in Figure 16.9.

Advertising

Any form of promotional activity designed to inform, remind or persuade a consumer is usually grouped under advertising. Advertising can communicate the benefits, cost or availability of a product or brand. This includes messages in the media (the say messages) but also includes aspects of the design of 'collateral materials' (also called marketing collateral), which are meant to support the sales of a product or service. Examples are brochures, business cards, stationery, booklets, websites, and digital content. This could be expanded to include packaging, signage/banners, sale representative's clothing and any other visible forms of branding designed to encourage more information and a sale.This broad definition of advertising includes digital marketing, such as search engine optimisation, and promotional tools, such as Google AdWords.

Figure 16.9: A selection of some IMC tools



Sales promotion

A sales promotion is an incentive designed to encourage the consumer to buy the product. This incentive is aimed at persuading the consumer to make a purchase earlier that they might otherwise or even to try a new brand. Sales promotions might also incentivise purchasing more than a consumer would regularly buy. Promotional activity is usually instore (but the communication of the promotion may be in the media). Examples include discounts or giveaways like 'buy two and get one free' or 'buy a car and you could win a trip to Namibia'.

Personal selling

Personal selling is when an intermediary is hired to sell or represent the product, brand or service. Examples are a pharmaceutical sales representative who visits doctors to encourage them to prescribe their new drug, or a broker who sells insurance policies. Many are commission based.

Direct marketing

Direct marketing is any activity that is addressed directly to the consumer, via letter, email, SMS or social media.

Mobile marketing

Mobile Marketing is any activity that utilises the medium of the cellphone. This can be direct marketing as above, but it can also be mass messaging. Mobile marketing includes the design of apps that will help to communicate directly with the consumer, and in some instances, sell off the mobile platform.

Social media marketing

Social media marketing is any promotional activity that is channelled through the various social media platforms, such as Facebook, Instagram, Twitter, TikTok, Snapchat or LinkedIn. These can take the form of branded posts, the use of influencers to talk about and promote the brand, or white papers on LinkedIn. A leading use of social media is for customer service, and the measure of how a brand responds to complaints or questions on their social media platforms is a key component of relationship building.

Public relations

Public relations is the managing of reputation, goodwill and stakeholder relationships, through the managing and release of information. PR may include building a positive image for an individual (such as the CEO), or managing crisis communications, or developing press releases for media around a product launch. It is not as controlled as advertising in its execution and the media use the information as they choose.

Sponsorship

Sponsorship is the attachment of a brand or corporate name, for a fee, usually in sports, arts, entertainment, causes, or venues, with the intention of unlocking commercial return. While sponsorship can deliver brand awareness and brand building opportunity, even the opportunity to make a sale, it differs from advertising in that it does not communicate specific product attributes. Sponsorship also requires media support.

The golden thread
Integrated marketing communications combine all of these types of communication, to form what is termed 'the golden thread' of marketing communication. Much of what we attempt to do with our IMC strategies is to build ongoing, loyal relationships with our consumers, and for them to form relationships with our brands.

One of the more recent attempts at defining IMC in a consumer centric way is provided by Prof Jerry G Kliatchko of the University of Asia and the Pacific. He defined IMC as:

> *the concept and process of strategically managing audience-focused, channel-centered and results-driven brand communication over time.*[8]

His main theme is that the process must be customer-centric or audience-driven, which acknowledges the shift of power that has taken place over recent years due, to some extent, to changes in technology.

A simpler but no less powerful explanation is this statement from Jeremy Bulmore, former Chairman of global ad agency JWT:

> *Consumers build brands like birds build nests. Out of the scraps and straws they chance upon.*

IMC gives us the opportunity to manage as many of the contacts our consumers have with the brand as possible, so we actively manage their perceptions of our brand.

Conclusion

In this chapter, we explored promotion tactics used by consumer marketers as part of the marketing mix by understanding how communication works, and the challenges faced and techniques used by marketers. We unpacked the concept of integrated marketing communications and the notion of strategic consistency. Finally, we looked at some of the tools that an integrated marketing plan would utilise; these have been covered more extensively in other chapters.

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Part 6:

Marketing Intelligence (Feedback Loop)

In order to keep strategy evolving in line with new market conditions and technology, a feedback loop is required (outlined in Chapter 1). This feedback loop is created through the measurement of certain variables, known as marketing metrics. In addition, market research can be conducted to better understand consumers' needs, wants, attitudes and behaviours.

Chapter 17: Market Metrics: The Strategy Feedback Loop

This chapter lists and briefly describes a selection of marketing's most important measurements. In a competitive marketplace, consumer marketers are constantly being called on to justify marketing expenditure and to show a return on investment. In addition, measuring different aspects of business and consumer behaviour allow marketers to improve on marketing strategy and tactical implementation.

Chapter 18: Market Research and Consumer Insights

This chapter is about using various tools in order to better understand the market and consumer orientation. Using tools like quantitative and qualitative research as well as both primary and secondary data is a means for consumer marketers to inform their strategy.


Arnold / stock.adobe.com

Market Metrics: The Strategy Feedback Loop

CHAPTER

17

James Lappeman

Introduction

In Chapter 1, we introduced the importance of tracking the impact of the tactical implementation of marketing strategy in a feedback loop that informs further diagnosis, strategy and tactics. In this chapter, we explore this feedback in the form of market metrics. These metrics are used by organisations to measure consumer behaviour and the effectiveness of the marketing strategy. It is imperative for market research teams to be able to measure and track performance in order to improve strategic decision-making.

Metrics are generally quantitative ways of assessing and tracking performance or production in an organisation or department. With numerous market metrics tools available, market research teams must be able to select the metrics that reflect the most accurate results of the team's marketing efforts.[1] For instance, the metrics used when launching a new product are different from those used to track the performance of existing products. In this chapter, we will explore the role of market metrics and the different types of market metrics available to track and measure marketing efforts. Note that the metrics discussed in this chapter are not exhaustive. Metrics are often unique to the needs of a business or the objectives of an organisation; it is up to the marketing teams within organisations to choose metrics that best measure the performance of their marketing activities.

The role of market metrics

The design and implementation of marketing plans can contribute significantly to the success of an organisation. However, in order to determine whether marketing plans have been executed appropriately, the marketing performance of an organisation has to be reviewed. The process of reviewing marketing performance involves evaluation and control.[2] Control is the ongoing measurement of the output of marketing campaigns and evaluation involves periodic measurement of the campaigns. Corrective action is usually taken after the control process to enable the accomplishment of marketing objectives.

The four types of marketing controls that are implemented are:[3]

- **Profitability control:** This type of control is used to evaluate an organisation's performance in terms of generating returns by assessing the profitability of consumers, products, and other related elements.

- **Annual-plan control:** This is used to make sure that an organisation attains the goals set out in its annual plan. Management uses the annual plan as a point of reference throughout the financial period to track the organisation's performance and make necessary adjustments where there are deviations from the plan.

- **Efficiency control:** This is for assessing, and improving where necessary, the spending efficiency and impact of advertising campaigns and other marketing expenses.

- **Strategic control:** This control is for evaluating whether an organisation is exploring the best or most profitable opportunities regarding products, markets, and channels.

It is important to note that the measurement of performance of marketing programmes is one of the key activities of evaluation and control. Therefore, organisations need to develop a set of vital metrics in order to monitor the performance of their marketing activities more frequently, thereby making the control function more effective. For this reason, metric development is crucial for guiding an organisation on its planned marketing activities path.

Types of metrics

Market metrics can be grouped into many categories, including the following:[4]

- **Primary metrics:** These metrics are popularly used and usually easy to calculate. Examples include calculating the profitability of an organisation's day-to-day operations.

- **Advanced metrics:** Advanced metrics are the type of metrics that require the collection of large amounts of data and the use of analytical tools, such as a brand development index.

- **Internal metrics:** Internal metrics analyse or assess an organisation's internal data, such as consumers churn rate (how many consumers are leaving).

- **External metrics:** These metrics assess the effectiveness of marketing campaigns on the target market. Measuring brand awareness is one example.

- **Short-term metrics:** Short-term metrics measure the output of tactical marketing campaigns, such as leads generated from an exhibition.

- **Long-term metrics:** Long-term metrics are used to measure the future benefits from current investments, such as brand equity.

- **Consumer metrics:** These metrics measure consumer behaviour and attitudes, such as consumer satisfaction.

- **Financial metrics:** These metrics use financial information to measure reporting measures, such as sales growth and gross margins.

Often, however, the metrics are grouped according to what they measure, and thus what you can use them for sales, marketing effectiveness, market share, consumer value, consumer perception, and consumer retention. Note that the grouping of metrics is not prescriptive; it is just a way to help you decide on a metric for any particular problem.

The following subsections explore some of the key market metrics used in organisations in these categories.

Sales

These metrics relate to the revenue produced by a product or service and the value derived from activities relating to sales. They are useful when you need to understand how a product or service's income has been affected by any changes or initiatives, and how effective these activities are.

- **Actual sales:** This sales metric compares actual and target sales to measure if expectations have been met. For example, an organisation planned to sell 20 cars in a given year but actually sold 30. In this case, expectations have been exceeded.

- **Sales revenue growth:** This metric compares the sales revenue over different periods, usually months or years. For example, a car dealer may have sold vehicles worth R20 million in the past year and R17 million in the current year. Sales revenue has, therefore, declined.

- **Sales mix:** This metric apportions revenue contributions of different products in an organisation. For example, a home furniture company plans to sell 100 000 units in the current year. The planned sales mix is 20 000 units of low-profit models, 50 000 units of medium-profit models, and 30 000 units of high-profit models. The planned sales mix is thus 20%, 50%, and 30%.

- **Salesforce productivity:** This metric is often used to measure how well the sales team is selling in terms of the number of calls to potential consumers. One measure could be to track the number of calls that can be converted into an order. Other measures include measuring actual performance against a target, such as actual revenue achieved compared to target revenue for the period.

- **Return on loyalty programmes:** This metric is used to measure the return on loyalty programmes set up for consumers by tracking repeat purchases, repurchase intent, and willingness to recommend. For example, if consumers in the loyalty programme were given R20 000 in discounts, but the same consumers generated R120 000 in profit, there was a positive return on investment.

Marketing effectiveness

These metrics focus on measuring how effective the brand's marketing efforts are. They are therefore useful in determining how valuable it is to pursue new or existing marketing campaigns.

- **Return on marketing investment:** The return on marketing investment metric measures the ability of marketing campaigns to generate income and any other form of investment in a product or brand. For example, if revenue less the cost of sales increases by R5 for every R1 spent on marketing, the return on marketing investment is 500%.

- **Marketing budget:** The marketing budget measures how marketing spending drives sales and profit growth. This can be through expressing marketing costs as a percentage of sales turnover. For example, if an organisation's marketing costs dropped from 6% to 4% of over a period while sales increased, it would indicate greater productivity of sales efforts in terms of controlling marketing costs.

- **Advertising effectiveness:** This metric is used to measure the effectiveness of advertising campaigns in an organisation. For example, a business might measure the number of views (impressions) by the target market relative to the audience on the platform used for advertising (for example, television or a website). One of the advantages of digital platforms as communications channels is their measurability. In recent years, however, marketers have needed to balance measurability with effectiveness. Some campaigns are more measurable (e.g., views on an online video), but that does not automatically make them more effective than an outdoor billboard campaign (that has a hard to measure impact).

- **Awareness:** This metric measures the percentage of potential consumers who recognise or are familiar with a particular brand. This could be top-of-mind awareness (remembering a product easily without being prompted), ad awareness (showing awareness of a brand's advert) and prompted awareness (prompts awareness through providing a list of brands in a product category). For example, Adidas might have an 80% top-of-mind awareness among sports footwear consumers.

- **Response rate:** This metric measures the percentage of responses to a particular campaign (e.g., a mass email with a promotion). The response rate is worked out based on the number of responses divided by the total number of emails sent. Many campaigns suffer from low response rates, but this can be increased by offering an incentive to participate. Different promotions can be activated and compared to determine which campaign yields the best response rate.

- **Brand development index:** This metric is used to aid management in understanding the comparative performance of a product within particular consumer groups. This is most useful for new products or brands being launched. The brand sales in a specific segment are compared with the brand sales in the whole market. For example, a cereal brand may underperform in households without children compared to the whole market.

Market share

The metrics in this group relate to determining the share of the market that the brand or product currently has. These can be used when trying to understand a brand's position and growth in the market compared to its competitors, or the performance of a particular product in a particular market segment.

- **Relative market share:** This metric is used to assess comparative market strength by benchmarking a product or brand's market share position against its largest competitor in the market. This is most useful for organisations in big industries such as car manufacturing. For example, a car dealer that is in a market consisting of three players can determine its relative market share by comparing its revenue or unit sales to that of the largest competitor.

- **Revenue market share:** This measures competitiveness by expressing an organisation's revenue or sales as a percentage of the total sales in that market. For example, if the market size is R1 000 000 000 and a brand within the market has a revenue share (i.e., sales) of R200 000 000, this brand has a 20% market share.

- **Brand/market penetration:** This metric is meant to measure how much a specific target population has adopted a brand after launch. The purchasers of a brand are expressed as a percentage of the total population. For example, a new toothpaste brand is launched in the market. To determine penetration, compare the new brand's sales with the total number of toothpaste consumers.

- **Brand equity:** Brand equity measures the value premium that an organisation produces from a product brand when compared to equivalent brands. For example, Hugo Boss has such a strong brand equity that the premium price is both accepted and expected by consumers. In other words, some products have a premium that is paid for them based on the brand, over and above the value of the product itself.

- **Share of voice:** This metric evaluates the comparative level of advertising committed to the product or category relative to other competitors in the industry. A smaller brand might need to have an increase in share of voice in an attempt to grow their market share.[5]

- **Share of search.** An emerging metric that measures the number of online searches for a particular brand as a percentage of searches for all brands in a category. This may be a good predictor of brand health.[6]

Consumer value

These metrics relate to the monetary value that consumers represent to the business.

- **Consumer lifetime value:** This metric measures the predicted present and future value that a given consumer is expected to generate over their lifetime. The more loyal a consumer is to an organisation, the greater their lifetime value. For example, a consumer might have bought one car and is expected to buy two more cars in their lifetime. The total value of these three cars would represent their lifetime value.

- **Consumer equity:** Consumer equity is the present value of all the lifetime values of all the consumers within an organisation. Companies such as McDonald's, Apple, and Facebook have very high consumer equity (as they have many consumers and considerable consumer loyalty), and thus have a sound and sustainable competitive advantage over their competitors.

Consumer perception

These metrics relate to how consumers perceive a brand or particular attributes of a brand.

- **Consumer satisfaction:** This metric measures the experience of consumers with the organisation's products or services, and thus the likelihood of repurchase. There are various ways to measure this, including an index such as the Net Promoter Score (NPS), which measures the willingness of consumers to recommend an organisation's products or services to others. Consumers take a short survey that prompts them to rate how likely they are to recommend the specific product after using it. However, it can also be less structured. For example, a hotel can monitor how satisfied visitors are with its facilities by emailing recent visitors and asking them to rate their experience using a five-point scale.

- **Net Sentiment:** Net Sentiment is an aggregated customer satisfaction metric that seeks to measure an authentic and complete voice-of-customer. Net Sentiment is a real-time alternative to lag metrics like Net Promoter Score and is measured by collecting unstructured text from publicly available online conversations. Companies like BrandsEye use a combination of artificial intelligence and crowd sourced human collaborators to improve accuracy in measuring net sentiment.[7]

- **Quality of service:** This metric measures perception of service based on consumers expectations. This can be done by closely monitoring the number of complaints per given period. For example, mobile network providers, such as Vodacom, can use data from their call centres and emails related to complaints to track and measure their quality of service.

- **Beliefs:** Beliefs measure the perception of a brand. Consumers' opinions of a product or service are captured via survey responses, as ratings on a scale. For example, perceptions of a car's safety can be tracked over time. This can be used as an attribute if safety is an important feature of the car and if the brand wanted to capitalise on this as a benefit or USP (unique selling point).

- **Brand tracking:** Organisations often see the need to monitor the strength of their brand on an ongoing basis. Some of these brand tracking measures include awareness, relevance, knowledge, associations, image, loyalty, or brand health. There are a number of organisations that provide brand tracking measures.[8]

Consumer retention

These metrics relate to whether consumers are continuing to support the brand. This is helpful for determining whether retention strategies are working, or for measuring consumer loyalty.

- **Survival rate:** The survival rate measures the number of consumers maintained from the launch of a product or initiative up to any point in time afterwards. For example, the number of consumers who bought a car when it launched, versus how many of those same consumers bought a new model of the same car later on.

- **Churn rate:** This metric is used to measure the rate at which existing consumers stop purchasing a product or service. This is usually determined on an annual basis. For example, a shop that started the year with 100 consumers and lost 5 over the course of the year would have a churn rate of 5%.

- **Consumer loyalty:** This metric is used to identify the base of future income streams. It measures the share of consumers' requirements, willingness to pay a premium, and willingness to search. For example, a business could measure willingness of an existing consumer to buy the same brand in the future if they had to replace their car.

Conclusion

In this chapter, we discussed some of the market metrics available to businesses, including market share, return on marketing investment, and consumer satisfaction, among others. Each of these metrics serves a unique purpose and is calculated using a specific formula or method. It is vital that market research teams fully understand market metrics and how to apply them in order to effectively solve different business problems and diagnose further strategy. A good balance between long and short term measurement is crucial as long term profitability takes both long term brand building and short term promotional activity. Both will need different measures and should have different timeframes.[9]

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Market Research and Consumer Insights

CHAPTER 18

James Lappeman
Paul Egan

Introduction

This chapter addresses market research and consumer insights. In Chapter 1, we saw that the process of constructing a marketing strategy was based on a diagnosis of the current situation, the business, the market and the main competitors, among others. Market research and obtaining consumer insights is a crucial part of informing a strong diagnosis and making good decisions. In addition, market research is an important tool in the feedback loop, as discussed in Chapter 1. This chapter will focus on 'market research', not 'marketing research'. The basic difference between the two is that market research is concerned with investigating markets (the cohort of people that make up possible consumers), while marketing research is concerned with investigating any issues related to marketing (consumer behaviour, advertising effectiveness, salesforce effectiveness, branding, social commerce, marketing strategy, etc). Market research is, therefore, a subdivision of marketing research. Market research can be defined as:

> *The process of systematically gathering data about a market (people or companies) and then analysing it to better understand the size, nature and needs of the market. The results of market research, which are usually summarised in a report, are then used to help marketer make more informed decisions about the company's strategies, operations, and potential customer base.*[1]

Today's organisations operate in dynamic environments and are affected by various factors, including technological change, economic instability, legislation and demographic shifts.[2] Changes in consumer behaviour and the business environment have impacted organisations' ability to meet the needs of their customers, and, subsequently, the products required to meet those needs. The ever-changing nature of consumers in the business environment means that it is important for organisations to formalise the process of acquiring accurate and timely data about customers, products and the marketplace, thereby enabling them to adjust their strategies where needed.[3] For an organisation to thrive and remain competitive, a sound understanding of its customers, its competitors and the wider environment is imperative. This understanding is usually obtained through market research.

In this chapter, you will learn about the purpose of market research and its role in business decision-making processes. This will help you to gain some insight into the market research industry.

The purpose of market research

Connecting the marketer to the market is one of the main purposes of market research. This is done by providing information that can be used to make key business decisions.[4] The two key functions of market research are to provide feedback on past events and to pinpoint new opportunities. Additional purposes of market research include:

- Gaining a better understanding of customer preferences
- Identifying potential customers
- Closely monitoring competition in the market
- Providing a sound basis for marketing decisions
- Identifying changes in the market
- Developing and completing a business plan
- Identifying and solving business problems
- Launching new products or services
- Establishing realistic goals
- Anticipating or forecasting market trends
- Measuring the efficacy of marketing communications.

Where and how market research fits into the overall organisational structure depends on the size and nature of the organisation. Small businesses typically do not have a market research department and do not employ fulltime researchers; moreover, they often cannot afford to outsource this function. Instead, small businesses might use existing data or conduct small-scale market research. Bigger businesses can conduct market research internally as they usually have sufficient resources, or they can outsource, depending on their specific needs and the availability of resources. Regardless of the size of an organisation, market research can provide invaluable insight into the development of new products or services and enable growth into a new market space. Market research can guide an organisation's decision-making processes by helping the organisation to better understand its customers and their decisions. Market research can also provide organisations with new techniques to maximise profits by, for example, determining the effect of an increased product price on profits and sales.

When an organisation conducts market research to solve problems, it must consider both controllable factors (product, price and place of selling the products) and uncontrollable factors (political and legal environment). Market research teams need to combine these different factors in order to conduct effective research and ultimately achieve the desired outcome. Market research activities inform the following processes in organisations:

- **Controlling processes:** Market research helps management keep track of its products in the marketplace.

- **Problem-solving processes:** Acting on the results of market research can solve both short-term and long-term business problems related to products and consumers.

- **Planning processes:** Market research can inform the business's value proposition, information regarding its target market, its position relative to competitors and budget allocations.

For example, a small retailer finds that the number of customers has declined and wants to understand why this is happening because the decline is negatively affecting revenue. The retailer may need to analyse the product selection, pricing and store location to determine the cause of the problem. In addition, the reasons for the decline might have very little to do with obvious causes. There could be another cause, which could be uncovered by simply asking some questions before making assumptions.

Below is a list of questions that a marketer intent on executing a marketing strategy through marketing tactics (as discussed in Chapter 1) may need to ask of a market researcher in order to be effective:

- **Product:** Which product design is most likely to be successful? What kind of packaging should the business consider using?

- **Price:** What price should the business charge for its product or service? When production costs decrease, should the product price also decrease, or should the additional income go towards improving product quality? What is the price elasticity of the product or service (how do price changes influence demand for the product)?

- **Place:** Where should the product be sold? What incentives should the business consider to drive sales of the product? Should the business consider using ecommerce?

- **Promotion:** How much does the business plan to spend on advertising or promotion?

How will the funds be allocated to different products or services? What form of integrated marketing strategy should the business consider using? Which ads are effective in engaging an audience? How would a message have an impact upon attitudes or brand perception?

The next section outlines a market research process that consumer marketers can use in order to gather knowledge of their markets.

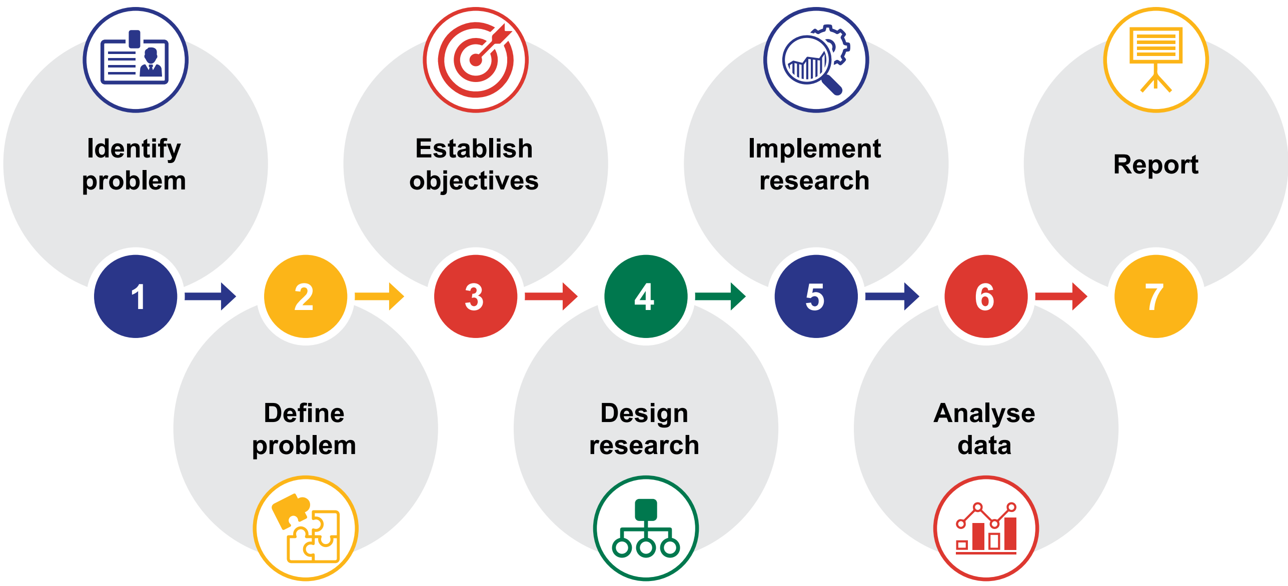
The market research process

Market research involves a series of important activities that contribute to a sound research project outcome. These activities include research planning, budgeting, liaising with stakeholders, and the research process, which consists of several steps. These high-level market research activities can occur concurrently, and the specific approach depends on the problem being investigated. This section explores how these market research activities contribute to the overall success of a research project, and outlines the steps in the market research process.

While there is no set way to conduct the market research process, a market research project should be made up of preliminary research and a formal market investigation. Preliminary research is conducted to determine whether there is indeed a need for further research, and what type of research should be conducted. If further investigation is required, the business should proceed to formal market research, pending feasibility and resource availability.[5]

There are seven steps in the market research process, as depicted in Figure 18.1. The steps start with identifying and then defining the problem. Next, the research objectives must be established and the research itself must be designed. Finally, the research must be implemented, data must be analysed and then reported on. These steps indicate key activities involved in conducting market research. They are not prescriptive, but should be used as a guideline or a checklist to ensure that the research is efficient and successful.

Figure 18.1: The seven steps of the market research process[6]



Research planning occurs throughout the project, and there are various factors that determine how market research budgets are allocated, including company policy, organisational structure and the type of research required. As shown in Figure 18.1, there are several steps in the market research process, but there is no set method for carrying out this process.

The rest of this chapter describes these steps in more detail, starting with the first steps of identifying and defining the research problem.

Identifying and defining research problems

The identification and definition of an appropriate research problem is key to starting an effective market research process. Note that a research problem can also be framed around an opportunity and does not need to be negatively focused (despite the technical term 'problem'). Before conducting a market research study, the research problem is clearly defined and a problem statement (which describes the framework and structure of the problem) is created.

For example, a premium restaurant in an upmarket residential area finds that customers are complaining about service and some customers no longer visit. The restaurant management decides to research customer perception of the restaurant. The purpose of the research in this scenario is to understand why the number of customers is declining. It could be that the actual problem is the quality of service being offered, which can also be identified by investigating the customers' of service or what aspects of the service are cause for concern. There could be many causes for the decline, which is why the research problem must be clearly defined and identified, so that the problem statement can be articulated.

Establishing objectives

Once a research problem is clear, objectives can be formed. The research objectives are the goals that the research aims to achieve. After defining the business problem and articulating the problem statement, the research team must identify the research objectives. The objectives provide clear points that need to be addressed in order to solve the business problem. In order to be effective, objectives should be presented in a SMART format. The SMART acronym addresses the following criteria:[7]

- **Specific:** Objectives need to be clear and concise.
- **Measurable:** Objectives should be quantifiable, so that it is clear if they have been achieved or not.
- **Attainable:** Objectives should not be lofty aspirations beyond reach; they should be feasible, considering the researcher's capabilities and constraints.
- **Realistic:** Objectives should be related to both the budget and the time allocated to the research activity.
- **Time-bound:** Objectives should be achievable within a specified time frame.

Think back to the restaurant example presented earlier. Suppose management wants to understand the quality of service offered to customers. Management must set objectives for the research to be conducted. Research objectives are made up of three main components:[8]

- **Research questions:** These specify the key information needed by management to achieve the research purpose. For the restaurant, one of the questions could be: 'How frequently should the waiters visit the tables?'
- **A hypothesis:** A hypothesis is a supposition or proposed explanation made on the basis of limited evidence as a starting point for further investigation. This supposition provides possible answers to a research question. This can be developed by means of past management experience or previous research. For example, the restaurant's hypothesis may be: 'Customers prefer coffee after their meal.' This hypothesis may be proved or disproved leading to possible further needs for investigation.

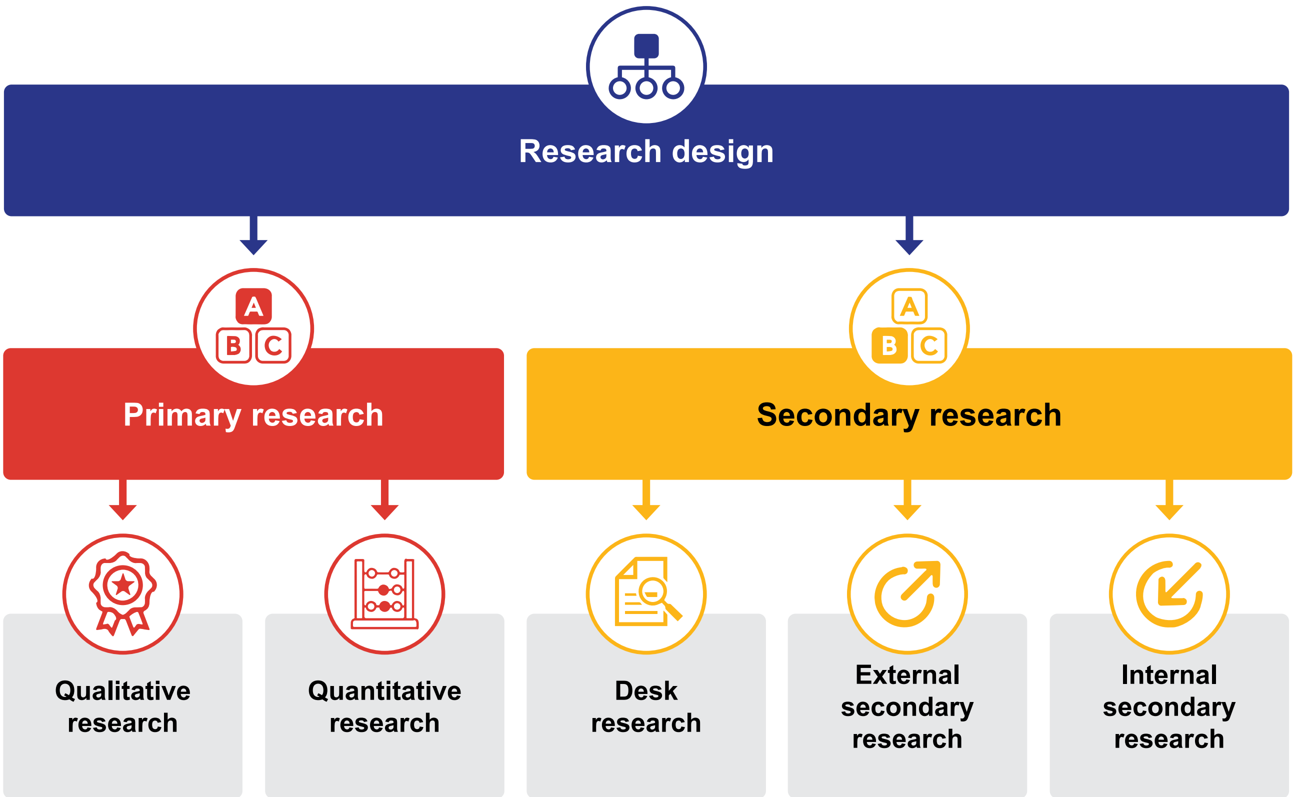
- **The scope and boundaries of the research:** This is the extent of the research. For instance, does the research concern only current customers, or does it also include potential customers? In the restaurant example, management will have to determine if it is going to investigate its current or potential customers' perception of service in the restaurant. This will act as a boundary for the research.

Designing the research

Research designs are often classified as qualitative or quantitative research. Qualitative data is information collected from the investigation of non-numeric information, and refers to definitions, characteristics and descriptions. Quantitative data, on the other hand, is information collected from the investigation of observable objects or elements using statistical, mathematical or computational techniques. In some instances, a hybrid approach, in which qualitative and quantitative methods are combined, is required. Quantitative and qualitative data sources and methods are discussed in more detail below.

The research process explains how the researcher goes about conducting a research study. Before conducting research, the researcher should be able to identify appropriate data sources. Data is often classified according to secondary or primary data. Secondary research can comprise of desk research, internal research and external research, while primary research comprises qualitative and quantitative research, as depicted in Figure 18.2.

Figure 18.2: Overview of market research designs



Secondary research

Secondary research uses existing data that were collected for purposes other than solving the business problem at hand. Secondary data can be collected from desk research, internal research or external research. **Desk research** refers to data that have already been collected and published, such as government reports. **Internal sources** include organisational records (obtained from sales, accounting and other departments). Today many companies have apps, websites, online ordering and loyalty schemes, such as the Pick n Pay, which are invaluable sources of data. **External sources** include information found on the stock market, in journals, trade publications, company websites on the internet, news articles and government statistics. Note that secondary research can also be both qualitative (a literature review) or quantitative (analysing an existing database).

Market research consulting firms are also sources of secondary data, as they conduct research for organisations and industries. Secondary data sources are always the first point of consideration for researchers before spending money, resources and time to collect new data. However, researchers must evaluate the quality and the format of the secondary data to determine whether they align with the overall research objectives. Often, the research problem being investigated will need data that is not readily available, or, if available, maybe need further processing.[9]

Primary Research

If data are not readily available, or not available in a suitable format, the research team may need to collect data by conducting primary research. Primary data refers to information that has been collected for a specific research problem. It provides direct information about an object, event or people. Examples include survey results, statistical data, video and audio recordings. Primary data can be collected through quantitative or qualitative research techniques.

Quantitative research

Quantitative research relies heavily on numbers, measurement and mathematical calculations. Because this methodological approach is more clearly structured, it is typically easier to measure and analyse the information collected. There are a number of quantitative data collection techniques that include:

- **Surveys.** Surveys collect information from selected participants through written or verbal communication. The instrument used to collect the information – a questionnaire – consists of a set of questions aligned to the research objectives that the respondents must answer.

- **Observation.** As the name implies, this method of obtaining quantitative data involves the collection of information about consumer behaviour or events through direct observation. It often entails a systematic recording of data by mechanical devices or human observers.

- **Experiments.** Experimentation entails controlling conditions so that the independent variable can be manipulated to test a hypothesis about the dependent variable.[10] This method allows causal relationships to be evaluated.

Qualitative research

Sometimes research questions are complex and require more explanation. Deeper opinions, attitudes and emotions cannot easily be reduced to simple options on a questionnaire. This is where exploratory qualitative research is particularly useful. Qualitative research is characterised by textual, visual and verbal information, as well as interpretation. Data from qualitative research is exploratory in nature, as it investigates and seeks to understand new and unknown concepts or topics. Qualitative research can be used to generate ideas and concepts for new products or brands, or to indicate product improvements. Qualitative research is conducted through a variety of techniques, such as in-depth interviews, focus groups and projective techniques.

- **In-depth interviews.** An in-depth interview is an unstructured and extensive session in which the interviewer asks the respondent several questions and probes for in-depth answers.

- **Focus groups.** A focus group consists of a moderator and a small group of respondents (usually 6–10 participants) who exchange views on a particular topic. Focus groups are typically used to collect data on consumer attitudes and behaviour, or to test the introduction of new products.

Hybrid research

Each business's research objectives are unique and the research team must select the method that best aligns with these objectives. Given the complexity of certain projects, a single research method may not be sufficient. In these cases, the research team may choose to use a combination of two or more research methods; these can be qualitative or quantitative, or even a mixture of the two. This is known as a hybrid approach and tends to produce optimal project results.[11]

Case study: Hybrid research

A fictional oral hygiene company, Brushers Inc, launched a new brand of toothpaste that whitens teeth after a week of use. After three months on the market around the country, the company was not seeing the market impact it had anticipated. Instead, the feedback it received was largely negative. In response to this, Brushers decided to conduct in-depth interviews with 10 respondents who were all users of the new toothpaste. Through this qualitative research approach, the research team discovered that users had not been following the instructions on the packaging. Further investigation revealed that there was a strong correlation between respondents who were not fond of the toothpaste and those who did not read the instructions. Upon discovering this, Brushers created an online survey with specific questions regarding the instructions on how to use the toothpaste. The feedback from this quantitative research revealed that the instructions on the bottom of the toothpaste box were not clear or optimally positioned, prompting Brushers to change the positioning of the instructions on the packaging. In summary, this hybrid research approach allowed Brushers to develop critical insights and action meaningful change in its market approach.

Implementation: Sampling and fieldwork

Once the research team has carefully considered the business problem to be solved and which data collection method to use, the team members can begin to collect data from the appropriate respondents. Because it is not feasible to interview an entire population, the research team must decide on the nature and number of people to interview. For example, in a study of spectators' experience of watching a rugby or cricket tournament in a stadium, it would be impossible to interview everyone at each of the games. As such, the research team must select a sample of the population to interview.

Sampling
A sample is 'a subgroup of the elements of the population selected for participation in the study'.[12] In order to select a sound sample from a population, the research team must follow a number of steps of the sampling process.[13] These steps include:

- **Define the target population:** In research, a population is made up of a number of individuals, entities or items that can become objects of observation from which information can be drawn. The target population is the broad population that the research is interested in. For example, a company may be interested in marketing to rugby supporters. In this case, the target population refers to rugby supporters rather than all South Africans. From the population, specific individuals are drawn as respondents in a study. The target population should be clearly defined in the early stages of sampling.

- **Identify the sampling frame:** At the second stage of the sampling process, there is a list of all sample participants available for selection; this is the sampling frame. It can take the form of a list, population record or index. The actual sample is drawn from the sampling frame.

- **Select the sampling method:** There are two methods for determining the sample unit: probability and non-probability. With the probability method, each unit in the sampling frame has a known and equal positive chance of being selected as a sample unit (for example, randomly choosing a name from a list). Conversely, with the non-probability method, the chance of selecting a specific sample unit is zero or indeterminable; therefore, this method is purely based on the research team's judgement (for example, walking in the street and approaching people to fill in a questionnaire).

- **Determine the sample size:** The fourth step in the sampling process is to determine the size of the sample. When deciding on the sample size, the research team often uses judgement rather than calculations. The team must select a sample size that is large enough to reflect a fairly precise estimate of the population values, but is practical and economical to manage.

- **Select the participants:** Clear guidelines and procedures are laid out for the selection of the sample participants (actual respondents in the research).

Conducting fieldwork
In the final stage of the sampling process, the research team collects data from the designated respondents. It is important to note that several things can go wrong at this stage, and that measures and precautions should be taken to minimise error. Respondents may be unwilling to participate; interviewers may not comply with set procedures and respondents may be unavailable. To avoid some of these errors, follow-up can be done with respondents shortly before to confirm their availability. Another way to avoid errors is to have simple and concise procedures set for the interviewers.

After all key activities have been planned and initiated, it is imperative that the research team consider the practical elements of the research activity. Each research activity has unique characteristics that contribute to its success. There are various factors to consider, including:

- **Resources:** Availability of key elements, such as the necessary funds.
- **Timing:** The length of time you have before you need results. For example, if a campaign is being launched next week, you may not have enough time.
- **Seasonality:** People behave differently at different times of the year, so you need to consider whether this is a factor in your research.
- **Language:** How questions are asked in a focus group or survey should align with the language used by the target audience.
- **Incentivisation:** To encourage people to participate, you should consider offering them a reward of some sort.
- **Community endorsement:** Fieldwork in certain areas requires permission from a community leader.

It is important to note that there are many other forms of research methods and fields of study available to an advanced researcher. Examples of these methods include ethnography, psychosocial research, behavioural economic experiments, semiotics, hermeneutics and econometrics.

Analysing and interpreting data

Once data has been gathered using different research techniques and methods, it needs to be given meaning; otherwise it cannot be converted into knowledge and used to inform decision-making. The value or meaning assigned to the data depends on the research team's interpretation of the results, which refers to using the research findings to transform the data into actionable insights. When interpreting results, market researchers should answer the following questions:

- To what extent do the data support the original hypothesis?
- Is there an alternative hypothesis that provides a more reasonable explanation for the results?
- What new questions have surfaced from the research findings that need further investigation?

Sometimes, during the data interpretation process, important insights are gathered that are not related to the research question but may still be very useful for the company to be aware of. For example, a brand might conduct research on how consumers perceive a food product's packaging, but end up gaining insight into consumers' perception of the taste of the product instead.

Market researchers should be cautious about making generalisations during the data interpretation process. A generalisation is an overarching understanding or notion drawn from the patterns and trends in a representative sample, which is then applied to the wider population.[14] Predictions and generalisations are made for the general population based on observations of the behaviour of a sample group of people, but these generalisations and predictions can only be accurate if the sample is truly representative of the broader population. For example, if only men were interviewed, but the population includes women, it would be inaccurate to claim that the opinions expressed by the sample are representative of the population. If the sample is not representative of the wider population, the results are still valid, but it is important to ensure that recipients of the research are aware that the findings are representative of those questioned, but not necessarily the entire population. Note that qualitative data and data from a non-probability sampling technique cannot automatically be generalised.

The next few sub-sections each discuss different kinds of data analysis and interpretation.

Interpreting secondary data

It is necessary to conduct an analysis of the data collected from all methods of secondary research, as there could be skewed results when inappropriate data is used. Researchers do not always know how reliable or accurate secondary data is when they acquire it, and therefore need to analyse the quality, presentation, usability, content and cost of the data.[15] A sound evaluation of the existing data relies on the researcher's own logic and judgement.

There are a number of factors that a researcher should consider when evaluating existing data:[16]

- **Purpose:** As the data were initially not collected for the research problem at hand, it has to be critically analysed to determine its suitability to the researcher's project.

- **Accuracy:** Researchers must always consider the actual measurements used during data collection to determine the accuracy of the data.

- **Consistency:** Researchers must consult multiple sources of data for a given research problem to ensure that the information is consistent.

- **Credibility:** Establishing credibility involves checking the status of a publication and evaluating the quality of the data, as well as the organisation that collected it, to ensure that the information is not fake. However, checking credibility can be difficult when it comes to online resources, due to the volume of information available on the internet.

- **Methodology:** The quality of data is only as sound as the methodology used. Errors in the methodology can result in invalid and unreliable results.

- **Bias:** Researchers must critically assess why the data were originally collected and by whom. Certain publications may exhibit bias towards a particular political or religious agenda, for example.

Interpreting quantitative data
Statistical data are numerical data collected for research and typically take the form of survey and experiment results. After the data have been collected, they have to be captured for analysis. During this step, the data have to be processed and cleaned in order to be converted into meaningful information. For example, some responses may have been recorded incorrectly. If one participant's monthly income was recorded as R180 million when it should have been recorded as R80 000, it would significantly impact the average income of the total sample before being analysed by the research team. There are numerous tools available to market researchers to perform effective data analysis, such as R programming, Tableau Public, Python, Apache Spark and Excel, among others.[17]

These tools can be used to summarise and communicate patterns found in the collected data. Before data analysis begins, the market research team must ensure that the statistical data appears in an appropriate format. The team can make use of the following methods to structure the data:[18]

- **Data validation:** This ensures that the collected data are valid and accurate. For example, a sample of respondents can be contacted to confirm that they were actually interviewed.

- **Editing:** Editors verify the correctness and completeness of all the answered questionnaires.

- **Coding:** This refers to the process of categorising the data based on the questionnaire responses. Coding allocates numbers to raw data, which can be entered into a computer and arranged to make the raw data readable.

- **Data capturing:** During data capturing, codes must be entered into a data file that is readable by a computer to ensure that the computer can be used for analysis. Several programs can be used to capture data, such as Microsoft Word, Microsoft Excel and statistical software like SPSS.

- **Reading raw data:** After the data are collected and captured in a computer, they are imported into an analysis package. Market researchers use various types of statistical packages to analyse data. These statistical packages can include software such as SAS/JMP, S-Plus, Statistica and Minitab, which have the ability to verify and clean data, and check whether they have errors, before converting them into a format that best presents the research results.

In addition to the various tools that can be used by market researchers to conduct data analysis, there are numerous statistical methods that can be used, but are beyond the scope of this book.

Interpreting qualitative data

Qualitative research is usually conducted by organisations that are interested in finding out more about customers' perceptions, sentiments, experiences or values regarding a product or service. The data typically collected from this kind of research can include social media profiles, interview transcripts or survey responses. There are numerous methods to analyse and interpret qualitative data, but thematic analysis is one of the most common methods used by researchers. Thematic analysis offers considerable flexibility when interpreting data because data sets can be sorted into broad themes. However, it is important to note that thematic analysis is subjective and relies strongly on the research team's judgement. There is therefore a risk of missing nuances in the data. Once data have been interpreted, the final step is to report on the findings to the various stakeholders in the research, as discussed next.

Reporting on research findings

After analysing the data, the research team must decide how to present the research findings to stakeholders (for example, a client or manager). This section provides you with some tips on how to choose the most appropriate method for reporting on market research findings, and highlights the skills you need to present and report on findings in an effective manner. The following section details the structure and format that a research report should take.

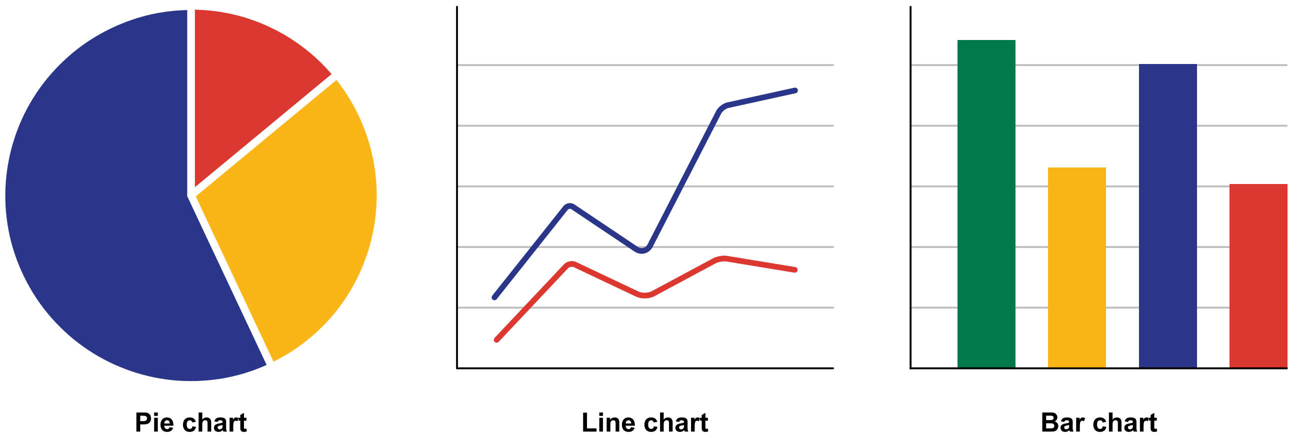
Research report structure and format

The research report summarises the entire research project; thus, its primary purpose is to communicate the market research findings in a simple and understandable manner to the intended audience. In the report, the research team must demonstrate that the problem was investigated thoroughly; they should also communicate the results and any conclusions reached. There is no prescriptive format for a research report, although formatting is often determined by the client or the manager's instructions, the type of research problem or the intended audience.

Data presentation

The presentation of data refers to showcasing the research results in an attractive, comprehensive and useful way so that they can be easily interpreted.[19] It is imperative that the tables and graphics in the report are easy to read, as they portray the actual results from the research. All figures and tables should also be labelled and organised logically. There are many options available for presenting data graphically, but the best option will be determined by the nature of the research problem and objectives.[20] The most common graphic representations of data are pie charts, line graphs and bar charts as illustrated in Figure 18.3.

Figure 18.3: Three main types of data representation graphics



Communication and presentation tools

Generally, the conclusions and findings of a market research project are presented in both a written report and an oral presentation.[21] Findings are presented orally to emphasise and effectively communicate the key findings to the client or manager. Oral presentations also give the client or manager an opportunity to ask the research team questions about the research.[22] There are numerous tools, software, applications and programs available to assist researchers in presenting their findings. The research team must consider the nature of the research project and the audience's needs when choosing the approach that will communicate the research findings in the simplest and most comprehensive manner. Research can be presented in written reports, live presentations or through other means like video. Research presentations can use both digital tools (for example, digital presentation software like Prezi) and non-digital tools (for example, flip charts).

With such a wide array of tools available, it can be challenging to decide how best to present research findings. The research team must consider the nature of the project and the individuals who are invested in it to determine what the presentation should look like. Above all, it should convey everything the audience needs to know about the project in a manner that is appropriate for that audience, in terms of formality, language and visualisation.

The changing market research industry

This section explores the more significant changes and trends that have taken place or are currently taking place in the field of market research. Technological advancements and changes in the way that individuals and organisations communicate and store data have resulted in a boom of big data. Big data refers to large numbers of data sets that can be computationally analysed to reveal trends, patterns and associations, particularly relating to human behaviour and interaction.[23] Today, researchers have access to a wealth of information, resulting in an increasing reliance on passive research techniques. Passive research techniques entail collecting information without directly asking respondents any questions.[24] For example, some companies track internet usage through cookies and mobile research, while others gather data through loyalty schemes and competitions. Some major changes taking place in market research are the following:

- **Social media mining:** This a relatively new research technique that has become increasingly popular. Social media as a data source allows organisations to have access to real-time information and enables them to closely monitor customer trends and behaviour.[25]

- **Gamification:** This refers to applying game-design methods to the design of questionnaires.[26] For example, consider a question in an online survey that shows a cartoon panel of venture capitalists judging business ideas, imitating the reality television programme Dragons' Den. The survey then invites the respondent to be one of the members of the panel. This type of research design encourages respondents to take part in research activities with an optimistic mindset, which typically results in more detailed responses regarding their opinions, insights, behaviours and attitudes.[27] Employing gamification in a research question can generate further interest and a new dimension to the way a respondent views the subject.

- **Reduction in cost:** The relative cost of conducting market research has significantly decreased in recent years, due to faster and more efficient data collection methods.[28] This makes market research more accessible to smaller companies.

- **New research roles:** Technological advancement tends to be accompanied by the need for new skills. In some instances, it can result in the creation of tailored roles that specialise in new technologies. Organisational departments are encouraged to adapt not only to new technologies, but also to hyperconnected customers who engage with the world and multitask through smart devices (Harrison, 2016). New roles are being created in organisations as part of adaptive strategies to ensure that data collected from social media and mobile devices are translated into useful and relevant insights.

- **Data collection methods:** New software is constantly being developed for data collection, giving researchers access to new methods, beyond traditional data collection like paper surveys, interviews and focus groups.[29] Technology has enabled market researchers to be more focused on what they aim to measure and thereby receive quicker feedback from respondents. These advancements have resulted in research methods that were previously inconceivable; for example, a mood-sensing retail device that personalises the user's shopping experience based on their emotional state. This can be a powerful tool for any organisation that is looking to increase market share and learn more about customers in the retail industry.[30]

- **Enhanced data analysis:** With large volumes of data available, the ability to analyse data is becoming increasingly important. New technology has made data analytics easier and more sophisticated. Better analytics can help an organisation strengthen its customer relationship management based on better customer insights.[31]

- **Machine learning:** Using specific algorithms, machine learning can transform volumes of data sets about a product or service into actionable information and insights.[32]

Like any other industry, market research is affected by various forms of change. However, it is apparent that the most significant driver of change in the market research industry is technology, which has enabled market research to be conducted faster, more efficiently and more accurately. The flipside of these technological advancements is that clients are more likely to demand shorter turnaround times for results, which means that market research firms must be able to meet their deadline expectations. To ensure that a business remains competitive, market researchers must be aware of developments in terms of conducting research, particularly those that are technology-driven.

Conclusion

This chapter provided an overview of market research and consumer insights. The chapter was structured around the market research process and explained each step. First, the formulation of research objectives based on a research problem was discussed. Following this, the research design was explained. This research design also included information about different methodologies, sampling and types of data. The chapter then discussed the implementation of research, analysis and finally reporting. The chapter closed with a few insights into trends in the market research industry.

Acknowledgements

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Part 7:

Tools for Achieving Competitive Advantage

There are multiple tools and techniques for achieving competitive advantage as a marketer. This book does not allow for a full enquiry into the different tools, but we have chapters on three subjects. These chapters address vital skills for today's consumer marketers, digital marketing techniques and constructing a basic marketing plan.

Chapter 19: Vital Skills for Modern Day Consumer Marketers

As in most areas of work, marketing effectiveness is often only as strong as the team tasked with making and executing decisions. This chapter describes several qualities required of today's marketer and provides a broad overview of the types of marketing jobs available.

Chapter 20: Digital Marketing Techniques

The digital landscape is marketing's most dynamic arena, with new companies constantly appearing and offering innovations in reaching consumers. This chapter focuses on some fundamentals of digital marketing in order to provide a foundation for consumer marketers who are not familiar with concepts like search engine optimisation and social media marketing.

Chapter 21: Constructing a Basic Marketing Plan

This chapter provides a basic framework that can be used as a template for constructing a marketing plan. The framework is based on the principles outlined in this book and should be useful for any consumer marketer seeking a more robust approach to planning their marketing strategy.


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Vital Skills for Modern Day Consumer Marketers

CHAPTER

19

Steve Bird
Zizwe Vundla

Introduction

What does it take to be a good marketer? This a question that has been debated for many years, and there can justifiably be many answers and opinions. This chapter does not intend to give a standard textbook definition of a good marketing professional, but instead presents a view of the different roles marketers can perform, and the current and future expectations of their changing roles to suit today's evolving business environment.

This chapter covers the roles and requirements for marketers in the corporate business world and contrasts these with the skill sets required for the growing global small-business marketer.

What skills do modern marketers need?

Today, holistic business understanding is critical for great marketers. Marketers must have a Chief Executive Officer (CEO) mindset, seeing the bigger picture and owning the brand results, not just a few marketing metrics that do not clearly link back (as detailed extensively in Chapter 2). Marketing must be viewed as revenue generator, not a cost centre[1].

> *What we cannot accept at any point is the marketer saying that they delivered what they were tasked to do – drive the brand or awareness or some other marketing-centric metric, but in reality, sales and other sales oriented metrics are declining.* (Ajit Sivadasan, Lenovo Head of Global ecommerce, Sales, Marketing and Technology)[2]

The argument for holistic business building by marketers is proven by Procter & Gamble (P&G), which consistently tops the list when it comes to the best company to work for when developing C-suite marketing executives.

> *Procter & Gamble's Brand Management organisation has proven to be a great training ground for marketing executives … Deeply rooted in the consumer, P&G marketers learn how to glean powerful business insights and use them to create leading edge product and marketing innovations that drive sustainable top-line and bottom-line results. These experiences produce powerful business and marketing leaders capable of building iconic brands and empowered organisations that produce sustainable results.* (Deb Henretta, former Group President, P&G)[3]

While a broad business understanding has always been important, it is increasingly imperative in today's environment. The business world is arguably tougher than it has ever been and is characterised by shareholder pressure, hostile investors, tougher regulations, fewer resources and smaller teams with increasingly demanding deliverables.

Understanding the required metrics to identify performance results, undertake the necessary analysis and recommend a course of action have become vital skills for modern-day marketers. Research conducted by Marketing Week UK[4] showed that:

- 80% of CEOs are not impressed by the performance of marketing teams.
- Marketers fail to align their efforts with financial realities.
- CFOs think marketers are 'fluffy and weak'.
- 83% of marketers are unable to quantify return on investment (ROI) from their marketing activities.

Marketers will never be able to stand their ground if they cannot interact on the same level with financial officers and the new emerging data scientists who are using predictive modelling techniques.

What do we look for when hiring marketers?

In marketing, there are a number of competencies required to be successful. After reading this book, it should be clear that multiple disciplines of learning are needed to be a truly strategic consumer marketer. This is summed up in the quote below by *Jesse Williams, Director of Marketing ExecuVision.*[5]

> *The role that marketing plays has evolved – marketing is slowly turning into a hybrid of creative, technical and analytical functions all focused on bottom-line growth. It's important that those with aspirations of pursuing a career in marketing are made aware of this evolution and equip themselves with an updated set of skills.*

There are a few key skills that all marketers should possess:

- The ability to think strategically with the use of analytics to justify decisions
- The ability to lead
- A strong ability to drive action
- The ability to implement and execute supporting tactics

The foundation of strategic thinking, which is the basis of all great marketing, is analytical rigour. Great marketers can draw information from varied sources, and, using data and judgement, find meaningful connections and insights that determine the strategic direction a business should take. They realise the importance of continually innovating by going beyond accepted ideas and leveraging their technical mastery to translate their findings into concise and easy to understand business-building strategies.

> *Regardless of the role in marketing, the expectations related to data and analytics need to be consistent. While there will always be more advanced analytical and technical positions, there is a new baseline for all marketers. The skill set includes a knowledge of data management principles and analytical strategies, and an understanding of the role of data quality, the importance of data governance, and the value of data in marketing disciplines*. (Adele Sweetwood, Senior Vice President of Global Marketing and Shared Services at SAS Institute)[6]

Great marketers are great leaders (see Chapter 2). They recognise opportunities and very clearly paint a picture of where the business needs to go and what it takes to get there. The ability to influence is a key leadership trait that marketers need to develop, as they are not only required to have an external influence on consumers; they are also required to have an influence within the organisation in order to ensure that everyone buys into and pursues the marketing vision and strategy.

Communication is key in marketing and a key enabler of leadership. If a marketer cannot effectively get his or her ideas and vision across, the chances of success are slim. Given that marketers generally need to work closely with or lead multi-functional teams to deliver projects, their ability to work collaboratively with team mates will determine whether they are successful or not.

Great marketers have the ability to drive action and execute strategies. They do this by being very clear about what the top priorities are and focusing their attention on those areas of activity required to deliver on the marketing strategy. They do so with a sense of urgency, stopping at nothing to deliver exceptional results. A strategy is meaningless if it is not translated into action, so great marketing needs to drive action. The marketer is the catalyst for this. As Amazon states in its leadership principles: 'Speed matters in business. Many decisions and actions are reversible and do not need extensive study. We value calculated risk-taking.'[7]

The rise of small business

Small start-up, local businesses are challenging large, traditionally dominant global multinationals. Despite having tremendous resources, because of the size of these multinationals, many also tend to be less agile, which opens a gap up for smaller businesses, especially if they are in tune with the unfulfilled needs of the consumer. These smaller local businesses also play an important economic role in creating employment and growing the economy. The results are David versus Goliath type case studies. Two great South African examples include Stellenbosch 'Fitch & Leedes' going up against Coca Cola's 'Schweppes' and Bliss Chemical's launch of 'Maq' washing powder in a Unilever stronghold.

Chill Beverages, owner of Fitch & Leedes was able to bring innovation such as South Africa's first pink tonic[8], cashing in on the country's gin boom.[9] In a mixer category which had more or less one player, Schweppes, for over a century, Fitch & Leedes was able to latch onto a consumer need around premium mixology. The brand continues to grow, investing in production capacity and now exporting internationally.[10]

In a market traditionally dominated by Unilever brands such as Sunlight, Omo and Surf,[11] Maq has shown continued growth in a highly competitive category, and is now not only a household name but the second-largest manufacturer of washing powder in South Africa.[12] This success here has had them venture into new categories such as fabric softener and dishwashing detergent.[13]

As these small businesses grow, the key will be to remain as agile as possible, and marketing plays a huge role here. 'Since the marketing team is at the heart of executing the growth plan, it must be at the centre of the company's focus on agility… improving access to market data, enhancing speed and quality of data analysis, and reducing marketing campaign execution timelines' (Brian Ricci, CMO at Chief Outsiders).[14]

The value of hard skills and soft skills for working within small business contexts

The fact that marketers need to leverage multi-functional teams' expertise to holistically run the business makes key their ability to work collaboratively.

Leadership, communication and the ability to work well with others are often erroneously referred to as soft skills. This is a huge misnomer, as soft skills implies that these are less important skills, when in fact they usually make or break any career where collaborative work processes are prevalent.

> *Critical thinking, persuasive writing, communications, and teamwork are not fluffy, nice-to-have value-adds. They're hard-won and rigorously maintained abilities that are better referred to as 'power skills'.* (Anant Agarwal, CEO of edX)[15]

Beyond career longevity, data show that 'soft skills' are at the heart of business success. This makes sense when you consider that no organisation can thrive without a compelling, hands-on leader and teams within the organisation which can communicate and work effectively with each other. A 2017 Deloitte report claimed that two-thirds of all jobs will be soft-skill intensive by 2030[16].

However, what do small and medium-sized enterprise employers want to see in a marketing professional? A CV that is not just a list of knowledge or skills, but one with practical examples and a demonstration of them being used on the job[17]. These skills include being an effective collaborator, having confident leadership, analytical thinking and problem solving, a good work ethic and attitude, sound interpersonal skills, teamwork, adaptability and flexibility and proven ability to communicate.

Many small businesses consider these skills and attributes to be critically important for success in their environments. The key attitudes they aim to cultivate are:[18]

- Teamwork, communication skills and the flexibility to handle multiple roles.
- Being a good team player who has a 'can-do' attitude and takes the initiative.

These specific skills are often not formally covered in marketing courses. Smaller companies generally value attitude, flexibility, and commitment above technical skills, although some of these attributes are often said to be lacking in graduates. Among the missing attributes are commercial awareness, commitment, and confidence.[19]

SMEs do generally integrate marketing into their overall business activities, but, unlike larger companies, they often do not have a specific marketing department. A marketer operating in this context must know how to operate on a small budget and be able to select and utilise cost-effective media to give profitable returns.

These are just a few examples of the kinds of skills and attributes valued in smaller businesses. In today's workplace, having knowledge and technical skills without the ability to implement a strategy within an organisation due to lack of interpersonal skills will restrict your marketing efforts.

Other key skills a graduate marketer needs to possess (in addition to those covered above) include digital marketing, the ability to interpret and manage social media interaction, and business networking. Furthermore, two critical areas that have to be built into the marketer's mindset and skills set are financial metrics and an appreciation of marketing databases for sourcing information to populate the metrics.

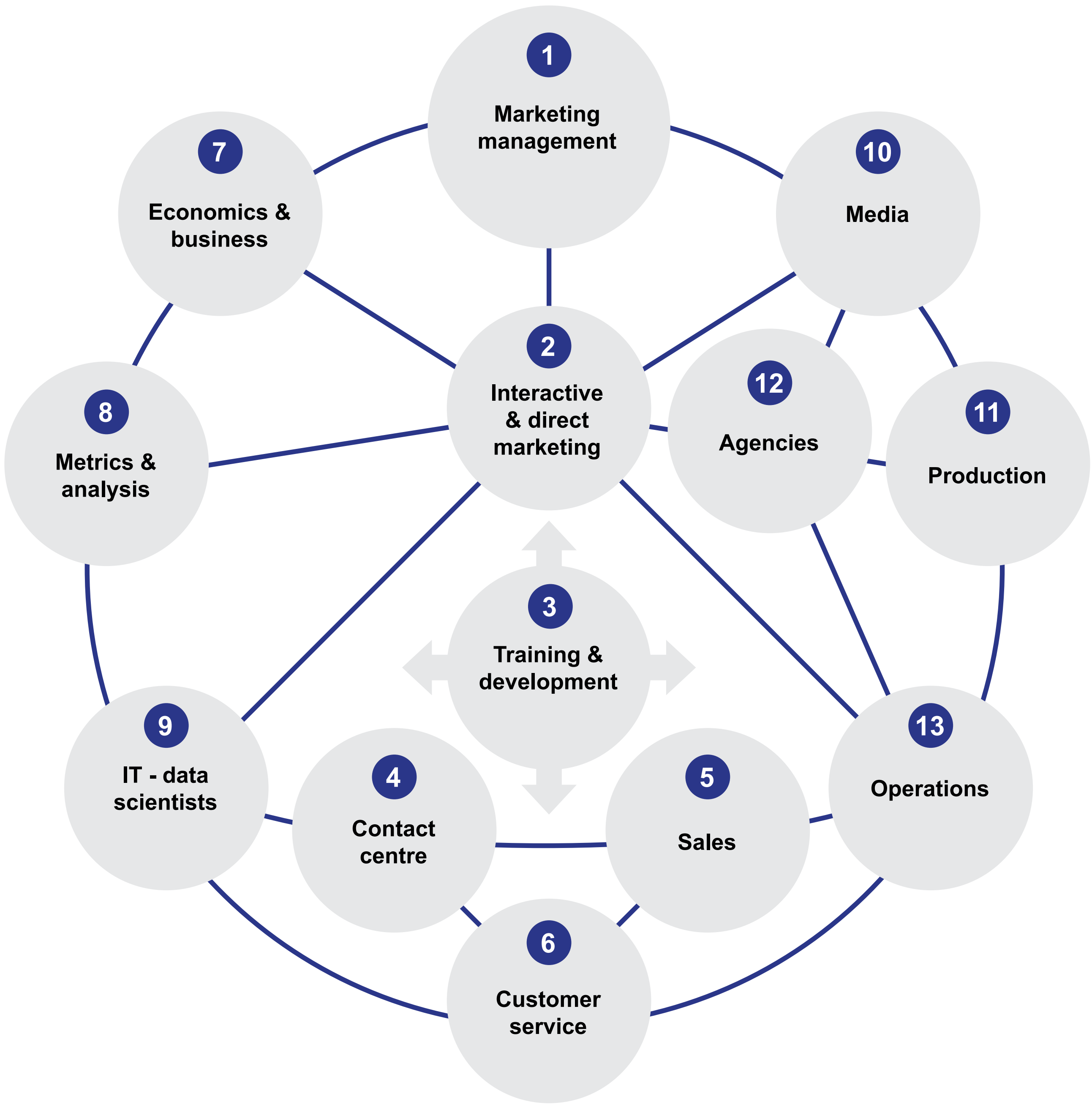
Careers in marketing

What does it mean to have a career in marketing? Today, it is an ever-moving field. So far, we have looked at core marketing roles in big business, but know that we should not expect to always find a defined marketing manager role across the wider industry. Individuals working in the marketing industry (including sales and communications) can have multiple roles, and organisations can have differing approaches to these roles with varying levels of authority.

Marketing as a matrix of different roles

On a wider industry scale, there are a multitude of functions that contribute towards the greater output of marketing and its related functions. The Careers Vista model (Figure 19.1) consists of 13 work opportunity zones within the South African marketing industry.[20]

Figure 19.1: Careers Vista Model: Marketing industry job zones



In the Careers Vista model, each of the work opportunity zones consists of a set of functions within the marketing industry, each function consists of a range of activities, and each activity has a range of occupations. Overall, within the wider concept of the word 'marketing', there are dozens of occupations and tasks required to fulfil the overall deliverables from under the banner of each term.

The critical foundation for commencing a career pathway is to have a long-term view, or vista, of the range of future opportunities within the greater marketing industry, and to be able to identify the required skills. The next step is to identify any personal gaps or deficits that require attention through further training and work experience.

The 13 zones of the Careers Vista model are:

1. **Marketing management:** The scope of marketing management covers a multitude of functions and responsibilities, ranging from micro-marketing dealing with customers, to macro-marketing with a wider view of the economics of the whole marketing system and its effect on society. Marketing management roles cover many functions, such as strategic planning, governance and compliance with relevant legislation, and brand ownership for an organisation and brings the functions all together, combining with the further specialisations which are contained in the other zones in the model.

2. **Interactive marketing:** This is a fast-growing sector of the marketing functions and today defines itself internationally as comprising direct and digital media interactive marketing activities, strongly driven by the use of database information for communicating with consumers. Many of the activities of this zone utilise the functions of the other zones.

3. **Training and development:** This zone encapsulates the requirements of individuals and their personal career development requirements. For individuals who want to work in a training environment within an organisation, there are a range of activities that are involved within this zone. For individuals who want to progress in their marketing careers, these functions and terms offer guidance towards the types of programmes and qualifications required for careers.

4. **Contact centre:** This is an important function in the overall marketing and communications facilities for an organisation and is often under-rated and under-resourced. The centres will handle outbound and inbound calls from the public and are generally a highly technical environment which are geared to fully utilise the database. It is a large employer of staff and many get their first job experience, either fulltime or part-time, in these centres handling customer service enquiries or making sales.

5. **Sales:** An important component of the marketing mix, for without the result of sales, there could be no business. Personal selling is a person-to-person process, in which the seller needs to identify the potential buyer's needs and offers the relevant good or service to make the sale. However, the sale process may not be just to individual consumers, it can also be to companies. Salespeople can use electronic technical support in their interactions. There are different structures in sales processes and these offer a range of job opportunities.

6. **Customer service:** This zone is important in dealing with customers, for without customers there is no business, and without business there are no jobs. Marketing and sales may create new customers, but customer services are the key support functions to maintain satisfaction levels and retain customers. Handling a wide range of tasks across several industries is a good starting platform for gaining experience of a company and its customer base.

7. **Economics and business:** Marketing is a core activity of the overall business and should run hand-in-hand with these two functions. Business needs profit to survive and grow; profit comes from sales and marketing creates the environment for sales. Marketers need to understand the functions within the economics and business zone, as the functions here are the financial foundations for marketing to move forward. Knowledge of costs, budgets and pricing are all part of this function.

8. **Metrics and analysis:** This zone brings in a whole range of metrics within functions that are critical for the calculations of current performances and future analysis. It requires a knowledge of finance, maths, the gathering and interpretation of market research and testing results, analytical techniques and future predictive modelling which provides important support functions for marketing. This is the mathematical and information support structure for marketing.

9. **IT and data:** Today data underpins all marketing activities and around the world the word data is being incorporated into marketing titles. Industry associations in main economies are now titled Data and Marketing Associations. Knowledge and understanding of the value of data for driving marketing is now essential. Data marketers are becoming key players in the future of marketing, needing key IT and analytical skills for planning data-driven marketing communication promotions.

10. **Media:** Marketing managers and agencies require media channels to deliver their messages. The media industry has a vast array of occupations for those with the necessary training. Jobs include media planners (who are heavily involved in strategy, research and analytics), media buyers and various forms of media delivery. Media delivery may include roles in content creation and design as well as radio, television and outdoor media implementation. Roles like animators and film directors may be categorised here or in agencies as many companies fulfill both functions. Not all the functions provided by an agency to a client are necessarily produced in-house; often certain tasks are outsourced to independent suppliers or entrepreneurs. Various functions within an agency require a range of different skills, from creative design and copywriting to the statistics of media planning.

11. **Production:** This zone is often unnoticed and sometimes discounted but consists of critical support functions that allow marketers to deliver their marketing communication activities. Some functions are outsourced to suppliers but all are important cogs in the delivery of marketing and there is a wide range of occupations linked to each function, such as product development, graphic design and printing, all of which contribute to the greater output of marketing. Other possible production roles include filming, content creation, radio and print design, photography, music, animal wrangling, model/talent management and set building. Larger agencies may provide these functions in-house.

12. **Agencies:** Agencies provide the marketing industry with a wide range of functions that companies can outsource to. These functions can include communication, PR, social media management, eventing and sponsorships. For example, advertising agencies can provide creative execution of the marketers communication tactics. Many agency functions can be deemed independent industries within themselves, with multiple sub-functions and occupations.

The range of skills required across all these functions provides multiple opportunities to apply different marketing skills. Advertising agencies in particular play a key partnership role with marketing given the importance of strong messaging. Advertising agencies provide an important contribution to strategy planning and brand positioning by acting as the brand custodians and delivery of the advertising communication.

13. **Operations:** The functions within the zone of operations can be varied and far-reaching. The range of functions depends on the type of business and could be a part of the activities required by marketers to successfully complete their tasks. Within each function there are a range of job roles, including response handling, loyalty programme management and distribution of marketing sales promotion material. Often these support functions are outsourced and not under the direct control of marketing but are still essential functions needed to support the final marketing outcome.

Often an individual enters one zone in the early stages of their career and then sees opportunities to move into other zones. Whatever your starting point or overall career trajectory, all the experience you gain along the way can be carried forward into other functions and zones. The skills you acquire in one zone can fast-track you in another zone, which could drive your career in a different direction.

This broad umbrella of the multitude of functions within marketing demonstrates the range of skills that can be accumulated and allows for mobility within the industry. As a manager, you have to be aware of all these functions that can contribute to establishing a successful operation. The zones are all interlinked and they all contribute to the greater deliverables of marketing.

Choice of careers

Students are often hesitant about seeking employment opportunities within the smaller business sector. There is a mindset that working for a large organisation is the only or best way to get experience, when in fact the small business sector represents a dominant portion of all private sector employment in South Africa.

Initially students believe larger organisations are a safer bet for their first job and that the career prospects are greater, but students who have joined a smaller organisation often have a different mindset after their initial workplace experience. Many professionals in small business contexts find they learn more skills and have more rapid professional development, they receive more responsibility earlier in their careers, and there is more potential for them to stand out and be recognised.

These statements from students who experienced working for a small business demonstrate these principles:[21]

> *You become a fundamental part of a team; you can make a difference. You are encouraged to put your own ideas into action and are heard.*

and

> *Smaller companies are fast moving, and often very innovative.*

How do marketers stay ahead of the game?

Lifelong self-development is critical if you want to stay ahead of the game in the marketing field. The arrogance of thinking you know it all is the biggest downfall of any marketer. It is critical to bring the outside world in and actually live and experience what the target market does. It is only in doing this that we as marketers can truly satisfy their unmet needs.

There are no consumers in the boardroom, so you need to go out and find them. Speak to consumers; watch them shop; find out what they are watching; whom they are interacting with; what makes them tick? What are their dreams and desires? What keeps them up at night? What is that one thing holding them back from making their dreams come true? This is a key role for market research.

Learn from the competition. Who is doing it better than you? Why are they winning?

A curious dissatisfaction with the status quo will set up any marketer for a very fulfilling career.

> *Remember, revenue comes from the outside, from customers buying your products and services. Not from implementing new systems, changing business processes, or other activities designed to increase operational efficiency – these internally focused activities are often time sucks that can destroy profit margins. Shift at least half of your focus outside of internal matters and channel your efforts into activities that drive revenue growth. Customers don't care about your infrastructure or production costs. They buy products and services that help them improve a condition like solving a problem or capitalising on an opportunity.* (Scott Edinger)[22]

To keep up to date, you can join marketing associations, network at events and business functions, stay in touch with the business world, listen to what is happening around you, and keep reading.

As graduates, embrace the concept of lifelong learning by continually upgrading your skills and attending short courses on new topics in marketing to keep up to date.

For the university undergraduates, go for practical internships. Take the challenge to review a range of key business activities within an organisation and not just restrict yourself to marketing functions. Be proactive and be noticed.

Finally, be able embrace and adapt to change. It will happen all through your life and, with technical innovations, is happening at a faster and faster pace today than ever before, so accept and prepare for it from this moment onwards.

Conclusion

In this chapter, we covered how a new marketer needs to develop a range of skills to cater for the wide range of occupations within the greater marketing industry. Identifying the opportunities and accumulating the experiences on a continuing basis is a challenge facing all new entrants to the industry. To be a good marketer, you need to be able to think strategically, not just by using conventional marketing knowledge, but also having a sound analytical approach, a financial, commercial awareness and being a good team player with the ability to handle and manage multiple roles.

In the future, there may be a lesser focus for job opportunities within large corporates, but potentially there will be a greater focus on small businesses in which you can gain experience, either in start-ups or helping to expand a potential growth business. Small business employers look for a good work ethic, a positive attitude and people who are adaptable and flexible in their approach to handle any challenges, and this is the challenge for each individual in the future.

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Digital Marketing Techniques

CHAPTER

20

Raeesah Chohan

Introduction

This chapter provides an overview of key digital marketing techniques. The advent of the internet has provided the opportunity to share and receive information instantly. Simultaneously, the number of digital devices used to access the internet is growing. Today they include cellphones, laptops, tablets, smart devices and wearables. Digital marketing is marketing that is done via online channels and platforms, whereas traditional marketing includes adverts in print (for example, billboards, magazines and newspapers), television, radio and word-of-mouth. As more consumers use the internet digital marketing has become a vital marketing tool.

What are digital marketing techniques?

During the early years of digital marketing (also called electronic marketing or e-marketing), there was an emphasis on how the internet and the proliferation of digital devices was changing the nature of marketing. Although this is true, consumer marketers must stay grounded in the fundamentals of marketing strategy and integrate these tools into strategic and tactical plans. The idea of a 'digital strategy' has already lost much of its meaning as most platforms (even billboards) are now digital. This chapter provides some of the key building blocks for using digital tools in the implementation of a marketing strategy. The chapter starts by discussing the phenomenon known as content marketing followed by search engine optimisation. This is followed by a discussion on web development and design, social media and online reputation management, illustrated in Figure 20.1.

Figure 20.1: A sample of some fundamental digital marketing techniques

Content marketing

Consumers are constantly faced with an influx of information on the internet. This has led to consumers questioning the authenticity of information online. Most brands can easily share their content online; therefore, to stand out from other brands it is important to do so strategically. This can be done by considering the following questions:

First, who will read it? The target market is crucial to a digital marketing strategy. For example, some consumers have access to slow internet while others do not have access to the internet at all. This is particularly the case in South Africa, as it is a developing country. However, access to free WiFi is growing exponentially in South Africa.

Second, why is it being written? Content can be shared for a number of reasons, such as educating, assisting or selling to consumers. Although marketing is primarily based on selling to consumers, many consumers appreciate it when brands add value to their lives through the content they share.

Third, what are the marketing implications? A call-to-action (CTA) refers to an action the brand aims to encourage the consumer to do through their content. CTAs do not always need to be of direct benefit to the brand. Often consumers appreciate when brands share information simply to add value to their lives. This generates a favourable perception of the brand in the consumer's mind. While it may not lead to a direct sale in the short-term, consumers may purchase from the brand in the long-term because of this favourable perception.

Last, is the content appropriate for the platform? Each online platform has its own ambience. This is elaborated on later in the chapter on social media.

There are four types of shareable content, as shown in Table 20.1.

Table 20.1: Created, curated, commissioned and crowdsourced content

Content type	Definition	Example
Created	Original content created by the brand.	Writing an article on five ways the consumer can use the brand's latest product.
Curated	Content written by someone else and re-posted by the brand.	Sharing a reputable influencer's YouTube review of the brand's service.
Commissioned	Paying influential personalities to share content about the brand.	Sending a local celebrity a product to use for a month in return for sharing their experience on social media.
Crowdsourced	Getting consumers involved in the marketing campaign.	Starting a competition where consumers compete for a prize in exchange for sharing ideas for new flavours of the brand's product.

E-newsletters are commonly used to share content. Brands can use emails to keep consumers informed and updated about the brand or to maintain a relationship with them. The following best practices are suggested for email marketing. First, writing emails with a personal tone by referring to the receiver's name such as, 'Hi Khanya' instead of, 'Hi there'. Second, many consumers receive multiple emails in their inbox daily. To ensure that an email stands out, an effective and brief subject line is needed. Consumers often use the subject line to decide whether to open the email or not. Third, today's consumers are pressed for time. Long emails can encourage consumers to stop reading and unsubscribe from the mailing list. Emails should be brief and visually appealing, with short paragraphs, bullet points and more visuals. Under the Consumer Protection Act (2008), all email newsletters should give consumers the option to unsubscribe from a mailing list and by choosing to unsubscribe consumers will be able to opt out of further e-newsletters from the brand.

Search engine optimisation

Search engines are used to search for information online. The most widely used search engine in South Africa is Google. When consumers search online, many do not look beyond the first page of the search results. This means that a brand's exposure on Google is limited. It is beneficial to ensure that the brand's website is among the first, or at least one of the top ten results that appear.

There are two types of search engine results: paid results (i.e., online adverts) and organic results. Brands can pay for search engines to place their advert on the top of the results page when consumers search using particular keywords. These are pay-per-click advertisements. Google charges a brand each time the consumer clicks on the advert after landing on the search results page.

Organic results appear below the paid results. Brands cannot pay for their website to appear as an organic result. Although paid results are effective, consumers generally consider organic results as more credible and relevant. Google positions organic results based on relevance and usefulness to the consumer by using an algorithm, which is regularly updated. To meet Google's algorithm requirements, brands can adopt search engine optimisation (SEO). SEO refers to the efforts a brand makes in getting its content to appear higher up in a search engine's ranking. It involves all the activities undertaken to get the brand to the top of the organic results. Without a good SEO, the brand may never appear on Google's search results. This means that consumers can miss the brand and use a competitor instead. SEO is a slow and steady process. It should be carefully incorporated as early as possible. Brands should implement and avoid certain techniques to ensure a favourable SEO ranking (see Table 20.2).

Table 20.2. Best Practices for SEO

Techniques encouraging Google to trust the brand's website	
Healthy links	Quality links with other quality sources and content across the internet. These links should be diverse rather than all from the same source and increase in frequency over time.
Content	Content should be well-written and reader-friendly. The content that others post about the brand should be favourable.
User friendly	The easier it is to navigate the brand's website, the better the chances of gaining a favourable search result ranking.
Techniques discouraging Google to trust the brand's website	
Buying links	Google is able to recognise when links are not organic or are of a poor quality.
Fake reviews or comments	Google recognises fake comments and reviews as spam.
Article spinning	Some brands try to gain a favourable SEO ranking by copying and pasting articles throughout their website. Google picks up on this and will downgrade a website.
Keyword stuffing	Some websites are overloaded with the same keywords to ensure that the website appears at the top of search rankings. This is recognised as keyword spam and compromises the website's reputation and credibility.

Web development and design

In a digital marketing strategy, all roads usually lead to the brand's website. The website is the brand's home on the web. It is the starting point of a digital marketing strategy. A great deal of time and effort needs to be spent on designing and developing an effective website. Ideally a brand should have a website before other online platforms to give consumers a platform to find out more information. Every social media page, email newsletter or online advert should link back to the website.

The advantage of having a website is the brand has complete freedom in controlling it (this is an example of 'owned media' from Chapter 7). Design and development can be controlled to appropriately reflect the brand's positioning and identity. On most social media sites, for example, the content, images and messages need to fit in to a predefined format. With a website there is more freedom in making the brand come to life for its consumers in its own unique way.

Website design involves creating all the visual aspects of the brand's website from images, colours, logos, links, tabs and so on. At the most basic level, every website should have a home page. This is the first page consumers see when they open the website. This is the page which introduces consumers to the brand. The website should also have an about page. This gives the consumer more detail as to what the brand does and a bit of its history. One never knows who is looking at the brand's website or learning about the brand for the first time.

Next, there should be a contact page. This page informs consumers of how they can get hold of the brand via phone, email or a physical address. If one of the purposes of the website is to sell directly to consumers, the brand should also have a page displaying their products and services and a simple way for consumers to purchase. Some websites also have a blog or social media page to provide interesting content that is relevant and appealing to the brand's target market and encourages repeat visits. Finally, consumers should easily understand how to navigate the website and find what they are looking for within seconds of arriving on the home page, otherwise they may go elsewhere.

Web development is the process of taking finished web designs and transforming them into functioning interactive websites. Web development involves everything that goes on at the back end. Web design is what consumers see. Web development is what makes it possible for them to actually use the website for the purpose it was intended. The brand's website should also be quick to load. If the pages on the website are large and complex and take a long time to load many consumers will be put off and will give up, especially if they have slow connections.

The website should also be easy to find. Search engine optimisation will be explored in detail later. It is worth noting here that it should be easy for consumers to find the brand's website when searching online. The website developer should ensure that the website is protected from spammers, viruses and other web risks.

It is also worth emphasising how important responsive web design is. A responsive website is one which changes its layout depending on the device it is displayed on. When a consumer opens it on a personal computer, for example, it will appear in full. But when they open the website on a cellphone, its layout should change to suit the smaller screen and it will appear simplified.

User experience design is concerned with all the experiences consumers have when interacting with a digital tool. The principles of good user experience revolve around creating a website which consumers find easy to use and navigate, entertaining or enjoyable and which achieves the desired conversion goals. These goals are what the brand wants the consumer to do on their website. Is the purpose to encourage consumers to sign up for a newsletter, to browse the brand's products and to buy these products? The user experience should gently guide the consumer to that desired outcome whatever it may be.

When it is easy for the consumer to use the brand's website, they are more encouraged to continue doing so and use the brand. Good user experience design on a brand's website can increase conversion. If a clear, appealing, and simple call to action is placed on the website it is more likely that consumers will click on that call to action and complete the desired task. This obviously differs from website to website. Some websites' main objective is to drive sales. These websites should have clear calls to action such as 'buy now' placed prominently on their site. Other websites encourage consumers to sign up for a free trial and others to sign up for a weekly newsletter. Compared to websites, mobile searches are usually more locally focused and specific. Consumer's generally have their mobiles with them and use them to search for information on the go. This makes it easier to frustrate consumers with poor user experience design.

Social media

Social media has infiltrated many aspects of a consumer's daily life and influences their behaviour. It would be unwise for marketers to overlook the importance and influence of social media. To use social media strategically in digital marketing campaigns, marketers need to understand the various social media channels available to them and the characteristics of each.

Larger brands tend to have a significant social media presence across multiple channels. It is important to remember not to simply put the brand on social media for the sake of it. Channels should be chosen based on their suitability to the brand in terms of their user profile and their characteristics. Questions that should be asked include:

- Do the consumers in the brand's target market actually use this social media channel?
- Will the brand's presence on this social media channel suit its positioning and brand personality?
- Will this channel assist the brand in meeting its marketing objectives?

Facebook is a social networking site which has become massively popular across the globe. After registering with the site, users are able to create a user profile and add other users as 'friends'. They can exchange messages, post status updates and photos, share videos and receive notifications when others update their profiles. Facebook has an advertising tool which brands can use to advertise to users directly based on their demographics. Brands can use Facebook-captured data such as age, geographic location and interests to create highly targeted and relevant Facebook advertising campaign. Brands are also able to track the efficacy of their Facebook advertising efforts and update their ads accordingly.

Twitter allows users to post short updates. Twitter's immediacy lends itself well to breaking news or events, customer service and content sharing. Many brands use Twitter for customer service as it allows interaction and engagement with followers. While a customer on Facebook may expect an answer to a question or complaint within a number of hours, or even a day, on Twitter they expect a response in a matter of minutes. This means a brand's social media team always needs to be on the ball. While real-time capabilities of Twitter are definitely an advantage, the channel needs to be managed well. Hashtags are used to collect all discussions centred around one common theme in a central location. If a certain hashtag is being used very often on Twitter, it means the topic is trending.

Twitter users expect interesting and relevant content from the brands they follow. Many brands share pictures, videos and articles which they know will appeal to their target market. The retweet button allows users to share tweets immediately with their network. A brand always needs to ensure they are sharing interesting and relevant content their users would want to retweet. Twitter has advertising options for brands; these can be tracked so brands can update adverts depending on their performance.

LinkedIn is a professional social network. It offers business owners and company leaders an opportunity to network and make connections within their field and establish credibility within their marketplace. This channel allows users to share their CVs, qualifications and skills, which can be endorsed by other users, creating credibility. The features and capabilities of LinkedIn make it a suitable channel for business-to-business marketing.

Pinterest has a visually striking virtual pinboard interface allowing users, also known as pinners, to create their own boards according to categories they choose. Onto these boards pinners pin photos and links to things they like and enjoy, such as images, articles, ideas, and hobbies. Pinterest also allows users to follow other pinners' boards. Users can follow their favourite brands to see what they are sharing. One key advantage of Pinterest is that it acts as a traffic driver to your website. A user may find one of the brand's articles as a pin on Pinterest and then clicks through to the brand's website to see more. Brands which share relevant and interesting content with their target market on Pinterest increase brand awareness and meaningful engagement with their consumers.

Instagram is an online mobile photo and video-sharing social networking service that enables its users to take pictures and videos and share them on a variety of other social media channels, such as Facebook, Twitter, Tumblr and Flickr. Users are able to apply digital filters to their images, which adds to the interactivity and creativity of the platform.

YouTube is a video-sharing platform on which most of the videos on the internet can be found. Users can create channels categorising the videos they 'like' and comment on videos. It holds videos of myriad lengths and topics.

Tik Tok is a video-sharing platform most widely used by Generation Z. Users often follow 'challenges' by creating videos following a recent trend. Brands create Tik Tok videos to share content about their products, for example, showing consumers how to use its lipstick for different events.

Each channel has its own characteristics and uses and by the time you read this there may be new channels to choose from. It is not necessary for a brand to be on every social media channel. Brands should rather choose the appropriate platform and ensure consistency in the content shared. This will strengthen the brand's positioning.

Online reputation management

Reputation is the beliefs or opinions generally held about someone or something. Brands will generally have a reputation associated with them by various consumers based on their perceptions or interaction with the brand. To ensure that a favourable reputation is maintained, the posts from and about a brand should consistently reinforce a positive image of the brand. Managing an online reputation is about managing the perception that consumers have of the brand. Think of each post as adding a brick to a wall. The wall, in this case, is the brand's reputation. As Warren Buffett said, 'It takes 20 years to build a reputation and five seconds to ruin it'. Online reputations are particularly fragile, as a single post can tarnish a brand's reputation overnight. When this happens the brand's response is crucial. Managing an online reputation involves responding to both positive and negative mentions about the brand. For example, in the case of positive tweets by consumers you can respond by politely thanking them.

Brands have always had to manage their reputations carefully. Managing a brand's reputation online, however, adds another level of complexity. Online channels and social media have put the power in consumers' hands. Have a complaint? Tweet about it. Had a negative experience with a brand? Share it with friends on Facebook.

Brands need to ensure they closely monitor what is being said about them online and have a plan of action on how to respond and engage with these conversations quickly and effectively. The best way to learn about online reputation management is to observe how other brands handle and think strategically about it. When observing how other brands manage their reputation, ask yourself the following questions:

- They should have rather…?
- I appreciate how they…?
- That was a good move because…?
- Their response was inappropriate because…?

There is a saying that 'any publicity is good publicity'. This may be true at times in the world of celebrities but, when it comes to brands, bad publicity that is not handled correctly could cause lasting damage to a brand's reputation and its profitability.

Bad reviews and negativity are part of online channels, especially social media. Every brand has to deal with these comments in a professional, honest and transparent manner. Getting emotional and aggressive towards consumers online will only be destructive for the brand and harmful to its reputation. In South Africa, the firm BrandsEye has become a global industry leader in understanding and monitoring online reputation and customer experience.

Conclusion

The internet has provided myriad opportunities for brands to market their offerings and position themselves online. As most brands are implementing digital marketing techniques, it is important to do so in a way that makes the brand stand out. Throughout the brand's digital marketing strategy, the brand should be positioned in a consistent and authentic way that informs and adds value to consumers' lives. Doing so requires constant monitoring of online mentions and sharing quality-driven content. It is recommended that, if feasible, the brand has a team dedicated to its digital marketing strategy. The techniques mentioned in this chapter should be considered in the early stages of a digital marketing campaign. As the online world is ever-evolving, new techniques and tools are available daily. It is essential to constantly learn about these to maintain the brand's digital marketing competitive advantage.

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Constructing a Basic Marketing Plan

CHAPTER

21

Thabo K. Makgolo

Introduction

In this chapter, we provide an overview of how to construct a marketing plan. While this book contains theory and application, writing an actual marketing plan can be challenging. Many large corporations have existing tools for developing new products and brands (see chapters 12 and 13), but smaller organisations and start-ups need to construct their own plans from scratch.

A well-conceived marketing plan is crucial to the success of any business. The plan provides a strategy to underpin and develop new products, advertising, pricing and distribution. This chapter provides useful insights into the process.

This chapter examines how a marketing plan is developed, starting with an analysis of the business environment using tools such as Porter's Five Forces. We discuss the development of a strategic plan through segmentation, targeting and positioning of the product or service being marketed. We identify the various tactics used by marketers, also known as the 4Ps, and how the plan can be executed effectively. Finally, we examine how marketing plans can be measured in terms of goals and objectives.

Planning (diagnosis elements)

In preparing a marketing plan, it is essential to consider that a simple marketing plan is usually more effective than a complex one in achieving the required objectives. The first step in the process is to conduct a business situation analysis. What is happening in the wider world which could impact the marketing plan?

Analysis is the process of breaking down a problem into smaller and more manageable units for better understanding. A situation analysis is an important guide to devising an appropriate strategy and tactical plan. There are several common strategic-analysis models that can be used, such as market metrics, the Boston Consulting Group (BCG) Matrix or Porter's Five Forces.

Depending on the resources available, the consumer marketer should do some research as part of their situation analysis to gain a better understanding of the competitive position of the product or service.

We consider three diagnostic components in creating a marketing plan: a Porter's Five Forces of competitive position analysis; a SWOT (strengths, weaknesses, opportunities and threats) analysis; and a micro-/macro-environmental analysis. Each of these is summarised below and more details can be found in other chapters of this book.

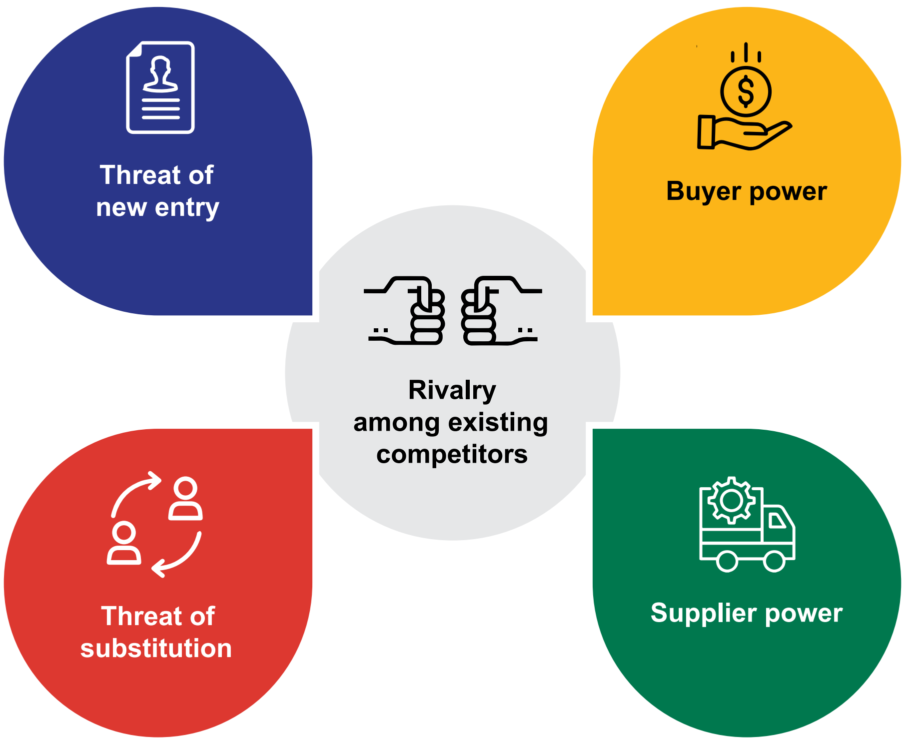
Competitive analysis

Understanding consumer behaviour is important, but it is not enough to guarantee a competitive edge. Companies need to ensure they render more value and satisfaction to their customers than their competitors do. Therefore, an organisation must constantly compare its marketing strategy to that of its closest competition. One of the most well-known competitor analysis tools used by companies is one developed by Harvard academic Michael E. Porter.

Porter's Five Forces of competitive position analysis

Porter's Five Forces of competitive position analysis was a tool developed in 1979 by Michael E. Porter at Harvard Business School to understand competitiveness and profitability. The Five Forces examine the potential challenges that may face the entrants, as illustrated in Figure 21.1 and expanded upon below.[1]

Figure 21.1 Porter's Five Forces that Shape Industry Competition[2]



Threat of new entrants

New entrants in the marketplace have a desire to gain market share, which leads to increased pricing pressure, cost, and the competing rate of investment. There may be an opportunity for market disruption: a profound change in the business landscape forcing organisations to undergo significant transformation rather than steady incremental changes. Disruption often comes in the form of unexpected new entrants (e.g., when Apple decided to go into the portable music player business dominated by brands like Sony). Low entry barriers to the market constitute a high threat of entry from new competitors. High barriers to entry (like expensive infrastructure) reduce the threat of new entrants. For example, the threat of new entrants in the subscription television space in South Africa has a high barrier to entry as MultiChoice owns exclusive rights to sport and much international content. This limits the capability of new entrants to compete.[3]

There are seven major barriers to entry that can be of benefit to existing competitors:

1. **Supply-side economies of scale:** The larger the volume of goods/services produced, the lower the unit cost, as fixed costs are spread over more units. New entrants would have to produce larger volumes/services or suffer a cost disadvantage.

2. **Demand-side benefits of scale:** Another name for these benefits is 'network effects'. The buyer's willingness to pay for a company's product increases with the number of other existing buyers. New entrants can only command a low price and acquire hesitant buyers, due to their limited track records.

3. **Customer switching costs:** These are fixed costs affecting buyers when they change suppliers, leading to increased time and money for retraining staff on new systems and specifications, as well as for data migration.

4. **Capital requirements:** A large initial capital investment is required by new entrants for facilities, customer credit, cash flow and communicating with potential customers through advertising.

5. **Incumbency advantages independent of size:** Due to the longevity of existing competitors compared to new entrants, established competitors may have cost and quality advantages due to preferential access to raw material sources, experience on efficient production methods and brand notoriety.

6. **Unequal access to distribution channels:** New entrants face barriers to accessing existing distribution channels, and need unique sales promotions or price differentiation, or to create their own through avenues like the internet, where the barriers to entry are too high.

7. **Restrictive government policy:** Some government policies can either aid or hinder new entrants and amplify or nullify other entry barriers.

Threat of substitute products or services

A substitute product or service that achieves a similar function to the industry standard through different means can be overlooked, as it may appear to be different from the industry product, for example, a DIY food package to create a restaurant meal or fast-food equivalent at a fraction of the cost. The threat level is high and has adverse effects on profitability, if the substitute product or service offers a better price to the industry product and if the buyer's switching cost is low. An example: subscription television (DSTV) in South Africa and free-to-air television is its closest competitor (SABC and eTV). However, the increase in international streaming services, such as Netflix and Amazon Prime, offer more substitution options for DSTV's existing tiered subscription model. DSTV's competitive advantage remains its acquisition of exclusive licensing agreements for the broadcasting of international sport for its television and online streaming platforms, DSTV Now and Showmax.[4]

Bargaining power of suppliers

Bargaining power is the relative power of parties in a situation to exert influence over each other. If both parties are on an equal footing in a debate, then they will have equal bargaining power.[5] Supplier groups are powerful when they are concentrated in the industry they sell to. Companies like Microsoft are the industry standard for PC software, and a shift in its prices can affect hardware makers in their overall pricing. In the airline industry, suppliers of key inputs, such as fuel and aircraft, have the bargaining power to influence the price of these inputs for airlines due to limited competition.[6]

In contrast, an organisation with many competing suppliers can possibly keep input costs lower than its competitors can.[7] An example in which supplier bargaining power is lower is vehicle manufacturers selling to rental companies. Unlike the airline industry, car rental agencies have a wide choice of potential suppliers.

Bargaining power of buyers

The opposite of powerful suppliers is powerful customers who have the ability to push prices down through demand for better quality or services or through playing competitors off against each other. The bargaining power of these customers differs if there are low switching costs between vendors. Switching costs are the costs that a consumer incurs as a result of changing brands, suppliers, or products. This increases in the event there are fewer buyers or high volume purchases with high fixed costs and low margins, leading to substantial discounting. The car rental company example above is an example of strong bargaining power in the hands of the buyer. Alternatively, an organisation that has many customers will have more power to charge higher prices.[8] For example, in the airline industry, the bargaining power of customers travelling to popular destinations is strong as they can choose flights from multiple other airlines going to the same destination. However, where airlines travel to niche destinations and offer unique direct flights, the buyer's power is reduced because customers do not have as many alternative options.[9]

Rivalry among existing competitors

Rivalry among existing competitors can manifest through price discounting, new product launches, advertising campaigns and service improvements. When there are too many competitors that are the same in size and power, slow industry growth leads to a fight for market share.

Price competition is likely to exist when products are relatively homogenous with low switching costs, or fixed costs are high with low margins. This competition can extend to perishable products such as fresh fruit, vegetables, and even technology, which can lead to a potential desire to reduce costs to move products swiftly.

Other considerations are product features, support services, delivery time and brand image. It is important to note that, when competitors compete in the same space, the likelihood of zero-sum competition (a clear winner and loser) is high. This is especially true if there is no market growth. In such a case, good segmentation can be a crucial differentiator for marketers.

SWOT analysis

Another tool employed by marketers to inform their marketing plans is called the SWOT analysis. A SWOT (strengths, weaknesses, opportunities and threats) analysis considers internal factors that can help or hinder the company reach its objectives and the external factors that can increase opportunities or threaten profitability. A SWOT analysis makes macro evaluations possible by focusing on the positive and negative aspects of the internal and external environments of the organisation.

A SWOT analysis can be applied to various analytical levels, such as the individual level, organisational level, national level or international level.[10]

Macro and micro environmental analysis

Though very broad, macro environment analysis examines external trends that may affect the business adversely, including demographic, economic, political, socio-cultural, technological, legal and environmental factors[11] (see Chapter 8). The micro-environment analysis looks at internal factors: customers, suppliers, resellers, competitors and the general public (see Chapter 4).

Research

For many businesses, it may be necessary to conduct research when developing their marketing plans. Research is a systemic and objective investigation of a subject or problem in order to discover relevant information or principles.[12] Research can analyse the size of a market, assist with segmentation and uncover consumer needs, perceptions and their buying behaviour. Market research methods vary and usually employ qualitative methods (which look at the quality of buyer attitudes and beliefs) or quantitative methods (which look at quantity through mass direct or indirect online, mall and telephone surveys, or personal interviews). Research can assist in understanding the target consumer market, identify changes in the market, improve market awareness, reduce risk and uncertainty and forecast market trends timeously for the potential and existing customer base[13] (see Chapter 18 for more detail on research).

Strategy elements

Once a diagnosis of the situational elements has been outlined in the marketing plan, the next phase is to outline the strategic elements. These can be done under the themes of marketing strategy (target market and positioning statement) and objectives.

Marketing strategy

As explained in Chapter 1, a marketing strategy needs to be formulated before tactics. This part of a marketing plan involves identifying target markets and narrowing down a positioning statement and possible branding strategy. The key elements of any marketing strategy are selecting a target market and positioning the product or brand.

Target market
As described in Chapter 11, selecting a target market is important as few, if any, products are aimed at the entire population. When selecting a target market, consider the particular target in terms of accessibility and profitability, etc. Target market selections need to be justified in your marketing plan. This is where the process of segmentation becomes crucial. The basic rationale of market segmentation is that not all consumers have the same characteristics. Market segmentation is the process of dividing the entire potential market into components (segments) to identify possible target markets (see Chapter 11 for more detail on segmentation). Segmentation is an important part of a marketing plan as it identifies which groups of consumers the company will target.

Positioning
Chapter 12 describes a positioning statement and how to formulate one. The development of this statement is a crucial step in the marketing plan, as the positioning of the product or service positioning informs a range of tactical decisions. Positioning is focussed on influencing consumer perception of a brand or product in relation to rival brands. For example, some companies may position their product at the luxury end of the market while others may be more suited to a positioning strategy that concentrates on value for money. This will influence almost every marketing tactic used.

Objectives

Every marketing plan needs objectives. Everyone tasked with executing a marketing plan needs to understand what the ultimate aims are. Well-defined objectives should follow the SMART goals approach. They should be specific, measurable, attainable, relevant and time-bound. They are also likely to include financial and strategic objectives.[14] Examples of objectives include market-share targets, sales volumes and ROI. Here broad timeframes can be listed and what will not be done (enabling you to keep focused and avoid scope creep).

Tactical elements

As discussed in Chapter 1, tactics should be a logical progression of the strategy. Tactics are the tools available to marketers to implement the plan. Marketing tactics are based on the marketing mix (the Four Ps), detailed in Chapters 13–16 and briefly described below.

Marketing mix

The marketing mix elements usually include the Four Ps: product, price, place, and promotion.[15]

Product tactics
Some key questions you should ask in formulating product tactics include:

- What needs do our products and services satisfy? (What is the core benefit?)
- What attributes are needed in the actual product?
- What additional services are required?
- For new product development, what are the steps required?

Pricing tactics
The price of your product or service needs to be set or adapted to the product life cycle (see Chapter 14) and be in tune with the current market, which is constantly changing. Price has a direct impact on demand, revenue and profit. The following questions can be considered in pricing decision-making:[16]

- What will our overall pricing objectives be?
- What are our costs?
- What are competitor prices for similar products?
- What control do we have, or do we want over final prices that customers pay?
- Are there any legal restrictions on our pricing policies?

Place (distribution) tactics
Deciding where and how a customer can access your products and services is crucial. This phase is dependent on careful market assessment and should be based on existing networks or platforms with which the customer is familiar and trusts, or whether a new avenue needs to be established to meet demand. The four basic objectives in determining the place or distribution plan are:

- Tactics related to channel choice
- Tactics related to inventory
- Tactics related to distributor sales and promotional activities
- Tactics related to customer-development programmes (e.g. incentives for distributors)

Some additional questions to consider on distribution include:

- Where does our target market buy these or similar products?
- How broad is the market coverage of the different types of intermediaries?

- How much communication is needed to keep distribution tasks running smoothly for similar products/services?
- Who will oversee distribution?
- What margins will be expected by intermediaries and will these be sufficient to compensate them for services you expect them to perform?
- How will these margins affect your competitiveness in the market?

Promotion tactics
Promotion tactics are how, what and where a company communicates. Communications include everything from advertising on television through to leaflets dropped through the letterbox. Successful companies will ensure that all their communications form part of an integrated approach. This approach entails the development, implementation and evaluation of marketing communication activities using multiple communication channels. The adoption of new media channels which are cost-effective and far-reaching, such as the internet, can be useful in your approach. Some questions that can guide marketing communication include:

- What media will you use?
- Who is your target audience (might be different to the target market)?
- What behavioural effects do you require of your promotion? (Interest? Awareness? Conviction? Desire? Action?)
- How much will you spend on each promotional element: advertising, sales promotion, etc.?
- When should communications take place?

Action programmes

A marketing plan requires the support of non-marketing functions. The action programmes should be coordinated with the resources and activities of other departments including production, finance and purchasing.[17] Each element of the action programme should answer:

- What will be done?
- When will it be done?
- Who will do it?
- How much will it cost?

Budget

A crucial part of a marketing plan is the budget. How much will the company commit to marketing? Budgets are usually set on an annual basis and are reviewed regularly. The approved budget serves as a guide for the development of procurement plans and schedules, production schedules, recruitment plans and strategies to guide marketing expenditure.[18] This budget needs to align with the overall operational budget of the firm and ideally should be linked to sales performance.

Controls and contingency plans

Most companies continually monitor marketing activity to determine efficacy and to ensure a speedy response to changes that may occur, for example, competitor activity. Ongoing monitoring and evaluation usually occurs through a variety of methods, including quarterly cross-departmental management meetings, ongoing analysis of internal and external factors that may impact set plans, such as political or economic shifts, and any competitor changes that may impact the delivery of products or services to the end-user. It is essential to include a contingency plan in operational planning should a major unexpected national or global situation occur, such as industry-specific changes in terms of regulations. This may affect pricing and distribution.

Feedback and measurement

There are a number of ways to approach feedback and evaluation on the effectiveness of the marketing plan., According to Morello (2019), these are the seven essential ones:

1. **Return on Investment**
   Profitability of money invested in the development of the marketing plan, strategies and tactics.

2. **Reviewing Sales Numbers**
   Comparing amount of sales generated prior to implementation of the marketing plan and after the implementation to track whether it has made a direct impact.

3. **Customer Response and Reactions**
   This can be achieved through surveys, post-purchase feedback or in-store activations to gauge customer satisfaction.

4. **Marketing Reach Expansion**
   The company buy-in, through a marketing plan expanding into different regions and markets, is evidence of success.

5. **Marketing Partner Response**
   Feedback from associated brands, suppliers and stakeholders, due to their proximity to customers, will highlight positive or negative effects expediently.

6. **Outside Salespeople Feedback**
   These individuals can track consumer sentiment on messaging and communications efforts to assist in customer retention.

7. **Actions of Competitors**
   Competitors who emulate a new marketing plan may be evidence of a great initiative, and a plan that receives negative reviews may require a revision of the plan.

Executive summary

Once a full marketing plan has been completed, an executive summary, usually not more than one page, needs to be created to summarise the plan. This section summarises the main goals, recommendations and points which need to be included in an overview for the funders or senior managers who approve the marketing plan. Although this is the last section to be completed, it is often the first page of the marketing plan, as it provides decision-makers with an understanding of the overall vision.

Conclusion

There is no 'one-size fits all' marketing plan for companies. The plan should therefore be adapted, altered, refined and configured to the needs of the product or service in question. Table 21.1 provides a full overview of a marketing plan.

Table 21.1: Contents of the marketing plan

Part of overall marketing strategy	Section of the plan	Explanation
Preliminaries	Executive summary	An abbreviated summary of the main points of the plan for management overview.
Diagnosis	Porters Five Force analysis	An analysis of competitive position.
	Opportunity and issue analysis (SWOT)	The strengths and weaknesses of the firm; the opportunities and threats facing it.
	Current marketing situation (micro/macro environment)	Relevant background data on the market itself and the broader marketing environment – 'What's happening?'
	Research	Any relevant market or consumer research that has helped to drive marketing decisions.
	Segmentation	How the entire market can be divided to help select a target market(s).
Strategy	Marketing strategy	Who is the target market(s)?; positioning statement (with justification); branding decisions.
	Objectives	Sales volume, market share, ROI, broad timeframe, what not to do (focus).

Tactics	Marketing tactics	What blend of marketing mix elements (the Four Ps) is required to execute the strategy?
	Action programmes	What will be done? Who will do it? When will it be done? How much will it cost?
	Marketing budget	Must align to the overall business plan budget. Projected profit and loss statement summarise the potential financial return from the marketing plan.
	Controls and contingency plans	How will the marketing plan be supervised? If things do not go as expected, what plans need to be actioned?
Feedback and measurement	Evaluation and feedback plan	How will you know if the strategy is succeeding? How will this inform future strategy?

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