Marketing Mix

Topic Gateway Series No. 7
About Topic Gateways

Topic Gateways are intended as a refresher or introduction to topics of interest to CIMA members. They include a basic definition, a brief overview and a fuller explanation of practical application. Finally they signpost some further resources for detailed understanding and research.

Topic Gateways are available electronically to CIMA members only in the CPD Centre on the CIMA website, along with a number of electronic resources.

About the Technical Information Service

CIMA supports its members and students with its Technical Information Service (TIS) for their work and CPD needs.

Our information specialists and accounting specialists work closely together to identify or create authoritative resources to help members resolve their work related information needs. Additionally, our accounting specialists can help CIMA members and students with the interpretation of guidance on financial reporting, financial management and performance management, as defined in the CIMA Official Terminology 2005 edition.

CIMA members and students should sign into My CIMA to access these services and resources.

The Chartered Institute of Management Accountants
26 Chapter Street
London SW1P 4NP
United Kingdom

T. +44 (0)20 7663 5441
F. +44 (0)20 7663 5442
E. tis@cimaglobal.com
www.cimaglobal.com
Marketing mix

Definition and concept
Marketing is defined as:
‘The management process responsible for identifying, anticipating and satisfying customer requirements profitably’.

_The Chartered Institute of Marketing_

In one sense marketing is a functional department which manages channels to market with a number of activities and processes. More generally, marketing can be the customer focused orientation or philosophy of the whole business. Marketing aims to understand what customers want and need through research and results. More importantly, it looks at what they may need in the future. Marketing departments aim to mobilise the company to deliver customer value – what customers perceive as value and will buy.

Marketers must determine the needs, wants and values of a target market or group of customers. They need to adapt the organisation to deliver the desired satisfaction more effectively than its competitors.

A popular tool for reviewing this activity and ensuring the right products and services are delivered to markets is the ‘marketing mix’.

Context
In the current syllabus, CIMA students will learn and may be examined on this topic in Paper 6, Management Accounting, Business Strategy.

Related concepts
Customer relationship management; product management; brand equity; added value; brand management.
Overview

Developing a customer focus is important. It is crucial to understand what products, services and attributes customers actually value, so that the company can match the needs of the buyer. Employees can then understand how the firm is positioned relative to the competition and what customers want.

From this analysis, the company needs to know which customers it wishes to target and serve. Employees then need to focus on designing and delivering a total product or service offering. This needs to be attractive enough to the target customers to get them to purchase.

Application

The marketing mix in practice

A successfully positioned brand is one which is well understood. Messages to consumers must be in line with all aspects of the positioning to influence perception. This includes:

- Product and service – what we are selling?
- Price – what are we charging?
- Place of distribution – how is it purchased (shop, telephone, the Internet?)
- Promotion – how will we communicate it and encourage uptake?

This is called the four ‘P’s or the marketing mix. More recently, this has been adapted to the seven ‘P’s to reflect the marketing focus of service industries where there is a service, not a recognisable and tangible product. This might be a utilities company selling electricity, or a mobile phone company selling airtime.

In this environment the service, contact with individuals and tangible evidence of the brand such as adverts, brochures, and logos are arguably much more important.

The extra three in the marketing mix or the seven ‘P’s are:

- Physical evidence – such as literature, logos or designs
- Processes – for instance, a call centre
- People – for instance, the sales force, customer-facing staff.
### Figure 1: The marketing mix

<table>
<thead>
<tr>
<th>Product or service</th>
<th>Brand</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Packaging</td>
</tr>
<tr>
<td></td>
<td>Support service</td>
</tr>
<tr>
<td></td>
<td>Features and benefits</td>
</tr>
<tr>
<td>Price</td>
<td>Retail Price</td>
</tr>
<tr>
<td></td>
<td>Terms/wholesale price</td>
</tr>
<tr>
<td></td>
<td>Trade incentives/margins</td>
</tr>
<tr>
<td></td>
<td>Price as a promotional tool</td>
</tr>
<tr>
<td>Place</td>
<td>Distribution channel - physical</td>
</tr>
<tr>
<td></td>
<td>Distribution channel - online/web</td>
</tr>
<tr>
<td></td>
<td>Shop window</td>
</tr>
<tr>
<td></td>
<td>Selling channel - which outlets sell it</td>
</tr>
<tr>
<td>Promotion</td>
<td>Advertising - traditional and online</td>
</tr>
<tr>
<td></td>
<td>Promotion - to trade/or end user</td>
</tr>
<tr>
<td></td>
<td>PR/Publicity</td>
</tr>
<tr>
<td></td>
<td>Point of Sale display and merchandising</td>
</tr>
<tr>
<td></td>
<td>Sales Force</td>
</tr>
<tr>
<td>Physical evidence</td>
<td>Logos, brands, literature, references</td>
</tr>
<tr>
<td></td>
<td>Trademarks, designs</td>
</tr>
<tr>
<td>Processes</td>
<td>Contact centres</td>
</tr>
<tr>
<td></td>
<td>Service Level agreements</td>
</tr>
<tr>
<td></td>
<td>Guarantees/commitments</td>
</tr>
<tr>
<td></td>
<td>External verification (for instance, safety marks)</td>
</tr>
<tr>
<td>People</td>
<td>What staff say</td>
</tr>
<tr>
<td></td>
<td>Efficiency</td>
</tr>
<tr>
<td></td>
<td>Style of communication</td>
</tr>
</tbody>
</table>

### Product

The first consideration is what we are selling. In the case of a new product, research is required, particularly if it is not part of an existing brand. This is in order to understand if the product will meet the customer’s needs.
Product features and benefits

The American Marketing Association defines a brand or product as:

‘A term, sign, symbol, or design…intended to identify the goods and services, of one seller…and differentiate them from those of the competitors.’

A product must have features that the market wants. For example, would a car designed for a cold climate require air conditioning? Is colour important for a mouse trap? Marketers should strive to create unique features that competitors don’t have and that the customer would value.

For instance, the Sony Walkman combined hi-fi with sport to create portable music, which was a differential advantage in the 1980s. The Apple i-Pod took this further by providing the ability to have a virtual jukebox on an MP3 player, which also combined fashion and design. Creating this kind of advantage is termed a USP (Unique Selling Proposition).

These features can appeal to customers on the basis of actual or implied benefits, real or perceived, such as:

<table>
<thead>
<tr>
<th>Factor</th>
<th>Elements</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fashion</td>
<td>More modern, this year’s model or collection, new colour-ways, look and feel, aesthetic appeal</td>
<td>Gucci range</td>
</tr>
<tr>
<td>Functionality</td>
<td>Practical, longer lasting, scratchproof, hard wearing, waterproof</td>
<td>Timberland boots</td>
</tr>
<tr>
<td>Ingredients</td>
<td>Best technology, fastest, freshest, strongest, most washable, least fattening</td>
<td>Intel processors</td>
</tr>
<tr>
<td>Design</td>
<td>Ergonomics, touch, feel, texture, colour</td>
<td>Apple i-Pod</td>
</tr>
<tr>
<td>Smell</td>
<td>Freshest, distinctive, sweetest</td>
<td>Hovis bread</td>
</tr>
<tr>
<td>Taste</td>
<td>Sweetest, pleasant</td>
<td>Ben and Jerry’s ice cream</td>
</tr>
<tr>
<td>Speed</td>
<td>Fastest, most comfortable, powerful</td>
<td>Ferrari</td>
</tr>
<tr>
<td>Complexity</td>
<td>Most detailed, dynamic, depth</td>
<td>Nikon digital cameras</td>
</tr>
<tr>
<td>Appeal</td>
<td>Snob value, must-have accessory, better</td>
<td>Jimmy Choo shoes</td>
</tr>
<tr>
<td>Quality</td>
<td>Lasting, resistant, non-rusting, service</td>
<td>Toyota</td>
</tr>
</tbody>
</table>
A marketer wants to appeal to the customer so that the product is the automatic first choice and one that the buyer values and trusts. The performance of the product reinforces the choice, so it is crucial that it is fit for purpose and lives up to expectations. Otherwise there is a risk of bad word of mouth, lack of repeat purchase, and costly complaints and replacements. For instance, it took the Japanese car industry a long time to overcome the perception of rusting in 1970s Europe. They had to focus significantly on quality to overcome this perception.

**Brand**

Another source of competitive advantage is the brand itself. A product launched under the Virgin brand will have an initial advantage in that people know the name. They have initial perceptions about the type of product, and the likely satisfaction level (see Brand Management Topic Gateway).

Marketers are keen to develop brands because a new product under an existing brand is easier, cheaper and more likely to succeed than an unknown untested new product name. The ‘market positioning’ is already established, so from the marketers’ perspective:

- a premium can be charged by symbolising a strong image, quality and perception
- it is harder for the competition to attack
- average cost of customer acquisition is seven times higher for a new product or brand
- communication is easier, and can be built on the synergy of the existing brand
- line extensions are cheaper to advertise
- existing brand acts as a barrier to entry
- many products can be advertised together
- downstream distribution is guaranteed.

From the customer perspective, trust is all important. A trustworthy brand reduces the risk of purchase, gives a sense of reward, a guarantee of quality and service, and a reduction in decision making time. It also reduces the cognitive dissonance or self questioning after an expensive purchase. ‘Did I do the right thing, or will I regret it?’
Packaging

Distinctive packaging can help guide the customer to the product and can be a source of differentiation within a market sector. For instance, Cadbury’s always use the distinctive purple on their dairy milk chocolate range, while Easyjet planes are always white and orange. In telecommunications, Orange is always orange. Marketers change core colours at their peril. Shape is often used in fashion items. For instance, perfume bottles often have a distinctive and unique shape.

Price

Most markets have moved on from pricing on a cost plus basis. Essentially, a marketer should aim to achieve the best price possible which satisfies customers, adding value to the USP in return for profit. In practice, the key factors are supply and demand, competitor activities and market need and desire. The key factors in pricing are:

- production costs
- distribution costs
- marketing costs
- competition pricing and activity
- perceived value (by the customer)
- government influence
- trade requirements
- volume targets (high price/low volume versus low price/high volume).
There are a number of tried and tested pricing strategies:

<table>
<thead>
<tr>
<th>Pricing Strategy</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Penetration pricing</td>
<td>Enter market with special offer pricing to get market share quickly. This was used by utilities entering European deregulated markets.</td>
</tr>
<tr>
<td>Discount pricing</td>
<td>Tactically reducing price occasionally to steal competitor share.</td>
</tr>
<tr>
<td>Skim the cream</td>
<td>Start with a high price to get the early adopters and then gradually reduce. This happens in technology markets such as PCs and Hi-Fi.</td>
</tr>
<tr>
<td>Premium pricing</td>
<td>Adopt a platform of high prices and stick to it. For example, Rolex watches.</td>
</tr>
<tr>
<td>Cost plus pricing</td>
<td>Doesn’t work in a dynamic market but sometimes used in government contracts or controlled economies.</td>
</tr>
<tr>
<td>Going rate</td>
<td>Fitting the market price of competitors with like-for-like comparison.</td>
</tr>
<tr>
<td>Target pricing</td>
<td>Fixing price by market segments or distribution channels.</td>
</tr>
<tr>
<td>Price discrimination</td>
<td>For example, fixing a price too high (or too low) to exclude certain customers. For instance, some airport customers will pay extra to park in the short term or business car park while others won’t.</td>
</tr>
<tr>
<td>Quantum pricing</td>
<td>Fix price high and lowering until sales occur. For instance, Amazon Internet model.</td>
</tr>
<tr>
<td>Odd number pricing</td>
<td>Psychologically ending a price with a 9 makes it appear disproportionately cheaper. For example, £4.99 seems considerably cheaper than £5.00.</td>
</tr>
</tbody>
</table>

The most prevalent form of pricing is discrimination pricing. This can be achieved by:

- market segment – making it attractive to just a small niche
- place – for instance, making it available only in a certain store
- version control – for example, Windows XP releases
- time – it is cheaper per minute to buy broadband internet access than pay per view.

In the supply chain there is great flexibility in pricing if the customer is not the end user. One example is the traditional retailer model, whereby the seller can discuss discounts, margins, buy-in incentives, promotions and offers to influence stocking levels.
**Place or distribution channels**

Factors to consider are which channels to use to get the product to market. Traditional options are retailers, wholesalers, agents, resellers and distributors. The Internet has meant that product owners have been able to offer goods and services directly online by direct marketing activity. In some cases this has cut out the middle man (disintermediation).

Marketers need to ensure that there is co-operation in channel activities with the customer and that relevant partnerships are encouraged. They also need to co-ordinate shipping and activities to match launches and promotional activity. Other factors are brand control, ownership and risk management.

**Promotion**

Promotional activity is generally both:

a) Pull – using advertising to generate a demand from the customer
b) Push – encouraging the channels to stock the product

The promotional mix includes:

- advertising
- sales promotion
- direct marketing
- public relations and media
- selling
- exhibitions / conferences
- web activity.

The focus is on conversion of interest to purchase. The AIDA model is a good approach.

- Awareness – need to promote the product to generate customer awareness. This might be a long term promotion to generate awareness
- Interest – advertising and sales activity must present a succinct and robust reason to purchase. At its simplest, this might be ‘buy one get one free’ or a time-dated promotion.
- Desire – as a result, the customer wants to make a purchase.
- Action – the customer makes the purchase decision and arrives to buy.
At each stage, the buying decision needs to be reinforced. For instance, a TV ad may create awareness of a new car model. A magazine ad and a web search may lead to interest and desire. This is converted in the showroom by point of sale, literature and personal selling.

**Setting the budget**

The budget will be different depending on the life cycle, brand awareness and market factors. Is it a new product or is the aim to top up existing sales? For instance, the norm in the toy trade is around 15% ad/sales ratio.

**Physical evidence**

For service brands with intangible products like utilities, selling airtime or providing a service, physical evidence is very important. For instance, a university is dependent on the quality of its literature and imagery to sell the quality of the university to prospective students. Therefore, the logo, design, use of imagery, key words, style, tone and quality of thought that goes into literature and promotions is extremely significant. Differentiation has to be expressed in words and often relies on independent research and quotes to justify the buying decision.

**Processes**

With the absence of product, the processes have to be really good to achieve customer satisfaction. For instance, a book club or Fed Ex must have the item arriving on time to the customer. Complaints must be handled well, correctly and to market relevant speed. A pizza delivery firm cannot deliver cold pizzas. A taxi must turn up, and utilities bills and bank statements must be accurate. A worrying trend is global outsourcing which can represent a huge risk if quality standards fall.

**People**

Marketers depend on the quality of people to deliver marketing messages in a service environment. In this sense, the staff members are the brand since they represent the organisation to customers. A company needs to have values that staff members adhere to, such as the tone in which to address customers, support for the customer and training for operatives. It is important to have a culture of customer focus, relevant competences, professionalism and accountabilities. In addition, the staff need to understand the market proposition, why is the service better, what does the company offer that is better? In other words, what is the differentiation?
The biggest mistake is to treat the values as just words. For example, a large mobile telecommunications company which claims to be customer focused will not succeed if the reality is that it takes 20 minutes to get through to a ‘real’ human in a call centre and the operative then shows disinterest.

References

Further information
Articles
Full text from Business Source Corporate through My CIMA
www.cimaglobal.com/mycima
[Accessed 13 November 2008]


Available from: www.cimaglobal.com/insight
[Accessed 13 November 2008].


Wilson, J.L. *Want to attract top talent? Apply a marketing strategy*. Accounting Today, 5 January 2006, Volume 20, Issue 8, pp 24-37

Articles
Abstract from Business Source Corporate through My CIMA
www.cimaglobal.com/mycima
[Accessed 13 November 2008]


**Books**


**Websites**

Chartered Institute of Marketing (CIM)
All aspects of marketing covered and library resources.
Available from: [www.cim.co.uk](http://www.cim.co.uk)
[Accessed 13 November 2008]