

MARKETING: an introductory text
7th Edition

STUDENT'S GUIDE

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Introduction

Students of marketing need to know 'what they need to know'. In our experience, students need guidance on which concepts they should understand in order to pass an examination, or which marketing theory will help them to become better practitioners. The aim of this *Student's Guide* is to give the student a clear insight into marketing – to tell you what you need to know. Accordingly, this Guide should be seen primarily as an aid to revision. If you have worked methodically through the book you should have completed the review questions and problems at the end of each chapter. These are designed to test your knowledge and understanding of each topic before proceeding to the next chapter. Before doing so you should also return to the Learning Goals set out at the beginning of each chapter to see if you think you have achieved them. If not, find the appropriate section in the text and study it again.

This Guide is designed to provide a concise summary of the scope of each chapter together with the kinds of questions you are likely to be asked in an examination. It also offers advice on preparing a written analysis of a case study. Such assignments are usually designed to test your diagnostic skills and ability to identify the relevant knowledge and theory to assist in addressing the issues you have identified in the case study.

The *Student's Guide* achieves this in the following key ways:

1. By providing concise summaries of each chapter, and
2. By providing 105 key questions about marketing – and the location of the answers in the textbook.

Written analysis of cases

It is acknowledged that case studies are usually employed as the focus for a classroom discussion and they are being used increasingly as the basis for a written assignment.

There are many excellent, stand-alone, case study books available and this section of the guide provides you with an aid to help analyse cases and report on them in written form. It will familiarise you with:

1. The purpose of using case studies as a basis for classroom discussion and formal examination.
2. Approaches to defining problems and developing a formalised approach to problem-solving.
3. The objectives of problem analysis.
4. The conduct of internal and external audits (see also Chapters 2 and 22).
5. Problems associated with the quantity and quality of information.
6. The structure and presentation of formal reports.

Diligent use of the *Student's Guide* will facilitate your exam revision process and help you to become better marketers.

Good luck.

Chapter 1 What is Marketing?

1.1 Chapter summary

In the past 45 years 'marketing' has been transformed from a little-known, and somewhat suspect, practice into a major academic discipline widely studied at both the undergraduate and postgraduate level. Even more important, marketing has come to be seen as an approach to exchange relationships which drives and informs the strategies of every conceivable kind of organisation – profit-making business and not-for-profit organisations such as universities, hospitals and charities. But, despite the widespread interest in the subject of marketing, there is still considerable confusion and not a little scepticism as to the exact nature and scope of the topic. The objective of this book is to make clear what marketing is and, in the process, eliminate any confusion and/or scepticism as to its importance to and value for society.

As a first step in the process the chapter traces the origins and development of the modern marketing concept, from which it will become clear that the practice of marketing dates back to prehistoric times. In turn this raises the question, 'How modern is modern marketing?'; the answer will demonstrate that it is not an American invention of the second half of the 20th century as many people mistakenly believe. Our review will also make it clear that marketing is both a concept and a practice, and this has important implications for the adoption and implementation of marketing thinking.

To conclude this introductory chapter we look briefly at the theoretical basis of marketing, the emergence of 'relationship marketing' and the scope, nature and boundaries of the subject. Finally, the role of marketing and its various functions which underpin the structure and development of the rest of this introductory text are reviewed.

1.2 Chapter questions and answer locations

No.	Question	Answer page
1	Define 'marketing'	5-7
3	What are the key differences between transactional marketing and relationship marketing?	25
2	How modern is modern marketing?	19-20
4	What is marketing's 'domain'?	27

Chapter 2 Marketing in Practice

2.1 Chapter summary

There are numerous books which are devoted solely to the subject of strategy – its definition, formulation and execution. In this chapter we touch on some of the bare essentials, but it is felt to be important to introduce them to students early on as the whole purpose of marketing – both concept and function – is to help structure and improve both the efficiency and effectiveness of exchange relationships with the ultimate goal of maximising satisfaction from the consumption of scarce resources. Accordingly, in this chapter we seek to define the nature of strategy and strategic planning as well as the concepts of organisational culture and the product life-cycle, for the latter defines the inevitable pattern of change within which the firm must exist and the former the way the organisation chooses to approach and deal with its survival and growth. This consideration leads naturally to the concepts of market opportunity and competitive advantage, which underlie all successful strategies.

In order to formulate a strategy it will be argued that one must carry out a marketing audit which will take in both the external threats and opportunities which exist in the competitive environment as well as the firm's own strengths and weaknesses. Based upon such an analysis the firm will wish to articulate clear objectives both to provide direction for the firm's efforts as well as milestones to record progress and achievement. In developing such objectives it will be shown that the firm has only a small number of strategic alternatives available to it, and techniques for identifying and selecting these will be proposed.

Once a core strategy has been defined, its effective execution will depend upon the optimal selection of the elements of the marketing mix – the combination of product, price, place and promotion – and this notion will be introduced for extended development in Part Three of the book. In selecting the optimal marketing mix it is vital that the firm have a clear view of how it wishes to position itself against its rivals; thus, the idea of 'positioning' will be introduced and described.

2.2 Chapter questions and answer locations

No.	Question	Answer page
5	How would you define 'real' marketing?	35-6
6	What is the product life-cycle?	42-5
7	Explain the notion of 'competitive advantage'.	47-9
8	What is the 'marketing mix' and from where was the concept derived?	51-3
9	What is Ansoff's growth vector matrix?	53-4
10	Explain the concept of 'positioning'.	55-7

Chapter 3 Demand and Supply

3.1 Chapter summary

Most students of marketing have pursued an introductory course in economics and are familiar with the concept of demand as a function of price. According to this concept, the quantity of a good or service which will be purchased is dependent upon its price, such that the higher the price the less will be demanded, and vice versa. This relationship is frequently expressed in tabular form as a demand schedule, and is depicted graphically as a demand curve.

In the real world it is clear that many factors other than price affect demand, and the exclusion of such factors is often seen as invalidating economic price theory. Such an attitude misses the point that economists are seeking to define an essential functional relationship with which they may then investigate the effect of other independent variables upon the dependent variable, demand. It is not proposed to investigate the sophisticated techniques developed by economists which validate the basic theory, however; attention here will be concentrated on the nature of these other, independent variables.

In this chapter we look first at the distinction between needs and wants as determinants of choice. Next, we examine some of the major influences on demand, with particular emphasis upon the socioeconomic and psychological factors.

Our review of 'supply' examines the nature of products and services, and proposes the adoption of Copeland's classification of products as a useful diagnostic. This is followed by consideration of the underlying factors that determine the amount customers are prepared to pay for a supply of goods – the concept of price elasticity.

The chapter concludes with a brief discussion of the importance of differentiation in developing a marketing strategy, and introduces the subject of branding.

3.2 Chapter questions and answer locations

No.	Question	Answer page
11	Why is a knowledge of Demographics important for marketers?	62-9
12	What distinguishes need from wants?	69-72
13	What is a product?	74-9
14	Explain how the shape of the demand curve might influence marketing strategy.	79-84

Chapter 4 Environmental Analysis

4.1 Chapter summary

In Chapter 1 it was proposed that marketing is concerned essentially with mutually satisfying exchange relationships. It was further proposed that as our ability to increase the supply of goods and services has grown, so it has become possible to pay closer attention to the specific needs of more clearly defined subgroups of consumers and to cater for these market segments through the provision of differentiated products. In the affluent industrialised economies such as the United States this potential to create an excess supply of any particular good or service greatly increased competition between the suppliers of such goods and services and led to what we have termed the rediscovery of marketing. No longer can suppliers be sure that their assumptions about the nature of demand are correct and are unlikely to change. A table in the text lists a number of cherished assumptions which are now thought to be obsolete. To readers brought up in the 1990s it probably seems incredible that anyone could have ever held such assumptions in the first place, but for many years it was assumptions such as these that underpinned most of the strategic thinking and planning of many of the world's most successful organisations.

In this chapter we examine some of the factors which have resulted in the need not only to revise our former cherished assumptions but to continuously monitor and review those which enjoy currency today. While it has become a cliché to talk of the pace of accelerating change, all the evidence points to the fact that this reflects reality and that, since it is competition which fuels the pace of change, we can look forward to even greater change in the future as international competition intensifies. Accordingly, in this chapter we seek to identify some of the major changes which offer both threats and opportunities to the continued existence of an organisation. In order to cope with this change it will be suggested that an organisation must take formal steps to monitor the environment in which it is operating and intends to operate in the future. Three broad approaches are proposed, namely: weak signal management as developed by Ansoff; QUEST (Quick Environmental Scanning Technique), the methodology first proposed by Burt Nanus; and, third, a formal environmental scanning activity as an element in the marketing information system.

Finally, the chapter looks briefly at the application of environmental analysis at the macro or national level and at the micro, organisational or 'task' level. The latter is often referred to as a marketing 'audit' and is returned to later in the book.

4.2 Chapter questions and answer locations

No.	Question	Answer page
15	Identify some of the major changes you anticipate might occur over the next decade	95-6
16	What is an environmental analysis?	100-2
17	What is weak signal management?	106

Chapter 5 Industry, Competitor and Self-Analysis

5.1 Chapter summary

Unlike many other marketing texts, this book deliberately includes a chapter which looks at the structure of industry, theories of competition, and the interaction of demand and supply at the macro level. The author is firmly convinced of the importance of a chapter of this kind which provides a sound theoretical foundation for the development of our new synthetic discipline of marketing. Whether marketers like it or not, their discipline is centrally concerned with the solution of economic problems in a social and behavioural context.

In this chapter we look first at the structure of industry before examining the phenomenon of concentration in some detail. Attention is then turned to theories of competition and the interaction of supply and demand at the macro level, and this is followed by a discussion of competition and market structure. Chapter 5 then explores micro aspects of supply and demand in more detail in discussing approaches to the analysis of the firm's customers and its competitors. Finally, analysis of the firm's own strengths and weaknesses by means of a marketing audit is explained.

Students of economics may well be familiar with the content of this chapter, while others may consider it peripheral to a marketing textbook. The reason for the chapter's inclusion is that marketing is all about securing competitive advantage and that competition occurs within markets served by firms which belong to particular industries. As has been argued in the previous two chapters, it follows that the practice of marketing at the level of the individual firm is determined largely by external factors within which the firm has to operate. A knowledge of the structure of markets and competitive behaviour is thus essential to the identification of market opportunity, the development of effective marketing strategies, and their efficient and profitable execution. This view has been greatly reinforced by the fact that industry analysis of the kind advocated here has been central to the highly influential writings of Michael Porter of the Harvard Business School.

Without in any way wishing to detract from Michael Porter's seminal contribution to competitive analysis and strategic planning at both the national and firm level, he would be the first to acknowledge that his insights developed from his study of the field known as Industrial Economics at Harvard College. It is against this background that this chapter has been developed.

5.2 Chapter questions and answer locations

No.	Question	Answer page
18	What factors lead to structural change in an industry?	118-22
19	What is the relationship between competition and market structure?	124-6
20	How would you analyse your main competitors?	131-6
21	Explain SWOT analysis.	139-142

Chapter 6 The Business System – Channels of Distribution

6.1 Chapter Summary

In earlier editions Channels of Distribution was the subject of a single chapter. For this edition we have split it into two. This chapter is concerned with the formal systems and structures which have developed over time to facilitate the physical transfer of goods from the raw material stage into final consumption. The next chapter looks at how this is achieved through the retail system.

Place and *location* have played a fundamental role in the evolution of exchange and the development of marketing, and this chapter discusses this important element of the marketing mix in more detail. Originally, the market was a physical location where people could exchange surpluses – at first in kind (barter or countertrading) and subsequently through a medium of exchange such as money. The opportunity to exchange surpluses and thereby increase satisfaction encouraged task specialisation which, in turn, increased productivity and output. However, early settlements were severely limited in their production/consumption opportunities by virtue of the raw materials or factors of production available to them. Over time, trade between settlements developed and further specialisation of function occurred based on the exploitation of natural local advantages. It was observation of this phenomenon which prompted Ricardo to formulate his *theory of comparative advantage* in which he demonstrated that through specialisation and exchange two countries could both gain even though one country had a natural advantage (that is, was more cost-effective) in producing both the products which were to be exchanged.

More recently, Michael Porter (1990) in his *The Competitive Advantage of Nations* has argued that the classical theory based on the concept of factor endowment 'is at best incomplete and at worst incorrect' as an explanation of the competitive performance of nations. Porter's thesis is that while a natural endowment is important, it is the way such endowments are used which is important. He points to the fact that in many cases, such as Japan, factor deficiencies have acted as a spur to innovation and superior performance. However, one does not need to develop the argument further to appreciate that the potential to innovate and specialise will only add value and increase satisfaction if the goods produced can be made available to users and consumers who have a demand for them. To achieve this requires the existence of channels of distribution and of specialists and intermediaries to facilitate the flow of goods from producers to consumers. Specifically, it is this topic which forms the subject of this chapter.

The chapter begins with a definition of the nature of distribution systems and the five essential functions that they perform. Attention is then given to the basic distribution alternatives – direct sale, sale through an intermediary, and a hybrid approach – and the relative advantages and disadvantages of each.

In Chapter 5 we introduced the idea of the value chain as a means of identifying where value is added in transforming resources – physical and human- into goods and services. This chain begins with raw materials and we give substantial attention to the extraction and processing of these, and the channels through which they are made available to users/customers. Similar importance is given to describing the distribution of industrial goods and the nature of what is now known as 'business-to-business' marketing.

While the coverage is more broadly based than that found in most other introductory

texts, we believe this emphasis is justified because primary and secondary industry are responsible for the creation of the goods and services that determine what is available to the ultimate consumer, which is the principal focus of most marketing books and courses. Without an adequate understanding of the factors that underpin the marketing of consumer goods it is difficult to appreciate the threats and opportunities faced by marketers serving these markets.

6.2 Chapter questions and answer locations

No.	Question	Answer page
22	What are the primary functions of distribution channels?	150
23	Summarise the advantages and disadvantages of the basic distribution alternatives.	152-3
24	Summarise some of the key factors that influence the distribution of industrial goods.	162-3
25	What factors are claimed to distinguish B2B marketing from B2C marketing?	163-5

Chapter 7 The Distribution of Consumer Goods – Retailing

7.1 Chapter summary

The importance of Retailing in service dominated economies prompted the creation of a separate chapter in this edition. While successful retailing depends on exactly the same factors and principles as any other business activity, there has been a 'revolution' in retailing practices during the past 50 years or so. Further, with the arrival of the Internet, and the opportunity to buy directly from suppliers online, retail competition continues to evolve and has become a major field of study in its own right.

Retailers are the final link in the distributive chain and may be responsible for a number of important marketing functions. Seven possible functions are identified and each is discussed in some detail. Next we look at the structure of the retail trade. As noted there have been major changes in recent years and the remainder of the chapter examines the nature of these developments.

Developments in retailing generally conform to the so-called 'wheel of retailing' theory which proposes that new types of retailers usually enter the market as low-status, low-margin, low-price operators and keep trading up until they become high cost/high price, and vulnerable to new low cost competitors.

Grocery stores in the UK account for over £115 billion in annual sales and are dominated by four major supermarket chains. The structure of the trade and the assortment of goods offered are described in some detail as are convenience stores, discount stores, mail order and franchising.

The chapter concludes with an evaluation of the advantages and disadvantages of the various retailing channels available to the manufacturers of consumer goods and an outline of future trends. (e-tailing, or the sale of goods via the internet, is included in the final chapter which looks at major trends in marketing as a whole).

7.2 Chapter questions and answer locations

No.	Question	Answer page
26	Outline the major marketing functions that may be performed by retailers	172-6
27	What social and environmental factors have prompted changes in the retail trade in recent years?	176-7
28	Describe and explain the growth and impact of supermarkets on the retail trade.	183-4
29	What channels are available to consumer goods manufacturers and what are their major advantages/disadvantages?	193-4

Chapter 8 Consumer Behaviour

8.1 Chapter Summary

'Consumer behaviour' has been defined as 'those acts of individuals directly involved in obtaining and using economic goods and services, including the decision processes that precede and determine these acts' (Engel, Blackwell and Miniard, 1995). This definition enjoys a very wide measure of support in the majority of texts concerned primarily with consumer behaviour as a field of study in its own right, but it is important to stress that such an emphasis upon individuals tends largely to ignore an equally important area of consumption behaviour – that of organisations.

In this chapter we will accept the traditional approach in which discussions of consumer behaviour are focused upon individuals or ultimate consumers and their consumption behaviour – that is, what they consume, how they buy, and why. In doing so it will be necessary to review a number of key concepts and ideas which have been borrowed from other behavioural sciences – notably, psychology and sociology – before considering how these ideas have become incorporated in composite models of consumer behaviour. To this end we look first at contributions from psychology: namely, perception, learning, personality, motivation and attitude. Attention is then directed to social influences on consumer behaviour with specific reference to culture, social class, reference groups, role and family influence, with that section concluding with a discussion of lifestyle as an explanation of how and why people consume, which illustrates how the psychological and sociological foundations have been built upon by marketers. This theme is further developed by a survey of some of the major models of consumer behaviour which illustrate the main schools of thought, concluding with Baker's composite model of buying behaviour.

8.2 Chapter questions and answer locations

No.	Question	Answer page
30	What are the five steps of the model of the buying decision process?	201-3
31	Explain the concepts of 'perception' and 'selective perception'.	204-8
32	What is the theory of the hierarchy of needs (Maslow)?	212
33	Why is the EV model of attitudes theoretically more acceptable than the CAC model?	217-20
34	What is 'social class', and how is this concept of value to the marketer?	222-3
35	What is meant by 'psychographics'?	228
36	What are the two broad paradigms of consumer behaviour?	229-30

Chapter 9 Organisational Buying Behaviour

9.1 Chapter summary

In the preceding chapter the emphasis was on individual behaviour and the influence and consequences of this in terms of buying or consumption decisions. In this chapter our attention is focused upon the way the same individuals behave when faced with the responsibility of acting on behalf of an organisation, and often as part of a decision-making unit (DMU) or buying group.

At the outset it must be stressed that, in exactly the same way that it was argued that while one can discern many differences between the marketing of consumer and industrial goods, it is important not to overlook the similarities. So, in the case of individual and organisational buying behaviour, one must be careful not to overlook the fact that the process is the same. Thus the generalised model of buying behaviour presented at the end of Chapter 8 is believed to be just as applicable to both individual and group buying decisions, although it is immediately acknowledged that groups may undertake a much more formal and rigorous approach than do most individuals.

The purpose of this chapter is to identify and describe some of the more salient features of organisational buying behaviour and point out the similarities and differences between it and individual behaviour. To this end we shall first review the better-known models which seek to describe and analyse the nature of the organisational buying process. Having established a broad framework which defines the general process we then look more closely at some of the more important constituent elements, beginning with the composition and activities of the buying group, together with the influence of various factors – organisational, environmental and product-related – upon these activities. Finally, we examine the stages of the purchasing process, or ‘buy-phases’ as they are frequently called.

9.2 Chapter questions and answer locations

No.	Question	Answer page
37	What are Sheth’s three distinct dimensions of organisational buyer behaviour?	246
38	How does the IMP Group’s model of OBB differ from earlier models?	250-1
39	What is a ‘buying group’ or ‘buying centre’, and what factors influence the composition of the group or centre?	251-4

Chapter 10 Market Segmentation

10.1 Chapter summary

From reading Chapter 1 it should be clear to students that, while there are many definitions of marketing, there is only one marketing concept. However, it is also true that many criticisms of marketing are prompted by misunderstanding and/or misapplication of this concept. Usually, the 'mistaken marketing concept' is interpreted as 'the customer is always right', which, in many cases, is a sure road to commercial ruin. In reality the marketing concept advises that we should establish user needs and determine if, how and to what extent it may be possible to satisfy these given one's existing and potential resources, to the mutual benefit (profit) of both parties to the exchange.

Clearly the 'real' marketing concept requires the marketer to steer a careful course between regarding every individual as a discrete marketing opportunity and considering all customers as being the same. From the preceding chapters on consumer and organisational buying behaviour it is apparent that one can either disaggregate a population into separate groups or subgroups, or else aggregate individuals into subgroups, groups or populations through the use of a variety of distinctive features which must be possessed by those within the group but are absent from those excluded from it. In marketing, this process is known as market segmentation.

In this chapter we look first at the concept of market segmentation and the benefits associated with the practice. Next we examine the basic approach to segmentation as a preliminary to a more detailed review of segmentation methods in consumer, industrial and international markets. Finally, we consider how segmentation techniques may be applied and assess their role in marketing planning.

10.2 Chapter questions and answer locations

No.	Question	Answer page
40	What is 'market segmentation'?	264-6
41	What are the major bases for segmenting markets?	267
42	Define geodemographic segmentation.	269
43	What is 'preference segmentation'?	277-8
44	Market segments must possess four distinct characteristics. What are the four characteristics?	286-7
45	How does market segmentation relate to 'targeting' and 'positioning'?	288-9

Chapter 11 Marketing Research

11.1 Chapter summary

It is not without significance that this chapter is entitled 'Marketing Research' as opposed to the more familiar title 'Market Research'. Although some might consider it pedantic that a distinction be drawn between the two, it is reasonable to say that most of the published literature on market research is, in fact, concerned with marketing research in that it deals with the question of research in relation to marketing on a much broader front than is implied by the former description. We feel that it is important for students of marketing to understand this distinction early in their careers. By definition, market research is concerned with measurement and analysis of markets, whereas marketing research is concerned with all those factors which impinge upon the marketing of goods and services, and so includes the study of advertising effectiveness, distributive channels, competitive products and marketing policies, and the whole field of consumer behaviour.

Given that marketing research is a major sub-field of marketing, and the basis of a flourishing professional practice, this is one of the longest chapters in the book. The objective of marketing research is defined as a preliminary to exploring the collection and evaluation of marketing information. First, we look at the kind of information, data or knowledge that is available in existing published or **secondary sources**. Next we examine the ways and means of collecting new data from original or **primary sources**.

Two main kinds of data are distinguished – qualitative and quantitative – and it is concluded that most research calls for a combination of both types.

Three principal research methods are identified – observation, experimentation and survey – and discussed in some detail. The chapter concludes with brief overviews of several topics including Bayesian analysis, database marketing, and organising for marketing research.

11.2 Chapter questions and answer locations

No.	Question	Answer page
46	Distinguish between 'market research' and 'marketing research'.	297-9
47	Distinguish between 'primary data' and 'secondary data'.	300-2
48	What is 'qualitative research'? What is 'quantitative research'?	302-6
49	What do you understand by the term 'sampling'?	316-7
50	What are the main pitfalls of questionnaire design?	328-30
51	What scaling methods are used in marketing and what are their properties?	331

Chapter 12 Product Policy, Planning and Development

12.1 Chapter summary

A cardinal principle of marketing is that firms should seek to determine the multidimensional nature of consumer demand, and then deploy their resources in the creation of products which will satisfy these demands. Acceptance of this principle recognises that the firm's ultimate success, whether measured by total profits, return on investment, market share or any other criterion, is largely dependent on its product policy.

Earlier (Chapter 5, Demand and Supply), we looked briefly at the 'product' in theory and practice. In this chapter we extend this preliminary review into a consideration of the product as one, and perhaps the most important, of the four Ps. To begin with we discuss the role of the product and its relationship to user needs and practices. Next, we examine the role of product policy and return to the concept of the product life-cycle (PLC) also introduced in Chapter 2.

The PLC concept underlines the inevitability of change in the marketplace as a result of innovation and competition. As a consequence, firms must constantly seek to improve on existing products and look for new ones. Accordingly, we seek to define what constitutes a 'new' product prior to a look at the role of new product development (NPD) and the importance of new products. While a firm can modify or extend its product line in a number of ways, all of these are the outcome of a process with a number of distinctive stages usually distinguished as: exploration, screening, business analysis, development, testing and commercialisation. Each of these phases is discussed briefly and raises issues concerning the organisation of NPD activities.

To conclude the chapter we introduce the idea of product portfolio analysis and the importance of having a clear policy for removing or eliminating declining products from the product line.

12.2 Chapter questions and answer locations

No.	Question	Answer page
52	What is a 'product'?	348-9
53	What are the arguments for and against the product life cycle as a diagnostic for marketing planning?	355
54	What is the product portfolio matrix?	374-6

Chapter 13 Packaging

13.1 Chapter summary

Surprisingly few marketing texts devote much attention to the role of packaging as an element in the marketing mix. When one considers that the UK packaging industry has an annual output of £10.9 billion, it is clear that packaging costs are a major marketing expenditure and deserve fuller treatment.

The present lack of attention is partially attributable to the tendency to classify packaging as a production cost, so that it is seldom isolated in the way that expenditures on advertising and promotion are. In part it is also attributable to the practical function which the pack performs, which tends to shield it from public scrutiny of the type directed at promotional expenditures whose practical virtues are less easily discernible. In reality, packaging costs often exceed all other marketing costs and, in some instances, constitute the major element of total cost.

In many cases the increased use of packaging materials and their rising costs have given rise to the observation that 'We may soon reach the situation where the plastic and cardboard wrapper around four tomatoes or half a dozen nails costs more than the goods involved.' In absolute terms it is quite clear that packaging costs have increased significantly in recent years, as can be seen from the tables in this chapter in the text.

Nowadays packaging is an extrinsic product attribute which is seen to have as much influence on the buyer's perceptions and behaviour as other such attributes as price, brand name and level of advertising. In this chapter we look first at basic packaging functions and the requirements which packaging must satisfy – distributor, consumer and legal. We then review packaging as a discrete variable in the marketing mix and conclude with a discussion of future trends and environmental concerns

13.2 Chapter questions and answer locations

No.	Question	Answer page
55	What are the six utilities of packaging?	384
56	Identify the environmental factors that influence packaging decisions	385-7
57	What do consumers look for in packaging?	390-2
58	Summarise likely future trends in packaging.	397-400

Chapter 14 Branding and Brand Management

14.1 Chapter summary

In earlier editions only passing reference was made to branding in association with other topics like consumer choice, product development and packaging. However, as the result of the increasing difficulty experienced in differentiating one supplier's offerings from another's on the basis of physical features, branding and brand management have moved to centre stage. Accordingly, this **new** chapter explores some of the more important aspects of the history, theory and practice of branding.

First, we trace the origins and history of branding so as to understand why it has become such an important element in marketing (unfortunately, it doesn't begin with a P!). This review shows that brands can serve many purposes of which the most important are identifying the source of a product or service and using it as a means of differentiating between the offerings of suppliers of closely competing products. Brands represent a summary statement of the attributes, features, benefits and values we expect from specific products and services and, through knowledge and experience, enable us to avoid risk and make choice decisions quickly and simply.

At the very heart of branding are questions about brand identity and the image that potential customers have of it. These are discussed at some length and lead into a discussion of brand strategy. Next, we look at the notion of brand equity. While this is a complex subject, we adopt Feldwick's view that it comprises three basic elements – value as an asset of the owner; a measure of customer loyalty; and the beliefs and values that consumers have about it.

The notion of brand loyalty and its importance are implicit in one of our earlier definitions of marketing as "Selling goods that don't come back to people who do". Much research has confirmed that it costs 5 times as much to create a customer as it does to keep one with the result that building and retaining loyalty through customer relationship management has become a major concern of marketing management and this is described in some detail. Finally, we revisit the subject of positioning and the use of perceptual mapping to establish a unique place in the consumers perception.

14.2 Chapter questions and answer locations

No.	Question	Answer page
59	What are the main features of modern branding?	406-8
60	Summarise the key elements that comprise brand identity.	409
61	How would you set about establishing the associations consumers have about different brands?	411-2
62	What is brand equity, and why is it important?	417-20
63	Explain and account for the interest given to customer relationship management	420-3
64	Discuss the role of positioning in brand strategy	424-5

Chapter 15 Pricing and Price Policy

15.1 Chapter Summary

As students saw in Chapter 3, when discussing demand and supply, price is the mechanism which ensures that the two forces are in equilibrium. In other words, if demand exceeds supply then the price will rise to the point where the volume demanded by those willing and able to pay that price is equivalent to the volume available. Conversely, if supply exceeds demand then prices will fall until sufficient new buyers have entered the market to ensure the consumption of the available supply. Thus it is the price mechanism which determines whether firms will wish to enter or leave a given market because of the returns which may be earned on a given investment of resources. It follows that if all markets were perfect and infinitely flexible, then the return on investment would be the same in them all.

Of course these conditions do not prevail and the aim of the investor/entrepreneur is to get out of industries where returns are falling and into those where they are rising – usually because demand exceeds supply. But what will happen if the overall capacity to supply exceeds the overall capacity to consume? The answer is obvious – in the short run, factors of production will be surplus to requirements and become idle. During a recession and, in the short-to-medium term at the microeconomic or firm level, the emphasis is more than ever on survival and the need to ensure that revenues, which depend on the volume sold and the price earned, exceed the costs of producing, distributing and selling that volume. Clearly, costs and prices must be primary considerations in the development of a marketing strategy.

The present propensity to produce more than we can consume is not entirely new, for as we saw in the opening chapter, it was the threat of such a situation at the beginning of the last century which led to the 'rediscovery' of the marketing concept. It also led to the emergence of product differentiation supported by promotional effort as the preferred competitive strategy. Foremost among the reasons for this change of emphasis from a concern with producing the largest volume at the lowest cost, was recognition of the fact that if products are perceived as homogeneous then consumers will prefer the lower-priced offering, and that economies of scale will invariably mean that the firm with the largest output will have the lowest costs and so be able to undercut its rivals. More correctly, it is the firm with the largest market share which will enjoy the maximum benefits of the scale and experience effects, and it will use its cost advantage to maximise its returns and/or dominate its immediate competitors. In such a situation the firm with a lesser market share either has to accept the going market price, or it can seek to position its product in such a way that it will be perceived as different by a sufficient number of customers so that in effect it will have its own little monopoly and can charge a differentiated price (hence, *monopolistic competition*). It is for these reasons that while price occupies a central role in economic theory, in marketing it tends to be relegated to a secondary role, and much more attention is given to other elements of competitive strategy and the marketing mix.

In every field of marketing activity the suppliers' emphasis on new product development and differentiation confirms their reluctance to compete on price alone. That said, it is clear that no seller can ignore the price dimension, albeit that, as the composite model of buyer behaviour proposed in Chapter 8 indicates, consumers will place more emphasis on fitness for purpose in shortlisting products for possible purchase. The more similar the products the more important price will be in determining the final choice, and only if both

product and price are very similar indeed will the subjective association created by promotion have a significant influence on that decision.

The paradox is, therefore, that while price may not be the most important element in competitive strategy, and receives comparatively little attention in the marketing literature, it can never be far from the strategist's thoughts. In other words, a competitive price is a necessary but not sufficient condition for marketing success. Further, in the short term, price may be the most effective tactical weapon, as discussed in detail in this chapter and also when considering the role of sales promotion, particularly in a recessionary environment. These issues have been thrown into sharp relief as a result of the growing competition from low cost emerging economies – especially China and India.

To begin with we review the objectives firms seek to achieve through their price policy, and then look at the methods they use in setting price. Two broad strategies – penetration and skimming – are discussed. The buyers perception of price and their use of it as an indicator of quality complete the chapter.

15.2 Chapter questions and answer locations

No.	Question	Answer page
65	Explain the concept of 'elasticity of demand'.	79-84
66	What is full-cost pricing?	445
67	Explain the concept of 'marginal cost'.	447-8
68	Distinguish between 'skimming pricing' and 'penetration pricing' strategies.	452-3
69	How can price influence consumers' perceptions of product quality?	453

Chapter 16 Channel Management

16.1 Chapter summary

In Chapters 6 and 7 we discussed channels of distribution, in some detail. In those chapters our intention was to describe the functions of distribution channels and then elaborate these by looking at the existing patterns for raw materials, and industrial and consumer goods. In this chapter the emphasis is on distribution as an element of the marketing mix which the marketer has to consider when developing a marketing plan.

To begin with we offer some definitions as a basis for a discussion of channel structure. Next, we consider some of the determinants of channel policy which influence the channel decision and the selection of a particular strategy. Having chosen a channel it is necessary to manage the relationship with intermediaries, which raises issues of conflict, control and performance measurement. To conclude the chapter we summarise some current trends and look briefly at the subject of logistics or physical distribution.

16.2 Chapter questions and answer locations

No.	Question	Answer page
72	What is a vertical marketing system?	469-71
70	Identify the factors that influence the structure of a channel.	462-4
71	Summarise the characteristics that define the three basic Channel options	466-7

Chapter 17 Marketing Communications

17.1 Chapter summary

This is the first of four chapters dealing with the fourth P of marketing – Promotion. The purpose of this chapter is to provide an overview of marketing communications or ‘marcoms’.

Marcoms fall into two broad categories – personal and non-personal – but the prevailing view is that they need to be combined into an integrated marketing communication or IMC strategy. However, to do this one must first understand how the different promotional techniques work in isolation and these are the subjects of the following three chapters. To begin with though one requires some knowledge of the theories and concepts that underpin all aspects of marketing communications. These are the subject of this chapter.

To begin with we define the main types of marketing communication and then the process of communication itself. The question of how communication actually works is a complex one and a variety of explanations are suggested. Particular attention is given to the way in which information spreads or ‘diffuses’ through a community, and the ideas of opinion leaders and adopter categories are introduced. In turn this leads to a discussion of ‘source effect’ - the apparent influence that the communicator and medium have on the audiences’ reception and interpretation of the message.

Next, we look at the role of communication in the marketing mix before concluding with a review of marketing communications as information processing.

17.2 Chapter questions and answer locations

No.	Question	Answer page
73	Summarise the main types of marketing communication	479-80
74	Describe the basic model of communication.	480-2
75	What is diffusion theory and what relevance has it in helping to explain marketing communications?	485-8
76	What role do the message and the medium play in marcoms?	492-3
77	Discuss the arguments in favour of regarding marcoms as a form of information processing.	495-6

Chapter18 Mass Communication

18.1 Chapter summary

In previous editions this chapter was called 'Advertising'. With the growing influence of the Internet a more appropriate distinction now is between mass communication and direct marketing. Accordingly, two separate chapters have been developed for this edition.

Essentially advertising is a means of spreading information. This is too broad a description, however, to be useful as a definition, or to distinguish it from other forms of communication. The American Marketing Association (AMA) has adopted the following as a definition: Any paid form of non-personal presentation and promotion of ideas, goods or services by an identified sponsor. This is certainly a very succinct statement and merits some elaboration. First, advertising is paid for – it is a commercial transaction – and it is this which distinguishes it from publicity. It is non-personal in the sense that advertising messages – visual, spoken or written – are directed at a mass audience, and not directly at the individual. Finally, advertisements are identifiable with their sponsor or originator, which is not always the case with publicity or propaganda.

The chapter opens with some definitions of advertising and the basic objectives it seeks to achieve, followed by a review of the evolution of advertising. This leads to a discussion of the present structure of the advertising industry supported by some key industry statistics.

Next we examine the role of advertising in the marketing mix and the advertiser's approach to managing the function. In turn, this leads to a discussion of the other major participants in the industry – advertising and other specialist agencies, and the media.

Agency selection and the distinguishing characteristics of the major media follows, together with the question of how to combine these to best effect in an advertising campaign. Setting the advertising appropriation and measuring effectiveness are also reviewed.

The chapter concludes with some coverage of the economic and ethical issues associated with advertising and a brief overview of public relations.

18.1 Chapter questions and answer locations

No.	Question	Answer page
78	What are the key advertising objectives?	504
79	What five goals may advertising be used to achieve as an element of the marketing mix?	511
80	Summarise the key considerations to be taken into account when evaluating advertising media.	517-9
81	How are advertising budgets set?	536-8
82	How is the effectiveness of advertising assessed?	538-43
83	'Advertising is wasteful'. What are the arguments for advertising?	544-7
84	What is 'public relations'?	548-50

Chapter 19 Direct Marketing

19.1 Chapter summary

The distinguishing feature of direct marketing, and the reason why we believe it deserves a chapter of its own, is that it involves a direct interaction between the buyer and the seller. Further, with increasing pressure to measure the return on promotional expenditure, and the development of new channels of communication like the Internet, there has been a swing away from mass advertising toward direct marketing, increasing its importance.

The chapter opens with a definition of direct marketing and a discussion of its distinguishing characteristics. These then lead to a review of the key steps involved in developing a direct marketing campaign and the main alternatives available.

Specific attention is given to telemarketing, direct broadcast media, and the use of catalogues. Door-to-door selling, or network marketing as it is now known, are discussed and the chapter concludes with an outline of the role of the Internet and the impact of viral marketing.

19.2 Chapter questions and answer locations

No.	Question	Answer page
85	What is 'direct marketing'?	553-6
86	What is involved in developing a campaign using direct mail?	558-9
87	Under what circumstances might you consider using network marketing?	565

Chapter 20 Personal Selling and Sales Promotion

20.1 Chapter summary

Despite the importance of advertising in stimulating interest in products and services, there are many circumstances where personal contact is necessary to effect a sale. Of necessity most advertising is generalised, and so cannot answer all the consumer's information needs; it cannot elaborate upon specific points perceived as significant by the individual, nor can it resolve doubts as to suitability in a particular context. Further, there can be no guarantee that potential users' media habits will expose them to advertisements for a given product, or that if they do see the advertisement they will perceive it as relevant.

The function of personal selling is to provide the specific inputs which advertising, or non-personal selling, cannot offer at the individual level. It should be remembered that advertising and personal selling are complementary activities, and that their relative importance will vary depending on the nature of the product and the buying behaviour associated with it.

Many theorists stress the nature of the product as a determinant of the appropriate promotional mix and are collectively identified as the 'Characteristics of Goods School'. Members of this school would argue that advertising will be dominant in the case of small, simple and frequently purchased items of low unit value, while personal selling is appropriate to high-priced, technically complex products which are bought infrequently. This view is represented as a diagram in the text.

Although useful, this approach is oversimplified, for the user's perception of any given product defies classification into convenient categories, such that a 'convenience' good may be perceived as a 'shopping' good and vice versa, depending on the individual's frame of reference. The importance of allowing for the behavioural dimensions of perception is implicit in the different promotional strategies adopted by firms selling near-perfect substitutes in the economic sense. There are no hard-and-fast rules which dictate the adoption of a given promotional strategy for a product.

However, the high cost of personal selling, and several of the trends identified in earlier chapters, have resulted in close scrutiny of the role and contribution of the salesman as well as to greater use of direct marketing and sales promotion.

Sales promotion is the subject of the second part of the chapter. The objectives that may be achieved are reviewed, as are factors influencing the determination of the budget. The major kinds of promotion are outlined together with a discussion of the issues to be considered when choosing a particular kind of promotion.

20.2 Chapter questions and answer locations

No.	Question	Answer page
88	What is the role of the salesperson?	574-6
89	How many salespeople should be employed?	576-7
90	What are the key contents of a sales training program?	582-3
91	How are salespeople remunerated?	583-5
92	What is the role of sales promotion in the marketing mix?	588-90
93	Summarise some marketing problems that might be solved by sales promotion and indicate what promotion(s) you might use.	603

Chapter 21 The Company: Organising for Marketing

21.1 Chapter summary

The firm's organisational structure is critical to marketing success. In the past era of excess demand, top management attention was rightly focused on increasing output, and a production orientation was both necessary and understandable. However, a firm is more than a collection of individuals; it is a social system with its own norms, status structure, and system of rewards and punishments. It is unrealistic to assume that these can be changed overnight, yet many firms that have rejected the marketing concept have done so because they failed to appreciate the inherent organisational implications, or else instituted extensive changes without full consideration of the possible ramifications. Fortunately, the unhappy experiences of the disillusioned have served to concentrate attention on the organisational implications associated with a marketing orientation.

In this chapter we look first at some of the factors which influence organisational structures in general and marketing departments in particular. A discussion of the product manager concept follows, which is compared and contrasted with the idea of market managers. This leads to a consideration of the impact of marketing on organisational structure, supported by a short review of corporate resources and the importance of corporate culture as a factor closely associated with corporate performance.

21.2 Chapter questions and answer locations

No.	Question	Answer page
94	In which basic ways can the marketing department be organised?	614-6
95	Summarise the implications of a marketing orientation on organisational structure.	619-622
96	Explain the roles of vision and culture as influences on organisational performance.	622-5

Chapter 22 Planning and Implementing Marketing

22.1 Chapter summary

Planning is a pervasive human activity by which we seek to exercise some degree of control over the future. As a process it will vary enormously depending on a number of variables, foremost among which will be the complexity of the activity and the degree of uncertainty concerning the future situation in which the activity will take place. Fundamentally, however, all planning seeks to arrive at a present decision concerning future action – the more complex the activity and the more uncertain the future, the greater the need for formal, systematic planning procedures. The purpose of this chapter is to provide a brief synthesis of the separate treatment given the marketing environment and the various mix elements, and to indicate how the marketer can integrate all these considerations into a marketing plan. It must be stressed that this is the briefest of introductions to a large and complex subject and is intended solely to emphasise the point that the various marketing functions described earlier need to be seen as part of a coherent and integrated action plan if they are to be used effectively.

The effectiveness of a marketing plan can only be determined after it has been implemented in terms of how well it has achieved its stated objectives. To determine this we need to select appropriate measures, or metrics, and the chapter reviews a number of techniques and procedures for doing this.

22.2 Chapter questions and answer locations

No.	Question	Answer page
97	What is the nature and purpose of a marketing audit?	633-7
98	What are the main headings in the marketing plan?	640
99	What are marketing metrics, and why are they important?	642-4

Chapter 23 The Marketing of Services

23.1 Chapter summary

One of the most striking features of the last three decades has been the enormous growth in the service sector within the world's advanced industrial economies. In part this growth has been due to the relentless acceleration in the pace of technological change which has resulted in significant improvements in productivity. In part it is due to the fact that the slowing down of population growth in these countries has reduced the expansion of demand for physical goods. Taken together these trends have seen a marked shift in employment from the secondary or manufacturing sector to the tertiary, services sector, accompanied by a similar shift in expenditure patterns from goods to services. In this chapter we will first review the nature and extent of this growth in services before examining the factors or characteristics which are seen as differentiating services from physical products – intangibility, inseparability, heterogeneity, and perishability and fluctuating demand.

Examination of these distinguishing characteristics leads naturally into a discussion of whether the marketing of services is similar to or different from the marketing of physical goods. As one might expect, two schools of thought exist – those who claim they are the same and those who claim they are different! Our analysis will suggest a compromise and argue that, while the basic principles are equally applicable to both, the distinctive nature of services calls for an extended marketing mix comprising seven elements, with process, physical evidence and people being added to McCarthy's familiar four Ps of product, place, price and promotion. Each of these is explored in some detail and points to the potential for applying marketing principles and ideas to the whole range of economic activity, including the service sector.

However, in the same way that it is necessary to adjust the nature of the marketing mix to suit the nature of the product and the market it serves, so it is with services. An excellent table in the text, summarise some typical differences between manufacturing and service industries.

23.2 Chapter questions and answer locations

No.	Question	Answer page
100	What are the special characteristics of services?	656-9
101	What are the seven 'Ps' of service marketing?	659-69
102	Why is physical evidence important when marketing a service?	666-7

Chapter 24 Marketing in a Foreign Environment

24.1 Chapter summary

The purpose of this chapter is to introduce the reader to some of the issues of marketing in what has become to be seen as a global marketplace. It cannot, and does not pretend to cover all of the issues that are contained in the sub-field of International Marketing. Nor has it adopted the more fashionable title 'global marketing'.

Experience of working in many different countries at different stages of economic development confirms that many managers fail to learn from past history and so make mistakes they could have avoided. Worse still they fail to consider well established theory that addresses three questions of fundamental importance.

First, to what extent are the principles and practices discussed in this book relevant to other countries at different stages of economic development? Second, for what reasons might countries wish to engage in international trade? And, finally, what alternatives are open to firms wishing to sell in another country?

Thus the intention of this chapter is to provide the student with an introduction to some of the issues associated with marketing in foreign environments. Once this has been accomplished we have a context in which to explore some of the implications of the emergence of a global market and its implications for marketing. Of particular relevance is an analysis of the challenges of developing an international marketing strategy from the perspective of an emerging economy based on recent (2005) research in India by Oburai and Baker.

24.2 Chapter questions and answer locations

No.	Question	Answer page
103	What is the theory of comparative advantage?	680-2
104	What is 'globalisation'?	685-8
105	What are the processes by which a firm can enter a foreign market?	695-7

THE WRITTEN ANALYSIS OF CASES

Introduction

While case studies are usually employed as the focus for a classroom discussion, they are being used increasingly as the basis for a written assignment. This is particularly so where the case method of instruction is followed in a formal course of study when the written analysis of a case is frequently adopted as the appropriate means of examination. Similarly, case studies often provide excellent material for examining students who have pursued a more conventional program of instruction by means of lectures and tutorials. For these reasons it will be useful to consider the objectives of a written analysis and to suggest some approaches to the execution of such an exercise. (It goes without saying that the following observations apply equally to case analysis where a formal, written analysis is not required.)

Objectives

Despite the fact that most other teachers tend to spend more time on the discussion of an individual case study than their North American counterparts, it is still rare for such an extended consideration to cover all the issues contained in a given situation. Certainly, if the case study is used as a catalyst for encouraging an exchange of ideas between students, it is unlikely that spontaneous contributions will occur in the logical or ordered manner one would expect in a formal lecture. Indeed, one suspects that if the case leader succeeds in eliciting a structured analysis, then it can only be at the expense of discouraging digressions and diversions, some of which would prove both stimulating and illuminating. Clearly the latter approach would eliminate much of the interest and involvement engendered by a lively debate in open forum, which is one of the strengths of the case method.

However, it is generally recognised that while case discussion has a vital role to play in management education, it possesses deficiencies which can best be remedied by alternative teaching methods. As implied above, case discussions frequently lack the cogency and impact which can be achieved by marshalling one's thoughts in a logical sequence, as well as neglecting issues of possible relevance and importance. Further, at the individual level discussion can result in a superficial treatment as students soon learn that their fellows have often not undertaken a rigorous analysis, and so will not challenge apparently complex analyses of data, while the case leader may not have the opportunity. A similar danger exists in that the student can struggle through by 'debating' the points made by others, or simply by preparing a detailed analysis of one issue which is regarded as their 'contribution'.

The basic objective of the written analysis is to eliminate these deficiencies while developing skills in:

- problem definition
- analysis
- presentation.

Problem definition

There is wide support for the view that problem definition is the most critical and most difficult step in problem-solving. This view is generally predicated on the grounds that

while problem definition is invariably cited as the first stage in problem analysis, in fact it only becomes possible after an extensive consideration of a wide range of other issues. Consider two popular statements of the normative approach to problem-solving.

First, there is the Adaptive Planning and Control Sequence (APACS) proposed by Robinson and Luck which we introduced in the text and which comprises eight steps:

- Step 1 Define the problem and set objectives.
- Step 2 Appraise the overall situation.
- Step 3 Determine the tasks to be accomplished and identify the means to achieve these aims.
- Step 4 Identify alternative plans and mixes.
- Step 5 Estimate the expected results arising from implementation of the alternative plans.
- Step 6 Managerial review and decision.
- Step 7 Feedback of results and post audit.
- Step 8 Adapt program if required.

Second, there is the operational approach to research suggested by Ferber and Verdoorn (1962) in *Research Methods in Economics and Business*, with six stages:

- 1. Formulate the problem.
- 2. Develop working hypotheses.
- 3. Plan the study.
- 4. Collect and process the data.
- 5. Analyse and interpret the data.
- 6. Present the results.

While the second model may appear rather different from the first, in fact they both cover the same basic elements. Similarly, both convey the impression of an orderly sequence stemming from the identification and statement of a problem, though steps 7 and 8 in the APACS model suggest that feedback and revision of the initial problem definition are omitted by the second model.

In reality we feel that feedback and adjustment of the original problem statement will be a major feature of the whole problem-solving process. This is not to suggest that no problem is ever solved, but rather that the in-depth analysis of one issue will inevitably raise questions concerning related but previously unconsidered issues. Given the dynamic nature of the business environment it would be surprising if this were not the case. However, we make this point solely to reinforce the fact that the steps in the problem-analysis model are neither discrete nor necessarily sequential and, having given this warning, we will immediately find it simpler to treat them as if they were both.

In simple terms we can distinguish two alternative scenarios for the case analyst:

- 1. They are given a case study and a problem statement.
- 2. They are given a case study with no indication of the specific problem to be addressed.

The first alternative is typical of the examination situation and also encompasses certain cases in which the opening or closing paragraphs contain a statement of the problem as perceived by the case writer or a character in the case itself. Such a situation corresponds

well with the circumstance where an organisation has identified the existence of a problem and wishes to brief a consultant (internal or external) to analyse and solve it. The second alternative is much more open-ended and is usually adopted by teachers where they wish their students to decide whether in fact a problem exists at all. A real-world parallel of this approach might be the study of an industry, market or company by a financial analyst. Fundamentally the case analyst is well advised to treat both situations in the same way.

If given a brief, then it is necessary to establish that it does reflect the real issue to be investigated rather than a symptom or effect of the real problem. Similarly, it is essential to eliminate any possible ambiguities in the problem statement or brief and to define any terms capable of differing interpretations. Equally it is of vital importance to establish the precise parameters of the topic. How long is 'the short term', 'the long term', 'the future'? What firms are to be taken as comprising 'the textile industry'? What is understood by 'competition' – immediate and direct competition from firms producing similar products or services, or is it intended to include competition from substitute products? Clearly, exactly the same points need to be taken into account when preparing a brief of one's own.

Naturally the above is a counsel of perfection. If, for example, one knew that declining sales were directly and solely attributable to a specific cause, then, as claimed earlier, the problem is largely resolved, for one can focus all one's efforts on eliminating or avoiding that cause. While pedants will argue that such elimination or avoidance is itself a problem requiring resolution, it is believed that it will usually be a relatively trivial one. If, for example, one is certain that declining sales are the result of product inferiority due to the absence of an ingredient or feature present in a competing product, it would seem that all that needs to be decided is:

1. Do we wish to increase our sales to their former level?
2. If yes, can we improve our product at a cost which will enable us to sell it at a price and volume which will earn us a satisfactory profit (including issues of complementarity, goodwill and so forth)?
3. If the answer to (2) is 'no', then clearly we must revise our original position.

On the other hand, if the problem has been incorrectly identified and the decline in demand has resulted from other causes, then treating the wrong symptoms (product composition) is unlikely to have much effect. Of course, if one could survive long enough it might permit problem-solving by elimination!

Essentially we are arguing that it would probably be more accurate to define the first stage in problem analysis as 'setting up a working problem definition' in much the same way as the scientist sets up a null hypothesis. In this way we acknowledge that problems exist because of imperfect information and uncertainty – it would be surprising if the acquisition of more information did not help to reduce uncertainty and so permit more exact problem formulation. How, then, should we set about acquiring more and better information?

Analysis

Armed with a working problem definition and a declared objective, the analyst is well placed to commence formal investigation. At this juncture it is well to accept that while one may be embarking on a voyage of discovery, many other explorers have done the

same and much can be learned from their experience. In other words there is a body of knowledge and experience concerning problem-solving which is relevant to the solution of any particular problem. While several different approaches have been proposed (and we will only discuss our own preferred method), all are agreed on the fundamental point that a structured procedure is to be preferred. This claim does not deny the utility of unstructured methods such as brainstorming, lateral thinking or the like, but would suggest that these are techniques to be used in particular circumstances and especially where a structured analysis has revealed deficiencies which cannot be remedied by more formal methods. Further, the more complex the problem, the more necessary is a detailed and structured approach to its solution. Thus where the nature of the problem is very well understood – as, for example, launching a space probe or landing an aircraft – it is usual to develop a checklist of all the steps to be taken in the sequence in which they are to be taken, and to follow this unswervingly unless there are indications to the contrary. Even in the latter case – for example, a pilot observes an obstruction on the runway just prior to touchdown – alternative procedures are also likely to be highly specific.

Of course, business problems are far less amenable to the highly structured analytic method characteristic of the sciences, and appropriate to science-based activities – for example, flying and aerodynamics – largely because business is an activity arising from the interaction of people who are far less predictable in their behavioural patterns than are materials. However, experience would seem to suggest that human behaviour patterns are perhaps more open to observation and prediction than has generally been appreciated. If this is so, then an ability to predict how a person or organisation would react under a specified set of circumstances must help reduce the uncertainty faced by decision-makers and so reduce the need to exercise judgment. Unfortunately it often appears that many decision-makers confuse the amount of judgment they exercise with the quality of the decisions made. While it is true that the true exercise of judgment is the function and responsibility of the decision-maker, none but a fool would seek to substitute uncertain judgment for fact or known risk where the alternatives can be completely specified and probabilities attached to their occurrence (as in life insurance). Nonetheless it seems that this is just the error to which so many would-be decision-makers fall prey: they cannot be bothered with the labour, much of it boring, repetitive and trivial, necessary for a rigorous analysis and so flee into the exercise of ‘judgment’.

From the above comments it is clear that we are proposing at least two steps to formal analysis, namely:

1. The identification and measurement of all facts which impinge upon the problems.
2. The application of judgment to the uncertain areas which are the residual remaining following the factual analysis.

The first step is frequently described as a ‘management audit’ and is usually subdivided into two parts – internal and external.

The internal audit

The purpose of the internal audit is to develop a comprehensive list of the organisation’s resources, together with an assessment of their relative importance vis-a-vis each other. As suggested in Chapter 21 this audit should encompass all of the following:

1. **Physical resources**

Land

- as a source of raw materials
- as a location for manufacturing and distributive activities.

Buildings

- general purpose or specific – that is, designed for light engineering, assembly, storage and so on, or for heavy manufacturing requiring special foundations, services, etc.

Availability of and access to

- power supplies, drainage and waste disposal – and to transportation: road, rail, canal, port facilities, etc.

Plant and equipment

- general purpose – for example, lathe, press
- specific – for example, steel rolling mill, foundry.

2. **Technical resources**

Essentially those which reside in the technical expertise of the firm's employees, together with the possession of patents, licences or highly specialised equipment.

3. **Financial resources**

These comprise the liquid assets in the firm's balance sheet, the ability to secure loans against fixed assets, and the ability to raise capital in the market on the basis of past and anticipated future performance. They also comprise the skill of the firm's financial management.

4. **Purchasing resources**

Managerial expertise backed by any special advantage enjoyed by the firm by virtue of its size or connections – for example, reciprocal trading agreements.

5. **Labour resources**

The skills, experience and adaptability of the work force.

6. **Marketing resources**

The degree of consumer/user acceptance or 'franchise' developed through past performance. Access to and degree of control over distribution; the specialised skills and experiences of personnel.

While such an audit should provide a good summary of the nature and extent of the company's assets, together with an indication of the relative importance of the major business functions, its value can only be realised by comparison with similar data for companies with which it is competing. To obtain this one must carry out an external audit.

The external audit

An assessment of the environment in which the company has to operate should be carried out at two levels. First, one should appraise the overall economic climate and seek to establish whether it is growing, static or declining, and for what apparent reasons. Second, within this broad framework one should evaluate the industry or market in which the company is competing. Our own preferred approach to this stage of the analysis is to use the framework developed by the well-known management consultants McKinsey & Co. and built on by Michael Porter in his 'value chain analysis'.

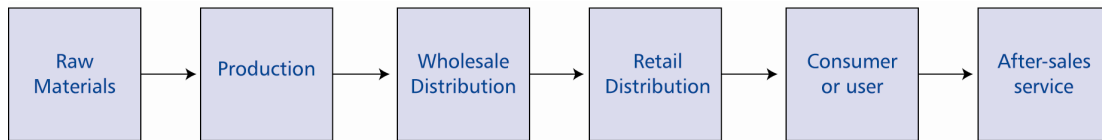


Figure 1 The business system

The basis of the McKinsey approach is to subdivide the business system into a series of subsystems, as indicated in Figure 1. Starting with raw material extraction, the analysis proceeds by examining each major subsystem in turn in order to establish the interrelationship and interdependence between them in terms of:

1. The degree of competition within and between each subsystem; for example, raw material extraction might be in the hands of only one or a few producers so that conditions are oligopolistic, while retail distribution could be characterised by thousands of small sellers none of whom could influence the market. Clearly the latter circumstances describe perfect competition, and both sets of conditions apply in the oil industry. Thus in establishing the nature of competition one should measure:
 - the number of competitors
 - their profitability
 - their degree of integration
 - their cost structure.
 - the existence and nature of any barriers to entry – for example, technological, size of investment in production and/or marketing.
2. Where, in the total system, value is added by the activities of members of the production, distribution or servicing subsystems. For example, a significant proportion of turnover in many consumer-durable industries is accounted for by after-sales servicing, and the efficiency of this sector may have a radical influence on the market shares of individual suppliers, as well as on industry profitability.
3. The location of economic leverage in the system. Does this arise from being a fully integrated producer, or can one exercise leverage by avoiding the extensive fixed investment implicit in vertical integration and concentrating on only one subsystem?
4. Where is the system's marketing leverage? Usually this is associated with control of a scarce resource which might be an essential raw material, a patent on a process, control of a distribution channel, a brand name ('Vegemite', 'Elastoplast') or some other type of consumer franchise.

Once the analyst has established the major characteristics of the production, distribution and servicing subsystems, their next task must be a thorough documentation of the consumer or user. Such documentation requires one to supply answers to the five basic questions which underlie all market research – who, what, where, when and how.

1. **Who** buys in terms of demographic and socioeconomic criteria such as age, sex, income, education, occupation, marital status and so on (for consumers), or status, authority, functional specialisation and so on (for users)? Who consumes? (Compare consumption and purchase of breakfast cereals; of hand tools in a factory, and so forth.)
2. **What** do people buy in terms of variety, design, quality, performance and price characteristics?

3. **Where** do people buy? In specialist outlets, in general purpose outlets, by mail or telephone from a catalogue, in the home or on their premises – that is, how important is direct selling through representatives versus indirect selling via the media?
4. **When** do people buy? Are purchases seasonal, regular, irregular, associated with another activity?
5. **How** do people buy? Impulsively, after considerable deliberation, in large quantities, small quantities, from multiple sources or a single source?

A sixth and equally important question is: Why? Unlike our other five questions, one cannot usually supply a definitive and factual answer. However, when one considers that consumers (or users) do not buy products, as such, but rather the satisfactions yielded by the product, then even a partial understanding of the satisfactions looked for will go a long way towards explaining actual behaviour in the marketplace.

At this juncture one should have developed a good understanding of both the company and the environment in which it is operating. It now remains to combine the two threads of the analysis in order to isolate the company's particular strengths and weaknesses in terms of the environmental threats and opportunities. An indication of the sort of questions appropriate to such a comparison is given in Figure 2 (overleaf), which is taken from McKinsey's model.

Where in the system are company's measurable strengths and weaknesses?
(How company compares with competition – today and future)



Figure 2 Company's measurable strengths and weaknesses

Thus far we have proceeded as if information were freely available and of a known value. Rarely will these conditions be satisfied; in fact the most frequently voiced complaint of case students is 'lack of information'. Accordingly we turn now to consider this.

The quantity and quality of information

It is tautologous to point out that certainty exists where there is perfect information, from which it is a simple step to deduce that problems exist because of the absence of perfect information.

It is for this reason that we have stressed the methodical collection of as much information as possible as an essential prerequisite to problem-solving. However, in this task we are faced with three major difficulties: first, data are frequently incomplete; second, much information is presented in the form of opinion; and, third, information may only be inferred from the apparent relationship between facts or events. It follows that a major job of the analyst is to screen all the available evidence for accuracy, validity and reliability as a preliminary to determining whether any relationships exist between acceptable facts that are suggestive of a solution to the problem in hand. There are many textbooks which deal with these issues at length and only a brief review is merited here.

While complete accuracy constitutes truth it would be erroneous to infer that less than complete accuracy is untruth and thereby unacceptable. In a business context it is rare that one requires the degree of precision necessary in the scientific laboratory, or even the engineering workshop, and a reasonable estimate will often suffice. What is reasonable depends on the circumstances and may vary by several percentage points around the true value – for example, an estimate of market size. Essentially the need for accuracy depends on how sensitive the final outcome of one's analysis is to changes in the value of constituent elements – if the end-result appears to be largely insensitive, then approximation will suffice; if highly sensitive, then the more accurate the point estimate the better.

A good example of this is provided by a feasibility study of the suitability of a Scottish mountain for development as a ski-slope. While access to the slope, nature of the uplift facilities and back-up facilities (car parks, toilets, cafes), price to be charged, growth trends in total demand and so forth all have a bearing on the decision, estimates of all these parameters are relatively unimportant compared with the value of the critical or limiting factor – the prevailing weather conditions. In the event, analysis revealed that when one deducted the number of days when it would not be possible to ski due to high winds or poor visibility from the total days on which snow could be guaranteed, the residue was so small as to make it quite obvious that a commercial venture was impractical almost regardless of the values one attached to any of the other parameters.

The mark of a good analyst is an ability to isolate the critical factors and then focus all available resources on eliciting the most accurate information available concerning them. When using data from published sources one must distinguish between the credibility to be attached to government statistics gathered by census and estimates extrapolated from samples by trade associations, consultants and those with a vested interest in the interpretation of the data they convey. One must be conscious of recency and assess how delay in publishing data may affect its current validity. One must also be sensitive to changes in the collection and recording of data over time and satisfy oneself as to the comparability of such data.

Such strictures are all very well when dealing with information from published sources, but how does one deal with opinion and hearsay? Much information in case studies falls into the latter category and is often conflicting in its indication of the true state of affairs. A classic example of this is to be found in the Barnstaple case study, in which three executive managers responsible for the finance, production and sales functions each attribute the company's declining fortunes to a different cause. However, by carefully adducing factual data in the case, or inferences which may be drawn from these data with a very high degree of confidence, it can be clearly demonstrated that only one manager's opinion is acceptable. Herein lies a key skill of the analyst – an ability to pick out relevant pieces of information, while discarding those which only serve to confuse an issue, and to link them together to demonstrate a functional relationship.

It is possible to distinguish three different levels of analysis in this sorting and synthesising process – deduction, inference and the formulation of assumptions. A deduction is made when one derives a logically necessary conclusion about a specific case from perfect information concerning the general case – for example, all retailers of cars operate on a 20 per cent gross margin; the XYZ company is a retailer of cars: deduction – the XYZ company operates on a 20 per cent gross margin.

The status of an inference is less clear-cut than is that of a deduction. An inference may be defined as the interpretation placed on evidence by an observer, from which it follows that the quality of an inference may range from excellent – that is, a very high probability that it reflects reality – to very poor. Assuming, however, that the correct inference is drawn, then the distinction rests in the fact that there is always an element of uncertainty associated with an inference, while there is none with a deduction. However, by linking logical deductions with reasonable inferences one can proceed a long way towards the solution of a problem.

The need for assumptions only arises where there is an absence of evidence necessary to link other information which seems to bear on the problem. Assumptions may be of two kinds: working assumptions and critical assumptions. Working assumptions are those necessary to move an argument along and provide links in the chain of reasoning, but unlike critical assumptions they are not vital to the final decision. In every case an assumption should only be made as a last resort when it is obvious that other information is not available. When setting out an assumption, and especially a critical assumption, it is important to state clearly the evidence considered in deriving one's assumption, the reasons for selecting and rejecting particular points, and the precise form of the final assumption made. Only by careful attention to these factors will the analyst be able to communicate the thought processes leading to their conclusion; without them their argument will be open to criticism and lack conviction.

From the foregoing it is obvious that both the drawing of inferences and the formulation of assumptions demand the exercise of judgment, and this is the proper role for its application. In all other cases, a strictly formal and factual approach should be followed.

Presentation

Skill in problem definition and analysis is of little consequence if the analyst is unable to communicate their findings to others. There are several good books on report writing, including, W. J. Gallagher (1969), *Report Writing for Management*; J. Mitchell (1974), *How to Write Reports*; R. Lesikar and J. D. Pettit (1998), *Report Writing for Business* (10th edn); and T. Mansell (1990), *How to Write Business Letters and Reports*. The student

should consult these for detailed guidance on how to set about writing a report. However, in doing so it will become apparent that even the textbook writers are not in complete agreement and many authors suggest different formats for writing management reports. Our own preference is for the Gallagher sequence, namely:

- Summary
 - Purpose
 - Scope
 - Conclusion(s)
 - Recommendations
- Introduction
- Body
- Appendix.

However, for a Written Analysis of Cases (WAC) the Mitchell approach may be more appropriate:

- statement of the problem
- factors causing the problem
- the effects of the problem
- examinations of possible solutions and their implications
- conclusions
- recommendations
- appendices.

Whichever method is preferred two final words of warning seem appropriate. First, the student can assume that the examiner is familiar with the case and so should avoid the regurgitation of descriptive material unless it is introduced for a specific purpose. Second, facts seldom, if ever, speak for themselves.

For students seeking an extended discussion of the issues raised here, Geoff Easton (1992), *Learning from Case Studies* (2nd edn), is essential reading. Easton bases his approach on seven steps:

- understanding the situation
- diagnosing problem areas
- generating alternative solutions
- predicting outcomes
- evaluating alternatives
- rounding out the analysis
- communicating the results.

Easton uses a series of short cases to exemplify and reinforce the key stages in a rigorous and logical analytical approach which adds greatly to the abbreviated treatment here.