EXERCISES

Introduction to Chapter 4 exercises

Exercise 4.1 looks at the most crucial and complex issue in marketing, i.e. how a market is defined. Until this is clearly understood, issues such as market share, the identification of target customers and their needs, and even the recognition of competitors, will continuously cause difficulty.

Exercise 4.2 examines critical success factors. Exercise 4.3 provides a technique for auditing industrial goods and services.

Exercise 4.4 introduces another technique, benefit analysis, and this is extended and put into practice in Exercise 4.5, which provides a case study for analysis.

Exercise 4.1 Market definition

Often there is confusion regarding what constitutes a market. Unless such confusion is dispelled from the outset, the whole marketing edifice will be built on sand. However, as so often is the case, what on the surface appears to be a relatively simple task can prove to be extremely testing. Take the example shown in Figure 4.28, which vastly simplifies the problem.

Figure 4.28: Example of market definition.

XYZ Ltd has five major products, A, B, C, D and E, which are sold to five different markets, as represented in Figure 4.28. Virtually all sales are achieved in the shaded areas.

Is this company's market:

(a) The shaded areas?
(b) The intersection of products A, B and C and markets 2, 3 and 4?
(c) Products A, B and C for all markets?
(d) Markets 2, 3 and 4 for all products?
(e) The entire matrix?

Scoring and Interpretation for Exercise 4.1

1. It would be possible to define our market as the shaded areas ((a) in the exercise), i.e. the product/market area currently served. The problem with this is that it might tend to close our eyes to other potential opportunities for profitable growth and expansion, especially if there is a danger that our current markets may become mature.

2. It is also possible to define our market as the intersection of products A, B and C and markets 2, 3 and 4 ((b) in the exercise). The problem with this is that while we now have a broader vision, there may be developments in product areas D and E and markets 1 and 5 that we should be aware of.
3. To a large extent, this problem would be overcome by defining our market as products A, B and C for all markets ((c) in the exercise). The problem here is that markets 1 and 5 may not require products A, B and C, so perhaps we need to consider product development (products D and E).
4. It is certainly possible to consider our market as all products for markets 2, 3 and 4 ((d) in the exercise). The potential problem here is that we still do not have any interest in markets 1 and 3.
5. Finally, it is clearly possible to call the entire matrix our market ((e) in the exercise), with markets 1 to 5 on the vertical axis and each of products A to E on the horizontal axis. The problem with this is that we would almost certainly have too many markets, or segments, and this could lead to a costly dissipation of effort.

The answer to the conundrum therefore is that it is purely a matter of management judgement. Any combinations of (a)–(e) above could be used, as long as there is a sensible rationale to justify the choice.

In addition, remember the following definition of 'market':

A market is the aggregation of all the products or services which customers regard as being capable of satisfying the same need.

Remember also the following useful definition of market segmentation:

An identifiable group of customers with requirements in common that are, or may become, significant in terms of developing a separate strategy.

Often, the way a market was selected in the first instance can provide clues regarding how it can be defined. Generally, either consciously or intuitively, a screening process is used to eliminate unsuitable markets and to arrive at those with potential. This screening process often works something like that shown in Figure 4.29.

Consider one of your current markets and explain:

1. How it came to be chosen
2. How you would define it, so that it is clearly distinct from any other market.

Remember that the crude method outlined above, while working at a very general level, rarely leads to the development of differential advantage, and it is suggested that the other exercises in this chapter should be completed in order to get a better understanding of the central significance of market segmentation in marketing success.

Exercise 4.2 Critical success factors (CSFs)

Critical success factors can vary from one type of business to another, or indeed from one market segment to another. Therefore it is impossible to be prescriptive about your CSFs, and you will have to draw on the expertise you have about your business and establish which ones are correct for you.

Remember, a CSF is something which helps you to clinch the business. Thus, by definition, if it were absent, your success rate would plummet.

Normally there would only be a few CSFs – probably not more than five – although there might be many other factors which contribute to success.
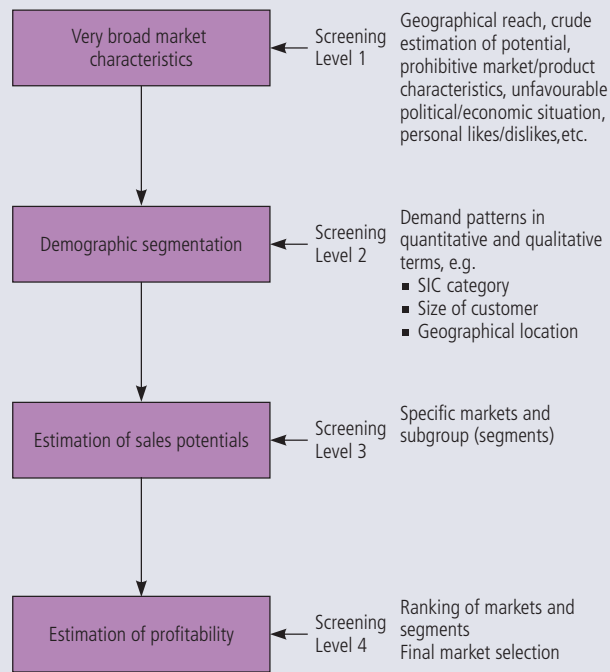
Figure 4.29: Market screening.

Table 4.4 is an example of the way a firm of quantity surveyors analysed their business.

CSF	Weighting	Score out of 10 (10 = very high standard)	Adjusted score*
1 Reputation for on-time completion	0.5	6	30
2 Track record of quality	0.3	6	18
3 Quality of sales staff	0.2	8	16
Total	1.0		64%

Table 4.4: Critical success factors (1).

*Adjusted score = score out of 10 × weighting factor.

Weighting factors are distributed to each CSF according to their relative importance. In Table 4.4, CSF1 is the most important, but the company only scores 6, just over average. In contrast, on CSF3 the company scores high, but this factor is the least critical of those listed and so the net result is diminished.

The company now repeats this process (Table 4.5), this time focusing on its nearest competitors.

On the evidence in Table 4.5, our company can see that Competitor A, even with a lower quality sales force and a slightly poorer track record, has a competitive advantage because

(Continued)

of its ability to complete contracts on time. Similarly, Competitor C is a force to be reckoned with. In contrast, Competitor B has a lot of ground to make up in all areas.

CSF	Weighting	Comp. A score		Comp. B score		Comp. C score	
		Raw	Adjusted	Raw	Adjusted	Raw	Adjusted
1	0.5	9	45	5	25	7	35
2	0.3	5	15	5	15	7	21
3	0.2	6	12	5	10	5	10
Total			72%		50%		66%

Table 4.5: Critical success factors (2).

This technique can be applied to all companies and provides three useful outcomes:

1. It forces people to think about their critical success factors.
2. It provides an overview of relative competitiveness when measured against their main competitors.
3. It highlights the areas where the most effective improvements might be made.

Now try it on your company. See Tables 4.6 and 4.7.

CSF	Weighting	Score out of 10 (10 = very high standard)	Adjusted score*
CSF1			
CSF2			
CSF3			
CSF4			
CSF5			

Table 4.6: Critical success factors (3).

CSF	Weighting	Comp. A score		Comp. B score		Comp. C score	
		Raw	Adjusted	Raw	Adjusted	Raw	Adjusted
CSF1							
CSF2							
CSF3							
CSF4							
CSF5							

Table 4.7: Critical success factors (4).

Exercise 4.3 Market audit – industrial goods and services

Using your own company as the study vehicle, complete the market audit form (Table 4.8) by following these instructions:

Step 1   In column 1, list all those industries that are consumers of your goods or services. Note that there is no need to structure this list, just write them down as they occur to you.

Step 2   In column 2, write the actual turnover figure.

Step 3   In column 3, write down the percentage value of turnover that results from each of the industries.

Step 4   In column 4, indicate whether or not this, when considered from the point of view of profitability, is high or low, by scoring 10 for high, 5 for good, and 1 for low (here, 'profitability' means whatever your company considers it to mean).

Step 5   Using column 5, consider what capacity and skills you have at your disposal to continue supplying each industry – a score of 10 would show that you have considerable capacity, with minimal interference to other products or services; 1 would indicate severe limitations.

Step 6   Using a similar scoring procedure, complete column 6. Ask yourself how confident your company is that it can supply each industry with the right quality and design of goods/services, delivered on time. Are you more confident about some than others?

Step 7   Now consider the market potential (demand) for your output in each of the listed industries. Using column 7, score 10 for high potential and 1 for low.

Step 8   Add the scores you have allocated in columns 4, 5, 6 and 7, and enter them in column 8.

Step 9   Using the information you have put together, identify your key market segments. They ought to be those industries which collected the highest aggregate scores, but for your type of business you might identify other factors that would influence your choice of market. Make a note of these in column 9. In addition, use column 9 to record any particular opportunities or threats presented in each market.

Step 10 Balancing the notes you made in column 9 against the arithmetic calculations (column 8), study the information you have assembled, and select what you regard as the best industrial market. Enter 1 against this in column 10. Continue ranking each industry, using 2 for the next best, 3 for the third, etc. until column 10 is filled.

Information from this market audit could be used at a later stage, when marketing objectives and strategies are examined (Exercises 6.6 and 6.7).

Exercise 4.4 Benefit analysis

Customers buy products and services because they seek to acquire a range of benefits which go with them. In this sense, all products and services are problem-solvers. Thus, customers buy aspirin to solve the problem of headaches, they buy drills because they need holes, they buy convenience foods because they solve the problem of there not being enough hours in the day.

It is essential for providers of products or services to be aware that their output is only saleable for as long as it provides the benefits the customer requires, and for as long as it

1	2	3	4	5	6	7	8	9	10
Industry	Actual T/O	% T/O	Profitability, L_1 $_{10}H$	Capacity, L_1 $_{10}H$	Confidence, L_1 $_{10}H$	Potential, L_1 $_{10}H$	Total (Cols 4, 5, 6, 7)	Additional factors, opportunities/ threats	Rank

Table 4.8: Market audit industrial goods and services

is seen by the customer to be good value when compared with other possible methods of solving their problems. Once there is a better, cheaper, quicker, tidier, more enjoyable way of putting holes in walls, the drill manufacturer will go the way of the buggy-whip maker. Therefore it is vitally important to know just as much about the benefits they supply as it is to know about the products or services themselves.

Standard benefits

These are provided by the product but are not in any way unique – for example, 'the propellant in our aerosol does not damage the ozone layer'. Although in this respect your product might be like all others, not to make customers aware of this standard benefit could imply that you still use environmentally unfriendly materials. Clearly this would be to your disadvantage.

Company benefits

The business transaction links the customer to the company. In turn, this means that there ought to be some benefits to that customer for making that choice. Customers will prefer to deal with companies that provide better customer service, inspire confidence, have a reputation for fair trading policies, and so on. Company benefits are a means of differentiating your products or services from competing ones, if to all intents and purposes they are similar. For example, some banks are trying to establish specific identities to the benefits they supply. Hence there is 'the listening bank' and 'the bank that likes to say yes'. Perhaps eventually there will be 'the bank that is open when its customers want it to be'!

Differential benefits

These are the benefits that only your products or services provide. It is these that give the company its competitive advantage. It is these that must be identified, developed and exploited if the company is to win success. Here are some examples:

- 'We are the only company that provides a genuine 24-hour breakdown service. Therefore, any time you need us, we are there to get you moving again.'
- 'This is the only product on the market with this self-cleaning facility, so you can install it and have no maintenance worries.'

Not every benefit will have equal appeal to all customers, or groups of customers. However, by talking to them, or carrying out research, it ought to be possible to establish which are the important benefits in their eyes.

It is now possible to prepare a systematic benefit analysis along the lines shown in these examples. See Table 4.9.

Note:

1. To get from a feature to an advantage, and then to a benefit, the phrase 'which means that' can be helpful – for example, 'It's coated in new formula paint (feature), which means that the colour will never fade (advantage).' If you know this is what the customer needs, then you have also arrived at a benefit.

Customer(s) _____				
Service/product _____				
Customer appeal	**Features**	**Advantages**	**Benefits**	**Proof**
What issues are of particular concern to the customer, e.g. cost, reliability, safety, simplicity, etc.?	What features of the product/ service best illustrate these issues? How do they work?	What advantages do these features provide, i.e. what do they do for the customer?	How can tangible benefits be expressed to give maximum customer appeal, i.e. what does the customer get that he/she needs?	What evidence can be provided to back up the benefit and show it can be attained?
Example – *saucepans*				
Ease of use, ease of washing-up	Teflon-coated	This is a non-stick material	Trouble-free cooking, quicker washing-up	Results of tests
Example – *office services bureau*				
Accuracy and speedy turn-round of work	We use the latest equipment and very skilled staff	We are extremely versatile	Minimum of errors, cost-saving	What customers say

Table 4.9: Features, Advantages, Benefits (1).

2. To check whether you have arrived at a benefit and not just an advantage, apply the 'so what?' test. Ask this question after the benefit. If the 'so what?' prompts you to go further, the chances are you have not yet reached the real benefit – for example, 'Our products are handmade (feature), which means they are better quality than machine-made ones (benefit?)' – so what? – 'which means they last longer (the real benefit)'.

Now try producing a benefit analysis for one of your own products or services, as it impacts on a specific customer or customer group. Use Table 4.10.

The customer audit applied to your own company
Working alone, and using your own company as the study vehicle:

1. Choose a major product or service, and identify:
   (a) The main customers
   (b) The features with maximum customer appeal
   (c) The benefits to the customer of each feature
   (d) Which of these benefits are differential benefits (i.e. benefits not recognized or stressed by your major competitors).

Customer(s) _____ Service/product _____				
Customer appeal	**Features**	**Advantages**	**Benefits**	**Proof**

Table 4.10: Features, Advantages, Benefits (2).

2. If you cannot identify any differential benefits, in what ways could you develop them?
3. For those you have identified, how could they be improved upon?
4. Identify your key market segments. How do you describe them?
5. If you cannot readily identify any distinct segments, what would be a sensible way to segment your markets?

Personal notes

Exercise 4.5 Micro-segments

Use the form provided to work out the micro-segments found in your market. For instructions on doing this, please refer to pages 140–142.

Micro-segment	1	2	3	4	5	6	7	8	9	10
Application (if applicable)										
What is bought										
Where,										
When,										
and How										
Who										
Why (benefits sought)										

A selection of standard approaches to profiling benefits

1. *Demographic characteristics*
   - Standard Industrial Classification (SIC) – the latest details are available from the appropriate statistical office. Summaries of both the UK/European and North American SIC systems appear below.

     United Kingdom and Europe
     Agriculture, Hunting and Forestry (01–02)
     Fishing (05)
     Mining and Quarrying (10–14)
     Manufacturing (15–37)
     Electricity, Gas and Water Supply (40–41)
     Construction (45)
     Wholesale and Retail Trade; Certain Repairs (50–52)
     Hotels and Restaurants (55)
     Transport, Storage and Communication (60–64)
     Financial Intermediation (65–67)
     Real Estate, Renting and Other Business Activities (70–74)
     Public Administration and Defence; Compulsory Social Security (75)
     Education (80)
     Health and Social Work (85)
     Other Community, Social and Personal Service Activities (90–93)
     Private Households with Employed Persons and Miscellaneous (95–97)
     Extra-territorial Organizations and Bodies (99)

     North America (USA, Canada and Mexico)
     Agriculture, Forestry, Fishing and Hunting (11)
     Mining (21)
     Utilities (22)
     Construction (23)
     Manufacturing (31–33)
     Wholesale Trade (42)
     Retail Trade (44–45)
     Transportation and Warehousing (48–49)
     Information (51)
     Finance and Insurance (52)
     Real Estate and Retail and Leasing (53)
     Professional, Scientific and Technical Services (54)
     Management of Companies and Enterprises (55)
     Administrative and Support and Waste Management and Remediation Services (56)
     Education Services (61)
     Health Care and Social Assistance (62)
     Arts, Entertainment and Recreation (71)
     Accommodation and Food Services (72)

      Other Services (except Public Administration) (81)

      Public Administration (92)

- Size of company – Very small, Small, Small–Medium, Medium, Medium–Large, Large, Very large, Very large+
- Department/Section – Manufacturing, Distribution, Customer Service, Sales, Marketing, Commercial, Financial, Bought Ledger, Sales Ledger, Personnel Estates, Office Services, Planning Contracts, IT
- Multidemographic – combining a selection of demographic criteria, such as size of company with job title, along with whether the company is public or private.

2. *Geographic*
- Postcode
- City, town, village, rural
- Country
- Region – frequently defined in the UK by TV region
- Country
- Economic/Political union or association (e.g. ASEAN)
- Continent.

3. *Psychographics* – buyer characteristics
- Personality – stage in its business life-cycle (start-up, growth, maturity, decline, turn-round); style/age of staff (formal, authoritarian, bureaucratic, disorganized, positive, indifferent, negative, cautious, conservative, old-fashioned, youthful)
- Attitude – risk takers or risk avoiders; innovative or cautious, and many of the adjectives used to describe different types of personality can also express a company's attitude towards your product line (as opposed to their distinctive personal character)
- Lifestyle – environmentally concerned; involved with the community; sponsor of sports/arts.

A selection of standard approaches to profiling individuals

1. *Demographic characteristics*
- Age – <3, 3–5, 6–11, 12–19, 20–34, 35–49, 50–64, 65+
- Sex – male, female
- Family life-cycle – Bachelor (young, single), split into dependants (living at home or full-time student) and those with their own household; Newly married (no children); Full nest (graded according to the number and age of children); Single parent; Empty nesters (children left home or a childless couple); Elderly single
- Family size – 1–2, 3–4, 5+
- Type of residence – Flat/house, terraced/semi-detached/detached, private/rented/council, number of rooms/bedrooms
- Income (£k) – <10, 10–15, 16–20, 21–30, 31–50, >50
- Occupation – operatives; craftsmen, foremen; managers, officials, proprietors; professional, technical; clerical, sales; farmers; retired, students; housewife; unemployed. White-collar (professional, managerial, supervisory, clerical); Blue-collar (manual)

- Education (highest level) – secondary, no qualifications; GCSE; graduate; postgraduate
- Religion – Christian, Jewish, Muslim, Buddhist, Other
- Ethnic origin – African, Asian, Caribbean, UK, Irish, Other European
- Nationality
- Socio-economic – the eight-class version of the socio-economic classification (SEC) introduced by the Office for National Statistics (UK) 2001 and the former Registrar General's 'Social Class' can be found on pages 140 to 142.
- Multidemographic – combining a selection of demographic criteria, such as life-cycle stages and occupation groupings, on the basis that these are indicative of different aspirations and behaviour patterns.

2. *Geographic*
   - Postcode
   - City, town, village, rural
   - Coastal, inland
   - County
   - Region (frequently defined in the UK by TV areas – Anglia, Border, Carlton London, Carlton Central, Carlton West Country, Channel, Grampian, Granada, HTV, LWT, Meridian, Scottish, Tyne Tees, UTV, Yorkshire)
   - Country
   - Economic/Political union or association (e.g. NAFTA)
   - Continent
   - Population density
   - Climate.

3. *Geodemographics*. A Classification of Residential Neighbourhoods (ACORN) produced by CACI Ltd* is one of the longer established geodemographic classifications in the UK, updated with Census information and lifestyle data. ACORN covers every street in Great Britain and classifies the whole population into fifty-six types, summarized into seventeen groups, which in turn are condensed into five broad categories. These five broad categories act as a simplified reference to the overall household classification structure and are as follows:
   1. 'Affluent Achievers'
   2. 'Urban Prosperity'
   3. 'Comfortably Off'
   4. 'Modest Means'
   5. 'Hard Pressed'

   Geodemographic data are also combined with financial data to provide detailed information on financial product ownership. For example, Financial ACORN combines Census and financial research data into fifty-one types, twelve groups and four categories.

4. *Psychographic characteristics*
   - Personality – compulsive, extrovert, gregarious, adventurous, formal, authoritarian, ambitious, enthusiastic, positive, indifferent, negative, hostile; specific ones by sex have also been developed.

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* 'ACORN' and 'CACI' are trademarks of CACI Ltd. Further details can be found at www.caci.co.uk

- Attitude – degree of loyalty (none, total, moderate), risk takers or risk avoiders, likelihood of purchasing a new product (innovator, early adopter, early majority, late majority, laggard), and many of the adjectives used to describe different types of personality can also express an individual's attitude towards your product line (as opposed to their distinctive personal character).
- Customer status – purchase stage (aware, interested, desirous, ready for sale), user classification (non-user, lapsed user, first time, potential).
- Lifestyle – consists of three main dimensions:

Activities Work, hobbies, social events, vacation, entertainment, club membership, community, shopping, sports

Interests Family, home, job, community, recreation, fashion, food, media, achievements

Opinions Selves, social issues, politics, business, economics, education, products, future, culture

Because the data are based on individuals, variations in the attributes to be used can result in different people in the same household being selected.

- Multidimensional – combining psychographic profiles with selected demographic data and identifying geographic areas where the resulting 'behavioural' types are found. For example, Experían's MOSAIC* classifies all the households and neighbour-hoods (postcodes) in Great Britain into fifty-two distinct types which describe their socio-economic and socio-cultural behaviour. These fifty-two types are aggregated into twelve broad groups:

A	High Income Families	E	Council Flats	I	Independent Elders
B	Suburban Semis	F	Victorian Low Status	J	Mortgaged Families
C	Blue Collar Owners	G	Town House and Flats	K	Country Dwellers
D	Low Rise Council	H	Stylish Singles	L	Institutional Areas

In addition to MOSAIC for Great Britain as a whole, there are separate MOSAICs for Scotland, Northern Ireland and London which identify differences only found in those areas. Experían has also extended MOSAIC to areas outside Great Britain.

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*'Experían' and 'MOSAIC' are trademarks of Experían Ltd. Further details can be found at www.micromarketing-online.com and www.experian.co.uk