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# MANAGEMENT TRAINING

# FOR

# MARKETING AND INTRA-REGIONAL TRADE

## GABORONE, BOTSWANA

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## Module 2

## ELEMENTS OF MARKETING

# ELEMENTS OF MARKETING

Document prepared by:

James McCullough

and

Patriya S. Tansuhaj

Department of Marketing
Washington State University
Pullman, Washington
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## THE CONCEPTS

### 1. The Production or Product Concept

The production concept holds that consumers will favor those products that are widely available and low in cost. Management in production-oriented organizations concentrates on achieving high production efficiency and wide distribution coverage.

The product concept holds that consumers will favor those products that offer the best quality at a given price. The task is to improve the quality level.

### 2. The Distribution Concept

The distribution concept holds that failure to adequately satisfy market demands results from the maldistribution of goods and services, and that investment in the development of distribution infrastructure will insure consumer satisfaction

### 3. The Selling Concept

The selling concept holds that consumers, if left alone, will ordinarily not buy enough of the organization's products. The organization must therefore undertake an aggressive selling and promotion effort.

### 4. The Marketing Concept

The marketing concept holds that the key to achieving organizational goals consists in determining the needs and wants of target markets and delivering the desired satisfaction more effectively and efficiently than competitors.

This leads to a definition of Marketing as human activity with the purpose of satisfying human needs and wants through exchange. To satisfy these needs, products are offered on the market within a marketing program using a variety of elements of communication, distribution, and pricing to attempt to satisfy consumer needs and wants.

EXERCISE: Discuss which concepts apply within SADCC. Does the perspective taken influence the marketing approach.

## States of demand

No ideal demand exists for all of the products. Eight categories of demands can be identified for which the corresponding task is different:

1) Negative demand

2) No demand

3) Latent demand

4) Falling or Weak demand

5) Irregular demand

6) Full demand

7) Overfull demand

8) Externally Derived demand

Exercise: Identify products which exhibit each of the above demand states. Be prepared to explain why you feel that type of demand exists for each product.

Reading: The following section presents some current thinking on marketing using ideas developed by Professor Philip Kotler of Northwestern University in his popular text Marketing Management published by Prentice-Hall.

## MARKETING MANAGEMENT

The marketer must be able to analyze and improve the ability of his organization to survive and prosper within a complex market and evolving public environment. To do so, conceptual tools should be at the disposal of the marketer for the latter to be able to understand both the complexity and the evolution.

The two reference tools available are called the marketing system analysis and the marketing approach analysis. The marketing system analysis consists of studying the major institutional components of the organization's environment as well as their interactions. The marketing system analysis identifies the logic sequence which allows the firm to plan its adaptation to the environment according to its abilities. Both tools of analysis respectively tackle the structural and the functional marketing dimensions.

### A. THE EXCHANGE SYSTEM

The marketing concept cannot be disassociated from the exchange concept. Possible exchange appears when at lest two parties each have something of value which they intend to trade. It could be goods, services, money, or other. When a potential exchange becomes a reality, we say that a transaction takes place.

It is possible to map an exchange system reduced to two parties by showing the flows of interaction between both. The most familiar is the commercial transaction--a seller offers a good or service to a buyer in exchange for money. The second is the employment transaction--an employer offers wages and fringe benefits to an employee in exchange for the employee's productive services (made up of time, energy, and skill). The third is the civic transaction--a police force offers protection services to citizens in exchange for their taxes and cooperation. The fourth is the religious transaction--a church offers religious services to members in exchange for their contributions of money and time. The fifth is the charity transaction--a charity organization offers gratitude and a feeling of well-being to donors in return for contributions of money and time.

The exchange analysis can of course be extended to more than two parties and supposes that all parties seek to maximize their profits. Such an assumption was formulated at an early date by philosophers such as Jeremy Bentham, Adam Smith or even the Greek hedonists. Human behavior interpretation based on the logic of self-interest provides marketers with check points for the design of response strategies adapted to the market.

### B. THE MARKETING SYSTEM

A marketing system consists of an organization and a group of external actors and forces acting on its environment and

having an impact on its ability to exchange with the consumer market. Exchanges take place within this context.

The simplest marketing system which can be conceived consists of a single company facing a single market with no suppliers nor intermediaries of any kind. In this form the company and its market are connected by four main flows; the company sends goods, services and communications to the market; in return it receives money and information.

The marketing system of a company comprises at least five elements.

1. Organization

First, one must acknowledge that any organization comprises several elements which have an impact on marketing performance. Any organization, be it a firm, a ministry, or a union, can be considered as a transforming agent which takes external inputs and transforms them in products and services to return them to the consumer market in the form of outputs. To do so, the organization must perform a certain number of functions such as research and development, engineering, supply, production, financing and marketing.

2. Environment

A company operates within an immediate environment comprising actors which directly conspire to its marketing activities. In addition to the company and its market there are principally suppliers and intermediaries. Suppliers, manufacturers, intermediaries and end users constitute what is called a circuit or channel. A channel takes form when various raw materials found in nature are first collected to terminate when the end product is in the consumer's hand.

a) Suppliers

In order to offer products of value on the consumer market, the company must acquire outside the resources required for production. The company's task consists of determining the composition of its resources with a view to the product lines it plans to manufacture. Clearly, the optimum mix depends on the price availability of each resource. Purchasing Management is responsible for acquiring resources at the best conditions possible. Its task is to control product quality, suppliers' reputation, price and delivery, warranties and credit terms as well as other services. With regard to key resources, Marketing Management can negotiate contracts with several suppliers to guarantee supply and be able to control prices. The Marketing Department has a direct interest in the efficiency of the Purchasing Department. Prior to the establishment of a sales forecast plan, the Marketing Manager must make sure with the Purchasing Manager that raw supplies can be obtained at the price required by Manufacturing, with the Financial Manager that the

cash flow required is available and with the Personnel Manager that the work force is adequate both in quantity and quality.

b) Intermediaries

Intermediaries are firms that aid the company in distributing its goods to the final buyers. Generally, there are three types of intermediaries: merchant middlemen who buy and resell on their own behalf (for example wholesalers and retailers); agent middlemen (brokers or selling agents) who negotiate buying or selling contracts but who do not take title to merchandise; and other middlemen (transportation and warehousing firms, banks) who assist the company in the distribution process without taking title to merchandise or taking part in negotiations.

c) Markets

The last component to be part of the immediate company's environment is the market itself. In reality, though until now we spoke of the market as an homogenous entity, the firm generally serves several markets.

A firm must decide if it should serve all of the market segments or only some of them. As a rule, small-to-medium size firms often choose to specialize according to their distinctive resources and competence. In contrast, large firms generally target several segments and even several markets. They then must design a different strategy for each of them as there is high risk of a better adapted competitor. It was thus that all of the automobile manufacturers dropped the production of "the every man's car" to offer a whole range of cars to suit various segments.

3. Competitors

An organization rarely stands alone in its effort to serve a given customer market. Its efforts to build an efficient marketing system to serve the market are matched by similar efforts on the part of others. These competitors must be studied in depth if the firm wishes to gain and maintain market loyalty.

The competitive environment consists not only of other companies manufacturing the same product. The best way for a company to grasp its competition is to take the viewpoint of the buyer. In truth, it can be said that competition arises from all products which can satisfy the same need at the consumer's level.

4. Publics

Not only does an organization have to contend with competitors in seeking to satisfy a target market, but it must also acknowledge a large set of publics that take an interest, whether welcome or not, in its method of doing business. Because the actions of the organization affect the interest of other

groups, these groups become significant publics to the organization. We define a public as follows:

A public is any group that has an actual or potential interest or impact on an organization's ability to achieve its objectives.

Whatever its nature a pubic can facilitate or impede the organization's business. As a rule, an organization has to contend with three types of publics: "Mutual" publics that take an interest in the organization and into which the organization takes an interest. Stockholders and financial institutions typify such publics. Then we have the Publics sought, i.e., those in which the organization is interested that do not necessarily take an interest in the organization (for example, mass media). Lastly, we have the Undesirable publics, i.e., publics that take interest in the organization to which it takes little interest. Consumers often are part of this group.

The most important publics for the firm are generally:

- Government publics
- Financial publics
- Local publics
- General publics.

## C. MARKETING STRATEGY

The marketing strategy provides the context within which businesses between organization and its customers take place. The development of a marketing strategy is a process which consists of analyzing the opportunities existing on the market and of selecting a position, plans of action and a control system to enable the firm to fulfill its mission and achieve its objectives. The steps of this process are as follows.

### 1. Opportunity analysis

The first step of a marketing strategy development process consists of identifying a set of marketing opportunities for the firm. Here the marketer's task is of primary importance since it is his job to find new sources of activity on the market and to evaluate and select those which appear the most promising.

### 2. Target market selection

Any market that appears a priori interesting must be the object of an in-depth analysis with regard to its mode of penetration. A market usually comprises several consumer groups with varied needs that cannot be satisfied simultaneously by the firm. The approach used is called market segmentation which consists of dividing the market in subgroups (also called submarkets), different from each other in their expectancies, buying mode or any other variable judged pertinent. Once segmentation is established, the firm must determine which segments it wishes to pursue.

3. Positioning

The third step in developing a marketing strategy consists of choosing the firm's offer positioning in relation to competitors.

4. Marketing System Design

Its target and positioning defined, the firm can now plan the design of its marketing system. A marketing system design involves the elaboration of an organizational structure, an information procedure, and a mode of planning and control that will enable the firm to achieve its objectives on the selected marketplace.

Next, an information system must be developed for processing orders, invoicing, marketing studies, sales forecasting, investigations as well as sales and profit statistics. This information should naturally be as accurate, up-to-date, pertinent and complete as possible in order to give the firm an advantage over competitors A planning system shall then enable the elaboration of objectives, strategies and tactics to be submitted to top management for approval. Sales objectives will be broken down in regional quotas and then at the level of each salesman. The marketing budget shall also be distributed between the different mix variables and the activity sectors.

Finally, a mode of control should be implemented to enable monitoring of performances, detection of gaps, productivity improvement and proposal for necessary corrective actions. During control, broad strategic lines such as those relating to targets and positioning as well as the tactical adjustments tied for example to the use of the sales force and advertising budgets should be reexamined.

5. Elaboration of a marketing plan

The success of the operation will depend to a great extent on the care with which the annual and long-term marketing plans have been elaborated. A marketing plan is a written document that inventories the objectives, strategies, and tactics which have been defined as well as the anticipated results. As a rule it includes the following items:

- marketing situation analysis
- marketing objectives
- marketing strategy, plan of action, and budget.

The marketing mix. A major component of the marketing strategy relates to the manner in which the firm will present its offer on the market. It is here that the fundamental concept of marketing mix intervenes.

Marketing mix is the mixture of variables that the firm uses to

influence the target market.

Any variable which could have an impact on the buyer's behavior is therefore a part of the marketing mix. Firms that sell raw materials can very often only act according to two variables: price and service. Contrarily, some companies use a great number of means to conquer a market. Several model lists have been suggested in the past: McCarthy proposed to regroup these variables into four classifications which he called the Four Ps: product, price, place and promotion.

6. Plan Control

A plan is nothing unless it degenerates into work. To be effective, a plan must specify what must be accomplished at each level and for each time period. Moreover, the plan must be accepted and supported by those responsible for its execution. The implementation of a plan supposes good communication networks at all levels of the organization.

A marketing manager must not only implement the plan but also control its results and this, no matter what is his rank in the hierarch. Thus, a sales supervisor shall examine the orders and travelling expenses of each salesman and compare them with the objectives. He shall contact the representatives of whom the performances are unsatisfactory while being as constructive as possible, i.e., by trying to determine the problem at its base and to remedy it. The regional manager, then the sales manager will do the same and thus up to the president.

Next to this type of control that we can call annual-plan control, the firm also implements a profitability control that consists of analyzing the profitability of each product, consumer market, sales sector and distribution channel as well as an efficiency control aimed at improving the impact of the dollar invested in marketing.

Finally, there is a trategic control since any firm is periodicallly brount the reassess its products, resources and objectives. Naturally, such a reexamination is all the more necessary as the market rhythn of evolution is all the more rapid. It is the responsibility of the marketing auditor to proceed with an overall analysis of the firm's performance as well as its mode of organization.

## The Marketing Mix

The marketing mix consists of four elements of strategy, working together to satisfy the needs of a segment of the population identified as a target market. The elements of the marketing mix include:

1. Products
2. Prices
3. Communications
4. Distribution Systems

Exercise: Identify a target market in the SADCC region and propose a marketing mix designed to satisfy the needs of that segment.

The combination of target markets and marketing mixes for a company becomes the marketing program.

Exercise: Using one of the products exhibiting something other than Full demand, develop a marketing program to correct that situation.

Exercise: Using the following instrument, rate your organization on its marketing effectiveness.

MARKETING-EFFECTIVENESS RATING INSTRUMENT
(Check one answer to each question)

MANAGEMENT PHILOSOPHY

A.Does management recognize the importance of designing the company to serve the needs and wants of chosen markets?

Score

Ø __Management primarily thinks in terms of selling current and new products to whoever will buy them.

1 __Management thinks in terms of serving a wide range of markets and needs with equal effectiveness.

2 __Management thinks in terms of service the needs and wants of well-defined markets chose for their long run and profit potential for the company.

B.Does management develop different offerings and marketing plans for different segments of the market?

Ø __No.

1 __Somewhat.

3 __To a good extent.

C.Does management take a whole marketing system view (suppliers, channels, competitors, customers, environment) in planning its business?

Ø __No. Management concentrates on selling and servicing its immediate customers.

1 __Somewhat. Management takes a long view of its channels although the bulk of its effort goes to selling and servicing the immediate customers.

2 __Yes. Management takes a whole marketing systems view recognizing the threats and opportunities created for the company by changes in any part of the system.

ORGANIZATION MODE

D.Is there high-level marketing integration of the major marketing functions?

Ø __No. Sales and other marketing functions are not integrated and there is some unproductive conflict.

1 __Somewhat. There is formal integration and control of the major marketing functions but less than satisfactory coordination and cooperation.

2 __Yes. The major marketing functions are effectively integrated.

E.Does marketing management work well with management in research, manufacturing, purchasing, physical distribution, and finance?

Ø __No. There are complaints that marketing is unreasonable in the demands and costs it places on other departments.

1 __Somewhat. The relations are amicable although each department pretty much acts to serve its own power interests.

2 __Yes. The department s cooperate effectively and resolve issues in the best interest of the company as a whole.

F.How well-organized is the new product process?

Ø __The system is ill-defined and poorly handled.

1 __The system formally exists but lacks sophistication.

2 __The system is well-structured and professional staffed.

INFORMATION SYSTEMS

G.When were the latest marketing research studies of customers, buying influences, channels, and competitors conducted?

Ø __ Several years ago.

1 __A few years ago.

2 __ Recently.

H.How well does management know the sales potential and profitability of different market segments, customers, territories, products, channels, and other sizes?

Ø __Not at all.

1 __ Somewhat.

2 __Very well.

I.What effort is expended to measure the cost effectiveness of different marketing expenditures?

Ø __Little or no effort.

1 __Some effort.

2 __Substantial effort.

STRATEGIC ORIENTATION

J.What is the extent of formal marketing planning?

Ø __Management does little or no formal marketing planning.

1 __ Management develops an annual marketing plan.

2 __Management develops a detailed annual marketing plan and a careful long-range plane that is updated annually.

K. What is the quality of the current marketing strategy?

Ø __The current strategy is not clear.

1 __The current strategy is clear and represents a continuation of traditional strategy.

2 __The current strategy is clear, innovative, data-based, and well-reasoned.

L. What is the extent of contingency thinking and planning?

Ø __Management does little or no contingency thinking.

1 __Management does some contingency thinking although little formal contingency planning.

2 __Management formally identifies the most important contingencies and develops contingency plans.

OPERATIONAL EFFICIENCY

M.How well is the marketing thinking at the top communicated and implemented down the line?

Ø __ Poorly.

1 __ Fairly.

2 __ Successfully.

N. Is management doing an effective job with the marketing resources?

Ø __ No. The marketing resources are inadequate for the job to be done.

1 __Somewhat. The marketing resources are adequate but they are not employed optimally.

2 __Yes. The marketing resources are adequate and are deployed efficiently.

O.Does management show a good capacity to react quickly and effectively to on-the-spot developments?

Ø __No. Sales and market information is not very current and management reaction time is slow.

1 __Somewhat. Management receives fairly up-to-date sales and market information; management reaction time varies.

2 __Yes. Management has installed systems yielding highly current information and fast reaction time.

TOTAL SCORE

The instrument is used in the following way: The appropriate answer is checked for each question. The scores added--the total will be somewhere between Ø and 3Ø. The following scale shows the level of marketing effectiveness:

| | |
|---|---|
| Ø - 5 = None | 16 - 2Ø = Good |
| 6 - 1Ø = Poor | 21 - 25 = Very good |
| 11 - 15=Fair | 26 - 3Ø = Superior |

Source:Philip Kotler, "From Sales Obsession to Marketing Effectiveness," Harvard Business Review, November-December 1977, pp. 67-75.

Reading: The following section presents some current thinking on marketing using ideas developed by Professor Philip Kotler of Northwestern University in his popular text Marketing Management published by Prentice-Hall.

## MARKET SEGMENTATION

The segmentation concept is relatively new and revolutionary in marketing thinking. In the past, many organizations believed that in order to be profitable, it should promote a unique product to serve the whole market. The argument is that it should lead to the lowest cost and prices and create the largest potential market. The firm does not attend to the buyer's various wants and pressures the whole market to buy its product.

Market segmentation is based on the study of consumer groups and not on that of products. More precisely, market segmentation consists of subdividing a market into distinct groups of buyers making it possible to reasonably select any group as a target to be reached through a tailored marketing mix. The strength of this concept resides in the fact that, in times of strong competition, firms can develop by launching products aimed at market segments the needs of which are imperfectly satisfied by products intended for mass marketing.

### A. NATURE OF SEGMENTATION

Markets consist of buyers, and buyers differ in one or more respects. They may differ in their size, resources, geographical locations, their expectancy toward the product, and/or buying attitudes and buying practices. Any of these variables can generate a different response to the organizational offer and can thus be used to segment a market.

### B. MARKET SEGMENTATION PROCEDURE

Market segments are progressively generated by a series of variables. How does the seller know which segmentation variables to use? Generally, one approach is to interview a sample of customers and discover the hierarchy of variables that consumers use on their way to a purchase decision.

## C. BASES FOR SEGMENTING CONSUMER MARKETS

We have seen that market segments can be identified by applying successive variables to subdivide a market. The most market-orientated variables tie up with consumers' expectations toward a product and response to marketing mix efforts: these variables are often associated to other variables such as socio-demographic indicators or, reading or listening habits which are sometimes used in preference to the preceding insofar as they are well documented and less ambiguous.

In this section we will examine the major geographic, demographic, psychographic, and behavioristic variables used in segmenting consumer markets (see Table 1).

### 1. Geographic segmentation

Geographic segmentation calls for dividing the market into different geographical units such as nations, states, towns or neighborhoods. The company generally holds that the potential market as well as the marketing operating costs vary from one unit to another. Consequently, it determines in which areas it wishes to operate.

### 2. Demographic segmentation

Demographic segmentation consists of dividing the market into different groups on the basis of variables such as age, family size, income, life cycle, religion, nationality and profession. Demographic variables have for a long time been the most popular bases for distinguishing customer groups. One reason is that consumer wants and usage rates are often highly associated with demographic variables. Another is that demographic variables are relatively easy to measure.

FIGURE 1

MAJOR SEGMENTATION VARIABLES FOR CONSUMER MARKETS

GEOGRAPHIC VARIABLES:

Region
Type of housing
City of SMSA size
Climate

SOCIO-DEMOGRAPHIC VARIABLES

Age
Sex
Family size
Family life cycle
Income
Occupation
Educational level
Religion
Race
Nationality
Social class

PSYCHOGRAPHIC VARIABLES:

Lifestyle
Personality

BEHAVIORAL VARIABLES:

Use occasion
Motivation
User status
Usage rate
Loyalty to trademark
Attitude toward product
Sensitivity to marketing efforts

3. Psychographic segmentation

The third possible mode of segmentation involves psychographic variables. These variables refer to individuals and their lifestyle, personality, purchasing motivation, knowledge and usage of the product. People within the same demographic group can exhibit very different psychographic profiles. The two major categories are lifestyle and personality.

4. Behavioral segmentation

In behavioral segmentation, buyers are divided into homogeneous groups on the basis of their knowledge, attitude, use, or response to a product. Many marketers believe that behavioral variables are the best starting point for constructing market segments. The major characteristics are the following:

- Use occasion
- Benefit sought
- User status
- Usage rate
- Loyalty status
- Attitude toward the product
- Marketing action variables.

## D. REQUIREMENTS FOR EFFECTIVE SEGMENTATION

Clearly, there are many ways to segment a market. Not all segmentations, however, are effective. For example, it would be less than useful to divide the salt market according to the buyers' sex or religion, their buying attitudes with regard to salt being very homogenous; thus, the salt market does not need to be segmented.

To be maximally useful, market segments must exhibit the following three characteristics:

1. Measurability
2. Accessability
3. Sustainability.

## E. TARGET DEFINITION

Market segmentation reveals the market heterogeneity level and the market segment opportunities the firm have to contend with. The firm can adopt one of three basic market coverage strategies:

1. The firm might decide to go after the whole market with one market offer hoping to appeal to the broadest number of buyers: this is undifferentiated marketing.

2. The firm can select to go after a specific segment and to adapt its marketing strategy as close as possible to the segment's wants (concentrated marketing).

3. Finally, the firm could wish to go after several segments simultaneously and design different marketing mix for each (differentiated marketing).

## THE LITTLE GREEN PENCIL FACTORY

In this environment, the Little Green Pencil Company started by a Botswana entrepreneur who has proposed that a pencil company be built in Gaborone. There appears to be a market in South Africa which may justify the establishment of the factory. The Botswana Development Corporation is willing to put up 70% of the capital as there is no pencil manufacturer within SADCC, or in South Africa.

In studying the proposal, however the Botswana Development Corporation has raised several concerns:

a. There are a number of constraints on intra-regional marketing, among these is the local content rule. SADCC Governments require (usually) a local content add on of about 25% for access to their markets. Botswana has access to South Africa because of the customs union. However, BDC feels that in order to assure a profitable enterprise, the entrepreneur needs access to the Zimbabwe market as well. Zimbabwe is viewed as the only viable market within SADCC by the BDP. Moreover, Zimbabwe will supply the wood for the pencils. However, the BDC concern is that because the wood is imported from Zimbabwe, there will not be a 25% add on calculated by Zimbabwe customs.

b. Customs and Excise procedures within Zimbabwe. In general BDP views customs and excise officials as having the real power to determine access. Generally, labour costs are not accepted as add-ons. Customs and excise officials can be liberal or very literal when they examine a case for the 25% rule. In general, the BDP feels that customs officials within SADCC are far to literal. Thus, BDP planners are very pessimistic about the chance for entry into the Zimbabwe market by the pencil entrepreneur.

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This case has been developed for teaching purposes and demonstrates nether good nor poor practice and policy.

It is based on interviews and research conducted by the planning team for the SADCC Seminar on marketing and intra-regional trade. The situation is real, but names and figures have been altered.

The decision on final approval for the Little Green Pencil Factory loan will thus be made on the basis of access to the South African market alone. BDC is only about 50% sure of approval at this point. What the BDP would like is a) a revolving export trading fund which SADCC oriented companies would have access to and b) a SADCC regional add-on component to SADCC country import regulations.

Unknown to the BDC at this point is the fact that the Zimbabwe government is collaboration with private capital is planning to build a pencil factory in the eastern provincial capital of Mutare.

## NOTE ON BOTSWANA BANKS AND MARKETS

Botswana is to all intents and purposes a hard currency country. The pula is exchanged freely within the region (75% tied to the rand, 25% to the snake). In the area of imports there are no restrictions, as long as the necessary documents are there and the banks issue payment papers. Import obligations should be cleared within four months. The Bank of Botswana is not a development bank but essentially regulates the commercial banks which carry out all transactions and the Bank of Botswana oversees customs enforcement and export payment. However, with the latter, all transactions are decentralized to the commercial banks.

The country is also open in terms of exports. Where there is payment involved (e.g. not personal goods), as long as forms are completed and submitted, there is open export. Payment is investigated if not made within six months. The Botswana Development Bank does not give credit nor does the Botswana Development Corporation provide capital or invest in medium and large scale loans.

The government of Botswana makes not attempt to ensure local control over companies or to ensure local content.

In terms of markets, there is a clear distinction between urban markets and rural markets. In the rural areas the goods essentially are ordered and stored and often sit for months. There is often little relationship between items purchased in the stores and goods purchased in the shop.

THOMSON TEXTILE LTD (TTL)*

Thomson textiles are renowned products in Malawi and neighboring countries. The company started as a venture between the Malawi Development Corporation (MDC) and Thomson (Technical Services), with the latter fulfilling the role for technical advisor. The TTL was officially opened by the Father and Founder of Malawi Nation, His Excellency the Life president Ngwazi Dr. H. Kamuzu Banda on 5th July, 1967. TTL started with 800 employees with equity held by MDC, the Agricultural Development and Marketing Corporation and Thompson (Technical Services ) Ltd.

During the years of its operation in Malawi as EXHIBIT 1 shows, TTL has undergone a remarkable metamorphosis in almost all of its operations. From almost three thousand bales of cotton lint purchased in 1967, the mill has boosted cotton purchases to about 35 million bales a year. The labor force has steadily increased from 800 to over three thousand. Production has increased from 7.3 million metres per year over 30 million. A new plant has been installed for preparing the cloth prior to process which will assist in printing and fixing of multi-colour high definition designs.

The range of the Thomson textile products has widened from mere cotton drills to plain dyed cotton brand poplins in 1968; a dress print in 1972; heavier fashionable durable denims in 1975, Java prints in 1978; towels and napkins in 1979 and most recently the polyester/cotton fabrics under the brands: "AFFORD", "AWARE" AND "KUTCHENA". These most recent fabrics in the 50% polyester and 50% cottonblend provide a new incentive for local clothing manufacturers to get more export business both in the neighboring countries, EEC and ACP countries.

In the area of export and marketing, TTL has worked hard on widening its market segments with increasing changes in life-styles, wealth distribution, population spreads, solid stands and fashion trends. Export markets have been developed in different countries in Africa and Europe. These include West Germany, France, Lesotho, Botswana, Zambia, Zimbabwe, Italy, England and most recently Mozambique. In 1984 alone approximately MK7 million was exported in cotton piece goods from TTL.

TTL, thanks to the "Open General Licence policy (OGL) that existed in neighboring Zimbabwe between 1967-1984, had a lucrative export market of its products. As Exhibit 2 shows, it average exports

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between 1979-1982 were MK 5.3 million per year and MK 667,725 from the Blantyre Netting Company. However, starting with 1984, two developments occurred within the Southern region that greatly affected the TTI trading pattern with Zimbabwe and other neighboring countries. Zimbabwe became a member of the Preferential Trade Area. This meant that it could no longer operate OGL on the goods that were on the common trading list, the majority of which include textiles. A quota was established for such products.

Second, according to the PTA agreements and protocol, goods traded among member countries should at least be over 50 indigenous to the country both in terms of materials, production and management. TTL at this particular time was 51% owned by Thomson Technical Services after MDC had sold its shares in its bid to "withdraw from companies which can stand on their own feet." ADMARC still owned the 49%, but they had also been advised to dispose of their shares. They were only waiting for a willing buyer.

The consequences of the 1984 developments are well reflected in the export figures of TTL as from July 1984 to March 1986 (See Exhibit 2a 2b). The situation for exporting nets and twines was even further compounded by the fact that Zambia, which should have been a good potential buyer, had restrictions on importing nets for protecting their own fishing net industry.

Though assured of the export markets in the Republic of South Africa, the company so wished, as well as being certain of their exports the EEC and ACP market, the TTL Management wondered has wondered they could map up some new marketing strategy that could assure them of export markets in the SADCC countries so as to promote intra-national trade.

EXHIBIT 1

TTL OPERATIONS AND DEVELOPMENT

| | 1967 | 1971 | 1975 | 1979 | 1983 | 1985 |
|---|---|---|---|---|---|---|
| COTTON PURCHASED (BALES) | 2,954 | 11,394 | 20,867 | 30,717 | 35,841 | 36,172 |
| TWINE SOLD (00Kg) | - | - | 16 | 191 | 122,000 | 246,071 |
| METRES SOLD (000'S) | 2,417 | 14,741 | 21,113 | 28,036 | 31,960 | 30,277 |
| YARN SOLD (000 Kg) | - | - | - | 58 | 400 | 283,799 |
| No. of Employers | 800 | 1,348 | 2,252 | 3,195 | 3,473 | 3,618 |
| TURNOVER (MK 000's) | 1,877 | 4,123 | 6,664 | 13,087 | 31,182 | 24,327 |

EXHIBIT 2(A)

TTL EXPORTS TO ZIMBABWE 1979 - 1985

* Under Open General Licence (OGL)

| * YEAR 1 OCTOBER - 30 SEPTEMBER | MK |
|---|---|
| 1979 80 | 3,112,273 |
| 1980/81 | 7,658,974 |
| 1981/82 | 4.996,027 |

* QUOTA INTRODUCED WITHIN OGL

| | |
|---|---|
| 1982/83 | 891,131 |
| 1983 TO JULY 1984 | 345,261 |

* PTA INTROBUCED, OGL CANCELLED

| | |
|---|---|
| JULY-SEPT 1984 | NIL |
| OCTOBER 84-SEPT '85 | 317,661 |
| OCTOBER 85 - MARCH '86 | 39,771 |

EXHIBIT 2(B)

TTL EXPORTS TO ZIMBABWE FROM THE BLANTYRE NETTING CO LTD ( NETS & TWINES)

UNDER OPEN GENERAL LICENCE (OGL)

| YEAR 1 OCTOBER - 30 SEPTEMBER | MK |
|---|---|
| 1979/80 | 227,850 |
| 1980/81 | 467,045 |
| 1981/82 | 736,176 |
| 1982/83 | 572,105 |
| 1983 TO JULY 1984 | 250,638 |

PTA INTRODUCED - OGL CANCELLED

| | |
|---|---|
| JULY-SEPT 1984 | NIL |
| OCTOBER 1984 - SEPT '85 | 71,276 |
| OCTOBER 1985 - MARCH '86 | 31,775 |

## Not Java Print Textiles

A few years after Zimbabwe's independence ac textile trade began to flourish between Botswana and Zimbabwe, several Zimbabwe opened a factory in the Francistown area of Botswana to product "Not Java Print" textiles for trade with Zimbabwe textile wholesalers. Overseas observers praised the development as an example of intra-regional trade diversification of the kind that the founding fathers of SADCC hoped for. Zimbabwe manufacturers, with their preeminent place in the SADCC economy, were diversifying their activity throughout the SADCC region.

The motives of both the manufacturer of "Not Java Print" and that of the Zimbabwe government illustrate some of the complexities and controversies surrounding the diversification of trade in SADCC.

The manufacturer had a number of obvious and some not so obvious motivations. First of all, Botswana's labor costs, especially after the introduction of post-independence Zimbabwe labor regulations, was much lower than it was in the Bulawayo area.

Secondly, moving his operations to Botswana put at least a portion of the owner of "Not Java Print" into a hard currency area. The Botswana Pula (75% tied to the South African Rand and 25% tied to the European Snake) is fully convertible with all major international currencies.

The Botswana government was, not surprisingly pleased with the movement of a "Not Java Print" factory to Francistown. The new factory stimulated economic activity and created jobs.

Six months later, the Zimbabwe government, banned the importation of "Not Java Print" textiles from Botswana. The Botswana government was outraged, the Southern African press spoke of protectionism of the worst kind, and the general public in Zimbabwe was denied popular product.

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This case has been developed for teaching purposes and demonstrates neither good nor poor practice and policy.
It is based on interviews and research conducted by the planning team for the SADCC Seminar on marketing and intra-regional trade. The situation is real, but names and figures have been altered.

According to the Zimbabwe government, the major motivation of the owners of "Not Java Print" was to move money out of Zimbabwe and into hard currency. Through their transfer pricing policies the company was able to move money out of Zimbabwe to Botswana from where it could be invested overseas. The result, from the Zimbabwe government perspective, was a net loss of precious foreign exchange. What outsiders saw as protectionism, the Zimbabwe government saw as strict action against the illegal movement of money.

## Almostomo Soap

An importer serving retailers in Gaborone decided to diversify his activity and in open up a soap factory. He felt that there was enough of a market within Botswana and the region that local soap manufacture was justified. However, after eighteen months the soap manufacturer feels that he would have been better off staying with the more stable importing business. He has consistently lost money with the soap manufacture.

There were three basic problems that the manufacturer of "Almostomo soap" ran into. First of all, the manufacturer had to compete with well known international brands available from South Africa. There are clear biases within the SADCC region against products manufactured in the region as opposed to the Republic of South Africa. In spite of the political differences between the SADCC states and South Africa, there are still customer preferences for South African manufactured products because of brand name recognition and the fear of a lack of quality control within the SADCC countries.

In order to counter this, he designed a soap package that looked almost like the package of a well known international brand in the hope that people would buy the look alike and get used to the new soap. However, in spite of the obvious imitation, sales of Almostomo soap remained lower that was projected.

Secondly, the manufacturer found that he had supply problems. He required tallow to manufacture his soap, but Botswana Meat Commission has a monopoly of the tallow in Botswana and the soap manufacturer found that the BMC charges above market prices for his tallow. Although Australian tallow, landed, is only Pula 650 a ton, the BMC charged the soap factory Pula 900 a ton for its tallow.

Finally, the Botswana Ministry of Trade provided the soap manufacturer with poor estimates of the market for soap in Botswana. The Ministry of Trade estimated the Botswana market to be about 1800 tons of soap. According to customs figures only 1250 tons of soap was reported as imported from South Africa. Thus the Ministry of Trade estimated an unsecured market of between 600 and 800 tons of soap. However, in South Africa, data indicated as much as 2200 tons of soap were produced for the Botswana market.

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The Almostomo now thinks that at least 650 tons of soap is moved into Botswana from South Africa without being reported to customs. If this is true, then there really was no market for soap in Botswana and it is not surprising that the soap factory is losing a great deal of money.

## MALAWI IMPORT AND EXPORT COMPANY (MIAEC)

The Malawi Import and Export Company (MIAEC) is a trading company with 86% interest owned by the Malawi Development Corporation and 14% by John Holt (UK). The company has been in operation for over five years now. It employs over 1,300 employees with a total interest of over MK 8.1 Million. The Company has two wholesale divisions: The Main Trading Division (MTD) with 63 wholesale depots which supply basic consumer goods and such as textiles and provisions Marketing Services Division (MSD) which is a distributor of imported of import merchandise and also operates a Dunlop Tyre Agency. For the current period (15 months) the MTD suffered considerably from increase competition and this led to lower sales and reduced profit margins. On the other hand, the MSD achieved good results which are further enhanced by the reduction in the operating expenses.

The Company's turnover for the period totalled MK 100.5 million, 25% up on the MK 80.0 Million recorded for the previous year. Pre-Tax profit at MK 3.9 Million was 77% up on the previous profit of MK 2.2 Million. Management, however, seem to have a gloomy view of the future operations of both MTD and MSD. First of all the Company feared for shortage of foreign exchange. The shortage of foreign exchange allocation for imports was causing management great concern mainly because of their attempt to secure foreign exchange from the Reserve Bank has been foiled twice on the ground that textile and wholesale materials and/or goods were given low priority for foreign exchange allocation.

Furthermore Management was extremely worried of the growing competition not only form neighbouring Countries but also from non-nationals who either traded without licenses and/or after smuggling the goods in the Country, they sold either textiles and other provisions cheaply. The Company, therefore, was looking at potential areas for diversification to combat these threats.

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## NOTOCOR PRODUCTS LIMITED* (NPROL)

Notocor Products produces and distributes nationwide a variety of products including enamel and aluminum hollow-ware, galvanized hardware, tinplate edgings, wheelbarrows, electrical hotplates, paraffin stoves, charcoal irons and chalk boards for schools.

Turnover for the year totalled MK 28 million as against MK 2.2 million for the previous year. Pre-tax profit jumped 85% from MK 65,000 to MK 121,000 just in a period of one year.

The company has attempted to redesign some of its products to which the market reacted positively despite the increased prices. While the full impact of the redesigning of the products is still expected to be fully manifested in the ensuing years, the NPROL Board of Directors sees their company as pioneers in attempting to solve the problem of insufficient complementarity in industrial production within the region. It has been pointed out that NPROL with 77% shares from Trapa Products a complementary Company in Zimbabwe, so far has been able to minimize the foreign exchange allocation problem. For the products that are produced in Malawi, where the MDC owns 23%, of the shares, minimizes unnecessary requests for foreign exchange for imports and/or exports.

However, it has been argued in other trading circles that complementarity might not be an easy solution to the promotion of intra-regional trade. The fact that most of the SADCC states by and large produce the same raw materials for which they compete for access to both intra-regional and world markets, calls for "regional product specialization" other than complementarity. It is further pointed out that complementarity may lead to underinvoicing or under valuation thus causing one country's foreign exchange being drained in other countries. Finally, it is pointed out that countries with big developed economies like Zimbabwe are likely to be the beneficiaries of complementary industries.

The NPROL Board of Directors is still interested in pursuing the two lines of argument to see whether NPROL should seek other joint ventures with other neighbouring companies.

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EXERCISE: Use the attached questionnaire to perform an audit of your organization's marketing program.

# MARKETING AUDIT

## A. COMPONENTS OF A MARKETING AUDIT

### PART I. MARKETING ENVIRONMENT AUDIT

#### MACROENVIRONMENT

A. Economic and demographic

1. What major developments in income, prices, savings, and credit will affect the company?

2. What major demographic developments (size, age pyramid, geographic distribution) will affect the company?

B. Technological

1. What major changes are occurring in product technology and manufacturing process technology?

2. What major generic substitutes might replace this product?

C. Political

1. What laws are being proposed that could affect marketing strategy and tactics?

2. What federal, state, and local actions should be watched? What is happening in the areas of pollution control, equal employment opportunity, product safety, advertising, price control, and so forth, that affects marketing strategy?

D. Cultural

1. What is the public's attitude toward business and toward the products produced by the company?

2. What changes in consumer and business lifestyles and values have a bearing on the company's target market and marketing means?

TASK ENVIRONMENT

A. Markets

1. What is happening to market size, growth, geographical distribution, and profits?

2. What are the major market segments and how do they evolve? Which are the strong/weak potential markets?

B. Customers

1. How do customers and prospects rate the company and its competitors on reputation, product quality, service, sales force, and price?

2. How do different customer segments make their buying decisions?

3. What are the needs and expectations of the consumers within this market?

C. Competitors

1. What are the main trade channels for bringing products to customers?

2. What trends are occurring among suppliers in their pattern of selling?

F. Facilitators and Marketing Firms

1. What is the cost and availability outlook for transportation services?

2. What is the cost and availability outlook for warehousing facilities?

3. What is the cost and availability outlook for financial resources?

4. How effective are the company's advertising agencies and marketing research firms?

## PART II. MARKETING STRATEGY AUDIT

A. Objectives

1. Are the corporate objectives stated in the form of clear goals?

2. Are the corporate and marketing objectives clearly ranked to guide marketing planning and performance measurement? Do they logically result from general policy goals?

3. Are the marketing objectives appropriate, given the company's competitive position, resources, and opportunities?

B. Strategy

1. What marketing strategy was selected to bring about the objectives? Is it appropriate?

2. Are enough resources budgeted to accomplish the marketing objectives?

3. Are marketing resources allocated optimally to the major elements of the marketing mix?

## PART III. MARKETING ORGANIZATION AUDIT

A. Formal Structure

1. Is there a marketing officer to coordinate the activities that affect the customer's satisfaction?

2. Are the marketing responsibilities optimally structured along functional, product, end-user, and territorial lines?

B. Functional Efficiency

1. Are there good communication and working relations between marketing and sales?

2. Is the product management system working effectively? Are product managers able to plan profits or only sales volume?

3. Are there any groups is marketing that need more training, motivation, supervision, or evaluation?

C. Interface Efficiency

1. Are there any conflicts between marketing and manufacturing?

2. What are the relations between marketing and R&D?

3. Between marketing and finance?

4. Between marketing and purchasing?

## PART IV. MARKETING SYSTEMS AUDIT

A. Information System

1. Is the marketing information system producing accurate, sufficient, and timely information?

2. Is marketing research used for decision making?

B. Planning Systems

1. Is the marketing planning system well conceived and effective?

2. Is sales forecasting and market potential measurement soundly carried out?

3. Are sales quotas set on a proper basis?

C. Control System

1. Are control procedures (monthly, quarterly) adequate to ensure that the annual-plan objectives are being achieved?

2. Does management periodically analyze the profitability of products, markets, territories, and channels of distribution?

3. Are marketing costs periodically examined?

D. New-Product-Development System

1. Is the company well organized to gather, generate, and screen new-product ideas?

2. Does the company do adequate concept research and business analysis before investing in new ideas?

3. Does the company carry out adequate product and market testing before launching new products?

## PART V. MARKETING PRODUCTIVITY AUDIT

A. Profitability Analysis

1. What is the profitability of the company's different products, markets, territories, and channels of distribution?

2. Should the company enter, expand, contract, or withdraw from any business segments and what would be the short- and long-run profit consequences?

B. Cost-Effectiveness Analysis

1. Do any marketing activities seem to have excessive costs? Can cost-reducing steps be taken?

## PART VI. MARKETING FUNCTION AUDITS

A. Products

1. What are the product-line objectives? Are these objectives sound? Is the current product line meeting the objectives?

2. What products should be phased out from the product line?

3. Which products should be added to the product line?

4. Which products should be improved (quality, features, image)?

B. Price

1. What are the pricing objectives, policies, strategies, and procedures? To what extent are prices set on cost, demand, and competitive criteria?

2. Do the customers see the company's prices as being in line with the value of its offer?

3. Does the company proceed with appropriate promotional discounts?

C. Distribution

1. What are the distribution objectives and strategies?

2. Is there adequate market coverage and service?

3. Should the company consider changing its distribution channels?

D. Sales Force

1. What are the organization's sales-force objectives?

2. Is the sales force large enough to accomplish the company's objectives?

3. Is the sales force organized along the proper principles of specialization (territory, market, product)?

4. Does the sales force show high morale, ability, and effort?

5. Are the procedures adequate for setting quotas and evaluating performances?

6. How does the company's sales-force compare to competitors' sales forces?

E. Advertising, Sales Promotion, and Publicity

1. What are the organization's advertising objectives? Are they sound?

2. Is the right amount being spent on advertising? How is the budget determined?

3. Are and ad themes and copy effective? What do customers and the public think about the advertising?

4. Are the advertising media well chosen?

5. Are sales promotion techniques used by the company? Are they well conceived?

6. Does the company have a well-formulated publicity program?