AQA A-level

Business For AS

Third edition

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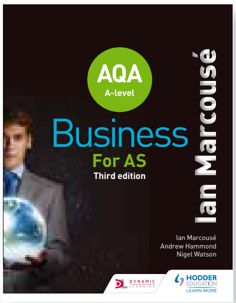

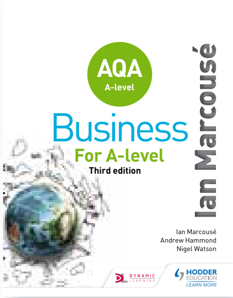

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Section 3

Decision-making to improve marketing performance

Chapter 13 Setting marketing objectives

Linked to: Introduction to Objectives, Ch 1; Marketing and Decision making, Ch 11; Market research, Ch 15; Market data and Analysis, Ch 18

Definition

Marketing objectives are the targets set for the marketing department to help meet the goals of the organisation as a whole.

13.1 The value of setting marketing objectives

A marketing objective is a marketing target or goal that an organisation hopes to achieve, such as to boost market share from 9 to 12 per cent within 2 years. Marketing objectives steer the direction of the business. Operating a business without knowing your objectives is like driving a car without knowing where you want to go. Some businesses achieve a degree of success without setting marketing objectives; stumbling across a successful business model by accident. But why should anyone rely on chance? If firms set marketing objectives the probability of success increases because decision making will be more focused.

Marketing objectives must be compatible with the overall objectives of the company; they cannot be set in isolation by the marketing department. Achieving the marketing objective of boosting share from 9 to 12 per cent will help realise a corporate objective of growth.

To be effective, marketing objectives should be quantifiable and measurable. Targets should also be set within a time frame. An example of a marketing objective that Nestlé might set is: 'To achieve a 9 per cent increase in the sales of KitKat by the end of next year.'

'Begin with the end in mind.' Stephen Covey, business writer

13.2 Examples of marketing objectives

Sales volume and sales value

A car manufacturer, such as BMW, could set the following marketing objective: 'To increase the number of BMW 3 Series cars sold in China from 250,000 to 400,000 over the next 12 months'. Setting sales volume targets can be particularly important in industries such as car manufacturing because of the high fixed costs associated with operating in this market. If sales volume can be increased, the high fixed costs of operating will be spread across a greater number of units of output, reducing fixed costs per unit. Lower unit costs will help BMW to widen its profit margins. Higher profit margins will give BMW the opportunity to increase its research and development budgets, raising the likelihood of success for BMW's next generation of new car models.

Nike has benefited from a slightly different way of looking at sales. It set a goal based on sales value rather than volume. In other words sales measured in money. In 1996 chairman Phil Knight set Nike's sights on being the number one supplier of football boots and kit. At the time, Nike was a minor player in the football sector of the sportswear business. Adidas was Number 1. Nike's approach has clearly paid off. In 1996 Nike generated sales of just US$40 million from football. In 2014 Nike set, and then subsequently beat, a sales target for its football division of US$2,000 million! Nike even outsold Adidas in its German homeland.

Market size

If a business has a large market share, it may worry that boosting share further may bring investigations from the Competition and Markets Authority. Therefore its best way to achieve further growth is by encouraging growth in the market sector as a whole. In the UK, Wrigley has a 90 per cent share of chewing gum sales. So anything it could do to boost the size of the market would help boost its own sales.

In these circumstances businesses might sponsor research by academics into the health-giving properties of the product. Ocean Spray has a 66 per cent share of the UK market for cranberry juice. So research into the supposed benefits of 'cranberries – the superfruit' could boost sales in the market as a whole, from which Ocean Spray would get 66 per cent of the benefit.

Needless to say, for a company with a 25 per cent market share, boosting the market as a whole would make little sense, as 75 per cent of the benefit would be enjoyed by competitors. Whereas for Ocean Spray, as for Wrigley, it can make sense to set marketing objectives based on increasing the size of the market as a whole.

Market and sales growth

For public limited companies in particular, pressure from outside shareholders forces them to keep pushing for more growth. This presses the company into finding new opportunities and may lead the marketing department to overreach. For example, marketing departments love to boost sales by 'stretching' brands, by developing more and more variants based on a single brand. Nestle tried to stretch sales of KitKat in the UK by launching varieties such as Lemon and Yogurt, Christmas Pudding, Tiramisu and Seville Orange. The net effect was a short-term sales boost followed by a significant sales downturn as consumers lost a clear sense of what the KitKat brand meant.

Figure 13.1

Growth, therefore, must be treated with caution. It is a valid objective, but one that can cause its own difficulties. One UK company that has handled it especially well is the clothing business Ted Baker plc. Sales grew every year between 2003 and 2014, including through the severe recession of 2009/10. It achieved this by keeping growth controlled, focusing, one at a time, upon new market opportunities such as opening Ted Baker shops in Japan, then America, then China. It never overstretched itself, unlike Tesco with its disastrous expansion into America, or Morrisons with its failed attempt to grow into the baby clothing market (Kiddicare was bought for £70 m in 2011 but in 2014 Morrisons cut £163 m from the value of its assets to reflect ongoing losses at Kiddicare).

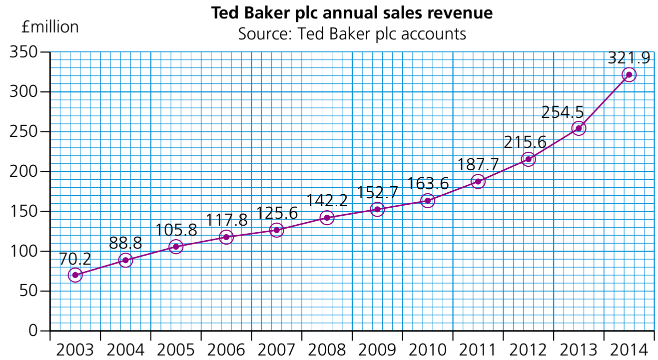

Figure 13.2 Ted Baker plc Annual sales revenue

Real application

Sensations

Launched in 2002 with celeb backing from Victoria Beckham and Gary Neville, Walkers Sensations once had annual sales of over £100 million in the premium crisps market. But by 2009 sales had flagged seriously, hit by newer, more premium brands such as Kettle Chips. Instead of watching sales continue to drift, Walkers responded by relaunching the brand in early 2010, giving it more striking packaging and launching a wider range of flavours. By 2012 and 2013 the success of this relaunch won the brand new distribution outlets in supermarkets and elsewhere. A well-executed marketing strategy brought the brand back to health (see Figure 13.3).

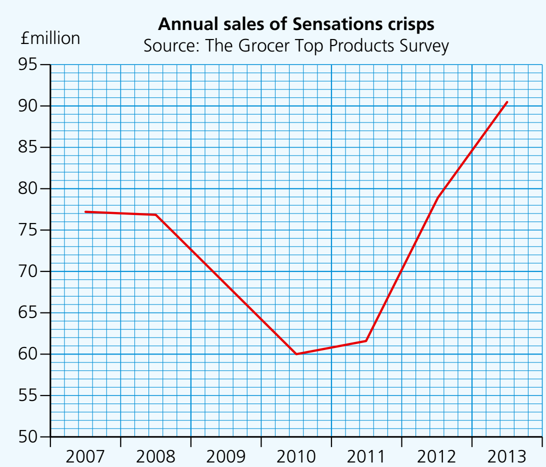

Figure 13.3 Annual sales of Sensations crisps

The Grocer, Top Products Survey

Market share

Nothing is more important to a marketing department than the **market share** of its key brands. External factors largely control market size, e.g. the weather or the state of the economy. Market share, by contrast, is largely the product of the marketing department's successes or failures. In 2013 UK sales of Galaxy fell by 5.3 per cent while sales of Cadbury's Dairy Milk rose by 14 per cent. Perhaps Mars (Galaxy) focused too much on a slick new TV advertising campaign with the copy line 'Why have cotton when you can have silk'. Cadbury, by contrast, focused on new product development such as the launch of Dairy Milk with Oreo cookies.

In setting a market share objective, a company would need to be cautiously optimistic, for example, aiming to push a brand such as Snickers from its 2.5 per cent share of the £3.6 bn UK chocolate market to 3.0 per cent within the next two years. This would be ambitious, but conceivable. Note that a 3 per cent market share would generate annual sales of £108 m, making it perfectly possible to afford a marketing budget of perhaps £10 million – allowing for a substantial TV advertising campaign as well as a significant budget for social media advertising.

Brand loyalty

Brand loyalty exists when consumers repeat-purchase your brand rather than swapping and switching between brands. It is widely agreed that it is far more expensive to have to find a new customer than to keep existing ones happy, so brand loyalty is crucial for achieving high profit margins. For charities, too, it is important to set a marketing objective of improving brand loyalty. If existing donors can be persuaded to set up a direct debit to the charity, its cash flow will improve significantly.

To enhance, or reposition a brand's image

Although some brands stay fresh for generations (Marmite is over 100 years old) others become jaded due to changes in consumer tastes and lifestyles. At this point the firms need to refresh the brand image to keep the products relevant to the target market. A clear objective must be set. What brand attributes do we want to create? What do we want the brand to stand for?

Repositioning occurs when a firm aims to a change a brand's image, so that the brand appeals to a new target market. Twelve years into its life cycle, McVitie's decided to reposition its Hobnobs biscuit brand. Hobnobs had been positioned as a homely, quite healthy biscuit for middle-aged consumers. Research pointed McVitie's in a new direction: younger, more male, and less dull. So new packaging was designed and then launched in conjunction with a new, brighter advertising campaign. In 2013 Hobnobs sales were worth £36 million, 9 per cent up on the previous year.

13.3 Internal influences on marketing objectives and decisions

From within the business there are several pressures on marketing objectives and decisions. In the online grocery business Ocado, the operations department decided in 2014 to build its third, £200 m distribution depot in Salford, near Manchester. When opened, perhaps in early 2016, this will create the need for Ocado's marketing department to work hard to boost the number of online Ocado shoppers in the North West. So the pressure for market and sales growth will be due to an internal influence.

Among many other possible internal influences are:

- New corporate objectives set by a new chief executive; the new boss may want to boost sales volume, perhaps in response to a perceived short-term opportunity such as the 2016 Brazil Olympics; or there may be a marketing requirement to strengthen brand loyalty as a way to boost pricing power and therefore profit margins.
- The development of an innovative new product. When Apple Computers devised the iPod in 2001, it ended up forcing the entire business to refocus from IT to consumer electronics. The marketing department needed to gain an understanding of a new, younger, trendier consumer – and to set objectives based on ambitious market share targets and exceptional brand loyalty.
- New financial objectives. If a new finance director demands higher profit margins, this will impact upon the marketing department's objectives and decision making. As long ago as 1999 the multinational Unilever decided to slash 1,200 brands from its portfolio in order to focus on 400 'power brands'. This was to boost profit margins. Amazingly, even in 2013 and 2014 it is still working on

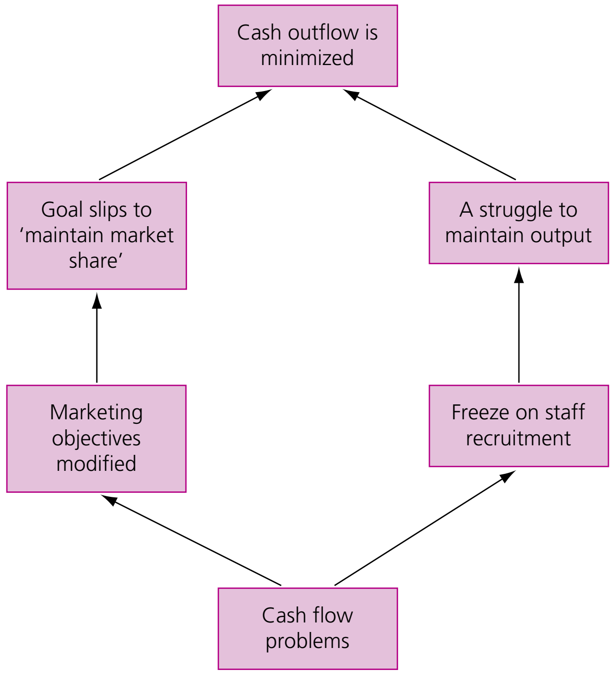

Figure 13.4 Logic chain: How to resolve cash flow difficulties

achieving this goal. In 2013 it sold off some minor haircare brands and in 2014 sold its Ragu, Bertolli and Slimfast food brands.

'A decision is the action an executive must take when he has information so incomplete that the answer does not suggest itself.' Arthur Radford, U.S. Admiral and business consultant.

13.4 External influences on marketing objectives and decisions

It could never make sense to set a marketing objective that ignores the external context of competitors, of changing customer tastes, of changing economic circumstances and an ever-changing natural environment, from weather to earthquakes or pollutants.

Among many external influences on marketing objectives and decisions are:

- Changes in fashion or consumer tastes/habits. The basis for banks' selling and marketing programmes once rested in their high street branches. These days footfall in UK bank branches is falling at a rate of 10 per cent a year as people use online or mobile methods to pay bills or transfer cash. That forces the banks to find new ways to market to their own customers, never mind future potential customers.
- Changing competitive pressures. Colgate is the world's biggest toothpaste-maker, with a 45 per cent global market share (generating sales of $4.5 billion). Its fiercest brand competitor in recent times has been Procter & Gamble's Oral-B brand, which has grown partly through scare tactics in its digital advertising ('Scary things come to those who don't brush' had 7.5 million YouTube hits). In response Colgate has had to rethink its marketing, deciding to increase substantially its budget for digital advertising.
- Changing economic pressures. In 2013 and 2014 continuing pressure on real incomes gave discounters Aldi and Lidl a huge UK market share boost compared with the flagging Tesco and Morrisons. This forced Morrisons to rethink its marketing objectives, opting for the approach 'We're cheaper' which, in turn, forced the business to chop out a whole management layer in order to cut its operating costs.
- Changing natural environment. With a growing consensus about global warming, more companies are placing environmental greenness onto their list of marketing objectives. This leads to actions such as Pret-a-Manger's decision to only use organic milk, or the creation of Green Tomato Cars – a minicab firm that only uses the eco-friendly Toyota Prius.

Key terms

Competition & Markets Authority: the renamed Competition Commission, set up in 2014 to intervene where necessary to protect consumers from anti-competitive business practices.

Corporate objective: the targets decided for the company as a whole, usually after boardroom discussion.

Market share: the percentage of total sales in a market held by one brand or company.

Repositioning: means tweaking the product, branding and image to shift the proposition to a slightly different place in the market sector, e.g. towards younger, more affluent adults.

Short-termist: taking decisions on the basis of short-term need rather than long-term benefit.

Five 'Whys' and a 'How'

Typical questions	*Answers*
Why are marketing objectives important?	Because they determine the strategies that the marketing managers choose to adopt
Why may it be better to target sales by value than by volume?	Volume is simply the number bought; value is more important because it includes volume and price, i.e. total revenue
Why might market share rise even though brand loyalty has fallen?	Only by an increase in sales to new customers or by an increase in demand from customers who feel no loyalty to any brand
Why might internal influences lead to the wrong marketing objective being adopted?	Pressure for a short-term boost to profits (perhaps coming from Finance) might lead to a mistakenly **short-termist** marketing objective
Why might external influences clash with internal influences on marketing objectives?	They shouldn't, as insiders should keep an eye on the external context – but internal politics may prevent that from happening
How might a company set marketing objectives for an innovative new product?	By deciding on the long-term goal, then considering the internal and external influences on how realistic that goal really is

13.5 Influences on marketing objectives – an evaluation

Marketing objectives stem from the corporate goals and from the internal and external circumstances the business faces. The problem for the decision-maker is that there is usually a wide range of contradictory pressures bearing down on the objectives. External forces may point in one direction whereas internal needs suggest a different approach. The expert marketing director will listen to all views and then make a slow, careful decision about what to do. Setting the wrong objectives leads to certain disaster, so it is worth taking time to become as sure as possible about the right step forward.

Workbook

A. Revision questions

1 In your own words, explain the meaning of the term 'marketing objectives'. (3)

2 What is meant by the phrase 'target market'? (2)

3 a) In Figure 13.2 on Ted Baker plc, calculate the percentage increase in sales between 2003 and 2014. (3)

b) Inflation between 2003 and 2014 amounted to 33%. How might this figure be used to assess Ted Baker's sales increase? (4)

4 A new chairman sets the Chief Executive of Tesco the corporate objective of restoring Tesco's UK market share to 32% from its current figure of 28.5%. Outline two possible marketing objectives that might help achieve this target. (4)

5 Explain how a new financial target of boosting short-term cash flow might affect the marketing objectives at fashion retailer French Connection. (5)

6 a) If a company operating in a stable market sees its market share fall from 5% to 4%, what would be the percentage impact on its sales revenue? (3)

b) How might the business respond to such slippage in its market share? (6)

B. Revision exercises

B1 DATA RESPONSE

Nakd gains

In 2006 Natural Balance Foods Ltd was founded by Jamie Combs. He saw an opportunity for more honest, natural products in the fast-growing market for cereal bars in the UK (worth £300 m in 2013). The trend towards cereal bars (as a breakfast replacement or as a 'healthy' part of a lunchbox) coincided with one other – a trend towards 'free-from' foods. Although there is little evidence of a widespread need for them, modern consumers like to buy products that are free-from gluten or free-from dairy products. This provided the inspiration behind a very clever brand name: Nakd.

By 2013 sales of Nakd cereal bars put the brand into the top 10 sellers in this sector, with sales of £10 million, up 51 per cent from £6.6 m in 2012. As shown in the table below, these sales stood every chance of being highly profitable given the high value-added in the Nakd brand.

Correct as at July 12 2014 from www.mysupermarket.co.uk	Price per bar	Weight per bar	Price per 100 g	Calories per bar	Calories per 100 g
Kelloggs Nutri-grain Strawberry bar	59 p	37 g	£1.59	130	351
Nakd Strawberry Crunch bar	75 p	30 g	£2.50	109	363

Having created such a successful, growing brand, it was natural to look for new product to launch. So Nakd Bits was launched in 2013 to offer a 130 g sharing bag in 3 flavours: Cocoa Delight, Berry Delight and Cocoa Orange. The objective was to emulate the success of sharing bags in the chocolate market. Natural Balance Foods Ltd has become a very successful business. Just how far can it grow from here?

Questions (35 marks; 40 minutes)

1 a) Calculate Nakd's cereal bar market share in 2013. (5)

b) Comment on that figure. (6)

2 The website for Natural Balance Foods suggests that Nakd's customers are brand loyal. Explain two ways in which the company might benefit from this. (6)

3 a) Based on the above information, suggest a suitable marketing objective for Nakd in 2016. Explain your reasoning. (9)

b) Examine two external factors that might prevent the company from achieving the objective you set in 3a. (9)

EXTENDED ANSWERS

1 With reference to a business of your choice, discuss which single factor seems to be the most important influence on the brand loyalty of its customers. (20)

2 Waitrose is a supermarket chain that offers a huge range of well-presented foods, but at distinctly higher prices than its rivals. Discuss the main external influences on the marketing objectives and decisions set by the company and other businesses with which you are familiar. (20)

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