GAUTENG PROVINCE
EDUCATION
REPUBLIC OF SOUTH AFRICA

BUSINESS STUDIES

GRADE 11

PAPER 1

TERM 2

CHAPTER 10 – PART 1

BUSINESS OPERATIONS

MARKETING ACTIVITIES & MARKETING MIX COMPONENTS -

PRODUCT POLICY & PRICING POLICY

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This chapter consists of 14 pages

CONTENT DETAILS FOR TEACHING, LEARNING AND ASSESSMENT PURPOSES

MARKETING

Learners must be able to:

- Define/Elaborate on the meaning of marketing.
- Explain the role of the marketing function.
- Outline/State/Discuss/Explain the following marketing activities:
  - Standardisation and grading
  - Storage
  - Transport
  - Financing
  - Risk-bearing and
  - Buying & selling

MARKETING MIX

PRODUCT POLICY

- Outline/State/ Explain /Discuss the product policy with specific reference to types of product, product development, trademarks and packaging.
- Outline/Mention/Discuss categories of consumer goods/products.
- Explain/Discuss the importance of product development
- Outline/Mention/Discuss/Explain the steps/stages of product design.
- Mention/Explain/Discuss the purpose of packaging
- Outline/Mention/Discuss/Describe/Classify types/kinds of packaging.
- Elaborate on the meaning of trademarks
- Discuss/Explain/Describe the importance of trademarks to businesses and consumers.
- Outline/Mention/Explain the requirements of a good trademark.

PRICING POLICY

- Define/Explain the meaning of price
- Discuss/Explain the importance of pricing.
- Outline/Mention/Explain/Discuss the following pricing techniques e.g.:
  - Cost-based/orientated pricing
  - Mark-up pricing
  - Customer/target-based pricing
  - Competition based/orientation pricing
  - Promotional pricing
  - Penetration pricing
  - Psychological pricing
  - Bait pricing
  - Skimming prices
- Identify the above-mentioned pricing techniques from given scenarios/statements. Quote from the scenario to support your answer.
- Outline/Mention/Explain/Discuss factors that influence pricing.
- Identify these factors from given scenarios/
- statements. Quote from the scenario to support your answer.

TERMS AND DEFINITIONS

TERM/CONCEPTS	DEFINITION/MEANING
Marketing	activities a company undertakes to promote the buying or selling of a product or service.
Product policy	the first component of the marketing mix. It explains how a business is going to develop a new product design and package.
Distribution	how the business gets its product to its customers.
Marketing communication	involves how the product or service is communicated to the target market.
Technology for marketing	has changed the way businesses convey their messages to potential customers. Internet advertising and social media advertising increased the ability to promote products nationally and internationally at relatively low costs.
Cost	an amount that must be paid or spent to buy or obtain something.
Mark up	the amount added to the cost price of goods to cover overheads and profit.
Substitutes	a person or an object acting in place of another.
Profit margin	the portion of the selling price that is not allocated to input costs/overheads and contributes to the gross profit margin of the business.
Penetration	the selling of a company's products in a particular market or area.
Bait	sales tactic that lures customers in with specific claims about quality or low prices.
Skimming	a firm charges the highest initial price that customers will pay and then lowers it over time.
Monopolistic	in monopolistic competition, a firm takes the prices charged by its rivals.
Oligopoly	a state of limited competition in which a market is shared by a small number of producers or sellers.
Monopoly	a market structure characterised by a single seller, selling a unique product in the market.
Idea generation	the process of creating, developing, and communicating ideas which are abstract, concrete, or visual.
Testing	finding out how well something works.
Business analysis	a research discipline identifying business needs and determining solutions to business problems.
Brand name	a name given by a producer to a product.
Reputation	belief or opinions that are generally held about someone or something.
Ingredients	things that are used to make something.
Preference	a greater liking for one alternative over another or others.
Target market	a particular group of consumers at which a product or service is aimed at.
Wholesalers	they are large-scale traders who operate as intermediaries between manufacturers and retailers.
Retailers	they are smaller-scale traders that operate as intermediaries between wholesalers and consumers.
Intermediary	a person/business that acts as a link between people and businesses to bring about the sale.

Agents	a person who organises transactions between two parties.
A broker	a person who buys and sells goods for others
Direct distribution	exchange of products/services between the producer and the consumer
Indirect distribution	a distribution channel with at least one intermediary between the producer and consumer

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1.1 Marketing

The meaning of marketing

- Marketing refers to activities a company undertakes to promote the buying or selling of a product or service.
- Marketing includes advertising, selling, and delivering products to consumers or other businesses.
- The aim is to link the business products and services with the customer needs and wants.
- Marketing is used to deliver value to the customers and satisfying their needs.
- Marketing also aims to get the right product or service to the right customer at the right place and at the right time.
- Businesses also establish a target market or maintain market share of a current product and locate the most appropriate customers through marketing activities

The roles of the marketing function

- Support the overall objectives of a business, which is to maximise profits
- The marketing team needs to work closely with staff members from other business functions.
- Gather information about customer needs, preferences and buying behaviour and share information with other departments.
- Assist the development of the marketing strategy in collaboration with senior management from other business functions.
- Develop a marketing plan using element of the marketing mix.
- Develop sales forecasts and projections and provide this information to other business functions.
- Decide which products or services the business will sell and how the products will be distributed.
- Determine what prices (cash or credit) they are going to sell.
- Shape the experience customers have after the products/services are delivered to them
- Promote the products/services that the business offers to potential clients/customers.

1.3 Marketing activities

1.3.1 Standardisation and grading

- Standardisation is the process of developing a uniform set of criteria to ensure the production of quality goods.
- Standardisation also refers to taking steps to ensure that goods produced meet the required standards.
- Grading is the process of sorting individual units of a product into specified classes or grades of quality.
- Standardisation lays down the standards or grade of quality.
- Grading is the process of classifying agricultural products into categories according to their quality.
- There should be no differentiation in terms of the products.
- The quality of the final products can be measured against pre-determined standards, for example, all 55 inch TVs will look the same.
- Products that cannot be manufactured according to pre-determined standards are graded according to the quality of the product.
- • These are products that are harvested from nature and made available to consumers, for example, fruits, vegetables, eggs, or corn.

1.3.2 Storage

- Refers to the storage of goods after having been produced, until it is consumed or dispatched to intermediaries, wholesalers or retailers.
- The storage facility will be influenced by the type of goods that must be stored.
- Storage is needed as goods must be often in the warehouse until the final consumer need the goods.
- When goods are stores, they must be insured against fire/theft/damage etc.
- It ensures that products are preserved to meet future demands.
- It also bridges the gap between production and consumption.
- The storage facility will be influenced by the type of goods that must be stored

1.3.3 Transport

- Products must be transported from storage facilities to intermediaries, wholesalers or retailers.
- Transport also makes it possible for certain products to be exported to other countries.
- The method of transport will be influenced by the type of products that must be transported.
- Transport ensures that products are moved from the producer to the consumer.
- It ensures that the final products reach the consumer when it is required.
- Different modes of transport are available to manufacturers. These include road, sea, air, pipelines, and rail.

1.3.4 Financing

- Capital is used to meet the financial needs of businesses involved in the various marketing activities.
- Finance is required to achieve the marketing objectives e.g., the marketing function must take into account the cost of advertising.
- Financing in the form of cash, credit or loans is needed to bridge the gap from when the product is completed to when the customer pays for it.
- Refers to the act of obtaining funds to ensure that businesses can operate effectively in pursuit of the organisations' objectives.
- The business acquires funding from financial institutions/investors to expand/maintain operations.
- Loan financing is available from financial institutions and must be repaid with interest over a certain period.
- Equity funding is available from private investors in return for a percentage of ownership of the business.

1.3.5 Risk-bearing

- The business enterprise carries the risks involved with owning the goods.
- There is a possibility that products can be damaged /stolen/outdated which may result in financial losses.
- The factory or the warehouse can, for example, catch fire, goods can be stolen, or goods can perish.
- Investments in business opportunities are subject to constant risks, despite the prediction of positive results.
- The first risk bearer of a business venture is the entrepreneur and shareholders in a business.
- Risk bearing provides businesses with the opportunity to reduce losses incurred should a business venture not succeed by sharing the risk with another party.
- The first risk bearer of a business venture is the entrepreneur and shareholders in a business.

- Insurance companies are prepared to share certain risks with the entrepreneur and shareholders.

1.3.6 Buying and selling

- Buying and selling are concerned with the exchange process.
- The buying function deals with searching for customers.
- The selling function deals with promoting the product.
- Some businesses need to buy raw materials in order to manufacture the final products, while some businesses buy and sell goods and services.
- It is an integral part of any business activity.
- Consumers buy the finished products for consumption.

2 The components of the marketing mix

- There are four components of the marketing mix namely.
  - Product policy
  - Pricing policy
  - Distribution policy
  - Communication policy

2.1 The product policy

2.1.1 The meaning of the product policy

- The product policy is the first component of the marketing function.
- The product is the main component of the marketing mix e.g., when there is no product, there is no business.
- This policy explains how a business is going to develop a new product, design and package.
- The product policy deals with the features, appearance and the benefits of the product itself.

2.2 Types of products

Industrial goods

- Industrial goods are used in the manufacturing process to produce other goods e.g. spare parts/equipment/machinery etc.

Consumer goods

- These are goods that satisfy the needs of consumers.

2.1 Categories of consumer goods/products

2.1.1 Convenience goods

- These are low priced goods purchased by consumers without much thought.
- Consumers are not willing to spend much effort on buying convenience goods because they differ very little in terms of price, quality and the satisfaction it provides to consumers.
- Example of convenience goods: bread, milk, soft drink, etc.

2.2.2 Shopping goods

- These goods are more expensive than convenience goods.
- Consumers do not buy them very regularly.
- They are prepared to spend a considerable amount of time and energy going to various shops until they are sure that they are getting the best value for their money.
- Examples of shopping goods; television, motor vehicles, clothing, etc.

2.2.3 Speciality goods

- These goods usually have specific brand names.
- Consumers know exactly what they want and are willing to search until they find exactly what they are looking for.
- Examples of speciality good; jewellery, branded clothing, etc.

2.2.4 Services

- Services are not tangible.
- Services are rendered by service providers to consumers.
- Example of services, garden service, etc.

2.2.4 Unsought goods

- Goods that consumers do not know think of until the need of such products appear.
- Examples are: funeral services, encyclopaedias, fire extinguishers and reference books.
- Purchases of unsought goods may arise due to danger or fear of danger.

2.3 Importance of product development

- Product design needs to be designed to suit the needs of the customers.
- If the product design does not suit the target market, there will be very little demand for the product.
- Business need to develop new products in order to replace older products in stage 4 when the sale declines.
- Businesses are able to remain competitive because they are always on a lookout for ways to improve their products.
- Products become different from those of the competitors.

2.4 Steps/Stages of product design

- Idea generation/ Design and development of product ideas.
- Selecting and sifting of product ideas/ Idea screening.
- Concept development and testing/Design and testing of the product concept which should happen before a product is developed.
- Analysis of the profitability of the product concept/Business analysis.
- Consumer responses must be tested using a small sample of the
- Product/Market testing.
- Technical implementation/Systems and processes are put in the production planning and control process.
- Commercialisation/The product is launch and marketing/advertsing campaigns implemented.
- New product pricing/The product is priced and forecasts worked out.

2.5 Purpose of packaging

- Packaging is needed to contain the item or product.
- Protects the product from breakage, gems, moisture or spoilage.
- Promotes the product by indicating the brand and trademark of the company and product.
- Prevent tampering or theft of a product.
- Improves convenience in use or storage of a product.
- Contains information about the product, including uses, any harmful warnings or dosage requirements.
- Make product easier to identify
- Differentiates the product from other competing products.

- Attracts attention to show value of the product as a marketing tool
- Links the product to the promotion strategy used to promote the product.
- Reduces storage costs by minimising breakage.

2.6 Types/Kinds of packaging

2.6.1 Packaging for immediate use/Unit packaging

- Packaging needs to be cheap, because once the product is consumed, the packaging is thrown away.
- Example : packet of chips/chocolate bar wrapper

2.6.2 Packaging for double use

- Packaging can be re-used for purpose other than storing the original contents.
- Consumers will thus be reminded of the particular brand after the original contents have been consumed.
- The container can be used for something else once the content is finished.
- Example: ice cream tub

2.6.3 Packaging for resale

- Retailers buy products in bulk from wholesalers or suppliers.
- Retailers unpack the products to sell them separately in smaller quantities.
- Example: big box containing many boxes of washing powder

2.6.4 Kaleidoscopic/Frequently changing packaging

- Some details of the packaging change to advertise an important sporting event/competition
- The container or wrapper are continually changing.
- Example. the advertise a sporting event

2.6.5 Speciality packaging

- Packaging must suit the product.
- Example. packaging for an expensive phone.

2.6.6 Combination packaging

- Various complementary products are packaged together because such products are usually purchased together.
- Example. Soap and a face cloth/shower gel and sponge/matching perfume and hand cream.

2.7 The meaning of trademarks

- A trademark is the name/logo/symbol used by a manufacturer/business to differentiate its products/business from competitors.
- A trademark is officially registered and protected from unauthorised use by law.
- It is a registered mark that a manufacturer puts on its products to distinguish its products from other manufacturers.
- Once a trademark has been registered, it may only be used by the person/business that registered the trademark.

2.8 Importance of trade of trademarks to businesses and consumers

2.8.1 Importance of trademarks to businesses

- A trademark establishes an identity/reputation
- A registered trademark protects businesses against competitors who sell similar products.
- A well-known trademark helps to make a brand instantly recognisable
- Offers a degree of protection because branded products can be traced back to the manufacturer
- Businesses can use trademarks to market/advertise their products.

2.8.2 Importance of trademarks to customers

- Creates a sense of security and consistency for customers.
- Promotes loyalty and creates consistency for customers.
- Consumers are more likely to accept new products that are marketed under a well-known brand/trademark
- It represents a certain standard of quality and price to the consumer.

2.9 The requirements of a good trademark

- Must be attractive.
- Must suit the product.
- Suitably designed for the target market.
- Must be different from its competitors.
- Must promote the image of the enterprise.
- Suitable for display purpose.
- Must be environmentally friendly.
- Must protect the contents.
- Should be easy to distribute/handle/transport and use.
- Protect and promote the product.
- Link the product to its promotion strategy.
- Draw the attention of consumers.
- Inform customers on how to use the product.
- Prevent spoiling or damage.
- Reduce storing costs by minimising breakage.
- Easy to handle and display on the shelves in the store.
- Indicate the correct mass or volume of the contents of the product.
- Indicate the ingredients of the product, if applicable.
- Indicate the name and contact details of the manufacturer.

3 The pricing policy

3.1 The meaning of price

- The price of a product refers to the amount of money that must be paid by the buyer to experience the benefits of the product.
- The pricing policy specifies what and how the business will work out the pricing of its product.
- The price needs to be affordable for the customers but also allow businesses to cover costs and to make a profit.

3.2 The importance of pricing

- The pricing process needs to consider flexibility/discount/territory/life cycle status/allowance.
- Pricing affects the number of products that an enterprise is able to sell, which in turn, affects profitability.
- The price of a product can influence the consumers' attitude towards the product or the brand.
- If the is believed to be too high, fewer consumers may buy the product.
- If the price is too low, consumers may perceive the good as being of poor quality.
- The pricing policy should explain when and to whom discounts will be granted.
- The price of a product must make provision for transport costs.
- The price of a product must make provision for VAT.
- Low sales result in stockpiles of unsold product that have to be stored and not repaying the cost of manufacturing that product.
- It defines the value of the product in terms of production costs and customer use.
- It is a tangible price point that lets customers know whether the product will be worth their time and investment.

3.3 PRICING TECHNIQUES

3.3.1 Cost-based/orientated pricing

- Involves setting the price of a product based directly on its cost.
- The business calculates the cost of producing one unit of the product, called unit cost, and then adds a standard mark-up to obtain the price.
- The costs of production and supply are calculated, and a suitable profit margin is added to determine the selling price.

3.3.2 Mark-up pricing

- It is calculated as a percentage.
- This percentage is calculated from the cost per unit.
- Example will include a sandwich-making a business may calculate that the cost of producing a sandwich is R10 and decide on a mark-up of 100%, setting the price at R20.

3.3.3 Customer/target-based pricing

- It is when companies set certain targets to achieve.
- Based on what the business believes customers are prepared to pay.
- The perception of the product it wants to create in the customers' mind.

3.3.4 Competition based/orientation pricing

- Sets its price based on what competitors are charging customers.
- This approach is also called going rate pricing or competitive pricing.
- The more competition in the market, the lower prices are likely to be.
- If the price is set at a higher level than of competitors, consumers must be convinced that the good is better in terms of quality and usefulness.

3.3.5 Promotional pricing

- Businesses offer sales or special offers to attract customers.
- It is used when the price is lowered for a short period of time.
- At certain times of the year, end of season ranges or old stock may be sold off at discount prices.

- Example: include special offers/discounts that are valid for a limited period of time/"Buy one, Get one free" type promotions.

3.3.6 Penetration pricing

- Products are sold at very low prices to attract consumers when the product is introduced to the market.
- The aim is to convince the customers to buy a product.
- As soon as the introductory offer is over, the price is increased.
- It is often used for new products and it is not a profitable long-term marketing strategy.

3.3.7 Psychological pricing

- This strategy is used when the business wants the consumer to respond on emotional basis rather than a rational one.
- It is used to give an impression that an item is cheaper than it really is.
- A CD player is priced at R699 instead of R700.
- Consumer mentally place the item in the R600 rather than the R700 price range.

3.3.8 Bait pricing

- Prices are usually set lower than the items cost price to attract customers.
- It is used to attract customers into a shop to buy the product and other items.
- Consumers are encouraged to buy another product if the advertised product is sold out.

3.3.9 Price skimming

- Prices attached to a new innovative product that is considered unique and prestigious.
- Higher prices are charged to test the demand.
- There are consumers who are prepared to pay higher prices, because such inventions have prestige value.
- As the product gains popularity, the price of the product is gradually reduced.
- Price skimming can be successful and profitable in the short term.

3.4 Factors that influence pricing

3.4.1 Input costs

- The higher the input costs, the higher the final price. An increase in labour or transportation could increase the final price.

3.4.2 Demand for the product

- The higher the demand, the higher the production volume, the lower the input costs, the lower the final price.

3.4.3 Target market

- Income level of the target market.

3.4.5 Type of product

- Luxury products can be priced higher.

3.4.6 Pricing technique used to determine the price.

- Promotional pricing could be lower than demand-oriented pricing.

3.4.7 Competitive and substitute products

- If there are similar products that could replace a product, a high price may result in loss of sales to the substitute.
- If the price and demand of complement good increases, the other product may increase at the same rate e.g., prices of computers and keyboards may increase at the same time.