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MARKETING RESEARCH

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for students of economic fields of training

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B78 **Borbasova Z.N., Ulakov S.N., Ossik Yu.I., Ossik M.Yu.**
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Basic theoretical and methodological issues of marketing research are viewed in the textbook, as well as the directions of their practical use. The structure of the textbook corresponds to a standard program in an academic discipline. The contents and methods of marketing research are disclosed here. The features of sociological, expert and other methods of conducting market research for goods and services, consumers, competitors, pricing, promotional activities are described and analyzed in the textbook.

The textbook is addressed to students and undergraduates of universities, managers and specialists of manufacturing enterprises and organizations, which perform marketing studies, as well as to the students of an advanced training system.

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INTRODUCTION

Modern marketing is rightfully considered to be an economic phenomenon of the XX-th century. There are several reasons for this, and we will focus on certain ones.

For the first time in economic activity, marketing has appeared in the central area of the economic system of society. Globalization of the world economy and an oversupply of real and virtual goods and services in the world market have lead to the fact that the subjects of economic activity very often bear much greater costs for bringing goods and services to the consumer than for their production.

If 50 years ago, the markets operated in stable conditions most of the time, the current dynamic time has become an era of constant changes, constant transformations of the markets both in their structure and in the content.

Along with the rise in material standard of living, the variety of market products is increasing, which determines the individualization of tastes and preferences of consumers. Therefore the success in the competitive struggle in the dynamic markets is impossible without deep knowledge of the increasingly differentiated needs of the customers and users.

The diversity of material composition of a number of manufacturing products (primarily food products) is increasing; technical products are becoming more complex and less accessible to understanding of their functioning (and especially quality) for the ordinary customers and consumers. In other words, there are more and more credence goods and less experienced goods in the market. This leads to the asymmetry of information available to the manufacturer/seller (on the one hand) and to the buyer/consumer (on the other hand).

In view of the above reasons, as well as a number of other reasons, marketing activities of enterprises in different sectors of the economy carried out in stochastic and, in many ways, unpredictable conditions of the market environment. Excessive stocks of goods in production and in various links of trade leads to lower goods turnover and the problem of ensuring the profitability of trade and logistics complex is often solved by customers through increasing selling prices that compensate economically unjustified costs. This makes the objective need for the well developed information and analytical basis of making diverse management decisions. So, later, a special area of marketing research has formed and stood out in the theory and practice of marketing, the main mission of which is to solve the assigned tasks. Exactly they act as the main ground for a sustainable development of enterprises in a volatile market environment. The complexity of these problems predetermines the need to apply general scientific methods of cognition, which give an opportunity to get a comprehensive picture of the development of key market trends and to forecast them. Among these methods, the main place belongs to the systematic approach in the market research, which enables in-depth analysis of complex multi-level economies.

The main place in the structure of customers in the global research market belongs to the enterprises-producers of consumer goods. Thus, quantitative methods to collect marketing information dominate over the quality methods. Online and telephone surveys gain all the more weight, that is connected with a significant rise in prices for access to respondents when traditional methods of personal interviews used, and in order to speed up the marketing research. Focus groups and depth interviews traditionally dominate among the methods for collecting qualitative information.

International Association of Sociologists and Marketing Experts (ESOMAR) experts refer to main trends in development of the global research market the rapid changes in the market of marketing research customers, the need for a holistic research approaches to meet their diverse information needs, the need for a quick response to customers' needs, different levels of maturity of the regional markets of marketing research in the world. The conducted analysis made it possible to determine its following trends: the increasing complexity of research tasks of marketing research consumers, their continuous need for diverse marketing information; the strategic nature of marketing research in the in-house management system; the trend of closer co-operation of research business and consulting business. They relate to the concept of the "third wave" of market studies – the transition to making management decisions, in the center of which are complex open systems.

Thus, there is a tendency of the displacement of marketing in general, and marketing research in particular, towards the center of economic activity. This leads to the actualization of the study of the discipline not only for the future marketing experts, and also for students of other economic disciplines. The structure and the content of the textbook corresponds to the standard program of the academic discipline "Marketing Research" for universities of Kazakhstan and include the theoretical and practical material for the organization and implementation of all major types of market research.

SUBJECT 1. ESSENCE, CONTENT AND ORGANIZATION OF MARKETING RESEARCH

1.1. Essence and significance of marketing research. Purpose and methods of conducting marketing research. structure of consumers of marketing studies.

1.2. Areas of marketing research. Internal and external areas of marketing research.

1.3. The main types, kinds and principles of marketing research. Marketing information.

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1.1. Essence and significance of marketing research. Purpose and methods of conducting marketing research. Structure of consumers of marketing studies

Marketing researches and their proper organization become the instruments, which substantially reduces the risks of doing business, risks of suppliers, intermediaries and the quality of solving consumer's tasks increases. The value of marketing research is also enhanced by the fact that every year the role of uncertainty in the organization of the business managing increases, which is considered as the instability, volatility of economic and social behavior of the marketing system subjects.

In the scientific literature and in practice, the various concepts are used related to some extent to the content of market researches: market research, sales research, the study of motives, the research of potential, marketing intelligence, social studies, the study of best practices of production organization and the ways to improve the performance of enterprises belonging to their partners and competitors.

In Anglo-American literature, marketing research is often associated with the concept of creating "information (informing, intelligence) system".

The concepts of "Marketing Research" and "Sales Research" treated as synonyms in Anglo-American and German marketing terminology, and the concept of "Market Research" has an independent significance. Herewith, the Anglo-American concepts are taken as the basis - «Marketing Research» - research of sales, marketing research, and research of the market.

The American Marketing Association defines Marketing Research, i.e. marketing research, as a systematic search, collection, processing and integration of information, which is related or refers to all the problems of marketing of products and services.

Market Research is considered as a systematic industrial study of markets (meeting place for supply and demand), especially the analysis of the ability of these markets to reproduce the turnover of goods or services.

H. Meffert, 1993, believes that the study of marketing or marketing research, on the one hand, is broader than the concept of "market research", on the other hand – it is narrower than this concept. He established a differentiation between these concepts.

Marketing Research includes both receiving external information and data using marketing research tools, and the collection and processing of the production data. The concept of "Marketing Survey" or "Marketing Research" is broader than the concept of "Market Research" as it is exploring sales system of an enterprise, and also it takes into account both the results of marketing activities (advertising, pricing, distribution system) and in-plant activities (cost of sales, warehousing, production facilities). On the other hand, the concept of "Marketing Survey" or "Market Research" is narrower than “Market Research”, because, when it is carrying, they worried only about the sales markets for the production of the enterprise. Whereas the market research concern the market of productive forces – labor force, raw materials and energy, materials, facilities and units, money and capital.

However, differentiating the concepts of "Marketing Research", "Sales Research" and "Market Research", H. Meffert considers them identical ones. And, for the importance of marketing research, interprets their contents as a form of information (intelligence) amplifier that supports management of the company, especially marketing management, to solve various problems.

Many scientists and experts held such a point of view of the identity of these concepts. However, there are other approaches to the definition and to the content of marketing research. For example, a Swiss scientist, an expert in the field of marketing H.-P.Wehrli (1992) introduced the concept of social research, which includes marketing research in the context of sales research, market research and environmental research. Social research he uses as a synonym for marketing research and market research.

H. Weiss introduced the concept of "Research of Motives". He proceeded from the fact that a market research, depending on the research purpose, can be qualitative and quantitative one. The objective of the quantitative research is to establish numerical values, evaluations of market and its main characteristics. The purpose of the qualitative market research is to identify specific motives for certain behavior on the market. As the techniques for market research, the methods of research of opinion and motives provided in this regard that are borrowed from psychology and sociology. The idea of the allocation the studies of motives that precede decision-making in the market in the structure of market research, develops a content of marketing research as methodologically such an impression reinforces the inextricable links between the problems of the market, the problems of an enterprise, environment and marketing. A fortiori the motives are directly related to social behavior of the individual and/or to a particular social structure, to which each subject of marketing system can be rightly attributed.

As it can be seen, classical marketing research includes regular survey of the markets of its own products and the process to develop a set of documents about the potential of the company, its relationship with the environment, about the nature of the competition, competitors in the market, about the characteristics of their production, the state of marketing, commerce and the work with consumers. Modern marketing research

– is the process of searching, collecting, processing and preparation of information for making operational and strategic decisions in business system. The classic definition of the marketing research is now complemented by the need to use external factors affecting or likely to affect the behavior of the company and its products in the market, its interaction with the partners and competitors.

Due to this, a necessity has appeared not only for classical market research, but philosophy and function needed associated with identifying, search results of the practice in the firms of partners, competitors and related industries with a view to using them in their own firms to improve performance.

Marketing research – is a systematic identification of the range of data required due to marketing situation with which the firm faces, its collection, analyze and report on the results.

We mean under marketing research the systematic collection, display and analysis of data on various aspects of marketing.

Therefore, **market research** is a broader concept. It includes sales market research, the study of the internal environment of the company, the study of marketing tools, its preparedness and efficiency; research of the productive forces market (labor, raw materials, money market and capital market), the study of the environment. This concept focuses marketer and entrepreneur on the most important elements of the sphere of the marketing research, and certainly facilitates the formulation of the objectives of the marketing research, search for the bottlenecks, hotspots that can accompany the process of functioning of the enterprise in market conditions, as well as to assist in the control of collection and preparation of marketing information.

The main purpose (result) of the marketing research – is to generate marketing information for decision making in the field of communication of the subjects of marketing system that would ensure the required by the market quantity and quality of the commodity and service transactions while ensuring compliance with the requirements of the main factors of the environment and the consumer.

The main purpose of the marketing research is to develop the concept of the general understanding of the structure and the regularities of the market dynamics and the rationale for the need and possibilities of a particular firm to better adapt its production, technology and structure, as well as products or services brought to market, to the demand and the requirements of the end user. Analysis of the objectives structure and their streamlining permit, when necessary, identifying the necessary resources and tools that are needed to achieve the goals and sub-goals of all hierarchical levels, and then making the "tree" of resources for market research on this basis. Computer technologies enhance and simplify the calculations in the target planning system and improve the quality of research.

The marketing research objectives arise from the marketing research functions that are directly related to the decision-making process. The general function of the marketing research is to eliminate inaccurate estimates, risk and unproductive expenditures of labor and time in the entire marketing activities.

The main objectives of the marketing research are formed in accordance with the general function of. These include the following objectives:

1) to ensure the effectiveness of the company's management;

2) to assess the chances and risks early;

3) to support the objectivity and representativeness of the business situation in the each phase of the search for solutions;

4) to promote understanding of the objectives and the learning process in the enterprise.

To distinguish the particular tasks, you should focus on the main objectives and the structural elements of the marketing decision-making, the main ones are:

1) the phase of motivation and initiatives of the research, where the marketing problems are identified and analyzed;

2) the phase of the search, in which alternative marketing actions defined, the objectives justified and formed, and the desired list of market data set;

3) the optimization phase, where the most favorable marketing activities selected, which are based on the adopted alternative marketing opportunities and their analysis within the expected results;

4) the implementation phase, which involves the transfer of selected marketing activities for their use;

5) the control phase where the monitoring is carried out for the implementation of marketing activities and their effectiveness.

When the deviations detected between the planned and the reference values of the productive indicators of marketing activities, information obtained as a result of the audit is passed back to a decision maker. Then, the measures are being taken to address the identified deviations and, if necessary, the new solutions developed on order to adapt to the requirements of environment. After the phase of monitoring, the decision making process is closed and it moves to a new beginning – the phase of motivation and initiative.

Classification of the forms of marketing research

Various forms of marketing research are used in practice, and their classification is made according to the following criteria:

1. According to the type of research object – for example, in market research, this is study of markets, the markets of the productive forces, capital markets, etc.; the study of the internal environment of the company; study of the environment.

2. According to the territorial basis – for example, in the market research, this is a regional, national, international research.

3. According to the temporary basis – for example, in the market research, this is a retrospective, operational (current), diagnostic, predictive research.

4. According to the productive (commodity) basis – for example, to study the means of production, means of consumption, and services.

5. According to the type of indicators that characterize the object of study, which are divided into objective researches – for example, for the study of marketing, this are the price, sales volume, demand structure; and into subjective researches – for example, for the study of marketing, these are age, sex, profession of a respondent.

6. According to the way of obtaining data and information – the primary (field) and secondary (desk) marketing researches.

This classification of the forms of marketing researches is nonbinding one. In practice, there may be other forms of market research, which may be mediated by a particular information system, which takes place in the organization of marketing activities.

The structure of consumers of marketing research

Determining the factors influencing the consumer's decision to purchase services is one of the objectives of marketing research. Most of the services purchasers do not adhere to strict rationality in the acquisition process that would imply the identification of all possible sources of acquisition of the services and use of evaluation criteria to each of them. But it is clear that organizational buyers are more rational than the individual consumers that demonstrate greater illogicality in making purchasing decisions. Corporate users will prefer a simple and relatively less risky approach, buying a familiar service, than will waste the time searching for all the possible options and analyzing them. In fact, consumer choice is determined by a set of possible options that can be ranked according to their selectivity:

- a complete set of (includes all services that meet this need);
- a set of expectations (includes those services that the user knows);
- a set of review (includes those services within the expectations and desires, which the consumer includes when considering the purchase);
- a set of range (group of services on the basis of which a final decision on the purchase of services is made);
- unworkable set (in the process of determining the aggregate of options, some services may be rejected since they are inaccessible, impossible, inappropriate ones, etc.).

Models of consumer behavior provide a starting point and a conceptual framework for the analysis of procurement processes. They have a practical value for marketing managers, as they allow development of a framework strategy for marketing and can be used as a predictive tool – taking into account a set of the underlying parameters of.

Consumer behavior in the market of services can be divided into three stages.

The Pre-Consuming Stage includes a number of user actions that he usually takes before acquire the service – from identifying the problem, gathering information and finishing defining a set of possible options. At this stage, users are defined with respect to their desires and expectations of the acquisition of services as well as identify variants acceptable for them (certain standards). Moreover, explicitly or implicitly, this standard may be defined by the service provider, by the user himself or determined on the basis of analysis and comparison to other similar services. It should be noted that, since the services are intangible in nature, the services remain abstract in any pre-purchasing situation.

At the *Consumption Stage,* consumers actually decide on the basis of their own experience, which of the options under consideration will be the best one. During this stage, the needs and expectations indicated by the consumer at the pre-consuming stage compared to the actual provision of services. And in case of a gap between the expected and the actual, the user tries to reduce the imbalance that has arisen, or even abandon the acquisition of services: for example, a bank customer dissatisfaction, which is the result of failure in fulfilling his expectations – the commercial bank refused to grant him a loan.

We should note that the process of customer satisfaction takes place at several levels in the interaction in the process of providing services. Users may be satisfied or dissatisfied with a service personnel providing a service, with an area, with time and with an overall service organization. As a result, the customer satisfaction can be regarded as the mood that is constantly changing and revalued in the course of providing a service. For example, an investor of a commercial bank may be not satisfied because he stood in the queue, but then satisfied because the bank employee was friendly to him.

At the *Post-Consumption Stage*, the entire process of providing services to be evaluated; this stage determines whether a consumer to keep the motives and desire to continue purchasing services. The organization can retain existing customers and attract new ones, increasing its market share, by providing the proper level of service to meet customer needs and expectations regarding the quality of services. It should be noted that consumers assess services comparing their expectations with the perception of the actual service delivery process.

There are two main approaches to assess the quality of services at the disposal of the consumer. The first one can be defined as strictly regulated quality standards for the services for which the objective quality has been set, as measured by a third party or in any other way. The second one – is "floating", that is, the quality is based on the subjective perception of the consumer, on the value determined by him. For example, for which criteria a good haircut can be assessed? However, some tough standards of service quality can be set with respect to services – such as the speed of response to a telephone call or written request, no queues, etc.

As a general rule, consumers are faced with problems in the evaluation of services with a "floating" quality, that is, when they determine the quality of services, which are inseparable both from the customer and from the service provider; and there where the requirements for services are intangible, and therefore it’s not possible to measure them. The degree of satisfaction will in turn depend on how the consumer formed his expectations of technical complexity, cost of service, the terms and alternative of the choice, the consequences of refusal on the acquisition, the degree of risk, novelty of services, frequency of purchases, as well as the individual user experience. The essential feature – is the consumer’s faith that offers of services to meet his needs and expectations; in other words, the quality of service or good service the consumer binds to the value that he ascribes to them.

Modern science considers the need as a certain specific state of a person (groups of people, society as a whole), arising from the fact that this person exists, *firstly*, by himself, i.e., as a separate biological specimen; *secondly*, he is a part (element) of the social system, and, *thirdly*, he interacts with the external environment (society, animate and inanimate nature). For such an existence, certain items (products) and environmental conditions are absolutely necessary.

Thus, the need can be viewed from different perspectives - as a biological, social, economic, industrial, cultural and others. With all the diversity of human needs, all they are united by the fact that they are caused by economic development of the society.

The need is manifested in people's desire to consume certain goods and has *an objective character,* as it occurs under the influence of socio-economic conditions of development of the society, a level of material well-being of, a particular historical period.

Primary vital human needs are not limitless – their boundaries are clearly marked. However, after the satisfaction of vital needs, an outrunning growth of the so-called *secondary needs* is happening – the needs of a higher level: the social, cultural and spiritual ones. At the present stage, these defined needs have acquired a dominant role as they improve socio-economic conditions of the society.

Marketing, putting the needs of a consumer (a buyer) at the forefront of production, objectively reflects this perfectly natural process, confirming the thesis that there is no manufacture without the need for.

It is necessary to distinguish two aspects of the category of "Need".

The first aspect – is the content and the form of needs displaying. *Their highest* level – are real public needs (or the absolute consumer power of society) that characterize the potential needs of consumers caused by the development of production and culture and not limited by economic and social conditions that have achieved. The lower – *middle* – level – are the necessary requirements that the possibilities of production and social conditions currently allow to satisfy. *The lower* limit of the necessary requirements – is the physical minimum of the means of subsistence.

Another aspect of the category of "Need" – is the need to distinguish between needs as such and demand as an external form of their manifestation.

Historical conditionality of needs and demand leads to the fact that, in a complex system of social needs at its different levels and in different links, various combinations of objective and subjective principles are found. For example, the need of a human body for calories, vitamins and mineral salts is absolutely objective. A set of products in which they are concluded – is largely a matter of taste and habits, i.e., a subjective need.

The same applies to the need for shoes, clothing, etc. Therefore, it is necessary to distinguish between the need as an internal state of the subject, groups of people, society as a whole; and as an external manifestation of this condition, the need to have a certain number of specific goods that can satisfy this need.

The demand reflects the need for specific quantities of goods for certain consumer purposes, but not the entire need, but only the part which is secured by cash.

Thus, a demand commonly understood as solvency need, i.e., part of needs in goods and services, sold in the form of commodities, secured by money.

The development and meeting the needs depend on consumption for. Consumption is related to consumers by means of industrial relations.

If there are products on the market that meet the demand for, it contributes to the exchange and consumption and at the same time it is a reflection of it in the form of realized demand.

All the above allows us to understand why such importance is attached in marketing to the research of the needs of potential customers: identifying those needs, you can clearly imagine socially significant results of using the product.

It is also clear why the design of any new product must begin with an analysis of current and potential needs of the people who will buy it, regardless of the product meets individual needs or business needs. Because only realizing these needs, an individual will purchase the proposed product. Hence the need to classify the need occurs to accurately link them with the goods as in the advertising text, and in the minds of potential buyers.

The needs of human on behalf of his origin can be divided into four types:

- arising from the person's liabilities in relation to his family and certain social role that he fulfills in the family (a father, a husband, a grandfather, a brother, a mother, a mother-in-law, etc.);
- arising from communication and activities in various small social groups – a brigade, a company of old friends; random passengers on the boat, in the train and so on;
- resulting from person intervention in the activities of large groups (trade unions, parties, sports associations, and others);
- related to the fact that people live in certain social conditions and they are obliged to obey the laws and the unwritten rules of human coexistence.

In addition to the above classification of needs, they can be divided into primary and secondary, urgent and less urgent, needs of high priority and less significant needs, individual, group, class, community needs, and others.

Demand for capital goods – in the long run, often is reflection of the need for products and services related to the production of consumer goods production, as well as a reflection of other needs related to the competition and increasingly compliance with stringent standards, regulations, etc. Therefore, for example, the need for more perfect production equipment – usually is a consequence of the need to reduce costs; and the need for water supply systems with a closed cycle, and dust collectors – is the result of the introduction of new laws aimed at protecting the environment.

This classification of needs demonstrates the consistent expansion of the boundaries of an individual's activity. The source of this activity is twofold: on *the one hand*, a natural desire to be a particle of society and enjoy all the benefits arising out of this; on *the other* hand – as the natural desire to show his own *"I"* as an autonomous and sovereign unit.

However, in the relationship of people with the objects (goods) and the prices, not only the needs can be traced but also the conditions in which activities of the person are showing (including labor, and creative activities). Depending on these conditions, they distinguish four levels of human activity:

- the lowest level – an interaction of personality with objects, phenomena of inanimate nature and animals;
- the next level – a group communication, i.e. requirements that people from his group impose to an individual. Ignoring such requirements is usually fraught with very sensitive sanctions, so the individual usually tries not to violate the "Rules of the Game", adopted by the group to which he (she) classifies himself;
- the even higher level of activity is predetermined by the world of work, life and leisure, where there are also all sorts of the requirements and sanctions;
- the highest level of activity is caused by economic, political, social, cultural and other features of the society to which an individual belongs – a potential buyer and consumer of goods.

Thus, a lot of experience, broad vision and knowledge required to timely, and – that is most important, - correctly determine the immediate needs of potential customers and the conditions of their activity, i.e., ultimately – consumer's requirements for the product.

You should keep in mind that the buying process begins with the buyer's recognition of the needs of and accurate mental description of its intensity and character. This provision was included in all modern guides on marketing.

It follows from the above that the identification of the primary, the most hidden, often not even perceived needs is extremely essential for the proper organization of market research, creation of new products, their marketing, advertising campaigns and incitation of buyers and intermediaries.

For consumers, it is important that the goods satisfy one or more basic human needs: physiological, emotional, mental and spiritual ones.

Goods and services are bought or rented to meet these needs. We use many products and services in our daily life to meet a wide range of short-term and long-term needs.

In the analysis of consumer behavior, as a rule, they rely on the following assumptions:

- consumer is independent in his choice;

- consumer’s motivation and behavior can be grasped by means of research;
- consumer’s behavior is susceptible;
- consumer’s behavior caused by social laws.

Often the goods are purchased to meet the multiple needs. For example, going to a restaurant with friends can satisfy the hunger, the need for friendship, and the need to be in the right place with the right people (the need for status), and the need to do something unusual (the benefit of novelty).

The benefits sought by consumers in a product or service, determine their perceptions of the product and options. *Segmentation of views* uses the consumer’s knowledge about the product to determine the segments of demand for it. The view of product usually helps to explain the high rate of consumption of the goods or commitment to the brand. Thus, if vendors are focused mainly on intensive consumers, it seems to be appropriate to look for the new opportunities among those who currently are not a consumer. This strategy is particularly suitable for a market leader interested in his expanding, or for a small company looking to find a new segment of the market, while not involved in the competition.

The tactics aimed at changing ideas about the product also depends on the manner in which consumers choose a particular product.

There are three approaches that guide consumers to the purchase decision. They are based on: a) the common sense; b) emotions; c) habits.

Different segments of the market can be determined by what approach they use when purchasing; for example, baby cars are likely to buy on the basis of common sense, sports cars – on the basis of emotions, and older consumers buy them habitually.

When promoting a new product to the market, *researches of consumers (buyers)* gain the largest value. In the face of uncertainty, it is necessary to decide whether to promote a new product to a particular market. To do this, you should identify the *set of driving factors that guide consumers in selecting goods (income, social status, age and sex structure, education*). Individual consumers, families, and organizations-consumers are the objects of research. The subject of the research is to motivate consumer behavior, i.e. those driving forces that cause us to buy this or that product, and the factors determining it. The structure of consumption to be studied, and the provision of goods, and the trend of consumer demand. A typology of consumers predicted and their behavior on the market modeled, and expected demand forecasted. During the research, a portrait of a potential customer of a particular product compiled.

Developing data collection forms is the next step of the marketing research. This may be a worksheet, a questionnaire, a scheme of publications analysis and so on.

Further, sampling plan is developed and the sample size determined.

Finally, the results of the study are presented in a report, the structure of which is determined by client requirements.

1.2. Areas of marketing research. Internal and external areas of marketing research

Different areas of marketing research based on common theoretical and methodological principles and pursue the common objective – give an objective description of the market, explore the possibilities of the enterprise, identify its strengths and weaknesses, and enhance the competitive position and profitability. They distinguish nine areas of research in marketing:

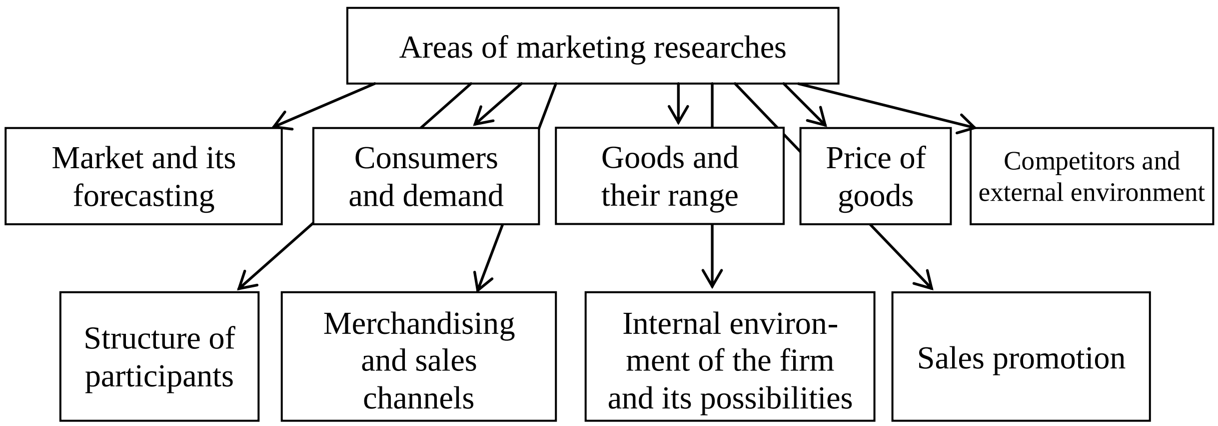

Fig. 1.1. Areas of Marketing Research

Let us consider these areas of marketing researches in more detail:

1. Market research and forecasting – is the most common area of marketing research, the purpose of which is the analysis of data about the situation on the market to determine the most efficient operation of the enterprise. The market research includes:

- definition of capacity (size) of the market and its forecasting;
- analysis of market trends and the impact of seasonal factors;
- analysis of the distribution of market shares between competitors;
- study of the market characteristics (analysis of the opinions, motivations and desires of consumers);
- definition the composition and the structure of consumers (on age, regional location, social class, gender, family composition, purchasing behavior);
- analysis of prices and sales volumes in the markets, and the structure of trade turnover.

The forecast of market development, evaluation of situational trends, identifying key success factors, determining the most effective methods of competition policy on the market and opportunities for entering new markets are the results of market research.

2. A study of consumers allows determining the whole complex of disincentives used by consumers when choosing goods (an income, a social status, age and sex structure, an education). Identifying and segmentation of consumers, modeling their

behavior on the market, the forecast of expected demand and the choice of target market segments are the aims of the research. The subject of the research is the structure of consumption, the provision of goods, the trend of consumer demand, the analysis of processes and conditions to meet the basic rights of consumers.

Individual consumers, families, households and consumers organizations are the objects of the research.

The main results of the market research are:

- forecasts of its development, evaluation of situational trends, identifying key success factors;
- identification of the most effective ways of competitive market policies and the possibility of entering new markets;
- markets segmentation, i.e. selection of target markets and market niches.

3. Study of goods and the range of products aimed to determine whether the technical and economic indicators and quality of the goods traded in the market meet the demands and requirements of customers. The aim of the study is to obtain information on what the customer wants, what parameters of the product he appreciates most: design, reliability, price, service, product functionality.

Consumer properties of products peers and competing products, consumer response to new products, product range, packaging, service level, product conformity with the law regulations and standards are the objects of study. The purpose of research is to develop its own range of products in accordance with the requirements and desires of customers, development and production of new products, their modification, improving labeling, development of corporate identity, and so on.

4. Research of prices assumes identifying opportunities and reserves for the company to obtain the greatest profit at the lowest cost. The objects of study are the costs for development, production and distribution of goods (costing), the impact of competition of other companies and products peers, consumer behavior and response to the price of goods (elasticity of demand). As a result of the studies, the most effective ratios "cost – price" (internal conditions) and "price – earnings" (external conditions) to be selected.

5. Study of the competitors and the environment. The main objective of this area of marketing research is to provide data to gain the company's competitive advantage in the market of goods and services.

This area involves the analysis of the strengths and weaknesses of competitors, the study of the market share, which they occupy; a consumer reaction to competitors' marketing tools (product improvement, changes in prices, trademarks, advertising campaigns, the development of service), as well as study of material, financial, labor and human potential of the competitors.

The ultimate goal of this research is a choice of the ways and possibilities to achieve the most favorable market position; and to determine the strategy focused on ensuring the price or quality advantages of the goods.

6. Study of the structure of market participants conducted to obtain information about possible intermediaries with which the company is planning to be in the chosen markets. For the right choice of intermediaries, an enterprise must have information about their activities, as well as about freight forwarding, advertising, insurance, legal, financial, consulting and other companies that provide a total marketing infrastructure of the market.

7. Study of product distribution and sales channels aimed at finding the most effective ways to bring the goods to the consumer. Here, shopping channels, intermediaries, vendors, forms and methods of sales, distribution costs are the main objects of study. Function analysis and features of the activities of various types of enterprises in wholesale and retail trade are also subject to study; identifying their strengths and weaknesses, the nature of the existing relationship with the manufacturers.

The aim of the study is to identify the opportunities to increase enterprise turnover, inventory optimization, development of criteria for the selection of effective channels of product distribution, the choice of methods of sale of goods to final consumers.

8. The study of the internal environment of the company and its capabilities. The ultimate goal of this research is to determine the real level of the enterprise competitiveness based on comparing relevant factors of the external and internal environment. The decisions that promote adaptation of the company to the dynamic environmental factors are the results of the study.

9. Study of sales promotion and advertising involves identifying the best means of sales promotion of goods, studying and addressing the success of promotional activities. Behavior of vendors, resellers and customers, the effectiveness of advertising, contacts with customers are the objects of research here.

The aim of the research is to develop relationship policies with the public, the creation of a favorable attitude towards the company and its products (image formation), determining the methods of formation of public demand, methods of influence on suppliers and resellers, improving the efficiency of communication links and advertising.

This research evaluates the impact of advertising on the consumer, as well as the taking decision to strengthen advertising campaigns, search for new means of influence on the consumer and increasing his interest in the production of the company. The study involves not only advertising, but also measures aimed at stimulating sales on the parts of final consumers and resellers. These include the study of the effectiveness of contests, lotteries, discounts, bonuses, awards and other benefits granted to the buyers of the products.

1.3. The main types, kinds and principles of marketing research. Marketing information

Actions aimed at the study of the processes occurring in the circulation of commodities, in order to ensure sustainable production and consumption of goods, may be:

- target actions – aimed at addressing key market issues;
- current actions – the results of which are used in the daily work: advertising, changing sources of advertising, price adjustments due to changing external factors.

The procedure of marketing research is carried out in 3 steps:

Step 1: Defining the problem, setting goals, choosing the sources of information, the calculation of the budget and duration of the study, systematization of the total figures, pilot studies. Pilot study – is a mini-simulation of a large survey or questionnaire in order to obtain reliable results later at the lowest cost. For this particular study, they spend up to 5% of the total budget planned for the entire research. It allows them to identify the shortcomings of the marketing research, to cut, to fix up something.

Step 2: Gathering an empirical data, control of information quality, the formalization of the data obtained, its processing and analysis.

Step 3: Wording of the conclusions, the development of recommendations, report writing, presentation of data.

It should be noted that marketing researches are used not only directly in the sphere "production – distribution – private (family) consumption", but also in many other spheres of national economic activity, particularly in the field of public goods. Here are some examples.

Bodies of Public Self-Government. Dilapidated buildings awaiting demolition can be selected as the object of a research in this case. In the survey of residents, you can find out what kind of urban infrastructure is not enough for them. Should you try to convert it? Where pavements to pave, and footpaths?

Serving Sector. In recent years, banking industry became interested in what image the bank has among its customers; colleges and universities – what specialties are most in demand. The hospitals are concerned about, for example, how the patients perceive personnel uniform.

Principles of Marketing Research:

1. The principle of objectivity: to consider all the factors and all the information. It is not a secret that the producers often feel that their product is the best one. Following the point "with their bell tower," they say: "Why should we promote our product? Everyone knows it already!" But an opinion of a buyer may be very different from the view of the manufacturer. And it is important to fix objective information, even if it does not suit him.

2. The principle of accuracy: strictly follow the objectives of the research carried out by selecting the appropriate methods for collecting and processing of information.

3. Consistency: it is expressed in the planning, implementation and monitoring of the each stage of the research.

Methods of Market Research

Characterizing the information component of marketing research, scientists operate with such terms as "Marketing Information System", "the System of Marketing Information", "Information Base of Marketing". Classic of marketing Philip Kotler discloses the term " the System of Marketing Information" as a permanent system of interconnection of people, equipment and instructional techniques designed to improve the planning, implementation and monitoring of marketing activities.

Useful and effective information allows you to:

1) gain a competitive advantage in the exploring of competitors;

2) reduce financial risk;

3) establish a feedback with the customer;

4) avoid the decrease in consumer loyalty to the brand;

5) increase confidence in advertising;

6) increase an efficiency.

The System of Marketing Information includes:

- internal reporting of the firm;
- external current information;
- information obtained in the course of marketing research;
- analysis of marketing information.

The requirements for marketing information are the following:

- *simplicity:* there should be no superfluous information in the study;
- *ambiguity* in understanding the nature of research questions;
- *visibility:* the data are presented in tables, charts, graphs;
- *reliability of* sources of information, materials for market research and data processing;
- *succession:* the analysis of secondary data;
- *relevance of* the data (age of marketing information must be infantile – up to 1 year);
- *purposefulness*.

Two groups of methods are used to collect the information:

1) desk research methods: it involves the collection of information from secondary sources (reports, periodicals);

2) out-of--desk methods (field, or panel methods): a survey, an observation, an experiment, a simulation. The survey may be conducted over the phone, by mail and in person. The advantage of the phone survey is its high efficiency. The disadvantages are: high probability of failure, forced brevity of the conversation. The mail survey eliminates the influence of the interviewer, allows getting thoughtful answers. The disadvantages are: low efficiency, partial failure to return, lack of opportunity to clarify a question. The advantages of personal interviews are: relatively small proportion of

failure, high precision of the studies. The disadvantages are: great organizational efforts, high material costs, the ability to influence the interviewee. Monitoring involves the collection of information about the user and his reaction to making a purchase. The experiment is an implementation of market conditions in practice. The imitation is the experiment under laboratory conditions.

Note that the incoming information (first the secondary information) may be:

- prepared as a misinformation for a source;
- deliberately distorted by him;
- changed – accidentally or knowingly – in the course of its transmission.

Oral reports circulating on the horizontal and informal channels are less prone to distortion, but the information that comes up is embellished more often (in view of the apparent desire to please, to receive the award, to avoid punishment...) than vice versa.

When they misinform deliberately, they use lies, and refined half-truths, which gradually pushing perceivers to false judgments.

The most common methods here are the following ones:

- direct concealment;
- biased selection of data;
- a violation of logical and temporal relationships between the events;
- submission of truth in such a context (with the addition of a false fact or hint...) that it was perceived as a lie;
- the presentation of the most important data on a bright background of distracting information;
- mixing of diverse opinions and facts;
- giving information by such words that can be interpreted in different ways;
- omission of key pieces of the fact.

The distortions in the retransmission of the original data often come from:

- the transmission of part of the message only;
- retelling what he heard in his own words ("a broken phone");
- texture passing through the prism of subjective-personal relations.

To successfully confront to probable misinformation, you should:

- distinguish between facts and opinions;
- understand whether the informant has an access to the reported facts in his position;
- take into account the subjective (self-esteem, fantasy...) characteristics of the source and his alleged relationship to the translated message;
- use duplicating channels of information;
- exclude unnecessary intermediate links;
- remember that you are grasping especially easy the misinformation that you expect or want to hear.

1.4. Market of marketing studies in Kazakhstan

Due to the modern conditions of increasing competition, intensive market researches conducted to identify the prospects for the development of business. According to ESOMAR (ESOMAR – International Association of Sociologists and Marketing Experts, it has developed a set of standards for the research industry, all the major players in the market rely on these standards), the global volume of market research estimated at $ 32.5 billion in 2007-2008. In 2009, under the influence of the crisis, there was a market decline.

5 countries – USA, UK, Germany, France and Japan – are the leaders of the world's market researches, providing nearly 2/3 of its volume. The highest level of annual expenditure for research per capita was recorded in Western Europe (United Kingdom - $68, Sweden - $53, France - $49, Germany - $41). In Russia, the level of annual cost is only $2.

Unfortunately, such a statistics is not conducted for Kazakhstan. When calculating the volume of the Kazakhstan market we take the same rate as in Russia (although it can be overvalued for Kazakhstan), it is possible to say that the maximum amount of the market research does not exceed $27-32 million.

According to the research of the firm *Alvin Market*, the downward trend in revenues in the research market in 2013 did not pass Kazakhstan: the experts estimated the decline of at least 15%. The main reasons for declining revenues in the market are the following: reducing the customers’ budgets for market researches, and the fact that the companies from financial and real estate sectors ceased to be active customers in this area.

These data contradict the data from another source, according to which it follows that 2012-2013 yy. have become a time of active growth of the market of marketing research in Kazakhstan. According to the experts, this segment of the economy has increased more than 30% for 12 months. It is a historical maximum in the post-crisis time, analysts say.

Timur Sabitov, President of Kazakhstan Federation of Marketing, Advertising and PR, considers that the amount of research market of Kazakhstan is difficult to calculate, because the market is dark and services statistics do not always correctly reflect the reporting of enterprises. Therefore, the expert assessments of the scope of the market have a spread from 30 to 50 million dollars.

Another trend, which draws the attention of the experts – is a qualitative growth of services and strengthening of the positions of strong players. First consulting companies came to the Kazakh market in the early 2000s. The development of a market economy and the emergence of the first large stores was the start of competition in retail sector. You must be aware of the preferences of the target audience in order to be different from the competition.

Until the first half of the 90s, professional marketing studies in Kazakhstan were carried out only by western, mostly – by multinational companies, and local research firms were usually entrusted in field works. Now, the situation has changed dramatically. Economic growth in Kazakhstan has caused a significant increase in the needs of marketing studies of local businesses. According to some estimates, the turnover of the market of marketing researches in the Republic of Kazakhstan has increased by 5-6 times for the last 5 years. Therefore, we can say that Kazakhstan has formed its own marketing research industry.

In 2002, the leading research companies in the country have united in Kazakhstan Association of Professional Researchers of Society and Market (KAPIOR). Kazakhstan marketing research companies that have experience at the level of modern professional standards and that have achieved international recognition, united in KAPIOR. Among these top notch companies are – the Agency for Social and Marketing Researches BRIEF, the Center for Business Information, Sociological and Marketing Researches BISAM CentralAsia, Center for the Study of Public Opinion (CSPO), the Research Team of the Central Asian Project, the Research Company MarketConsult, the Institute for Comparative Social Research CESSI-Kazakhstan, the Consulting Company AlvinMarket. These and other leading research companies in Kazakhstan gained their own image, they have become well recognized among domestic and foreign business.

The research market has also undergone significant changes. Business entities are gradually moving away from small point projects, preferring larger researches for the development of start-up projects, and the formation of positive opinion on them in the market. Also, companies are thinking about how to strengthen their positions in the competitive field. According to experts, namely start-up projects are actively developing in Kazakhstan today. This happens primarily because of the fact that innovative solutions in the field of production, management and business are actively supported by the state. Annually, Kazakhstan hosts major forums where representatives of the business community acquaint with the latest technologies, as well as receive information of interest for the development and doing business from the consulting companies.

Currently, about 65-70% of the market of consulting companies concentrated in Almaty, about 15-20% falls on Astana. The rest are distributed among regions. But, as experts note, the regions every year significantly increased their interest in the services of experts in marketing and branding. That branding is becoming a trend in recent years. According to the company *Freedomart*, more than 50% of start-ups think about branding, but more often, postpone it for later. Meanwhile, the formulated brand development strategy could help to find and attract investors faster.

The post-crisis economy rigidly defined a range of urgent tasks, including branding. If a few years ago, investors were inclined to believe the promises, now they are only interested in the real figures. Apart from the expected profitability, the brand strategy shows investors how and to whom they can sell the product. Such data can be decisive in the distribution of investments. Branding does not exist apart from the market and people who are present in this market in one way or another.

According to experts, Kazakhstani branding is adequate to the level of development of business in our country, as well as to entrepreneurial culture and the established principles of work in the market. Therefore, most of the country's population implies PR, advertising, marketing under the term *branding*. Meanwhile, the modern branding widely uses the tools of sociology, psychology and management.

«Mystery Shopping» service is another popular tool that organizations actively offer to consulting companies. Large supermarkets, financial institutions and service companies use it most often. The essence of the instrument lies in the fact that an employee of the marketing company assesses the service under the guise of customer, and then he makes a conclusion on the quality of service. As the market participants say, the cost of «Mystery Shopping» services consists of several factors. First of all, it is the customer himself, and the invited specialists and the conditions of interaction with the target audience. On average, one visit of Mystery shopper to the supermarket, bank or service organization will cost from 3 to 10 thousand tenge for the customer. The experts call more expensive research instrument conducting a comprehensive study of the market segment in which the customer operates. Compensation for the expert who is conducting a series of public opinion polls, focus groups and marketing conclusions is on average $1,000 for a month. Marketing, branding, "Mystery Shopping" and other consulting services are guided by the offers and follow the client. The experts predict positive dynamics of growth of market research, while maintaining a similar dynamics of the economy in general and the growth of business activity.

Already established practice of attracting local research companies by foreign companies to researches in Kazakhstan has the following advantages:

- the ability to adapt research tools to the local conditions (taking into account the country's national culture, people's mentality, and the existing socio-economic situation in the country);
- the lower cost of the research with a high quality of work (as local research companies have an experience of working with the international organizations and foreign companies at the level of international standards);
- the orientation in the local conditions (legislation, taxation, etc.).

The main types of marketing researches in Kazakhstan, as well as the companies, which carry out them, presented in Table 1.1.

In Kazakhstan, there are great prospects for growth in the market research: the above-mentioned annual volumes of marketing research in the country are approximately equal to the annual average volumes of a research company in the United States or Western Europe. Officially, about 170 companies registered in Kazakhstan, but only 15-20 of them are engaged in conducting researches at the appropriate level. This is a fairly complex of studies that require high skills, and continuous monitoring of compliance with the international standards. Although the volume of the Kazakhstan market is small, the quality of its service is mature. Foreign FMCG-companies (Fast *Moving Consumer Goods*, the products that are relatively cheap and are sold quickly) make up much of the customers of marketing researches.

Table 1.1.

The common types of marketing studies in Kazakhstan

Types of researches and the field of study	Research companies and firms	Research results
Studies of consumer behavior. Research of market and competitive environment.	BISAM Central Asia, Brief, COMCON-2 Eurasia, Expert Consult, "Central Asian Project" Research Group	Development of marketing strategy, assessment of the possibilities of the company; the choice of target markets, and consumer preferences.
Research and monitoring of all the kinds of media in the field, measuring the effectiveness of advertising, and an audience	«Gallup Media Asia», Comcon 2 Eurasia, BISAM Central Asia, the Information-Analytical Center "Prognoz"	Development of the plan and strategy of advertising campaign. Knowing the media rankings. Selection of an effective advertising media. Determination of the efficiency of the advertising investments.
Study of the product, brand positioning, package testing, brand building, test marketing, sale, advertising.	BISAM Central Asia, Brief, IGM, Comcon 2 Eurasia, the Expert Consult Centre "Al Kuat"	Goods conformity assessment for the consumer preferences; the development of assortment policy, marketing strategy and product distribution.
Study of retail, sales system, and distribution	BISAM Central Asia, Brief, Amer-Nielsen	Determination of the place of the company in the market, positions of the competitors; sales forecasting, distribution efficiency forecasting
The characteristics and market trends	BISAM Central Asia, Brief, Comcon 2 Eurasia	Determining the degree of the market monopolization, market shares, and competitive strategies.
Investment consulting and marketing, business plan, franchise schemes.	IGM, Expert Consult	Expandability of an old business or creation of a new one, creation of attractive investments schemes
Previous research in the fields of: advertising business, transport, financial sector, public administration, trade, real estate, education, telecommunications and IT, pharmaceuticals, media, entertainment, and construction	Alvin Market	Analysis of the socio-economic development of the regions of Kazakhstan (2007-2012 years). The definition of lifestyle and leisure activity of Kazakhstan citizens. Population profile: doing sports, cinemas visitors, visitors of cafes, restaurants, nightclubs; gamers. Research of payment cards market in Kazakhstan. Drawing a portrait of the people-users of on-line learning. Portrait of applicants who use the Internet for job search.

The majority of Kazakhstani research companies are diversified companies able to undertake a study of any complexity, both local and national scale with virtually all the methods of marketing research. However, each player in this market takes his own niche and focuses on the certain segments. Cost of services of the companies depend largely on the complexity of the research, on the implementation period, on the scope of research and it can amount to tens, and sometimes hundreds of thousands dollars.

According to the director of the company *Alvin Market* Natalia Ospanova, the quantitative researches (personal interviews, telephone interviews, retail audit and telemetry, online-researches and so forth) are the most popular areas of study in the world and in Kazakhstan. Up to 80% of client budgets are spent for these types of researches. Qualitative researches (focus groups, depth interviews and so forth) occupy a much smaller share of the clients' costs for marketing researches. Recently, however, the role of qualitative research is increased. There are cases when strategic decisions of the companies are based on the results of such studies (in the choice of new market segments, launching new products and so on).

Also online-researches are gaining their weight. The increase in this type of research is especially noticeable in those countries where the Internet penetration rate has exceeded 70%. Unfortunately, in Kazakhstan, online-studies are isolated cases.

Alvin Market experts note the growing interest of customers to the researches aimed at studying the quality of services. As a rule, such projects are carried out using the above referred *Mystery Shopping* technique. For customers, such the projects are among the most transparent ones, where they can directly see the quality of their work with the clients. The results of such researches often form the basis for the development of various motivation programs, measures to optimize business processes, and staff training programs.

The largest Kazakhstan companies remain the main customers of the company *Alvin Market* for full cycle marketing researches. In medium-sized businesses, market research budgets mostly have been "frozen" during the crisis, and only now we see their gradual and cautious "defrosting". Small businesses segment is numerically large, but often, small company's budget is not enough for a full-fledged project. Therefore, their interest in marketing researches is limited to the purchase of inexpensive box reports and official statistics. During the last period, several segments that previously bought actively marketing researches (construction, real estate) almost fell.

According to N. Ospanova, in the near future, the following trends can affect the market of marketing researches:

1. Increase of customer requirements to the results of the marketing research. Firstly, the requirements to their practical significance. It becomes important to increase efficiency of costs for market research. As a result, a number of labor-intensive and "piece" projects increased, which involve not only market research but also the subsequent advices on the use of research results in the client's activity. Secondly, the requirements to the types of reports on the conducted researches rose: a growing demand

for more tangible results of the marketing researches. In this regard, the researchers move on to the new types of deliverables that customers get: videos, which model the behavior of shoppers in stores; audio and video interviews, audio reports etc.

2. The structure of the budgets for the various types of market research continues to change: increasing the role of qualitative research (especially with the use of projective and ethnographic methods), the gradual flow of the polls from offline into online, the growing role of *Mystery Shopping* and the further complication of methods of the study (greater emphasis on supporting audios and videos).

3. Centralization of decision-making on the most large-scale research projects. A number of projects obtain the status of global projects, ongoing for a number of countries with a single procedure. In such cases, Kazakhstani research companies perform only "field" works.

4. More and more large companies when choosing a contractor to conduct market research apply competitive procedures that involve observing the high standards. The final decision on selecting the contractor moves from marketers to purchasing department.

5. Increase in the number of small consulting companies - "boutiques", sharpened for solving individual research tasks (qualitative research, telephone surveys, etc.) or for tasks for a particular industry (pharmacy, telecommunications, etc.). Large companies are willing to entrust their projects to "boutique" research companies, thereby achieving significant cost savings and solving in-depth special tasks for which attracted researchers sharpened.

6. Business diversification of research companies. Related services to conduct training and seminars, on business planning and others appear in portfolios of the research companies.

According to senior consultant of the consulting company *J'son & Partners* Alexander Kislitsyn, marketing researches are most in demand among the largest suppliers of consumer electronic devices and new services, as well as monitoring the penetration of the most popular services – broadband Internet access (wired and wireless), and mobile services.

During the years of market development, Kazakh researchers have successfully mastered the advanced international experience, and modern research technologies.

However, there are certain problems hampering the development of marketing in Kazakhstan. For the majority of businesses, carrying out of professional marketing research is still too expensive. For example, the cost of marketing research based on the "classic marketing triad" (the definition of the basic parameters of the market and the characteristics of the marketing environment, consumers research and competitors studying) using a combination of quantitative and qualitative methods of collecting secondary data and expert estimates ranged between 2-5 million tenge. For many companies, it is a significant portion of annual turnover. When the state is developing programs to support small and medium-sized businesses, it is necessary to pay attention to the promotion of modern information and research support. In Kazakhstan, a special program of the European Bank for Reconstruction and Development is working not the first year to support research and consulting services, the so-called BAS Program (Business Advisory Services). In its approved projects, it pays half the cost of the studies that the companies bought from professional research organizations. However, BAS can only finance 30-40 projects per year. But various government funds and business support structures could adopt this experience and implement it on a much larger scale. Kazakhstan lags behind countries with developed market economies in the level of demand for market researches.

In the states of the West, it is unthinkable that entering new markets, diversifying marketing strategies, creating or repositioning of the product were carried out without professional marketing research. In our country, the practice based on an intuition or on random, chaotic information, is typical for the majority of market players. However, Kazakhstan is close to the level when the Western business, planning their investments or other forms of economic activity in the country, sees full providers of marketing information and sufficiently skilled analysts in the best domestic professional research companies. This means that the Western market researchers are beginning to work with their Kazakh colleagues like with equal partners. Despite these problems, due to the changes taking place in the Kazakhstan market, integration processes are going on strategic and operational planning. The strategic objectives set out for the long terms, broken down into operational ones, focused on the short terms. Achieving operational objectives, Kazakhstani enterprises go to the planned strategic objectives step by step, using the experience and achievements of the world's leading companies in the field of marketing.

So, in September 2012, BISAM presented to ESOMAR Congress in London an original method of *Deep Dive Research*. As a research approach, *Deep Dive Research*, i.e. in-depth studying, is known enough to marketers. However, BISAM has developed its own methodology for researching fundamental and consumer values of different social groups of Kazakhstani society for strategic marketing and branding of an international company. This technique has been successfully used in a research project for the company *Coca-Cola*.

In summary, we can draw the following conclusions.

1. With the realities of a globalizing Kazakhstan economy, understanding grows of the leaders of Kazakh companies of increasing significance of marketing research for strategic planning and information support for operational management of the firm.

2. The positive trend observed in the development of the research market in Kazakhstan, the range of activities of marketing agencies expanded and the quality of their work improved.

Questions for discussion:

1. External and internal environment of marketing.
2. External and internal environment of the fashion industry.
3. Describe the basic principles of conducting marketing research.
4. Marketing strategies and the plans for their development (on the example of an enterprise).
5. The methods of marketing research.
6. Describe the monitoring. What are the advantages and disadvantages of this method of data collection?
7. Give a detailed description of the methods of communication with an audience used in marketing research.
8. The principles, conceptual approaches and methods of conducting marketing research.
9. Communications in marketing.
10. The needs, the consumer and his purchasing behavior.
11. Requirements for marketing information.
12. Information and misinformation on the market of goods and services.
13. The main areas of marketing studies carried out in Kazakhstan.

SUBJECT 2. INFORMATION IN MARKETING RESEARCH

2.1. Essence and organization of marketing information. Concept and characteristics of marketing information.

2.2. Marketing information system and its components.

2.3. Structure of marketing information. Typology of marketing information.

2.4. Types of analysis of information. Traditional analysis. Formalized analysis.

2.1. Essence and organization of marketing information. Concept and characteristics of marketing information

A variety of marketing functions reflects the diversity of marketing activity aimed ultimately at bringing goods to the sphere of consumption and to meet the needs of customers.

One of the basic requirements of marketing is to ensure the "transparency" of the market and the "predictability" of its development. Long before bringing goods to the market, planning to sell a certain amount of it and take some share of the consumer market, the merchant needs have detailed characteristics of the market or a segment, in which he intends to act as a seller. The employer must at least to know market size, presence and type of consumer demand, intensity of competition, the competitiveness of its product, the level and the trend of prices, the reaction of customers to certain marketing activities, the rate of profit, etc. An entrepreneur risks fail without considering actual market situation.

Without collection of reliable information and its subsequent analysis, marketing cannot fully perform its mission, which is to meet the needs of customers.

The basis of marketing research is collecting, data processing, analysis of the marketing information that is necessary to make marketing decisions. Marketing information is of great value in the complex of marketing – from the knowledge of what is happening in the market, the success or failure of the company. The basis of work of the expert marketer - is the ability to collect, analyze, organize, market information, transform it into knowledge of market trends, and then - in events affecting the market. Information has become not only a tool for marketing - management, but also an instrument of competition.

Information in a broad sense – are messages, means of obtaining knowledge about any phenomenon or process. **Marketing Information** – are figures, facts, information, rumors, evaluations and other data that needed for analysis and forecasting of marketing activities.

Formation of marketing information is necessary for the following purposes:

- *ultimate purpose* - to provide the characteristic of market processes and phenomena, the identification of trends and patterns of development of the market, which is necessary for making management decisions;

- *direct purpose* - to organize and structure gathered information for analysis and forecasting of the need to develop a strategy and tactics of the company;

- *interim purpose* - mixing and grouping of data for viewing, analysis, and evaluation in order to make operational decisions.

Value of marketing information depends on three main factors:

- probability of a favorable outcome of a decision is directly proportional to the volume and quality of information collected;
- relative benefit determines the choice of solutions from a set of alternatives;
- cost of the collected information.

A number of requirements are imposed on marketing information, based on the theory and practice of marketing researches (table 2.1).

The marketing information must be submitted to the treatment with the following principles:

Targeting - the main criterion to providing information, the form and content of the information must match the level of the head which receives the information for future decision-making.

Continuity - information work must be done on a regular basis.

Consistency - information should not be granted individual scattered pieces obtained by different people, as it is in this case not be subject to the overall analysis.

The constancy of parameters - can not often change the shape and parameters of the providing information in order to avoid distortion of the content.

Visualization - the most effective information in the form of graphs, charts, diagrams, tables.

Table 2.1

Requirements for marketing information*

Requirements	**Ensuring compliance with the requirements**
Topicality	Presentation of actual information at the right time
Reliability	The adequacy of the information provided by the observance of scientific principles for the collection and processing of information and struggle with tendentiousness
Relevance	Obtaining information in accordance with the tasks assigned
Completeness of Mapping	Planning the research, revealing the essence of the phenomenon, its structure and relationships
Purposefulness	Compliance of information of the general purpose of the research
Information Integrity	The data processing in accordance with the requirements of science and statistical theory of observation
** Note - compiled by the author Z.N. Borbasova*	

Marketing information can be presented in numeric, text, graphics, analytical, expert (tips and tricks) and multimedia forms.

2.2. Marketing information system and its components

Marketing information system (MIS) – is a complex of staff, equipment and procedures to gather, sort, analyze and distribute pertinent, timely and accurate information for use by marketing decision makers.

MIS designed to perform the tasks of marketing and allows flexible and efficient work with consumers.

She consists of three interrelated components: experts on the collection and processing of information, methodological techniques for the collection and processing of information, equipment for collecting and processing information.

Work of MIS, as any modern information system, is based on modern information technologies and computer engineering.

MIS needs its constant improvement and requires creativity. If the firm is large and things are going well, do not stop on reached. It is necessary to identify the reserves and use them to get additional advantages over the competition. Continuously improved MIS is (known-how) and is an important competitive advantage at all stages of marketing management. This allows the company to always be ahead of the competition.

An effective MIS allows direct operation of the company in the most promising customers, allowing to differentiate their product. In relation to direct competitors is reduced substitutability of goods, increased brand loyalty, which reduces pressure on the customer company, hampers the arrival of new competitors and protecting the company from substitute products. The presence of the distinctive qualities require higher costs for the development of the information system, but the successful differentiation allows the company to achieve greater profitability, as consumers are willing to pay more.

MIS is working closely with the company, working on his basis, and adding his database. Without a configured electronic document management, construction of MIS is not possible.

Therefore, to work effectively in today's market, the company should have a high information culture.

Information culture – this is knowledge, skills and ability to work effectively with information in terms of computerization.

Functionally MIS consists of four systems: the internal reporting, external market information, market research and analyzing marketing information (Fig.2.1).

The system of internal reporting. Database of enterprises and workflow. In modern information systems of enterprise, internal reporting system is part of a corporate database, which records all the commercial document: documents cycle "order-payment-shipping", information about consumers as well: outgoing and incoming invoices and applications, paying bills, incoming and outgoing invoices, bills of holding stock, details of customers, suppliers.

The system of collecting external marketing information. This system is designed for regular gathering of external marketing information.

This system:

- complements the information about consumers (needs, frequency of orders, a segment of the market);
- collects information about suppliers (assortment, pricing);
- contains the information about competitors (assortment, pricing, distribution channels);
- registers the indicators of state of marketing macro environment (rates of foreign currency exchange, the refinancing rate of the Central Bank and so on).

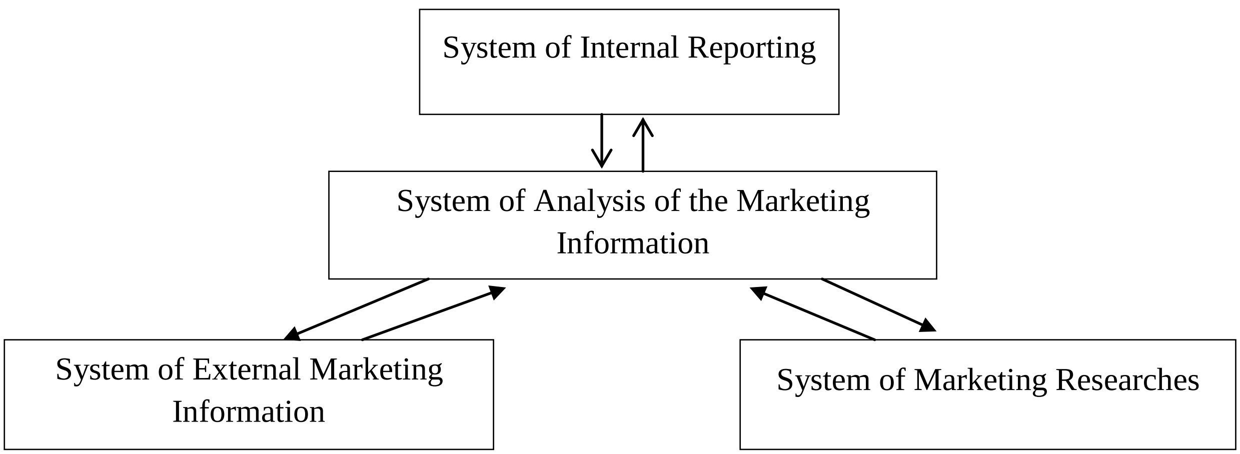

Fig. 2.1. The Functional Structure of MIS

2.3. The structure of marketing information. Typology of marketing information

Marketing research – is any research activity aimed at meeting the needs of the information and analytical marketing.

The system of market research allows obtain specific the information, register which constantly is not necessary.

Market research conducted for the main and additional market information. This can be related to conduct of new shares: the removal of a new product on the market or entry into a new market segment; in the event of crisis situations, for example, with a sharp decrease in sales volumes and so on.

The system analysis of marketing information. The basis of the analysis of the marketing information is the bank of statistical models. Statistical bank – complex of modern statistical methods of data processing. Bank of model - a set of models designed to solve specific marketing problems (pricing, consumer evaluation, strategic planning, etc.).

At the input of the system of analysis of marketing information, they distinguish two information streams:

1. Internal reporting of the enterprise.
2. External marketing information:

2.1) about the target markets;
2.2) about marketing distribution channels: its own sales force and distributors;
2.3) about competitors;
2.4) about consumers;
2.5) about macro environment factors.

At the end, they receive information that necessary for compiling marketing plans, operational control and control the marketing activities of the company.

Table 2.2

Classification of marketing information

Signs of Classification	Types of marketing information
The time period to which the information relates	Historical (the results of the previous period) Current (current status) Predictive (future position)
The relationship to the stages of making marketing decisions	Ascertaining (data on the state of control) Explanatory (containing factors and reasons for changes) Planned (needed during the development of objectives, strategies, marketing programs) The information used in the control of marketing - controlling
Possibility of numerical evaluation	The quantitative (quantitative indicators) Quality (quality characteristics)
Frequency of appearance	Permanent (reflects unchangeable value of the environment) Variable (actual characteristics system of the marketing) Episodic (formed as appropriate)
Character of information	Demoscopic (information about services consumer) Ecoscopic (information about the external environment of the enterprise)
Sources of information	Primary Secondary

Consider more detail the types of marketing information, depending on the sources of information.

Primary information is aimed at solving specific problems and formed during of special research (interviews, observations, and so on). The name of this information - the primary, that is collects for the first time.

Secondary information is data about the internal and external environment of the enterprise, obtained from accounting and statistical reports, special publications, directories, systematizing and analysis generalizations.

Primary and secondary information have *advantages and disadvantages* (Table 2.3).

Table 2.3

Advantages and disadvantages of primary and secondary marketing information

Advantages	**Disadvantages**
Primary information	
Collection is carried out in accordance with the exactly purpose; collection methodology is well known and controlled; the results can be protected from competitors; reliability	It takes more time to collect and process; high costs; the need to involve outside organizations
Secondary information	
Quickness of obtaining compared with collecting primary data; relative cheapness of obtaining; improve the efficiency of the primary data using	Possible discrepancy of measurement units; use of different definitions and classification system; different types of novelty; may be difficulties in assessing the reliability of the information

In some cases, the secondary information is sufficient to achieve the purpose of a specific research and appropriate marketing decisions. Therefore, the collection of primary data should begin after careful research and analysis of secondary data and only in those cases when secondary data are insufficient to provide a complete picture.

2.4. Types of analysis of information. Traditional analysis. Formalized analysis

Competent conversion of primary and secondary sources in the target information requires knowledge of methods for analyzing the data. The totality of such data, and especially printed, called documents. There are two main types of analysis: the traditional classic and formal quantitative (content analysis).

These types of marketing information analysis greatly differ but do not exclude but complement each other, allow compensate disadvantages because, finally pursue the same goal - getting interested, accurate and reliable information.

Analysis of documents used at work with secondary data (in the first place - socio-psychological orientation).

Traditional analysis – is a chain of mental, logical constructions which aim at identifying the essence of a specific analyzed material with definite to analyst in each case point of view.

The information that analyst is interest contained in a document, often present in a form that meets a purpose with which the document was created, but does not fulfill the purpose of marketing analysis. Conducting the traditional analysis means converting original information in the form of the desired shape of the investigator, this is interpretation.

Traditional analysis allow to catch the main ideas and thoughts, trace its genesis, discover the logic of their justification, weigh their consequences, reveal the logical links and logical contradictions between them, assess them in terms of marketing positions. The main drawback is subjectivity.

The traditional analysis has external and internal analysis. External analysis – is an analysis of the context of the document in the proper sense of the word, and all the circumstances that accompanied its appearance. The purpose of the external analysis – is to establish a kind, form of the document, time and place of occurrence, the author and initiator, objectives pursued during its creation, reliability, validity and scope of the document. Internal analysis – study the content of the document. All the work analyst is aim at conducting an internal review of the document, including the identification of the level of confidence and of the facts and figures, establishment of the level of competence of the author of the document, concerning his personal relationship to the facts that describe in the document.

Formalized analysis. The desire to get rid of the subjectivity of traditional analysis gave rise to the development of fundamentally new, formalized, or, as they are often called, quantitative methods for the analysis of documents (content analysis).

The essence of these methods is reduced to that find such traits, features, document properties (such as a sign, as the frequency of the use of certain terms) that with the need to reflect certain essential aspects of the content. Quality content is measurable, becomes available computational operations. The results of the analysis are sufficiently objective. The limited of formal analysis - the entire contents of the document can be measured by formal indicators.

A formal, quantitative analysis operates with specific quantifiable parameters. His main drawback should be considered inaccurate, not exhaustive disclosure the contents of the document.

Content analysis – is a technique for isolation detention that produced due to objective and systematic identification consistent with the objectives of the text analytics features. Application of this method is recommended in all cases when it requires a high degree of accuracy and objectivity of the analysis. It is usually used in the presence of an extensive volume and unstructured material when the direct use of the latter is complicated. Content analysis is useful in cases when the categories that are important for the purposes of analysis, are characterized by a certain frequency of occurrence in the study documents, for example, when working with the answers to open questions, or in-depth interviews.

The main areas of use of the content analysis are:

a) identification and assessment of the characteristics of the text as indicators of certain aspects of the studying objects;

b) identification of the reasons that engendered the message;

c) evaluation of the effect of the impact of the message.

The study of the characteristics of the text allow check how content of the message will vary depending on the audience.

Formulation of the problem of the study the causes of the emergence of messages associated first of all with an attempt to establish a relationship between the facts and the processes that occur in objects generating the message.

The demand of objectivity of analysis makes it necessary the translation of the studying material into the language of the hypothesis that can accurately describe the characteristics of the text. Therefore, the analyst has to solve a number of problems connected with:

a) Selected categories of analysis;

b) Isolating the analysis units;

c) Separation of units of count.

Category of analysis – is a concept under which the unit of analysis will be sort (unit of content); For example, consumers with different income levels, positive, neutral, negative assessments of a certain brand of goods.

In developing the categories important to consider that their choice will depend largely on the nature of the results. Typically, analyst is faced with need for more time to move from a theoretical scheme to the documentary evidence, and from them again to the scheme in order to, based on the selected hypothesis, develop category, which match tasks of research.

Categories must be exhaustive, include all content, which define by the objectives of the research, meet the requirements are mutually exclusive (the same parts should not belong to a different category). Categories must meet the requirement of reliability, i.e. they are formulated in such way that various analysts have rather high degree of agreement about what parts of the content should be attributed to a particular category. Classification of pieces of content to certain categories becomes less problematic when categories are clearly defined.

When formal analysis of the content must clearly specify the grounds on which certain units belong to certain categories. The unit of analysis - meaning or quantitative – is the part of the content that stands out as an element to be supplied under a particular category. In the text, it can be expressed in different ways: in a word, to some steady combination of words, may have no obvious terminological expressions and presented descriptively or hide the title of the paragraph, section, etc. In this regard, the analyst must find signs (indicators), which are determined by the presence in the text of a topic or idea, meaningful for the purposes of research.

Indicators can be very heterogeneous: belonging to the theme of words and phrases, terms, names of people, organizations, ways of solving economic problems, etc.

Choosing a semantic unit and its indicators, an analyst must also identify the unit of account, which will be the basis for a quantitative analysis of the material. It may or may not coincide with the unit of analysis and its indicator. Unit accounts have a different degree of measurement accuracy, and different time that spent on the coding of the material in the sample.

Solution of each analytic problem requires the determination, how many documents you need to study, that the data of object were significant, i.e., it raises the question of building a sample.

When you analyze documents that specially composed for the purpose of marketing research, analyzes without exception all documents. If you talk about documents - secondary data storage media, it may be necessary screening information source and selection of documents in the construction sample.

When planning analysis content of document, an analyst primarily decides what sources can in the best way present the characteristics of an object being studied. If all documentary sources are equally important for the purpose of research, then a random sample may be done. Often selection of information sources limits the amount of documents that can be processed to a suitable size. However, after this, the material can be quite extensive. Then, the selection of documents should be done.

When conducting marketing analysis, it is necessary to clearly define what kinds of characteristics of the object are subjected to study, and according to this, to evaluate documents in terms of their relevance, reliability, validity.

Questions for discussion:

1. List the components of marketing information.
2. List the basic requirements for marketing information.
3. Describe the primary and secondary information, their advantages and disadvantages.
4. Define MIS and describe its structure.
5. Explain the difference between traditional and formalized analysis of information.
6. Disinformation in marketing studies. The causes of arising it and its types.

SUBJECT 3. PROCESS OF MARKETING RESEARCH. SELECTIVE RESEARCH

3.1. Scheme of marketing research. The main stages of. Methods of marketing research at different stages.

3.2. Defining a problem. Methods to identify problems.

3.3. Concept of selection. Development of sampling plan.

3.4. Determining sample size. Concept of variation. Organizing data collection.

3.1. Scheme of marketing research. The main stages of. Methods of marketing research at different stages

Conducting marketing research – is the most important component of the analytic function of marketing. The lack of such a research is fraught with adverse consequences for the company-manufacturer.

Marketing research involves systematic collection, processing and analysis of data on aspects of marketing activities of the company, within which the certain decisions should be taken, as well as the analysis of the components of the environment that have an impact on marketing activities of the company.

However, the main attention in marketing research is paid to market aspects: assessment of the status and trends of development of the market, the study of consumer behavior, the analysis of the activity of competitors, suppliers, intermediaries; the study of marketing mix, including management of product range; pricing and development of pricing strategy, the formation of sales channels for the production and directed use of means of stimulating.

Foreign companies most frequently conduct market researches in the following areas: identification of potential market opportunities and studying its characteristics, the analysis of the problems of sales of products and trends in business activity, the study of competitors' products, the study of market reaction to new products, the study of pricing policies, determining the proportion and the territory of the sale of goods, forecasting parameters of market development.

Conducting marketing research and making thoughtful marketing decisions on the basis of their results implies the need for distinguishing the macro- and micro-environment of marketing as a research object. **Macro-environment** – is a part of the marketing environment of the firm, which it is unable to control and regulate; by virtue of that the firm must adapt its marketing policy to the macro elements: demographic, economic, social, political, scientific, technical, natural factors affecting the market, and through it – directly affecting the company.

Microenvironment of marketing – it's a part of marketing environment, including natural and legal persons (customers, suppliers, intermediaries, competitors), as well as market factors directly affecting marketing activities of the company. The company can affect the micro-elements based on its goals and objectives, and, under certain conditions, to carry out limited control over them.

Unlike external uncontrolled environment, internal (intra) environment can be controlled by the company, i.e., by its managers and employees in marketing. The decisions, which are taken by top management of the company, concern the scope of its activities, the overall objectives of the company, the role of marketing and other business activities, and the role of corporative culture. *The factors determined by marketing* are: the choice of target markets, marketing objectives; marketing organization, marketing structure organization, the control of this activity.

Purposefulness in marketing studies, and most importantly, the extent of practical use of their results, are largely dependent on the availability of well thought-out marketing strategy of the firm, and marketing programs – it allows them not only to identify the clear objectives, but also the necessary funds for the due period and the methods to achieve them. Under such conditions, there is not just a constant need for study of more acute and pressing problems, but also sequence, depth and scope of the study pre-determined, and, consequently, the need for appropriate staffing researchers and analysts, and the need for material and financial resources.

The process of marketing research is challenging, and the approach to its solution must be as responsible and well organized as possible. To do this, you must clearly know all the stages of the process and always act in accordance with them.

In order to demonstrate all the **stages of marketing research,** we represent them in the form of a flowchart (Fig. 3.1)

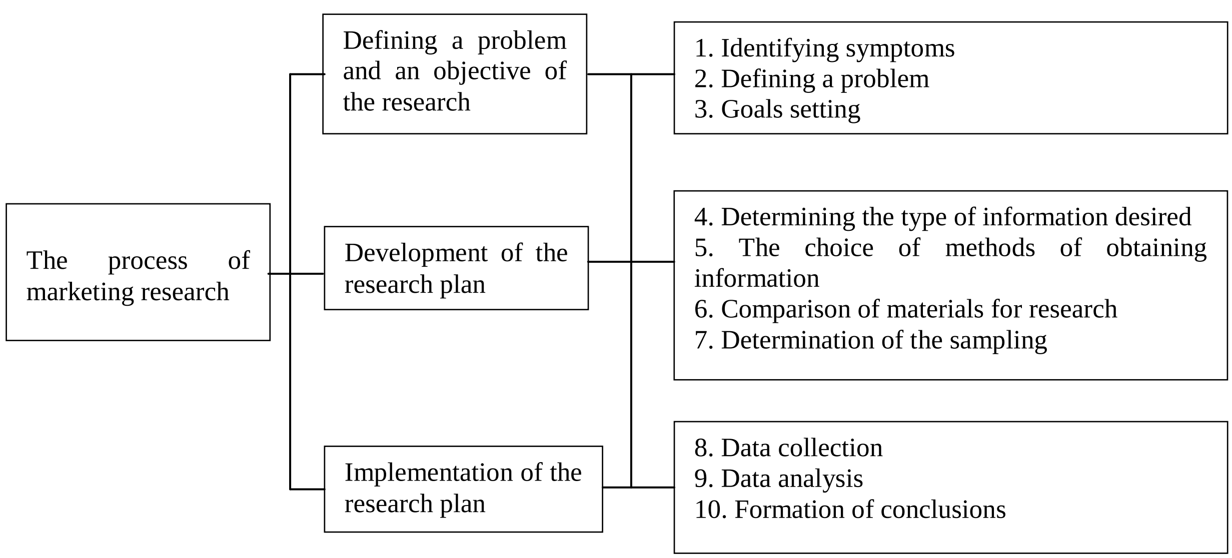

Fig. 3.1. Stages of marketing research

As it can be seen in the diagram, all the steps of the marketing research process are divided into three main groups: **defining a problem and setting goals, developing a**

plan and **the implementation of the research** itself. Now let's take a closer look at the each step in the process separately.

Step 1. Determining the problem symptoms

A symptom – this is some condition or event demonstrating the presence of problems in the enterprise. Usually, the symptoms manifest themselves in the work of the enterprise, the market situation, sales volume, etc. Only when the symptom is defined, you can see whether the company has a problem or not, so there is a need for constant monitoring of the internal and external environment, for example, with the help of marketing information system of the enterprise MIS.

Step 2: Identifying the marketing problem

This step is probably the most important in **the** whole **process of marketing research,** because the problem can be solved only when it is clearly defined and formulated properly. According to the folk wisdom, correct question – is a half of an answer. An approach to the implementation of this step should be very careful, as a mistake here will make the whole further process an unsuccessful.

Step 3: Setting goals in marketing research

In most cases, **the purpose is determined early in the process of formulation of the problem,** so the setting goal should not cause difficulties. Nearly always, the goal is the following: to find out the cause of the problem and explore options for its solutions and prevent similar situations in the future. It is also important to understand that the draws will be concluded in line with the objective; therefore you can not be frivolous making this step.

Step 4. Clarification of the type of marketing information required

In this step, marketers and other persons concerned determine what exactly data are needed to solve the problem. Whether the primary information is necessary, or it can be done with the secondary information? Is it necessary to study the behavior of consumers or competitors' strategies? All these and many other issues similar in type and form are solved in this stage. In addition to the types and species, this stage also involves the identification of possible sources of obtaining marketing information.

Step 5. Selection of research methods

After the experts understand what specific information they need and from what sources it is possible to extract it, they select the most suitable method for the collection of such information. What studies will be carried out? A focus group or a poll? An in-depth interviews or a hall-test? The choice is made with a focus on the type of relevant data.

Step 6. Preparation of materials for research

In this step, the formation of profiles is carried out, determination of scaling methods, questions for respondents formed, and so on. This stage is one of the most time consuming and difficult to perform, but you can do nothing without it.

Step 7: Defining the research sampling

The sampling is determined based on the capabilities of the company, which conducts market research, taking into account the certain factors: the sampling must necessarily be of high quality and to guarantee an idea of the general set. Incorrect sampling failure threatens the entire research process.

Step 8: The process of collecting marketing information

At this point, marketers collect information of a certain type from the available sources with the help of pre-selected methods. Data collection can take place both in desk and in "field" conditions, depending on the requirements and purposes of the task set for solving a particular problem.

Step 9. Data analysis

At this stage, the process of counting the information takes place, its systematization and formation of laws that are manifested in the research. In order to properly analyze the collected marketing information, you can use both computer and manual methods, which will be discussed in subsequent articles.

Step 10: Formation of the findings and results

The last and final step in the process of marketing research is the one for which all the previous steps were carried out without exception. It is at this stage to decide how the company can get rid of the problem. Following the conclusions of the research process to hold all the documents transmitted to those responsible for making decisions.

Methods of marketing research are inextricably linked with the methodological fundamentals of marketing, which in turn are based on common scientific, analytical and forecasting methods, as well as methodological approaches and techniques borrowed from many disciplines (Fig. 3.2).

Research methods in marketing caused by the need and the obligatoriness for systematic and integrated analysis of any market situation, all its constituent components associated with the disparate factors.

These principles of consistency and comprehensiveness in the marketing research are based on the fact that during the study of the external environment (primarily market and its parameters) not only the information about the state of the internal environment of the company must take into account, but also strategic marketing objectives and intentions of the company. Only then the research conducted is marketing in its nature; otherwise it's just a research of market, competitors, innovation factors, and others.

According to the International Code of Marketing and Social Research (adopted by the International Chamber of Commerce and the ESOMAR in 1974), marketing research should be conducted in accordance with generally accepted principles of fair competition, as well as according to the standards based on the generally accepted scientific principles.

Based on this provision, the researcher should:

- be objective and not affect the interpretation of the factors fixed;
- specify the degree of accuracy of his data;

- be creative person, define new areas of research, use the most modern methods of;
- do research regularly to take into account the changes taking place.

Methods for obtaining data. An interview, surveillance, automatic data logging are the methods of obtaining data in marketing (tab. 3.1).

The choice of method depends on the purpose, the analyzed sign, and a carrier of this sign (a person, an object).

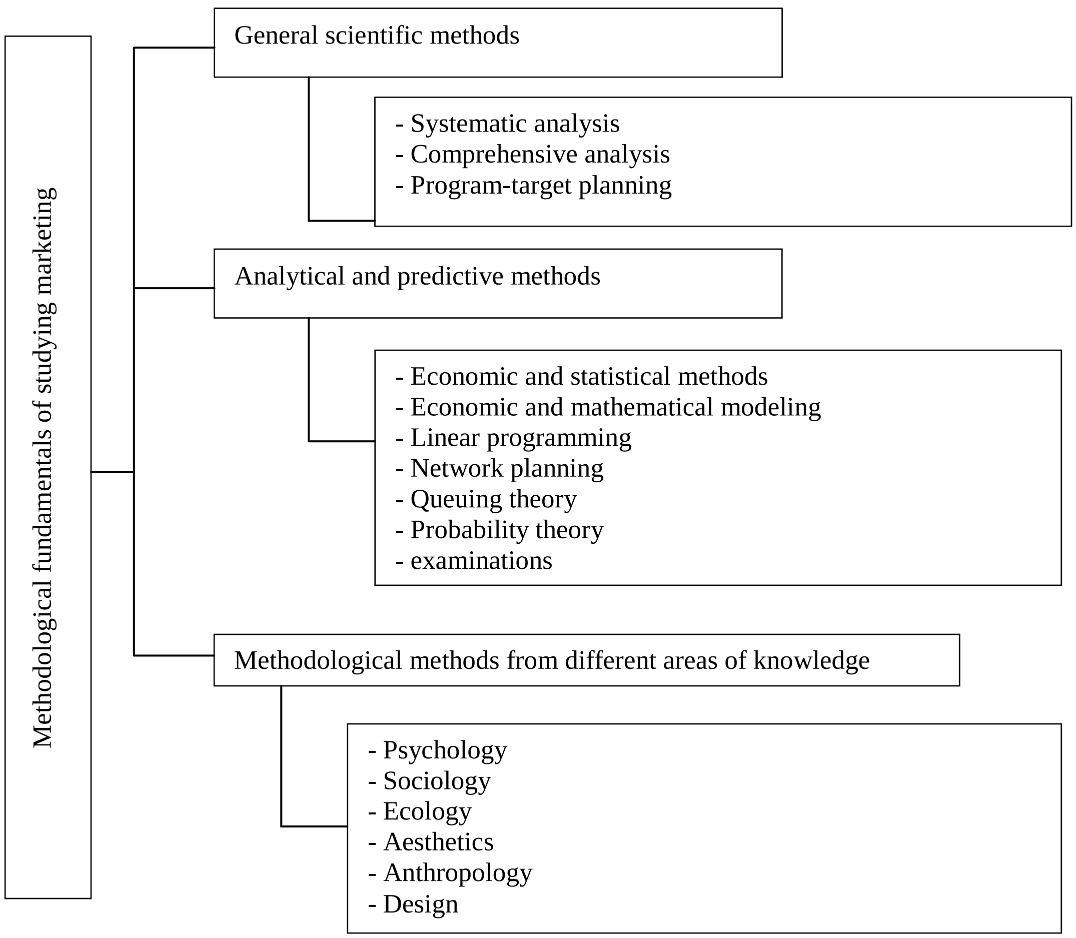

Figure 3.2. The system of research methods in marketing

Market research can be called a communication channel linking the company with the external environment. This method of producing, transmitting and processing information indicates the degree of effectiveness of the marketing plan of the company. With the entry into the global economic system, the value of the communication channel provided by market research increases, because what works in one setting, is useless for others ones.

The definition of marketing research underscores its information and binding role. Marketing research is a function that links the organization with its consumers through the information. The information is used to detect and identify the opportunities for the enterprise, its marketing problems; for the design, specification, evaluation and monitoring of performance of marketing activities; and to improve understanding of marketing as a process.

Table 3.1

Methods of collecting information in marketing

Method	Determination	Forms	Economic example	Benefits and challenges
1. Primary research	Collecting data when they occur			
Observation	Systematic scope of the circumstances perceived by sence organs without affecting the watching object	Field and laboratory, personal, with the participation of the observer and without him	Observing the behavior of consumers in the store or in front of shop windows	Often, it's more objective and accurate than the survey. Many facts are not observable. High costs
Interview	The survey of market participants and experts	Written, oral, by telephone	Collecting data on the habits of consumers, the study of image of brands and firms, the study of motivation	Research of imperceptible circumstances (for example, motives), the reliability of the interview. Effect of the interviewer, the representativeness of the sample
Panel	Repeating collection of data in one group at equal intervals	Trade, consumer	Continuous monitoring of trading stocks in a group of stores	Identification of development in time
Experiment	Investigation of the effect of one factor on another while controlling extraneous factors	Field, laboratory	Test of the market, product research, advertising research	The ability to monitor separately the impact of variables. Monitoring the situation, realness of the conditions. Consumption of time and money
2. Secondary research	Processing of data already available		Analysis of the market share with the help of accounting data and external statistics	Low cost, quick. Incomplete and outdated information

3.2 Defining a problem. Methods to identify problems

A clear statement of the problem is the key to a successful marketing research. Often clients of marketing firms do not know their problems. They state that the sales volume drops, the market share is reduced, but these are only the symptoms, and it is important to identify the cause of their emergence. The classic situation is when the marketing research is not addressed to the real issue. To avoid this situation, it is necessary to investigate all possible causes of the symptoms appearing. Often exploratory research is carried out in these purposes.

When conducting marketing studies, they face two types of problems: problems of marketing control and marketing research problems. The first ones arise in two cases. Firstly, when they are the symptoms of failure purposes of marketing activities. Secondly, there is the likelihood of achieving the objectives, but the head is necessary to choose such a course of action that will give the opportunity to fully take advantage of favorable circumstances.

The problems of marketing research determined by the requirements of giving for managers and marketers relevant, accurate and unbiased information needed to solve the problems of management of marketing activities.

It is obvious that the problems of marketing control are critical, because it will be difficult to identify the problems of market research without their correct definition. This can lead to further undesirable effects during them.

In the process of identifying problems of the marketing control, we can distinguish the following **eight steps.**

1. Obtaining basic knowledge about the company, its products and markets.
2. Introduction to the situation in which the decision-maker (DM) is with his objectives and resources.
3. Clarification of the problem symptoms.
4. Identification of the alleged causes of the problem (basic problems).
5. Determination of actions to mitigate the manifestation of the problem.
6. Determination of the expected consequences of these actions.
7. Identification of the head's assumptions with respect to these consequences.
8. Evaluation of the adequacy of the available information.

With regard to the formulation of the problems of marketing research, it is possible to recommend implementing these works in three stages:

1. Selection and a clear determination of the parameters to be researched.
2. Defining relationships.
3. Model selection.

Researchers and marketers have to speak the same language, and it should be clear how to measure one or the other parameter.

As an example of study parameters and their definitions we can call the following: "awareness" (the percentage of respondents who have heard of this brand product); "an attitude to the product" (a number of respondents experiencing a positive, neutral or negative attitude to this product).

Next, you need to consider the relationship between different parameters. For example, the reduction in prices usually leads to an increase in sales and vice versa. Relationships are established on the basis of knowledge and assumptions of marketers, as well as specialists who conduct marketing research.

In fact, the definition of parameters and their relationships, based on the realized logic, leads to the creation of the model. You can use already existing models as a first approximation. As a result, the model developed of possible causes of the problem, focused on the needs of consumers, the choice of solutions and evaluation of their impact. These models can be both complex and simple. For example, the main condition for the purchase of special software can be the condition that the potential buyer has a personal computer with at least 486-th processor.

After developing the model, a researcher formulates his formal proposals for marketing research, including the formulation of the problems of marketing control, the definition of objectives and methods of marketing research aimed at achieving them.

The objectives of marketing research stem from the problems identified; the achievement of these objectives makes it possible to obtain the information necessary to solve these problems. They characterize the information void that needs to be eliminated to provide managers the ability to solve marketing problems. List of the objectives agreed with the manager usually includes a few points.

The objectives should be clearly and precisely worded, be sufficiently detailed; it should be possible to measure them and evaluate their level of achievement.

When setting goals for marketing research, the question is asked: "What information is needed to solve this problem?" The content of the research objectives determines an answer to this question. Thus, identifying specific types of information useful for managers in dealing with the problems of marketing control is a key aspect of the definition of the research objectives.

The procedure for identifying the problems includes formation of a problems catalog and its structuring. The most difficult is to form the catalog of problems (edited unordered list of issues). An expert method put in the basis of this process, which includes: selection of the expert survey form, determining a structure and a size of the expert group, development of a survey methodology, conducting the survey, drawing up a list of problems, examination of the problems. Managers and specialists involved in the expert survey, who know deep the problems of organization as a whole, and the marketing problems.

The initial list of problems resulting from the conduct of the expert survey is compiled by the staff of the working group. The completed and coded questionnaires are subjected to an examination and processing. The wording issues and codes of questionnaires in which they are expressed consistently distinguished from them. The problems in the list are numbered in order of priority of considering the questionnaires.

If the wording, which is already in the list, meets in the questionnaire, then only the code of the questionnaire shall be added there.

Examination of the original list of problems involves the exclusion from the list the same problems – issues identical in content but differ in wording; and their replacement with a problem with generalized wording.

As a result, the original list "compresses" and turns into a catalog of problems. The catalog of problems to be entered the external memory of a computer for further problems structuring by means of logical-semantic modeling.

The resulting information processing graphics in the form of computer printouts and texts allow visualizing logical and meaningful relationship of the problems.

A graph which vertices correspond to the problems, and the arc – to the relations between them is a formal display of the problem structure.

The advantages of this method include:

1. The relative ease and speed of its implementation.

2. Distinguishing the basic, fundamental problems makes it possible to concentrate efforts and resources on the really most important issues.

3. Structure of the proposed questionnaire to identify problems directs the experts' thinking to formulate the problems specifically enough; it helps to determine their content and targeting, and facilitates binding to a specific type of marketing activity.

4. Structuring, ordering issues provides an opportunity to analyze the causes of the problems, evaluate their relevance and urgency, determine the relationship of the problem with other problems.

The main disadvantages of this method, and in general – of all the methods based on expert evaluations, are as follows:

1. It is difficult to assess the completeness and accuracy of information provided by experts. There is no certainty that the experts have identified really all the major problems and correctly identified the relationship between them. Analysis of the final graph of problems sometimes suggests the lack of any problems in it. On the one hand, we can offer experts to add them in the catalog of problems. On the other hand, the main task in this case – is still to identify the most important, basic problems. The absence of some essential problems in the home directory does not mean that the experts have made a mistake. May be, this problem does not matter for this particular research object. The same can be said about the unusual some relationships in specific columns of problems from the general theoretical position.

2. The lack of identified problems in an explicit analytical justification; although qualified experts, when formulating and analyzing problems, can use this analytical information.

3. For some experts, there may be no desire to reveal all the problems. When a clear formulation of the problem, perhaps, and "culprits" of its occurrence will be identified, as well as mistakes and lack of competence of the person who took an appropriate decision.

4. The orientation of experts manifested on traditional approaches to the problems in marketing control.

The objectives of marketing research stem from the problems identified; the achievement of these objectives makes it possible to obtain the information necessary to solve these problems. They characterize the information vacuum that needs to be eliminated to provide managers the ability to solve marketing problems. List of the goals agreed with the manager usually includes a few names.

The objectives should be clearly and precisely worded, be sufficiently detailed, it should be possible to measure them and evaluate their level of achievement.

When setting goals for marketing research, the question is asked: "What information is needed to solve this problem?" The answer to this question determines the content of the research objectives. Thus, the identification of specific types of information useful for managers in dealing with problems of marketing control is a key aspect of the definition of the research objectives.

3.3. Concept of selection. Development of sampling plan

Let’s consider the basic concepts used in conducting sample surveys.

At this stage marketing solutions, it is necessary to obtain information on the parameters of the "group", among members of which the marketing research will be conducted. For example, a manager on marketing wants to have data on the volume of sales of his company’s products through the various types of retail stores ("a group"). This "group" is called a general set in statistics, or just a set.

Sometimes the set is quite small, and a manager can learn all of its members. Usually this is not possible: to study, for example, the views of all children between the ages of 3 to 5 years with respect to a particular type of toys. Consequently, an exploring only of a part of the set is carried out, called “sampling”.

Sampling is a baseline of studies conducted.

It should be noted that because the sample is a part of the target set, data obtained from the sample are not likely to correspond exactly to the data which could be obtained from all the set units. The difference between the data obtained from the sample and the true data is called the sampling error. The sampling error is caused by two factors: the method of sampling and the sample size. These issues are discussed below.

Sampling is based primarily on the knowing of **sampling frame**, which refers to a list of all units in the set from which the sample units are selected. For example, if all the car workshops in Karaganda seen as a set, it is necessary to have a list of these workshops, considered as the frame within which the sample is selected.

The frame inevitably contains an error, called sampling frame error. It characterizes the degree of deviation from the true set size. Obviously, there is no complete official list of car workshops in Karaganda, including semi-legal and illegal business in this area. A researcher must inform a customer about the size of the sampling frame error.

There are three major problems of sampling.

First of all, based on the essence of the problem, you need to determine who is the sampling unit. For example, the company – a manufacturer of mobile phones – has decided to explore the potential market for its products. It was decided to study the opinion on the matter as the decision-makers on the choice of communications equipment in a variety of organizations, and heads of families who define the policy of the family.

Next, you need to clearly define who is considered as the sampling unit. In our example, the chiefs of communication departments and the heads of the families are the sampling units.

The definition of the sample frame is also very important. For example, a list of all homeowners in a certain region. In order to implement the rules of representativeness of the ongoing research, it is needed to pay attention to the method by which the sample units selected from the sampling frame. Here we are talking about planning the sampling.

The sampling (Fig. 3.3) is done in such a way as to be representative illustration of the general set (GS). This is a prerequisite for being able to draw the right conclusions on the GS based on the sampling characteristics. Data collection is usually accompanied by errors – random and systematic ones. The random errors manifested only when the sample survey conducted; the magnitude of these errors can be estimated because they do not slip characteristics of the sample in one direction. The systematic errors are caused by the non-random factors (inaccurate GS selection, disadvantages of the sampling, error in the design of questionnaires, account errors, insincerity of the respondents).

Sampling Methods

Non-Random-	**-Random**
Arbitrary-	-Simple
Exemplary-	-Group
Concentration Method-	-Cluster Method
Quota Method-	-Multistage Sampling

Fig. 3.3. Types of Sampling

Non-random sampling methods include:

- random sampling – the respondents are selected not on the basis of the plan, and arbitrary; the method is simple and inexpensive, but it is inaccurate and has low representativeness;
- a representative (exemplary) sample – is a survey a few typical elements of the general set (GS); to do this, you must have information about the characteristics that define typicality of the elements;
- concentration method – only the most essential and important elements of the GS are subject to research;
- quotas method – is the distribution of certain characteristics (gender, age) in the GS.

Random samplings include the following:

- simple sampling – is a lottery-type, using the random numbers, etc;
- group sampling – is division of the GS into separate groups, within each of them a random sampling is carried out then;
- cluster method – selection units made up of groups of elements; possibility of such a separation of the GS is a prerequisite for application of the method; from the set of “clusters” a few chosen, which then fully studied;
- multistage sampling – to be performed several times in succession, wherein the sampling unit of the previous step is a set of units of the next step.

3.4. Determining of sample size. Concept of variation. Organizing data collection

In reality, the decision on sample size is a compromise between theoretical assumptions about accuracy of the survey results and the possibilities of their implementation, primarily refers to the costs of the survey.

It should be noted that the selection size does not affect the representativeness of the results obtained. We suppose, for example, that with the purpose of study of degree of the use of the personal computers in Kazakhstan questioning canvassed on one of municipal boulevards (for comfort). Although 5,000 respondents have been polled, the results are not representative even for city of Almaty. This is due to the fact that non-probability sampling method was used, which could not be applied in this case.

However, the sample size affects the accuracy of the results. The accuracy of the sample characterizes the proximity of the sample profile (for example, the final answer to a question) to the true set profile. Larger random sampling provides more accurate results.

In practice, they use several approaches to the definition of the sample size. We first describe the simplest ones.

An arbitrary approach is based on the application of the "Rule of Thumb". For example, you accept without any proof that the sample should be 5% of the population to obtain accurate results. This approach is simple and easy to perform, but it is not possible to establish the accuracy of the results obtained. At sufficiently large set, it might be quite expensive.

The sample size can be set on the basis of certain pre-specified conditions. For example, a customer of marketing research knows that sampling is typically 1000-1200 people in the study of public opinion, so he recommends researchers hold this figure. If research conducted annually in some market, they use a sample of the same volume each year. Unlike the first approach, the known logic in determining the sample volume is used here, which, however, is extremely vulnerable.

For example, when conducting certain studies they may require less accuracy than in the study of public opinion, and the sample size can be many times smaller than in the study of public opinion. Thus, this approach does not take into account the current circumstances, and it might be quite expensive.

In some cases, the cost of survey is used as the main argument in determining the sample size. Thus, the budget for marketing research provides costs for the certain examinations which can not be exceeded. Obviously, the value of received information is not taken into account. However, in some cases, a small sample can give sufficiently accurate results.

It seems reasonable to take into account the costs not in absolute terms and in relation to the usefulness of the information obtained through surveys. A customer and a researcher should consider a variety of sample sizes and data collection methods, the costs, take into account other factors.

The sample size can be determined on the basis of statistical analysis. This approach is based on determining the minimum sample size based on the specific requirements for reliability and validity of the results. It is also used in the analysis of the results obtained for certain subgroups, formed as part of the sample by gender, age, education level, etc. The requirements for reliability and accuracy of the results for the different subgroups dictate the specific requirements for total sample size.

The most theoretically sound and correct approach to determining the sample size is based on the calculation of confidence intervals. We will start consider this approach with a brief description of basic concepts of mathematical statistics.

The concept **of variation** characterizes the dissimilarity (similarity) of respondents' answers to a particular question. In more simple terms, the variation of values of any feature in the totality referred to the difference of its values in different units of the totality in the same period or moment of time. Results of responses to the survey questions are usually presented in the form of the distribution curve. At the high similarity of answers, they suggest small variation (narrow distribution curve), and at low similarity of answers – high variation (wide distribution curve).

A mean-square deviation, which characterizes the average distance from the average estimate of each respondent's answer to a particular question, generally accepted as a measure of the variation. You can compare the mean-square deviation for two samples and determine to which of them the variation is less.

Since all marketing decisions are taken in conditions of uncertainty, it is advisable to take into account this circumstance in determining sample size. Since the definition of studied values for the whole set is based on sample statistics, you should set the range (Confidence Interval), which is expected to get estimates for the set as a whole, and an error of their determination.

The concept of "**confidence interval**"**-** is a range which corresponds to the extreme points of a certain percentage of specific responses to a specific question. This concept is closely related to the concept of "the mean-square deviation of the studied trait in general set": the bigger it is, the greater should be the confidence interval, to include in it, for example, 95% of the responses.

Let's suppose that a study was conducted for fifty independent samples. Average estimates for these samples formed a normal distribution curve, which is called the sampling distribution in this case. The average estimate for the set as a whole is equal to the median estimate of the distribution curve. The concept of "selective distribution" is also regarded as one of the basic concepts of the theoretical concept underlying the determination of sample size.

Obviously, no company conducts market research forming 50 independent samples. Normally, only one sample used. Mathematical statistics makes it possible to get some information about sampling distribution, having only data on variations in a single sample. The mean-square error is an indicator of the degree of differences between true estimates for the set as a whole, from the estimates, which are expected for a typical sample. For example, we study the opinion of consumers about the new product, and the customer of this study indicated that he will be satisfied with an accuracy of the results of ± 5%. Suppose that 30% of sample members have spoke in favor of the new product. This means that the range of possible estimates for the entire set is 25-35%. Moreover, the larger is the sample size, the smaller is the error. High value of the variation causes high value of the error, and vice versa.

Questions for discussion:

1. Marketing research – is...
2. Identification and formulation of the problem.
3. What points includes the system of research methods in marketing?
4. The methods of obtaining data in marketing research, their advantages and drawbacks.
5. List the main ways to gather information.
6. The difficulties encountered when conducting marketing research.
7. What is the sampling and its species?
8. What qualitative factors to consider when determining the sample size?
9. How to organize data collection.
10. Give the definition for a confidence interval and a variation.

SUBJECT 4. CONDUCTING A SURVEY

4.1. Essence, advantages and disadvantages of quantitative and qualitative survey methods. Organization of conducting a survey. Factors of planning the survey.

4.2. Rules for development of a questionnaire. Types of closed-ended and open-ended questions. Organization of preliminary testing of questionnaire.

4.3. Organizational issues of conducting interview. Determining number of interviews. Types of interviews.

4.4. Panel survey method. Definition of concept of a panel. Advantages compared to a conventional survey. Types of panels.

4.5. Qualitative research methods.

4.1. Essence, advantages and disadvantages of quantitative and qualitative survey methods. Organization of conducting a survey. Factors of planning the survey

Let's define what methods are qualitative and quantitative types of research. "Qualitative approach" – are focus group, in-depth interviews, home visits, accompanied shopping. "Quantitative approach" – are personal interviews (face-to-face), phone interviews, street interviews, hall tests. Of course, there are many other methods in this field.

The main difference between "quantitative approach" and "qualitative approach" is that in the first case a large number of respondents are researched; while in qualitative research, the sample size has no real significance. That is needed – is the presence of different views and not a representative sample of people. Due to the large number of respondents, the quantitative data can (and should!) be representative, that is, it can be transferred to the general set. In qualitative research, the issue of representativeness does not rise as a matter, since its purpose is to obtain in-depth information about the object under study. For this, various psychological instruments are often used in "qualitative approach", such as projective techniques to extract information which does not lie on the surface (and even that the respondent can not guess!); and that's impossible to do in when "quantitative approach" used.

In "quantitative approach", information-gathering process is strictly formalized and no deviation is permissible. The interviewer has a pre-designed questionnaire, in which all questions should be asked in a strict sequence. During the interview, it is not allowed to reformulate the question in your own words, or to add any clarification from you, if they are not given in the instructions. Everything is quite differently in the qualitative approach: as a rule, the moderator has a specific guide/scenario of a conversation, which can be adjusted during a survey depending on the information obtained (eg., new questions may arise). The sequence of questions can also vary according to the situation.

Analysis and provision of data also differ greatly. In the report on the quantitative research, the data is presented in the form of graphs, charts, tables indicating the proportion/percentage of respondents, and statistical methods used in data analysis. The report on qualitative research provides semantic analysis of people's opinions. In the case of opposing points of view of the target audience, "qualitative approach" uses the terms "majority/minority/some", "often/rarely" and the like; in addition, qualitative conclusions are supported by "live" quotes of the participants, unlike quantitative research.

If you want to get answers to the questions "Who?", "When?", "How much?", "How often?", "Where?", you need to use "quantitative approach". If the questions sound like "Why?", "What for?", "How?"; if you need to identify deep motives of the consumers' behavior, "qualitative approach" will help you in this.

Sometimes, data of qualitative and quantitative research used as an auxiliary tool for each other. For example, to formulate preliminary hypothesis, or to get answer options, or to learn the "language" of the target audience, "qualitative approach" is first carried out, and then the results are used in the "quantitative approach". Or you can conduct quality study after quantitative one to clarify any questions in more detail. The choice of method depends on the goals and objectives of the client.

The survey involves asking respondent's opinion on a specific range of questions included in the questionnaire through the personal contact of an interviewer with the respondent or indirectly.

The survey is to gather primary information by directly asking people about their level of knowledge, attitudes to the product, preferences and their buying behavior. Typically, conducting a survey consists of several steps, namely:

- development, testing and replication of the questionnaire;
- sampling formation;
- giving instructions to interviewers;
- conducting a survey and control of data quality;
- processing and analysis of the information received;
- drafting the final report.

The survey is conducted in a standard way for all types of information sources. The goal – is to formalize this process so as to maximize the flow of information and prevent the emergence of situations that hinder to achieve the goal of the survey. To do this, it is recommended to apply an approach that involves three stages: preparation, execution and completion of the survey.

Preparing for the survey is crucial if you have only a single opportunity to talk to an expert (eg., President of the Company, or CEO). In addition, it will help to optimize the time you spend with a source of information and to get a reliable flow of information. We recommend the following steps:

- select a desired interlocutor;
- make an appointment;

- establish a provisional program of the meeting;
- explore related information;
- coordinate your actions with the design team.

Choosing an interlocutor is the first and most important step. Too often, an author does not receive necessary information when the wrong source is selected. Take care of selecting appropriate representatives of the hierarchical level of the organization, the right types of documents, the best position for review, as well as the choice of an expert, who has necessary knowledge. Reconcile your choice with the other members of the group.

After selecting the interlocutor, make an appointment with him as soon as possible. Set a goal of the meeting and limit the conversation within an hour or less. Information flow is usually peters out in an hour, so do not expect to discuss more than possible. If the subject is vast, find a way to break up the conversation for a few one-hour meetings.

Set the conversation program as soon as you make an appointment. Determine the range of the issues discussed and record the specific issues, especially those that need to be answered to continue your work. During formation of the program, learn available initial data. Refer to the relevant documents and terminologies to easily identify the range of your questions. Finally, do not forget to align your preparing with the whole design team. Proper coordination saves expert’s time and minimizes duplication of actions by authors of the model.

The surveys may vary:

- by way of contact with the respondent: personally, by phone, by mail (including e-mail) and through Internet;

- the type of respondents: survey of individuals, survey of legal persons, survey of experts;

- by the place of conducting an interview: at home, at the office, at point of sale;

-by the type of sample: a representative sample survey or a target sample survey.

As a rule, most surveys are distinguished by the method of contact with the respondent. Each type of survey has its advantages and disadvantages.

Advantages and disadvantages of the three main methods of survey are shown in Table 4.1.

Personal interviews (face-to-face). A survey in the form of a personal conversation between the interviewer and the respondent. Personal interview is indispensable in the case when you must show to the respondent a significant amount of visual information.

The phone survey. One of the most rapid and inexpensive methods of surveys, which allows you to learn the views of various groups of people on almost any issue.

Postal survey. The method consists of sending out questionnaires and getting answers to them by mail. Postal survey does not require a large staff of interviewers, but requires a professional approach to the creation of sample.

The survey – is a collection of information. The first survey is the starting point in the simulation. To conduct the survey, an analyst first selects the best source of information (a document or a particular person) and then organizes his interview. The aim of the survey – is to obtain pieces of information needed to start or to continue the construction of a certain part of the business process model. After first survey, the model used to determine the information to be collected in the next survey. In accordance with the model hierarchy, a series of surveys can be carried out to determine more specific details in the area under consideration.

Analysts use their models for a more focused survey and to optimize the time spent on work with information sources. This increases efficiency of work, reduces time for re-examination of unclear or forgotten details, and reduces the likelihood of re-asking questions to the same expert. Under these conditions, the experts are more willing to answer analysts' questions.

Table 4.1.

Advantages and disadvantages of some survey methods

Method	Advantages	Disadvantages
Postal survey	low cost; easy organization; survey is available for a small group of researchers; no effect on the respondent by the interviewer when filling out the questionnaire; illustrations may be used	sampling bias due to the "self-sample": in mail surveys, persons increasingly involved who have free time and are interested in the subject of the survey; respondents can not clarify questions of the interviewer; poor quality of the responses to open questions
Phone interview	low cost; the survey can be carried out quickly; it's enough suitable to collect both the actual data and data characterizing the relationship; centralized control over the survey is possible	covers only people who have the phone; the questionnaire and illustrations can not be shown; it is difficult to maintain interest on the phone for more than 15-20 minutes; it is difficult to ask tough questions
Personal interview	there is an opportunity to showcase the product; it's relatively easy to keep the respondent's attention for a long time; it is possible to listen to the live speech of the respondent; it's easy to ask tough questions	high cost; there is an impact of the interviewer on the respondent; a large team of skilled interviewers required; low level of control over the interviewer's work

It is very important to be aware of the main survey task. A goal, which is clearly understood, allows you to direct the conversation back on track, and an analyst is able to sort a variety of information collected during the survey of an expert. Typically, the expert talks about how the things go at the moment, what's wrong and what should be done.

During the analysis, regardless of the sources of information, surveys of several types can be carried out. The choice of type depends on the type of information you need and the purpose set. The most common types of surveys are: fact-finding surveys; surveys to identify issues; meeting for decision-making; dialogues “author/ reader”.

The fact-finding surveys are carried out when you need to determine how the system operates currently. The surveys to determine the problems are useful when you want to find out what’s wrong in the system. The meetings for decision-making are carried out when you need to get an idea of how the future system should function in order to address the shortcomings in the existing one. Dialogues author/reader – are informal discussions when there are disagreements between an author and an expert.

4.2. Rules for development of a questionnaire. Types of closed-ended and open-ended questions. Organization of preliminary testing of questionnaire

A Questionnaire is a system of questions aimed at identifying characteristics of the object or subject of study.

In developing the questionnaire, you should be guided by the fundamental principles of their compilation, which may greatly contribute to qualitative conducting the survey.

Structurally, the questionnaire must consist of four parts:

- *the introduction part*, where respect for interviewees expressed and who is conducting a survey specified, what is it aim, and instructions provided for completing the questionnaire;

- *the contact part*, where are the questions that seek to interest the respondent, enter him into the circle of problems under study;

- *the main part*, which contains questions to find out the information necessary for the study;

- *the final part*, where are the questions relieving the respondents of psychological stress, allowing to identify their socio-demographic characteristics (sex, age, place of residence, social status, education, income level, and so on); and this part ends with words of gratitude to the respondent for participating in the survey.

The wording of survey questions should be simple, understandable, unambiguous and neutral. In the questionnaire, they must move from simple to complex ones, from the general to the specific, from neutral to thin (delicate).

The questions should not contain double negative (for example, "Do not you think that it should not be...").

Intervals of choice in questions (in closed-ended questions) should not overlap (for example, up to 20; 21-30; 31-40, and so on).

The questions should not contain the words "often", "very often", "a lot", "small", "rarely", and so on, as the quantitative perception of these concepts is ambiguous by different people.

The number of questions in the questionnaire should not be too large (usually try to restrict by 10-15questions), as the longer the questionnaire, the more likely it will be rejected.

Time to fill in the questionnaire in the mail survey should not exceed 20-30 minutes.

The questions included in the questionnaire may be open-ended and closed-ended. **Open-ended questions** give the right to formulate their own answers. Though this circumstance makes processing of survey results more difficult, it can offer an unexpected solutions option of the problem studied in some cases and thereby offset the costs (Table 4.2).

Table 4.2

Types of open-ended questions

Name of the Method	Essence of the Method	Examples
Non-structured question	Allows any wording of an answer	What do you think about the Ford Company?
Selection of verbal associations	Interviewed person calls particular words which he associates with the words that the interviewer calls	What associations do you have with the words "Ford Company"?
Completion of sentence	Finish an unfinished sentence	I buy products of the Ford Company because ...
Completion of story	Finish an unfinished story	You visited the shop of the Ford Company and the thoughts and feelings took possession of you...
Completion of drawing	Imagine yourself in the place of one of the two heroes, usually depicted on cheerful pictures, and express your opinion on his behalf	The picture shows two participants of the dialogue. One of them says: there is always a wide choice in the store of the Ford Company. What can you argue in response?
Subject test of perception	Come up with a story on the picture	For example, a picture depicts two buyers at the counter of the Ford Company store. What happens or what could happen?

The main disadvantage when responding to open-ended questions is a very high degree of the respondent's subjectivity. Researchers are extremely difficult to determine the true motives of the respondents expressing this or that position. Open form of the responses is complex in reading and in further processing. Author of this book repeatedly faced with handwriting, which is almost impossible to decipher. If you received several hundred questionnaires, the data processing becomes incredibly long and hard.

Closed-ended questions offer a respondent a set of possible answers (Table 4.3).

Table 4.3

Types of closed-ended questions

<table>
<tr><th>Name of the Method</th><th>Essence of the Method</th><th colspan="20">Examples</th></tr>
<tr><td>Alternative</td><td>Make a choice from two alternative responses</td><td colspan="20">Whether you bought the products of the Ford Company? YES/NO</td></tr>
<tr><td>With choice options</td><td>Make a choice of three or more options</td><td colspan="20">You believe that the main advantage of the products of the Ford Company is:
1. High quality.
2. Durability.
3. Reasonable price.</td></tr>
<tr><td>With a scale of significance</td><td>Rate the importance of this or that product characteristics on the proposed scale</td><td colspan="20">Compared with other characteristics of the product "A" the price matters to you:</td></tr>
<tr><td rowspan="2"></td><td rowspan="2"></td><td colspan="5">1</td><td colspan="5">2</td><td colspan="5">3</td><td colspan="5">4</td></tr>
<tr><td colspan="5">The greatest</td><td colspan="5">Great</td><td colspan="5">It has</td><td colspan="5">It doesn’t has</td></tr>
<tr><td>With the Likert Scale</td><td>Specify the degree of agreement (disagreement) with a certain statement</td><td colspan="20">Goods that are not advertised in the media are not credible:</td></tr>
<tr><td rowspan="2"></td><td rowspan="2"></td><td colspan="4">1</td><td colspan="4">2</td><td colspan="4">3</td><td colspan="4">4</td><td colspan="4">5</td></tr>
<tr><td colspan="4">Absolutely disagree</td><td colspan="4">Disagree</td><td colspan="4">Hard to answer</td><td colspan="4">Agree</td><td colspan="4">Absolutely agree</td></tr>
</table>

With the rating scale	Rate the sign according to a presented scale	Do you think that quality of the product "A" is:						
		1	2	3	4	5		
		Great	Good	Satisfactory	Bad	Highly bad		
Semantic Differential	Select your score on the scale between the two polar concepts	Mark a place of the Ford Company tractor in the each row						
		Expensive	1	2	3	4	5	Inexpensive
		Reliable	1	2	3	4	5	Unreliable
		Accessible	1	2	3	4	5	Inaccessible
		Excellent drivability	1	2	3	4	5	Poor drivability

The closed-ended questions allow more accurately interpret received responses. It becomes possible to process very large amounts of data. This applies both to lengthy questionnaires and to a large number of questionnaires received.

If a researcher starts studying the new problem, the open-ended questions should prevail in the questionnaire. If the researcher is familiar with the problem, he may focus on closed-ended questions. In an interview, as a rule, much more questions are put in an open form.

Pre-testing helps to quickly make changes to the content and to the interview process before it is carried out completely. Often, the term "pilot" is used for determining the questionnaire testing. The testing shows all the inaccuracies of formulations and errors of gathering information. The testing significantly saves money. It is believed that the total amount of testing may be 1-10% of the actual research volume. The minimum volume of the testing – is 30-50 questionnaires.

There are situations where “piloting” is not required to carry out. This happens in cases where the questionnaire has been used for the first time or it has been completely borrowed from other studies.

Questionnaire testing should be conducted under the same conditions and with the same target groups of respondents as the main study. Upon receipt of the filled questionnaires, it is necessary to analyze the responses received, and relevance of the information received to the requirements for questionnaire.

4.3. Organizational issues of conducting interview. Determining number of interviews. Types of interviews

An Interview – is a method of conducting public opinion polls as a focused conversation the interviewer and the interviewee. The interview is usually applied:

In the early stages of research to clarify issues and draw up the program.

1. In a survey of experts, specialists who deeply understand a particular subject.
2. As the most flexible method to take into account the personal characteristics of the respondent.

Interviews are divided into two classes – free (deep, clinical, focused) and standardized (formalized). Free interview has a nature of a long-term informal talk, in which the interviewer's questions are caused by the ultimate goal of the study. Free interview is often an initial step in developing a standardized interview or questionnaire, checking admissibility of the questions, information capacity of answers; and an interviewer acts as a researcher. A standardized interview is identically shaped with a questionnaire, but the specificity of getting answers – "face to face" with the interviewer – greatly affect the content and the form of questions. Questioning is less expensive kind of survey than a standardized interview, but the sociologist is forced to use the latter in cases when the survey is of great importance and there is a doubt that all the questions will be properly understood (for example, population census is carried out through the standardized interview in some areas).

The advantages of the interviews over the questionnaires are as follows:

1. When interviewing, an opportunity occurs to take into account the level of the respondent's culture, education, and the degree of his competence in.
2. This method allows you to monitor the interviewee's reaction, his attitude to the problem and the issues rose; and, if necessary, change the wording or put additional clarifying questions.
3. An experienced researcher can see is the respondent sincere or not, which is why the interview is considered to be more precise method of gathering necessary information compared with the questioning.

Interviewing requires good preparation. Not everyone can be an interviewer. Here, personal qualities are significant (sociability, friendliness, affability, sobriety), as well as high general culture, and an ability to switch quickly to new issues, to find a way out of difficult situations arising during a dialogue.

Types of interviews are distinguished by three main criteria – the degree of questions standardization, the number of topics discussed and the number of respondents. The first criterion provides the greatest number of subspecies, namely, to what extent the situation of conversation is standardized, i.e. how hard and detailed the rules to establish contact with the respondent designed; the sequence of questions and their wording; an opportunity to make their own methodical solutions during the conversation.

Depending on the degree of standardization of the verbal dialogue, they distinguish two main types of the interviews:

1. *Formalized interviews* (the conversation in accordance with the detailed program, including consistency and design of the questions, the options of possible answers) with closed-ended and open-ended questions. This type could get the maximum rating on a scale of standardization if we built it.

2. *Unstructured interviews* (long conversation on the overall program without clarifying the specific questions with minimum specification of the interviewer's behavior). It is characterized by a minimum level of standardization.

According to the second criterion – the number of topics discussed – the types of interviews are divided into:

1. *Focused,* or *directed interviews* (a detailed discussion of the topics with which the respondent is aware in advance; it can be formalized and non-formalized). This kind of interviews would take an intermediate position on an imaginary standardization scale, as it is the next step to reduce the regulations and the lack of freedom in the interaction of the interviewer and the interviewee.

2. Unfocused (undirected) *interviews,* in which there is no objective unity, a common theme or research purpose. Here reigns thematic *Solyanka*, the questions on various topics are interleaved with each other without forming a logical sequence.

Focusing interview, in our opinion, is just such an interview, which is devoted to one topic, and allows it to view it from different angles. When people start to play with the terms "focus" and "focusing", they get a lot of absurdities. Someone get focusing on the source of information (the tendency of some listeners to evaluate the source of information rather than the information itself); others – focusing on respondents, for example, if the latter is antipathetic to them. Still others say about focusing on the facts (when the facts are secondary to the thoughts and ideas).

The interviews focused on the subject, and "self-focused" interviews emit into the separate class. You can also focus on emotions, on the respondent's feelings, on the surroundings, etc. The extension of meaning is not good for the science in this case, since the focusing is not tantamount to moving the human attention from one object to another. As physics teaches us, there should be one focus. Otherwise it is not the focus, but something else.

Focused and free interview is usually used in the survey of experts where it is necessary to fully take into account the content of statements of highly qualified specialists. Those kinds of survey are used in the search, exploration studies, when the sociologist only "feels", i.e. determines the content and scope of the problem situation.

Formalized interviews can be focused (targeted, directed, concentrated), i.e. dedicated to the study of only one topic interested for researchers; and unfocused ones.

4.4. Panel survey method. Definition of concept of a panel. Advantages compared to a conventional survey. Types of panels

Panel method. A Panel (in marketing) – is a group of people or families (or other collectives), who are involved in systematic surveys on the same topic.

The method consists in repeating the research surveys (oral or written) with this group. Of course, answering the questions on the same subject (such as consumer preferences in selection of goods, for example, a mineral water), people (families) respond differently at different points in their lives. After all, consumer preferences are changing depending on life situations. For example, a young family uses one brand of carbonated mineral water; with the advent of the child, parents to buy other water – non-carbonated one for child nutrition; when their material conditions change, they may refuse to buy mineral water at all, and so on. In summer, one brand of mineral water can be used – to quench their thirst with lemon, and in winter – completely different one – for making tea.

An ability to compare the results with the previous surveys conducted, in contrast to other methods of qualitative research, is the main *advantage of* the panel method. It is possible to identify patterns and trends in such a way, such as consumption of certain goods, reactions to advertising, and so on.

Fairly high cost is *the disadvantage of* the panel method. To obtain reliable results of the study, the panel with a large number of participants required, whose work (answers to questions and so on) to be paid.

The concept of panel is the basic concept of this method of study.

The **panel** – is an aggregate sample of respondents units subjected to repeated studies, and the subject of study remains constant. Individual consumers, families, organizations of trade and industry; experts who remain constant with some reservations can be members of the panel. Panel survey method has the advantages over conventional single-use surveys: this method makes it possible to compare results of subsequent interviews with results of previous ones, and establish trends and patterns of development of the phenomena being studied; it provides greater representativeness of the sample in relation to general set.

All *types of panels* are divided by: lifetime; the nature of the studied units (subjects); the nature of the problems under study (study subjects); methods of obtaining information.

By lifetime, the panels are divided into short-term ones (exist no more than a year), and long term ones (not more than five years).

Long term panels can provide continuous or periodic information. Continuous information is recorded in the diaries daily, and diaries are sent to the organizers of studies at regular intervals. Periodic information comes as conducting surveys in the form of completed questionnaires.

By nature of the units studied, they are divided into panels:

- consumer panels. Individual consumers, families or households serve as the members of them (for example, in the United States, the firm «NFOResearch, Inc.» created consumer panel comprising 450,000 households);

- trade panels; commercial organizations and individuals engaged in trade are their members;

- panels of industrial enterprises producing goods under study;

- panels of experts and specialists on the problem under study.

Information obtained during studies heavily depends on the panel composition. Formation of family consumer panels and individual consumer panels is the most difficult. The advantage of trade panels, panels of experts and industrial companies is a smaller number of members in comparison with consumer panels, which reduces the costs of their formation and supervision.

By the nature of the problems under study, the panels are divided into general and specialized ones. The specialized panels may be created for study of individual products or product groups. For example, such operations are carried out with their help: testing of products and concepts of new products; tracking market trends, for example, dynamics of the indicator of market share studied; definition of sources from which consumers receive information on new products; testing of advertising via videos.

Whereas the general panels are formed representatively in relation to the composition of the region's population, the specialized panels may be formed as a samples of the total population (all families); all potential users of the goods researched; all actual users (owners) of the test products.

The specialized panel can also be non-representative; for example, it may be formed as a panel of activists, i.e. people who have a certain product and willingly give information about it. Such panels are used for the preliminary analysis of the problem.

There are four types of panels depending on the method of obtaining information:

1) members of the panel send the information required (filled diaries, questionnaires) by mail;

2) members of the panel are interviewed;

3) members of the panel fill diaries or questionnaires, and special workers collect information;

4) members of the panel are interviewed through a certain period of time, and send information by mail within the time interval.

During the panel surveys they:

- identify the factors and their dynamics;

- study the opinions and estimates of respondents with respect to the subjects of goods and organization of trade, their changes over time;

- identify solutions and intentions of the respondents and their implementation;

- identify differences in the behavior of consumers belonging to different social strata, living in different regions and cities and towns of various types;

- study the motives of purchase and predict their development, and others.

The panels are divided into traditional and non-traditional ones. The latter include widely used *omnibus panels*. When traditional panels used, panelists are asked the same questions for each survey. When using the public panel, each survey may have different objectives and thus different questions may be asked, and only one or a very limited number of issues asked to a large number of respondents. This type of panel provides existing sources of information that can be quickly used with a variety of research purposes. It looks like as it was instantaneous picture of some opinions, attitudes, etc. For example, using this method, a marketer can quickly obtain information about the opinion of a certain group of consumers with respect to the product of two different brands. On the basis of the traditional panel, the same parameters studied in dynamics; for example, by studying the dynamics of buying a particular brand of goods, carried out by the consumers of various market segments; you can explore the number of items sold, the rate of market share, i.e. – market trends.

In addition, you can study the change of consumers' attitude to the product of a certain brand, their switching to use the product of another brand.

The feasibility of using those or other panels is determined by the nature of the tasks solved and the amount of funds allocated. Therefore, before carrying out customer surveys, you should choose the type of panel based on the research objectives.

The sample panels of a large volume give more reliable results, or if the same reliability, smaller confidence intervals. But the larger samples volume demands more expenses. Therefore, the value of the panel is selected taking into account the volume of sample panel and the cost of its formation and use.

They define the scope of the panel assuming a confidence level of the survey results and the required estimates accuracy.

Selecting the type and volume of the panel is dictated by such the factors as a nature of the problems studied and a size of the research budget. Amplitudinous panels, of course, provide the most accurate results, or smaller confidence intervals while maintaining their reliability. However, they are more expensive.

Wherein, you should take into account the possible problems of preservation of the representativeness of the panel selected. For example, the fact that the traditional panels must be used repeatedly and in unchanged form. Survey participants may change their place of residence, may change their preferences, making it impossible to participate in this panel; to refuse to take part in the surveys. In addition, long-term study of consumer behavior can cause change of their traditional way of life and motivation that will distort results of the research.

4.5. Qualitative research methods

Qualitative research – is an integral part of the most marketing researches. Unlike the quantitative ones, based on statistical procedures, the qualitative research methods are of non-standardized character.

Generally, qualitative research methods are reconnaissance, exploratory and applied in step of orientation, deepen understanding of the issues that concern the client.

The information obtained allows putting forward more reasonable hypotheses about features of the consumers' behavior, the cause-effect relationship and procedural characteristics of this behavior.

The range of tasks solved with the help of qualitative research is very broad.

This is a study of:

- buyers motivation
- internal structure and hierarchy of motives
- settings
- social attitudes of respondents
- emotions
- evaluation and selection criteria of one or the other product
- features of product perception, advertising and PR-materials and so on.

A distinctive feature of qualitative research – they allow you to analyze the behavior and motivations of consumers not only on the level of conscious, verbal answers of respondents, but also to study unconscious components of consumer's behavior. To do this, they use special methods and projective techniques.

Qualitative research may precede quantitative measurements, or may be carried out per se to clarify any questions, track dynamics of changes (such as changing in perceptions and attitudes towards the brand) and so forth.

In some cases, qualitative research is needed to understand the data obtained during the quantitative survey.

The main qualitative methods – are focus group and in-depth interview. However, various modifications of these basic methods are also used in practice of marketing research.

Qualitative research methods include:

- watch;
- focus group;
- in-depth interview;
- protocols analysis;
- projection methods;
- associative techniques;
- completion of the sentence;
- testing illustrations;
- role-playing;

- retrospective conversation;
- conversation with relation on a creative imagination;
- physiological measurements.

In-depth interview – is a series of individual interviews on a given subject, conducted pursuant to the discussion guidebook. The interviews to be conducted by a high skilled and specially trained interviewer who is well versed in the subject, owns conversation technologies and psychological techniques.

Each interview lasts for 15-30 minutes and is accompanied by an active participation of the respondent – he is laying out cards, painting, writing, etc. In-depth interviews, in contrast to the structured ones applied in a quantitative survey, allows a deeper insight into the respondent's psychology and to better understand his point of view, the behavior, attitudes, stereotypes, etc.

In-depth interviews, in spite of the large (compared to the focus groups) amount of time, prove to be very useful in situations where the atmosphere of the group discussion is undesirable. This is useful in the study of specific problems and situations, which are not to say in a wide range, or when the individual points of view may differ significantly from the socially approved behavior – for example, when discussing issues of sexuality, gender issues, certain diseases, hidden political beliefs, etc.

In-depth interviews are used when testing and elaboration of the initial advertising developments (creative ideas), when you want to get immediate, individual associations, reactions and perceptions – without regard to a group. Herewith, a combination of in-depth interviews and focus-groups with the same respondents is the optimal one. Finally, in-depth interviews are indispensable for conducting qualitative research, when features of a target group make it impossible gathering respondents in focus groups – i.e., at one time in one place for 2-3 hours. For example, when we are talking about stirring businessmen, wealthy townspeople, narrow occupational groups, etc.

Protocol Analysis – is a method of marketing research, consists in the fact that respondent to be immersed in a certain situation connected with decision-making. The respondent should verbally describe all the factors and arguments that guided him to make a decision. Sometimes, this method involves using a tape recorder. A researcher examines the protocols submitted by the respondents.

Protocol analysis method used in the analysis of decisions making of which are distributed in time, for example, the decision to purchase a home. In this case, the researcher collects into a whole the decisions taken at various stages of the work. This method is also used in analysis of solutions, which decisions-making process is very short. In this case, the method of protocol analysis as it reduces the speed of decision-making. Buying chewing gum, people usually do not think on this purchase. Protocol analysis enables to understand some internal aspects of such purchases.

The use *of projection methods* means placing respondents in certain simulated situations in order to get information about the respondents, which is not possible to get in the case of direct questioning, in particular – about the use of drugs, alcohol, getting tips and so on. Projection methods include the following specific methods: association methods, tests on completion of sentences, illustrations tests, drawings tests, role-playing games, retrospective conversations and conversations with an emphasis on creative imagination.

Associative techniques include associative talks and associative words test, or word associations. During the associative talks, the respondent is oriented by association questions such as: "On what makes you think this or that..?", "What are you thinking now due to..?", etc. This method allows the respondent to say whatever comes into his head. In the case when the number of respondents experiencing difficulties, wishing to clarify their level of preference, at least because of the lack of vocabulary, they are limited by several options of responses.

Associative talks and association words test or word associations are part of associative techniques. The use of associative talks means respondent's answers to the questions of a type: "What are you thinking due to...?", "On what makes you think this or that?", etc. This technique allows the respondent to report what he is thinking at the moment. If the number of respondents find it difficult and can not identify their preferences due to lack of vocabulary and other causes, several answers options are given to them.

Words association test is reading of words to respondent from whom you want to say the first word that came to mind. For example, the words used, which are used in advertising, in the names of products and brands. In this way, they are trying to find out the real feelings of the respondents regarding the test object. At the same time, the time of response delay is noted, as long refrain from the response means a lack of certain association of the word used in test with the other words (pleasant, unpleasant, ugly, nice...). For example, during names testing of the new refresh, respondents-students have associated the following words to one of the names: "light, sizzling, cold", which were consistent with the real consumer properties of the drink.

Completing sentence test is to provide respondents with an uncompleted sentence, which they must complete in their own words. It is expected that the respondent to provide certain information about him during the implementation of this task. Let’s suppose that a tea supplier company decided to expand its market to the teens. A researcher suggested pupils of a school to finish the following sentences:

"Anyone who drinks tea is ..."

"Tea drinking is good when ..."

"My friends think that tea - it's ..."

Further the ends of sentences to be analyzed. For example, in the endings of the first sentence, such words prevail as "healthy", "cheerful". Similarly, they act with the other sentences. The result of this study may be the desire to promote tea to the market segment under study.

Testing of illustration is that a certain picture is demonstrated to study participants (drawing or photo) showing people who set in a typical situation and who are solving some problems; and participants are asked to describe their reaction to it. The researcher analyzes the content of these descriptions to determine the feelings, reactions caused by this illustration. This method is used to select the best options of advertising, illustrations for brochures, images on packaging and the like, as well as the accompanying titles. Analysis of the data shows that in many cases, people transferred to the characters their own problems and, therefore, they are easier to provide information that they would not dare to provide directly.

Testing of illustrations may involve the writing on the space above the head of one of the actors, usually depicted by a circuit; his comments on the situation shown in the picture, with subsequent analysis of these records. The interviewee should put himself in that character and answer for him.

When playing roles, the participants to offer entering the role of a character in a certain situation (a friend, a neighbor, a co-worker), and to describe his actions in the situation under study. Positive or negative latent reactions, feelings, value systems are studied in this way. For example, the participant is introduced into a situation where his friend had bought an expensive car of a certain brand, and asked to comment this purchase.

During retrospective conversation, an interviewee is asked to recall some scenes, some actions indicative for an area you want to explore. An interviewer helps the interviewee to conjure and to describe in detail what he remembers. For example, in the course of the conversation, the interviewee describes how he smokes his first cigarette in the day.

During the conversation relying on creative imagination, the interviewee is put in a certain hypothetical situation. The methodology of the conversation is to actively encourage the person to submit his reactions, feelings and behaviors that would be inherent to him if he was in a similar situation. He projects for the future his relationships, feelings, views on the topic under study.

Implementing all of the above methods is based on high professionalism of persons conducting them, and that leads to the high cost of the implementation. Especially it concerns the interpretation of the results obtained. Therefore, these methods are not widely used during commercial market research. Typically, these methods are used after the researcher, on the basis of the questionnaire, had already received information that enables him to formulate several hypotheses, which will be either confirmed or refuted.

Physiological measurements. This is the study of involuntary respondents' reactions to marketing incentives through using special equipment. The information about the physiological reactions (expansion and relocation of the pupils, heart rate) for the products, advertising and other marketing incentives.

Questions for discussion:

1. What are the differences between qualitative and quantitative methods of marketing research?
2. The process of conducting a survey and its methods.
3. Describe in which way a personal interview and a mail survey should be conducted.
4. What are the components of a questionnaire?
5. Choose at least 10 ambiguous words that should not be used in the preparation of questions for the questionnaire.
6. Give an example of the questionnaire with the open-ended/closed-ended questions.
7. Advantages and disadvantages of an interview.
8. By which criteria distinguished interviews?
9. Panel method of data collection.
10. What are the qualitative research methods? Give examples.
11. What are the main advantages of in-depth interviews?
12. With which ethical issues encounter marketers when conducting a qualitative research?

SUBJECT 5. ORGANIZATION OF OBSERVATION AND EXPERIMENT

5.1. Concept of observation. Methods of conducting observation.

5.2. Types of observation: direct and indirect, open and hidden, non-structured and structured observation.

5.3. Conditions of observing. Disadvantages of observation method. Difficulties of observing. Scheme of observing.

5.4. Stages of conducting observation. Preparatory stage. Field research. Fixing observation results. Observation control. Report about observation.

5.5. Definition of concept of an experiment. Types of experiments: laboratory, field experiments. Organizing carrying out experiments.

5.6. Designing of an experiment. Reliability of carrying out an experiment: external, internal reliability. Types of market testing.

5.1. Concept of observation. Methods of conducting observation

Observations methods suggesting rather observe than communication with respondents, make the basis of a qualitative research. Most of these methods are based on approaches developed by psychologists.

Observation in marketing research is the method of gathering primary marketing information about the object being studied by monitoring selected groups of people, actions and situations. Herewith the researcher directly receives and records all the factors relating to the object being studied and significant for the research purposes.

The observation in marketing research can be aimed at achieving different purposes. It can be used as a source of information for the construction of hypotheses, used to verify data obtained through other methods; it can be used to obtain additional information about the object under study.

Required conditions for the observation are the following:

- a short period of time to environmental changes did not affect the behavior or the phenomenon under study;

- the most significant characteristics of conditions and situations, in which monitoring is carried out, should also be recorded;

- the observed processes must be inherently available for observation and take place in public (open behavior). For example, in the store, on the street, in the office.

With the help of observations, you can explore not only the behavior of customers in the store, the behavior of staff providing services to consumers, and other processes. For example, how people use certain products (laid their hairs, preparing breakfast, mows lawns, and so on). The results can be used to create new modifications of the goods, to improve service, distribution and promotion systems (new subjects for advertising campaigns).

Observation methods can be classified according to the method of carrying out them: a personal observation, an observation using technical means, an auditing, a content analysis, a trace analysis.

When personal observation is conducted, an observer records all the events occurring to the object as they become available. He does not try to control or direct the events occurring to the observation object. He just writes everything that happens in natural conditions (eg., in store) or in vitro (research center). For example, the observer can record the number of visits and monitor the flow of customers in a department store. For example, in the United States, an observation for car license plates used in one of the stores to determine the buyers' places of residence. The observers recorded the numbers of vehicles in parking lots during the study. Then this numbers were entered into a computer and compared with vehicle registration data. This created a map of the buyers' settlement according to census or postal codes. This map has helped to determine the placement of new subdivisions of the department store, and advertising. Another example: the Japanese company *Honda* has received many complaints about its *Accord* model. It was not roomy enough for American drivers, and not stylish enough – for Japanese ones. Fearful of losing this market, *Honda* sent its workers to come to American families and find out how they use the car. Through the personal observations, they have found that American drivers prefer to have a lot of compartments in the car for storing their maps and other little things. The observers also made a road trip across America in *Accord*, and in *Ford Taurus* and *Toyota Camry*, as they were the main competitors in this class of vehicles. As a result of these observations, a new model of *Accord* for American drivers has developed. The result – sales increased.

In the observation by using technical means, recording the results produced by technical devices. This may require, and may not require involvement of the respondents. An audiometer is the most famous technical device that does not require the respondents' participation. It connects to your TV and is constantly registers which channel is on. Recently, the so-called "people meters" appeared. They not only recorded which exactly channel is on, but also recorded how many people are watching it. Other well-known examples – are the turnstiles, recording the number of people entering and leaving the premises; movement loggers along the road to count the number of cars passing in a certain place. Cameras in the workplace are increasingly using by retailers to control placement of goods, attractive packaging, route of buyers. Technological advances, such as bar codes of goods, greatly expanded the scope of observation using technical means.

In audit of consumer goods, a researcher makes an inventory of consumer product brands, and their number. For example, it is important to determine where the goods get stuck while moving up through the chain from producer to consumer. This issue is important for companies producing computers. No one could say with certainty which exactly computers are bought by consumers and which ones accumulate in the warehouse. To improve the situation, one company has agreed with the major resellers of computers about sending auditors to conduct a warehouses inventory and determine which computer models are preferred by the buyers. The audit provided information on the volume of retail sales and its movement through the distribution channels.

Content analysis is used when a communicative relationship is the object of observation, not behavior or material objects. It can be defined as an objective, systematic and quantitatively determined characteristic of the basic parameters of communication links. Content analysis involves observation and analysis. Words may be the objects of the analysis (the use of different words in the message), length and duration of the message, the subject of the message; that is the content of advertisements, newspaper articles, etc. observed and analyzed.

Trace analysis – is a technique in which the collection of information is carried out by physical evidence or by a record of past events. For example, in a department store, you can analyze the information read by scanning customers' credit cards (USA), which will allow analyze their use. Here are non-standard examples of the use of trace analysis:

- analysis of the floor conditions in museums to assess the relative popularity of various exhibitions;
- the number of different fingerprints on the pages of magazines to assess the advertisements readability;

Internet users leave their traces that can be analyzed to obtain information about their interests and behaviors, as shown in the following example. Many Internet users do not realize that they give "cookies" during their travels on its expanses (that is, leave traces) for the Web-sites owners. Cookies – is a group of numbers and letters that are stored in the user's browser, and identifying it. Companies that create Web-sites use Cookies to collect marketing information about visitors. Cookies accompany the user in his movements on the site and mark pages that he visited, as well as the length of his staying at each of them. Your name, address, phone number and the sites you have visited can be identified by Cookies and recorded in the database, if you enter any information.

5.2. Types of observation: direct and indirect, open and hidden, non-structured and structured observation

The observation is quite flexible method of gathering information, as it can be carried out by researchers in various forms. For grouping various embodiments of the observation process, you can use the following classification criteria:

- the nature of the environment;
- place of researcher in the process under study;
- way of perceiving an observation object;
- the degree of standardization of the observation;
- the degree of openness of the observation process;

- the nature of observed events;
- regularity of the observation.

Table 5.1. allows us find out the diversity extent of the observation forms

Table 5.*1*

Forms of observation

Classification feature	Forms of observation
Nature of the environment	Field observations – is carried out in vivo, in real life situations
	Laboratory monitoring – is carried out in artificial conditions, it allows to maintain the stability of the situation, under which the study is carried out
	Laboratory and field observations - is carried out in vivo, but with some limitations which remove the disadvantages of both laboratory and field observations
Place of researcher in the process under study (the polar forms are specified, but transient embodiments can be used in practice)	Observation with the direct participation of the researcher (participant observation) – the observer himself is involved in the situation; he also himself affects the situation and, in turn, is subject to its influence. This form allows you to adjust the objectivity of the observer's conclusions by improving his understanding of the observed processes
	Observation is carried out by the observer without participating in the observed process (non-participant observation) – the observer is located at some distance from the observation object that allows you to see the whole process and control the factors affecting it
The manner of perception of the observed object	Personal observation – the observed events are recorded directly by the observer
The degree of standardization of observation	Impersonal observation – the observed events are recorded by devices, thereby reducing the subjective perception of events. Structured (controlled) observation – in this case, the observation forms used with a well-defined structure of the fixing elements (aspects) of the process or situation, the other elements of behavior to be ignored
The degree of transparency of the observation process	Free (non-structured) observation – to observe all elements of behavior without a predetermined circuit of watching. Open observation – observed persons aware of observing, the researchers warn them in advance about it
	Covert observation – observed persons do not know about the ongoing watching

Character of the observed events	Direct observation – watching is carried out directly for the behavior
	Indirect observation – watching is carried out on the results of behavior
The frequency of observation	Systematic observation – is carried out on a regular basis, which allows to identify trends of the observed processes
	Episodic observation – has no clearly established procedure of the events registration
	A single observation – a study is carried out in accordance with the objectives only once, this scheme of study not to be used further
	Random observation – the observation of events unplanned in advance, as an independent procedure for collecting primary information, usually is not planned. Meanwhile, often it becomes a unique occasion to review the marketing decisions of the enterprise

The need to control the external conditions of observation determines the variant of observation forms in accordance with the nature of the environment. Laboratory observations allow researchers to fully control the conditions of the study, as well as provide more opportunities for use of special equipment. Creating the most favorable conditions for the observation, the researchers reduce the time and the cost of its implementation. But the very fact of the invitation of the people to be observed to the special designated room, the new situation, could affect the natural behavior of participants in the study, which somewhat distort information, reduce its objectivity. For example, the observation participants can spend a lot more time to choose a brand of goods than they do it in a natural situation. Or, on the contrary, finding "indecent" to carefully choose the product samples or not wishing to be seemed overly meticulous and obsessive when receiving an advice from the sales staff, they will reduce the procedure of brand selection.

Therefore, a study under field conditions may be more appropriate; naturalness of the observed peoples' behavior is the advantage in this case. Unfortunately, field observations have a serious drawback – a variety of external factors may affect study participants, including the factors of random nature that do not have direct relation to the research process. For example, at some point, there may not be the studied goods in the shopping room. The influx of visitors to the store during peak hours can prevent customers explore all options to consider all options of the offers of goods or packaging of a new brand of goods; buyers who are unable to endure the hustle likely to restrict their choice of the most familiar versions.

It may happen in actual practice that the store (cafe or other institution where the research is conducted), there will be no visitors in a period of time, for whom the monitoring was planned. Leveling the disadvantages of the field and laboratory forms, you can use the combined option – laboratory and field observations. In this case, the research is carried out in vivo and the steps should be taken to preserve their stability for a while. In the laboratory and field observations, the researchers need to enlist the support of administration of the organization, which is scheduled to be watched, for example, to ensure the required quantity of the goods in the sales area or to maintain constant observation conditions by other means.

Depending on the researcher's place in the observed process, there are several gradations of the degree of the observer's "involvement". The maximum degree of the observer's participation in the observed process is present in such a form of participant observation, when the researcher is involved in the research process equally with the observed people (active participation). In this case, the observer is "infiltrated" in the object under study; he is in direct contact with the observed people, takes part in their activities and the process under study. In the study of the process of consumption of certain goods, such as alcoholic drinks, active participation may be preferable, but it excludes mass sightings by its very nature, and its results are not quantifiable. Self-observation can be considered as a special kind of observation. The lowest degree of the observer's inclusion in the process under study (passive participation) admits his contact with those observed as far as the situation forces him. For example, as well as other visitors to the store, he selects items, stands in line at the cashier.

Observations made by the observer via onlooking without participation in the process, called the non-participant observation. In this case, the observer is located at some distance from the observation object that allows him to see the whole process and control the factors affecting it.

By way of perception of the observation object, they distinguish personal and non-personal observation. Personal observation suggests that the observed events are recorded by the observing person; in impersonal observation, the observed events are recorded by the devices. This gives researchers a significant advantage, as it allows them to get rid of the selective sampling of observation objects, reduce the subjectivity of perception of the events, obtain additional or more specific information, and reduce the complexity of data collection. In many cases, the use of devices is more functional and comfortable than the personal observation. For example, it is much easier to carry out a study of the preferences of family members with regard to television transmission with the help of an audiometer.

Depending on the degree of standardization of the monitoring process, they distinguish structured (in some sources – standardized, structured, standardized) and non-structured (in some sources – non-standardized, unstructured, free) observation.

Structured observations use a formalized procedure, in which elements of the studied situation pre-allocated, and this implies a good prior knowledge of the research subject. Typically, this form of observation is used by researchers to describe the subject of study or to test submitted hypotheses, and to clarify or verify the results obtained through other methods.

Free (unstructured) observation collects information about all the elements of behavior without a predetermined scheme.

Most often, this form demanded for the collection of information in order to create understanding of the problem situation. The unstructured form is advisable to combine with the non-personal observation, since the use of devices makes it easier to record all kinds of behavior.

Read more about the specifics of procedures of the structured and unstructured observations in a later section.

Interpretation of open and closed forms of observation can be associated with the place of observer in the studied process. For example, some sources said that participant observation is divided into covert one (when the observer does not reveal the true purpose of his presence) and open one (when the purpose and objectives of the study are known to the studied persons).

E.P. Golubkov and G.A. Churchill noted versions of the observation forms according to their openness without reference to the participant observation. This view corresponds also to our ideas.

The observation can be considered open when the participants know about the ongoing watching; wherein, if the observation is carried out in public places (for example, in a store or outdoors), notifying them of the observing purpose is optional. Disclosure of the observation purposes may be necessary when more close cooperation required. For example, when studying the lifestyle; in this case, as a rule, participant observation used, and for ethical reasons, that the observation participants did not feel their concerns about the researchers' intentions, the observation goals should be disclosed. To create conditions for the cooperation, you need to familiarize the participants with the research objectives; that occurs also in other cases. For example, when the research is done at the observed person's home, as it is in the case with the "revision" of stocks of consumers in their refrigerators or in the pantry.

Covert observation does not imply disclosure of the observer's incognito – observing participants are unaware of the ongoing observation. In this case, the researcher can get rid of the so-called "observation effects", however, he faces other challenges. If personal observation maintained, it is quite difficult to completely hide it. In addition, as G.A. Churchill points, there is an ethical problem. However, if the researcher is guided by the existing Code for conducting marketing research and if he takes all the measures to non-disclosure of working papers of the research and preservation of anonymity of the observation participants, the problem can be considered solved. There are situations in field research when the observation participants are needed to be asked some questions after observation have been finished, i.e. the combined method of gathering information used here. In this case, it is impossible to hide the mere fact of the study from the observed people. To achieve the research objectives, it may be appropriate to conduct firstly covert observation, and then explain the people observed the purpose of the research and show the results obtained, in order that the observed people could be convinced personally that the recording was made without prejudice to their rights.

Direct observation – the observation is carried out immediately on the behavior. Indirect observation – the observation is carried out on the results of behavior, that is, the physical evidences of fulfillment of certain events to be observed. Waste, stocks of goods, checks and others can be considered as results of consumers' behavior. Study of stocks is an example of indirect observation, such as study of stocks of consumer products in the refrigerator or pantry shelf; such an observation allows us to establish which brand of goods and in what amount was purchased by each of the households observed. Information from the store checks also is a result of indirect observation, based on which we can draw conclusions about the structure and volume of consumer purchases, - which products (or brands) are in the so-called "consumer bundle", i.e. are bought at the same time.

Depending on the observations regularity, they distinguish systematical, episodic and single observation.

Systematic observation involves the use of strictly regulated schedule of the observation procedures. For example, study participants may record their purchases made for a day in special daily diaries; an audiometer continuously records information on the programs viewed by each member of the family observed. Systematic observation allows revealing the dynamics of the processes under study.

Episodic observation has no clearly established procedure of events registration. Single observation conducted again without a clearly planned regulation can be considered as a particular case of the episodic observation. For example, wanting to assess the quality of work of the store personnel, the administration may carry out occasional monitoring of their activities one-two times a month. Herewith, repeated study may use a revised observation procedure.

A single observation is performed once time during a scheduled time period in accordance with the intended objectives, after finishing the data collection, the developed observation procedure is not reused.

5.3. Conditions of observing. Disadvantages of observation method. Difficulties of observing. Scheme of observing

When conducting observation, it is divided into the following stages:

- an observation purpose is determined, an object and a subject of the observation;
- the necessary material is collected to carry out observation;
- the method of observation is determined;

- observing conducted, which contributes to obtaining the necessary data.

In carrying out observation, you should be guided by the following rules:

- elements of the events to be observed should be classified fractionally as possible;
- the same element should be monitored in different situations: standard, conflict and so on;
- the content and the form of observed events, their quantitative characteristics (intensity, frequency, and so on) to be distinguished and recorded;
- description of the events not to be mixed with their interpretation.

There are two kinds of difficulties in conducting observation:

- subjective difficulties – associated with the personality of the observer.

They arise because of the impact of the observer's values on study results, as well as his emotional state, existing experience, and established preferences of the observer;

- objective difficulties – emerging in the process of observation, independent of the observer. They can occur due to lack of time resource, inability of monitoring certain factors.

Difficulties in conducting observation are divided into subjective ones (associated with the personality of the observer) and objective ones (independent of the observer). The possibility of the researcher's understanding and interpretation of the behavior and actions of others through the prism of his own "Me", through his system of value orientations, as well as the emotive human perception and the inevitable impact of researcher's past experience on the observation results could be considered as the subjective difficulties of observation. In addition, the observation is always subordinated to the study objectives; and as a result, the choice of facts to observe and to record depends on the observer.

Above all, the limitation of the observation time to the time in which an event occurs should be attributed to the objective difficulties of observation. Moreover, not all the factors that are of interest are subject to the immediate single observation.

The presence of the observer may cause the sense of embarrassment of the people observed; may change usual patterns of behavior.

The observation should be complementary to other methods of marketing research and applied when the information needed by the researcher cannot be obtained by other means. This is what happens when people do not want or cannot give sufficiently accurate and detailed description of the sequence of their actions; in familiar situations, people's actions often become "automatic". A person in this case is quite difficult to say what kind of usual actions he did and why. Besides, the situation that is often repeated becomes like "datum" to his mind, and its characteristic features erased. On the other hand, during the excessive emotional stress, the person acts as if without thinking, and then he can seldom explain why did so, and not otherwise.

Watching the research activity on the part, the observer may fix its characteristics, such as consistency and frequency of certain actions, changing the emotional atmosphere, etc., that is to receive information not available to obtain via other methods.

To obtain the necessary information for research purposes, i.e. information on important characteristics of an object, do not miss some important facts related to its activities, or significant information about it, the plan and program of observation should be carefully planned in advance. When planning, it is necessary to clearly set a deadline of observation and identify means of collecting information. In addition, it is important for the researcher to resolve the question of limiting the observation scope in the case of (time, finances, number of assistants and their qualifications), that he, as well as to consider possible obstacles (administrative or psychological difficulties associated with obtaining and recording information).

5.4. Stages of conducting observation. Preparatory stage. Field research. Fixing observation results. Observation control. Report about observation

Observation as a method of collecting marketing information has a number of advantages and disadvantages that you need to know in order to properly use this method, and correctly choose its form. Generalized characteristics of observation as a method of collecting marketing information are presented in Table 5.2.

Table 5.2

Key features of observation as a method of collecting marketing information

Advantages	Disadvantages
• Independence of the course of research from the observation object, from his desire to participate in this process and the ability to express his thoughts (no language barrier) • High objectivity as only the events in fact are subject to observation, no dependence on the memory capabilities and the competence of the observed people • The ability of unconscious perception of human behavior • The ability of incorporating the environment • Ability to record the event at the time of its occurrence (direct events recording) • No direct interaction between the observer and the observed person, therefore reducing the likelihood of distortion of information due to the influence of the researcher or the respondent's desire to look better • The ability to separate facts from fiction (from how the respondent imagines this action)	• Low representation, since it is impossible to provide a random sampling procedure • Selective choice of observation objects (observer choose any individual objects from the crowd) • Subjective perception of observed events (observer may perceive certain gestures or facial expressions wrongly influenced by his own vision of the situation and outlook, may mix results of observations and his conclusions, that is especially characteristic for free observation) • The effect of observation (unnatural behavior on camera when it was noticed by observed) • Failure of monitoring many factors • Observation time is limited by the time of event accomplishes

Analysis of the table allows you to set the most preferred forms of the observation that help neutralize some of the method shortcomings. For example, the implementation of surveillance via technical devices is free of the disadvantages associated with the selective extraction of observation objects, subjective perception of observed events. Camcorder is easier to conceal than the observer to get rid of the effect of observation. Perhaps, the most serious drawback is the low representation of this method. However, for some studies, this problem is solved. For example, in using diaries method.

The process of preparing and carrying out surveillance involves several stages.

1. The preparatory stage includes the following steps:

- defining the place of the method of gathering information in the general program of research, surveillance goals and objectives;
- determining the object and the subject of surveillance;
- selection of the place and the time of observation, ensuring access to observation environment;
- choice of forms of observation;
- the development of observation procedures (system of concepts, which includes the units and scope of observation);
- developing a plan of observation and testing it;
- preparing equipment, copying the necessary documents;
- preparation of instructions for the performers;
- recruitment and briefing of observers, training them when appropriate.

2. Field stage associated with the collection of information in field conditions and control the work of observers.

3. Analytical stage comprising treating the results of observation and preparing report.

At the initial stage, the place of observation in the overall research program determined, as well as its goals and objectives. For example, in the study of consumer behavior in relation to a particular product, a survey can be carried out studying the views of actual and potential users of this product, and monitoring the process of buying this product in a store. The purpose of surveillance – is to understand how the consumer chooses goods in the store. In this case, the objectives of surveillance will be the following:

- identifying the number of participants in the buying process and the distribution of roles between them, - who initiates the purchase,
- who makes the final decision;
- identification of the sequence and duration of the various actions undertaken in the course of the purchase decision-making;
- the total time spent on purchasing the goods, what time the buyer spent for the study of information about the product;

- determination of the amount of brand of goods estimated in the process of deciding whether to buy, which substitute products are considered by customers as an alternative;
- to assess the situation factors that contribute to the purchase of goods, such as breadth of assortment, detailed information on the package, its design, and others.

An individual, a household, an organization may serve as the objects of observation. Depending on the purposes, one or more sides of an object's behavior may serve as the subjects of surveillance (feature, the facts of his activities). The subject of the study determines the necessity of behavior as such or its consequences.

In accordance with the tasks assigned, it's necessary to determine the place and time of observation. For example, select the types of retail outlets or other establishments in which observation will be performed (different types of stores may have differing concepts of the product range formation, thus creating different conditions for the purchase). The time of day or day of the week may serve as factors affecting the purchase, so choosing the time of observation must either neutralize this factor, or cover a sufficient period to identify patterns (if this is within the scope of research).

After defining the place of observation, you should provide access to it at a selected time, permission of management of selected institutions. In laboratory-field observations, closer collaboration of researchers with the administration and staff of retail outlets may need, that requires a corresponding agreement.

Let's consider the variety of observation forms. At this stage, it is determined in what form the observation should be performed. To do this, you must find out the selection criteria in accordance with the needs of the researchers:

- whether you want a stable environment for conducting the observation?
- is there a danger of subjective interpretations of events?
- is the structure of behavior observed known enough?
- whether you want to explore the trends of changes in studied processes?
- are there any restrictions in time for the observation?
- will information on the ongoing study affect the natural behavior of the observed people?
- are there difficulties in understanding the essence of things taking place?
- is there a need for a more accurate measurement of the studied traits through technical means?
- is the personnel sufficient qualified to carry out monitoring?
- how time-consuming is the procedure of events registration?

Regarding the development of observation procedures, it suggests an answer to the question: "What to watch?" The answer depends on the chosen form of surveillance – structured or free, but, in any case, it is necessary to determine the units and the scope of observation.

The observation unit – is a certain "block" actions or a set of simple operations (movements, actions), or their signs, with the help of which the behavior under study will be described, by which one can judge about the past events. The observation unit is distinguished by separating the behavior into individual elements of well defined actions, conditions for its implementation, or a sign of the situation of its accomplishment. A set of actions of different nature of any complexity, may be distinguished as the observation unit; for example, a customer may simply view items standing on a shelf, and may take it in his hand. During an analysis, a set of observation units allows to recreate the situation at the time of data collection.

The scope of observation – is the degree of specification (number of levels) of observed behavior that must be covered in the research process. For example, behavior of an object as a whole – is the first observation level, the behavior of the object in relation to a particular object or process in a particular situation – the second, the third levels of observation and so on.

5.5. Definition of concept of an experiment. Types of experiments: laboratory, field experiments. Organizing carrying out experiments

Collecting primary information by selecting similar groups of subjects under study, issuance of different tasks to them, monitoring factors that influence the results and comparing the differences in the groups' reactions are meant under an experimental research. For example, to identify reactions for various prices.

A manipulation of independent variables to determine the extent of their influence on the dependent variables while maintaining control of the influence of other parameters that have not been studied is called the experiment. Independent variables may be changed at the discretion of the experimenter (a price, advertising costs, etc.), while the dependent variables are virtually not under his direct control (sales, an indicator of market share).

There are two types of experiments: laboratory and field experiments. The former ones include experiments, during which certain artificial conditions complied to eliminate the impact of side factors. For example, in assessing the reaction of customers for various types of advertising, such customers can be invited, so that they are representative in terms of gender, age, social status, etc. In addition to the control of adverse factors, the laboratory experiments are also cheaper and require less time for their implementation.

As an example, we can bring the results of an experimental study of the levels of remembering and forgetting of advertising messages.

Experiments have shown that the proportion of people preserving instilled impression of advertising, changes in time in geometric law. However, the rate of decline in the ability to call it to memory varies greatly depending on whether it is necessary to call. It can be seen that the theme of the advertising message is remembered better than its source. The arguments underlying the advertising messages are stored worst. The ability to call in memory both the subject and the source and the arguments of the advertising message falls sharply during the first week after the appearance of the advertising message. Therefore, the advertiser has a very short period of time to justify advertising costs or the advertising requires its repetition.

The study concludes that the advertising TV campaign, consisting of six repetitions in the first wave, and providing the ability to call it in mind at the level of 60% should not be interrupted for more than three months, if memorization level not desirable to drop below 20%.

We are talking only about the average estimates. Realistic assessments strongly depend on the value of advertisements, creative level of its performance.

5.6. Designing of an experiment. Reliability of carrying out an experiment: external, internal reliability. Types of market testing

Design of the experiment is to create conditions that would guarantee the effect on the dependent variable of only dependent variable under study, while excluding the impact of side factors.

For example, our aim is to study the effect of location of bananas on the store shelves on the value of their sales.

You randomly split all vegetable stores into two groups: control and experimental ones. The groups should be equivalent as possible in all respects, i.e. both should have the same number of large and small shops located in the center and in the suburbs, etc. You determine the volume of sales of bananas for some period of time in the stores of both groups. Then you change location of the bananas in certain stores of the experimental group, and, after a certain time, again determine (measure) amount of selling bananas in the shops in both groups. According to the results of this experiment, you determine the influence of location of bananas on counters on the volume of their sales. However, the changes in sales volume detected in the experimental stores caused not only by the changes in bananas location on the counter, but also by a number of other side factors: possible advertising by the producers, weather, etc. However, these effects characterize the change in sales stores of the control group. Thus, the difference in changes in sales volume in the control and experimental groups characterizes the impact of location of bananas on the shelves (the independent variable) on the change in their sales (the dependent variable).

Now it is necessary to evaluate the reliability of the results. To do this, an internal and an external reliability used.

The internal reliability determines the extent to which changes in the dependent variable is really due to a change of the independent variable. For example, if in the previous example the condition of full equivalence of the control and experimental groups has not been provided, for example, visitors of various age and wealth attend stores of the groups. Then, these differences will be treated to uncontrolled side factors, and the experiment will not satisfy the requirements of the internal reliability. The results of these experiments have little value. When designing the experiment, the experimenter should pay attention to the following factors determining the accuracy of the internal reliability:

- the presence of side events or factors affecting the results of the experiment;
- Biological, social, psychological changes of an object under study in course of the experiment;
- uniformity of the measurement tools throughout the experiment in terms of their accuracy and sensitivity;
- the identity of the characteristics of both groups.

The external reliability characterizes the extent to which you can use identified dependences obtained during the experiment.

For example, whether could be extended to other types of stores the identified (if any) relationship between sales volume and the location of bananas on the shelves?

In determining the external validity, the following factors should be considered:

- whether has the right level of representativeness the sample of testing units?
- whether the sample describes in sufficient detail population as a whole?
- whether the conditions of the experiment matched with the real conditions?

For example, when testing advertising, the reaction of customers to different types of advertising is estimated, and this testing is carried out in a special demonstration room. However, the real reaction of customers to different methods of product promotion, including advertising, may vary in the demo room and in a real trading floor.

In recent years, computer equipment is increasingly used in laboratory experiments. There are computerized programs-questionnaires that allow consumers to "roam" the supermarket and choose products to buy. Computer records their purchases and measure their response to the application of certain elements of the marketing mix (a price, a color and a shape of the packaging, in-store product promotion methods).

Field experiments are carried out in real conditions: in shops, at consumers' homes, etc. Although the results of such experiments can be more credible than the results of laboratory experiments, it is difficult to accurately account the impact of side factors when conducting them, they require more time for their implementation and involve high costs.

Many types of experimentation in marketing, having the character of field experiments, are known as “test marketing”. Companies may conduct such experiments in one or more cities. Carrying out the experiments usually has two objectives: to determine potential sales of a new product and to determine the effectiveness of applying the individual elements of the marketing mix in sale of the new product (as regarding the consumers and the intermediaries).

Different markets are the objects of study during test marketing, so such experimental activities are often called market testing.

Market testing is classified into standard, controlled, electronic and simulation ones.

When using a standard market testing, company tests products and other variables of the marketing mix through the usual channels of goods sale used by a particular firm. This method is relatively expensive and requires a lot of time for its implementation. In addition, it is not confidential.

Controlled market testing is conducted by specialized research firms, which carry out the sale of goods through certain distributors, which are encouraged to participate in the experiment. The disadvantage of this method is that the sales channels of distributors may not correspond to the channels used by the company in practice.

Electronic market testing is that the panel members get special identification cards, which they show when buying products.

When buying testing goods or its absence, demographic characteristics of the buyer are automatically recorded. Such tests are carried out only in the cities in which the retailers have agreed to participate in the experiment.

Electronic market testing ensures rapidity and low cost of carrying out the experiments and confidentiality of the results obtained. However, the market under testing may not reflect a real market.

The use of electronic market testing together with cable TV is a new area of marketing research.

Simulation market testing involves the use of a limited amount of data on consumer reaction to the new product, which is introduced into the model that contains certain assumptions about the planned marketing activity. The output of the model is the most likely sales volume of the product under study.

The advantage of this method of market testing in comparison with the standard method is that its implementation requires only 18-24 weeks, while for the second one – from 12 to 18 months. Costs of simulation market testing are only 5-10% of the costs of the standard market testing. The first method is private, and various tools of the marketing mix may be tested with help of it. However, this method is not as complete as the full method of markets testing. Moreover, the results obtained substantially depend on the assumptions inherent in the model.

Their high cost is one of the main disadvantages of the methods of markets testing. Sometimes it exceeds several hundred thousand dollars for testing only a few cities in a very limited research program. In addition, the product tested becomes well-known for competitors. The latter can quickly produce a similar product and be the first in the market. Further, it should be noted that there is a time lag between carrying out the experiments and marketing decision making, and the time factor is often decisive. Experimenters are faced with a dilemma.

On the one hand, obtaining reliable results requires quite extensive experimentation. However, in this case, the cost increases, the time lag between the start of experiment and marketing decision making increases, and conditions of the experiment may change. The market experiments never controlled so well as the laboratory ones. For example, distributors and retailers in the pilot region in which the manufacturer holds the line on lower advertising costs may themselves initiate an intensive advertising campaign.

Competitors may deliberately distort the results of the experiment by changing their advertising and pricing policy, by organizing a campaign to purchase large quantities of the experimental product.

Questions for discussion:

1. Reveal the definition of observation and the conditions for its effective implementation.
2. What types of observation do you know? Describe them and give an example.
3. How are classified the forms of observation?
4. Stages of carrying out the observation.
5. Experimental studies – that is...?
6. Types of experiments and organization of conducting them.
7. Comparative analysis of observation and experiment, their advantages and disadvantages.
8. The essence of designing the experiment.
9. The objectives and the content of market testing.

SUBJECT 6. FOCUS GROUP METHOD IN MARKETING

6.1. History of development of focus group method. Identifying key concepts of a focus group. Different points of view on definition of the focus group.

6.2. Methodology of conducting the focus group. Stages of conducting: preparatory stage, fieldwork, data analysis and presentation of results. Training of a research team. Composition of respondents. Writing a guide.

6.3. Field research in focus group. Types of moderators and respondents. Analysis of data and presented results in focus group.

6.4. Application area of focus group. Examples of conducting focus group. Analysis of advantages and disadvantages of focus group.

6.1. History of development of focus group method. Identifying key concepts of a focus group. Different points of view on definition of the focus group

First attempts to conduct group interviews were made in the United States starting with 1920-ies. The term "focused interview" (individual and group ones) appeared in 1940s. Its basic principles and methods have been developed by Robert Merton and Herta Herzog during their joint study of perception of the Allies' propaganda material, which was commissioned by military authorities. This experience was thoroughly summarized by R. Merton in 1956 in the book "Focused interview", now considered a classic work.

In subsequent years, this method has been mainly used in advertising and marketing studies. Then the term "focus group" has appeared.

Currently, the scope of application of the method of focus group is expanding and now it covers such areas as social studies, education, health, and psychological examination of various social programs.

Focus groups are most often used for the following tasks:

- obtaining general, preparatory information on a topic of interest;
- the development of research hypotheses that can be subjected to further verification by means of quantitative methods;
- the study of language and way of thinking of respondents to compile questionnaires;
- interpretation of quantitative results;
- the study of perception of certain products, programs, and other objects;
- the promotion of new ideas and creative concepts;
- psychological examination of various social programs.

Consequently, the focus group can be used before quantitative studies, simultaneously with the quantitative studies, after them and independently from other methodical procedures. The decision to use or to combine different methods is adopted during the planning of a research program.

The focus group is a group interview conducted by a moderator in the form of a panel discussion on a pre-developed scenario with a small group of "typical" representatives of the studied population, similar in basic social characteristics.

There are five main purposes to apply this method:

1. The generation of ideas, for example, on the direction of improvement of manufactured products, their design, packaging, or new product development.

2. The study of consumers' language that may be useful, for example, during the advertising campaign, drawing up questionnaires, etc.

3. Acquaintance with the needs of consumers, their perceptions, motives and their attitudes toward studied product, its brand, its promotion methods, which is very important in defining the objectives of marketing research.

4. A better understanding of the data collected during a quantitative research. Sometimes, members of the focus group to help you better understand the results of the research.

5. The study of emotional and behavioral reactions to certain types of advertising.

6.2. Methodology of conducting the focus group. Stages of conducting: preparatory stage, fieldwork, data analysis and presentation of results. Training of a research team. Composition of respondents. Writing a guide

Typically, the work of the group is recorded by audio and video devices, and the results are the basis for quantitative studies, such as survey method.

It's obvious that the opportunities and the efficiency of this method are heavily influenced by culture and traditions of communication, etc. of residents of different regions and countries. It is taken into account in the formation of a focus group, for example, in determining the number of its participants, the role and activity of a leading.

An optimum size of the focus group ranges between 8 and 12 people. With fewer numbers of participants, the necessary dynamics for productive work of group not created, and the leading have to make a lot of efforts to revitalize the group. When the number of group exceeds 12 people, it is difficult to strike up a productive discussion; the group might be broken into subgroups, which may have a conversation about abstract topics, and only a few people will be attended in the discussion.

Unfortunately, it is difficult to determine composition of the group in advance. For example, 12 people are willing to take part in the discussion, and, in fact, only 6 people are present.

Regarding the composition of the group, it is recommended to form it on the basis of participants' homogeneity (age, a type of activity, a marital status, etc.). In this case, it is considered that the best conditions for uninhibited discussion created.

Selection of members of the group, first of all, is determined by the research objectives. For example, if the objective is to generate new ideas on product packaging, the consumers who bought a certain brand of goods are invited in the focus group as participants. Typically, potential participants are invited to participate in the discussion via phone, but sometimes buyers are invited to participate in the group right in the store. It is desirable that the leading take part in the formation of the group.

At the "recruiting" the group members, both a cash form of payment for their work used and natural one in the form of free provision of certain goods. Very often, the potential focus group participants recalled about it previous night. In this case, if they refuse to take part in the discussion, there is a possibility to replace such participants.

When it is assumed that the debate will last more than 1.5 hours, it is best conduct it in a room suitable for such discussions, preferably at the round table, in an atmosphere of peace conducive to mental work.

Success of the focus group depends largely on the effectiveness of the leading, which, based on a deep understanding of the goals and objectives of the discussion, controls its implementation without the direct intervention in the debates. He must strive to balance between the natural discussion among the participants and avoiding the discussed topic. The leading should be a high communicable person deeply interested in the positions and comments of the group participants. Typically, before the start of the discussion in a focus group, the leading is preparing a detailed plan of its work, aiming to raise the level of his knowledge on the discussed issues.

When analyzing the results of work of the group, you should pay attention to the two important factors. Firstly, he should strive to translate the panelists' statements into the language of categories and concepts of the topic, and to determine a degree of coherence in their opinions. Secondly, he should determine the extent to which the characteristics of the focus group participants are typical for consumers of the studied target market.

The main advantages of the focus group are:

1. The ability to fairly and freely express their opinions, to generate new ideas, especially during the discussion by the method of brainstorming.

2. The ability for the customer to take part in the formation of goals and objectives of the discussion, to observe the work of the group causes a sufficiently high confidence in the results of its work. Sometimes, the customer starts using these results in the practical work before receiving an official report.

3. A variety of uses of this technique, as discussed earlier.

4. The ability to study respondents who do not lend themselves to the study in more formal, structured situations; not wanting to, for example, to take part in a survey.

In summary, among the disadvantages of this method we can specify its possible non-representativeness, subjective interpretation of the results obtained, the high cost per group participant.

The fact that the results of the focus group may not be representative in relation to the population as a whole is determined by the following. In such a group, as a rule, such respondents participate more actively who eagerly respond to proposals of this type, compared with the general population as a whole. In addition, a small, usually a homogeneous composition of the focus group contributes to it, and professional respondents might be included in the group at the last minute.

The subjectivity of interpretation of the results of the group is caused by the fact that it is possible to focus on the facts that support the host’s view, and ignore other points of view. Further, the customer’s involving in the preparation and conducting focus group can also predetermine the desired results. As previously noted, the customer may use the results of the group before receiving the official report.

Costs of using this method are defined as follows. In the U.S., the costs for making numerous telephone calls expressed by the figure at about $25 per participant. The reward for participation in the focus group is about 30 dollars. A salary of a skilled master in one session is about 1500-2000 dollars. In addition, we should take into account the cost of renting premises, the cost of using technical devices. Typically, these costs amount to hundreds of dollars per hour of rental. Then, there are the hidden costs not directly included in the total cost, for example, arising from the participation of the customer in the ongoing research.

The use of modern communication technologies expands the range of use of focus groups. For example, it allows you to organize the interaction between two groups conducting a session in different cities.

Scenario of the focus group is a list of issues for discussion.

During the focus groups, it is advisable to use different qualitative techniques. These may include a role-playing game, an unfinished sentence, an association, a metaphor, a description of the type of behavior opposite to the own type, indirect (hidden) questions, etc.

Conducting focus groups as a sociological study involves several stages: "a warm", the main part (discussion), and completion of the discussion.

We can see various schemes of conducting the sociological research in the literature: in two stages (a preparatory stage and a research stage as such); or in several stages, including the drawing up of programs, the definition of the object and the observation units, developing methods, collecting material, its analysis and synthesis. A working plan of theoretical and applied research, according to V.A. Yadov, include the period of development of theoretical concepts and programs, a field period, a period of data processing and analysis and the formulation of final reports and publications.

A sociological project by using focus groups has its specific features. So, D. Stewart identifies the following stages of the study: formulation of the problem and hypotheses, sample design, training of sociologists, development and testing of the focus group plan, selection of respondents; then conducting the focus group, analysis, interpretation and report writing. R. Krueger proposes another plan, - he puts in the first place the research plan, and then development of the questions, determining the research group, selection of respondents, conducting the focus group, work with the data (including the decoding), analysis and presentation of the results (report writing).

In view of the theoretical and methodological principles set out above, the scheme of research by using the focus groups is changed so that there is no clear separation of the stages of data collection and data analysis. This is due to a critical position of the researcher, an ongoing process of rethinking earlier hypotheses, their modification, an active role of the respondents, and so forth.

In our view, the work with this method should be divided into three main stages, without making clear boundaries between them. In the first (preparatory) stage, the aim, object and subject of study determined, the research team prepared, the number of focus groups determined, their size, the degree of formality; a plan of the discussion composed (a script or a guide); the subjects selected, their number, and location of conducting the focus group. A pilot study referred to it, which may make adjustments, such as changes in the script of the focus groups. The second stage – is the actual fieldwork and primary processing of the results. The third stage – is an analysis of the data, including audio and video decoding, and the project ends by writing a report and a presentation of the results.

Preparatory stage. Sociological and marketing research using the described method, like any other research, begins with writing of the program. In Russian literature, there is a certain tradition of its writing, considered in the works of E.M. Andreeva, M.K.Gorshkov, V.T. Grechikhin, A.G.Zdravomyslov, I.M. Slepenkov, F.E. Sherega, V.A.Yadov and others. The program in the first stage consists of the formulation and justification of the problem, defining the purpose, object and subject of the study; logical analysis of the basic concepts, the formulation of hypotheses and objectives; and in the second stage – of the definition of the studied population, characteristics of the methods used to collect primary sociological information, singling out the logical structure of tools for its collection and its processing circuits.

Application of the above principles in the project using focus groups leads to the effect that hypotheses do not put forward at an early stage of the research, as the establishing by a sociologist the concepts and hypotheses a priori may determine the understanding of social relationships in a way that it would be at variance with the explanation offered by respondents.

Defining goals, object and subject of study

Defining the goals, which influence on the place of the focus groups (primary or secondary) and the status of the data obtained, is one of the important steps in the first stage. As the experience of sociological research shows, it may change in the course of the project. Thus, the original purpose of the focus group method might be a data verification of a quantitative research (a survey), where the focus groups are formalized and conducted in accordance with the plan. At the same time, in the second stage, to collect data, change the direction of the discussion occurs towards less structured form, and the focus groups become the primary method of gathering sociological information.

Preparation of the research team

In the first stage, training of the research team conducted, which consists of researchers, leading of the focus group (a moderator), stenographers and assistants. Each team member has his duties, for example, the moderator interviews; the stenographer records statements, noting their emotional coloring, and so on. American sociologists also note the role of assistants who take care of all things not directly related to the study, but significantly affecting on the atmosphere of the discussion (for example, ensuring peace and quiet, supply of soft drinks). Those involved in the conducting and preparing are taught the basics of the focus group method, introduced the topic, research objectives; and a practical training conducted with them taking into account the specific of the selected group. Well trained and staffed team allows you to create all the necessary conditions for conducting the research and the atmosphere in which the respondents feel them comfortable and are free to speak out.

Determination of the number and the size of focus groups

The number of the focus groups in the study may be different and is determined by cognitive abilities of the method, the purpose of the study, the presence of different characteristics in the studied social group, and so on.

First, the number of focus groups associated with the boundaries of applying the method. Given the fact that the data obtained with the help of this method are descriptive in nature and do not represent information about the prevalence of the obtained views in the group under study, it's advisable to carry out the focus groups as long as a new information would be produced and the theoretical saturation would be achieved. The proposed method has a limit, after which achieving, an increase in the number of groups does not provide significant changes in the results. Typically, a maximum of information is achieved after two or three discussions in one of the selected groups of respondents, and the subsequent raise of their number doesn't provide a new knowledge.

Second, it is the nature of the differences within the group under study. Given that the purpose of the focus groups is to describe, it is best to focus on those segments of society that will give the most relevant information. However, it is important that the main categories of population that are subject to the study were in the research. The number of focus groups is increasing with the advent of new variables, such as gender, age, class and ethnicity (if they are relevant to the project). The number of groups is increased if respondents' gender affects the nature and the atmosphere of a discussion.

Third, the number of focus groups depends on the purposes of the study. The experience of applying the method shows that from two to six debates should be carried out for studying one category. Herein, the number of people in the project, depending on the number of participants in each focus group, can range from 12 to 100. In order to involve all the participants in the discussion, from 6 to 8 people should be involved in the focus group. If two-three people came from among the invited respondents, the study, however, can be carried out, since it is a small group by definition. In the standard duration of the discussion of one and a half to two hours, it increases the time to express opinions of each participant, his contribution and role in the panel discussion increases. The method of focus group allows getting an idea of each respondent's reaction on the issue for this time. Two hours allow uncovering around two topics with sufficient depth of.

In our opinion, the groups with more than eight participants have the following disadvantages. First, the moderator at his varying degrees of involvement in the discussion process is difficult to manage a large group, because multiple dynamic processes take place in it. For example, discussions arise between the respondents, sitting beside each other. They run parallel to the main conversation and are more difficult to control and, virtually, no data is decrypted. As a consequence of the complexity of dynamic processes in the large groups, the role of the moderator is of particular importance, and determines the entire course of the discussion. In this case, the discussion goes strictly according to the plan, and the identity of the group lost, as well as the opportunity to observe the cognitive processes.

Selection of respondents

The next step is the preparatory stage – is to define the units of study. Herewith, a sample is in its pure form is not used for a variety of reasons, since the main purpose of the focus group method is to describe the phenomenon, rather than the extrapolation and measurement of the prevalence. Random sampling can be used, but not a decisive factor in the selection. So, some authors suggest using some of its principles, such as: group composition should reflect the main categories of the population (according to the purpose of the study).

In a study by using focus group, stratified sampling can be used in a specific form. Then, the criteria may be the following: age of the participants, their socio-economic status, the level of education, their religious beliefs, nationality, place of residence, marital status and so on. They distinguish the basic and the control parameters for the selection of participants. With the help of the control characteristics, the homogeneity of the group is checked.

In the selection of respondents, the principle of intragroup homogeneity is respected as it promotes for dynamic processes, greater freedom and relaxedness of the participants. Experience of applying the method of focus group show that initially homogeneous groups become heterogeneous during the research process and the main criterion for selection is changing. Likewise, the participants of the focus groups or the section under study are selected randomly. It can be applied to all the lists or to a list of telephone subscribers. This method is effective when recruiting respondents with common characteristics and ineffective, if criteria for the selection are very specific. The list from which is possible to randomly select participants for the focus group, according to some researchers, increases the accuracy of the information. However, if a sociologist does not seek to statistical generalizations, then an area chosen for the research based on the fact that a large percentage of people live there that matched the specified characteristics.

Selection of the respondents is made in the following main ways: a preliminary questioning or an interview, an observation, an analysis of the data available to the researchers (lists), according to a "snowball" principle; in place of gathering of potential respondents; the use of already existing groups; ads, and ads in media. Preliminary interviews and questionnaires allow you to attract the most appropriate respondents in the focus groups, as well as to use additional information from the questionnaires to describe the group under study. One of disadvantages of this method is that by filling these forms, the potential respondent starts to think about the problems posed, and the focus group loses its spontaneity and ease of discussion.

Sometimes you can use a sample of firms, agencies that have a database of respondents that's based on any criteria. Unfortunately, they are not always available. Selection on a "snowball" principle – is a named by someone list of people who meet the criteria specified by a sociologist. The following procedure – is a random sampling from the list of these names. This method is used in place of gathering of the potential respondents in place of residence, on a street, in shops, exhibitions, conferences, and so on.

Using existing groups (working groups, classes in school) is not always suitable for focus groups because the system of the existing relations could affect the answers and the discussing of sensitive topics. Do not attract potential respondents via ads and messages in mass media (in newspapers or on the radio). This selection can lead to distortion of information as people can come to participate in a focus group, which are especially interested in the proposed topic or wish to get additional earnings.

The practical recommendations for a sociologist to improve reliability of the focus groups:

1) at the beginning of the research, it's necessary to accurately identify the selection criteria, and the existing differences of opinion of people are not the criteria.

2) a sociologist is better to control the selection of respondents personally. This is due to lack of the exact rules for recruiting the participants for sociological research, unlike for marketing research. Data errors can result from recruiting respondents for the focus group of friends by memory or if this procedure was entrusted to a head of the enterprise or to a teacher at school. With such type of recruiting, such respondents are likely to get into the focus group, which are poor and unnecessary employees in the workplace, or students who do not want to learn.

3) the use of random sampling in some cases (if you have a sufficient number of respondents who meet specified criteria) increases the reliability of data in qualitative research.

4) to increase the motivation of respondents to participate in the focus group when payment for the participation is not possible, you should address the invitation personally, create a positive attitude, and incline them to participate.

5) in the course of the study, namely, in the choice of venue for the focus groups, in the choice of forms of inviting people, you should into account local socio-cultural and geographical features. According to some scholars, reliability of the study results is increased if the participants do not know each other. The last requirement significantly

reduces the scope of application of the method of focus groups, since this criterion is difficult to comply with conducting research in organizations and teams, i.e. in already established groups. As the experience of the author's research shows, the latter requirement is not universal, and recruitment of individuals depends on the research topic. If the discussed topic will not affect the nature of the relationship between people, the participants can be involved in the focus group, which are familiar to each other. Using the skills of a moderator and capabilities of the focus group method, it is possible to reduce the influence of "familiarity" on the process of gathering information.

There are some problems in recruiting focus groups participants. Despite the different methods and techniques of the recruiting, there may be people with low levels of communication skills among focus group participants (shy, inarticulate), as well as individuals who do not meet the specified criteria (those who came for a company with the invited people). There are several methodical rules to improve the quality of respondents. For example, the respondents who do not fit to participate in the focus group, you offer pre-prepared questionnaire, after filling it you thank them and give (if promised) financial reward.

Another difficulty of recruitment is in the fact that it is necessary to gather various people at one time in one place. This task becomes complicated or easier, depending on the socio-economic status of the people. As the experience of sociological and marketing researches shows, the higher it is, the more difficult to carry out recruitment to the group. (There are cases in research practice when none of the respondents came for a focus group).Then you need to ring up invited respondents to specify the reason for refusal to consider it in the future.

Thus, the recruitment of respondents for the focus group is an important content task, since its improper conducting may lead to unreliable results. The form of recruiting respondents ultimately affects their willingness to participate in a research, their degree of involvement and sincerity. Therefore, the time, the form of invitations, preliminary conversations create conditions for mutual understanding in the data collection phase.

The choice of topics and the determination of their number

Using group dynamics as an argument underlying in the method of focus group, scientists have come to different conclusions about the suitability of certain themes and the unsuitability of others ones. As the experience shows of using the method of focus groups, the main problem is a delicate or intimate topic. The extent of disclosure of the respondents when discussing such topic depends, for example, on the composition of the group, on familiarity of the participants, their socio-demographic characteristics (gender, age), and so on. To prepare the respondents to the discussion of these topics, you can use selection questionnaires not only with the issues on the socio-demographic characteristics, but also on the expected subject. This is caused by the fact that focus groups do not have enough anonymity. During conducting the focus groups that address intimate topics, it is important to create conditions for the respondents' self-disclosure and reducing the number of answers that traditionally are endorsed by public opinion.

During the discussion on them, a sociologist must ensure that the level of disclosure of each participant is appropriate to the expectations of other respondents.

The number of subjects should be determined by the purpose of the study, by the degree of formalization of the focus group, by the existing limits of psychological involvement and interest in the discussion, by its theme and the degree of awareness of it among the potential participants. The number of subjects affected in the script to be determined depending on the purpose. According to D. Frey and A. Fontana, there are the following purposes of a group interview: an explanatory purpose (familiarity with the subject, establishing rapport with the group under study, the formulation of hypotheses); a pilot purpose (check of tools); a triangulation (the use of multiple methods to improve reliability); and a phenomenological purpose (the establishment of the main categories, the disclosure of new themes). In accordance with the first and the second objectives, the focus groups are of formalized or semi-formalized nature and comprise two or three subjects. You can discuss one or two subjects in an interview with the phenomenological purpose.

The focus groups in marketing and sociological research are markedly different by the number of themes for discussion, and the degree of formality. Firstly, in formal discussions with the use of incentives, with the average duration of an hour and a half, 3-4 stimuli usually offered for the discussion (for example, promotional videos or advertised goods). Otherwise, the moderator will not have time to get information about the respondents, their lifestyle, behaviors that are directly related to the studied advertising product, and find out their expectations from it and their respect to it. In sociological studies, you can discuss two or three themes in a formal focus group without loss of information, and taking into account the involvement of all participants in the debate during the same time; in a formalized focus group – no more than two themes. Based on the limits of psychological involvement in the discussion, participants in the focus groups show their interest in it for no more than one and a half, a maximum of two hours, and people generally are reluctant to speak out in a longer discussion. The mood and interest in the topic also affect the involvement of those invited to the conversation. If the topic of discussion is not interesting to the respondents, the group acquires the character of a formal interview and covers all aspects of the problem being studied, without a deep insight. The number of themes also depends on their nature. The practice of applying the method of focus group shows that when discussing delicate and intimate issues, it takes about 30 minutes to create a friendly, open, free atmosphere and to contribute the disclosure of the participants; and as a result, a little time remains for a discussion on the main theme. Depending on the degree of the individuals' familiarity with the theme, the number of questions changes, and this provision should be considered when conducting the focus groups with experts and ordinary respondents.

Determining the degree of formality of the focus-group

The method of focus group is characterized by its unpredictability, susceptibility to changes, and a possibility make adjustments in the course of conducting focus groups.

The ability to make changes is given in accordance with the existing continuum "formalized one – non-formalized one". At one extreme – the formalized focus groups, in which the topics for discussion should be designed in advance. Wherein, the moderator should not put pressure on the members of the focus groups, but they have to follow a predetermined plan, guided by the logic of a researcher. Otherwise, according to K. Bailey, "... without the structure, an interviewer may not know what questions to ask, and an interview may become a meaningless exercise in which questions are asked at random, and no leader, no respondents are not aware of its purpose".

At the other extreme – non-formalized focus group, which the structure is not specified, and opportunities form for the fullest disclosure of individuals. Semi-formalized focus groups are in the middle of the continuum, in which the researcher is trying to find a balance between a predetermined structure and respondents' answers to questions interesting to study.

Given the special nature of the focus group method – the mobility of a sociologist, the possibility of a detailed study of social reality, and so on, it's impractical to make the discussions formalized and strictly follow the plan. Conducting a research in accordance with pre-planned questions may lead to a significant loss of information, as a sociologist in this case does not listen attentively comments of interviewees and, therefore, cannot grasp the causes and consequences of these remarks by offering his routine questions from the plan. If the interviewer is focused only on the plan, he must anticipate the consequences of unexpected responses and comments of the interviewees.

Non-formalized nature of the focus groups makes it possible to get unexpected results, to simulate real situations of forming opinions and views reasoning, promotes disclosure of individual opinions, without pressure and imposition of the sociologist's ideas on the given subject.

Writing a plan (a guide) for the focus group

To conduct a focus group, a sociologist makes its plan or script, called "a guide". The plan begins with the formulation of greeting of respondents, the formulation of the research purpose, explaining the basic rules of engagement, and writing introductory questions that create an atmosphere of freedom and relaxedness.

There are several approaches to the formulation of the plan. One of them is asking questions with their following reformulation into themes. Another – is the preliminary formulation of themes and then compiling questions. When creating the plan for the focus group, such order of questions used as in other sociological methods, for example, in the questionnaires. Such researchers as David Morgan and Richard Krueger writing about the need to move from general things to particular ones, due to the fact that it helps not to open the researcher's intensions at the beginning of the group, and retains the spontaneity of the respondents' statements, which is an important quality of the focus group. In addition, the gradual transition from private questions to general will create a context for a subsequent discussion. The rules for respondents' participation in the focus group and introductory phrases are usually written in a guide. For example, changes in the plan of the focus group from discussion to discussion are not only of a methodological nature, but also allow you to make comparisons between groups based on different approaches to the topic.

The plan of the panel discussion is determined by the degree of its formalization. In the formalized focus group, the guide is a list of discussion topics and sample questions for it. Structuring the focus group is important for several reasons:

1) the predetermined structure will greatly facilitate subsequent analysis of data;

2) the use of specific questions eliminates possible inconsistencies in the language of the respondents and researchers;

3) it helps to compare the views of a sociologist and a panelist on the problems studied;

4) it allows you to cover all the topics of immediate interest;

5) it make the order, clarity and accuracy in the resulting data;

6) it facilitates comparison of groups with each other;

7) it reduces discrepancies in the understanding of the themes in the project with several moderators;

8) it controls the depth of analysis of the problem.

Reducing the spontaneity of statements is among the disadvantages of following the guide, as well as reducing the opportunities for the sociologist to adjust a discussion depending on what has been said by the respondents.

They identify core areas in the formalized focus group, which should be two or three, because otherwise difficulties arise at the stage of data processing and analysis. This creates more opportunities for self-expression of the respondents. The plan of discussion should be brief, and a lead is constantly improvising and encourages participants to the statements. It’s impractical to structure the focus groups when the wording of theme allows respondents to give spontaneous answers, the ability to use their own language; when discussing delicate and intimate issues in order to maintain the dynamics and learning of the cognitive processes; if the topic raised in one of the focus groups can serve as a theme for the next ones; and if a single moderator conducts all the researches. The latter factor is particularly important, since individual characteristics of the moderators may affect the wording of the questions; however, if an experienced sociologist who feels the group and the influence of language on the answers is engaged in the research, it loses its importance. Otherwise, the process of an interaction of the participants interrupted: the respondents are more focused and listened to the words of the moderator, not paying attention to each other's statements, and the main advantage of the method – the group dynamics – will be unclaimed.

The following factors affect writing of the guide: the level of skill of the sociologist, the number of moderators in the project, the degree of formalization of the group; the time available for researchers; the degree of leading’s familiarity to the topic and to a group of respondents under study, their language and so on.

The practical recommendations on the use of the focus group plan during the discussion:

1) it’s not recommended to use the plan directly during the discussion, look into it and read the questions.

2) to keep the group dynamics and study of cognitive processes, a leading should not strictly stick to the plan, and he need to dwell on new topics, if it meets the objectives of the study.

3) in the focus group, a moderator must facilitate the discussion and not to set it.

4) when discussing the delicate and intimate topics, better follow the course of the focus group and do not follow the guide very strictly.

5) in the discussion, do not give rise to respondents to discuss or condemn any of the focus group participants. The main task of the moderator in this part of the discussion is to maintain the right of everyone to hold opinions without putting personal views into public debate.

6) if the group starts to discuss issues of interest to the participants, however, irrelevant to the researcher, it is necessary to return the discussion to the original question and scenario.

Typology of questions in the focus group

There are different classifications of questions in the group: in order of importance, formality, order of priority of their appearance in the discussion, etc.

In order of importance in the focus groups, Wheatley and Flexner distinguish the following types of questions:

1) basic questions;

2) directive questions, which are formulated taking into account the language of the respondents, and accompanied by the question "why";

3) checking or clarifying questions (that return focus group to the disputed subject);

4) questions with the muted sound in impersonal, abstract formulation (for the discussion of sensitive topics);

5) factual questions allowing to clarify the facts and details;

6) questions that are not directly related to the topic of discussion and aimed at organizing the work of the group.

In terms of structuring, R. Merton and P. Kendall distinguished unstructured, semi-structured and structured questions corresponding to different degrees of formalization of the group. Unstructured style – is any stimulus and any response (the respondent's attention is not focused on a particular stimulus and the question begins with the words: "What do you feel ...?"). Semi-structured – is any stimulus and a specific question (eg., "Who recommended you ...?"). In the structured style, nature of the stimulus and an answer to the question specifically determined.

Questions in the focus group can be classified in order of their appearance. As a result, according to R. Krueger, it turns out the five main categories of the questions: familiarization-contributed, introductory, transitional (from the opening ones to the main ones), main and final questions. Responding to the familiarization-contributed ones, the respondents are briefly presented. In response to the opening questions – the respondents talk about the facts of their life that are directly related to the topic. Typically, information obtained like this, is not a basis for a sociologist, but discussions conducted in such a way stimulates communication and "warms" the respondents. The transitional questions – allow participants to wider see the topic being discussed; know about the attitude of others to the topic. The main questions focus on the behavior, motivation of people, and they are the subject of an analysis. Depending on the degree of formality, such questions asked between two and five. The final questions – should be asked at the end of the focus group and associated with reflection, perception of the theme by respondents and perception of their own position. These in turn are divided into general questions, summarizing questions and final questions. When responding the general questions, the respondents express their attitude to the main topic of discussion. The summarizing questions express an opinion of respondents on the sociologist. The final questions help sociologist know what, according to participants, was missed in the discussion. It is advisable to take about 10 minutes for these questions. The practice of the method shows that the final questions are necessary to adjust the guide, taking into account the views and positions of respondents.

Using the traditional dichotomous dividing of questions in sociological research into open-ended and closed-ended ones, it is obvious that the discussion in the focus group is built on the open-ended questions. These are the questions, according to Robert Merton, in which the respondent’s attention is not sharpened on the proposed incentives, and their advantage is that "they reflect the thoughts of the interviewee, not the things which, in the interviewer’s opinion, are the interviewee's mind". The questions which include such words as "to what extent", "how", "satisfaction" set definite answers to the questions, the scale of measurement. The questions which begin with the word "why", are subject to certain difficulties, since the response to them demands reflection on the human behavior. They cause trouble at respondents, as many actions are performed out of habit, without conscious deliberation. According to P. Lazarsfeld, it is advisable to apply to them the principle of specificity. It is in the fact that an answer to the question "why" can be given, firstly, with clarifying the source of influence, and secondly, the desired result. It is better to replace the word "why" with the phrase "what do you feel," "how you...".

In our opinion, the questions in a focus group can be different, thus meet the following basic requirements: timely appearance in the debate; providing maximum space and freedom to respondents; consistent with the nature of the studied problems, etc. General terms of wording of the questions in the focus groups have much in common with the questions in the questionnaire and interviews and may be viewed in the works of both domestic and foreign sociologists.

Practical recommendations to formulate the questions in the focus group:

1) The questions in the focus groups are checked on the following criteria: a length, a number of words and a uniqueness of their perception. This is due to the complexity of the perception of the questions at hearing.

2) Avoid long questions, except for those that need to be introduced or explained.

3) The options should not be offered for the questions asked in the focus group.

4) The words used by a sociologist should be clear for a respondent and unambiguously interpreted both by a leading of the focus group and the respondents.

5) The context of a question should be explained to reduce various options for its interpretation.

6) You can ask the "question-and-memories" that help return the respondent to certain events and an experience lived through.

7) Asking questions in the third person, an interviewer is likely to get a description of the personal experience of the respondent.

In addition to the questions asked by a sociologist in the focus group, the respondents can also put a number of questions. It is necessary to answer such remarks of the focus group participants to a moderator, given the comments below. Sometimes the questions are asked about who is funding the research. If the purpose of marketing or sociological research is to study the image of the company or firm, an attitude towards any object of social reality, in such a case it’s impractical to name a sponsor because it may affect the respondents' answers.

Determination of the place of study

The choice of venue of the focus group is an important factor in the study influencing group interaction, data collection and so on. The following requirements are usually put forward to a place of the focus group conducting: accessibility and ability to find it quickly; neutral conditions (no additional incentives in the room, such as paintings, posters, etc.); spatial arrangement of panelists (preferably around a table having a circular or oval shape). If the place is not suitable for the focus group conducting (strong external interferences, a noise), the focus group is better to postpone, because the data would be difficult to understand.

Field research. Data collecting is the second step in conducting a sociological survey. Given the methodological principles outlined in the first chapter, the focus groups held simultaneously with a primary analysis.

The role of moderator in the focus group

The role of the leading of the focus groups becomes very important during conducting the field research. A sociologist may be the leading, which organizing research and interpreting the results, as well as special guest host. Depending on the degree of formalization of the group, special knowledge and skills required from moderator. the following requirements nominated to the leading: high communication skills, an ability to listen without imposing his point of view to respondents, a sense of humor, knowledge of the psychology of a small group and an ability to manage it; an ability to be an emotional and entertaining conversationalist, to empathize with the statements of participants, to be self-critical, inquisitive, not tongue-tied and dynamic person. Special options are put forward according to the purpose of the study, for example, gender, age, nationality, race, socio-economic characteristics, special knowledge, and appearance.

The role of a leading in the focus groups in marketing and sociological studies is different. For example, in marketing research, he plays a decisive role, which is characterized by a high degree of his involvement, due to the nature of marketing research, where it is a product offered to a client by a marketing firm and moderator represents the entire research team in it. Weakly expressed role of a leading does not always reflect the client's expectations from a customer. At the same time, in the initial stage of development, a lot of attention in the study of the market was paid to the psychodynamics of the group with non-directive method of conducting.

6.3. Field research in focus group. Types of moderators and respondents. Analysis of data and presented results in focus group

Analysis of the focus group results is made by the following methods: content analysis, the method of analysis of context, discourse analysis, vertical and horizontal methods of data analysis. The results obtained compared with the results of similar studies and subjected to expert estimates.

In the course of analysis, decoding audio and video recordings and verbatim records is done, in which focus groups records are presented, nonverbal reactions of the group participants demonstrated, the results of observation of moderator and his assistants added. It’s also advisable to show in the report the causes and nature of the differences in opinions and assessments.

The method of focus group as a form of group interview allows revealing the interests, values, conscious and unconscious settings of various population groups. Results of the study allow us to determine the language, the basic concepts that work in discussing the problems of everyday life (for their further use in public debates, speeches). It also identifies information channels that are most popular and accessible to the voters, emotional reactions of people to various messages studied.

As already mentioned, the method of focus group is a type of qualitative analysis. Application of this method allows you to get information about the public mood and to understand the trends of forming this mood, as well as helping to test people's reactions to specific concepts, ideas, and information. However, this method may not accurately find a picture of public opinion due to a small number of study participants. For precise and large-scale studies, a large group of methods of quantitative analysis used, which involves the use of a large number of participants, which makes it possible to replicate statistical picture of the population.

Study using the method of focus group is a partially prepared talk on a given topic. The very discussion is recorded on audio or video tape, after that a material analysis made and writing a report on the research conducted. The use of the method of focus group is especially effective to identify the best image and the most appropriate forms of propaganda of a certain idea.

A research using the method of focus group includes a number of stages.

1. Determining the research objectives. We need to understand what kind of problem you need to explore and for what purpose, for what the research results will be used, it is necessary to determine the validity of the method of focus group to solve the problem. Next, you need to compare the amount of research tasks with the financial and methodological possibilities of the focus group research, formulate the problem and describe the information expected as a result of research, describe the studied social group and segments of the market under study, set the total number of groups and locations of the research.

Depending on the number of focus groups, their specificity determined. The number of focus groups in one research may range from 3 to 10. However, in practice, the study of 4-6 focus groups is most commonly used. It is important that each focus group should be as homogeneous as possible; its participants should be similar in their social positions and interests. Thus, you should take into account a lot of factors to determine the exact composition of the focus group.

2. Defining criteria for selecting participants. In accordance with the objectives and tasks of the study, the criteria for selection of participants determined, as well as the number of focus groups, discussion questions, a leading plan, preparation of materials for the participants. There are many criteria for selecting the study participants. Those include age, gender, socio-economic status, place of residence, level of education.

You can use specific target demographic groups. These include youth, women, workers and pensioners.

Typically, the focus group participants are grouped by a combination of different factors, while maintaining their homogeneity, which gives an opportunity to provide the conditions for debates and discussion of different points of view.

Conducting the focus group. Moderator and his assistants have to arrive 30 minutes before the beginning of the focus group to the room in which it will be held. They should check the readiness of the work equipment, availability of sufficient materials, chairs, etc.

The next stage – is the welcoming of the participants. The welcoming should take place not in a boardroom. Substantially, the welcoming ceremony plays a role of creating a sociable atmosphere. After filling out a short registration form, the participants are sent to the table with fruit or coffee. An involvement of people in a drunken state is unacceptable. This stage should last 5-12 minutes. If a participant was late for 15 minutes, you should not allow him to take part in the debates.

Opening stage begins from the moment when the participants went into a boardroom and took their seats. This phase includes the opening address of a moderator, duration of which is about 5-10 minutes. The opening address includes the following components: name of the moderator; name of the organization that conducts research. Further, the subject of discussion disclosed, a request voiced to the participants to give their names. The moderator says about his own role, encourages participants to be frank, polite, etc.

In part that is called "an ice-breaker", the moderator should ask a few easy questions that all the participants can answer. At this stage, you need to create an atmosphere of moderation of interest, transparency, disposition to the work. For example, if the topic of discussion – is the fame and image of a certain political party, you should ask: "Have you ever heard something about the political party of M?".

The main part of the discussion. It is conducted according to the plan of a leading, but compliance with the plan is not the goal and receiving information prescribed by it, even if it is not recorded in the list of questions. The moderator has two tasks in the main part of the discussion – the first one is to regulate the discussion, the second one – its focusing on the problem of research.

The main difference of a moderator from a leading of the meeting is that he has no right to interfere in the discussion by asking direct questions, expressing his own point of view, giving direct or indirect assessments of the positions of participants, and commenting their statements. The moderator encourages frank statement of thoughts, showing his interest in the points of view expressing by the participants, demonstrates a willingness to understand and accept different views and feelings. Talking about the role of moderator in the focus group, V.G. Korolko noted that "with the help of the technology of a focus group interview, an experienced coordinator (moderator) is organizing an exchange of views on the selected question or view and manages this process".

A high level of self-control required from the moderator in order to minimize his impact on the participants' opinions and to receive the most objective picture of their relationship to the subject of the discussion. At the same time, the behavior of moderator should be natural, relaxed, encouraging participants to sincerely express their point of view.

The moderator should encourage the participants to a constructive discussion, restrain too active participants and enhance passive ones. The moderator should apply the technique of probing, stimulating the respondents to explain or add to what was said by participants earlier. A sense of proportion and sensitivity to the group’s reactions for the specific actions is perhaps the most important quality of the moderator.

The final part of the focus group aims to release people in a good mood; generate a positive emotional attitude of them to the process of the focus group research.

At the end of the discussion (it is desirable to do it timely), the moderator should thank each member for their active participation in the discussion and express the hope that all they spent their time interesting and productively. The moderator then explains the participants where they should seek to obtain their remuneration or gifts.

6.4. Application area of focus group. Examples of conducting focus group. Analysis of advantages and disadvantages of focus group

Application area of the focus group:

- Obtaining information of a general nature in an unknown field;
- Definition, formulation of the problem;
- Clarification of opinions, attitudes, evaluations;
- The establishment of preferences;
- Formulation of a hypothesis for the further research;
- A preliminary analysis of the problem in order to reduce the number of possible options for its decision;
- Supplementation, or explanation of the results of quantitative research;
- Piloting of questionnaires, plans, programs, scripts, verbal forms;
- Discussion of "tough questions."

Example of conducting the focus group. For example, it is necessary to conduct a marketing research on some product using the method of focus groups. To do this, 6 focus-groups held, which have the specific characteristics.

Preparation of premises and equipment. Focus groups can be held in specially equipped for this purpose rooms (observers' room separated from the meeting room by means of a semitransparent mirror or has a monitor that allows you watching the discussion in the group), or in rooms temporary adapted for this. It is advisable to choose the rooms that are in a place of compact residence of the respondents, or in the city center, which are easily accessible by public transport.

The main room should be large enough that it could accommodate up to twelve participants, the moderator and his assistants, and the necessary equipment. The room must be well insulated from outside noises and deprived of things that can distract.

It is necessary to prepare audio and video recorders, TV or tape recorder in the case of an envisaged demonstration of videos and, if necessary, a visual handouts.

At the center of the room, a big table should stand or several tables pushed together. Participants sit in a circle, to see the face of each other and the face of the moderator. It is necessary to provide for the participants coffee, water and biscuits, as well as gifts or monetary compensation.

On the basis of the established selection criteria, a questionnaire is drawn. With its help, a selection of study participants is made. This questionnaire should exclude the participation of unwanted persons for this study. These include professional psychologists, sociologists, marketers, people familiar with the moderator, as well as those who have participated in the focus groups within the last year. The selection is made in places of residence of persons who meet the specified criteria. People are invited from the street. You can also use the method of "snowball" in which the participants in the research referred to the other participants with the necessary characteristics.

Development of a leading's plan. The leading's plan – is a succinct summary of questions of the leading of the focus group. The plan gives him an opportunity to conduct a conversation effectively covering all relevant issues, and ensure a comparison of results obtained from all groups. It's permissible that after the conversations with the first couple of groups, the leading's plan will be subject to changes or supplements. As a rule, 5-10 questions, identical for all the groups, to be submitted for the discussion.

Sometimes, there is a change of questions and an order of asking them. In any case, it is necessary to reach a compromise between the compatibility and comparability of the results between the groups and the improvement of the plan to optimize the progress of the conversation. The number of questions in the plan should actually exceed a predetermined number; it allows to moderator be more adequate to the discussion. A mandatory rule in conducting the focus group is that each of the participants could speak.

The advantages of the method:

- Synergies: the overall effect is greater than the sum of individual results.

- Bootstrapping ("snowball effect"): ideas, discoveries, comments are born during the discussion.

- Stimulation: even the most silent respondents become active participants.

- Ease: a free flowing discussion.

- Controllability: a customer can listen to or view the discussion.

- Velocity: rapidity of obtaining results.

- Safety: a statement is not likely to cause inconvenience or damage to a speaker.

The disadvantages:

- Gathering the group requires the creation of significant incentives for the participants.

- Selection of participants is not random one, and therefore cannot be applied on large population without any possible errors.

- High level of relative costs.

- Results depend on a moderator.

- The need, for a number of cases, when conducting the focus group, to divide the participants by gender, age, education level, etc.

- Compliance with the ban on the inclusion to the focus group of people who are familiar with the procedure of conducting the focus group, or who know each other and the moderator, or familiar with the subject of debate, or professionals in marketing activities.

Questions for discussion:

1. The objectives of applying the method of focus group.
2. Describe the history of development of the method of focus group.
3. Key concepts of the focus group.
4. What are the stages of conducting the focus group?
5. Advantages and disadvantages of the "focus group" techniques.
6. Give an example of modern use of the method of focus group.
7. Describe the types of moderators and respondents in the focus group.
8. Why the role of leading in the focus group is so important to get quality results?
9. Formulate goals and develop a plan for conducting the focus group to determine the consumers’ attitudes and preferences towards imported cars.
10. Make a list of questions for conducting the focus group and prepare a plan for a leading.

SUBJECT 7. ANALYTICAL SYSTEM IN MARKETING AND PRESENTATION OF RESULTS

7.1. Statistical procedures bank: its essence and purpose. The main methods of statistical procedures bank applied in analysis of information. Types of analysis in a statistical procedures bank.

7.2. Essence and purpose of applying bank of models. The main types of models. Classification of models. Concept of expert assessments. Types of expert assessments. Stages of expert assessments. Delphi Technique. An algorithm of Delphi Technique.

7.3. Extrapolation of trends. Types of extrapolation. Simple extrapolation. Extrapolation taking into account factors.

7.4. Prediction based on methods of mathematical statistics. Method of mathematical modeling.

7.5. Preparation of research report. Structure of concluding report. Design of report.

7.1. Statistical procedures bank: its essence and purpose. The main methods of statistical procedures bank applied in analysis of information. Types of analysis in a statistical procedures bank

The system of analysis of marketing information – is a set of improved methods of analysis of marketing data and marketing problems.

The structure of the system is shown in Figure 7.1.

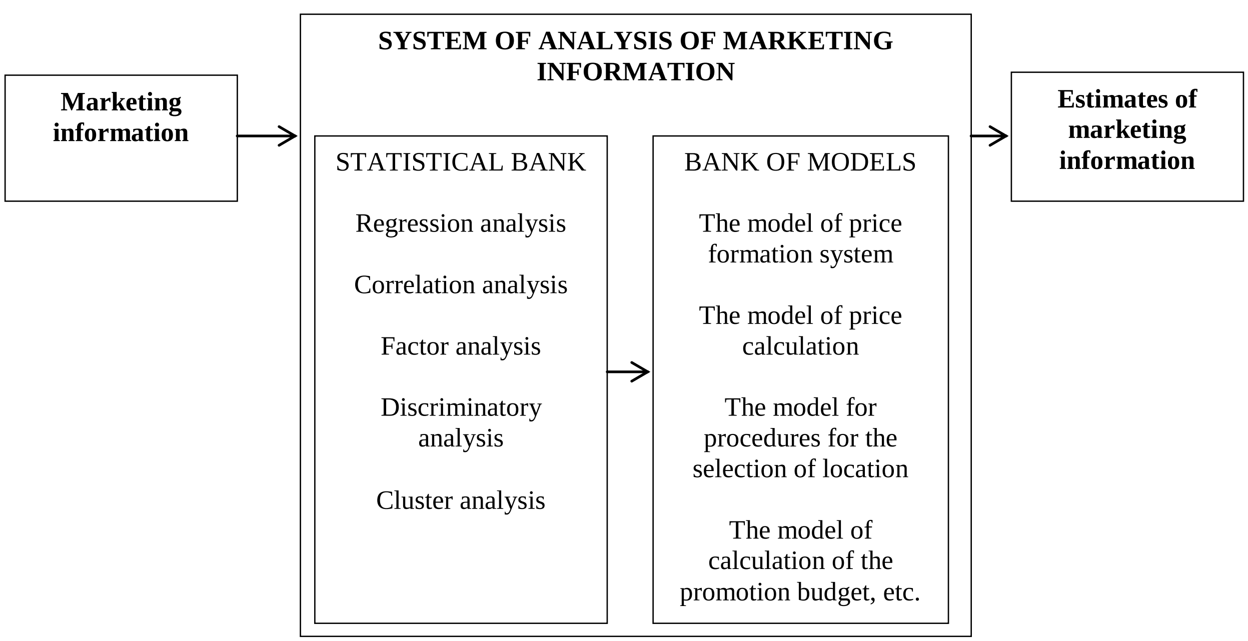

Figure 7.1. The structure of the system of analysis of marketing information

However, a number of firms considered this approach too technical and too academic one. The statistical bank and the bank of models are the basis of any system of analysis of marketing information.

The Statistical Bank – is a set of modern techniques of statistical information processing, allowing most complete opening of relationships within data collection and establishing the degree of their statistical reliability.

These techniques allow management to get answers to such questions like:

- What are the main variables that influence sales of a particular firm, and what is the significance of each of them?

- What will happen with the sales if the price of goods rise by 10%, while spending on advertising rise by 20%?

- What features are the most probable indicators that these consumers will buy branded goods of a particular firm, rather than competitors' products?

- What are the best variables to segment the market of a particular firm, and how much its segments exist?

Preliminary steps of the statistical analysis are presented in Figure 7.2; they include modification and selection of data in the database.

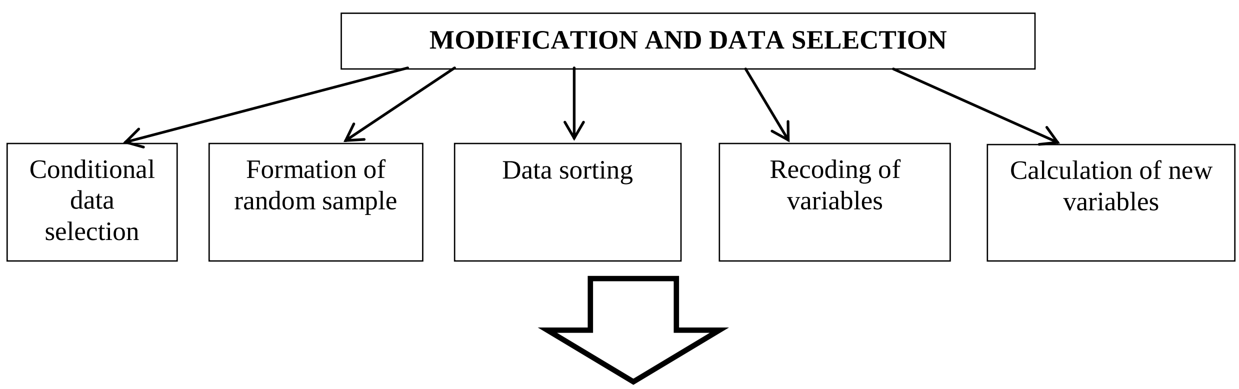

Fig. 7.2. Modification and selection of data

Conditional selection of the data. In data analysis, often a need arise to select only those respondents who meet certain requirements (for example, only women over 35 years with an income of over 3 thousand dollars per month).

Formation of random sample. The possibility of selection of respondents at random in the database is useful for reducing the size of the original sample, and to verify the correctness of some statistical procedures (eg., factor analysis). There are two options: indicating the proportion (in %), indicating the number of respondents.

Sorting data is held by one or more key fields of profiles.

Recoding of variables used for the transformation of values with creation or without the creation of new variables, it is also used for automated coding of text variables (to convert them into numerical form).

Calculation of new variables allows calculations using the formulas of any complexity.

The classification of the principal methods of statistical analysis is presented in Figure 7.3.

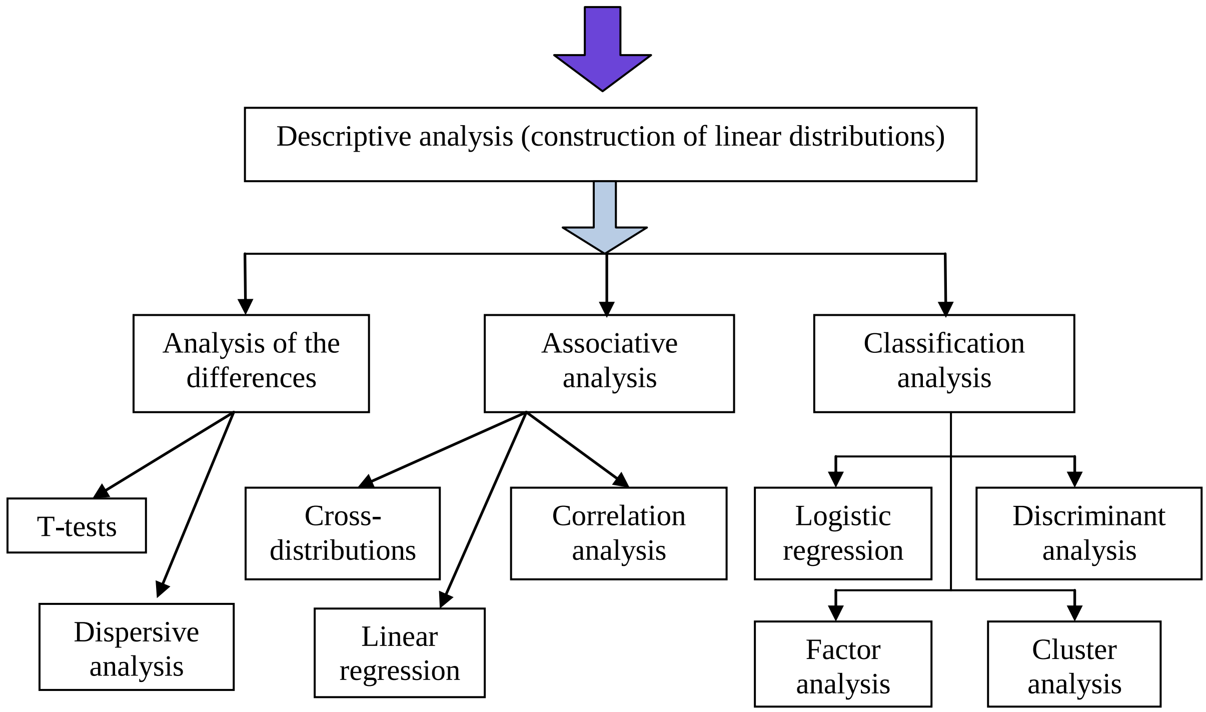

Fig. 7.3 Classification of the principal methods of statistical analysis in marketing research

7.2. Essence and purpose of applying bank of models. The main types of models. Classification of models. Concept of expert assessments. Types of expert assessments. Stages of expert assessments. Delphi Technique. An algorithm of Delphi Technique

The bank of models – is a set of mathematical models to facilitate the adoption by leaders the optimal marketing decisions on market activities.

In general interpretation, *a model* – is a specimen, an unreal analog, mapping of an object, process or phenomenon. During the simulation (model building), a real phenomenon inevitably simplified, schematized, and this scheme (layout of the phenomenon) is described by mathematical tools.

Each model consists of a set of interrelated variables representing a certain really existing system, a real-life process or result. It’s a difficult task to create absolutely accurate mathematical model of any activity of the company (marketing, communication, etc.) due to the large set of internal and external factors influencing the result from this activity. Simulation always involves simplification or taking into account the most significant factors.

The current economic system makes increasingly new and higher demands to management. Improving management techniques is of great importance for the growth of efficiency of the economy.

The use of mathematical methods and models in preparation of solutions is an important factor in increasing the level of management. However, the use of these methods for solving economic problems is often impossible due to their complexity and qualitative novelty. Therefore, the method of expert assessments has become more common.

The method of expert assessments – is collection of information, its analysis on the basis of logical and mathematical and statistical methods and techniques in order to obtain the necessary information for the preparation and selection of rational solutions.

This method is used when you need to choose a solution that cannot be determined on the basis of precise calculation. Such situations often arise in the development of modern problems of production management and, most importantly, in forecasting and long-term planning.

The method of expert assessments is used in:

a) socio-political forecasting;

b) scientific and technological forecasting;

c) planning of the national economy;

d) development of large-scale economic, political and social programs.

In modern society, quality of decisions is required from the control process. And this method ensures active and meaningful participation of experts in each stage of the decision-making that can improve the quality and efficiency of these decisions.

To obtain the final result (expert assessments), they use the methods of questionnaires and the methods of group assessment.

The advantages of these methods are:

1) ease of organization;

2) the use of statistical processing;

3) the ability to cover large groups.

The disadvantages are:

1) incomplete answers;

2) subjective factor of the respondents;

3) the possibility of incorrect understanding of the questions.

The peculiarity of the method of expert assessments is in scientific understanding of the organization of all stages of conducting an examination, as well as in the application of quantitative methods at the each stage.

Expert assessment – is an important tool in improving the quality of governance at all levels.

At the same time, this method cannot replace any administrative or planning decisions, and is only able to provide necessary information.

Group methods of forming examination, depending on the nature and the focus of a discussion, are divided into analytical and creative ones. The analytical methods focus primarily on studying the characteristics of the research object. The creative methods aim at the collective ideas generation or developing production solutions. Properly expert groups are classified:

- discussing groups (the main purpose of work is an analytical one)
- creative groups (the main purpose of work is a creative one).

Group methods of forming examination are very diverse, and we describe the main ones:

1. Nominal Group Technique. The method is a certain type of transition from an individual poll to a group poll. When implementation of this method, first, individual interview of one group of experts made, and then results of these interviews are discussed by other experts offline and independently of one another. The experts can express agreement or disagreement with the views earlier expressed, it is necessary to criticism or expression of solidarity was clearly reasoned.

2. Brainstorming. The method is a joint intramural discussion of a problem by a team of experts. The method is implemented in two stages. The first stage is called the "Conference of ideas", its duration is approximately 1-1.5 hours. During this phase, the experts put forward different ideas concerning the interpretation of an analyzed situation and forecasting the phenomenon development. The ideas are logged, but not discussed, not criticized. Wherein, these ideas may be very different, even "delusional". The following principle dominates: the more ideas, the better is. After the break, at the second phase, the ideas are discussed, evaluated and selected those that are recognized as the most faithful ones. The final verdict on the issue can be taken by explicit or implicit vote. The procedures for generation and discussion of ideas may be more of less formalized.

3. "635" Technique. The method is a sufficiently formalized variation of the brainstorming method. This method means next regulation of work of an expert team: a group includes 6 people, each of them in 5 minutes must propose three offers or express three hypotheses on some aspects of solved tasks or analyzed situation. The ideas of each expert are recorded into special forms that transmitted by range. After all aspects of the assigned tasks were reviewed and all experts received an opportunity to speak, the discussion takes place and the assessment of solutions and selection of the most right one.

4. Critical Attack ("Annihilating" Attack). The method also is a variation of the method of brainstorming, and the fundamental difference – is in a critical focus of the discussion. Implementation of the method includes several stages. In the first phase, each participant of an expert group offers his decision of assigned problem (his interpretation in analyzing situation) or his version of development of events (in forecasting). The solution must be offered with detailed argumentation. Hereinafter, each expert must familiarize with views of his colleagues and find and give reasons of maximally possible number of weaknesses in the offered solutions. In the next phase, all the experts come together and successively discuss all the solutions which were put forward. The challenge of each author – is to defend his option of solution, the problem of the opponents - "smash it to smithereens". Following the discussion, the experts choose the solution that caused least of all criticism and was the most reasonable one.

5. Expert Focusing. The method itself is one of the forms of a joint intramural discussion of a problem. Experts comprehensively view researched situation, "focus" on it. Summary purpose – is to reveal structure of the current problem; determine, as possible, all the factors determining this situation, establish relationship between them. The discussion has more business character than classical version of a brainstorming, so is passes without unnecessary "nonsense".

6. The Method of Commissions. The method also is in joint discussion of a problem. The main distinction from focusing – is a desire to find out what is the contradiction between various options of the offered solutions, to find maximal number of "consent points" and come to consensus.

7. The Method of Integration of Solutions. The method in its basis is similar to the Method of Commissions, however, is more formalized. The method is in developing joint solution of the problem on the basis of revealing strong sides of single solutions and their merging. The Method is implemented in several stages. In the first step, a challenge offered for experts, and they view and solve it independently from each other. Then the experts write their individual solutions, i.e. their interpretation of the analyzed situation or a forecast of development of events, into a form prepared beforehand. In the next step, the experts jointly discuss the task and all proposed solutions in order to reveal strong hands of each single solution, which are also fixed in the form. When representing individual solutions, variations are possible – either each decision is presented by an author and argued in detail, or anonymity of solutions complied to avoid pressure of the authorities. After all the solutions discussed and the strong hands of each of them identified, a synthesized decision generated by combining the advantages of individual decisions.

8. Business Game. The method can be implemented in different forms. The most common form – is modeling of analyzed processes and/or future development of the forecasted phenomena in different options, and review of received data. Development of procedures of conducting business game – enough complex challenge and a serious attention must be paid to it. The following elements of the game should be distinctly identified and formally described: the goals and tasks, the roles of participants, the storyline and regulations. The reflection – an analysis of the course of the game and its summarizing – is an important stage of any business game. In this case, the reflection is not only in analysis of the playing process, but also in the analysis of simulation of results of the phenomenon under study.

9. The Method of "Trial." The method is a form of business game. The discussion of an assigned task is implemented in a form of judicial process: “the process over the problem” simulated. “The lawyer”, "the public prosecutor ","the court", "the jury" and other participants of the process selected. Each of them defends his own point of view on analyzed or forecasted phenomenon, arguing his statements. The final verdict on the issue under study is determined in two stages: voting by "the jury" and specification of solutions by "the judges".

10. "The Council". The experts explore problem like doctor examines a patient: the "symptoms" of manifestation of the problem are defined, causes of the problem are revealed, an analysis is done, "a diagnosis" is placed and a forecast of development of the situation is given.

11. "A Collective Notepad". The method in its basis is similar to "An Individual Notepad", but, in this case, several experts receive notepads, and each of them knows that he is a party of an expert group. The version is possible when in early work all the experts come together and are told about the essence of an occurred problem and get a task formulated. Then every expert working with his notepad for a certain time (it is also possible that the different experts focus on different sides of problems). The second phase of the expertise implementation is in that the notepads collected, information systematized (by the research team or by a leader of the expert group), and then, the experts solve the problem during an intramural joint discussion of the systematized and collected material.

12. The Delphi Technique. *The Delphi Technique* is one of the methods of group expert assessment and does not require a joint work of group members. Moreover, the group members are not allowed to meet and exchange views on the solved problems, i.e. independence of opinions of the group members provided. The method provides implementation of analysis and choice of solutions through execution of next multistep cyclic procedure:

1. The group members provided information about a problem situation and asked to evaluate the possible solutions on set of indicators.
2. Each member of the group anonymously and independently provides the estimates and justification of options for solving, or offers his own versions.
3. All the estimates and opinions of the group members collected in the center and are summarized in a consolidated document.
4. Each team member receives a copy of the consolidated document. After hearing the views of other participants, he can change his opinion on possible solutions for addressing the problem.
5. Steps 3 and 4 to be repeated as many times as it is necessary to achieve an agreed solution.

The Delphi technique is the most effective when making decisions for complex, little-known, unique challenges, which are characterized by great uncertainty of the initial situation and require the involvement of specialists in different fields. It requires considerable time and efficient organization of the procedures for its implementation.

The Method of Scenarios, one of the forecasting techniques, enables us to determine the likely trends in the development of events and the consequences of decisions made to select the most suitable alternative for management. The method provides involving in the development of scenarios on the analyzed situation of various specialists, often with different views on the matter under consideration. It includes the tools and techniques for substantial and formalized description of the problem situation and the specific methods and algorithms for the construction and study of scenarios of its development with the extensive use of new information technologies.

Under the *scenario,* we mean hypothetical picture of consistent development of events in time and space, representing in the aggregate evolution of managed object in the context of the interest for a researcher. In the scenario, causal dependences explicitly fixed of the parameters that determine the possible dynamics of changes in the state of the object, acting factors and conditions in which these changes will occur. The scenario is a relative, conditional evaluation of possible development of the system, as it is always built within assumptions about future conditions of development, which are often fundamentally unpredictable.

The scenario method of decision-making provides multi-variance, i.e. the development of several alternatives for the possible evolution of the situation, consideration of which allows you to identify critical situations for decision-making, and to establish the possible impacts of the proposed options for solutions in order to compare them and select the most effective one.

There are varieties of practical implementation of the method of scenarios, differing in content and completeness of scenarios developed by individual specialists and the organization of procedures for their development.

Decision Tree Method is applicable both in the individual, and in the group decision-making. It is used to resolve complex problems characterized by high uncertainty and required precise sequence of solutions. Each solution can have several possible outcomes; and each outcome has its own probability of occurrence. Each subsequent set of possible solutions depends on the outcome of the previous decision. A decision tree is a schematic view of making successive decisions and consists of the branches – possible solutions and components – of the corresponding outcomes. For each outcome, the probability of its occurrence is calculated, and the amount of winnings (income) which can be obtained based on this probability. The costs associated with every decision to be written on an appropriate branch. These costs are subtracted from the expected income to determine the amount of net income. The calculations are based on data characterizing the problem situation (solving problem) and the conditions under which it arose.

The calculation is performed for each solution vector from the initial node of the decision-making to the final node of the corresponding outcome with the selection of branches that provide the maximum gain and return to the previous node of decision-making, this value of winning is assigned to that one. Alternative branches (with smaller winnings) are crossed.

After sequential calculating all the vectors of solutions, the optimum solution vector to be chosen that leads to maximum net gain, provided that the events will go as expected.

7.3. Extrapolation of trends. The types of extrapolation. Simple extrapolation. Extrapolation taking into account factors

Trend – is the main tendency in changes of the time series. The trends can be described by different equations – linear, logarithmic, degree equations and so on. The actual type of trend is determined based on the selection of its functional model through statistical methods or by smoothing the initial time series.

Trend in economy – is the direction of the predominant motion of indicators. It's usually regarded within the technical analysis, where they mean directivity of price trends or indexes value. Charles Dow noted that in an uptrend, the following peak in a chart should be higher than the previous ones; in a downtrend, the following declines in a chart should be lower than the previous ones. They distinguish uptrend (bullish), downward (bearish) and side trend (flat). They often draw a trend line on the chart that in an uptrend connects two or more price troughs (the line is below the chart, visually supporting and pushing it up); and in a downtrend, connects two or more price peaks (the line is above the chart, visually limiting it and pressing it down). The trend lines are the lines of support (for the uptrend) and resistance (for the downtrend).

Extrapolation of trends. Extrapolation of trends – is one of the most widely used techniques of forecasting. First, you need to identify the trend. It can be almost any phenomenon that can be expressed in quantitative terms with the visible structure of changes over time. Population and its placement on the territory, labor productivity are such phenomena. The trend refers us to the historical data, and extrapolation implies that these data are projected into the future.

To describe the phenomenon, you need historical quantitative data. In some cases, it is possible: for example, it is easy to find data on the number and structure of the population. Many phenomena have not such a description, some of them because of the novelty (e.g., television), and sometimes they cannot be expressed in quantitative terms (e.g., perceptions of an acceptable risk).

The emergence of previously unobserved factor is an additional problem: for example, a jump in the number of cases of thyroid cancer in Eastern Europe after the Chernobyl accident is due solely to the fact that no one paid much attention to this parameter heretofore and did not track it. Extrapolation can clearly specify the scale of the changes that will follow development of the trend over time. The sharp increase may eventually make a small phenomenon a significant one. Sometimes, trend extrapolation leads to results which are really impossible. This indicates the boundaries of using the technique. For example, if the growth in the number of workers employed in part-time working day outstrips the growth in the general population, it does not mean that, in the future, dogs, cats and robots will also become such workers. This means that the linear extrapolation has reached its limits. At the same time, these extrapolations often produce serious substantial errors.

The result of work of the D.R. Forrester Commission that gave rise to "the environmental movement" is a classic example of such a forecasting error. The Commission members extrapolated an equation and concluded on finite resources of the Earth, contamination of everything by everything, etc. At the same time, no one raised a question of the role of technological leaps and phase transitions in the development of human civilization.

There is another example: there are some authors who say that the Soviet Union has lost not 20 and 50 million people during the Second World War, and this is a figure of only dead people. Using standard statistical methods to determine the number of wounded, maimed or captured, we see that, the country had a negative number of the working population at the end of war. Something nearby minus forty million people.

Extrapolation of trends as a technique has a number of built-in problem: Quantitative data may be incorrect or wrongly selected. The results of extrapolation might be misinterpreted. The method's inability to assess the drivers of changes and the evolution of these drivers. Qualitative changes may have a major impact on the quantitative data. Qualitative changes might be not noticed. Assessments of limits of the extrapolation may be based on insufficient information. Delimitation of the extrapolation is fairly easy in the projections solving the problems of goods distribution, but it is quite difficult when assessing the social phenomena.

The usage of the extrapolation in analysis. The extrapolation – is a prediction of unknown values by extending the functions beyond the limits of the known values. Often, the predictive models are used to construct the prediction of response to arbitrary points, which have not been included in the set. Such projections are called extrapolation. It should be treated with great caution to forecasts obtained using predictive models for data lying at a considerable distance from the set. The predictions become unreliable in such areas. Methods for the extrapolation of trends are perhaps the most common and the most developed among the entire set of prediction methods. The use of extrapolation in forecasting is based on the assumption that the process under consideration in the changes of variable is a combination of two components – a regular and a random. It is believed that the regular component of $f(a, x)$ is a smooth function of the argument (in most cases – time), described by finite vector of parameter *a,* which retain their value in the period of the forecast anticipation. This component is also called a trend, a level, a determined basis of the process, a tendency. Under all of these terms, there is an intuitive idea of a certain, free of interference, nature of the analyzed process. It's intuitive because for the majority of economic, technical, natural processes, you cannot clearly separate the trend from the random component. It all depends on what is the purpose of this separation and the accuracy of implementing it. The random component *n(x)* is usually assumed to be uncorrelated random process with zero mathematical expectation. Its assessments are needed for further determination of the accuracy characteristics of the forecast. Extrapolation methods of forecasting make the main focus to select of the best, in some sense, describing of the trend, and to determine the predictive values by extrapolating it. The methods for extrapolation largely overlap with the predicting methods using regression models. Sometimes their differences are reduced only to the differences in terminology, symbols or writing formulas. Nevertheless, the predictive extrapolation itself has some specific features and techniques that allow classing it as a certain independent type of forecasting methods. The specific features of the predictive extrapolation can be called methods of pre-processing of numerical series with the aim of converting it to a form suitable for the prediction; and analysis of the logic and physics of the forecasted process, which has a significant impact both on the choice of type of the extrapolating function, and on the delimitation of limits of changing its parameters.

Typically, trend extrapolation techniques applied in the short (less than one year) predicting, when the number of changes in the environment is minimal. The forecast is created individually for each particular object and sequentially for each subsequent point in time. If the forecast is made for a commodity (product/service), the demand analysis and the analysis of sales of this product are among the tasks of forecasting based on extrapolating of trends. Prediction results are used in all areas of corporate planning, including overall strategic planning, financial planning, production planning and inventory management, marketing planning and the management of trade flows and trading operations.

The moving average method and the method of exponential smoothing are the most common methods of trends extrapolating.

The moving average method. The method is based on a simple assumption that an indicator next in time is equal in its magnitude to an average indicator, calculated over the past three months.

For example, if sales in March are 270 units, in April – 260 units, in May – 290 units, the sales forecast is:

The Moving Average (MA) = (270 + 260 + 290)/3 = 273 (the average for June).

If the real sales in June are 280 units, the sales forecast for July will be:

(260 + 290 + 280)/3 = 277 (the average for July), etc.

The method of exponential smoothing. The method of exponential smoothing is a forecast of indicator for the coming period as the sum of the actual figure for the given period, and the forecast for the given period, measured by using the special factors.

Imagine that we make a forecast of sales for the next month. Then:

$F_t +1 = aX_t + (l\text{-}a)\ F_t$,

where F_t+l - Forecast of sales for the month t+1;

X_t - Sales in the month of t (actual figures);

F_t - Forecast sales for the month of t;

a - a special coefficient that is determined statistically.

Consider sales forecasting using the method of exponential smoothing on a specific example (Table 7.1.). Suppose that a = 0.3.

Table 7.1

Data to illustrate the method of Exponential Smoothing

Month	Actual Sales	Sales Forecast
January	50	65
February	68	61
March	47	63
April	39	56
May	55	46
June	64	51
July	70	57
August	75	62
September	80	67
October	72	69
November	67	68
December	75	80
January	58	66
February	62	65

Then, using the formula of exponential smoothing, you can fill the column "Sales Forecast" in Table 7.1, with the proviso that the actual sales data are known.

Thus, if sales in January amounted to 50 units, and the forecast for January was equal to 65 units, the forecast for February = 0.3 *x*, sales in January 0.7 *x*, the forecast for January = 0,3x50 + 0,7x0,65 = 61.

The data obtained can be reflected on the graph (Fig. 7.4).

As can be seen from the graph, the curve of forecasts is a smoothed trend in comparison with the curve of actual sales.

In forecasting, the techniques of extrapolation of trends are complemented **by methods of trends correlation,** within which the relationship between various trends examined in order to establish their mutual influence and, therefore, improve the quality of the forecasts.

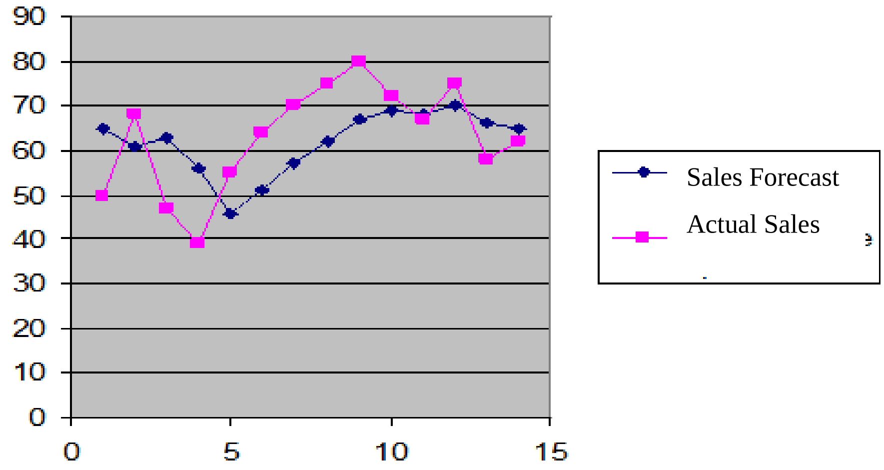

Figure 7.4. The graphic interpretation of the method of exponential smoothing

Correlation analysis may examine the relationship between the two indicators (pair correlation), or between many indicators (multiple correlations).

The planners Higgins and Finn conducted a survey on the use of methods of forecasting in British firms. The survey results are shown in Table. 7.2.

As can be seen from the table, even in a developed market economy, most companies prefer relatively simple and traditional methods of forecasting – subjective assessments and extrapolation of trends.

Table 7.2

The use of forecasting methods in British firms

Forecasting methods	The percentage of companies using the method	Percentage of companies that rely solely on the method
Subjective assessment	73	14
Statistical extrapolations	76	16
Operations research or economic models	44	7
Technological foresight	29	6

These methods are useful for two reasons:

- They do not require significant costs and attracting expensive specialists from impaired firms or firms just getting on their feet;

- Due to the high uncertainty of the external environment, most companies focus more on short-term goals. And extrapolation methods are the most effective just in a short-term planning.

7.4. Prediction based on methods of mathematical statistics. Method of mathematical modeling

The prediction can be performed in one time series using the method of extrapolation. Extrapolation of the time series – is the spread of trends established in the past, for the future.

Mathematical methods of extrapolation are reduced to determining which values one or another variable y = x(t) would take, if you know some of its values in the past times.

In some cases, only the last few points of the time series used. If there are two such points – the extrapolation is to carry out a direct line through *hi,* and is called linear.

In many cases, it is necessary to align the time series before the extrapolation in order to eliminate deviations uncharacteristic for them. The method of least squares, moving averages; polynomial smoothing, and others are among the most common methods of solving this problem.

The extrapolation models are successfully used within a medium-term planning horizon, but do not provide a reliable data for a longer term.

Statistical evaluation of the predictions can be made on the following parameters. The Mean Absolute Percentage Error (MAPE) – is an average of the absolute values of prediction errors expressed as a percentage of actual values of an indicator.

Index of MAPE usually used when comparing the accuracy of forecasts of dissimilar objects of prediction, as the figure indicates the relative accuracy of the forecast. Typical values of MAPE are shown in Table 7.3.

Table 7.3

Interpretation of the typical values of MAPE

MARE, %	Interpretation
<10	High accuracy
10-20	Good accuracy
20-50	Satisfactory accuracy
> 50	Poor accuracy

The average percentage error (MPE) and the mean error (ME) – are the indicators of promiscuity of the forecast. Provided that the loss in forecasting related to overstatement of actual future values balanced with understatement, an ideal forecast should be unbiased and the both indexes should tend to zero.

They also use multivariate models for the prediction obtained through correlation and regression analysis. To do this, the projections of indicators accomplished that are included in the regression equation using simple functions, and the resulting predicted values are substituted into the regression equation.

The multivariate models can be static and dynamic. The static models are used for analysis and valuation, and the dynamic ones – for predicting. The multivariate models are dynamic if they take into account:

a) the general patterns of variations of the function in the studied range;

b) the patterns of change over time of the indicators' impact;

c) the delay of the parameters' impact on the function.

7.5. Preparation of research report. Structure of concluding report. Design of report

The structure of a concluding report must comply with specific requirements of a customer. If there are no requirements, we can recommend making a final report divided into three parts: introductory, basic and final ones.

Analysis of data begins with transfer of "raw" data into meaningful information, and includes entering them into a computer, checking for errors, coding, and the representation in a matrix form (tabulation). Usually, the original encoded data are represented as a matrix which columns contain the answers to various questions in the questionnaire, and its rows – respondents or studied situations. This is called the initial data conversion.

Further, a statistical analysis is carried out, i.e., averages, frequencies, correlation and regression relations determined, and a trend analysis is carried out.

There are five main types of statistical analysis used in marketing research: a descriptive analysis, a conclusion analysis, analysis of the differences, analysis of relationships and a predictive analysis. Sometimes these types of analysis used separately, sometimes – together.

The descriptive analysis is based on the use of two groups of statistical measures. The first one – includes measures of "a central tendency" or measures that describe a typical respondent or a typical response (average, mode, median). The second one – includes measures of variation, or measures describing the degree of similarity or dissimilarity of the respondents or responses to the "typical" respondents, or responses (a frequency distribution, a range of variation and an average quadratic deviation).

There are also other descriptive measures, such as measures of asymmetry (as far the resulted distribution curves differ from normal distribution curves). However, they are not used as frequently as the above ones, and are not of particular interest for a customer.

The analysis, which is based on the use of statistical procedures (e.g., hypothesis testing) in order to generalize the obtained results to the whole population, called concluding analysis. The conclusion is a kind of logical analysis aimed at obtaining general conclusions about the entire aggregate based on observations of a small group of units of this aggregate.

Conclusions are based on analysis of a small number of facts. For example, if two of your friends who have the same brand of car, complaining about its quality, you can draw a conclusion about the low quality of the car as a whole.

Statistical conclusion is based on a statistical analysis of the results of sampling surveys and aims at evaluating the parameters of a set as a whole. In this case, the results of sample surveys are only the starting point for obtaining the general conclusions.

For example, a carmaker conducted two independent studies to determine customers' satisfaction with its cars. The first sample included 100 consumers who have purchased this model in the past six months. The second sample included 1,000 consumers. During the telephone interviews, respondents answered the question; "Are you satisfied or dissatisfied with the car model that you have purchased?" The first survey revealed 30% of dissatisfied, the second – 35%.

Since there are sampling errors both in the first and in the second cases, we can draw the following conclusion. For the first case: about 30% of the respondents expressed their dissatisfaction with the purchased car model. For the second case: about 35% of the respondents expressed their dissatisfaction with the purchased car model. What general conclusion can be drawn in this case? How to get rid of the term "about"? To do this, we introduce an error indicator: $30\% \pm x\%$ and $35\% \pm y\%$ and compare x and y. Using the logic analysis, we can conclude that a large sample contains a smaller error and that the more correct conclusions about the opinion of the entire set of users can be made on its base. It is evident that the sample size is the decisive factor for obtaining correct conclusions. This indicator is present in all the formulas that determine the content of the various methods of the statistical conclusion.

Analysis of the differences is used to compare the results of research of two groups (two market segments) to determine the extent of real differences in their behavior, in response to the same advertisement etc. Checking essentiality of the differences is in comparing the responses to the same question received from two or more independent groups of respondents. In addition, in some cases, it is of interest to compare the responses to two or more independent questions for the same sample.

An example of the first case can serve a study of the issue: what prefer to drink in the morning inhabitants of a given region – coffee or tea? Initially, 100 respondents were questioned on the basis of formation of a random sample, 60% of whom prefer coffee; a year later, the study was repeated, and only 40% of the 300 people surveyed declared in favor of coffee. How can we compare the results of these two studies? Direct arithmetic comparing 40 and 60% cannot be done due to different sample errors. Although in the case of large differences in the numbers of, e.g., 20 and 80%, it's easier to conclude that the changes occurred in favor of coffee.

However, if there is confidence that this big difference is primarily caused by the fact that a very small sample was used in the first case, such a conclusion may be a questionable. Thus, two critical factors must be taken into account during such a comparison: the degree of essentiality of difference between the values of the parameters for the two samples, and the mean square errors of the two samples determined by their volume.

Analysis of relations aimed at identifying the systematic relations (their direction and strength) of the variables. For example, the definition, how the increase in advertising costs affect the increase in sales. Very often, a marketer is looking for answers for the questions like: "Whether will increase the rate of market share with the increase in number of dealers?", "Is there a connection between the amount sales volume and the advertising?" Such relations not always have a cause and effect nature and may have only a statistical nature. In the questions raised, we can definitely talk about the influence of one factor on the other. However, the degree of influence of the studied factors may be different; most likely, some other factors may also have an impact.

The predictive analysis is used to predict future events, for example, by analyzing time series. The marketer knows well the importance of good packaging of goods in sale. The results of marketing research also are the products, and therefore, they should be well "packed".

First of all, the structure of the final report must comply with the specific requirements of a customer. If there are no such requirements, we can recommend the preparation of a final report divided into three parts: an introductory, a basic and a final ones.

The introductory part includes an initial list, a title page, a contract for conducting a research, a memorandum, a table of contents, a list of illustrations and an annotation.

The main purpose of the memorandum is to orient a reader to the problem studied and to create a positive image of the report. The memorandum has its personal and slightly informal style. In it, a nature of the research and the research performers briefly referred, results of the study commented, and the proposals are made on further researches. The volume of the memorandum – is one page.

The annotation focused primarily on managers who are not interested in the detailed results of the study. Sometimes it is called "Generals Report". In addition, the annotation should be set up the reader on perception of the main contents of the report. It should characterize: a subject of the research, the range of issues addressed, the research methodology, key findings and recommendations. The volume of the annotation – is no more than one page.

The main part of the report consists of an introduction, description of the research methodology, the discussion of the results, detection of the limitations, as well as of conclusions and recommendations.

The introduction orients the reader to become acquainted with the results of the report. It contains a common goal of the report and a purpose of the study, the relevance of its conducting.

In the methodological section, the following items described with the necessary degree of detail: who or what was is an object of the research, and the methods used.

Additional information is placed into an application. The links to authors and the sources of the methods used are given.

The reader should understand how the data was collected and processed, and why the chosen method was used instead of the other methods. The section that sets out the results obtained is a main section of the report. It is recommended to build it around the content of the objectives of the study. Often, the logic of this section is determined by the structure of a questionnaire, as it sets out the questions in a certain logical sequence.

As the problems that arose during the research should not be masked, the final report usually includes the section "Limitations of the Research". This section defines the degree of influence of constraints (lack of time, lack of money and technical resources, lack of qualified personnel, etc.) on the results. For example, these restrictions could have an impact on the formation of the sample only for a limited number of regions. Therefore, the results obtained should be spread to the whole country with great caution or even should not be spread.

The conclusions and recommendations can be summarized in a single or in separate sections.

The conclusions are based on the results of the research conducted. The recommendations represent suggestions as to what action should be taken based on the conclusions set out. Implementation of the recommendations may involve the use of knowledge that is beyond the scope of the results obtained.

In the final part, applications set out that contain extra information necessary for deeper understanding of the results obtained.

In addition to writing the report, the researchers often also make a verbal presentation for clients on the research methods and the results obtained. In this case, it is possible to answer arisen questions and discuss the results obtained.

Questions for discussion:

1. Describe the structure of the system of analysis of marketing information.
2. What are the nature and the purpose of using bank of models?
3. The method of expert assessments is...
4. Stages of conducting expert assessments.
5. Group methods of forming examination and their characteristics.
6. Delphi technique and its features.
7. The trends and methods of their extrapolation.
8. Forecasting through using the methods of mathematical statistics.
9. Modeling in marketing research.
10. Preparation of report on the research conducted.

SUBJECT 8. MARKET SITUATION ANALYSIS

8.1. Subject and object of researching commodity markets. Model of studying commodity markets: defining a problem, classification of problems, the main requirements for conducting research, and results of research.

8.2. Goals of studying market situation. Levels of researching market situation, types of information, a forecast of market's indices, analysis of trends development. Research results (sections of market situation review).

8.3. Market capacity: levels, and factors of forming. Data systematization, processing and analysing.

8.4. Market development model. Formulas of market capacity. Different methods of calculation of market potential and capacity.

8.5. The study of company's share in the market. The ways of defining of company's share in the market. A risk assessment of company's functioning in the market.

8.1. Subject and object of researching commodity markets. Model of studying commodity markets: defining a problem, classification of problems, the main requirements for conducting research, and results of research

Market researches serve as informational basis of achieving such goals as the realization of a specified volume of sales, the creation of new goods and introduction them into the market, the increase of a market share. These goals' setting assumes that the market of a particularly commodity is involved. Thereby, while revealing a content of a market research, first of all it is necessary to pay attention to the market commodity structure. It is necessary to determine *what* and *how* must be researched and *what tasks* must be resolved in the process of the research.

The "market" itself, in this case, is used with the definition - "commodity". The *commodity market* is a scope of realization of particular goods (services) or a group of goods, connected to each other by some specific features of production or consuming nature. For instance, the market of musical instruments and the market of accordions, the market of clothes and the market of sun-suit.

The basis of such a classification is the tangible physical form of goods. An extent of consuming benefits' aggregation depends on the goals of research. The following levels of detailing could be specified:

a) a general group level: foods; alcohol and tobacco goods; non-foods; durable articles; services;

b) a group level - according to the groups of goods (services): electronics; clothes; furniture etc.;

c) a type level - according to the types of goods in each group: TV sets; radio receivers; men's overcoat; sun-suits etc.

There is a variety of different features of commodity markets' classification. An application of these or those features depends on researching goals. It is worth to single out only the most important ones, which are of paramount importance for the needs of practical research of the market.

One of the important features of commodity markets is the *territorial coverage*. The market analysis, in each particular research, should be conducted within the framework of an internal (aggregate) market, an external (global) market, a regional one (a particular territorial subdivision). Researching of aggregate internal and external markets, as a rule, has a strategic nature and should be conducted over the enlarged commodity groups. While researching a regional commodity market (an economic region, a republic, a city etc.), together with regional particularities, it is necessary to take into account the condition of an aggregate market.

Commodity markets could vary by the *nature of the final use of goods*: markets of consumer goods (CG); markets of producer goods. The specific character of researching markets of CG is connected with the fact that these goods are intended for a great number of individual consumers; the great attention in such researches should be paid to the study of tastes, wishes, behaviours of consumers. The prominent feature of producer goods is its close connection with a production process. The particular attention in such market's researches should be paid to the study of interrelations of potential purchasers and producers of goods.

Classification of a market could be also conducted according to the *possibility of goods to satisfy demands of consumers of particular groups*: the market of men's, women's clothes, the market of goods for amateur photographers, tourists, hunters etc. The particularity of such commodity markets' research is taking into account interrelations of various forms and measures for the satisfaction of a particular need.

Various types of commodity markets could be singled out according to the *terms of goods' usage*: durable goods, middle-term goods, short-term goods (disposable). The peculiarity of such a specification of goods is of particular importance for the process of products' realization, that is why, while researching these markets, the particular attention should be paid to the study of the most effective methods of particular goods' distribution.

Market researches is needed, if a manufacturer of goods wants to clarify concerning the markets, in which he could realize his products, and factors, influencing upon these markets. In other words, manufacturers and, first of all, marketing departments of many enterprises are concerned in the market outlet for products.

In connection with the fact, that market conjuncture studying is connected with a current state of the market, researching program must be focused, first of all, on a justification of commercial decisions, adopted at the level of an enterprise, when, basically, researching of the conjuncture of particular commodity markets is conducted. However, at the same time, a condition of macroeconomic and industrial provisions should be taken into account.

The main aim of studying a commodity market conjuncture is to find, to what extent the activity of an industry and a trade influences onto the market state, onto its development in the nearest feature, and what measures should be taken to satisfy the demand of citizens in goods better, to use existing production opportunities of a manufacturing enterprise more rationally. Results of studying market conjuncture are intended for making prompt decisions on the management of manufacturing and sales of goods.

Comprehensive approach to the study of market conjuncture involves: the use of different, mutually complementary sources of information; the combination of retrospective analysis and forecast of indices, characterising the market conjuncture; the application of a combination of different methods of analysis and forecasting.

Data acquisition is the most important stage of market conjuncture studying. The sole source of information concerning a market conjuncture, which could contain the whole data on processes under studying, does not exist. While researching, various type of information, received from different sources, should be used. The following types of information are distinguished: general, commercial, special.

General information includes data, characterising the market situation in the whole, as part of the development of an industry or a particular production. The resources of its acquisition are data of governmental and industrial statistics, official forms of accounting and reporting.

Commercial information is data, derived from business documentation of an enterprise, on the issues of manufacturing products, and received from partners as a part of information exchange. Those include: requests and orders of trade companies; materials of the offices, studying the market of enterprises, companies and trade establishments (materials on flow of goods in wholesale and retail companies, conjuncture reviews, offers on the current alteration of a stock etc.).

Special information represents data, received as a result of special events on market studying (interviews for public, buyers, specialists of trade and industry, experts; exhibitions & sales, conjuncture conferences), and also materials of science & research companies.

Special information is of extrinsic value, as it contains data, which could not be obtained in another way. That is why, while studying the market conjuncture, the particular attention should be paid to an acquisition of extensive special information.

To provide an observance over a trade market or over a sale market of an enterprise (a unity) own sources of information could be created in the form of: shops - strong points (basic); a network of trade agents; specialized customer panels.

Chain stores – strong points should be created by an enterprise to conduct an observance over public demand development in a sale area (the direct marketing). This chain should be formed from among manufacturer's outlet stores, performing a sale of these goods in a sale area and which has agreed on a contractual basis to observe the development of demand.

A network of trade agents should be organised by the market research department of an enterprise to perform an observation over the development of wholesale purchasers' demand and evolving conjuncture in the market of appropriate goods. As trade agents, it is worthwhile to choose wholesale companies and trade enterprises.

A customer panel shall be arranged by the market research department of an enterprise, as a selectable aggregate of customers (families), subject to repeatable researches. Panel researches allow determining the trends in a change of consumption and customer assessments, in the result of comparing interviews' gains. The panel should be formed in accordance with rules, providing appropriateness of its members as for a range of key features (for instance, a place of living, a sex, an age, alevel of personal incomes).

A study of commodity market conjuncture should be based upon indices' analysis, characterising a production and a supply of goods of this group, a volume and a structure of retails, stocks in enterprise's warehouses, in wholesale and retail business. That is why the main purpose of informational provision of market conjuncture studies is to create a system of indices, allowing to obtain quantitative and qualitative specifications of the main patterns and particularities of the development of demand and commodity supply, to reveal factors of market conjuncture forming.

Such indices include:

– a production of a variety of goods;
– a renewal of a commercial range of goods;
– a provision with materials, raw materials, production capacities;
– stocks of a variety of goods (including at enterprises, in trade companies);
– a rejection of goods and reclamation (a list of goods of limited and excess demand);
– a sale of a variety of goods (including wholesale, retail, direct);
– a change of the market share, occupying by an enterprise;
– a change of the market share, occupying by competitors;
– an execution of requests for goods' delivery;
– a \change in a customer demand;
– an amount of an unsatisfied demand in the extended variety of goods;
– price fluctuations;
– a sale of goods at reduced prices (including an allowance, an end-of-season sale etc.).

The market research department of an enterprise should analyse data on production fluctuations of goods versus requests and orders of wholesale purchasers, analyse information on a turnover of goods in a retail trade network. An analysis of such data allows making quite reliable conclusions concerning the trends of demand developing for goods under researching. While comparing fluctuations of returns, sales and stocks over separate positions of a variety of goods concerned and a share of each of those in a return, a sale and in stocks, there could be determined, firstly, shifts in a demand micro-structure, secondly, a level of corresponding of goods' variety to the market demands.

While studying commodity market conjuncture, the task should be set not only to determine the market state as for this or that moment, but also to forecast a probable nature of further development for at least one-two quarters, yet not more than for one year and a half. The results of an analysis of market conjuncture's predictable indices, together with accounting and planning data, allow to develop measures beforehand, aiming to facilitate positive processes, to eliminate existing and to prevent possible disproportions.

8.2. Goals of studying market situation. Levels of researching market situation, Types of information, a forecast of market's indices, analysis of trends development. Research results (sections of market situation review)

A market situation is an aggregate of features and indices, which characterise a current economic situation.

The study of the market situation involves an analysis of situation in the market and forecasting. The final result of such a research is to acquire answers upon the following questions: in what moment and by what prices it is worth to sell or buy the product.

To study a market situation and to prepare forecasts of its development, it is necessary, first of all, to clarify, in what stage of its cycle the national economy is. Then, the complex specification of economy for a previous year should be given, all the factors, impacting a market conjuncture should be found out and analysed, and the reasonable conjuncture forecast should be performed.

Strategic and operative goals of a conjuncture analysis are singled out in market forecasting.

Strategic goals of the market situation analysis need to find out and design patterns of a market mechanism. It allows to forecast a market development and to justify an application of economic mechanisms of control.

Operative goals of a conjuncture analysis of a current situation are aimed to satisfy needs of marketing and management.

To realize strategic and operative goals, the mains tasks of the market situation analysis are:

1) assessment of the market condition;
2) specifications of an extent (capacity) of the market;
3) assessment and an analysis of the main proportion (shares) of the market;
4) analysis and forecast of the market development trends;
5) analysis of seasonal and cyclic nature of the market development;
6) assessment of regional particularities and differences;
7) analysis of business activity;

8) assessment of commercial (market) risk;

9) specifications of the level of market monopolization and competitiveness intensity.

Resolving of these tasks of the conjuncture analysis of a market is difficult and needs serious researches, the performance of which needs to use systematic and comprehensive approaches.

The systematic approach to a conjuncture research implies a multilevel (hierarchic)description of an object. As a rule, an object research should be performed not less than at three level:

– the first level implies research of an object (a national market) in the whole, as well as general features, characterising it;

– the second level implies research of an object structure (research of separate goods in the market) and features, characterising it, as well as systems of connections between the separate elements of an object;

– the third level of a conjuncture research implies the description of separate elements in the commodity market.

The comprehensive approach to a conjuncture research implies a consideration of a research object on the basis of comprehensive analysis of an interaction between factors of internal and external environment. Thus, in researching a commodity market conjuncture, it means that an object must be studied in the interaction with a general economic conjuncture, with a conjuncture of consuming fields, as well as with a conjuncture of adjacent and supplementary fields.

The research of economic conjuncture is not only the clarification of its current condition, but also the forecast of directions and trends of a market development. It is necessary for a company to develop solutions in the field of goods and services' sales, as well as to plan scientific & research and production activities.

Studying a market conjuncture implies:

– an analysis of prising and sales;

– a determination of marketing potential and a market share;

– a development of short-term and long-term forecasts.

Conjuncture researching is purposeful collecting and processing of information on the commodity market condition, analysing of its functioning features, forecasting the main parameters and trends of the market development, in order to make effective marketing decision. This researching is the basis for effective management decision-making concerning any type of economic activity of a company. Particular goals and tasks in the area of manufacturing and realizing products in internal or external markets, must dictate a direction, an extent and a depth of conjuncture researches that should be conducted.

The goal of a conjuncture research could be: a determination of the market capacity, fluctuations of price-level for goods, a volume of goods' sales, an export or an import etc.

The objects of a conjuncture research are:

• general economic conjuncture. Researching this conjuncture implies a detailed consideration of macroeconomic processes and trends, taking place in the national economy of a given state or the global economy in whole;

• commodity market conjuncture. This researching includes an analysis and a forecast of the market conditions for particular goods and implies studying fields of producing and consuming of considered products, its interrelations, as well as the infrastructure of supplying of a market under the study.

An analysis of the general economic conjuncture or the conjuncture of a particular commodity market, depending on goals of the research, could be performed in two ways:

• if there is a task to clarify trends of market conjuncture's development for any period, then the analysis should be performed via studying its fluctuations during this period;

• if there is a task to determine a market conjuncture as for a particular date, then the analysis should be performed taking into account a stage of the economic cycle at that time.

The peculiarity of conjuncture researching of a market is that a researcher always deals only with particular indices (digits), characterising the condition of a research object. An analysis of these data must show the answers for the questions arisen. Therefore, before proceeding to the process of researching, it is worth making a list of issues and indices, necessary for the right assessment of an object.

Methodology of market situation analysis and forecast

The arrangement of a work on studying economic and trade conjuncture and, in particular, conducting an analysis and a conjuncture forecast, consists of the consecutive stages:

1. determining an object for researching;
2. accumulating source data and other materials;
3. performing a conjuncture analysis;
4. designing a forecast of conjuncture development.

Arrangement and methodology principles are similar in studying general economic and commodity conjuncture.

1. Determining an object for researching. The task of a researcher is to determine the field of a conjuncture analysis: the general economic conjuncture of the economy as a whole; the general economic conjuncture of a group of states or a given state; the conjuncture of a given field of industry or a commodity market on a global scale or across a group of states or across a given state, the conjuncture of global market etc.

2. Accumulating source data and other materials. Before starting to accumulate materials and to collect indices of a conjuncture development for its analysis and forecast, it is necessary to define the following initial positions.

If the general economic conjuncture of a *given state* is involved, then a researcher must possess information on the structure of state's economy, the conjuncture of which is going to be studied, in order to determine a range of conjuncture indices. For this purpose, it is necessary to know nature and features of that state's economy, its most field of industry of the utmost importance. It is necessary to determine a period (a month, a quarter, a year), which would be subject to analysing and forecasting in conjuncture researching. It is particularly important in the accumulation of materials, in order to determine not only a range of indices, but also for the refinement of data on each of indices.

At the stage of source data accumulating, the following operation should be performed:

- determining a range of the main indices of a conjuncture;
- finding out and selecting sources of conjuncture indices;
- accumulating data on a conjuncture as for main indices.

3. Performing a conjuncture analysis. After having finished a work on accumulating materials concerning the condition in economy of a given state, it is possible to start analysing a conjuncture. A conjuncture analysis should be performed not on the basis of randomly chosen facts, confirming this or that viewpoint, but on the basis of the facts, which reflect all the aggregate of contradictory trends, processes and phenomena.

The process of a conjuncture analysis consists of the following stages. It is started from facts' classification and indices of conjuncture's condition. It is necessary to build up time series, for each of the facts, statistic indices and assessments of a conjuncture. Each of the indices must have time series, reflecting an action of the appropriate conjuncture-creating factor in the past, present and future (available assessments and forecasts).

The next stage of an analysis of conjuncture development is determining force and direction of an action of the appropriate conjuncture-creating factors. The analysis should be conducted in the historical aspect, using time series.

The final stage of the analysis is integration, unification and a consideration in the whole aggregate and mutual connection of all the important conjuncture-creating factors, as the comprehensive whole. The result of a conjuncture analysis provides specific places and roles of each of the main factors in conjuncture forming during the analysed period.

4. Designing a forecast of conjuncture development. It is the most difficult and important stage of the work. The conjuncture development forecast is the main goal and the final result of a conjuncture analysis performed. The forecast is the basis for trade policy forming.

The quality of a conjuncture development forecast, its accuracy and reliability depend on the correctness of revealing factors of the utmost importance for conjuncture forming.

The historical principle usage in the process of forecasting does not mean an application of extrapolation method. A conjuncture could never be duplicated. New phenomena, factors and trends, a change in force and direction of an action of the main conjuncture-creating factors always bring a specific in the development of a conjuncture.

8.3. Market capacity: levels, and factors of forming. Data systematization, processing and analysing

The main task of a market research is the determination of its capacity.

The market capacity is the existing or potentially possible volume of goods' sales during a specified period.

As the **commodity market capacity**, it is meant the possible volume of goods' sales (particular products of an enterprise) with a given level and correlation of different prices. A market capacity features with population demands and the volume of product offering. At each point of time, a market has quantitative and qualitative definiteness, id est its volume is expressed in cost and natural indices for selling, hence, also purchasable goods.

To determine a capacity of the national commodity markets, while preparing and conducting expert operations, the definition of "visible" consuming of goods is used, id est own production of goods in a country, excluding an export and plus an import of analogous goods.

$$V_m = V_p + V_i - V_e \qquad (8.1)$$

where V_m - a market volume

V_p - a production volume

V_i - an import volume

V_e - an export volume

A market capacity is measured in natural and/or monetary equivalents.

It is worth distinguishing *two levels of a market capacity*:

1. a potential level
2. a real level.

The first level is the real market capacity.

The potential capacity means the maximum possible volume of sales in the market situation, when all prospective customers purchase goods, on the assumption of the maximum level of those consuming. The real capacity should be assessed as an achievement of actual or predictable volume of sales of the goods analysed.

A market capacity should be formed under an impact of multiply factors, each of which could, in particular situations, both stimulate a market and prevent its development, while limiting its capacity. The all aggregate of the *factors* could be divided into two groups: **general** and **specific nature**.

General ones are social & economic factors, determining the capacity of market with any goods:

- a volume and a structure of product offering, including as for enterprises-representatives;
- a variety and quality of produced products;
- an import volume as for given goods or group;
- an achieved level of life and public demands;
- population purchasing power;
- a level of correlation of prices for goods;
- population size;
- social, sex and age-related composition of population;
- a market saturation level;
- sale, trade and service network conditions;
- a market geographic location.

Currently, the market condition is subject to significant influence of such processes as territory isolation and an implementation of new currency units, a formation of commercial structures, inflations, an implementation of new limitations of customs etc.

Specific factors determine the development of some goods' market, at that each market can have the factors, specific for it only. In this case, a specific factor, according to the level of influence, can appear to be determinative for forming and developing supply and demand as for particular goods. The specific factors includes:

1. a size and composition of clothes, natural and climatic conditions, changes in fashion, national and living traditions (for the markets of textile, clothes and footwear);
2. an achieved wealth level, terms of physical and moral ageing, an increase of housing construction, a rent network development, a life rationalization, an increase in prices for energy carriers (for durable goods).

The aggregate of factors, determining a development of supply and demand in some markets, is in the difficult dialectic interconnection. A change in one factors' activity leads to a change in other's activity. The peculiarity of one factor is that these cause changes both the general capacity and the market structure, and of others' that these, while not changing the general market capacity at all, cause its structural changes. In the process of a market research, it is necessary to explain a mechanism of factor system's actions and to measure aggregate results, their influence onto a volume and a structure of supply and demand in this or those one.

Revealing the cause-effect relationships in the market under research should be conducted on the basis of data systematization and analysis. The data systematization is drawing of grouping and analytic tables, time series of analysing indices, graphics, diagrams etc. This is the preparatory stage of information analysis for its quantitative and qualitative assessment.

Data processing and analysing should be executed, using famous and described in text-books on statistics methods, id est: grouping, index and graphic method, draw-up and analysis of time series. Cause-effect relationships and dependences should be stated in the result of correlation and regression analysis of time series.

In the final analysis, the description of cause-effect relationships, generated by the interaction of various factors, allows to draw up the model of a market development and to determine its capacity. Such a model draw-up should be preceded by the accurate definition of working hypothesis, which is formulated originally at the initial stage together with the determination of goals and task for researching. The in-depth analysis of information sources can change significantly an initial image concerning the prospective of a market development. The hypothesis, accurately defined, is the form of economic task arising, according to which there should be developed a market development model and a forecast device.

8.4. Market development model. Formulas of market capacity. Different methods of calculation of market potential and capacity

A market development model is a conventional image of reality and it expresses schematically an inner structure and casual relations of a given market. It allows, via the system of indices, in a simplified way, to characterise the qualitative peculiarity of all main market elements' development at the modern stage and at a given interval of time in the future.

The formalized model of a market *development* represents the system of equations, covering its main indices. For each market, the system may have a different number of equation and indices, however, in any case, it must include the equation of supply and demand.

While drawing up a market development model, it is necessary to remember that:

Firstly, a determination of prospective of the development of a particular market cannot exist isolated from others social & economic forecasts (demographic, regional etc.), from analogous projections over complementary and interchangeable goods.

Secondly, the consideration of an impact of a great number of factors on a commodity market development, the trends in developments of which in the future may change sufficiently, defines the necessity to create several variants of a market development models and to find an optimum variant from several ones.

The third sufficient moment, which is a part of subject matter to drawn up a market development model, is the determination of an aggregation level for commodity groups. It is necessary to imagine clearly, at what level is it worth to draw up a capacity forecast.

All these points at the initial stage depend on a period of forecasting. Several types of forecasting are singled out: conjuncture (3-6 months), short-term (1-2 years), mid-term (3-5 years), long-term (5-10 years), prospective (more than 10 years).

Obviously, the shorter period of a forecast is, the easier is to predict and to assess correctly the level of an impact onto a market development of factors, defining it. While lengthening a forecast period, a number of model's variants increase.

The main sources of information on the future specifications of a market are:

1. a human expertise and an intuition;

2. an extrapolation of trends, processes, the mechanisms of development of which in the past and in the present are widely known;

3. a model of a process under research, reflecting desirable trends of its development.

In accordance with this, there are three *ways of a forecast development*, complementary to each other:

1. A questionnaire - revealing opinions of population, experts, in order to obtain assessments of forecasting nature. Methods, based on a questionnaire, are used, as a rule, when because a range of reasons the mechanisms of process development cannot be reflected by a formal device, when the necessary data are absent. Judgemental methods, based on knowledge and intuition of specialists, are widely used in forecasting researches of a market, especially when assessing a market capacity, new (modified) goods.

2. An extrapolation – maintenance in the future of processes trends, reflecting as time series and indices, on the basis of the models of regressive type, which were developed. Extrapolation methods should be applied, usually, when information concerning the past is available in enough quantity and the stable trends are found out. This variant is based upon the hypothesis of maintenance in the future of those trends, which have been created earlier.

Such a design for forecasting is named genetic and implies econometric models' research. In the most of commodity market researches, as the most important factor, determining the market development, a temporary factor (trend) should be implemented in models. A procedure of trends' extrapolation implies the selection on trend models of forecasting and a curve form, describing the most closely a range of empiric data.

3. An analytic modelling – drawing up and a using a model, reflecting internal and external interrelations in the process of a market development. This group of methods is used, when information concerning the past is minimal, but there is some hypothetical view relating to the market, which allows developing its model, and on this basis, to assess the future condition of the market, to reproduce alternative variants of its development. This approach to forecasting is called the target one (normative). A use of target (normative) method of forecasting starts from an assessment of goals, which can be represented by: an achievement of a particular share of the market as for goods produced; a desirable level of satisfaction of some needs etc. On the basis of these goals, the feedback with events should be created, that is necessary to achieve them.

The aforementioned division is conventional to some extent. In practice, all they can mutually cross and supplement each other, as in some cases, neither of them by itself could not provide an appropriate level of reliability and a forecast accuracy needed, but while applying in particular combinations, they are appeared to be effective enough.

As a result of working on the determination of a market capacity, there must appear the comprehensive analytic review concerning the condition of a market and factors, which form it, and also the multi-version forecast of a market development forecast, taking into account the trends of a change, influencing on its internal and external factors.

The activity of an enterprise related to a commodity market research coincides with the method of studying external market conditions, existing in marketing, from which a life cycle of goods is made. Obviously, that a market is heterogeneous, so various groups of consumers can be found , with different goals and funds.

That is the selection of a feature, according to which a market is divided into segments, what defines a sequence of inclusion of goods in a turnover and the quantity of such good by some price, satisfying a given market segment.

The practice of marketing research shows, that data concerning a market capacity for these or those goods and concerning a share, occupied by some producers, in the present time, are of great interest for the consumers themselves. They are necessary both to increase positions of a company, which has already occupied stable positions in the market, and to penetrate into the market as for a new company or trade mark.

The necessity of such information is already made up: today, many companies appear, which conduct marketing researches of a similar type. However, after having read reports and articles concerning such researches, a number of questions arises both on the methodology of a conduction and on a report writing. Therefore, we would like to raise a question on the correctness of a use of these or those methodologies to study a market capacity and on errors, which are the most frequently faced with, in our view. We think, that the discussion of such a type would be interesting and useful for the specialist, involved in this field.

The study of a market capacity or a market demand involves the determination of a volume of sales at a given market of a particular product brand or an aggregate of product brands for a specified period.

The research of these parameters, normally, should be conducted following five of the main direction:

1. analysing secondary information;
2. producing and selling products;
3. consumers' costs and behaviour;
4. a capacity calculation on the basis of expenditure rates for a given type of goods;
5. determining a capacity on the basis of a "reduction" of sales' volume (when a known market capacity in one region is the basis for the calculation of a market capacity in another region via correction by the means of reduction coefficients).

Let us consider:

1. Analysing secondary information. It includes the analysis of all documentation, which may contain information on the market, which we are interested in, and may be useful in marketing activity: statistics data, data on governing bodies, market reviews, special-purpose magazines and articles, Internet data etc. However, information, obtained in such a way, mostly appears to be incomplete, quite difficult to use for a practical application and often it has a questionable level of reliability.

2. Studying a market from a position of producing and selling products. It includes the study of enterprises-producers, wholesale and retail sales. Information, obtained from this source, allows determining a real volume of sales and a representation of producers and trade marks. Taking into account, that the quantity of sellers is less than the quantity of purchasers, often, such research is conducted very quickly and costs cheaper than research of consumers. The problem is, how accurate information, provided by producers and sellers, would be, and how representatively a questioned selection of sellers would be in relation to the general aggregate (to all mass of sales outlets, acting in the market and selling the products).

3. Consumers' costs and behaviour; It is researching whether the costs, which were spent by consumers for the products, we are concerned in, for a particular period, or the frequency of purchases and the volume of purchased products together with an average retail price for selling, or the expenditure rates of these goods. At the same time, the research allows to raise a wide range of materials, relating to behaviour and motivation of consumers: their attitude to this or that brand, a volume of one-time purchase, a frequency of goods' purchase, an expected price for goods, a level of brands' distinguish ability, a loyalty to brands, a motivation to choose this or that product brand etc. The question of accuracy of such information is to what extent correctly and truly would purchasers represent data on their consuming.

4. A capacity calculation on the basis of expenditure rates for a given type of goods. This approach is used, as a rule, for foods, raw materials and consumables. As a statistics basis for a calculation serves annual rates of consuming as for one citizen and general population size. Thus, a total number of capacities should be received via the multiplication of consuming rates as for one citizen by a value of general population size.

5. Determining a market capacity on the basis of a "reduction" of sales' volume. Such methodology for the calculation is used, mainly, by companies, having a sufficient experience in some geographical markets. As for calculation, there should be used data on a real volume of product's sales in one region and factors, defining sales. Using the latest, reduction coefficients for one region in relation to another one are determined (reduction coefficients for population size, an average salary, urbanization, price, features of consuming etc.)

Conducting researches of products' producers and sellers in order to acquire data on a market is quite usual for a marketing company, though, here, mistakes could be met.

As experience demonstrates, one of the most frequent mistakes is non-compliance with the representativeness of a selection.

Revealing the cause-effect relationships in the market under research should be conducted on the basis of data systematization and analysis. The data systematization is drawing up of grouping and analytic tables, time series of analysing indices, graphics, diagrams etc. This is the preparatory stage of information analysis for its quantitative and qualitative assessment.

Processing and analysing should be executed, using famous methods, id est grouping, index and graphic method, draw-up and analysis of time series. Cause-effect relationships and dependences should be stated in the result of correlation and regression analysis of time series.

In the final analysis, the description of cause-effect relationships, generated by the interaction of various factors, allows to draw up the model of a market development and to determine its capacity.

Market forecasting.

The general goal of market researches is to determine the conditions, under which there is provided the most complete satisfaction of public demand for goods of a given type, and prerequisites for effective sales of the product made are created.

In accordance with that, the first-priority goal of a market study is to analyse the current correlation of supply and demand, id est the market conjuncture.

Three levels of a market conjuncture research are considered: general economic, industrial and commodity levels.

The comprehensive approach to a market conjuncture study implies:

- a use of different, complementary sources of information;
- a combination of retrospective analysis with purchasers' forecast, characterising the market conjuncture;
- an application of the aggregate of various method of analysing and forecasting.

Data acquisition is the most important stage of market conjuncture studying. The sole source of information concerning a market conjuncture, which could contain the whole data on processes under studying, does not exist. While researching, various type of information, received from different sources, should be used. The following types of information are distinguished: general, commercial, special.

General information includes data, characterising the market situation in the whole, as part of the development of an industry or a particular production. The resources of its acquisition are data of governmental and industrial statistics, official forms of accounting and reporting.

Commercial information is data, derived from business documentation of an enterprise, on the issues of manufacturing products, and received from partners as a part of information exchange. That includes:

- requests and orders of trade companies;

- materials of the offices, studying the market of enterprises, companies and trade establishments (materials on flow of goods in wholesale and retail companies, conjuncture reviews, offers on the current alteration of a stock etc.).

Special information represents data, received as a result of special events on market studying (interviews for public, buyers, specialists of trade and industry, experts; exhibitions & sales, conjuncture conferences), and also materials of science & research companies.

Special information is of extrinsic value, as it contains data, which could not be obtained in another way.

A market forecast is a scientific prevision of prospective for a demand development, a product offering and pricing, performed in the framework of a particular methodology, on the basis of reliable information, having the assessment of a possible mistake.

A market forecast is based on taking into account of mechanisms and trends of its development, main factors, determining this development, on maintaining a strict objectivity and scientific conscientiousness in assessing data and results of forecasting.

Generally, a market forecast development has four stages:

- defining an object for forecasting;
- selecting a method of forecasting;
- a forecast development process;
- a forecast accuracy assessment.

Defining an object for forecasting is the utmost important stage of a scientific prevision. For instance, in practice, the definition of sales and demand, supply and product offering, market price and clearance price is often identified. Finances, monetary circulation and credit.

Under certain conditions, such substitutions are possible, but with the appropriate provisions and the subsequent correction of forecasting calculation results.

A selection of forecasting method depends on a forecast goal, a period of its lead time, a refinement level and an availability of initial (basic) information.

If the forecast for a possible sell of goods is performer in order to determine prospective of a retail chain development, there can be applied rougher assessment methods of forecasting. If it is performed in order to justify purchases of particular goods for the nearest month, then more accurate methods must be used.

A forecast development process is intended to perform calculations, executed whether manually or using a computer with the subsequent correction of these results at the qualitative, professional level.

A forecast accuracy assessment should be performed via the calculation of its possible errors. Therefore, the results of a forecast are almost always given in the interval form.

The market forecasts are classified according to several features:

1. According to the lead time, there are: short-term forecasts (from several days up to 2 years); mid-term forecasts (from 2 up to 7 years); long-term forecasts (more than 7 years). It is reasonably that they differ not only in a lead time, but also in a refinement level and in forecast methods, which are applying.

2. According to the features of goods, the following market forecasts are singled out: for particular goods, a type of goods, a group of goods, a complex of goods, all goods.

3. According to the regional features, market forecasts are performed for: particular consumers, administrative districts, large regions, states, all over the world.

4. According to the essence of methods, which are applied, it is singled out the groups of forecasts, the basis of which is:

- time series' extrapolation (market capacity);
- time series' interpolation - finding out of missing members of time series inside it;
- demand elasticity coefficient;
- structural modelling is the statistic table, which contains grouping of consumers according to the utmost sufficient feature, where a structure of goods consuming is specified for each group.

If a structure of consumers is changed, an average consumption (hence, demand) would change. On this basis, one of forecasting methods is designed.

- an expert judgement. This method is used in the markets of new goods, when basis information has not been generated yet, or in the markets of traditional markets, which has not been researched for a long time. It is based upon interviewing experts - specialists, who are competent enough.
- economics& mathematics modelling;

The results of an analysis of market conjuncture's predictable indices, together with accounting and planning data, allow to develop measures beforehand, aiming to facilitate positive processes, to eliminate existing and to prevent possible disproportions, and could be represented in the form of various analytic documents.

- A summary review or a report. The main document with summarizing indices of a market, consumer goods. Dynamics of the general economic and industrial indices should be analysed, as well as specific conditions of a conjuncture. A retrospective should be drawn and conjuncture indices' forecast should be given, the most significant trends should be clarified, interrelation of some markets' conjuncture should be provided.
- Subject (issue or commodity) review of a conjuncture. Documents, reflecting a specific character of a particular situation or^ separately, of any market. The most acute issues, which are typical for a range of goods, or an issue of a particular commodity market should be revealed.
- Operative (signalling) conjuncture information. A document, containing operative information, which is a kind of "a signal", concerning some processes of a market

conjuncture. The main sources of operative information are data of trading correspondents, public interviews, expert judgements.

Methods of market potential and capacity calculation.

The calculation of a market capacity is necessary in order to assess correctly the dynamics of changes in a market, to assess the prospective of a market and to understand, which share of a market is occupied by a product/brand.

A market capacity is measured in natural and/or monetary equivalents in the limits of a particular geographic segment, usually, a year is taken as a time period (because of many goods' seasonality).

A market capacity tends to increasing, decreasing or stays unchangeable. A market capacity depends on a market needs in some goods or services, as well as on other factors.

The rated capacity of a market is a "rated or predicted value" and nothing more. This value should be calculated on the basis of some assumptions and generalizations of various facts, having taken place in the past, bun not the future ones. However, it often happens that rated and real indices of a market capacity differ.

Mathematically, a market capacity could be expressed in the following way:

$$C = Q \times C \qquad (8.2)$$

where: C - a market capacity in natural and monetary equivalents (un./year, tg./year);

Q - a quantity of goods, sold during a year (un.);

C - costs of goods (tg.)

There are different approaches and *methods to calculate a market capacity*:

1. An expert approach toward the determination a market capacity;

2. Economics and mathematics modelling of a market capacity;

The simplest method to assess a market capacity, while using the economics & mathematics approach, is to form trend models, which should be based upon the mathematics aligning of a time series of actual values for the general consumption of a particular group of goods or services, having taken place at a given moment of time, t, via the selection of functional dependence and the calculation of its parameters, id est defining dependences of the following type:

$$C = f(t) \qquad (8.3)$$

where C - a market capacity for a particular group of goods or services;

t - a time parameter.

The obtained trend models enable the extrapolation of dependences revealed onto scheduled time periods in order to acquire forecasting assessments for a market capacity.

3. Method of forecasting

4. Method of an average assessment according to individual experts' assessments

Experts - company's employees, external experts and consultants - express an individual opinion concerning market capacity's possible value in a scheduled period. Basing on the assessment of all experts, the final assessment of a market capacity should be calculated, as a simple arithmetical mean of experts' individual assessments.

5. Method of pessimistic, optimistic and the most probabilistic opinions. Experts express pessimistic, optimistic and the most probabilistic opinion concerning market capacity's value; a weighting factor should be assigned to each opinion, characterising a probability of occurring situation, in which the actual market capacity would be in correspondence with expert's assessment. For each of experts, the average assessment should be defined as an arithmetic weighted mean of optimistic, pessimistic and the most probabilistic assessments, taking into account weighting factors. An average arithmetic mean from the final assessments of expert characterises a market capacity forecast.

6. Commission method. A group of company's specialists, industrial experts makes an agreed decision concerning the possible value of a market capacity in a scheduled period.

7. "Delphi" method. Repeated individual interviewing of experts: experts' assessments, received at the first questionnaire, should be represented to each expert, in order he/she could define more precisely her/his own assessment, taking into account other experts' opinions. The procedure of opinion clarification should be conducted, until the gap between all experts’ opinions does not correspond to dispersion, agreed beforehand; the final forecasting assessment of a market capacity is an average value of individual experts’ conclusions

8. Method of composite index of readiness to purchase a product by prospective consumers. The prospective consumers of a product express their attitude to the level of attractiveness of products of a particular group.

The methodology of a market capacity's calculation is based on statistics data, as well as a range of another methodologies.

It is worth to remember, that any calculation of a market capacity has its own features, and sometimes it needs entering particular corrective coefficients.

8.5. The study of company's share in the market. The ways of defining of company's share in the market. A risk assessment of company's functioning in the market

As an informational basis to calculate a *market share* for the product of a particular trade mark (to simplify – a market share of an appropriate trade mark) is the index of sales of competing products. Thus, a market share is an estimate indicator, excluding the cases when it is defined by experts by the method of direct questioning of experts regarding their opinion concerning a value of this indicator for some products.

Typically, sales' volume for the calculation of a market share should be expressed in monetary units. However, to exclude an influence of prices onto this indicator, it is possible, where appropriate, to use natural equivalents, for instance, a quantity of cars of definite trade marks, which was sold.

To determine a market share for the product of a particular trade mark (an appropriate variety position of any product group), it should be used both initial and secondary data. Initial data should be collected by the means of the following *main methods*.

1. Trade audit - the determination of sales' share for different products on the basis of sales data of representative selection for selling spots - wholesale and retail sales outlets. Obviouslythose different sales outlets could be classified according to their location, type, sales volume etc. There must be various types of sales outlets in a sampling. To make up a sampling, it is necessary to have the complete database of sales outlets. Only then, there will be an opportunity to project data obtained onto the whole market under studying (a market segment). However, what is of the utmost importance - that is to gain consent of such sales outlets' management to obtain the necessary information. Data collection should be performed over sales volume of competing company as for the product under studying.

If in reporting documents on sales at sales outlets, it is represented temporary data on sales volumes of all products of competitors under researching in monetary units for a selected time period - V_A, V_B, V_C, ……V_N, where V_A - sales volume of "our" product. Then a market share of the product A - MS_A, should be calculated in the following way:

$$MS_{\mathrm{A}} = \frac{V_{\mathrm{A}}}{V_A+V_B+V_C+..+V_N} \tag{8.4}$$

In a similar way, a market share is calculated for all products researched in our example:MS_B, ..., MS_N.

Obviously, that MS_A+MS_B +...+MS_N=100%.

It is possible that not all the products of competitors are covered, but only the products of main competitors. In this case, the calculation of a market share should be performed only for main competitors. Let a market share of "our" product and two products of main competitors be researched. Then

$$MS_{\mathrm{A}} = \frac{V_{\mathrm{A}}}{V_{\mathrm{A}}+V_B+V_C} \text{and} MS_{\mathrm{A}} + MS_B + MS_C = 100\% \tag{8.5}$$

This indicator does not provide the whole picture for a market (100% value relates only to products under researching, not the whole aggregate, represented in a given market of competing products).

2. *Diary consumer panel* of permanent respondents. Respondents by the means of a diary (records+bills and cheques) fix all purchases of a product group under researching. On the basis of aforementioned calculation dependences, the data obtained should be transformed by a researcher into market segments.

Dairy notes are used by many companies in different countries. As a rule, such panels are balanced under the indices of a family head, a family size, family head's age, a family income and geography. Panel's participants are selected on quarterly basis and are added to the active list, after having receives a report from them that correspond to the standards of a company conducting research. To take part in a panel, its participants should be encouraged. A family may be excluded from a panel upon request or while not having sent three successive reports.

3. Scanner-panel is analogous to the previous method, excluding the way of purchase fixation. In this case, respondents are given the identification card (or respondent's credit card is used). A person should show (use) the card, while paying for purchases in a shop, which has a bar code scanner. To the data, read by a scanner, respondent's code should be added. Unlike the first method, the scanner-panel allows to assess sales inside different segments of consumer market. But this method is applicable only in the countries with the very high level of trade automating - it is necessary that almost all purchases were made in the shops, equipped with scanners.

4. On the basis of panel examinations, first of all for consumer goods (both for daily use, for instance foods, and durable goods, for instance, TV sets), a market share of a particular product brand could be calculated by the means of Parfitt-Collins formulas:

$$MS=PR \times RP \times I \qquad (8.6)$$

where MS - a market share for a brand;

PR - a penetration of a brand, featuring with a percentage of purchasers of this brand from the total quantity of purchasers, who used to buy during a given time period the products of a category, to which this brand is included, at least ones;

RP - a repeated purchase (a replacement) of a brand, defined by a percentage of buyers, made repeated purchases of a product of this brand. This is the percentage of consumers, who has become adherents of this brand;

I - an intensity of a brand consumption - relation of the volume of consumption of a given brand by buyers, making repeated purchases (followers of a brand), toward an average level of given product's category consumption.

While applying this method, all the products should be divided into to categories - durable goods (demand should be calculated as for households) and short-term use (demand should be calculated as for one consumer). The penetration of a brand both for one and another group features a group of consumers, who purchased the product for the first time. Repeated purchasing, which features the secondary demand, for goods of short-term use, means that a consumer keeps buying a product of this brand, id estremains a follower. As for the durable goods, the secondary demand means the return toward this brand of a product in a case of substitution of a product or of an additional purchase. This method is directly connected with consumer research ("from below" approach).

5. Questioning of consumers (individuals, as well as legal entities) should be conducted at the place, where of respondent's residence, at public places, at a working place or in any other environment, providing a personal contact. Respondents should be asked directly, what kind of products and how often and how much do they buy.

6. Determining indices of a market share on the basis of experts' assessment. It is performed by the means of direct processing and analysing of experts' judgements, the part of which can be taken by employees of marketing subdivisions of companies, retail shops, and also workers, involved from outside, workers of consulting companies, marketing centres, specialists in the field of marketing etc.

In addition to initial data, when a market share is studying for enlarged groups of goods, and the market tends to oligopolistic structure (petroleum, gas, metals, mineral fertilizers etc.), that is natural, mainly, for B2B products, there could be used the secondary data, obtained from statistics volume.

When there is determining the indicator of a market share of a company, competitors in a whole, according to sales aggregate of all manufacturing products, it is possible to use the data of marketing investigation of the following content:

- while having data concerning the productivity of labour in a branch and concerning the quantity of employees, involved in a production for direct competitors, and assuming that all production made is sold, it is possible to assess the volume of competitors' production, by the means of multiplying the labour productivity by employees' quantity;
- while knowing resource costs (raw materials, electricity, gas etc.) per unit of products and volumes of procurement by competitors, it is possible to assess volumes of competitors' production, by the means of dividing the recourse volume for resource costs by a unit of products;
- while knowing waste emission for a unit of production averagely and volumes of industrial waste of competitors, it is possible to calculate competitors' volume of production, by the means of dividing of the volume of wastes produced by wastes per a unit of products.

Obviously, that using different methods to determinate a market share, probably, would give different results. In this case, it is worth whether to prefer the most reliable method, or to use an average value of market share indices.

Questions for discussing:

1. Give a definition of a commodity market.
2. Describe the model of studying commodity markets.
3. Commodity markets classification (examples).

4. Enumerate the factors of a market situation formation.
5. Give a definition of a commodity market capacity.
6. Factors of commodity market formation.
7. What is necessary to draw up a market development model?
8. In what direction should a market capacity research be performed?
9. Describe the ways to define company's share in the market.
10. How a risk assessment for company's functioning in the market should be performed?

SUBJECT 9. STUDYING COMPETITIVE CONDITIONS

9.1. Concept of competition. Competition strategies. Features of studying of competition forms and methods.

9.2. Scheme of studying competition.

9.3. Stages of studying competitive environment. Sequence of studying competition conditions in the market.

9.1. Concept of competition. Competition strategies. Features of studying of competition forms and methods

Competition (from the Latin *concurrere* – "encounter") – is a struggle of independent economic subjects in the market for the right of ownership for limited resources. In other words, this is a certain process of interaction between firms acting in the market in order to achieve the best sales opportunities of their products by satisfying diverse needs of customers. The competition is always present on the market between producers. And in order that the firm has been successful, it needs a constant improvement of its competitiveness.

Economists identify **four main strategies of competitive activities** applying by the firms.

1) *"Power" strategy,* when rival firms are enticing each other's customers, offering them goods *at* a lower price (according to the principle "cheap but decent"). Dumping is an extreme manifestation of price competition when sellers start to set prices at the level of prime cost or even below, refusing of the profit. This seemingly irrational behavior (it is used, for example, by Chinese firms, which that are getting into new overseas markets) makes sense, as the winner of price competition can, after defeating the opponents, forcing up prices and make up for the losses. However, this path is dangerous because the price competition may result in mutual ruin of the competitors. Power/price competition prevailed in the 20th century, while companies were not very big, and buyers sought, above all, to minimize their costs. In the modern market, a non-price competition prevailing – the competition rather for the quality of the product than for the price.

2) *"Niche"* strategy, when the company relies on the high *utility value* of the goods, excluding the need to fight for low prices (according to the principle "expensive but of very high quality"). Not mass and elite customers become the clients of such firms. Gaining their sympathy, the company captures a certain "niche" – the market segment of customers with special requests. This strategy is used, for example, by manufacturers of fashion goods, when the high price of goods becoming a mandatory attribute of a prestigious consumption.

3) *"Connecting" strategy* when the firm strives *to individualize* its products, varying the standard model in accordance with pre-assembled applications of customers (on the

principle of "the customer pays to the company decides his specific problems"). The result is a combination of harmonization of basic characteristics of the goods with the highest diversity of its design and special adaptations. In such a way, e.g., car market in the United States organized: first, local shopping centers collect bids from buyers who want to buy a new car with any special features (for example, with tinted windows or installed music player). Then, the cars assembled on the factory assembly line "for a particular client," using both standard and special components and assemblies.

4) *"Pioneer" strategy,* when the company is looking for *revolutionary technical and organizational solutions* that would attract customers not only pleased to have satisfied the needs already formed by a non-traditional way for a lower price and higher quality (according to the principle "better and cheaper"), but also offering the new needs. This way many promises a lot in case of success, but it is very dangerous because, starting to research and experimental development (R&D), it is difficult even to estimate the probability of success. Fundamentally new products or production methods – a conveyor, a light bulb, a ballpoint pen, a helicopter, TV set, etc., – appear exactly due to the use of such a strategy.

All of these four competitive methods can be used simultaneously, but the company usually relies on a certain one while using others as optional. Besides these "honest" means, there are many "dishonest" ones, prohibited by law: industrial espionage, corruption, "black PR", commercial piracy, etc.

There is no way by which the competition could be uniquely determined. However, we can select the main essential feature – the competition in the properties of commodity production and the ways of development. Also, the competition acts as a spontaneous regulator of social production.

Because of this phenomenon, exacerbations of production and market relations in society occurs, as well as increase of business efficiency, and acceleration of scientific and technological progress. Competition refers to those factors that have an impact on the company's activities, and the feedback does not always work.

Competition as a rivalry for the best living conditions in the market between its members is generated by the following objective conditions:

- First, by the complete economic isolation of each market participant;
- Second, by his fully dependence on market conditions;
- Third, by the struggle for the highest income.

A fight for the survival and prosperity of businesses is the basic unwritten law of the market.

Taking into account analysis of the literature on the competition, we offer the following definition: competition – is the process of entity's management for its competitive advantage in a given market (territory) in order to win or achieve other objectives in a fight against competitors for meeting objective and/or subjective needs under the laws or in vivo.

By the degree of its intensity, competition can be: a) attractive competition, when a subject meets his needs with higher quality in this segment and makes more profit than in the previous segment; b) moderate competition, when actions of a subject of competition support the competitive environment in this segment of the market; c) violent for the competition object, when a subject absorbs, destroys or displaces the object of this segment; d) violent for the subject of competition, when a relatively passive object becomes active, turning it to the subject. It absorbs, destroys or displaces a rival subject in this segment.

The concept of market competition is narrower than the concept of "competition", but not less ambiguous. There are many types of market competition, which can be identified by the following main features:

1. On the scope of activity, we can identify the following types of competition:

- Intra-industry competition;
- Cross-sectoral competition;
- Competition in the local markets;
- Competition on a national scale;
- Intra-national competition;
- International competition.

Each of these types can be divided into subtypes.

2. On the subjects of competitive relations, they distinguish:

- Competition among buyers;
- Competition between sellers;
- Competition between buyers and sellers.

In turn, each of them may include specific types of competition – competition between the buyers of certain types of goods, or certain types of resources, and others.

Competition between producers is a separate important type of market competition, which includes many subtypes. For example, competition among producers may be divided into a competition between large businesses, small businesses, and a competition between large and small businesses.

3. On compliance with the rules of law, competition can be divided into:

- Fair (honest) and unfair (dishonest);
- Competition in the "black" or "shadow" market;
- Competition on the illegal market.

4. On the applying methods of competitive activity, competition is:

- Price competition;
- Non-price competition.

The above types of fair and unfair competition can also be distinguished on this basis. Dumping is a kind of price competition. In modern conditions, they especially allocate such kind of non-price competition as competition of the quality. The competition on the terms of sale, on the after-sales service, the competition through advertising and others are its other subspecies.

5. On its manifestation, should be distinguished:

- Actually existing competition;
- Potential competition.

6. On the ability to influence the market, **competition** is divided into the two following types:

- Perfect;
- Imperfect.

7. On the state influence the competitive mechanism, they are talking about:

- Free competition;
- Competition in the regulated market.

The forms of competition:

- Substantive competition – the competition between the products of one product line, between similar objects that satisfy the same need;
- Functional competition – the competition between substitute products (objects).

The methods of competition:

- On the basis of criterion of improving the quality of goods or services (non-price competition); based on the criterion of improvement the quality of service of goods consumers;
- On the basis of reduction of price (price competition);
- Based on reducing operating costs of the consumer of goods and services;
- Through the use of dynamic factors, largely characterizing the quality of management – time factors (duration, speed, acceleration), synergy, discipline, adaptability, etc.;
- Through the use of some or all of the five above methods of competition (cumulative competition).

Competition can take place at the following levels:

- Local (in the group, department, organization, etc.);
- Regional (in the district, city, region, etc.);
- National (in the country); international (in several countries);
- Global (worldwide, not in specifically determined countries).

Possible changes in the forces of competition between firms are as follows:

- Competition intensifies through increase in the number of competing firms;
- Competition intensifies when large firms acquires other large company and take decisive actions to make it leader;
- Competition is strong when the demand for goods is growing slowly;
- Competition increases when the economic conditions in the industry are pushing the company to reduce prices or to use other means of increasing sales;
- Competition increases when the costs of customers, when changing one brand of consumer goods for the other brands, are not significant;
- Competition intensifies when one or more companies are not satisfied with their market share;

- Competition increases in proportion to the profits from implementing successful strategic decisions;

- Competition increases when the costs of leaving the market are large and the barriers are high;

- The course of competition is predictable when the strategies, resources, organizational features, the missions of the company differ to a large extent, and are open to the majority.

The factors affecting competition:

- Market size – the more it is, the more competitors are in the market;

- Market growth rate – rapid growth facilitates the penetration in the market;

- Productivity – excess productivity led to a fall in prices;

- The barriers to entry or exit the market to protect the position of the company, their absence makes the markets vulnerable for uncompetitive beginners to penetrate there;

- The price;

- The level of standardization of products – customers have an advantage, since it's easy for them to switch from one product to another;

- Mobile technological modules;

- Requirements for the amount of necessary capital investments – strict requirements increase the risk;

- Create additional barriers to entry and exit;

- Vertical integration raises capital requirements, leads to strong differences in competitiveness and costs of production for integrated, partially integrated and non-integrated firms;

- Economies of scale – it increases the market share necessary to achieve the competitiveness of the product; quickly update of the product range.

9.2. Scheme of studying competition

Competition – is an integral part of the market environment; developed market is unthinkable without competition. Hence – the urgent need to study the competition, its level and intensity, to know the forces and market opportunities of the strongest competitors, the prospects of competition in selected markets.

The collection and analysis of information, required, ultimately, to choose competitive strategies, is an important stage of research of the competition in the market. Collection of data on the competitors' activities and its analysis – is a very time-consuming work that requires its systematic implementation.

The methods of collection and analysis of information on competition in the market can be represented as a template shown in Fig. 9.1.

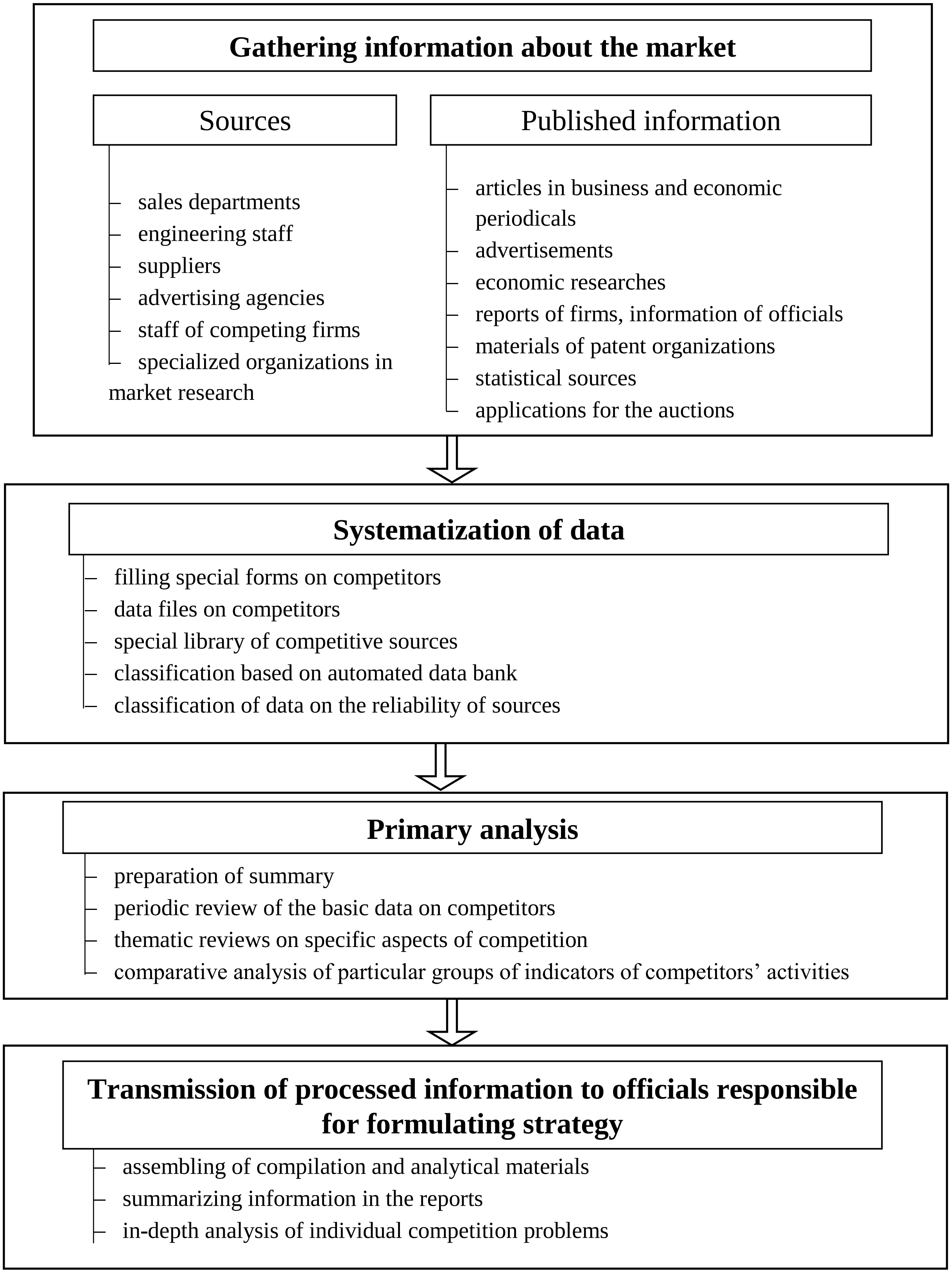

Fig. 9.1. The scheme of collection and analysis of information on competition in the market

Analysis of competition on the markets of the test product is carried out in two stages.

At the first stage, the general characteristic of competition is given, the level of competition in particular markets analyzed, the various indicators of the competition intensity discussed. The primary goal of this phase is to determine the degree of competition in each market and to make adjustments to the ideas on the prospects of sales in these markets.

At the second stage, the structure of production and sales performance of competitors analyzed and the key factors of their success in general and in specific markets determined. As a result, a comparison of key success factors of the company with the key to the success of its competitors carried out, and the position of the company in the markets of product sales revealed, its main strengths and weaknesses, and thus the directions of improving the marketing activities of the company determined.

9.3. Stages of studying competitive environment. Sequence of studying competition conditions in the market

The first stage of the analysis of competition in the market – is the assessment of **the extent of its susceptibility to competitive processes** on the basis of analyzing the main factors determining the intensity of competition.

As the competitive environment is formed not only under the influence of fighting of intra-industry competitors, the following groups of factors taken into account for analysis of competition in the market in accordance with the M.Porter's model: (Figure 9.2):

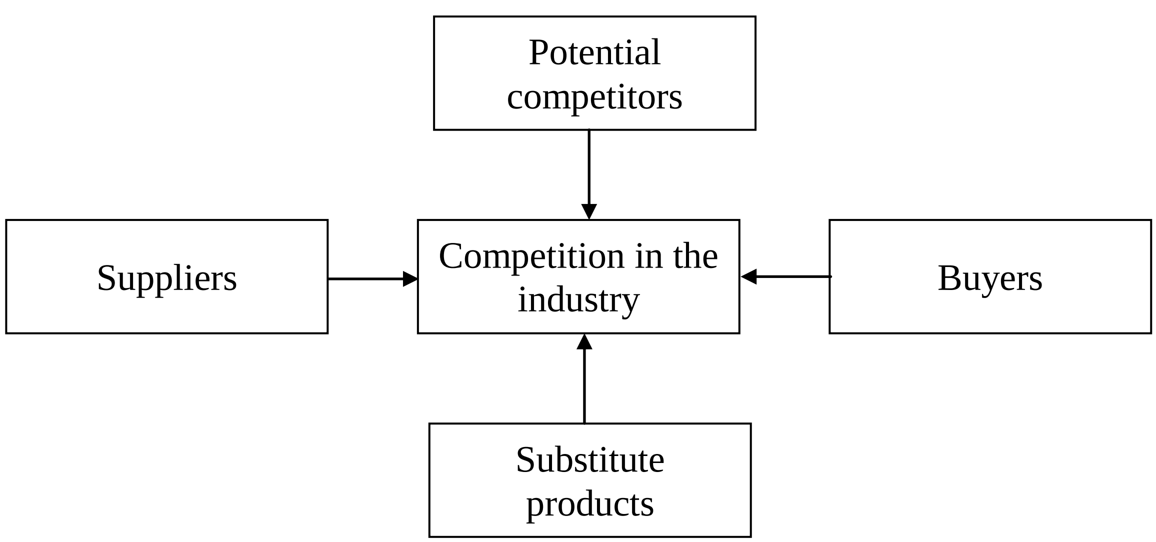

Fig. 9.2. The model of competition forces

- the rivalry among sellers competing in the market ("central ring");
- the situation in the industry;
- competition from goods that are substitutes – the impact of substitute products;
- the threat of appearance of new competitors – the impact of potential competitors;
- the positions of suppliers, their economic power – the impact of suppliers;
- the positions of consumers, their economic opportunities – the impact of buyers.

Each of the considered competitive forces may have different impact on the situation in the industry both in its direction and significance, and their net effect ultimately determines the characteristics of competition in the industry, the profitability of the industry, the firm’s place in the market and its success. The main factors that determine the level of competition in the industry, united in the group, as well as signs of their manifestations, are presented in Table 9.1.

We analyze the influence of the factors included into the group **"Situation in the industry."** *The number and the productivity of firms competing in the market,* to the greatest extent, determine the level of competition. In principle, the intensity of competition is considered the higher when the market has a significant number of competitors of approximately equal strength, and it’s not necessarily that competing firms were quite large. However, this rule is not universal and not always faithful from the position of the company conducting a market research. Thus, for a large company that has powerful resources and many advantages, as a rule, only firms of similar size with similar capabilities are competitive. On the contrary, for a medium-sized, or especially, a small firm, a presence of even one major competitor may be a significant obstacle to successful marketing. It should be noted that the number of firms working in the market, indicating a high degree of competition, can vary considerably depending on the industry, and even their areas of activity.

Unification of services on a product in the industry reflects the ability of firms to expand the scope of works and services in this sphere of activity. The presence of a large number of competing firms in the market with a high degree of diversification of services shows the impossibility to occupy a "niche", i.e., leaving the competition through the specialization in certain works or services. Thus, a high degree of unification of services for the product in the industry contributes to reduction in competition in the target market.

The change in effective demand in the market enhances or reduces the effect of the first two factors. Indeed, the increase in demand mitigates, and decrease, on the contrary, - increase competition in the market.

The degree of standardization of goods offered in the market acts in the direction of increasing competition. Indeed, when each manufacturer offers its own model of a product or a service package designed for a certain segment of the market, competition is minimized. In contrast, with the production of similar products by all manufacturers, intended equally for all consumers, the competition between them is high. Of course, these cases are extreme. In practice, the products in any market is differentiated to some extent, that does not eliminate competition, but only slightly reduces the degree of competition.

Table 9.1

Competitive factors in the industry market

№	Competitive factors	Signs of manifestation of the factors in the market
	1. Situation in the industry	
1.1	The number and the productivity of firms competing in the market	There is a group of firms with equal productivity, or one or more firm with clearly higher productivity than the firm under research
1.2	The change in effective demand	Effective demand for goods falls, the prognosis is unfavorable.
1.3	The degree of standardization of the goods offered in the market	Competing firms are not specialized in type of product. The product of the firm and the competing products are, in fact, interchangeable
1.4	The costs of "switching" by a client from one producer to another	The costs of "switching" by the client from one producer to another are minimal, i.e., the probability of leaving the company by customers in favor of the competitors, and vice versa, is high
1.5	Commonality of services for a product in the sector	A set of services of competing firms in the firm's sector is identical generally for the product
1.6	The barriers to exit the market (the conversion costs of the company)	The costs to exit the market of the product are large for the firm (re-training of personnel, the loss of sales network, liquidation of fixed assets, etc.).
1.7	Barriers to entry	Initial costs for the deployment of works in the market of the product are low. The product in the market is standardized
1.8	The situation in the neighboring commodity markets (markets for products with similar technologies and fields of application)	The level of competition in the neighboring commodity markets is high (for example, for furniture market, the adjacent markets are the markets of building materials, housing market, etc.).
1.9	Strategies for competing firms (behavior)	Some firms are implementing or ready to implement aggressive policies to strengthen their positions at the expense of other competitors
1.10	The attractiveness of the market of a certain product	There is a clearly expanding demand, great potential opportunities, a favorable prognosis

2. Influence of potential competitors		
2.1	The difficulties of entering the sector market	The amount of capital required to entry the sector is not high. The efficient production scale can be achieved quiet quickly. The firms in the sector are not inclined to use aggressive strategies against the "newcomers" and do not coordinate their activities within the sector to repel the expansion into the sector
2.2	Access to distribution channels	There are a large number of resellers in the sector, loosely connected with the manufacturers. Creating your own distribution network or attracting existing intermediaries to cooperate does not require significant investment on the part of the "newcomers"
2.3	Sector advantages	Businesses in the sector do not have considerable advantages over the new competitors related to access to raw materials, patents and "know-how", the fixed capital, comfortable place of business location, etc.
3. Influence of suppliers		
3.1	The uniqueness of the supply chain	The degree of vendors' products differentiation is so high that it's difficult or expensive to move from one vendor to another
3.2	Importance of the buyer	Businesses in the sector are not important (basic) customers for supplying companies
3.3	Proportion of separate supplier	The proportion of one supplier largely determines the cost of delivery in the manufacturing of the product (a mono-supplier)
4. Influence of buyers		
4.1	Buyers' status	There are few buyers in the sector. Basically – they are large customers who buy goods in large quantities. The volume of their consumption is a significant percentage of all sales in the sector
4.2	Significance of the goods for the buyer	Our products and similar products of our competitors are not an important component in the nomenclature of the buyer's purchases
4.3	Product standardization	The product is standardized (low differentiation). The cost of the transition of customers to the new seller is not large
5. Influence of substitute products		
5.1	Price	Lower prices and availability of substitute products create a price ceiling for the products of the companies in our sector
5.2	The cost of "switching"	The cost of "switching" for the substitute product (the cost of retraining of personnel, adjustment of technological processes, etc. for the client during the transition from our product to the substitute product) is low
5.3	The quality of basic goods	Maintaining the required quality of our products requires higher costs than for the substitute products

The costs for a client's "switching" from one manufacturer to another, especially at large amounts of after-sales service, can to some extent reduce the level of competition that threatens the supplier firm. Indeed, the pre-specified characteristics of the product supplied can make unprofitable or impossible the invitation of a third-party company for after-sales service.

The barriers to exit the market are working to increase competition in the market. If "switching" to another sector or exit from this sphere of business involve significant costs (liquidation of fixed assets, loss of distribution network, etc.), it is natural to expect a greater persistence of firms displacing out of the market in the fight for their positions.

The barriers to entry the market are closely linked to the previous factor and act in the opposite direction, that is, raising barriers help reduce competition and vice versa. This is due to the need for significant investments, the need to acquire specialized knowledge and skills, etc. The greater are the differentiations by type of technology, by the features of performance characteristics and other factors, the higher are the barriers for market penetration. In this case, the acting companies have an advantage over the new emerging competitors because of their orientation to a particular customer, the prestige and experience.

The situation in adjacent commodity markets had a significant impact on competition in the given market. High level of competition in the adjacent product marketsб as a rule, leads to intensification of the struggle in the market.

Strategies of competing firms operating in the market are considered in order to identify differences and common strategic aims of the competitors. Thus, if most firms adhere to the same strategy, the level of competition increases. On the contrary, if the majority of firms adhere to different competitive strategies, the level of competition is reduced.

The attractiveness of the market of the product significantly determines the level of competition. For example, a sharp increase in demand causes a rapid influx of competitors.

Let's consider how "**the influence of potential competitors**" has an impact on the level of competition in the sector. The higher is the level of *difficulty of entering the sector market*, the better it is for businesses already acting in the sector, since potential competitors require significantly more resources for the sector's market penetration.

Closed *access to distribution channels* will require significant investment of potential competitors to create their own distribution networks. Existing *sectoral advantages* weaken competition in the sector, since the new competitors will have many difficulties in this case; for example, related to access to sources of raw materials, patents, "know-how", convenient places of location of the enterprises, etc.

The factors that form the group "Influence of suppliers" appear in the following way. The uniqueness of the supply chain, associated with the difficulties or considerable costs when "switching" from one supplier to another, amplifies the impact of suppliers on the level of competition in the sector. The *importance of a buyer* (a manufacturer firm from the point of the supplier) is determined by the extent to which enterprises are the primary clients for supplier firms, as well directly enhances the effect of the latter on competition in the sector. *The share of a particular supplier,* primarily determining the cost of delivery in the product manufacturing, determines the impact of this supplier on competition in the sector.

The group of factors **"Influence of buyers"** can be represented as follows. The *status of the customers*, identified with the volume of their consumption relative to total sales in the industry, determines the degree of influence of these customers on the competition, which is enhanced in case when the number of customers with the high status is small.

The significance of the goods for the buyer increases the buyer's influence in the case when the goods manufacturer or similar products of competitors are an important component in the nomenclature of customer purchases. *The standardization of the goods* in the sector market leads to low costs for the transition to a new seller for the customers and increases competition in the sector. The methodology also addresses factors related to the **"influence of substitute products"**. The high price for the substitute products determines a ceiling price for the products of the sector and provides opportunities to occupy a certain price niche for enterprise products, thereby reducing the level of competition in the sector.

The high cost of the "switching" to the substitute product, connected, for example, with retraining of staff, correction of technological processes, etc., weakens competition in the sector.

Maintaining *the high quality of the underlying commodity* requires significantly higher costs than for substitute products, reducing the level of competition in the sector. Each of the factors characterizing competition in the market is estimated by experts in grade scale. Managers and leading specialists of the enterprise may be engaged as the experts. For example, if a factor, according to experts, does not manifest itself in the market (there is no evidence of its existence), the intensity of manifestation of this factor is estimated to be 1 point; if the factor is weakly manifested – 2 points; if the factor is clearly manifested – 3 points.

In addition, the factors considered have different effects on competition in the market. To account a relative importance of the various factors, the specific "weight" of each of them is determined directly during the analysis. Thus obtained estimation of the degree of influence of each of the five forces of competition in the market is the weighted average rating:

$$\bar{b} = \frac{1}{m \cdot n} \sum_{i=1}^{m} k_i \sum_{j=1}^{n} b_{ij}, \tag{9.1}$$

where b_{ij} – scoping manifestation of the *i*-th factor by the *j*-th expert; *n* – the number of experts; k_i – coefficient of importance of the *i*-th factor; *m* – the number of the factors considered.

On the basis of the average score, the following conclusions obtained (Fig. 9.3):

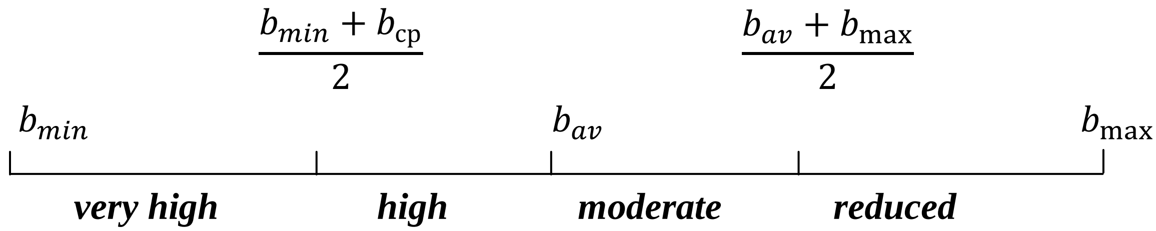

Fig. 9.3. Assessment of the impact of competitive forces in the market

The level of strength of competition is very high if the resulting average score is in the range $(\frac{b_{av}+b_{max}}{2}, b_{max})$, where b_{max} - average score, corresponding to the case a clear manifestation of the competitive factors in the market, b_{av} - average score, corresponding to the case of weak manifestation of the competitive factors in the market; *the level of strength of competition is high* if the resulting average score is in the range $(b_{av}, \frac{b_{av}+b_{max}}{2})$; *moderate strength of competition* if the resulting average score is in the range $(\frac{b_{min}+b_{cp}}{2}, b_{av})$, where b_{min} - average score, corresponding to the case of non-manifesting of the competitive factors in the market; *a reduced level of strength of competition* if the resulting average score is in the range $(b_{min}, \frac{b_{min}+b_{av}}{2})$.

In addition, at the stage of analysis of the competitive factors, a development forecast of competition in the market made on the basis of forward-looking assessments of changes in the actions of each of the factors. Prediction of changes in the factor's actions corresponds, for example, the following scores: "+1" - if the action of factor will increase, "0" - will remain stable, "-1" - will weaken. On the basis of expert assessments obtained of the forecast of development of each of the factors, the weighted average of development forecast of the competitive forces in the market determined:

$$\hat{c} = \frac{1}{m \cdot n} \sum_{i=1}^{m} k_i \sum_{j=1}^{n} c_{ij}, \tag{9.2}$$

where c_{ij} – scoping development forecast of the *i*-th factor by the *j*-th expert; n – the number of experts; k_i – coefficient of importance of the *i*-th factor, m – the number of the factors considered.

In the case where the average prediction score is in interval (0.25, 1), a conclusion is made on increasing competition in the market, (-0.25, 0.25), - the level of strength of competition will remain stable; (-1 - 0.25) – will drop (Fig. 9.4).

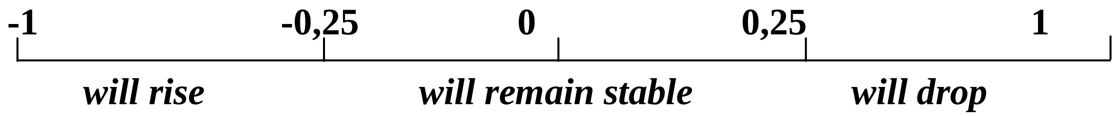

Fig. 9.4. Assessment of the development forecast of the level of strength of competition in the market

In the second stage of analysis of the level of competition, ***the main firms-competitors in this market*** identified, and their role considered in the total sales of the product concerned. The main aim is to give a general description of those firms, which further will be the main objects of study for a marketer.

At this stage, first, the largest (by sales volume) firms identified that look like the most dangerous competitors. Second, the dynamics and the current level of sales of selected companies analyzed, and the prospects of expansion of their share in this market considered. Third, the geographic distribution of sales operations of the selected competitors analyzed, and the trends in changes in the geographical structure of sales identified.

Fourth, on the basis of the financial statements and other data, the profitability of activity of the competing firms analyzed.

The results obtained are systematized and recorded in the table with the following details:

- The name of the company,
- The amount and the number of sales over the past year,
- Market share,
- Average annual growth rate of contracts for 5 years,
- The amount and the number of contracts by type of product for 5 years,
- The average rate of return on all contracts over the past year,
- The company's image in the market.

Thereby, as a result of studying competition in the market using this methodology, the level and the development forecast of competition in the market is defined, and the major competitor companies stand out, which will be the subject of the further study.

Questions for discussion:

1. Competition strategies.
2. Types of market competition.
3. Factors affecting competition.
4. The process of collecting and analyzing information on competition in the market.
5. Analyze competition of the firms (an example).
6. The role of distribution channels in competition.

SUBJECT 10. STUDYING INTERMEDIARIES AND SUPPLIERS

10.1. Concept of an intermediary. Researching intermediaries in marketing. Types of intermediaries. Terms of cooperation.

10.2. Indicators of analyzing intermediary services. Areas of analyzing intermediaries. Stages of studying intermediaries.

10.3. Concept of a supplier. Studying suppliers. Requirements for suppliers and assessment of suppliers. Studying suppliers' opportunities. Choice of suppliers. Supply contract.

10.1. Concept of an intermediary. Researching intermediaries in marketing. Types of intermediaries. Terms of cooperation

The widespread use of intermediaries (resellers) is an undoubted fact of modern economic life. Intermediary – is a person who takes a place between a manufacturer and a final consumer in the system of products sales. Intermediary – is any intermediate link between a manufacturer of goods or services and a user. Distribution through intermediaries has both advantages and disadvantages.

Many manufacturers do not have sufficient financial resources for direct marketing, so the use of intermediaries provides a direct benefit to them. Even if the manufacturer is able to create its own distribution channels, it is more appropriate to allocate its funds in its businesses. If the manufacturing provides a rate of return of 20%, and in retail trade, it will be only 10%, the enterprise-manufacturer does not want to independently engage in retail trade. Contacts, experience, specialization, mobility of intermediaries make their performance effective, which is reflected in ensuring the wide availability of the product and bringing it to the target markets.

Inclusion of intermediaries in the distribution channel is determined by the need to minimize trade relations and to ensure a more effective sale. In the distribution channel, the functions of all the groups should be implemented, although not each subject of the channel involved in their implementation. The manufacturer may waive the intermediary, but not from its function.

When we are talking about the benefits that the consumer receives from the intermediary, it concerns:

- the moment of receipt of goods or services;
- the place of receipt of the goods or services;
- conditions of the goods or forms of services;
- transfer of ownership of the goods.

Resellers are widely used in international business. With their entrepreneurial marketing innovations, they played a crucial role in creating and formation of the modern industrial building. Currently, more than half of the international commodity exchange in the world markets is carried out with their assistance. In foreign marketing activities, their involvement has a clearly defined goal – to improve the efficiency of marketing policy.

A local company-reseller has clear advantages compared with own representative office of a company abroad for a number of reasons.

The company-resellers already have all the minimum required conditions for the activity: an office, a staff, vehicles, warehouses, showrooms, workshops for repair and maintenance, and communications. They are equipped with personal computers to keep records and control the amount of products and spare parts sold, and can deliver in minutes the necessary spare parts to a dealer in any retail outlet.

The local representative knows better legislation of the country where the exporter intends to sell its products, the taxation system, peculiar properties of the market, customs, habits, as well as national, ethnic, moral and ethical standards. The representative of overseas company would not possess this information and knowledge for a long period of time.

Using intermediaries increases the efficiency of the sales of goods in the market, as an intermediary, being closer to customers, more quickly responds to changes in market prices, demand, which allows sale exported products under more favorable terms.

Involvement of intermediaries enhances the competitiveness of goods by reducing time of delivery from intermediate warehouses, after-sales maintenance and repair. Some intermediaries advance exporters, investing their own capital in the creation and operation of a marketing network. This creates certain economic advantages in international trade due to cost savings for the organization of the sales network in the country of a buyer.

Finally, intermediaries serve a source of valuable primary information about competitiveness of the products exported, since they are in close contact with foreign customers.

Thereby, the trade intermediaries perform the two groups of functions in international business:

1) operations on the movement of goods from the domestic market to the outside one – the purchase of export goods, transportation to the buyer's country, warehousing and storage of goods, export of goods flow control, taking on the risks associated with the operation of the channel;

2) marketing function – study of foreign markets; collecting the information needed for planning the distribution of products and services; building and managing sales channels; involvement into the planning product range, adapting products to the needs of consumers; involvement into the formation of prices; negotiations with potential buyers, promotional activities for sales promotion, studying marketing policy of major competitors, analysis of the competitiveness of their products.

Wholesalers and retailers, organizers of trade, and commercial firms for sales services may act as the intermediaries. In sales marketing, they distinguish the types of intermediaries on the stages of sale and on the existence of property rights for the goods.

Consider the classification of intermediaries (Tables 10.1-10.5).

Table 10.1

Classification of intermediaries

Type of Classification	Content
On the steps (functions) of sales	· Wholesalers; · Retailers; · Trade organizers; · Commercial firms on sales service
On the presence of rights of ownership of the goods	· Those which have; · Those which do not have

Table 10.2

Types of intermediaries on the presence of ownership

Types of intermediaries	Characteristics of intermediaries
The owners of the goods sold	Acting on its own behalf and at its own expense, bearing associated risks (changes in fashion, in price, damage to goods)
Non-owners of the goods	Do not have right of ownership of the goods sold, selling goods on behalf of a principal within the given powers to receive a percentage of the goods value or a fixed fee

Table 10.3

Types of resellers on sales functions

Types of intermediary	Characteristics of intermediaries
Wholesale dealers	· Buying large quantities of goods from manufacturers; selling consignments to intermediate users (retail trade, hotels, restaurants); · Accumulate goods in warehouses for consignments easy for transportation
Retailers	· Buying a large amounts of goods from manufacturers or wholesalers; · Selling consignment by the piece to consumers; · Accumulating in stores range of goods required by the consumers
Trade Organizers	Representatives of the goods owner (seller) or a buyer, acting at their expense, often on their behalf, to facilitate the search for partners for sale and making a deal. Receive remuneration in the form of a commission or fixed payments
Commercial firms on sales servicing	Provides services related to sales. They are subcontractors that perform specific functions thanks to the experience and specialization. Receive remuneration in the form of a commission or fixed payments.

Table 10.4

Types of intermediaries, owners of the goods sold

Type of intermediary	Characteristics
Independent wholesalers and retailers	Legal entities and individuals engaged in buying and selling their own goods
Distributor	Wholesaler procuring on long-term basis, distributing goods throughout the market, has its own warehouses, defines pricing, advertising, service policy, creating distribution network, studying the market conditions
Jobber	Fast reselling large quantities of goods (wholesale with wheels), no warehouse
Dealer	Independent small businessman usually specializing in sale to an end user durables, technically sophisticated products that require significant and qualified service

Table 10.5

Types of intermediaries which do not have right of ownership of the goods sold

Type of intermediary	Characteristics
Broker	Brings seller and buyer together, an organizer of a meeting on behalf of the seller or the buyer, often working in the structure of brokerage firms (brokers operating in exchange), often is the guarantor of a deal; providing a loan, specializing in certain products. Commission fee (brokerage, for provisions) is 0.25 - 3% of amount of the deal.
Commission Agent	Selling goods under the instructions and at the expense of a goods owner or a buyer (a principal), on its own behalf, bearing commercial risks of the safety of goods, often insures it in favor of the principal
Consignee	Selling from its warehouse items referred to it for safekeeping and sell on consignment, payments to a consignor are made as goods sold, has the right to sign a deal, that is, sells on its own behalf.
Agent	A representative acting on behalf of another person (a principal)

Professional requirements to an agent include: willingness to work, controllability, product knowledge, market knowledge, claims processing, and knowledge of production capabilities (tab. 10.6).

Table 10.6

Classification of agents

Types of agents	Characteristics
Seller's Agents	
Wholesale (sales)	Works under the contract with the manufacturer, at his expense, may have the right of exclusive distribution in a given area
Travelling Salesman	Specializing in travelling sales on samples
Trading agent	Legally independent entity, selling goods on different terms (the service of one or more companies, consignment, etc.) on behalf of others for others; it may sell other complementary products, especially if, in certain seasons, enterprise capacity is not enough to "download" the agent, often undertakes customer service, technical advice. In contrast to the traveling salesman, determines himself his work schedule.
Buyer's Agents	
Purchasing agent	According to the agreement, takes responsibility for safety, transportation, quality and range of purchased goods; may be entitled to exceptional purchases in a certain area

Terms of cooperation. International marketing uses several methods of remuneration for resellers.

The agreements under which resellers keep themselves the margin between the prices of selling goods in the market and the prices of exporters. This type of remuneration to a certain extent stimulates the reseller to expand sales volumes of export products, but does not create interest to increase export prices, and hence to improve the efficiency of export operations.

Charge in favor of a reseller agreed interest from export prices. This type of remuneration encourages the reseller to expanse sales volumes and raise prices, which creates conditions of growth of efficiency of export operations.

Mixed form of remuneration – is in the form of interest plus the price spread.

A flat fee, a pre-agreed amount of remuneration. This type of payment is typically used when a reseller performing of certain services at the request of an exporter, such as: targeted marketing researches of external markets for new products; sales promotion actions; receiving special consultations on units of legal issues.

Calculation of the remuneration on «cost-plus» system, the essence of which is that the intermediary, fulfilling certain obligations, provides documents for the exporter confirming expenses incurred by the intermediary. The exporter shall reimburse the intermediary these expenses increased by an agreed interest forming the intermediary's profit.

In modern practice of international marketing, the complex remuneration for the intermediary's services is increasingly applied.

Interest of the intermediary wherein is connected with two factors: firstly, there is a price spread (goods bought at one price and sold at another price); secondly, the reseller receives compensation as a percentage of sales amount both from the supplier and from the buyer, as it helps promote the product on the market.

When choosing a commercial agent from local trading companies, you should be guided by the following considerations:

- representation of interests of only one company in the target market by an intermediary – an export company (the case can make an exception when the intermediary is working with the company that complements the product range of an exporter by its own products);
- marketing concept of the intermediary;
- reliability and position in the industry;
- financial stability;
- the ability to receive orders;
- work experience in the trade of similar goods;
- methods of carrying out operations, and reputation in the business world;
- availability for the intermediary relevant trade, demonstration and storage rooms;
- the adequacy of sub agencies network of the intermediary to the tasks of sale of exported products.

In principle, the exporter can take all or part of these functions. But in this case, the cost of sales dramatically increases. Moreover, due to the specialization of intermediary organizations, these functions are performed more effectively by them. Therefore, in each case, the question of who should perform the various functions of the distribution channel is decided based on the relative effectiveness.

10.2. Indicators of analyzing intermediary services. Areas of analyzing intermediaries. Stages of studying intermediaries

Analysis of intermediaries – is a tool that can be used in decision-making situations where various intermediaries have competing interests, resources are limited and the needs of intermediaries should be appropriately balanced. Managers use intermediaries analysis for several important reasons: to identify the people, groups and institutions that will positively or negatively affect the organization or initiative of its competitor; to identify the type and degree of importance of impact (positive or negative) that these intermediaries will affect the planned initiatives on the market; and to develop strategies necessary to produce the most effective support, which is possible for organizational initiatives, and to reduce any obstacles to successful implementation of the strategy. Analysis of intermediaries helps decision-making specialists and managers to evaluate market and nonmarket environments, in which competition takes place, and to specify the position of the organization in discussions of the intermediaries. Analysis of the intermediaries can reveal the following:

1) the interests of intermediaries in respect of issues, which the project should consider (at the stage of identification), or the purpose of the project (if it is running);

2) the conflicts of interest between the intermediaries that affect the valuation of goods of the organization or riskiness of the initiative before the funds will be allocated for it;

3) the relationship between the intermediaries, which can be built, and encourage favorable "coalitions" to increase the likelihood of success of the project or of the product in the market;

4) the appropriate type of participation of the various intermediaries in the successful stages of advancement in the market of a new product, project or service.

The study of intermediaries provides an analysis of:

- market coverage;
- potential reseller / distribution network;
- financial stability;
- the reputation of the intermediary;
- the infrastructure of the sales market, etc.

The ultimate goal of studying intermediaries – is a based on objective data selection of the intermediary which can give the most effective commercial support for the company.

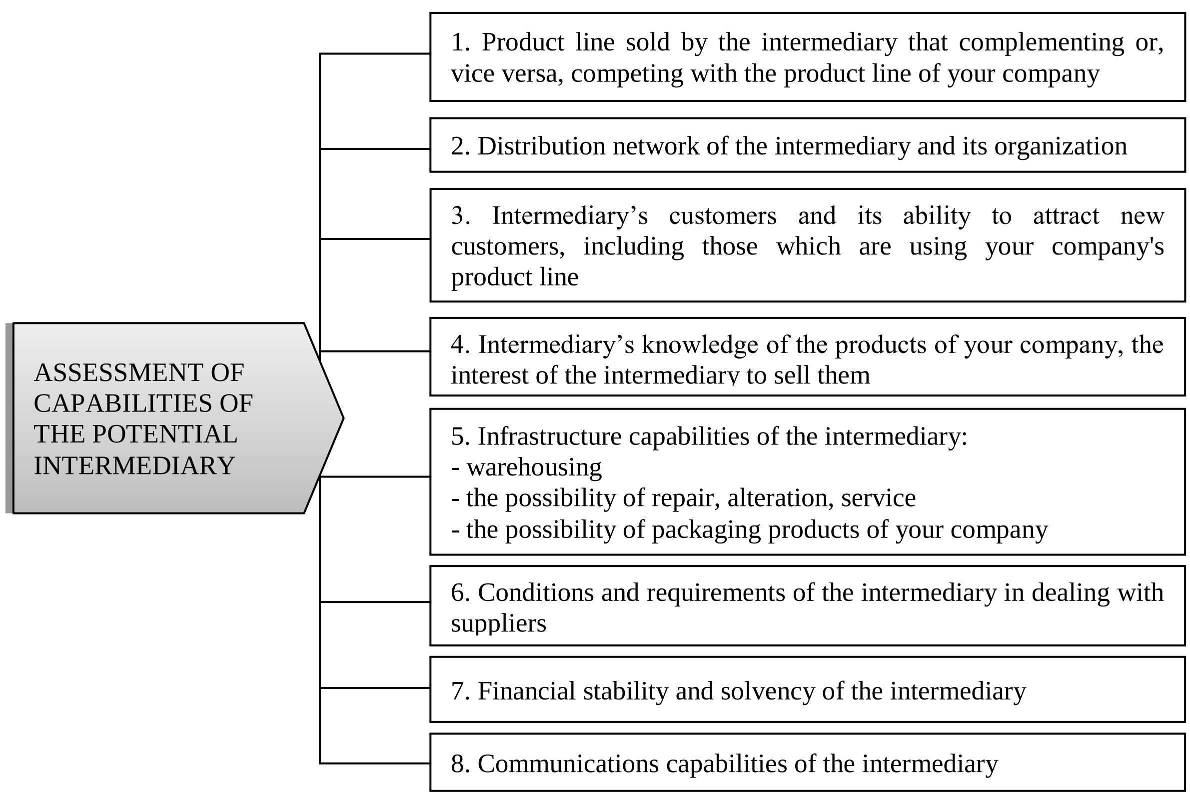

Fig. 10.1 Criteria for selecting intermediary

Studies have shown that the analysis of intermediaries not effectively or widely used in developing the strategy. Its researchers believe that it does not provide sufficient specificity of action or direction, and that it is difficult to study the quantitative (i.e., economic or financial) aspects of the method. Consequently, supporters of the analysis of intermediaries believe that only a few organizations have required analytical skills to conduct its properly, or appropriate culture and leadership, who appreciate its use in management approach driven by the strategy of intermediaries.

Scientists of several academic areas including business policies, competition, and social issues in management, typically include analysis of intermediaries and management of intermediaries in the larger process of strategic management as a part of it. Their view is that organizations that effectively manage relationships with intermediaries over time should have advantages in relation to those competitors in the market, which are not so effective. The rationale offered on this opinion, includes the following:

1. Some intermediaries are able to influence the "rules of the game". For example, the creators of the state public policy often set and advance the conditions under which competition is played in the market. Organizations that best understand these politicians and their needs should be in an advantageous position and get the benefit from the establishment of the rules of competition. Indeed, a large number of industries and products have been created or eradicated by the decisions of state social policy.

2. Studies have shown that companies which have functions of a special relationship with the investors receive better support from investment analysts and the investors which they serve.

3. In the review "Imaginary Companies", Collins and Porras (1995), Vaddok and Graves (1997) expressed the view that the attitude towards employees, the public, the environment, customers, and others associated with successful financial results of work.

Strengths and benefits. Analysis of the intermediaries has several advantages compared to other analytical tools and techniques. It differs from most other planning tools as regards individuals and groups who are most inclined to support the initiatives of the market or to resist them. Thus, it allows the organization to plan strategically, who enter into a partnership, and to take steps to minimize resistance. Undoubtedly, the same can be done in relation to competitors, where the organization can work to maximize resistance of intermediaries to the competitors' initiatives.

To solve the issue of choosing the intermediary, it is advisable for the company to carry out qualitative and quantitative comparative analysis of the efficiency of intermediary services and functioning of its own trade and marketing structures. Initial analysis can be performed on the following parameters:

- The potential of the intermediary to meet the market needs in the company's products;
- Existence of a competitive environment;

- Own current and one-time costs of the company relating to promotion and sale of products compared with the costs of services of the intermediary;

- Market prospects as a whole and the prospects of its individual segments.

You can suggest the following possible areas of searching intermediaries and their characteristics:

- Daily newspapers, magazines, economic surveys;
- Catalogs, directories, address services;
- Suppliers, clients, customers, competitors;
- Fairs, exhibitions, conferences;
- Direct mail;
- Television, radio, printed media;
- Trade missions;
- Banks, stock exchanges, tax authorities;
- Market research;
- Surveys of experts and consumers;
- Consultants.

Analysis of intermediaries should be carried out at the initial stage or at the stage of formulating new product, project or service, even if it is a short list of intermediaries and their interests. It must be carried out when the organization is considering a significant change in the scale of the product in the market, its position or objectives. Often analysts conduct this analysis informally. This list can be used to identify key assumptions, which are necessary in the case if the goods, service or project continue to be viable, and to identify major risks. Analysis of intermediaries often takes place in the manner of participation. Drawing up lists and diagrams in this manner can share and update information quickly among the groups. The team approach is likely to be more effective than analyzing by one person. Nevertheless, the analysis of intermediaries often includes its own or flexible data and information. Many interests hidden, and the main tasks deliberately disguised. In such situations, the benefits will be a little in an effort to disclose publicly such basic tasks. The process of analyzing intermediaries for the purposes of strategic and competitive analysis requires the analyst to answer the following questions:

1. What are the intermediaries of the organization?
2. What are the proportions of the intermediaries? This requires the analyst to understand the company's responsibility to the intermediaries, the importance of intermediaries for the success of the initiative and the relative power of intermediaries and their influence on.
3. What challenges and risks pose the intermediaries for the firm and its competitors?
4. What policies and measures should take the company to best deal with the complexities and possibilities of the intermediaries?

10.3. Concept of a supplier. Studying suppliers. Requirements for suppliers and assessment of suppliers. Studying suppliers' opportunities. Choice of suppliers. Supply contract.

A supplier – is any legal entity (organization, enterprise, institution) or person supplying goods or services to customers. The supplier carries on its entrepreneurial activity in accordance with the terms of the supply contract concluded, which is a type of sales contract. In accordance with the supply contract, the supplier undertakes, in due term or terms, transfer to the buyer the goods produced or procured by him for the buyer's use in a business or other purposes not related to personal, family, household or other similar use.

The suppliers – are economic units and individuals that provide the company and its competitors with material resources needed for the production of specific goods and services. When studying the opportunities suppliers, they are looking for answers to several questions:

1. What is supplied?
2. What determines the amount, the structure and the frequency of deliveries?
3. How to choose a reliable supplier?

The analysis of suppliers aims to identify those aspects in the activity of entities supplying the organization with various raw materials, semi-finished goods, energy and information resources, finance, etc., on which the effectiveness of work of the organization depends, as well as the cost and quality of the product produced by the organization.

The suppliers of materials and components, if they have a high competitive strength, can put the organization in a very high dependence on themselves. Therefore, when choosing the suppliers, it's is important to examine their activities and their potential thoroughly and comprehensively in order to be able to build such relationship with them, which would provide maximum strength for the organization in theinteraction with suppliers. The competitive strength of the supplier depends on the following factors:

- the level of specialization of the supplier;
- the costs of "switching" to other customers for the supplier;
- the degree of the buyer's specialization in the acquisition of certain resources;
- the level of the supplier's concentration in the work with specific clients;
- the importance of sales volume for the supplier.

When studying the suppliers of materials and components, firstly, you should pay the attention to the following characteristics of their activity:

- the value of the delivered goods;
- a guarantee of quality of the delivered goods;
- time schedule of the delivery of goods;
- punctuality and obligatoriness in fulfillment the delivery conditions.

In any enterprise, the official duties performed associated with the purchase of raw materials, and for commercial companies – also with the purchase of finished products. Depending on the scope of work, the function is assigned to the enterprise supply department (supply service), consisting of one or more persons. The effective work of the department depends on the results of operations related to keeping track of the suppliers market situation, and identifying potential and actual suppliers. Implementation of this work is not a one-time but permanent, since manufacturing tends to expand and new companies appears in market, as well as materials, semi-finished and finished products. To find suppliers, the standard scheme used, which consists of the four stages:

Stage 1 – the search for potential suppliers. To search for potential suppliers, the following mechanism of actions used:

- conducting competitions (tenders);
- the study of advertising materials (brand catalogs, advertisements in the media, etc.);
- visiting trade fairs, exhibitions;
- personal contacts with potential suppliers (correspondence, phone calls, and business meetings).

Competitive tender – is a common form of the search for potential suppliers. Tenders held in the case when a large amount assumed to be purchased, or the long-term relationships established. Tenders are advantageous both for suppliers and for consumers. The supplier receives an exact picture about the conditions of work with the consumer. The consumer solves the problem of obtaining proposals required, at the same time, choosing the best supplier. The tender is carried out as follows:

- formation of the tender conditions;
- development and publication of the tender documentation;
- advertising campaign;
- checking the estimated qualifying of the tender participants;
- analysis of the tender offers;
- determining the winner of the tender.

As a result of the first stage, the list of potential suppliers formed, which can be constantly updated.

Stage 2 – checking the suppliers. Reliability and financial liquidity of the company are among the conditions for a long-term work with a new supplier. The company, which is ready to be your long-term supplier, becomes your partner. It is at the stage of dating, not at the stage of cooperation, a potential partner is checked. If the supplier turned to be unfair, the consumer may have problems in the established work of production, and this can lead to organizational and financial losses. It is therefore important to identify reliability of the supplier before concluding a contract. To check the reliability of the supplier, information can be obtained from the following sources:

- a personal meeting with the company management;

- financial reporting of the supplier;
- local sources (entities or "informants" of the authorities acting in a given area);
- banks and financial institutions;
- competitors of a potential supplier;
- trade associations;
- press agencies;
- public sources (registration chambers, tax office, etc., which have publicly available information).

The majority of domestic enterprises are guided by their own information when choosing a supplier, without resorting to other sources of information. A list of suppliers with a proven track record is an outcome of the second phase.

Stage 3 – the analysis of potential suppliers. Having a list of potential suppliers, after the second stage, it is necessary to analyze the production capacity of these companies or organizations. The compiled list of suppliers is analyzed on the basis of various criteria, allowing carrying out the selection of actual suppliers. The number of these criteria can be quite high, more than 60, and the price, the quality of products as well as reliability of supply are the main criteria, on which the analysis of potential suppliers should be done. The reliability of the supplier includes fulfillment of obligations on the terms of deliveries, range of products supplied, completeness, and quantity of the products supplied.

Other criteria include the following ones:

- financial position of the supplier;
- timing of current and special orders;
- availability of spare capacity;
- improving the quality of products;
- the distance from the supplier to the consumer;
- the organization of quality control of the supplier;
- the ability to ensure the supply of spare parts for the entire lifetime of the equipment supplied;
- professional level of the staff;
- staff turnover.

Based on the analysis of potential suppliers, a list of specific suppliers formed, with which the work carried out on the conclusion of contracts.

Stage 4 – the assessment of supplier's reliability. Assessment of the results of work carried out on the contracts that already have been signed. To do this, a special rating scale developed, which allows determining the supplier's rating. Before calculating the rating, you perform differentiation of purchased goods.

Various purchased goods, raw materials and component parts, as a rule, are inadequate from the view of the purposes of the production or trading process. The lack of component parts that required regularly can lead to a halt of production process (as well as shortages of some goods in trade – to a sharp drop in profits of businesses). The reliability of supply will be the main criteria when choosing a supplier.

The algorithm for determining the reliability of supplies:

1. Comparison of planned date and actual date of delivery.

2. Determination of delay time.

3. Comparison of the scope of delivery: planned and actual scope. Detecting the cases of short supply of the products.

4. Determination of the scope of short supply of the products $\Delta Q = Q_{фактич} - Q_{план}$.

5. Determination of the conditional delay in the case of short supply $t'_{оп} = \Delta Q/q$.

6. Determination of the total amount of delay $T_{оп} = t_{оп} + t'_{оп}$

7. Determination of the number of failure cases.

8. Determination of the total amount of failures $T_o = (T - \sum T_{оп})/n$, Where T – total number of days in the period.

9. Determination of failure rates $\pi = 1/T_{оп}$.

10. Determination of the coefficient of availability of supplies $K_m = (T - \sum T_{оп})/T$

11. Security of supply $P = K_m * e^{-\pi t}$; the higher is the ratio, the more reliable is supply.

If the purchased goods are not significant in terms of the manufacturing or commercial process, the cost of the purchase and delivery will serve as the main criterion for choosing their supplier. It is also possible the implementation of the supply through internal procurement structures.

Using a third-party replacement for the internal organizational structure for the delivery is appropriate when:

1) the function can be performed better or cheaper by specialists of an outside organization;

2) the risk of the enterprise reduces in the case of transition to new technologies or changes in consumer preferences;

3) organizational flexibility of the enterprise increases, the cycle time of customer service reduces and decision-making becomes faster;

4) more attention focuses on the core business.

The main factors influencing the choice of supplier.

1. Information about the company's position on the existing market: experience of work, renown of a supplier, reputation, personality of the leader, the contingent of main customers, market size at the moment and plans for the future.

2. Established relationships with the supplier: the presence of the existing or no longer valid contracts with this company, the prospects for long-term cooperation, the existence of various circumstances affecting the choice of supplier (family connections, bribes), the volume of sales of goods required for the mutual interest.

3. The products supplied: renown, breadth of product range, the quality and appearance of products, meeting the established sanitary and technical norms, availability of certificates.

4. Price policy: the prices for the products supplied, their distinction from the average market ones, the possibility of granting discounts.

5. Security of supply: compliance with delivery schedules, compliance with the orders in part of the volume and structure of goods, implementation of transport services by the supplier, the possibility of varying the different conditions of supply.

6. Other factors: the possible return of non-conforming products, product packaging.

For smooth operation of the organization, it's desired to have a significant number of suppliers – that provides the following advantages:

1) the ability to successfully negotiate on prices, terms of delivery or other obligations;

2) the ability of choice if one of the suppliers has difficulty with the terms of delivery, quality of products and services;

3) the ability to solve problems resulting from increasing the volume of production or sales, which are not provided by the current production plan (sales).

The overall efficiency of work with a particular supplier is evaluated on the following parameters:

1) the quality of supply – the proportion of orders executed in accordance with the requirements of the consumer;

2) the reliability of the supplier – the ability of company-supplier to meet, for a certain period of time, the customer's requirements related to the quality of products, the timing and volume of deliveries;

3) the readiness for delivery – a comparison of received and executed orders. This indicator shows the consistency of the timing of orders related to the needs of the consumer. Confirmed by timing of orders of the enterprise;

4) flexibility of supply – the willingness of the enterprise to perform changes that the consumer made in the order.

Supply contract – a contract under which a supplier-entrepreneur undertakes to transfer goods to a buyer in due term for the use for commercial purposes.

This contract is:

1) consensual – the law does not consider the transfer of goods indispensable condition of concluding a contract, so the contract is considered concluded from the moment when the parties reached agreement on all essential terms;

2) on compensated basis – obtaining a counter satisfaction in the form of the purchase price, and vice versa, is the base performance of the obligation to transfer the goods;

3) mutual – the presence of the subjective rights and duties of both parties of the supply contract.

The special nature of use of the product, which is its object, is **the main feature of** the supply contract. Delimitation of supply from similar civil contracts made with formally defined criteria set forth in the legal definition of the contract: the subject composition and the subject.

Subject composition.

Supplier – is only an entrepreneur (a commercial legal entity, a non-profit legal person carrying on business in order to achieve its goals, an individual entrepreneur, a contractual association of legal entities).

Buyer – only an entrepreneur or, in some cases, a state, that the law does not directly indicated, but this follows from the nature of goods and the purpose of transmission.

Object of supply – goods, understood in a broad sense as a material object, a product of labor, which has its use value and manufactured for sale in the market. The object of delivery can only be a product suitable for use in business.

Forms of the contract:

1) written;

2) oral.

The essential condition of the supply contract – a deadline set by the contract.

Rights and obligations of the supplier – the duty on the transfer of goods to the buyer is a basic for the supplier. It includes a number of requirements and involves the transfer of goods:

1) by shipping them to the buyer or by the provision of goods to the buyer's disposal at the site of the supplier;

2) together with the facilities and documents related to the product;

3) a certain amount;

4) in an agreed range;

5) of corresponding completeness and in the set, if that is provided;

6) of the established quality;

7) free of third party rights.

Rights and obligations of the buyer:

1) the buyer's obligation to accept the goods;

2) the obligation to pay for the goods;

3) notify the seller of improper performance of the contract.

Questions for discussion:

1. Give the definition of an intermediary company.
2. List the advantages and disadvantages for a consumer when a manufacturer uses the services of an intermediary.
3. Describe the groups of functions performed by trade intermediaries (resellers).
4. Give examples of the classification of intermediary companies.
5. What kind of analysis provides a comprehensive study of intermediaries?
6. List the main sources of information for the comparative analysis of suppliers.

7. For which parameters you can carry out an initial analysis of the company's suppliers?

8. List the indicators to measure the efficiency of work with the supplier.

9. Describe the methods for searching new suppliers by the companies.

10. The main factors influencing the choice of supplier.

SUBJECT 11. STUDYING INTERNAL ENVIRONMENT OF THE COMPANY

11.1. Essence of studying internal environment of enterprise. Purpose of study. Sources of information.

11.2. Methods of studying: desk method, "the study by side of an enterprise", an enterprise questionnaire.

11.3. Areas of studying internal environment of the company: Study of organizational management of firm, study of conflict situations.

11.1. Essence of studying internal environment of enterprise. Purpose of study. Sources of information

Internal environment of the organization – *it's such a part of the total environment that is within the organization. It provides a permanent and direct impact on the efficiency of the organization's activity.*

The internal environment has several sections, each of which includes a set of core processes and elements, which state determines the capacity and capability of the organization.

Personnel section covers such the processes as:

- interaction of managers and workers;
- hiring;
- study and promotion of staff;
- evaluation of the results of work;
- motivation and stimulation of work;
- creating an atmosphere and support of relationships in the team.

Organizing section includes:

- communication processes;
- organizational construction of the company;
- rules, regulations and procedures of the production process;
- allocation of rights and responsibilities;
- hierarchy of subordination.

Production section includes:

- products manufacturing, supply and warehousing;
- maintenance of process equipment;
- implementation of research and development.

Marketing section covers the processes that are associated with selling the products:

- strategy of products and pricing;
- strategy to promote products in the market;
- choice of sales markets and a bargain sale system.

Financial section covers the processes associated with ensuring the efficient use and movement of money funds:

- liquidity support, ensuring profitability;
- creation of investment opportunities, and the like.

The section of organizational culture is treated as received, for the most part or all of the organization employees, philosophy and ideology of management, assumptions, value orientations, beliefs, expectations, location and rules underlying the relationships and interactions within the organization and outside it. There are three levels of organizational culture:

- external facts that are visible, but often are not interpreted;
- value orientations and beliefs;
- basic assumptions which are accepted subconsciously and unproven.

The key factors that are the source of the strength or weakness of the organization: staff, organization of general management, production, marketing, finance, organizational culture.

The study of the internal environment should be aimed to discover the opportunities and threats that lie in them. The strengths serve as a base on which the organization is based in competition and is trying to expand and strengthen them. The weaknesses should be subject to management's attention, who must decide how to eliminate the weaknesses of their activities.

The structural components of the key factors that are the source of the strength or weakness of the organization are listed below. Their analysis allows us to get an understanding of the internal environment of the firm.

1. Personnel:

Management staff.
Morality and qualification of employees.
The cost of labor relations compared to the cost in the industry and the cost of labor relations of its competitors.
HR policy.
The use of incentives for motivation of labor.
The ability to control fluctuations in recruitment.
Staff turnover.
The experience and special skills of the staff.

2. The organization of general management:

Organizational structure.
The prestige and image of the company.
Organization of communication systems.
The effectiveness of the control system.
Organizational climate and culture of management.
The use of computers and office equipment.

Qualifications, skills and interests of senior management.
The system of strategic planning.

3. Manufacturing:

The cost of raw materials, their accessibility, the relationship with suppliers.
The system of inventory management.
Location of production facilities and premises.
Economies of production scale.
The effectiveness of the use of equipment and a subcontract manufacturer.
The degree of vertical integration, net production and net profit.
The effectiveness of manufacturing control.
Comparison of the value of costs and the quality of technology with the competitors and with the industry.
Scientific development, research and innovation, patents, trademarks, and other legal forms of protection of the goods.

4. Marketing:

The products (services) of the company.
The concentration of sales on a few products or on a few buyers.
The ability to gather information about the market.
The market share of a particular company.
The range of goods (services) and their potential for expansion: the life cycle of the main products.
Distribution channels: the number, coverage and control.
Sales organization: knowledge of customers' needs.
Image: the reputation and quality of the goods.
The effectiveness of product promotion on the market and advertising.
Pricing policies and flexible pricing.
The procedure to establish feedback with the market.
After-sales service of goods.
The attitude towards brand of goods.

5. Finance:

The possibility of obtaining short-term capital.
The possibility of obtaining long-term capital.
The value of the company’s capital compared to the value in the industry and the value of competitors’ capital.
The attitude towards taxes.
The attitude towards investors and shareholders.
Working capital, its flexibility.
The control over costs of circulation, the possibility of reducing the costs.
The possibility of using alternative financial strategies.

When studying these factors, you should answer a number of key questions.

1. Personnel:

What management style uses the top management?
What is the dominant in the value system of management?
How long are the leaders in their positions, and how long will be they in these positions?
As far the qualification of middle managers allows them to cope with their functional responsibilities?
Does the qualification of the company personnel meet its current and future needs?
What place is given to the workers in the company and what are the working conditions in the company?
What is wages policy compared with other similar organizations?

2. Organization of management:

How clearly defined the rights and responsibilities?
Is there a practice in the company to reduce administrative costs?
How effective is interaction of structural units after achieving goals?

3. Manufacturing:

Does the production capacity meet competitive requirements?
Is modern equipment or morally worn out?
How effectively used production capacity, does an underutilization take place; are there the opportunities to expand the production base?
What is the return on research and development?
Are there any research works on the creation of fundamentally new products?

4. Marketing:

What are the strengths and weaknesses of the production: design, quality, delivery, warranty?
What is the pricing of the company? Is it a price leader or a price follower?
What is the market share of the company and how firmly it holds this share? What are the trends to changes in the market?
Are there opportunities to bring new products to market and enter new markets?
Is an information support on the state of the market sufficient?

5. Finance:

What are the trends in financial performance of the company?
What percentage of income is provided by separate divisions?
Are the capital costs sufficient to satisfy production needs in future periods?
Whether the financial institutions (banks, financial authorities of different levels) treate with due respect to the company’s management?
What is the relationship of the company's management with the tax authorities?

6. Organizational culture:

Employees’ perception of themselves and their place in the organization.
Communication system and the language of communication.
Appearance of the employees, their clothes and representation at work.

What and how the employees eat, customs and traditions in this area.

Awareness of time, attitude to it and its use.

The relationships between the employees by age and gender, status and power, wisdom and intelligence, experience and knowledge, rank and protocol, religion and nationality; the degree of formalization of these relationships, the ways to resolve conflicts.

Values as a set of guidelines: what is good and what is bad, and norms as a set of assumptions and expectations in regard to a certain type of behavior.

Belief in something and the attitude and the propensity to something.

The process of employee's development and learning.

The work ethic and motivation.

As a result of the analysis of organizational culture, they get information on how employees of the organization carrying out their work, how they relate to each other and to the organization as a whole. Organizational culture can help to ensure that the organization acts as a strong and stable entity in a competitive strength. But it may weaken the organization, may does not allow it to develop successfully, even in the case if the company has a high technological and financial potential.

The importance of analyzing organizational culture lies also in the fact that it influences on how the organization is building its relations with the external environment, how it refers to its partners and which methods elects to compete, how it takes into account national elements in regards to work and the workers.

Because organizational culture has no explicitly expressed manifestations, it is not easy to study it. However, there are several things that point to strengths and weaknesses that organizational culture provides for the organization.

Information about it can be obtained from various publications in which the organization presents itself. For organizations with high organizational culture, emphasizing the importance of the human factor is characteristic, its own brand of philosophy, and promotion of its values. For organizations with a low organizational culture, an attempt to talk about the formal organizational and quantitative aspects of its work is characteristic.

Organizational culture is determined by such factors as: - the system *of* career in the organization; - the power of communications; - personal and interpersonal relationships between employees. The study of the issues contributes to understanding of organizational culture: whether there are persistent traditions in the organization, unwritten commandments and norms of behavior, ritual events and the like. The attitude of the organization management to it is particularly important. Since organizational culture is widely studied by different authors and in the different subsections, we are only referring to the authors of techniques and research. The most famous among specialists studies of organizational culture can be found in works of: P.R. Harris and R.T. Moran; E. Shayn; V. Sathe; Peters, Thomas J., Waterman, Robert H.; R. Quinn and J. Rohrbach; H. Schwartz, S. Davis; G. Hofstede and others.

Learning providers, intermediaries, competitors and environmental conditions allows determining the capacity of the company to achieve its marketing goals. Based on the analysis of production, finance, equipment, personnel and other resources the firm finds out what resources are available for it, which must be purchased and at what price, and whether the production to provide the proper amount and quality of the goods. Study of the possibilities of the enterprise aimed at disclosure of its potential, strengths and weaknesses of its activity. The areas and functions defined in which the company has a success, and those that need improvement on market indices. Substantially, exploring the opportunities of the enterprise is reduced to the comparative analysis of the company's potential and the existing and future market needs. The analysis is usually carried out on materials of the enterprise reporting and on additional sources of information: statistical samplings, business information, reports of scientific organizations; professional, commercial, and government publications.

Intercompany information seems to be more accurate, reliable, be easily obtained systematized. However, it may be insufficient to assess the enterprise's potential. In this case, the selection of external information should be made for comparable indicators using a variety of techniques and methods.

In the process of peer review, the above indicators may be presented in the form of tables and graphs for clarity. If the analysis requires certain qualitative and quantitative criteria for assessing the potential overall and individual performance, you can use a point system.

11.2. Methods of studying: desk method, "the study by side of an enterprise", an enterprise questionnaire

It is advisable to begin any marketing research with desk research involving a preliminary analysis of secondary data obtained in other studies. Sometimes it is enough analyze the previously collected information to solve the problem. In any case, any marketing project should start with the analysis of secondary data.

Desk marketing researches include: analysis of the potential of the company, competitors analysis, analysis of micro and macro environment of the company. Apparently, it is better to start desk research with an *analysis of potential of the enterprise* in order to clearly identify the strengths and weaknesses of competitors on the background of the identified strengths and weaknesses of the firm, as well as the positive and negative factors of the enterprise environment. The purpose of the analysis of potential is to identify opportunities of the enterprise. The focus is on the questions: "Which special abilities has the company?", "In what areas it does not have sufficient competence?".

Analysis of the potential should include virtually all areas of the company's activity – *management, production, scientific research, finance, marketing,* and others. A systematic review of all these areas is the most appropriate way to gather information about the potential of the firm. Internal documentation can serve as the source of quantitative indicators. Assessment of the quality characteristics can be carried out by experts.

The potential of the company proposed to evaluate in terms of impact of all components of marketing activities. In this case, when applying a systematic approach, the potential of the company P is the median potential of all the enterprise services:

P_P - the potential of personnel of the enterprise, P_b – the potential of material and technical base, P_i – the potential of the information base, P_f – the potential of financial resources, P_s – the potential of strategic planning, P_t – the potential of technological support, Po – the potential of organizational structure, P_m – the potential of management style, P_s – the potential of skills and experience of staff; P_c – the potential of corporate culture of the enterprise, P_d – the potential of management decisions, P_{ep} – the potential of economic performance, P_{sp} – the potential of social performance

To analyze the potential of the company, traditional economic indicators of the company’s activities can be also used.

After evaluating competitors, in a marketing research, it is advisable to go to the assessment of the factors of micro-environment in marketing.

Microenvironment of marketing – a group of people having a real or potential interest in the organization or having an impact on its ability to achieve its goals set. Microenvironment of marketing can be conditionally divided into the following broad groups.

Suppliers – are business firms and individuals providing the company and its competitors with material resources, which are necessary for the production of specific goods and services.

Events among suppliers can seriously affect the company's marketing activities. Shortage of various materials, rising prices for component parts may interfere the regularity of deliveries of materials, and as a result, reduce the volume of production of this company. Therefore, the study of prices for the products supplied and the study of delivery schedule are among the tasks of marketing service.

Marketing intermediaries – are firms that help the company to promote, sale and distribute its products among consumers. The marketing intermediaries include:

- resellers – business firms that help the enterprise to find customers, or sell goods;
- intermediaries for the organization of product distribution – transport companies, railway companies and other cargo handlers;
- agencies for marketing services that help companies to accurately position and promote its products in the markets.

Financial institutions – banks, credit, insurance and investment companies, brokerage firms and other organizations that help the company finance its transactions or insure it against business risks.

State agencies – any organizations financed from the state budget. State agencies can contribute to the enterprise's activity, and even post some of their orders in the company. When implementing large projects, a positive support of local government agencies is needed generally, so that any company should take into account ongoing cooperation with state agencies.

Civic action groups – consumer organizations, environmental groups, trade unions, social movements, national organizations.

The method of "Studying the enterprise from the side" – is a method of processing the existing secondary information that directly relates to the group of desk research. Secondary information in this case is the data previously collected for the purposes other than the problem solved at the moment, or data available in free access in media and in the Internet.

The benefits and the potential of using secondary data are that the secondary data have several advantages compared with primary one: a small scope of work (since a new data collection is not needed); the speed of collecting the material; the availability of multiple sources of information and the accuracy of information obtained from independent sources.

The method of "Studying the company from the side" allows you to:

1) identify a marketing problem;

2) formulate it correctly;

3) develop an appropriate plan of study;

4) find the answers to certain questions (for example, identify the main variables);

5) examine more carefully and interpret correctly the data sources.

The results of research using the "Studying the enterprise from the side" allow for:

- analysis of the potential of the company and its competitors,
- situational analysis of market behavior,
- analysis of market size, analysis of the amount of the target audience,
- determining the direction of future researches, their methods and scopes.

An analysis of the micro-environment of marketing allows us to estimate the parameters of the "field" in which the company has to work. The main objective of this analysis – is to identify the strengths and weaknesses in the work of the company's contact audiences, enabling strategic and tactical planning the actions for the development and distribution of goods.

As the methods for obtaining information in the "field" marketing researches, the following ones can be used: a survey, an observation, an experiment, a panel and an expert evaluation. Let us examine them in detail.

The survey – is asking the position of people or getting help from them on any issue. Approximately 90% of field studies use this method. The survey may be either on oral form or in writing form. To improve the quality **of the questionnaires** and the success of the data collection, you should:

- comply with the certain requirements for the formulation of questions (the questions should be simple, understandable, unambiguous and should not affect the answer);
- comply with the certain principles of writing the questionnaires (the order of questions: from simple ones – to complex ones, from general questions – to specific ones, from non-binding questions – to delicate ones; first questions that establish trust, then substantive questions, then perhaps test questions, and at the end – questions about the personality);
- try to increase the rate of return in the written survey by: encouraging (but you need to consider the costs and the possible embellishment of responses of gratitude), sending a cover letter to arouse an interest, a telephone warning about sending questionnaires, application of a stamped envelope for getting a reply, attractive presentation of a letter and its small volume;
- work closely with the interviewers (give them detailed guidance on carrying out the work; control them, for example, through subsequent telephone interviews).

In conducting surveys, *a sample planning* is of great importance. Under the *sample* in market research, a part of consumers means, which represents the whole of the studied population. When planning a sample, researchers must first set the *object of sample*, i.e. the target population of consumers (general population), of which the sample is taken. As a rule, these are the consumers of a studied market segment or buyers in a store. In addition, you must consider the following requirements for the sample:

- Proportionality (if, for example, 70% of men and 30% of women buy a certain type of sportswear, the same ratio of men and women should be in the sample).
- Ratio of responses received must be at least 65%. Of 100 respondents, no more than 35 people may refuse to answer, as buyers refusing answer may relate most negatively to a subject of the survey and, if such a group of people is not represented, the survey may lead to wrong conclusions. Thus, the number of completed questionnaires must be defined in absolute terms (the number of questionnaires handed out) and relative (% of respondents) terms.
- If a survey of consumers of a certain market segment carried out, there should be at least 75-100 completed questionnaires. OK - 100-150 questionnaires, if there is not too much variation in the responses (that confirms the correctness of the choice of the market segment). If the variation in answers is great, you need to have filled a greater number of questionnaires.
- For the majority of stores, 200-300 completed questionnaires may be sufficient statistical material, if this figure corresponds to 6-10% of customers for a working day. For department stores and supermarkets, serving about 10 thousand buyers per day, it will be enough to hand out 300 questionnaires subject to 200 completed questionnaires (i.e., compliance with response rates of at least 65%).

The representativeness of the sample to a large extent depends on the procedures for the selection of respondents for a research. When survey participants are volunteers or are selected because of their accessibility, these samples rarely lead to reliable conclusions.

With a strict compliance with the rules of sampling formation (to get a representative sample, the method of random selection should be used), the samples that cover even less than 1% of the total population allow us to make reliable conclusions.

11.3. Areas of studying internal environment of the company: study of organizational management of firm, study of conflict situations

Companies differ in their size, capacity, output, markets served, functions performed. A pyramidal-hierarchical organizational structure of management is the most typical for the majority of businesses.

The organizational structure is needed to manage all areas of the company activity – production, purchasing, sales, marketing, finance, R&D, human resources, etc. Analysis of the advantages and disadvantages of different approaches to building the enterprise management system allows you to make the right choice in favor of specific organizational structures, taking into account the market conditions and the strategy of the company.

However, you should beware of falling for organizational innovations. Organizational restructuring undertaken without good external and internal reasons, does not give the desired results. As an example, we can cite the conversion of existing units, departments into marketing departments in some enterprises, without sufficient elaboration and examining the problems.

Increased marketing focus in the enterprise, of course, requires organizational changes in the management structure. However, the formal adoption of the marketing concept does not mean the actual enterprise’s orientation on marketing. It’s necessary to create the organizational structure that brings to life the goals and objectives of marketing.

The most widely used are the versions of organizational and management structures focused on:

- the functions performed;
- the product or range of products;
- markets and customers;
- regions serviced.

An analysis of the advantages and disadvantages of different organizational schemes reveals the need for adoption of mixed organization and management forms, so-called matrix forms (functions – the goods, functions – market, etc.). Matrix construction allows you to level the disadvantages of particular options.

The choice of organizational form must be justified by the analysis of economic activity of the company, the degree of its independence. If you change the activity parameters (develop a new range of products, enter new markets, etc.), the company may choose another organizational structure. The participation of the enterprise in large-scale projects may require a project approach in the organization of management with the assignment a group of specialists who are focused on the project. The project approach uses a matrix management structure, which sets out the new horizontal and diagonal communication. Matrix method is a flexible and adaptive way to achieve the project objectives; it involves the use of knowledge and skills of professionals involved in the group without a rigid functional distribution of managers' credentials.

The organizational structure of enterprise management that is oriented on marketing includes fewer layers of management and a greater degree of horizontal subordinacy. The introduction of marketing services means the establishment of functional connections with other parts of the control organizational structure for implementation of marketing purposes, rather than a formal distinction between the activities.

Management science and marketing practices made the following recommendations for the establishment of an effective organizational management structures.

1. Organizational management structure should be simple to a proverb, easily foreseeable and known to all the staff. Do not attempt to create a complex system of management organization, as this may lead to loss of control flexibility and responsiveness to the signals from internal and external environment of the enterprise.

2. "Squeeze" a hierarchical management structure. A good organizational structure is a less hierarchical and less stretched horizontally.

Do not attempt to create a "managerial empire" of a plurality of managers, facing one over the other. Reduce the degree of subordination. Management performance does not depend on the saturation of organizational schemes, and, above all, on the well-established communications.

3. Maintain close cooperation between services and departments of the enterprise. Do not set them contradictory tasks. Avoid duplication of work.

4. Organize teamwork in the business units, while encouraging individuality and entrepreneurial of the employees.

5. Functions of the business units should be clearly demarcated and coordinated.

The study of organizational structures involves the analysis of the degree of management centralization. For Russian companies, these issues are of particular importance in connection with the ongoing program of privatization and corporatization. The propensity to megalomania and concentration of production leads to certain slowness, rigidity and bureaucratization of production and management.

Unbundling of enterprises, the creation of small entrepreneurial structures provides better adaptability to market demands, and the demands of customers. The positive aspects of small and medium-sized businesses are in the fact that the industry giants are beginning to copy the typical techniques of small-scale businesses or involve them actively into their work. When studying the organizational structure of the enterprise, you should pay attention to the possibility of allocating business units into the separate structures. The forms of organization, wherein, may be different: profit centers, strategic management centers, etc. The autonomy involves preservation of the role of central management in the field of strategic planning and monitoring; and integrity of the entire production entity.

In enterprises with independent divisions, subsidiaries, affiliates with their own marketing departments, coordination of the activities of all these departments is carried out from the marketing center of the company. In this case, only one-level vertical connection retained. The organizational structure of management of the marketing function sets the certain chain of command and responsibility for the performance of tasks. The structural unit responsible for marketing activities in the enterprise may be executed as a department, a service or other organizational form.

The organizational structure focused on marketing brings together, under a single beginning, the main activities associated with marketing and target them to achieve success in the market. Executives of Marketing Services are responsible for the coordination and harmonization of marketing and distribution, information gathering and research, advertising and sales promotion, market planning and planning the product range of the company.

Let’s consider the possible advantages and disadvantages of various organizational schemes of marketing management in the enterprise.

The functional structure is most effective when the company produces a limited range of products and sells its products in a small number of markets. Expanding the range and increasing the number of markets can undermine the advantages of the functional organization of marketing services, which are simplicity and an opportunity to clear outline the terms of reference. Functional specialization allows avoiding duplication in the activities of adjacent units. Functional structure helps to create a marketing center, in which the employees are united horizontally to the appropriate departments (services) of: market research, product range planning, marketing and distribution, advertising and promotion.

For companies with a wide range of products and variety of sales markets, the organization of marketing according to the commodity principle is the most preferred. Marketing specialist is in charge of marketing not for the whole range of products, but only for any product or a product group. In this case, specialization of divisions and staff is deepening. Diversification will require considering the peculiarities of marketing, advertising and other activities on each individual item. The organization of marketing on the commodity principle is typical for large companies with large volumes of production and sales of various goods. However, in these conditions, considerable coordination efforts of the company’s management required, in particular, to avoid duplication of work of marketing departments.

Marketing organization on consumers or markets also has its advantages and disadvantages. Often, the dignities of certain organizational schemes create difficulties in management in the development process. Therefore, it is advisable to use a combined version that contains elements of several organizational structures.

It should be emphasized that the studying human factor in ensuring the effectiveness of the organization management is very important. The success of the enterprise depends on the value orientations of employees, their level of knowledge, skills and awareness, as well as the moral principles of their behavior. It's no coincidence that many companies pay a lot of attention to building brand (corporate) culture, traditions, and keeping firm-wide values. The concept of corporate culture includes a set of values, norms and rules adopted by the company and reflecting its image on the market. Corporate culture finds its expression in relationships with customers, market counterparties, between employees. Its formation is provided by internal and external communications. Corporate culture is intended to guide the minds and actions of workers to ensure them that the interests of the company will realize their own target settings, will meet the social and material needs. Assessing the level of corporate culture to determine the location of the enterprise in the competitive environment, identify its strengths and weaknesses. The company which has a high level of culture is characterized by openness, well-functioning communications system, mandatory at all levels of the hierarchy. Established relationships between employees are not competitive and cooperative ones; they feel themselves as part of a single, clearly acting body. The system of rewards and penalties as part of the corporate culture provides social justice, concern for people, and takes into account their business acumen.

Questions for discussion:

1. Define internal environment of the company.
2. List the sections, in which the potential and opportunities of the company are determined.
3. Describe the processes included in marketing section of the company.
4. Give an example of intra-firm information that can be used during the study of the internal environment of the company.
5. Which research methods provide a comprehensive study of the internal environment of the company?
6. List the main sources of information for the desk research.
7. For which indicators can be carried out a desk study of the internal environment of the company?
8. List the recommendations for the establishment of effective organizational structures of management.
9. Describe the methods of studying conflict situations in the company.
10. Define the possible options of organizational and management structures of the company.

SUBJECT 12. STUDYING OF CONSUMER

12.1. The main directions of studying a consumer.

12.2. Studying and forecasting of consumer demand.

12.3. Objectives of analysis of consumer behavior. Methods of analyzing consumers' behavior. Model of consumer behavior.

12.4. Study of consumers' attitudes to company and to product.

12.5. Study of value system of consumers and a level of satisfaction of their needs.

12.1. The main directions of studying a consumer

Besides researching the general state of the market, its trends, the formation of the future scenario on this basis; the study of such key subjects of the market as consumers is very important. This focuses on the end-consumers – households.

The expansion and further development of business activities should be based on the analysis of competitors, finding their weaknesses and your own advantages. The study and research of consumers of products and services takes an important place in this work.

The study of the most significant factors influencing consumer behavior, shopping motives, perception of product, helps marketers to simulate a decision-making process of consumer research. This includes considering the following steps:

- awareness of the need, the search for information;
- evaluation of alternatives, purchase decisions;
- behavior after the purchase.

In the study of consumers, the nature of consumers' purchases analyzed, determined by their personal, cultural, social and psychological factors. Consumers are a key driving force in most markets, so studying them is one of the main key points of the marketing activities.

A direct consumer, while buying products or services of the company, ensures its income. That is why virtually all of the players in the modern market put the consumer at the forefront.

When studying consumers, the studies of consumers' wishes, preferences, and tastes conducted, this allows the company to offer them timely exactly what they need. In addition, each business structure seeks to meet the demand of consumers as much as possible, and do it faster and better than its competitors.

The major problem in the study of consumers – is to find out what factors mainly affect their behavior. Modern dynamic market dictates its own requirements, so you need to predict shifts in consumers' preferences. This allows you to be proactive – timely change something in the product, improve sales channels, and change the advertising policy. In other words, all these actions allow timely optimize the entire marketing policy.

To do this, it is necessary to determine when and why a consumer buys a product or a service and what factors to which extent affect the consumer at the various stages of purchase. Data on the behavior of consumer groups in the purchase process allows using them to evaluate the data of the sale of goods.

Often during the study of consumers and their sympathy, it is necessary to make a so-called *"detailed portrait of the consumer"*. Sociologists and marketers make such a portrait on the basis of demographic, social, psychological and other preferences of potential consumers. The frequency and the volume of the consumer's purchases are also analyzed, as well as his addiction and attachment to the place of purchase, and some other factors.

The study of customers' preferences and attitudes to various brands, as well as the extent to which the consumers have complete and accurate information about these brands, take a special place in the study of the consumer and the so-called *drawing his portrait*. The level of penetration of brands analyzed, consumers' attitude and loyalty to it, as well as the demands that consumers make to a particular product. It is also important in studies of consumers to clarify the commitment of customers to the image component of the brands, and find out the customers' understanding of the relations of such product characteristics as the price and quality.

The search of segments available and attractive to the promoted product among consumers – also is one of the components of the research work. It is important to analyze consumers' mood, their degree of satisfaction with the purchased product. In addition, it is necessary to carry out activities to find and attract new buyers of goods (services).

The work on the study of consumers and their behavior is:

- analyzing the motives of making the decision to purchase the goods;
- determining the causes and incentives under which the decision to purchase the goods was taken.

During the analysis of the buyers' price expectations, experts find out:

- a price range that is acceptable for a particular segment of consumers;
- the dependence of the demand for the product proposed or promoted and the price for it.

The methods of studying consumers. The main methods of obtaining data from the consumers – are *interviews* and *surveys* in places of residence and places of purchase of goods, a questioning in the form of survey.

The analysis or study of consumer preferences takes an important place in the work with the customer. The research of tastes and preferences of the consumers to help:

- set a specific share and the total capacity of the market;
- identify certain lines of consumers' behavior;
- determine the percentage of customer satisfaction;
- identify the consumers' propensity to a particular brand;
- draw a portrait of a typical consumer of the product.

In the course of consumer research, the following points established:

- consumer awareness of various brands;
- their knowledge of the properties and features of the goods;
- their negative and positive associations of a particular brand;
- commitment to a brand and the attitude to it;
- volume, frequency of consumption of a specific product of a particular brand;
- whether there is a tendency of the consumer to switch to the consumption of other similar product or another brand.

At this stage of the study of consumer preferences, very important information to be obtained that forms the basis of formulating and solving marketing problems. In this kind of consumer research, you have an opportunity to gather information on the basis of which it is possible to segment the market more clearly.

The needs of people may be the same, may be close or vary greatly. Therefore, one of the main objectives of consumer research – is to find groups with similar needs, they will equally respond to those or other marketers' efforts. Particular attention is paid to groups that have a large customer's potential. A clear separation of user groups allows you to allocate a reasonable amount of resources and achieve success in the desired directions. To separate market into segments, it is necessary to undertake a study of consumers. For each group of consumers, the scope of possible purchases, favorite shopping places revealed, etc. Analyzing this data, the company seeks to identify its segment of the market, then to concentrate its efforts on activities in these segments.

Consumers' behaviors in the market, the nature of the purchases are determined by their *personal, cultural, social and psychological factors,* the study of which ones is the most important task of marketing research. There are some ***basic principles*** to form a picture of consumer's behavior:

- a consumer is independent;
- consumers' motivation and behavior are learned through the research;
- the behavior of consumers is susceptible;
- consumer's behavior complied with social laws.

The independence of the consumer manifested in the fact that his behavior is guided by a purpose set by him. Goods and services can be accepted or rejected by him as far as they comply with his requests. They succeed when providing consumer a choice and a real advantage.

Understanding this and constant adaptation to the consumer's behavior – are among the most important requirements for the survival of the business in a competitive environment.

The research of motivation and behavior of the consumers are carried out through modeling these processes. Please note that the behavior of different consumers (end-users, business consumers and institutions-consumers) in the market varies considerably according to the needs and objectives of the procurement, the nature of demand and purchases, actions in the market, motivations of behavior, etc.

Targeted effects on these factors can lead to changes in the actions of consumers. We are talking primarily about the factors of external environment, which include the cultural level, socioeconomic status, common stereotypes, traditions and customs. The factors of individual differences of consumers become important. These are the income level, motivation, the level of knowledge, preferences and hobbies, personal lifestyle, demographic characteristics, and others. A psychological process that characterizes the responses of consumers takes a special place in the formation of consumer's behavior in the market.

However, consumer freedom is based on a number of his rights. The fulfillment of these rights – is the most important task, not only of the entire society, but also of individual enterprises. ***The social legitimacy of the rights of consumers*** is based on the guarantee of full satisfaction of his needs. The deception, the poor quality of the goods, the lack of response to the legitimate claims, insults and other acts – are the violations of the legal rights and should be punished. The company cannot succeed if it ignores the needs of consumers. It is not by chance that one of the functions of marketing – is conducting researches on the behavior of consumers. In the broadest understanding, the consumer behavior is defined as the activities directly related to obtain, consume and dispose of goods and services, including decision-making processes that precede and follow these actions.

The following groups act in the market as *consumers*:

- end users,
- the organizations (enterprises)-consumers.

End users – are persons (individual consumers), families (small community based on marriage or kinship), and households (one or a few families united by a common economy).

Organizations (enterprises)-consumers – are manufacturing enterprises, wholesale and retail trade companies, government and other institutions.

End users buy goods and services for their personal use. Industrial enterprises are purchasing various goods and services to product marketable products and resell them to other consumers. As consumers, wholesalers purchase large shipments of various industrial and consumer products for wholesale, and warehouses, vehicles, insurance services, and others. Retail traders buy goods from manufacturing companies and wholesalers to resale the goods to end users. They need retail space and equipment, advertising means, etc.

State-owned enterprises, as consumers, acquire a wide range of goods and services for the activities of state economic spheres (military sphere, transport, communications, environmental and others), as well as to form the material and technical base of ministries and departments, government agencies.

The behavior of end-users is primarily caused by the nature and degree of autonomy of the needs. Consumer researches should be carried out on a regular basis at all stages of the product life cycle.

Consumer behavior is influenced by various factors, especially environmental factors.

The factors of individual differences of consumers become important, such as:

- income;
- motivation,
- knowledge level,
- addictions and hobbies,
- lifestyle,
- demographic characteristics and others.

The so-called *psychological process* that characterizes the responses of the consumer takes a special place in the formation of consumer behavior in the market.

12.2. Studying and forecasting of consumer demand

The study and forecasting of demand is a prerequisite for the effective use of marketing for the successful commercial operations of the procurement of goods. The information collected on demand allows substantiating business solutions for wholesale purchases of goods.

The study of consumer demand can be carried out *in three directions:*

- the study of the total demand and group range (the latitude of range);
- the study of intra-group range (the depth of range);
- consumer's assessments of the quality and design of products.

The data on studying the consumer demand are used in business to solve two interrelated problems:

- creating the optimal product range of trade enterprises;
- timely replenishment of a commodity stock to a trade company through their regular delivery in accordance with the consumer demand.

With an increase in material well-being of the people, not only a quantitative increase in consumers is taking place, but the structure of their consumption is also systematically changing. The demand for fashionable, high-quality products is rising, and under the influence of technological progress – the demand for technically sophisticated products of high quality is also rising. The people increase the demands for the quality of products, their design, types of finishes, styles, models, packing.

Demand – is a form of market manifestation of needs. The analysis of data based on studying consumer demand ensures the right balance between the volume of production and the volume of consumption; provides an opportunity to actively influence the industry to expand and update the range of products and improve their quality. Trade companies are not limited by passive registration of changes in consumer demand, and actively form it. Trade companies actively influence the consumption and habits of customers, and, in compliance with ethical standards, make them reasonable and rational. Trade companies promote the introduction of new products in everyday life through a system of measures, including trade advertising playing the special role among them.

Thus, such things influence the formation of the demand:

- the level of development of production of goods;
- the size, the composition, cultural level and purchasing power of people;
- national, professional, historical, geographical and climatic features;
- the price level of the goods in question, interchangeable products that complement consumption of this product;
- the value of free income of the people;
- fashion;
- season of the year;
- consumers' expectations;
- activity and quality of advertising, and others.

In market economy, knowledge of demand and characteristics of its formation allows you to rationally allocate resources for the country trade, actively influence the industry, improve the quality and range of products manufactured, and form a range of goods for retail and wholesale trade.

Meeting the needs is a goal of economic development. The need, in the broad sense of the word, is a recognized need of man and society for material and social benefits, services, and spiritual values. A solvent need for consumer goods is shown in the form of demand.

The quantity (amount) of the demand is determined by the amount of goods that the buyer is willing and able to buy at the proposed price for a certain period of time.

The study of demand requires a comprehensive approach, which allows obtaining complete information about the goods necessary for the consumers and prices that they are willing to pay for the goods. Such information is not only conducive to the study of demand, but also helps to identify patterns of its change and development.

There are various *ways and methods of studying consumer demand*.

The functions and the methods for the study of demand in wholesale and retail trade delimit in order to the data of one unit would be refined and supplemented by the data of another level of trade, while forming a single system of accounting and analysis of the demand.

Wholesale trade enterprises, serving certain territorial and economic area and specific customers, study both the volume of consumer demand for certain types (groups) of goods and the range structure of demand.

There are different ways of learning and forecasting demand in wholesale trade. Wholesale trade enterprises use the following methods for the study of demand:

- operational accounting the sale of goods and movement of inventory in the past period;

- the study and synthesis of applications and orders of wholesale buyers to purchase and delivery of goods;

- the study and the synthesis of applications of retail outlets to a centralized delivery, and delivery of goods;

- recording and analysis of unmet demand of wholesale customers;

- conducting Assortment and market meetings with the buyers.

- conducting exhibitions, fairs, arts councils with the inviting of leading experts.

For the study and forecasting of demand, *marketing services (departments)* created in large and medium-sized wholesale enterprises that study the total demand (market capacity) and the intra-group structure of demand for purchased goods.

Retail trade enterprises use the following methods of studying the demand of buyers:

- analysis of indicators of turnover;

- analysis of inventory and goods circulation;

- analysis of realized and unrealized demand of people.

The index of retail turnover is the most common form of manifestation of the demand.

Retail trade turnover – is the amount of sales of goods and provision of services for people for personal, family or household use. Analysis of the structure of retail trade turnover helps to identify the preferences of buyers in relation to certain goods.

But trade turnover as an expression of the demand allows judging only the realized needs of customers. There are also unmet needs, i.e., an unmet demand.

If the realized demand can be estimated according to the actual size of goods sold, it's difficult to identify and quantify the unmet demand. Therefore, identifying the causes of emerging the unmet demand most often is the main purpose of its study.

The following circumstances can be the main causes of emerging the *unmet demand*:

- the lack of goods necessary for consumers in trade outlets;

- too high prices for the goods that do not meet the income of people.

For the study of *unmet demand*, they apply:

- the cards for registration of unmet demand (filled by the sellers);

- checklists (the buyers fill themselves);

- receipt of orders from customers for the goods temporarily absent;

- carrying out the Day the account of unmet demand.

Analysis of the realized demand is to examine the assortment structure of goods and to account the inventory movement, which allows you to determine how much and what kind of goods have been sold.

The methods of the *studying realized demand* can be divided into two groups:

The *methods based on the balance calculations* – are the most effective and common ones. They are based on the formula of commodity balance:

$$B_{sd} + I = S + B_{fd} \longrightarrow S = B_{sd} + I - B_{fd} \quad (12.1)$$

- B_{sd} – the balance of goods at the starting date;
- I – the inflow of goods for the period of studying demand;
- S – sales for the studied period;
- B_{fd} – the balance of goods at the finishing date;

2. The *methods of direct registration* of the sale of goods:

- account of sales through tear-off labels;
- account of sales through label-liners;
- account of sales through commodity (soft) checks;
- account of sales when calculating with customers through cash machines;
- account of sales through the cards of quantitative account;
- the study of length of staying the goods in the store according to the data.

12.3. Objectives of analysis of consumer behavior. Methods of analyzing consumers' behavior. Model of consumer behavior

Analysis of customers – is a method of scientific research of the customers, their preferences, behavior, requirements, as well as their certain internals. The various methods for conducting such researches, the causes, methods, and processing methods. The analysis is based on various parameters – geographic location, social class, age, gender, income, occupation and education of the customers.

The analysis of customers shows the buyer's attitude to a specific product, product group, manufacturer, product price, product range, quality, etc. The resulting information is the basis to make the necessary changes in marketing policy of an enterprise (organization). The organization that is conducting research or ordering it does so to maintain constant and attract new customers, win new market segments, improve its competitiveness, improve the quality of goods (services), etc.

The objectives of the analysis of consumers' behavior:

- characterization of the satisfaction of purchase and sales service;
- determination of customers' attitude to the product and service (the rating of a new product);
- distinguishing of customer groups on the time of recognition of a new product,
- the analysis of the frequency and periodicity of purchases,
- research of the customers' intentions;
- psychographic modeling of the consumers;
- assessment of profitability of the customer.

The main idea of the analysis of consumer behavior – to establish whether he (she) will give preference to any product of this company, when and how much he (she) will buy it.

The methods of studying the consumer's profile. Traditionally, the methods of studying the consumer's profile (as well as the tools of marketing, market research) were based on the same approaches that are used in natural sciences:

- sampling and data grouping;
- the preparation and processing of the profiles;
- test systems, mathematical modeling.

In the traditional approach to marketing in general, and to market research in particular, it was suggested that we cannot try to predict the needs and demands of consumers, even in the near future, a fortiori to build sales forecasts on them. We really cannot rely only on the data of quantitative statistics.

Traditionally, in the study of the individual elements of consumer's behavior in the market, the method of conducting **interviews and questionnaires** has become the most widely used. This method provides an opportunity to identify precisely those reactions of consumers, which allow evaluating the current structure of requests and preferences of consumers and capturing the changes in the structure of consumer demand. All the above allow the company management project even today their production plans for a new system of consumers needs.

Based on the data processing of such questionnaires and surveys data, you can keep a card file of consumers, which may reflect the individual characteristics of each consumer. Overall, the survey is the main method of determining the profile of the consumer or obtaining the information necessary for this.

Analysis of the behavior of consumers is carried out through the market **testing**:

1. Wave studies of sales – the buyer is offered test the goods free.

2. Simulation market testing – 30-40 buyers taken, who are asked about the product brands known to them. They get a certain amount of money and are offered any product by their choice. The consumers' causes and motivation identified. A few weeks later, a phone survey conducted.

3. Large-scale testing (test market) – several representative cities determined, where sales of goods and goods advertising organized through using marketing actions.

The method of determining the consumers' needs and problems.

A consumer survey organized, in which they have to list the advantages and disadvantages of the goods and the conditions of their sale. The profiles are grouped by income, gender and age of customers. Deficiencies detected are ranked according to their severity, abundance and the cost of eliminating them.

The model of consumer behavior includes the following categories:

1. Incentive marketing factors (the product, its price, distribution methods and sales promotion).

2. Other environmental factors (indirect effects) – economic, political, cultural, social, scientific and technical factors.

3. Consciousness of the customer (his characteristics and the process of making purchasing decision by him).

4. Responses of the customer (product choice, brand, supplier, time of purchase).

The process of acquisition of a product includes the steps listed below.

1. The emergence of needs: the need arises under the influence of external and internal factors. So as to a person makes specific actions, his (her) need has to reach a certain level of intensity, i.e., displace or suppress other desires. Marketing specialist must find out what his needs the buyer satisfies by purchasing this product, as well as through which events the intensity of needs may be increased.

2. The search for information: to meet arising needs, the person requires relevant information about a particular product. Depending on the intensity of the needs, they distinguish two states of a person: a state of heightened attention (exacerbation of attention to the information related to the satisfaction of his needs), and the state of an active search for the information (during exacerbation of intensity of the needs, the person intentionally starts looking for information about the product of his interests). Information sources are:

- personal sources (friends, family, acquaintances, neighbors);
- commercial sources (exhibitions of products, advertising, sellers, packaging);
- public sources (media);
- empirical (use of the product, experiment, test).

3. Evaluation of information: the person relates the information obtained to his capabilities and generates the corresponding attitude to this product.

4. The decision to make a purchase: evaluation of the information obtained about the product, as well as consideration of the effect of various factors on consumer behavior regarding the purchase. A marketing specialist shall provide a consumer with the necessary information and draw his attention to the factors that help motivate the purchase, i.e. push him to the final decision to buy a particular product.

5. Impressions after purchase. The impression of the acquisition of goods may be quite different: from full satisfaction to the perfect negatives to this purchase. So, before the customer makes a purchase, the marketer must do everything so that the customer would not disappoint in his choice.

12.4. Study of consumers' attitudes to company and to product

Now we consider the actions of a trading company, which wants to strengthen customer loyalty to it by strengthening its image. To do this, the company should research the following issues:

A. What are the factors that determine the image of the trading firm?

B. What impact has this image on the volume of purchases and the level of customer satisfaction?

C. To what extent the level of satisfaction determines the long-term focus on the purchases in this trade company?

As in other similar cases, here we have a sequence of causal relationships where the first dependent variable (the image) is becoming a causal variable for the second dependent variable (the volume of purchases and satisfaction), which in turn determines the long-term consumer loyalty to this company. Construction of the analytical model, in this case, is a complicated task. It will be easier to construct a multiple regression model on the basis of specially conducted marketing research. Simpler approaches are also possible, and one of them is discussed below.

In the study of consumer attitudes to the company, i.e., in determining its image, you should adhere to the following sequence of the work:

1. *Developing a system of evaluation criteria* that fully characterize all aspects of the activities of the company. So, for a service company, we can offer the following criteria as *basic evaluation criteria:*

- obliging;
- rate of response to orders;
- compliance with deadlines;
- the willingness to give an advice;
- technical and manufacturing capabilities;
- regularity of visits; price flexibility;
- providing high-quality services;
- the warmth of contacts; extensive work experience;
- modernity; dynamism;
- competence of staff;
- the possibility to provide a wide range of services.

2. *Formation of a representative sample of customers of the company*, among whom a survey conducted. The respondents assess the level of achievement of each criterion from the above list. It is recommended using a modified Likert scale in this case.

After processing the questionnaires received from all respondents, the identification of strengths and weaknesses of the company conducted. The estimates and conclusions are much more convincing when it is possible to compare them for various periods of time; or for one period of time, but for a number of competing companies. It is possible to obtain a comparative evaluation of the company's image on the basis of a study of consumers’ attitudes to the products of this one and competing companies.

The main difficulties in measuring the image using these approaches are as follows:

1. It is difficult to compile a complete and informative list of the studied traits and characteristics.

2. It is difficult to justify the legitimacy of setting some objectives of the study. For example, are the interviewees well familiar with all brands of milk studied? Do they understand quite well the terms of the quality of milk?

There may be a considerable range of opinions on such issues. What is the meaning of an average assessment in this case? Their correct statistical processing and interpretation becomes very important. Are there statistically significant differences in the estimates? Often, managers of organizations use the results of a study of customers' opinions and expectations to improve their activities, and for greater focus on the customers' demands.

In this regard, a comparison of the estimates of goods and services provided by the organization obtained from the organization's staff and consumers of goods (services) of the organization is useful.

In the study of consumer attitudes towards a particular brand of goods, above all, *you should distinguish the determining of the degree of renown of the brand product*. This area of marketing research involves the identification of the degree of consumers' awareness of the existence of a product of a certain brand (company). The renown establishes a relationship between the brand and the category of goods to which it belongs. The information about the level of renown is usually obtained by interviewing consumers about product brands (companies) known to them within the studied class of goods.

There are *three types of popularity:*

1. Renown-recognition. In this case, the previously known brand doesn't determine the purchase of goods of this brand. The recognition is the minimum level of popularity.

2. Renown-recalling. It is understood that the need for buying product of specific categories comes before the choice of the brand and results to it. The ability to recall is a more stringent criterion.

3. Priority renown relates to a brand, which is called first by consumers when testing the consumers on the ability to recall the brands of product of specific categories. It takes a priority status at the minds of the consumers.

The two types of questions used in a survey of consumers on this issue.

The open-ended type of questions prompts them to specify a brand of product of a particular category;

The closed-ended type of questions. A list of brand of goods is given, and the respondent is asked to note the ones about which he has heard before. The respondents may also be asked to specify the level of their familiarity with the brands of goods by using a scale of three or five gradations.

Determining the degree of awareness can be conducted by telephone interviews. The question asked whether the respondent know of the existence of this product.

The percentage of positive responses is seen as a measure of awareness. Deeper questions might be asked, like: "Call one of the advertised brands of the studied groups of products, such as dishwashing detergent". The goods often called the first are the most well-known ones. The decision to make a test purchase not only depends on the awareness of the new brand, but also on its distinctive properties which are usually indicated in the advertisement. The information obtained through the analysis of data collected on the renown of brands of goods of a certain category can be used to:

- determine the proportion of potential buyers who call the competitive brand of product (or company) as the first among the brands (companies);

- determine the main goods (companies) of the competitors on the basis of the first mentioned brands of goods (companies);

- determining the level of memorability of names of brand and firms; some names of brands and companies are remembered poorly, although they are easily recognizable;

- comparing the ratio between the index of popularity and market share for each brand with the average ratios for the market, as some brands sell their renown better than others ones;

- measuring the distance between the individual brands (companies) on the scale of popularity, if it is of an interval nature;

- identifying the markets with the least level of well-renown of the brand (the company).

The next step in the study of certain goods brands is *an exploring the views of consumers of these products.*

These studies can be developed in the direction of obtaining the following information:

- about the needs which the commodity in question satisfies;

- about users requirements for the product and the level of service;

- about motivation that should be implemented when purchasing the goods;

- about the information sources defining the choice of purchase (exhibitions, fairs, technical press, advices of particular persons, advertising, etc.).

A more sophisticated approach is to *estimate the individual brands of goods on their features.* Often a set of consumer characteristics of the product and a set of benefits provided to consumers when purchasing and using goods, called its attributes.

A direct survey of consumers is possible to determine their relationship to the individual attributes (characteristics) of the researched product, a set of values of that defines its image.

However, more sophisticated methods are usually used to assess the expanded relationship to the goods of a particular brand (its usefulness to consumers).

These include methods based on **two approaches**:

- compositional approach;

- decompositional approach.

The compositional approach is to form the values of a complete utility based on measuring the importance and usefulness of certain characteristics of the goods obtained by examining the views of customers, taking into account their individual preferences. Further the reduction of assessments of utility specific characteristics of the goods in the final one is carried out, which called a cumulative assessment.

The decompositional approach is developed in the opposite direction compared with the compositional approach and begins with the definition of the preferences of different brands of goods, a set of properties of which are already defined Further, underlying particular utilities for each characteristics to be output. For this buyer, the full utility of the brand is equal to the sum of its particular usefulness. Particular utilities correlate as with the importance of each characteristic (attribute), and with its value for each item. These two influences are not separated in this approach.

When implementing the **decompositional approach**, the respondents react to different brands of goods described by various attributes. Information collected from the respondents boiled down to ranking preferences in regard to the considered brands of goods. Another analytical task is to formulate a particular utility for each feature. Using the ratings of different sets of attributes, you can reveal underlying those private utilities, and then recreate the structure of preferences of the respondents in all attributes that describe the studied brands of goods.

The two main approaches used in determining the type of the consumer’s attitude to the product:

- a preference revealed;
- the extent is determined to which consumers like the product or have an intention to buy it (on the one hand) and their financial abilities (on the other hand).

For example, the choice between car models A and B depends on what question, the respondents answer: "Which model do you prefer?" or "Which model you are likely to buy?" The consumer may prefer the Model A, but to buy the Model B due to a lack of money.

12.5. Study of value system of consumers and a level of satisfaction of their needs

Consumers, on the basis of their system of values, choose the products, ranking them according to a set of attributes, and thus determining the product they to buy. Typically, it’s difficult for the consumer to formulate his system of values. So instead of forcing consumers to think about the individual attributes separately, the consumers take out their opinions about the product as a whole within the special analysis, which is called the conjugated analysis. For this purpose, they are asked to rank the products having different sets of attributes. Then, based on mathematical analysis, the system of values, underlying their choice, determined. Herewith, it also is possible to estimate the extent to which the consumer is ready to sacrifice a certain value of the attribute for the higher value of the other one, i.e., to define his value system. There may be a big difference between the things that, according to the manufacturer, the consumer expects, and the things that he wants in fact, i.e., between the needs of consumers existing according to the manufacturer, and their real needs.

The consumers base their expectations on the information they receive from vendors, friends, and other sources. If the seller is exaggerating the advantages of the goods, the consumer’s expectations do not come true, and he is frustrated and dissatisfied. Hence, the need emerges for a direct survey of consumers and for the formal measurement of the degree of their satisfaction/dissatisfaction.

It is also interesting to trace the evolution of satisfaction over time.

The interviewed consumers give their own assessment of the level of satisfaction for each indicator. Then, by adding the compositions of the weighted ratings for each indicator, a cumulative assessment of the degree of satisfaction with the product or with the manufacturer is determined. The cumulative satisfaction with the product, with the service level, or with the seller may be taken by getting a direct answer to a question.

Finally, it is recommended to determine if there is intention to make a repeat purchase.

These surveys can be carried out regularly on a representative sample of consumers of the products of a certain firm or on a representative sample of consumers of similar products of different companies operating in the same market. These inter-company studies allow making comparisons between competitors. You can conduct a more in-depth analysis of customer satisfaction through building a map of satisfaction. To do this, first, the average level of satisfaction of the studied parameters calculated, and the standard deviation for each of them calculated. The estimates obtained are compared with the average estimates for the studied market segment. This comparison provides a fairly complete picture of the market perception of product quality, service level, etc.

Answers to various questions on specific indicators are distributed along two axes, one of which corresponds to the average estimates of the level of satisfaction, and the second one – to the standard deviations of the estimates. A large deviation means that the same opinion is shared by a small number of respondents.

Selection of the point of intersection of the axes is conducted as follows. Usually, the average estimates for firms of this market segment chosen or the result of the most dangerous competitor. Thus the map is obtained as shown in Figure 12.1.

The average estimate of indicators related to the right lower quadrant is higher than the average estimate for the market segment as a whole, and their standard deviation – is lower. Here consumers are generally satisfied and consistently recognize this.

In the upper right quadrant, the measured indicators also get a high average rating, but the high standard deviation indicates that the assessments of consumers do not match. In this case, we speak of “distributed satisfaction”.

In the upper left quadrant, the average estimate is lower, and the standard deviation is significant. Distributed dissatisfaction means that most consumers are dissatisfied, but some of them to a lesser degree than others.

Finally, in the lower left quadrant, the respondents with a high degree of coherence show their dissatisfaction. This is the worst case.

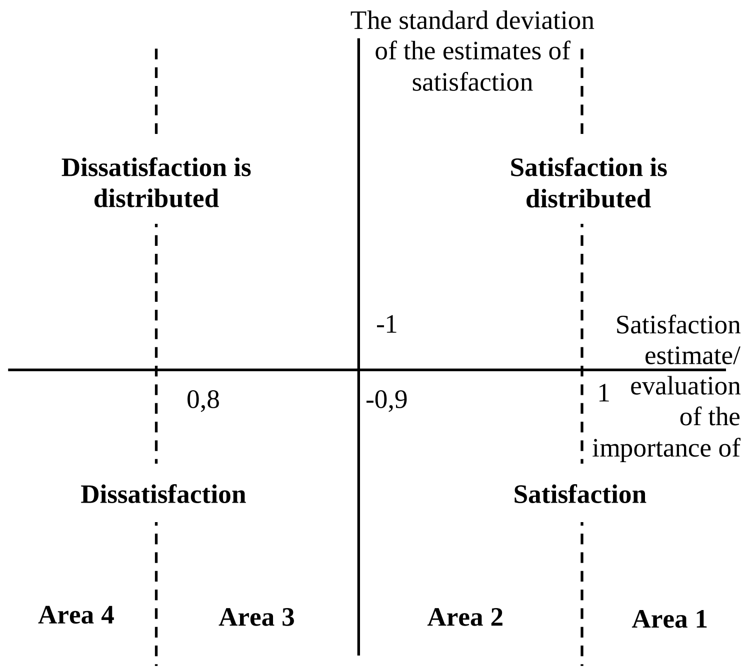

Fig.12.1. The Matrix of Satisfaction/Dissatisfaction

The identification of unsatisfied consumers will allow determining the cause of their dissatisfaction and taking individual corrective actions before the unsatisfied customers reoriented to competitors.

The use of estimates of the importance of the studied parameters allows creating even more useful tool for decision support than the satisfaction card, which remains too descriptive. The comparison of the obtained estimates of the importance of indicators to the estimates of the degree of their achievement or the presence in the product allows you to check whether the quality of the offered goods meets the consumers' expectations.

In the general case, it is expected that the achievement of high values of the indicator that is more important for the consumer is valued more highly. If the deviation for the worse is too high, the consumer shall regard the goods as unsatisfactory ones. Otherwise, the company offers a level of quality that the consumer does not require. The excellent quality of secondary indicators is meaningless; in contrast, the low quality in terms of determining the choice of the goods may very negatively affect the image of the brand. In this connection, it is useful to rank the indicators according to their importance on order to identify parameters on which you need to concentrate your efforts.

The results of such marketing studies with a small degree of transformation can also be used for market segmentation based on benefits that the consumers are looking for when buying goods.

This requires the following data:

- A list of properties or benefits associated with the studied categories of goods;

- The assessments of the relative importance attributed to each property by the consumers;

- The grouping of consumers giving the same assessments to the properties studied;

- The estimates of the number of consumers and the profile of their response to the proposed product and to the individual elements of the marketing mix for each identified segment.

For example, the analysis of market of the means for dental hygiene revealed that the following benefits attract buyers: white teeth, fresh breath, a pleasant taste, prevent of tooth decay, gum protection, and a low price. If you ask a customer which of these six properties he is looking for, the answer is usually given that all the properties. If you ask him to distribute 100 points between the properties on the basis of their importance, the differences become apparent that allow forming market segments.

Questions for discussion:

1. Give the main methods of consumer research.
2. List the main principles of the formation of right understanding of consumer behavior.
3. Give the directions for the study of public demand.
4. Select the group of methods for the study of met demand.
5. Reveal the contents of the methods of studying user profile.
6. Which categories include the model of consumer behavior?
7. Describe the sales-wave research as a method for market testing.
8. Describe the process of simulation market testing.
9. Reveal the essence of scale testing.
10. Name the approaches used for obtaining the expanded evaluation of the attitude to the goods of a particular brand.

SUBJECT 13. STUDYING OF PRODUCT

13.1. Essence and purposes of studying product. The main directions of studying product.

13.2. Analysis of consumer attitudes.

13.3. Research of bringing a new product to market.

13.4. Ways to explore product: grading system on Osgood scale, grading system by Stapel, market tests.

13.5. Concept of product testing. Testing according to a type of product. Types of testing.

13.1. Essence and purposes of studying product. The main directions of studying product

Product (goods, commodity) – is all that have material embodiment, can meet the need and offered in the market to purchase. To study the products, their classification is carried out on the following grounds:

- the commonality of design, operational parameters and the scope of application;
- the unity of principles of action, the nature of the functions performed;
- the degree of participation in the production process (raw materials, basic and auxiliary materials, semi-finished products, fixed assets and services).

The main objective of the study is to determine the conformity of technical and economic performance and quality of the goods traded in the market to customer needs and requirements, as well as the analysis of competitiveness of the goods. The study of the goods allows getting the most complete and valuable (from the point of view of the consumer) information about consumer parameters of the product (its design, reliability, price, service, functionality) as well as data for forming arguments for an advertising campaign, and for selecting appropriate resellers.

Findings of the study enable the company:

- to develop its own range of products in accordance with the requirements of customers;
- to increase their competitiveness, develop new products;
- modify manufactured products, improve labeling;
- to develop a corporate identity, to identify methods of patent protection.

To find out how the demand is met for the products similar to the ones that the company is expected to deliver to a chosen market, it is necessary to examine the commodity structure of the market, technical level and quality of traded goods, the system of product distribution and service of competitors, special requirements for the goods, the current standards, regulations, and the rules of technical safety. Ultimately, you should come to a conclusion what product, and approximately in what amount may be sold in selected markets (segments).

The main tasks that can be solved within the research of the product:

- the search for unoccupied niches, the development of new product concepts, creating and testing brand names, development and testing of packaging (design and physical characteristics);

- positioning of the product, the study of consumer reaction to the new product, its potential, etc.

To test packaging of the product is among the areas of the product research. The main purpose of testing package is to determine the following packaging characteristics:

- the attractiveness of the shape and design of packaging;
- memorability of basic design elements;
- the perception of form and design of packaging;
- memorability of particular elements of the package;
- the image of the product in new packaging and its perception in comparison with competitors;
- the impact of packaging on the willingness to purchase the new product.

The purpose of testing the name of the product the is to obtain the following estimates:

- the perception of the product name, its euphony;
- memorability of the product name;
- compliance of the name with the product category, and with brand positioning;
- the image of the product with the name under testing;
- the impact of the name to the willingness to make a purchase of the product.

The main objectives of testing the properties of the product:

- direct estimation of consumer properties of the product in comparison with major competitors;
- identifying the strengths and weaknesses of the brand promoted;
- verification of the success of achieving the goal set for developers of the product (referring to the properties of the product);
- determination of the formulation and the dosage of components of the product;
- the choice between alternative products;
- identifying unaccounted problems of using the product and structural defects;
- clarifying the perception of quality, features, ease of use of the product in comparison with the similar products of competitors.

The results of a comprehensive study to develop a new product are:

- the development of the concept of a new product or modification of the concept of an existing product;
- the characterization of potential consumers of the product (the definition of the target market);
- recommendations on the price of the product;
- product design, packaging design.

13.2. Analysis of consumer attitudes

There are the main directions of the study of consumers:

1) consumer attitudes towards a particular company;

2) the attitudes towards the various aspects of its activities;

3) the level of meeting the needs;

4) the intentions of buyers;

5) the decision to buy (see in the previous Subject);

6) the conduct of the buyer in the process of making a purchase and after it;

7) the motives of consumers.

The consumer’s evaluation of the information received on this product is either a knowledge-based, or is caused by his emotions. Through various marketing techniques, marketers study the attitudes to their product. This is needed to adjust in time the actions of the company in the market.

In practice, two main approaches used in determining the type of customer attitudes to the product:

1) identification of preferences;

2) identification of propensity to buy certain goods.

For example, two models of the product – A and B – presented in the market. Through the question "Which model is preferable for you?", you can reveal the preference of the buyer. You can identify the propensity to buy by asking the question "Which model you are likely to buy?". The user may prefer a more expensive, high-quality model A, but due to lack of skills of dealing with the commodity (or other factors) buy a model B.

Also, the system of values on which they are guided in choosing the product is an important direction in the study of consumers.

You can use the map of satisfaction for in-depth analysis of the degree of customer satisfaction. To do this, the average value of the level of satisfaction on the set parameters and the standard deviation for each of them calculated. Then the analysis is carried out by comparing the received data. With this technique, you can get a fairly complete picture of the market perception of the quality of the product, its price, service level and so on. In addition, it is important to regularly measure the degree of satisfaction (and dissatisfaction) of customers and find out the causes of the discontent.

13.3. Research of bringing a new product to market

Firstly, it is necessary to conduct marketing research for manufactured brands of goods. In the first place, the following points should be highlighted:

1. Measuring consumer attitudes toward a particular brand of goods. First of all, we should examine the degree of renown of the brand of product. This area of marketing

research aimed at identifying the degree of consumers' awareness of the existence of a certain brand of goods.

2. The next step in the study of certain goods brands is studying the views of consumers of these products. It is about figuring out how the product studied meets the requirements of the market and consumers, i.e., on the assessment of the market adequacy of the goods.

Marketing researches of produced brands of goods are carried out by examining the views of customers, employees of distribution networks and service centers in the study of the competitiveness of certain goods. Then, market research conducted when developing new products.

The development of a new product is one of the most important areas of marketing activities. But first, we must agree what is included in the concept of "new goods".

There are no less than 50 interpretations of the concept of "new goods". We can distinguish three main approaches to the definition of the concept of "new goods".

1. The definition is based on the time criterion: any newly manufactured product attributed to the new products. The criterion of novelty in this case – is not qualitative features of the product, and the time of its development and production.

2. The definition is based on the requirement to select a new criterion for distinguishing the goods from their analogues and prototypes. The principle of generation and/or meeting the needs that were not previously known suggested to use as such criteria. Any progressive change distinguishing the goods from the previously known ones is also called a new product. These changes may affect the raw materials, materials, design, technology, exterior design etc.

3. The definition is based on the following premise: you should start not from the sole criterion and of a certain their totality, characterizing one or another aspect of novelty of the products. It is possible to select, for example, four levels of novelty of the product:

- Changes in the external design if keeping the existing consumer properties;
- A partial change of consumer properties by improving the main technical characteristics, but without any fundamental changes in the technology of manufacturing;
- A fundamental change in consumer properties, making substantial changes in the way of meeting the correspondent needs;
- The appearance of the goods, which has no analogues.

The methods of studying a new product include both conducting surveys (of consumers and professionals involved in the development, production and sales of the new products), and performing special experiments.

Forward-looking information about possible market fate of a new product could also be obtained by analyzing the sales volume (for example, by studying the life cycle curves) of similar products, by analyzing the situation in the field of competition.

We shall concretize the content of marketing researches regarding individual stages of development of a new product.

The development of a new product – is the development of original products, product improvements and modernization, the creation of new brands of products through conducting its own R&D by the organization.

Typically, the process of development of the new product is divided into several stages:

- Generation of ideas;
- Selection of ideas;
- Development of the new product concept, its verification;
- Development of the marketing strategy;
- Analysis of the prospects of the business;
- Development of the product itself, test marketing, and commercial production.

To carry out works effectively on these stages, it is necessary to conduct appropriate marketing researches in some of them.

Generating ideas – is a systematically organized search for the ideas of new products. There are many ways to organize a constant flow of ideas. The main components of the process of finding new product ideas – is to analyze the sources of ideas and to use creative methods of getting ideas.

The selection of ideas is intended to identify the useful proposals and discard unsuitable ones as soon as possible. Not the products evaluated, and the ideas in their more or less rudimentary form. Pre-selection can mean the testing of ideas on their compliance with the requirements of the company, which may include peer reviews, assessment matrix and multi-criteria evaluation. For this, own professionals of the company used. Evaluation criteria depend on the nature of the enterprise. Peer review is carried out, first of all, on such indicators as: the expected sales, production growth, achievable penetration, matching the product to distribution channels used or planned to be used. It is necessary to find out what are the advantages of the product in relation to the products of competitors, are there any legal or moral issues.

In developing the concept of a new product, i.e., in determining at what particular product a selected idea materializes, it is determined with which other products it will compete, the positioning of the new product held. There the results of the marketing research should also be widely used. The phase of development of the concept of goods is closely linked to the method of functional and cost analysis. The method evaluates the elements of the product only on the basis of costs, without taking into account other criteria. The elements that do not substantially affect the quality of the product must be removed or modified.

The development of marketing strategy is inconceivable without the use of a variety of marketing information of forecast and evaluation character, including information obtained in the earlier stages of the development of a new product. Additionally, the guidelines provided for the selection of strategies in the context of the particular elements of the marketing mix; to do this, marketing research results in the field of pricing, sales channels, and products promotion can be used.

Analysis of business prospects – is the assessment of anticipated value of sales for the new product, costs and profits for their compliance with the objectives of the organization. In other words, it comes to assessing the attractiveness of a particular new product for the organization. Since, in this case, we are talking about mostly forecast estimates, the methods of forecasting are widely used. Economic analysis of the ideas can be implemented in the following stages.

1) Forecast of the costs associated with the product development, entering the market, and sales. The forecast is associated with some risk, since conducting the analysis assumes knowing the situation on the market, time and area of sales of the product, the attitude of consumers to the product.

2) Assessment of the volume of sales (turnover, revenue). The quality of the forecast depends on how well you will be managed to assess the growth of the market, attainable market share; and price, which in turn depends on the amount of costs.

3) The profit forecast. If we know revenues and costs for a certain period of time (or the inflow of funds and payments), the methods of investment calculations may be used for the profit forecast. In any case, you should consider several periods, because, as the model of the product life cycle shows, the first periods may be quite atypical in terms of profits.

4) Accounting uncertainty. For each situation, the development of optimistic, medium and pessimistic forecasts recommended. Another possibility to account uncertainty is to correct target values through assigning them the coefficients expressing the degree of their certainty.

If the project has successfully passed the business test, it goes into a stage of the prototypes – first preproduction models. Technological or scientific research departments are involved in prototyping. It should be remembered that, from this moment, the cost of development process increases. At this stage, it will become clear whether the idea is feasible in practice.

Test marketing, or testing the product in the market is one of the final stages of creating a new product. Test marketing – is an examination of the product and marketing program in the real market conditions. The purpose of test marketing – is to evaluate the product and its marketing program (price, advertising, brand, packaging, service, etc.) before beginning sales of the product, and find out how consumers and intermediaries will react to all these. The results of test marketing can be used in forecasting sales and profits. In conducting test marketing of consumer goods, the following methods used:

- Standard testing the market;
- Control testing the market;
- Simulative testing the market.

Standard testing the market – is testing the market in which the new product is placed in the conditions similar to the conditions of sales, with the full implementation of the process of product manufacturing. They find specific locations of sales of the product where the marketers of the organization implement a full marketing program, analyze the activities of stores, carry out a research of consumers', distributors' and others' opinion in order to determine the extent to which the product meets the consumers demands. The purpose of the standard testing is to use the results obtained to predict nationwide sales and to identify the problems associated with the production and marketing of the product.

Control testing of the market – is the creation of special panels of stores that agree for a fee to test different methods of product sales. The organization, which carries out control testing of the market, in accordance with its plans, determines the number and geographical location of the stores, controls the location of the product on the trading floor, prices, and the chosen methods of promoting the product.

Analysis of the results obtained makes it possible to determine their impact on demand.

Simulative testing the market – is testing the product under the conditions simulating the real conditions, for example, the purchasing of goods among which there is a new product in conventional stores or in a laboratory shop of the organization by the consumers selected by the organization for the limited amount of money given to them. Herewith, the consumers get samples of advertising and other methods of promotion of various products, including the product tested.

When conducting test marketing of products for industrial purposes, product samples are sent for testing by potential customers for a limited time. In addition, the product can be tested at exhibitions organized by trade companies, distributors and dealers. It follows from these data that the developers of new products must first study the demographical, psychological, economical, and other characteristics primarily of super innovators and innovators, as they respond to the news first. As a rule, it is extremely difficult to do this, because the same people may behave differently with respect to various products – being either innovative or conservative. Obviously, the success of new product development is greatly influenced by the external business environment, which is also to be researched. From the information obtained in the course of test marketing, it will depend whether the new product will be launched into mass production. In the case of a positive decision, the project enters the next phase – the commercialization of, or bringing the goods into the market.

13.4. Ways to explore product: grading system on Osgood scale, grading system by Stapel, market tests

The study of the goods, as a rule, is carried out at different stages of its life cycle. The researcher must assess to which extent the developed and manufactured products meet the needs, tastes, desires and habits of consumers. During the study of the product, its advantages and disadvantages examined in comparison with the goods-analogues.

To determine the general attitude of consumers to the product, the rating system with a seven-point **Osgood scale** (Semantic Differential) is commonly used: 1 point – a wonderful product, 7 points – a useless product. The responses received from consumers are summarized, and an average rating displayed. The closer is the average rating to "one", the better is the general attitude towards this product.

Stapel rating scale also merits attention, in which the estimates range from -5 to +5 points.

There are other ways of studying the goods, such as **market tests** in the test marketing during the phase of development of a new product, or a numerical score to determine the products that are subject to removal from production.

The scheme of exploring the product depends largely on specific conditions. However, we can distinguish the following main areas of studying the goods:

- the assessment of general attitude of consumers;
- the evaluation of product qualitative characteristics by the consumers;
- the assessment of competitiveness of the goods by the consumers;
- the study and forecasting of the life cycle;
- the assessment of the need for modernization of the product or the release of new products in accordance with the changing needs of customers;
- the study of the features of application of the product;
- features of the goods packaging;
- the positioning of the product, its role and place among other products.

Thus, the assessment of goods by consumers is always carried out as a complex process carried out by the company to meet the requirements of the economy, psychology, aesthetics, ethics, ergonomics, and scientific and technical advance.

The bringing of a new product to the market is certainly a project activity, since it has all the features of the project – it is once implemented algorithmic process with limited objectives, resources, time, and a team allocated for this. Once the project is successfully completed, created business planning becomes the subject of regular management of the enterprise.

The aspiration to bring a new product to market caused by the desire to increase revenues and profits through the development of product range; by the desire to increase or maintain market share, to conduct the expansion, diversification of activities; to create a new business, etc. At the same time, such activities are considered to be more risky than deepening and/or expansion of the market share based on existing products.

The bringing of a new product to the market requires a fairly extensive preparatory work. This is the choice of a particular target audience, as well as a comprehensive study of such option as "price-quality" based on a particular consumer, and endowing significant competitive advantage to the new product.

The challenge to bring to the market any product is quite labour-consuming. We could even say that these are two equally labour-consuming tasks because you first need to come up with something new, and then sell it. The main goal – is to come up with a product to be purchased. The product may be new if it represents a new product category.

The product will also be new if it has a feature that distinguishes it from the products already existing in the established product category. In such a case, it would only need to find some feature that will define the niche for this product.

Before you create something new, you must examine the already established things and to understand what are the existing categories of the products and what are the features of the existing products. The purpose of this work is that this new one should be popular, i.e., to have demand among potential customers. Thus, creating a new product based on a comparison of supply and demand.

The first step is to examine the supply i.e., to explore the market and carry out the analysis of competitors. Next, you need to analyze information on new technological production. New technologies can be applied in the development of product strategy, but the emphasis on these new technologies will help to position a product in a new way. Also, along with the use of new technologies, you can use the opportunity to create a new product – from new raw materials.

After reviewing the proposal, you need to understand the demand: what do the consumers want? The study of the consumers is quite voluminous and touches upon many parameters, the whole range of factors that eventually affect the consumer behavior with regard to all categories of products within the scope of our interest. Such factors include attitudes towards consumption, the degree of satisfaction from the consumption of the product. You can create a new product using the disadvantages of the existing products.

In addition, you must study the structure of consumption of product of different categories, the analysis of lifestyles. The study of motivations is an important aspect of understanding consumer behavior. The demands and requirements of consumers allow us to formulate an ideal product, and provide answers to the questions about what the product should be that they bought it, and what it should not be.

After analyzing the market and studying of consumers comprehensively, the company will found some lags – empty or not filled positions in the market, in which there is demand, but there are no offers.

As a result, the variations of the product concept will appear, which may be many (10-20), but you should select only one. To do this, you need to test all the selected concepts and understand what the image is of the product created and what its perception is. You should also determine where the product is in relation to competitors' products.

The analysis of compliance with the expectations of a typical product consumer is needed also in order to an idea of who is going to consume this product coincided with the ideas of the consumer.

The user must identify him with the "typical consumer product", because otherwise, no one will buy the product. When the most appropriate concept is chosen, the idea can be implemented in reality: you can invent a name, develop design, packaging, determine the price and other parameters.

Since then, the work begins with the new product as a standard product in the market: to develop strategies and identify the methods of promotion.

In any case, before making a decision on bringing the new product to the market, a marketing research should be conducted.

First of all, it makes sense to conduct so-called desk research, namely:

- The analysis of secondary market information which can be found in the media;
- The monitoring of prices and range of products similar to or competitive with the products of your company. It is worth paying attention to the substitute products;
- A survey of experts.

If the desk study shows that the new product is promising, it is not superfluous to conduct a study of consumers.

To do this, you should perform the following steps of researching the product:

- By testing samples of the product, you should determine the motives of making a purchase, including emotional ones;
- Identify the goods-analogues;
- To organize a statistical study conducted on the basis of the attitude towards the goods-analogues.

These steps make it possible to forecast accurately for purchasing power and price expectations for new products.

13.5. Concept of product testing. Testing according to a type of product. Types of testing

When conducting marketing research, the procedure of testing the product is often used. This is done in order to select a strategy to promote this product in the market.

During the testing, the following work undertaken:

1. The advantages and disadvantages of the product identified, according to the consumer.
2. A comparative analysis made of these products with the same ones produced by the competitors.

As a rule, the results of testing the goods in the marketing research should assess the competitive environment of the product if the product is already launched on the market; and should assess the main risks associated with placing in the market of a new product.

Typically, such a **testing research** is conducted annually, but if the competitors have been aggressive in the market and produced quite a large number of new products, the assessment of the competitive environment is conducted more often.

The testing research is aimed at to correctly assess how the consumer preferences change, how the competitors react to these changes, what product is currently the leader in this market segment; as well as to make a detailed comparative analysis of the products already existing in this market segment.

During this testing, you must take into account the two parameters:

- The scale of losses in the case of selecting the wrong strategy of product promotion;

- The potential profit when choosing the correct promotion strategy.

Since placing of a new product in the market is always associated with an aggressive competitive struggle, the range of consumers for this product will be formed from the consumers of similar products produced by competitors, and it is important to carry out the test with a focus on consumers' opinion exactly about competitors' products. Those who currently use the brands of competitors, in can then become your customers if the strategy will be chosen correctly. Such testing is conducted prior to each bringing the new products to the market.

There are quantitative and qualitative *methods of testing the product*.

The quantitative testing methods are implemented through surveys: questionnaires, telephone surveys and personal interviews. These are the methods to get the same type of information from customers; the main thing here is to set certain patterns of opinion of purchasers of goods.

The qualitative methods of testing – are group discussions in focus groups, depth interviews and other methods that involve a deeper analysis, reveal motivations for people to buy a particular product.

The testing is conducted **in different ways**; the choice of method is influenced by the following factors:

-The subject of testing;

- The place where the testing is held;

- A target audience being tested;

- What quantity of products being tested.

On the nature of the target audience, the testing is divided into:

- Conducted among users of certain brands of products, among people who make purchases in any particular sector: in hypermarkets, in the markets, in high-end stores and the like;

- Conducted among people who own the right to make decisions about purchases in the family.

On the subject of testing, they distinguish:

- Testing of product prices,
- Testing of the product,
- Testing the concept of product and its advertising policy,
- Testing the name of product and its packaging.

Place of testing also significantly affects the results of the study, so marketers choose the place very carefully. The most common here is to test at home, as in this case, the respondents feel them most comfortable. However, the testing also conducted on trading floors, and in marketing research studios.

Depending on the number of products to be tested, they distinguished:

- Sequential testing;
- Circular type of testing.

Quantitative research is the seeking answers to the questions "Who?", “Where?” “How?”, "When?", and "How much?". The main objective of quantitative research is to obtain a numerical estimate of the state of the market, or to the reaction of respondents to a particular event. Such researches are used when accurate, statistically reliable numerical data needed.

Quantitative research is recommended to carry out:

- To determine the frequency and amount of consumption of goods;
- When comparing the relative effectiveness of a few ready-made concepts of advertising campaigns;
- To identify the sources of obtaining information;
- When determining the depth of market penetration of the goods, etc.

Questions for discussion:

1. Indicate the main objective of studying the product.
2. Reveal the process of testing the product packaging as one of areas of studying the product.
3. What approaches are used in determining the type of customers’ attitude to the product?
4. List the approaches to the definition of the concept of "new goods".
5. Distinguish the directions of studying consumers.
6. Describe the three main approaches to the definition of the concept of "new goods".
7. Narrow the content of marketing studies applied to the individual stages of the development of a new product.
8. List the research methods used in the test marketing of consumer goods.
9. Give the explaining to quantitative and qualitative methods to test the product.
10. List the steps of the economic analysis of ideas.

SUBJECT 14. FEATURES OF STUYDING PRICE POLICIES

14.1. Specificity of pricing study. Questionnaire method for studying price. Results of study of price.

14.2. Features of studying prices at different stages of forming pricing policies. Study of process of setting prices for goods. Factors for determining price for a product or service.

14.3. Basic methods for price determining. Qualitative methods of studying product pricing.

14.1. Specificity of pricing study. Questionnaire method for studying price. Results of study of price

Pricing – is to establish prices for a product or service. There are two main pricing systems: market pricing based on the interaction of supply and demand, and centralized state based pricing on the basis of establishing prices by public authorities. In the market economy, the process of selection of the final price is made depending on the cost of production, prices of competitors, supply-demand situation, and other factors.

Price and pricing – are the most important concepts of the market economy. The price referred to the amount of money that the buyer gives in the market in exchange for goods sold by the seller. Thus, the price – is the main characteristics of the goods from the point of view of a market economy.

There is no universally accepted definition of such a complex economic category as the price. This is one of the simplest and most imaginative definitions: the price is determined by the cost of the manufacturer and the art of the seller. The price is intended to reflect the interests of all market participants: the manufacturers need to compensate the investment and get profits; the buyers have to justify the cost of purchased goods, receiving in turn benefit from their use.

Pricing – is one of the most challenging and important parts of the marketing operation. Commercial success of any vendor of goods or services is largely determined by the choice of strategy and tactics of pricing. The difficulty here is that the price at a certain point in time may depend on many factors – not only economic ones, but also on political, social, psychological factors.

The optimal price for a product or service:

- provides profitability of the enterprise;
- it is interesting for the buyer;
- it allows you to maintain the presence of goods in the market and its sales at a non-reducible level.

The methods of marketing research of the price can be divided into two groups:

- direct methods of studying the prices based on consumer surveys;

- indirect methods of studying the prices based on a comprehensive assessment of price and non-price parameters of the goods.

The direct methods of studying the prices include:

- Van Westendorp Pricing (the Price Sensitivity Meter);
- Price Ladder;
- the test without comparison (monadic test)

Van Westendorp Test. The method was proposed by Dutch scientist Van Westendorp in the 1970-ies. The test is based on the assumption that the price should be chosen in such a way that the majority of customers considered it not too low. Since the low price may affect the perception of quality. However, the price must not be too high.

The respondents are asked roughly speaking the following questions:

1. How do you think, what level of price for this commodity appears to you to be so high that you are not going to buy it?

2. And what level of price for this product do you think is so low that a question rises about its quality?

3. What minimal price of this product seems high to you, but for which it is still possible to buy?

4. For what price would you bought this product, considering it a very good purchase?

As a result of the processing of numerical values of the responses, five rates of distribution distinguished:

- too expensive;
- too cheap;
- expensive;
- cheap;
- not cheap

An example of using the method by Van Westendorp as a customer survey results is presented in Table 14.1.

Table 14.1

The results of Buyers Price testing through the method by Van Westendorp

The price of the product (KZT)	Ready to pay (not cheap)	The top price of refusing (too expensive)	The lower price of refusing (expensive)	Maximum of purchase (cheap)	Profitable price (too cheap)
Up to 30	10%	-	65%	4%	19%
30-39	10%	5%	27%	15%	33%
40-49	32%	5%	6%	28%	36%
50-59	32%	29%	2%	32%	5%
60-69	10%	19%	-	11%	3%
70-79	5%	24%	-	5%	3%
80 and up	1%	18%	-	5%	1%

The resulting estimates can be represented as a graph, the price – on the abscissa, the percentage of respondents – on the ordinate (Fig. 14.1)

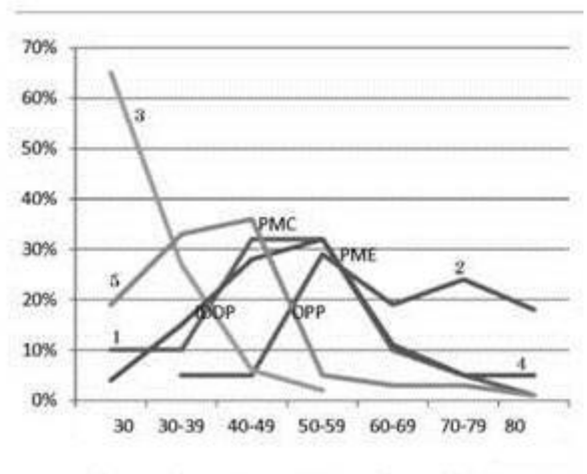

Figure 14.1. The estimates of the level of prices on the basis of the method by Van Westendorp.

1 – ready to pay (not cheap); 2 – the top price of refusing (too expensive); 3 - the lower price of refusing (expensive); 4 – the maximum of the purchase (cheap); 5 – profitable price (too cheap).

It can be seen that the intersection of the lines "expensive" and "cheap" provides a point of indifference (IDPP – indifference price point). This corresponds to the price that is not considered expensive or cheap by most customers, they are indifferent.

Crossing the lines of "too expensive" and "too cheap" provides the optimal price point (OPP – optimum price point). This corresponds to the price, which is rejected by the most buyers because it’s too high.

Crossing the line "too cheap" and "expensive" gives the marginal cheapness point (PMC – the point of marginal cheapness).

Crossing the lines of "too expensive" and "cheap" provides a marginal expensiveness point (PME – the point of marginal expensiveness).

Price Ladders. The method allows measuring the demand depending on different prices. Commodity description with a certain level of prices presented to the respondent. He should assess the likelihood of purchase at that price in the 4- or 5-point scale of preferences (Likert scale). Then they show him the same product at the other price – higher or lower – and ask the same question again. The process can be repeated until a predetermined number of price gradations will be reached, or the probability of purchase reaches one of the boundaries of the scale.

There are two versions of this method:

1) the price varies from a low value to the highest one, at which the respondent refuses to buy;

2) the price varies from a high value to the lowest one, at which the respondent announces his intention to buy.

The Example. "Technodom" store determines the price of washing machines «Indezit» with the following characteristics: the number of washing modes – 14, drying is available, delicate washing course, a guarantee of 24 months. The respondents were asked: how likely is it that you will buy the washing machine «ARDO» of 15,600 tenge.

The next question should be similar to the previous one, provided that the value of the price changes. And so on until it reaches the optimum value of the price, at which the majority of customers will want to buy the product - "definitely will buy".

The test without comparison (monadic test). The product at different prices is shown to several groups of respondents. The number of groups is equal to the number of price values. The evaluation takes place on the 4 or 5-point scale of advantages.

The method is similar to the price ladders; however, one respondent estimates the probability of purchase once. Obviously, the method requires a larger sample size to obtain accurate estimates. In addition, the group of respondents should have similar characteristics on order to the same set of factors influenced the price priorities.

The advantages of direct methods are the following:

- no large material and time costs;
- a large sample of respondents is not needed;
- they can be combined with other tasks within a single study (testing of price, packaging, trademark).

The disadvantages of the direct methods are the following:

- respondents often declare a lower price than the level that is acceptable to them;
- it is impossible to predict the reaction of respondents to the price during the implementation of an actual purchase. For example, purchase motivation may changes;
- the pricing policy of competitors is not taken into account, as well as the changes in products characteristics;
- the results obtained depend on the conditions of carrying out the study.

Indirect methods of studying prices include:

- Conjoint analysis (CA);
- a consistent choice of price and product (Price vs. Good Trade-Off).

Conjoint analysis – is a multivariate statistical method for studying consumer preferences. The term *"conjoint"* is of English origin, it has originated from contamination of the words *consider jointly*.

With the help of a joint analysis, the degree of consumer preferences measured, taking into account all the properties of the goods. The joint analysis is used to determine consumer price preferences, taking into account other attributes of the product (design, packaging, quality, etc.) Therefore, an important decision is to choose the properties of the product. Increasing the number of attributes affect the number of levels of evaluation, accompanied by rapid growth in the number of product variants, which should be compared and evaluated by the respondents.

It is necessary that these properties are consistent with the following conditions:

- they determine the value of the goods and take into account both positive and negative aspects;

- they should be the criteria by which consumers differentiate the products;

- they should be independent attributes;

- there should few attributes (no more than 7-8)

Example. During a joint analysis of «Amway» cleaners, five properties have been researched, three of which – the trade mark, the packaging, the price – had three gradations, and two of which – the availability of guarantee and recommendations from an «Amway» consultant – two gradations.

Total ($3 \times 3 \times 3 \times 2 \times 2 = 108$) product variants that respondents should compare and rank. This is a large number of product variants, of which it was necessary to leave the most appropriate ones. During the general analysis, they do not always use a full factorial design. The products with a significant number of attributes can generate a large number of alternatives.

There are several ways to solve this problem, which include an orthogonal plan, or the method of an orthogonal array. When it is used, the alternatives selected so as to balance the contribution of each attribute. The reaction of consumers to the combinations that are not included in the testing is modeled mathematically. This method is suitable for the study of consumers' perception of the price-quality ratio for the goods.

Example. The buyers' settings were studied for the purchase of a hair care product on its packaging. The following properties were considered: a trademark (L'Oreal, Garnier, Gillette, Riem), a price (500, 200, 100, 50 KZT), the type of packaging (an aerosol – a pressurized gas cylinder with a valve, a spray – a bottle with a pressure equal to an atmospheric pressure, and with a mechanical micro-pump). Thus, there are three properties, two of which have four gradations, and one of which – two gradations. In general, we have 32 Shopping Options ($4 \times 4 \times 2 = 32$). The use of orthogonal array requires that all the properties have the same number of levels. To ensure the symmetry, the two levels of "packaging" were duplicated that did not violate the conditions of orthogonality. As a result, they got 16 conceptions in which the property "packaging" occurred more often than in the others that did not contradict the goal.

All received options of the goods generate profiles that must be analyzed and selected by the respondent. He makes a choice of several presented options of profiles, which are shown on his cards or on a computer monitor. The respondents solve several such problems (10-15) during the survey. To analyze the respondents' responses, a regression analysis used where the respondent's evaluation of the profile of a product option is a dependent variable, or selecting the profile of a product option, and the product attributes act as independent variables.

The information is processed by using a regression equation, which can be represented by the following formula:

$$y = b_0 + b_1 \times x_1 + b_2 \times x_2 + b_3 \times x_3, \qquad (14.1)$$

The coefficients represent the contribution of the corresponding attribute to the degree of preference of a profile of the product option of the regression equation; that allows us to estimate the factor and the degree of its influence on the choice of the customers. Profile of the goods, which is selected by most of the respondents, is an indication of what a commodity should be, at what price and in what package it is most expedient to bring it to the market.

Conjoint analysis allows you to get the regression equation of each respondent and conduct market segmentation by the degree of importance of the attributes of goods proceeding from the value of *b*-coefficient of each attribute for each respondent.

14.2. Features of studying prices at different stages of forming pricing policies. Study of process of setting prices for goods. Factors for determining price for a product or service

The study of prices at the various stages of forming a pricing policy is among the main directions of conducting a marketing research. **Pricing policy** – is the ability to control prices and price formation. In other words – this is the ability to establish prices of goods or services, which are mutually beneficial for the company and for the consumer, as well as to change them depending on the position of the product and the company on the market. The classic definition of a commodity policy was given by the founder of marketing P. Kotler, who defined it as "a definite course of the company's actions in regard to the goods and services produced by it".

An adequate pricing and product policy is the basis of success of any company. Wherein, if a change in commodity policy requires considerable time, a change in prices may be done quickly enough.

Price researches include:

- analysis of the prices of products;
- market segmentation;
- the study of individual segments;
- conducting a comparative analysis of the major players in each price range.

As the prices for products have a direct impact on all economic indicators of the company, precisely *the analysis of consumer prices* has the dominant value in conducting marketing activities. Here, the following areas should be highlighted:

- the study of prices formed in the market;
- the analysis of the prices of competitors, including: responding to changing market conditions, change in prices for a certain period, pricing of new products, the use of discounts, price-quality ratio;
- the study of possibilities and the degree of price regulation by the state;
- the study of consumer opinion on the prices of products.

To perform the work on the first two areas, price lists studied, advertising information studied, the method of "secret shopper" often used – visiting shops, trade fairs, exhibitions and competing companies under the guise of customers. Collection and analysis of this information does not require considerable time. Therefore, these market studies are used more often than others ones.

The study of the degree of price regulation by the state is of great complexity. Usually, these studies are conducted on the basis of the analysis of laws and regulations, on the basis of the study of lobbying activities of representatives of the political establishment, and personal interviews with them.

The study of consumer opinion is no less important factor in the formation of the pricing policy; as the saying, "a consumer votes with his money for a product or service". The study of consumer preferences is carried out mainly through surveys and questionnaires.

The main stages of studying prices:

- defining the principles of formation of price policies on the basis of information on purchasing power, consumer income, as well as taking into account the properties of goods or services;
- revealing the principles of forming the cost of goods;
- the assessment of the impact of prices of competitors on the pricing policy of the company;
- the study of the causes of changes in prices for a certain period;
- the analysis of the pricing policy of suppliers of raw materials, components, and others.
- determination of the degree of flexibility of pricing policies and the methods used: sales, discount cards, discounts, use of price discrimination, etc.;
- the study of the features of the system of mutual settlements: cash, bank transfer, customers lending, the use of credit cards, etc.

A comparative analysis of prices of the company and its major competitors is another important area of studying prices. The results of these studies may significantly affect the pricing process. Products with similar properties produced by different companies should have approximately same value. If a product has a lower quality, it is desirable to set the lower price for it; provided better quality of goods, the higher price will be quite appropriate. Thus, the company can use the price as a tool for positioning its goods against the goods produced by competitors.

The main result of studying prices – is reducing the number of force majeure situations related to improper behavior of the company in the field of pricing policy, which may affect the efficiency of its activities as a whole.

The disregard for the study of at least one of these elements in the analyzing process can lead to unreliable results. Thus, a comprehensive analysis of the pricing policy allows obtaining adequate information about the features of the market, building the most effective activities strategy that could enhance the competitiveness of the enterprise. This is what explains the fact that studying prices are now the most popular studies on the market of marketing services. The main elements of prices are shown in Fig. 14.2.

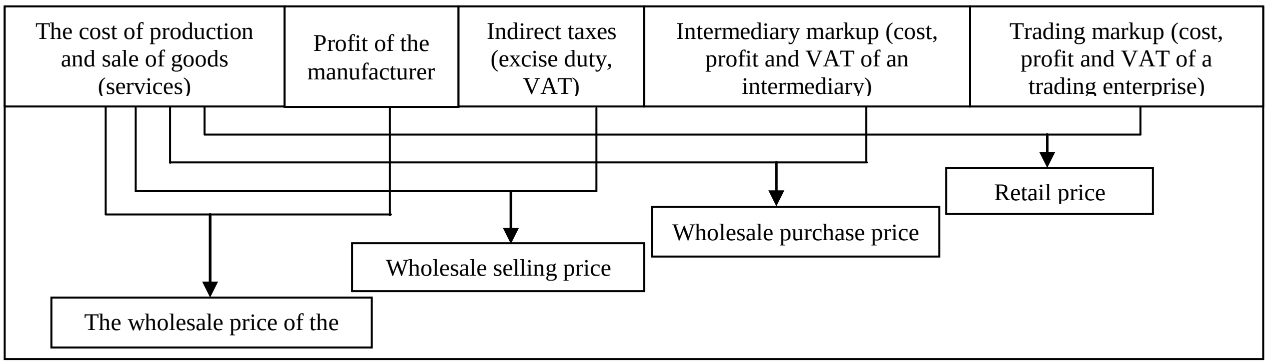

Fig. 14.2. The elements of price

Market price is formed under influence of several factors: supply and demand, production costs, prices of competitors and others. The demand for goods determines the maximum price that the firms can set. Gross production costs (the amount of fixed, variable and transaction costs) define its minimum value. The competitors' behavior and the prices for their products also have a significant impact on the price.

State regulation of prices also is among the most important factors of price formation. There are direct and indirect methods of state influence on prices.

Direct (administrative) methods – is the establishment of a specific procedures of price formation; **indirect (economic) methods** aimed at changing market conditions, at the establishment of specific provisions in the fields of finance, in the area of monetary and fiscal operations, and in the field of labor remuneration.

Pricing policy of the enterprise – is the setting (definition) of prices for the operation of the enterprise in market conditions; it includes a choice of pricing method, the development of price system of the enterprise, the choice of price market strategies, and other aspects.

There are three main goals of price policy:

- to ensure functioning (sales) of the enterprise;
- to maximize profit of the enterprise;
- to keep the market.

Ensuring the functioning (sales) of the enterprise – is the main goal of the company, operating in a tough competitive environment, when there are a lot of manufacturers in the market with similar products. The volume of sales and market share are the important components of this pricing policy. To capture a larger market share and increase sales, undercharged prices used.

Not only the companies with a strong position in the market seek **to maximize their profit**, but also the companies that are not too confident about their future and trying to make the most of the market conditions favorable for them. In these circumstances, the firm makes the assessment of demand and costs in relation to different price levels and stops at such prices that maximize profits.

Keeping the market is to maintain the status quo in the market for the company or to maintain favorable conditions for its activities.

Money market has a great influence on pricing, and accordingly, on the pricing policy of the company, namely:

- changes in the purchasing power of the national currency;
- foreign currency exchange rates to the national currency.

Excessive release of money into circulation reduces their purchasing power – they are depreciating thereby. The mechanism of the effect of changes of exchange rate on the prices is a multiform.

14.3. Basic methods for price determining. Qualitative methods of studying products pricing

Firms consider price as an important variable factor, so they are very cautious with setting price. A variety of methods for determining prices is shown in Figure 14.3. When choosing a method of determining the price, they usually start from the following considerations. If the price set is too high, the demand will be limited. If you set the too low price, the profits will be small or it will not be at all. Possible price is determined by the cost of production, the prices of competitors' products and substitute products, and unique advantages of the product compared to other products. The maximum price is determined by the unique advantages of the product, the minimum cost of production, average price – is determined by competition. There are cost-based and parametric methods of pricing.

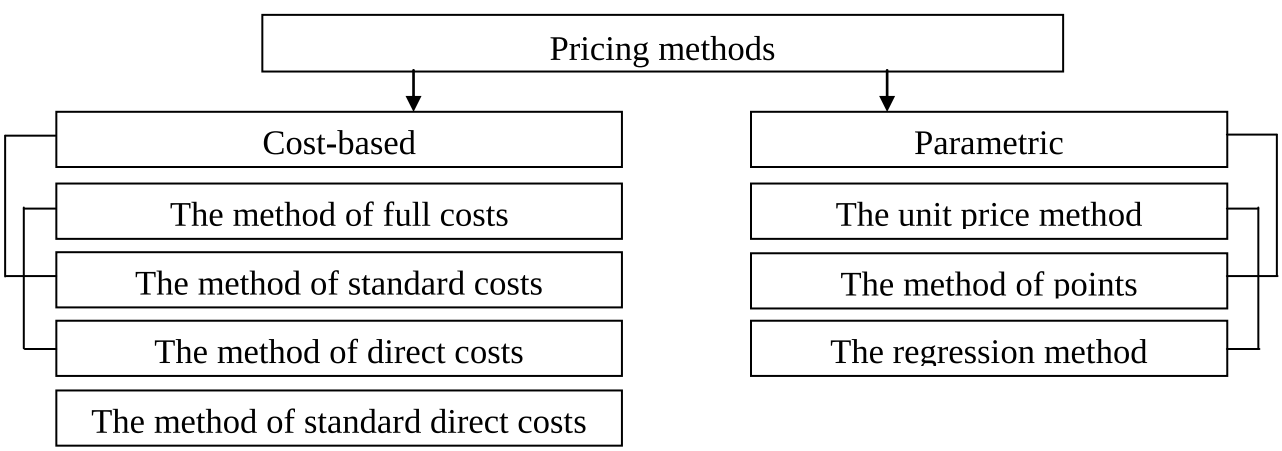

Fig. 14.3. Pricing methods

Cost-based pricing methods are based mainly on the account of cost of production and sales, and **parametric methods of pricing** – on the account of technical and economic parameters of products.

Price cost method – is a method of price formation on the basis of all costs, which ones, regardless of their origin, are attributed to a unit of a product. The real costs to the unit produced, to which a reasonable profit is added, are the basis for determining the price. The method is applied by companies which position is close to a monopoly, and sales are practically guaranteed.

The price method of standard cost allows you to set prices on the basis of the calculation of the cost according to the standards, taking into account the deviations of actual costs from standard costs.

The advantage of this method is the ability to control the cost according to the deviations from the standard, but not at their full value. The deviations of each item periodically correlated with financial performance, allowing you to control not only the costs but also the profits. The method provides a continuous comparison of costs. The most difficult element of the standard cost system is to define the standards for cost expenses. In order to form economically reasonable standards, a detailed study of methods of production needed, as well as the study of technical characteristics and prices of similar competing products, the requirements for these products imposed in the global market, etc.

Price method of standard costs, unlike simple reflection of costs, enables their factorial analysis.

Price method of direct costs – is a method of pricing based on the definition of direct costs on the basis of expected sales prices. Almost all semi-variable costs depend on the volume of the manufactured products and are considered as direct costs. The remaining costs related to the financial results. Therefore this method is also called **the method of pricing to reduce costs**. The main advantage of the method is the ability to identify the most profitable products. It is assumed that indirect costs change substantially neither when replacing one or other item, nor when changing the production scale within certain limits. Therefore, the higher is the difference between the price for the product and the reduced costs, the more is the gross profit (coverage) and, consequently, the profitability. Thus, the indirect costs are not allocated to specific items; for the whole company, they must be covered at the expense of the gross profit.

The method of standard direct costs, combining the advantages of the methods of standard and direct costs, is a kind of pricing method of direct costs. This method allows you to control the reduced costs in the deviations, and requires an analysis of the reduced range of costs, on the basis of which you can determine "bottlenecks" of production and take the necessary steps to improve its profitability.

The price method of standard direct costs allows you to control the cost reduction in the deviations.

Parametric pricing methods are based on the account of technical and economic parameters of products. These include the unit price method, the method of points and regression method.

Unit price method is used only for rough estimates to avoid blunders.

It's appropriate to apply **the method of points** to form prices for those products which parameters are various and are not amenable to direct quantification of comparing (usability, design, trendy, color, smell, taste, etc.).

Regression method allows you to simulate the change in prices depending on the set of their parameters, to strictly determine the analytical form of communication, and to use regression equation to determine the prices of the products included in this parametric series. The result is an interrelated system of commodity prices. Justification of the price in the market conditions is based on the use of the entire set of the price methods.

Qualitative methods of studying commodities pricing. Comprehensive market research suggests the need to study the market prices for commodities. Among various indicators characterizing the situation on the commodity market, the price is the most important accumulating indicator. Behind the movement of prices, the changes in the volume of production and supply of the product on the market are discernible, the demand for it and the level of consumption, and the changes in inventories of goods. All the indicators are analyzed and forecasted mainly in order to make a correct analysis and a forecast of price movement for the commodity; as the price – is a quality indicator of both domestic and foreign trade, an indicator of its effectiveness.

Any factor of forming market situation has a direct or indirect impact on the market price, as it has a direct or indirect impact on the demand or supply of the product. In this sense, all the factors of forming market situation can be considered also the factors of commodity prices, or pricing factors (PF).

Various PF have unequal effects on the formation of commodity prices. System analysis of a set of PF allows us to select those ones which influence on the market price is directly and therefore has determinant character (PF of the 2nd order). These mainly include: *the price of production, a supply-demand ratio, the state of monetary sector, and an administrative (direct) price regulation.*

CEP of the 2nd order include: the value of production costs and the average return on invested capital; the absolute size of the demand and supply; the purchasing power of money and the movement in exchange rates changing under the impact of competition, price and non-price state policy; which in turn constitute PF of the 3rd order.

The above mentioned factors should be complemented by the specific factors of a direct impact on the price of a particular product:

- quality of the product (use value);
- the nature of relationships between seller and buyer;
- the scope of supply;
- payment and delivery terms.

Depending on the nature of the changes in prices and the factors causing them, they usually distinguish:

- long-term trends in the movement of prices which reflect changes in the value of goods and money under the influence of scientific and technological progress, the policies of monopolies and state, environmental factors, etc.;

- medium-term cyclical fluctuations in prices due to changing supply-demand ratio in different phases of the cycle;

- short-term fluctuations in prices arising under the influence of seasonal and random factors of various origin.

Questions for discussion:

1. Define the process of pricing.
2. List the advantages and disadvantages of the questionnaire method of studying price.
3. Justify the need for setting the optimal price for a product or service.
4. Give an example of an indirect method of studying prices.
5. What kinds of analysis provide conjoint analysis, (CA)?
6. List the main sources of obtaining information for carrying out the method of "price ladder".
7. What is the basis of cost-based pricing methods?
8. What is the difference between parametric pricing methods and cost-based pricing methods?
9. List the indicators to assess the effectiveness of work with supplier.
10. Describe the basic methods of pricing.

SUBJECT 15. STUDYING PROMOTION AND DISTRIBUTION OF PRODUCT

15.1. Features of studying product promotion. Methods of studying advertising. Stages of studying advertising.

15.2. Testing advertising. Qualitative and quantitative methods of studying advertising.

15.3. Methods of studying sales promotion. Features of methods of studying and analyzing various methods of sales promotion.

15.4. Studying of product distribution channels. Stages and methods of study of product distribution channels. Analysis of methods and forms of trade.

15.1. Features of studying product promotion. Methods of studying advertising. Stages of studying advertising

The features of studying product promotion and sales aim to determine the most effective ways and means to bring the product to the consumer most promptly and to sell it.

Here, the main targets are:

- trade channels;
- intermediaries;
- sellers;
- the forms and methods of sale;
- distribution costs (comparison of trade expenses to the size of profit).

Such information makes it possible:

- to identify opportunities for increasing trade turnover of the enterprise;
- to optimize inventory, to develop criteria for the selection of effective channels of promotion of the products,
- to develop methods of selling them to the end-users.

The study of advertising efficiency – is one of the most important and promising areas of modern marketing. The methods of studying advertising messages constantly improved, but it is difficult yet to accurately measure their effectiveness. The reason for that – is the lack of a unified ordered classification of the existing approaches and a confusion of terms borrowed from foreign marketing literature.

The following methods of qualitative research are used most frequently:

- an observation;
- focus groups;
- in-depth interviews;
- panel method, and others.

We will consider in detail each of the methods using the examples, and identifying its advantages and disadvantages.

The stages of studying advertising

The process of researching advertising messages generally divided into 5 stages (see Table 15.1):

Table 15.1

Stages of researching advertising messages

	1) Open research methods
Pre-tests	2) Testing of advertising concepts 3) Intermediate tests
Post-tests	4) Pilot testing 5) Posthoc-analysis

The aim of **open research** is to obtain the fullest possible realization of philosophy and life values of consumers of these products (services). Depending on the methods for obtaining this awareness, we can distinguish the following research methods:

- the method of free discussion,
- epistolary techniques.

The method of free discussion – is a group method of research, which was created as an alternative to focus groups. Its main difference from the focus groups is the absence of a dominant role of the moderator. Questions and answers may come both from researchers and from the studied persons that makes this method similar to ordinary conversation. In addition, free discussions are not held in special rooms, and in more natural settings. This means that consumers, advertisers, representatives of research agencies, advertisers, etc., can be attracted to the discussion. But despite the many advantages of the method, it is necessary to remember that it does not solve all the problems of researching the effectiveness of advertising.

Epistolary techniques involve diaries, essays, blogs, and others. The essence of this method is as follows: a small group of respondents is formed of potential consumers who have to write a small free-form text devoted to the interested categories of goods/services. This can be as a single essay, and a regular blog. The advantage of these techniques includes the ability to get a personal, not imposed, consumer's opinion about a product or its advertising. The disadvantages may be: the lack of literary abilities of the respondents, difficulties in the systematization and analysis of the essay, and the method’s duration in time.

Thus, the main feature of the open research is that respondents are not a test group and act as carriers of information on consumer perceptions of the product and the motives that the consumer is guided when buying.

Prior to the showing finished advertising product, at the stage of pre-test, there are numerous studies of advertising messages. This step includes:

- concept tests;
- the study of interim promotional materials.

The concept of advertising should bring to consumers in much intelligible form the deep essence of the proposed product, should determine what will be the main idea of the message and, therefore, *the concept-tests* designed to explore the mind of the consumer.

The purpose of testing *the interim advertising messages* is to study the effectiveness of the already existing options of a promotional video, as well as to preliminary assess the consumers' reaction to them.

Various techniques are used for the pre-testing:

- focus groups,
- in-depth interviews,
- expert surveys,
- perception maps, and others.

Despite their great diversity, part of the methods is quite complex and is not currently available for the majority of the domestic researchers. It is therefore necessary to competently combine various techniques to achieve the complexity of advertising research.

Post-tests are designed to determine the effectiveness of full-scale advertising campaign and, as a rule, are carried out after its completion.

Pilot testing has no particular place in modern classification, since it is little used by domestic marketers and advertisers, being the subject of theoretical discussions. So, due to a number of reasons, the author has taken the liberty to include pilot studies in the category of post-tests along with posthoc-research.

During the pilot testing, one or several options of the finished advertising message met to their potential customers and actual conditions for the first time in the advertising process. So, trial sales begin on specially selected local markets. Here are selected: a test market in which basic research conducted, and a control market, to which obtained results will be compared in the future. Experimental markets must be carefully studied, comparable to the maximum number of parameters, and must be isolated from each other. Herewith, such indicators are measured as: the ability to recall, the ability to recognize, attitudes, intentions, the number of purchases, etc.

The cost of an advertising campaign, and the effect that it had on the audience, is measured through the **posthoc-test.** Any posthoc-study begins with the basic measurement, which is carried out before the start of an advertising campaign and is the starting point for future comparisons. The following basic parameters to be measured: the behavior of target consumers, product positioning, initial sales, market shares. After completing the campaign, the next number of indicators recorded. Then they are compared to the basic ones that allows you to keep track of the changes that have occurred and, along with the analysis of the market situation, to identify the effects of advertising. Since posthoc-tests are typically held after releasing the campaign, it’s not possible neither to change a created message, nor to return the bought media space. But the posthoc-method can help avoid mistakes in future promotional campaigns and to accumulate positive experience.

Summing up, it should be noted the absolute importance of research on the effectiveness of advertising messages, although there are some problems associated with them. Some of them are listed below.

1. The absence of clear efficiency criteria. Since there are no universal indicators of advertising effectiveness, the evaluation of its effectiveness largely depends on particular problems of an advertising campaign and requires a comprehensive approach.

2. Sampling errors. Often, due to financial and time constraints, the testing is conducted not with a random sample of a target audience, and with more convenient – available or spontaneous – samples. Hence, errors and too optimistic assumptions occur in research of the consumer market.

3. Selection of research methods is also problematic now because of their diversity. Moreover, some techniques are complex, others ones have been patented, and could not be widely applied.

To avoid problems and miscalculations in the studies, experts advise to adhere to the following plan.

Prior to the studies, it's necessary to accurately know all the details of a technique used, and its advantages and disadvantages. It is important to determine in advance the number of measurable criteria for assessing the success or failure of an advertising under study.

During the study, the research team needs to carry out all elements of an intended plan and keep a track of all the adverse factors that may affect the study.

After a study, the researchers should be able to understand the reasons for success or failure of the campaign, and to draw conclusions for the greater effectiveness of future studies.

By following these recommendations, you can create a high-quality advertising message, which is a key to the effectiveness of the advertising campaign as a whole.

In conclusion, it should be noted that the study of the effectiveness of advertising messages is one of the key tasks of planning and implementation of an advertising campaign, so its ultimate success depends on how well appropriate steps of the study have been carried out.

15.2. Testing advertising. Qualitative and quantitative methods of studying advertising

Testing advertising includes three directions different on their tasks:

- testing promotional materials;
- analysis of the attractiveness of the media;
- testing the influence of advertising placement on a target audience.

The purpose of testing promotional materials – is the selection of an optimal solution for the development of an advertising company, in order not to spend money irrationally for advertising.

An advertising research is a kind of marketing research. It has a common methodological basis to research in other functional areas of marketing and is designed to accomplish the following tasks:

- the measurement (control) of the efficiency of events of a particular type of marketing communication, such as advertising;
- characterization of an audience of an advertising medium to select the most appropriate one for the purposes of promotion;
- testing of scenarios (ideas, concepts, development, options and so on) of activities to promote the product;
- planning of activities of sales staff and commercial communications.

One of the major tasks of advertising research is to estimate the efficiency of the use of advertising budgets and an extent of achieving the goals set for the advertising. It follows from this that the advertising research is related primarily to the objectives of the company in the field of promotion. For example, if the goal of an advertising campaign is to increase market share, the study may be required to measure this share before and after the campaign. If the goal is to improve the attitude of consumers to the brand, the study of tastes and preferences of consumers before and after the campaign is necessary. If the goal is to create a certain level of awareness of the product, you need to conduct awareness measurement before and after the campaign (the so-called recall test).

As is known, by the degree of formalization of the studying process, it's decided to distinguish quantitative research (with a strictly formal procedure, giving a statistically significant quantitative data) and qualitative research (flexible, less formal studies, giving a detailed, qualitative understanding of the phenomenon under study).

Quantitative research answers the questions "who" and "how much". This type of research, in contrast to the qualitative one, allows you to obtain manifested quantified information on a limited range of issues, but from a large number of people, that enables handling it by statistical methods and disseminate the results to all consumers. Quantitative studies help to assess the level of popularity of a company or a brand, to identify main consumer groups, market sizes, and so on. Various kinds of surveys and the audit of retailers are the main methods of quantitative studies.

In order to select a channel of advertising placement, you need to identify the most attractive media, as well as to evaluate their target audience. This goal is achieved through personal interviews and diary panels.

Finally, after the placement of advertising, you need to assess how an advertising campaign influenced consumer loyalty to the product, as well as how many members of a target group of consumers were embraced by this campaign. The task of evaluating the campaign is decided by measuring consumer preferences before the event and after it.

Thus, the studies of advertising may include:

- testing of an advertising concept (assessment of an idea, expectations of consumers);

- testing of an advertising solution (selection and evaluation of promotional audio and video clips, outdoor advertising);

- analysis of the attractiveness of the media and the selection of an optimum channel;

- assessment of the scope and impact of an advertising campaign.

The results of the research will be, depending on the purpose:

- selection of an optimal advertising solution;
- media rating;
- the conclusions of the evaluation of an advertising campaign.

15.3. Methods of studying sales promotion. Features of methods of studying and analyzing various methods of sales promotion

The study of the basic forms and methods of marketing is directed:

- to identify promising means of promoting goods from the manufacturer to the final consumer;
- to organize their retail sales on the basis of a comprehensive analysis and evaluation of the channels used or planned to use, and the methods of distribution and marketing, including those used by competitors.

The criteria for the effectiveness of choice in this case are:

- the speed of goods movement;
- the level of distribution costs;
- sales volume.

It is believed that the effectiveness of the forms and methods of distribution and marketing elected by the firm are the higher the shorter is the period of time required to bring the goods from the place of production to the point of sale and their sale to the end user; the costs of their organization are fewer; sales volumes and resulting net profit are higher.

The main aim is to reduce the total value of sales costs, which largely depends on the level of commercial work and sales service. If we consider that the sales costs reach approximately 40% of overall production costs in many capitalist enterprises, the value of this area of marketing research becomes obvious.

In our country, there is a misconception that the firms-manufacturers sell their products themselves in leading foreign countries. In reality, they do not. In overwhelming majority of cases, even the largest companies offer their products to the market through intermediaries. Each of them tends to create its own distribution channel.

The sales through intermediaries have both positive and negative sides. On the one hand, the use of intermediaries is beneficial because many producers have no sufficient funds for the implementation of direct marketing. Even if the manufacturer can afford to create his own distribution channels, in many cases, he will be able to earn more if he would send money in his core business. If the manufacturing provides a rate of return of 20%, and a retail trade provides only 10% of, the company naturally would not want to engage itself in retail trade. Through their contacts, experience, specialization and scale of activities, intermediaries offer the company more than it could have done alone. Also the ability for the producer to deliver promptly large shipments of goods to large wholesale companies is the advantage of this marketing system. Thereby the need to create and fund its own sales channels eliminated.

On the other hand, the manufacturer, while working through intermediaries, to a certain degree loses control over who, how and whom a product sold; and, as the experts on marketing note, not always receive from commercial firms necessary and effective enough information on the situation in the market and the promotion of goods. In addition, the longer is the path of sales, the larger is the cost of sales of goods.

The studies of sales promotion system allow revealing how, when and by what means it's better to encourage distribution of goods, to enhance the credibility of goods manufacturers in the market, to successfully carry out promotional activities.

The objects are:

- the behavior of vendors, intermediaries (resellers), and buyers in the market;
- the effectiveness of advertising;
- contacts with customers.

The results obtained allow:

- to develop the policy of "public relations";
- to create a favorable attitude towards the company and its products;
- to form the image of the company;
- to determine the methods of formation of people's demand; the methods of influencing providers and intermediaries;
- to increase the effectiveness of communication links, including advertising.

The demand for any product – is the result of the functioning of two components: a solvent potential buyer and his desire to solve his problems with the help of the offered goods, i.e., to meet his need. As a result, a person decides whether to become a truly customer or to cancel the purchase if the need is not too active. This means that the decision-makers for buying and influencing such a decision should be aware of the need, which this product meets, as well as they should be aware of the level of such a satisfaction; that is, potential customers need information about consumer properties of the goods.

Since the market has multiple competing products, each firm seeks to influence the choice of the buyer in its favor. Traditionally, the tools for such an influence are:

- advertising;
- commercial promotion of consumer goods properties.

In recent decades, a complex effect on the buyer not only through advertising is widely used, but also by other means, which are united under the term *FOSSTIS (DGSP - Demand Generation and Sales Promotion)*.

DGSP includes:

- advertising;
- promotion;
- ensuring public relations.

These elements affect not only demand generation (DG), and also sales promotion (SP). DG events addressed to a potential buyer when he meets a new product, just introduced to the market. The methods applied here - "introducing advertising", participation in exhibitions and fairs.

The goal – is the creation of the goods' image in the minds of potential customers and showing that namely this product satisfies this need or set of needs better than others ones. Since DG is to influence the behavior of a person uninformed of the product and its consumer properties, advertising and other methods of DG solve information problems. Such methods include not only the impact of the press and other medias, but also the transfer of product samples to a potential buyer for testing, the publication of non-commercial articles, product demonstrations in non-profit parts of TV shows, and other.

Thus, they reported the arguments for the customer for buying; for example, information about testing the product by an independent organization.

SP events contribute to the expansion of the sale of the product which no longer considered a novelty. Some idea of such a product already developed among buyers through the activities of DG, or through their own experience of use. The task of SP – is to encourage repeat purchases, and, in accordance with the phases of the product life cycle in the market and a price policy of the enterprise, to distribute goods among new segments of customers, gaining ever greater market share. The buyer doesn't care by reason of which DGSP event he purchased goods. But for the firm's management, who give money for DGSP, this is important: they can define more precisely the audience of an impact (the target of information), to find more effective forms, the content of texts and illustrations, to optimize the arguments in favor of the product, correctly choose the channels of mass communication; in a word, to receive a higher return on investment in DGSP.

Encouraging promotion of goods on the market is not only advertising, and also other aspects of sales policy of the company:

1. The efficiency of contests, discounts, bonuses, awards and other incentives, which can be used in collaboration with suppliers and buyers, and with intermediaries.

2. Rationalization of marketing policy of the company in order to bring the product to the consumer at that place, in that amount and in that quality, which are required for rapid sales of the manufactured products; reducing the costs of circulation, rapid turnover of invested funds, and thereby increasing the profits of the enterprise.

15.4. Studying of product distribution channels. Stages and methods of study of product distribution channels. Analysis of methods and forms of trade

The study of product distribution and sales aims at determining the most effective ways and means to bring the product to the consumer and sell it most rapidly.

Shopping channels, intermediaries, vendors, forms and methods of sales, distribution costs (the comparison of shopping costs to the size of profits) are **the main objects of study**. The studies also include an analysis of the functions and features of activities of various types of enterprises in wholesale and retail trade, identifying their strengths and weaknesses, the nature of the existing relationship with manufacturers. Such information makes it possible to determine the possibility of increasing the turnover of the enterprise, to optimize inventory, to develop criteria for the selection of effective channels of product distribution, to develop methods to sell the goods to final consumers.

Distribution channel – is the way, in which the products move from the manufacturers to the consumers, thereby eliminating lengthy gaps in time, location and ownership that separate goods and services from those who would like to take advantage of them. Elements of the distribution channel perform a number of very important functions:

1) research work – collecting information necessary for planning and ensuring an exchange;

2) sales promotion – creation and dissemination of exhortative communications about the product;

3) establishing contacts – establishing and maintaining contacts with potential buyers;

4) the adaptation of goods – adapting products to the requirements of buyers. This applies to such activities as manufacturing, sorting, assembly and packaging;

5) conducting negotiations – an attempt to harmonize prices and other conditions for the following implementation of the act of transfer of ownership or property right;

6) organization of product distribution – transportation and warehousing of goods;

7) funding - finding and using the funds to cover the costs of operation of the channel;

8) the adoption of a risk – taking responsibility for the operation of the channel.

Implementation of the first five functions contributes to making deals, and implementation of the remaining three – to the completion of already made deals.

Distribution channels can be characterized by the number of levels constituting them. The level of distribution channel – is any intermediary that performs a particular job to bring closer the goods and the right of ownership of them to an end buyer. Since certain work is carried out both by the manufacturer and by the end user, they also are a part of any channel. The length of the channel is indicated by the number of intermediate levels in it:

Channel zero consists of manufacturers selling their goods directly to consumers. Three basic methods of direct sale: peddlery, mail order business, and the sale via manufacturer-owned stores.

One-level channel includes one intermediary. In consumer markets, a retailer typically acts as such intermediary, and in industrial markets – a sales agent or a broker.

Split-level channel includes two intermediaries. In consumer markets, wholesale and retail traders usually are such intermediaries, in the markets of industrial goods – industrial distributors and dealers.

Three-level channel includes three intermediaries. They are resellers, small wholesale and retail intermediaries.

Product distribution channel that contains zero level refers to the direct type of channels, and the channel containing a large number of intermediate levels – to indirect channels. From the standpoint of the manufacturer, the more levels are in the distribution channel, the lower is the ability to control it.

If a company reduces the length of the channel, acquiring another company on the stage of product distribution, - for example, when a manufacturer teams up with a wholesaler, - we have a vertical integration. This allows the company to get more independence, to ensure supply, to reduce the cost of intermediaries, to control the distribution channels and to coordinate the term of transition of goods through them. Critics of vertical integration argue that it limits competition, develops inefficiencies and doesn’t reduce prices for consumers.

The channel width determines the number of independent participants at every stage of product distribution. With a narrow channel, the manufacturer sells product through several participants of sales; with a wide channel – through many participants. If the company wants to strengthen its position at some point in the channel, it can carry out horizontal integration or expansion, and acquire companies of similar specialization. This will enable the company to increase its size, market share, to better use the media and methods of distribution and marketing.

Companies that produce consumer goods should not only choose the channels of product distribution, and also to determine the intensity of their use, i.e., to determine what number of intermediaries will be used at each level of the channel. There are three approaches to solving this problem.

When applying *exclusive* distribution and marketing, the company sharply limits the number of wholesalers and retailers in the geographic area; it may use one or two retail stores in a particular shopping area. It seeks a prestigious image, controlling distribution channels and a high share of profits and is willing to accept a lower sales volume than with other types of distribution and sales.

When applying *selective* distribution and marketing, the company uses the average number of wholesalers and retailers, trying to combine control over the channel, a prestigious image with good sales and profits.

When applying *intensive* marketing, the firm uses a large number of wholesalers and retailers. Its objectives – are wide sales market, recognition of the channels, massive sales and high profits. The income is relatively low. This strategy focuses on the largest number of consumers. The company can move from exclusive marketing to selective marketing, and then to the intensive one as far as the product passes its lifecycle. Nevertheless, it is very difficult to move from the intensive marketing to selective one, and then to exclusive marketing. For example, model jeans quickly moved from the prestigious stores to good stores, and then to all outlets. This process could not pass in reverse direction. The company may use dual channels of product distribution. Wherein it goes to various market segments or diversifies its activities by selling through two or more different channels.

In contractual relations between manufacturers and marketing parties, an emphasis is placed on pricing, terms of sale, territorial rights, the structure of services (responsibilities, duration of the contract and the conditions of its termination).

Pricing policy is primarily associated with discounts that marketing participants get for the execution of trade functions, bulk purchases, cash payment, as well as with commission fee.

Terms of sale determine the price and quality assurance, terms of payment and transportation, compensation for non-saleable products and discounts for return. The guarantee against price reductions is particularly important. It protects marketing parties from paying high sales price for a product which is then sold cheaper by other companies. If prices go down, an initial buyer gets compensation, so the product costs him as much as it costs for the competitors. Otherwise, he cannot set the same prices that the competitors set for customers.

Territorial rights define geographical areas in which the marketing participants can operate, and/or target markets (eg., small businesses), with which they may conclude contracts. Exclusive territorial rights are possible.

The structure of service/responsibility. It describes the role of each party of distribution channels, determines who trains sales staff, delivers the goods, prepares advertisements, keeps inventory, and dresses showcases.

Duration of the contract and the conditions of its termination protect trade companies from the possibility that the manufacturer (supplier) will bypass them until the expiration of a certain period, using the established territorial market. The manufacturer is protected by the fact that the duration of the contract is limited, and the conditions leading to its termination defined.

All participants of product distribution process have common goals: profitability, access to products and services, efficient distribution and marketing, customer loyalty. However, the opinions diverge in the question of how to achieve them. Precisely because of this, there are conflicts within the channel. The conflicts can take place both between the parties of the same level and between the parties of different levels.

Cooperation is usually found among the parties who are members of a single channel. Manufacturers, wholesalers and retailers help each other, and their cooperation usually brings good profits for all them.

Competition occurs between firms and systems trying to serve the same target market. The level of customer service is an important part of product distribution program of any company. The decisions to be made relating to the frequency of deliveries, their speed and stability; the procedures for urgent deliveries; accepting small orders; storage; coordination of the range, etc. Poor activity in these areas may lead to loss of customers.

Sales system of the company – is a key element of marketing and a kind of finishing complex in all activities of the company to design, manufacture and bring the goods to the consumer. Actually, it is the consumer either accepts or does not accept the company's efforts as useful and necessary for him and, accordingly, decides to buy or not to buy its products or services.

The following number of functions should be included in the concept of *sales*: transportation, warehousing, storage, completion, the promotion to wholesale and retail trade links, pre-selling preparation, and the sale of goods as such. A distribution channel, a wholesaler, a retailer, a broker, a commission agent, a wholesale agent, a consignee, a salesman, and a dealer should be considered as the main elements of the distribution system in a market economy. A variety of participants in the system of sales is explained as follows. The company's owner is seeking to reduce marketing costs, but it is necessary to ensure the convenience of consumers. All the variety and a large number of all kinds of resellers just reflect, on the one hand, the specifics of the goods, the market, the firm itself, and on the other hand – the requirements of the creation of maximum comfort to the person who buys it.

The entire set of distribution channels is meant by *trade*. Conventionally, the structure of trade in consumer goods can be divided into two subsystems: proprietary trading and providing ones. The first is represented by the wholesale and retail network, the second – by an infrastructure that ensures merchandising.

Product distribution in marketing is a system that ensures delivery of goods from manufacturer to point of sale, and for the goods for industrial purposes – to the installation site in a precisely defined time and with the highest level of customer service. Every manufacturer is trying to create its own system of product distribution by signing a direct contact with the consumer, so the analysis of product distribution should focus on the most important principle of marketing – meeting the needs of consumers at the lowest cost in the process of moving goods over space and time. The ratio of the results obtained in the physical distribution system – to the manufacturer's costs for this system is a measure of effectiveness of the product distribution. The level of customer satisfaction may be referred to the end result of this system. It depends on:

- the speed of order execution;
- well-organized warehouse network;

- highly effective work of service;

- the level of prices at which the services of product distribution are provided to the buyer, etc.

None of the factors is critical in itself, but they all, more or less, influence on the level of customer service. Therefore, when analyzing the level of customer service of this or that product distribution system, it is necessary to consider all these factors and relate them to the costs.

The costs of product distribution system are determined by the organization and an internal structure of the system. Product distribution system includes elements that can be divided into two classes:

- related to the internal environment of marketing of the company-manufacturer;

- related to the environment of marketing.

The elements of the internal environment include:

- creating a new level of product – "goods continuation", through packaging, marking and the formation of systems of pre-sales and after sales service;

- processing customer orders for the product;

- control of products received from external suppliers, and sent to the enterprise's warehouse as a spare parts.

Three general features are inherent in all these functions:

- they absorb scarce resources;

- they often could be done better through specialization;

- they can be performed by different parties of the channel.

If some of them are carried out by a manufacturer, its costs are rising, which means that the prices will be higher. When the transfer of part of the functions to an intermediary occurs, the costs and the prices of the manufacturer are lower.

Studying the process of merchandise flow is necessary for making operational decisions to improve the situation in merchandising, as well as to work out medium-term development plans.

Under the planning of a merchandise flow, we mean a systematic decision-making in relation to the physical movement and transfer of ownership of the goods or services from the manufacturer to the consumer. In order to draw up a plan, it is necessary to develop a resume based on the analysis of the merchandise flow and all its elements, which should contain the main outcomes of a completed task and setting goals on the need to improve the current system of the merchandise flow within development of marketing program of the company.

Selecting the product distribution channels is a difficult management decision, since they have a direct impact on all other solutions in marketing mix.

To define the parameters of the distribution channel is among the steps of. These parameters are the length and the width of the channel.

Under the **channel length**, we mean the number of intermediary links performing work on movement of goods from the manufacturer to the consumer.

The length of the distribution channel can be characterized by *the number of its constituent layers.*

The level of the distribution channel – is any intermediary that performs a particular job on the approximation of the goods and the right of ownership of it to the end buyer. Because of the specific work is performed both by the manufacturer and by the end user, they are also parts of any channel.

The width of the product distribution channel is another characteristic, that is, the number of intermediaries at every level involved in distributing products. Therefore, any company has to decide how many intermediaries will be used at every level of the channel.

There are *three approaches to solving this problem*.

With intensive distribution, manufacturers, as a rule, seek to ensure the availability of stocks of the goods in the greatest possible number of trade enterprises. A convenient place of purchase required for such goods.

Exclusive distribution means that the manufacturer provides exclusive rights for the distribution of the company's products to a limited number of dealers within their sales territories. Herewith, an exclusive dealership is often stipulated, when the manufacturer requires dealers that selling its products not to sell the competitors' products. Providing exclusive rights to the distribution of its product, the manufacturer hopes to organize more aggressive and sophisticated marketing by the dealer, as well to get the ability to have more control over the actions of the intermediary in the field of pricing policies, incentives, credit operations and providing various kinds of services. Exclusive distribution usually contributes to the rise of the product image and allows you to take higher margins for it.

The method of selective distribution is a borderland between the methods of intensive distribution and exclusive distribution. In this case, the number of intermediaries involved is more than one, but less than the total number of the intermediaries that are ready to start selling the product. The firm does not need to disperse its efforts on a variety of retail outlets, many of which are clearly minor. It can establish good business relationships with selected intermediaries and expect them to make sales efforts at the above average level. Selective distribution gives the ability for the manufacturers to achieve desired market coverage under more strict control and at a lower cost on its part than with intensive distribution.

Analysis of the methods and forms of trade. Commercial ties are distinguished on the basis of the features of market transactions. These transactions can be classified as follows:

1. Depending on the way of communication between markets participants, there are following types of such a trade. The manufacturer or owner of the goods sells them directly to the consumer. The manufacturer sells of the goods first to the reseller, which resells it to the consumers. Mediation is a multi-link, when several resellers of goods are consistently involved in it.

2. Depending on the types of payment for goods, there are the following forms of trade:

- barter trade: non-monetary exchange of one type of product to another type;
- sale of goods for cash (or paid by a check). So people get needed things on the consumer market;
- sale of products by non-cash transfer (payment is made by bank transfer: a bank, on behalf of the buyer, takes money from his account and transfers to the seller's account). Means of production are purchased most often in this way;
- sale of goods by cash on delivery (the consumer who lives away from commercial enterprise receives the desired thing, buying it by transferring money to the seller);
- sale of goods on credit (the buyer receives the goods, usually bringing a small fee for them in exchange for the obligation to pay the rest of the money in the stipulated terms). This form of trade assumes an abundance of goods, and it is developing to the benefit of buyers and sellers;
- the provision of things for rent for a certain fee (in this case, the time of use of the product is paid).

3. Taking into account sales volumes, there are two forms of sale of goods:

- wholesale: products purchased by the gross (by large consignments) by resellers from manufacturers at trade fairs and through commodity exchanges;
- retail, which means sale of mainly consumer goods in small quantities. In this way, individuals acquire the products they need in stores, stalls for food, and at food and clothing markets.

From the standpoint of marketing, the role of wholesale is maximum meeting the needs of retailers, providing them with right goods in specific quantities and in a timely manner. As they are located usually in large settlements (cities), wholesale companies are also well aware of the needs of end customers. Therefore, they are on their own or with the help of the manufacturer of the goods are able to organize powerful marketing support to retail.

The forms of wholesale.

The choice of form of wholesale depends on the product, its position in the market (the product is popular, the demand is not high, the degree of saturation of the market), on the specific transaction of the wholesaler with the seller of goods.

There are two main forms of wholesale:

- transit wholesale;
- warehouse wholesale.

With the form of transit wholesale, the goods are delivered from the manufacturer to retail outlets or other wholesale companies (smaller or located in another city), bypassing a warehouse of the wholesaler intermediary. This form has the advantage of accelerating turnover, logistics costs reduced, and safety of the goods improved.

Transit supply used if an intermediate preparation of the product in quality, packaging, partition, etc. is not required. In this case, wholesale intermediary does not have the ability to form a range of products, except for that the manufacturer has shipped.

Two types of payments for transit deliveries from manufacturers used:

a) with payment of a transit consignment;

b) without investing its own funds by obtaining mediation percent (a commission).

In the second case, a wholesale company performs managerial functions and is not owner of the goods.

With warehouse form, the shipment of goods arrives from the manufacturer to a warehouse of the wholesale company and then is distributed to retail through different distribution channels. Despite increased logistics costs, in this case, the needs of trade in pre-selling preparation meet better. The rhythm of supplying stores also improved, including small parties, which is convenient for them. It opens the possibility to form a product range required for each particular store.

The most common types of warehouse wholesale are:

a) personal selection of goods in a warehouse;

b) upon written request (for example, by fax) or oral application on the phone from the store;

c) through travelling sales representatives (agents, sales managers);

d) using active calls from controller's office;

e) wholesale in trade fairs and exhibitions.

Selecting the type of trade for the wholesaler is determined taking into account the desires and the size (capacity) of the retailer.

Wholesale with a personal selection is suitable when a retailer wants to quickly make a purchase (stocks ending), expects to generate range on-site, select new items, get a discount for self-pickup.

Personal selection is often used in the procurement of fabrics, sewn products and knitwear, fine wines, fur goods, etc.

To demonstrate some of the goods, novelties, the wholesale company equips a demonstration hall or an exhibition hall.

With the personal selection, marketers of the wholesale company may conduct a survey of visitors, test products, and take into account comments from both the retailer and the customer.

For many standard products, the personal selection organized using self-service. To move selected items, small machinery used: trolleys, conveyors, roller conveyors, and stackers.

Wholesale upon written request or by phone is made on the basis of pre-signed contract between the buyer and the seller. There, the conditions for payment for each order also specified. Delivery of goods to the store can be carried out by transport of the wholesaler or by transport of the store. In the first case, store's employee time is saving, who does not need to go to the wholesaler to take the goods, but it can increase the delivery time of the ordered goods to the store.

Wholesale through travelling sales agents and managers has become widespread as the most active form of marketing. To do this, a wholesale company organizes agency network to find customers – legal entities (smaller wholesalers and stores). The travelling agents maintain contact with their customers, monitor the availability of the goods in the sales area of a store, monitor the timeliness of payments for goods, etc.

For better coordination of sales agents, they may be assigned to a specific territory, to a group of customers, or only sell certain products.

Wholesale through active (outgoing) calls from the office or sales department. For this, dispatch is organized, staffed by specially trained salespeople. Sellers-controllers assigned information on potential buyers to sales managers. Dispatching service can also accept orders from regular customers, conduct marketing telephone surveys, and keep sales statistics.

Wholesale at exhibitions and fairs allows you signing supply contracts during the attendance of an exhibition by the buyer’s representatives, or holding preliminary talks. Exhibitions and fairs attract a large number of professional market makers (manufacturers, intermediaries, consumers), so you can conduct there a large amount of marketing studies, get the latest information on novelties. Authorized representatives of Marketing Service should be present at the exhibitions, who are responsible for the overall performance there.

Retail combines the interests of the seller to obtain income and the buyer’s need to obtain high-quality goods and services.

In fierce competition, the right choice of format and organization of trade activities is of great importance for any trading firm.

The main forms of retail depending on trading area are the following ones:

- convenience stores – with an area between 90 and 400 m^2;
- department stores, supermarkets, discount stores – between 400 and 3000 m^2;
- hypermarkets – more than 3000 m^2.

The changes taking place in Kazakhstan's economy directly related to commercial activities include the establishment and development of small businesses as an effective sector of the national economy.

In modern conditions of market interaction, the representatives of small business, which mainly include retailers, need high initiative, competence and efficiency in the performance of a commercial work.

Small businesses take a predominant place in trade – about 90%.

Along with the introduction of a network trade, small stores also have developed of the "shop at home" format (in other countries - "bentham", "convenience stores", "neighbor stores") that involve servicing the residents of closely spaced houses. They are characterized by convenient (often non-stop) operation and a location within a short walking distance. Such a store is opened in hope of attendance of people who live in a radius of 400-800 meters and make targeted purchase of two to seven times a week to fill gaps in a domestic stock. In addition to the utilitarian function, these stores also play a social role, as buyers deal with familiar shop-assistants and meet neighbors; they become a place not only for shopping but also for a neighbor communication, cultural communication.

The uniqueness of "convenience stores" is that only in this format it is possible to achieve a high level of personal service, since the relationships between the buyers and the shop-assistants become friendship, trust and informal. The quality of service in individual stores is always much higher than in the networks that offer low prices, but do not offer service. According to the experts, the format of convenience stores survives virtually after every possible change in the market, including appearance of large formats. This is due to the fact that, for the inhabitants of many cities in the country, the main criterion for selection of shopping space is a closeness of the store to the home.

Questions for discussion:

1. Define the process of studying product promotion.
2. List the methods of studying advertising.
3. What main stages of studying advertising are the most popular in today's conditions?
4. Describe the process of testing advertising.
5. What is the fundamental difference between qualitative and quantitative methods of studying advertising?
6. Describe the basic methods of studying sales promotion.
7. Describe the specifics of product distribution channels.
8. List the steps and the methods of the study of merchandise flow.
9. Identify the characteristics of product distribution channels that affect the degree of customer satisfaction.
10. What is the advantage of the method of selective distribution of the goods?

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Annex 1

SYSTEM OF INDICATORS FOR CONDUCTING MARKETING RESEARCH

1. Indicators used for the analysis of market conditions

1.1. Indicators for the study of general economic conditions.

1.2. Indicators for the analysis of the demand.

1.3. Indicators for the analysis of the supply.

1.4. Indicators for the analysis of customer requirements to the product and consumer preferences.

1.5. Indicators for the analysis of the market development prospects.

1.1. Indicators for the study of general economic conditions.

The volume of investment to renovation and expansion of the fixed capital of the largest firms and the industry as a whole.

Indexes of production or *shipments* for the previous period: the volume of production in the industry as a whole; the value of shipments of goods to consumers; stocks of goods, the receipt and an order backlog of particular companies and the industry as a whole.

The size and structure of the costs of research and development.

The pace of product updates: the proportion and the number of fundamentally new products bring to market.

The dynamics of quantitative indices of prices:

- the comparison of indices of wholesale and retail prices;
- the comparison of prices and production costs for individual firms - the largest producers the products.

The volume, dynamics and the structure of international trade in a particular product, geographic distribution of exports and imports of the product.

Actions of the state to regulate market relations, credit and tax policies; interest rates policy, the policy of financial and organizational support of entrepreneurial activity carried out both at home and abroad, including foreign investments, mergers and acquisitions of firms, and others.

1.2. Indicators for the analysis of the demand

The volume of demand (consumption) in the current period, the pace of its growth in the past, one evaluation in perspective: the demand for goods, the factors of buyer's preference when choosing the goods (a quality, a price, vendor reputation, a uniqueness of the product, its design, reliability of supply, after-sales service).

Assessing apparent consumption: production plus imports minus exports.

Assessing purchasing power of people (the effective demand of people in the last period and in the future): the total amount of income of people; salary fund; the index of cost of living; the level of taxation; the cost of rent and household services; development trends of the above components.

Assessing the impact of technological progress on the state and dynamics of consumer demand.

1.3. Indicators for the analysis of the supply

Quantitative assessment of the supply of competing goods (production plus imports minus exports).

The structure of the supply of goods: the degree of range renewability; the value of new products, technical and economic characteristics of new and advanced products.

Price level for the products of different models and modifications.

The proportion of firms – the largest suppliers of the products in the market and the assessment of their production capacity.

Assessment of the prospects of supply development taking into account the trends in the world economy.

1.4. Indicators for the analysis of customer requirements to the product and consumer preferences.

General requirements of the consumer to the product: the novelty and the high technical level of the products; the high quality of manufacturing and regularity in the operation; the level of after-sales service and the nature of vendor services, the ratio of the products prices and beneficial effects of its use.

Specific customer requirements: the range and quality of products; the assessment of its appearance and the method of packaging and labeling; the use of a trademark; geographic and climatic conditions; applicable technical standards, the habits and tastes of consumers (for machinery and electrical products, climatic conditions of an importing country accounted, requiring the use of special lubricants and insulating materials, paints and varnishes designed for specific temperature and humidity; for consumer goods, market requirements for appearance accounted, as well as for color, style, size, drawings; for equipment, petroleum products, rolled steel and other products, technical standards used in the country are taken into account); product reliability and ease of operation; the lack of defects, and durability.

Analysis of consumer preferences involves clearing out how the consumer assesses and chooses the product taking into account the nature of the product and the nature of its use (consumer goods or industrial goods);

product differentiation given that, in the market of consumer goods, increasing convergence of the requirements for objective quality indicators of items occurs within a certain price class (e.g., cigarettes, washing machines, cosmetics, automobiles); product differentiation takes place primarily through the individualization of a particular brand of product, and consumer preference is determined by the prestige of the product, by its design, the habits of consumption of a certain brand of products (consumers of equipment, as a rule, prefer rather specialized equipment than universal one, preferring to purchase the equipment at a higher selling price, but with the lower cost of its operation);

consumer preference is usually given to a well-known company in the market, which is clearly fulfilling its obligations and ensuring continuity of operation, timely maintenance and repair; consumer always prefers the product that best meets his needs, and the company that provides the best compliance of quality, consumer characteristics and price of the product with the nature and the specificity of its requirements.

By following the principles of marketing, in particular the focus on the consumer, companies implement these principles differently. Some believe that the manufacturer knows the real needs of consumers and can form their demand. This principle is most common among Western European companies. Other companies assume that the consumer knows better his needs and they should be focused on that needs. This approach is common among Japanese companies.

1.5. Indicators for the analysis of the market development prospects

Analysis of market conditions ends with making predictions of development of the market of a particular product or a relevant sector of the economy, including the prospects for short-term and long-term trends, which serve as the basis for later development of marketing programs.

On the basis of a thorough study of the analysis of demand, supply and the requirements of customers to the product, the following steps are carried out in marketing research:

Assessment of the prospects of development of demand for the product in a particular market: clarifying the trends of increase or decrease in demand for this product; determining the stages of the product life cycle; identifying changes in market requirements for quality and consumer properties of the product, analysis of new areas of use of the product; quantitative assessment of the future dynamics and the structure of consumer demand; the definition of the development prospects of scientific and technological progress in the industry.

Determination of prospects for change in the market capacity: the trends in development of production in general, and production of the product in the country, availability of raw materials; the commissioning of new production facilities; development of consuming industries; the emergence of new substitute products; changes in the structure of external demand; the trends in import and export of the particular product.

Monitoring the market situation: the definition of the cycle phase, in which there are industries that produce and consume products of interest; monitoring the current fluctuations in market prices and stocks of goods in shops, in businesses and government warehouses.

Determination of development prospects of: production; consumption; the dynamics and the level of prices, international trade in a particular product or group of products.

*2. **Indicators used for the study of the forms and methods of trade in the market***

2.1. Indicators for the analysis and evaluation of activities of the firms-suppliers in the market.

2.2. Indicators for the analysis and evaluation of activities of the firms-competitors in the market.

2.3. Indicators for the study of firms-potential buyers of the interested product.

2.4. Indicators for the study of commercial practices existing in the market.

2.5. Indicators for the analysis of conditions of transportation.

2.6. Indicators for the analysis of legal conditions.

2.7. Indicators for the analysis of trade and political conditions.

2.1. Indicators for the analysis and evaluation of activities of the firms-suppliers in the market.

The names of firms supplying products to the market: the companies related to the manufacturer of their country; foreign manufacturing firms or their subsidiaries; trade and intermediary firms of the country, or owned by businessmen from other countries; the number of firms acting as competitors in the market of the product under study, and their positions in the market;

Potential buyers: firms acting as direct consumers of the interested products; resellers.

The degree of monopolization of the market: the existence of cartel agreements and participation of competing firms in such agreements; the market share of each participant in a cartel agreement or developed as a result of relation of forces and the specific positions of certain firms.

2.2. Indicators for the analysis and evaluation of activities of the firms - competitors in the market.

In the study of competing firms, in addition to the general information used in the study of firms, the following information summarized on all the competing firms and on each firm separately in order to make an analysis:

The positions of competitors in the market: the volume of sales of the manufactured products;

the firms' ranking in the list of companies in the country and in the world market; the share of each competitive company in total sales of the product in the target market.

The nature of the product produced by each company: technical parameters; price; competitive factors; the practice of using trademarks (brands); attractive features of the product and its packaging; goods of market novelty produced by competitors at the moment for the future.

The types and nature of services offered by competing companies, including the forms and cost of maintenance.

The practice of advertising and the types of sales promotion used by competitors; the cost of advertising and sales promotion.

The practice of product distribution: the forms of transportation used by competitors; the existence of warehouses of competitors and their location; the storage conditions, the use of warehouses for consignment trade.

Marketing activities of competing firms: the strategy pursued by each competitor; range policy, directions of scientific and technical work on the development of new products; production, technical and marketing policy; the techniques of intensification of marketing, pricing policies and trends of their movement, the level of production costs and the ways to reduce them.

Organization of marketing activities by competing firms: the presence of its own distribution network; the use of resellers' services; the cost of maintaining supply units.

Non-price methods of competition used by competitors:

the most effective means that could be applied against competing companies, the degree of vulnerability of a competing firm, and the market share that can be recaptured of it.

Financial situation of each competing company and its ability to protect and maintain its market position, the solvency of competing firms and their abilities to expand production capacity and to organize new production.

Quantitative indicators of competing firms' activities for the period under study or on a specific date: the volume of production manufactured; investment; R&D costs; production costs; profits, and other information contained in annual reports of the companies.

The availability of patents for competing firms and licenses sale by them: payments received under licenses; the terms of license agreements.

Commercial terms for transactions made by competitors: prices; provided loans and incentives; discounts off the price; delivery time.

The degree of capacity utilization for the production of competing products: the order book and the dynamics of receiving new orders.

Scientific and technical potential and the achievements of competing firms in the production and use of the product, which may have an impact on consumer demand.

2.3. Indicators for the study of firms - potential buyers of the interested product

Buyers of products for industrial purposes:

industrial companies and their subsidiaries that buy raw materials, component parts and materials for use in their manufacturing processes; trade and intermediary firms – wholesale, import, etc.; the position of the acquiring company in the market; firm's share in the total consumption of a particular product; the stability of demand made by the firm; the main suppliers of the product consumed by the firm; the methods of implementation of business operations by the firm; the requirements of the company to the technical and economic parameters of the purchased products, their maintenance, etc.; the organizational structure and management in major consuming companies, their production capacity and the prospects for their expansion; the type of technological process; the possibility of replacing the purchased products by substitutes.

Buyers of products for consumer purposes:

resellers – wholesale, retail, dealer companies, mail-order companies; final retail consumers; the methods of retail; the conditions for granting various benefits to customers – consumer credit, free after-sales service for long periods; price discounts, etc.; product range offered by the company, its novelty, competitiveness, the degree of renewability, product characteristic given in catalogs and brochures issues by the company, the nature and content of the advertising campaigns, used advertising media, used methods of sales promotion; the factors of preference given by customers to a specific company and the products offered by it, the approximate size of a quota of each firm in the sale of goods on the market; the distribution of sales territory; the effectiveness of distribution channels; the overall sales, profitability of operations; the size of the cost of sales, the cost of maintaining warehouses and other service facilities; the ability to attract a particular retailer as an intermediary counterparty by offering it competitive products or essentially new products; the amount of commission received by the company for intermediary activities.

2.4. Indicators for the study of commercial practices existing in the market

The use of model contracts:

developed by national business associations; developed by international business associations – associations and federations; exchange contracts developed by exchange committees of largest exchanges; auction contracts developed by major auction firms or the associations of auctioneers.

Practices and conditions of conducting tenders:

national legislation on tendering; giving preference to local firms or firms of particular countries when choosing a supplier on the results of the tender offer.

Trade customs and usages prevailing in practice of the country, its region or ports.

Features of the conditions of international transactions:

features of contracts of sale of goods and services relating to the conditions of supply of goods, pricing methodologies, determining the currency of price, payment methods used, forms and methods of calculation, the currency of payment.

2.5. Indicators for the analysis of conditions of transportation

The cost of transportation in the presence of a direct connection between the country of export and the market under study: liner shipping tariffs; freight rates; railway tariffs.

The cost and the degree of mechanization of cargo handling in certain ports: the cost of reloading operations; the cost of storage of goods at the port; the rates of port charges.

Terms and special conditions of transportation: the modes of transportation in the country of destination; the rules of delivery and acceptance of cargoes.

Selling price of the product when selling it under conditions of its delivery to the destination country: calculation of transport costs; the direction that is most advantageous to send the product; the port where unloading costs are the lowest.

Requirements for the volume, weight and packaging of cargoes.

2.6. Indicators for the analysis of legal conditions

National legislation in the country under study: the laws on insurance and merchant shipping; the laws governing the legal status and activities of firms, including foreign firms; the laws on the protection of industrial property, patenting of inventions, trademark registration; existing practice in these cases.

The kinds of dispute resolution, which are common in the importing country, for international commercial transactions in the normal course of legal proceedings and in the course of arbitration; compiling a list of law firms, which can be entrusted to represent the exporter's interests.

2.7. Indicators for the analysis of trade and political conditions

The content of the intergovernmental trade agreements governing the importation of the goods of interest to the country.

The system of state regulation of foreign trade: orders and laws that prohibit or restrict the importation of certain goods.

The presence of the country's import restrictions: the procedure for obtaining export and import licensing and distribution of contingents.

The level of customs duties of the goods, the method of calculation of fees, the regime the goods of interest are subject to, internal customs duties and taxes.

The presence of "free zones" in the country

The country's participation in closed economic groupings and their impact on the mode of import of goods of interest.

Currency legislation of the country: the procedure for receiving foreign currency by an importer; control of the transfer of profits; currency convertibility.

Mode of lending.

Restrictions and requirements of sanitary-veterinary procedures relating to the so-called "administrative protectionism".

3. Indicators used for the analysis of the results of economic activities of the company

3.1. Indicators characterizing the economic potential of the company.

3.2. Indicators characterizing the overall results of economic activities of the company.

3.3. Indicators characterizing efficiency of the company.

3.4. Indicators characterizing financial state of the company.

3.1. Indicators characterizing the economic potential of the company are used to assess the extent of the company, the company's places in the ranking systems at the national and international levels.

Assets that characterize the composition and deployment of funds available for the firm and controlled by it, received as the result of previous work and ensuring future revenues of the company.

Fixed capital, which characterizes the company's production facilities (buildings, structures, equipment) for the use in production or sales of products and services, for rent to other companies or to manage (including funds intended for repair and restoration of production capacity).

The number and value of the manufactured production for the whole company and by type of product that allows you to define: the share and location of the company in the production of industrial products in the country and in the world production; production structure of the company.

The number and location of production marketing units of the company in the country and abroad, their size, the nature of manufactured and sold products.

Characteristics of the infrastructure of the company: the presence of its own means of transport, warehouses, maintenance centers, the availability of its own resource base, sources of energy.

The size and placement of the firm's direct investment in companies located in the country and abroad.

Research capacity of the company: the value of R&D spending as a whole and by leading divisions of the company, the number and location of research centers and laboratories, the number of researchers working in them; the main directions and priority projects;

the total number of patents owned by the company, and their use.

3.2. Indicators characterizing the overall results of economic activities of the company (balance sheet values, accountable figures).

Indicators of general expenses – intrusion to new markets at the beginning of the year (Enter new markets); the cost of marketing activities at the beginning of the year (Marketing); spending on research and development (R&D); Overhead; administrative expenses (Department overhead); payment of rent (Rental costs); expenditures on product development (Product changeover); the costs associated with product delivery (Factory fees).

Indicators of inflow of funds: net profit; depreciation deductions; proceeds from sale of assets; subsidies and grants, an increase in long-term debt; issue of shares; an increase in short-term debt.

Indicators of the use of funds: the payment of dividends; organizational expenses; the costs of shares issue; investments; investments in other non-current assets; repayment of long-term debt; the purchase of quick securities; an increase in funds on the account at the bank.

3.3. Indicators characterizing efficiency of the company

Profit – is the main criterion for assessing profitability of the firm. The indicators used to determine the efficiency of production primarily relate to profits. These indicators can be both absolute and relative.

Absolute figures:

Gross profit in value terms obtained as a result of activities of the firm or its self-supporting units, calculated before paying taxes and deductions. Its growth or decrease revealed in the reporting period;

Net income (Net profit) in terms of value received by the company after payment of taxes, interest on loans, contributions to Pensions Funds, and remained at the disposal of the company. A comparison is made of amounts of profits received in current year with the profits in previous period; an execution of the plan for profit can be expressed both in value and as a percentage, for the company as a whole and for the production units.

Relative figures:

the ratio of profit to sales volume (Profit margin) characterizes the degree of profitability of the company. When comparing this figure with the figure for previous periods, it is necessary either to use comparable prices, or take into account the dynamics of prices for products sold during the period; the ratio of profit to assets (Profit to total assets) is an indicator of the profitability of the use of current and non-current assets; the ratio of profit to the real fixed capital (Profit to fixed assets) referred to as the net profit ratio of real fixed capital (the increase in this indicator may indicate the rate of turnover of funds invested in inventories); the ratio of profit to equity capital (Profit to net worth) shows the effectiveness of using their own sources of funding (the changes in this indicator are usually reflected in the price of the company's shares at stock exchanges); the ratio of profit to equity and long-term loan capital (Profit to capital employed) characterizes the intensity of the use of all capital invested for the long-term period.

Cost of the realized products is also an important parameter for evaluating the effectiveness of the company, which is correlated with other indicators:

- the ratio of the total sales value to assets (Sales to total assets) characterizes the degree of profitability of the use of current and non-current capital (assets), i.e., all the funds at the disposal of the firm; the ratio of the total value of sales to real fixed capital (Sales to fixed assets) characterizes the efficiency of funds invested in fixed capital;

the ratio of the total value of sales to current assets (Sales to current assets) indicates the rate of turnover of working capital during the year, so it is called in practice *turnover ratio*. The higher is the number of turns, the less money the firm needs to have for the fulfillment of its current operational activities;

- the ratio of the total value of sales to the value of inventories (Sales to inventory) indicates the rate of turnover of funds invested in inventories. Reducing this figure indicates either overstocking of finished products, or the accumulation of excess inventories.

The index of production costs – is an important indicator used to compare and evaluate the effectiveness of the company. As the dynamics and structure of this indicator and its comparative analysis matter.

The ratio of the total production costs to sales costs (Cost of goods to sales). An increase of this figure shows a decline in the profitability of the firm.

Turnover ratio of fixed capital and capital-labor ratio:

turnover ratio of fixed capital (Sales to number of employees) is determined by the ratio of sales volume to the total number of employed, or the cost of sales per employee calculated; capital-labor ratio is defined as the ratio of the book value of fixed capital to the total number of employed (Fixed assets to number of employees) or as the value of the real fixed capital per employee. Low turnover ratio of fixed capital is a result of higher capital-labor ratio.

3.4. Indicators characterizing financial state of the company show dependence of the company from its sources of funding, its solvency.

The structure of the equity capital (Stockholder's equity, Net worth shareholder's equity), or share ratio of its components: equity capital; share premium; capitalized profit.

The growth of equity capital due to capitalized profit indicates an increase in financial independence of the company.

The ratio of equity capital to carrying value of assets (Stockholder's equity to total assets) indicates the degree of the firm's dependence on external sources of financing. The higher is the ratio, the better is financial position of the company. An acceptable ratio is considered to be greater than 50%.

The ratio of total debt to equity capital (Total debt to stockholder's equity) shows the ratio of external and own sources of funding. The debt must not exceed equity capital. Such areas are interesting for the analysis: the structure of debt (the share of short-term debts in it); arrears in the payment of taxes, salaries, and various contributions.

The ratio of equity capital to real fixed capital (Stockholder's equity to fixed assets) shows the extent to which capital investment was carried out at the expense of internal sources of financing.

The ratio of long-term debt to equity capital (Long-term debt to stockholder's equity) describes the extent to which financing of the company is carried out at the expense of long-term loans, particularly in the form of bond loans, for which high interest rates are paid. Such long-term debt is considered as permitted:

when the size of interest payments is lower than the rate of return received by the company;

when the amount of debt does not exceed the cost of equity capital, as well as the amount of own working capital (the difference between current assets and short-term debt).

Cash flow (cash in a bank and cash-in-hand) from continuing operations shows the timeliness of receipt of payments for the products delivered to consumers, and the amount of collection of receivables. Changes in total cash, cash structure (the share of net income, and depreciation deductions) are subject to analysis herewith.

The ratio of cash flow and value of the investments in the current year (Cash flow to capital expenditures) shows the extent to which investment in real capital assets were carried out at the expense of current cash proceeds. This indicator is called the coefficient of self-financing.

The ratio of current assets to current liabilities shows the extent to which short-term debt can be covered by working capital. This index, called *Current ratio*, should not be less than 1. It indicates the level of solvency of the company.

The ratio of cash and securities realizable at short notice to current assets (Cash and marketable securities to current assets) estimates the proportion of cash and quickly realized securities in the value of working capital. This figure is called *the liquidity ratio*. The higher it is, the higher the firm's solvency is.

The ratio of liquid assets to short-term debt (Liquid assets to current liabilities) shows the level of solvency of the company. It is called the *ratio of coverage* of short-term debt by liquid assets, which include accounts receivable in addition to cash and marketable securities.

The ratio of current assets to the entire loan capital (Current assets to total debt) is also an indicator of the company's solvency. It is considered high if the value of current assets completely covers the debt of the company, i.e., it's higher than loan capital.

In analyzing, the above figures are tabulated in the tables that cover a specific period. The purpose of the analysis – is to identify current changes and deviations from the planned targets, as well as changes in the past year, or another period chosen for the study. Many companies publish such figures in their annual reports (eg., IBM), which facilitates a comparative analysis of the firm on the above characteristics for external users of information.

A deep and thorough economic analysis is a prerequisite for making management decisions based on the results of marketing research. Information – this is a specific expression of material processes. An effective functioning and the development of production and sales activities of the firm is impossible without information and analysis.

4. Indicators for the analysis of product competitiveness

The competitiveness of products on the market is determined by combination of the following indicators.

Technical level of the product is determined by a comparison of performance of this product with the products of competing firms in relation to the operational qualities and novelty.

Qualitative features of the product, as well as its appearance, packaging, design, and meeting the tastes of individual customers.

The level of prices for the product compared with the prices for similar products of competing firms. In determining competitiveness of the product, such indicators are of great importance: the size of discounts; delivery time; patent clearance; the volume of services provided to customers by competing firms in connection with the delivery of the goods; organization of maintenance of machinery and equipment by the seller; maintenance organization system of the competing firms.

Determining the level of competitiveness of the products manufactured by the company in a particular, world or industry market is one of the most important tasks of marketing research. Product competitiveness is usually expressed by relative quantitative and other indicators that reflect the distinct of the goods of interest from similar goods on technical and economic parameters and the ability to optimally meet the specific need of the buyer.

The study of customer needs; market requirements, in which the goods are compared and tested to meet the specific needs of customers while competing with each other, put in the basis of assessment of the products competitiveness. Therefore, for an objective assessment of the competitiveness of its goods on the market, the manufacturer must use in the analysis the same techno-economic indices (parameters) as the consumer.

In the cases when the market is already saturated with similar products, as a rule, not the needs become the basis for the analysis, but the sample that is in demand and meets the buyer's needs.

The level of competitiveness of the products with respect to the sample (the standard) taken as the base for comparison, consider: quality indicators; technical and economic characteristics; the level of competitiveness according to regulatory requirements; the degree of conformity of the product to the needs of main potential customers.

Technical indicators of the product are analyzed in order to identify quantitative indicators that can provide product competitiveness on the market. For this purpose, each technical indicator of the product is denoted by certain value expressed in quantitative terms (e.g., power, resolution, accuracy, and others) and the percentage value of the indicator of the proposed products to the value of the index of the sample calculated, at which this element of the needs to be satisfied completely. Following a comparison of all technical indicators, you can get a full set of parameters characterizing the deviations of the properties of the proposed product from the properties required by a customer. The indicators calculated in this way, in substance and in form, are the indices on which a comparison occurs of the elements of the need and a technical indicator aimed at its satisfaction. Such indicators are called *parametric indexes.*

In order to ensure the competitiveness of their products, manufacturers strive to offer a customer the product with such technical indicators that most can meet the relevant elements of needs always rated as 100%. Therefore, as a result of calculations, an indicator obtained characterizing in generalized form the degree of satisfaction of the needs associated with a product of a particular class. The higher the value of this ratio is, the better the customer requests are overall satisfied.

Product compliance with buyer's needs is usually arrived at capital goods and durable goods with high technology, where technical performance is paramount and where the need is expressed in the performance of specifically determined functions, the end result of which is typically quantified.

After analysis of the competitiveness of the product on technical parameters and determining the fact that it meets the requirements of consumers in a particular market, the product competitiveness is analyzed on economic indicators – the product being analyzed is compared to an analogue for the price of consumption, which is expressed by a percentage ratio or by the consumption price index.

The assessment of competitiveness on economic performance is made through simple arithmetic addition of all the constituent elements of the consumption prices at a certain time interval. The consumption prices are compared for the products intended to satisfy the same needs.

Selling price as a component of consumption price is directly dependent on the technical and economic performance of the product and the range of services that is provided by the manufacturer in relation to supply of the product (i.e., before the start of its operation). Since the selling price – is an expression of the evaluation of the product from the consumer side, it is an important factor in the product competitiveness. The selling price compared with the price of analogues taking into account the technical and economic performance and market position of the companies-manufacturers of comparable products. This uses the same indexes as in the assessment of the competitiveness on technical indicators. Typically, specially developed methods for a particular class of products are used for these calculations, which assume maximum consideration of all the properties and characteristics of the product and a position of the product and its manufacturer on the market at a certain sales volume.

The overall indicator of competitiveness of the product analyzed in relation to a similar product or to a sample, is calculated based on consolidated indices of competitiveness on the technical and economic indicators. It should reflect the difference between the analyzed products in the consumer effect per unit cost.

Economic resource of the product is the period for which an optimal level of consumption prices achieved at normal intensive usage. After depletion of this resource, a customer either stops using the product, or carries out its overhaul (if it’s an equipment) to restore its economic resource. If an economic life is greater than an amortization period, an obsolescence of the product occurs and the manufacturer is forced to decommission the product without having used all its life, so that incurs losses on fixed costs. It is therefore considered that the economic resource expected by the consumer should roughly match the normative term of full amortization (write-offs). An assessment of the value of an economic resource required by the consumer to be madeon the basis of the data on actual life of similar products, on the structure of consumer spending, as well as on the data on the timing of technological obsolescence of products of one class.

Weight base (a coefficient) of index of competitiveness on economic parameters is determined based on the price of consumption of the sample, referred to economic resources.

The representativeness of the product selected as a sample, and its market share, are being searched in connection with the fact that bringing competitive products to the market, the manufacturing company can count on a certain market share due to displacement of similar products or analogs selected as samples already acting in the market. It is extremely important to consider at what stage of the life cycle is a sample analog, as bringing the product to the market, you should ensure a certain level of competitiveness for it for the entire assumed life cycle. Therefore, when comparing the projected or already produced products, the manufacturer must rely on pre-planned targets that take into account the level of the further technical development of the product.

Nearly every analyzed product must have its own method of assessing the competitiveness, which would take into account the peculiarities of the formation of a relevant product market and the main trends in the development of scientific and technical advance.

The index of competitiveness of the analyzed product is calculated by direct comparison of its technical and economic indicators with those of the sample, i.e., by the use of parametric indices. This calculation is carried out for the whole range of technical indicators, resulting in a number of specific parametric indices that determine in total the level of competitiveness of the product analyzed.

Quantitative value, or factor of competitiveness, is widely used by firms in making management decisions, including the decisions on the expediency of development costs, on the design and mass production of new products, and on the improvement of traditional products, and others.

In practice, the following quantitative indicators to assess competitiveness are used:

an individual indicator, reflecting the percentage ratio of the value of any technical or economic indicator to the value of the same indicator of a similar product produced by a competitor;

a group, or consolidated indicator combining the individual indicators and characterizing the level of competitiveness on a homogeneous group of indicators (economic, technical, legal);

an integral indicator enabling a quantitative characteristic of the competitiveness of the product, which is the ratio of the group index of technical parameters to the group index of economic parameters.

The differential, integrated and mixed *methods for assessing the level of competitiveness* are based on the application of the above indicators;

a differential method is based on using individual indicators, with which help the compliance is determined with the level of the basic sample as a whole, or for which indicators there is a difference and to what extent;

an integrated approach is based on the use of group and integrated indicators;

a mixed method uses both individual and integrated indicators and provides the most comprehensive assessment of the competitiveness.

Group examinations, or examinations of qualified specialists (qualitative, organoleptic and others) play an important role in the analysis of the products competitiveness. Companies widely use the methods of expert estimations in their practice, conducting them by their own or resorting to the services of specialized firms.

In an expert evaluation of the level of competitiveness, the weighting coefficients for each indicator are used; and the indicators are ranked according to the importance of the main characteristics of the product from the buyer's point of view.

When using the *method of assessing competitiveness based on the list of main parameters*, a number of competing products compared and a certain amount formed for each product by scoring – this is an integral indicator of deviation of the parameters of the compared products from a certain "ideal" (imaginary) of the product, considered a benchmark for a certain kind of goods, or a base sample, for which the competitor's product assumed. When selecting the base sample, it's is necessary that an estimated product and a competing product were similar in their purposes and the conditions of use, and were focused on the same group of consumers.

The basic sample shall meet the purpose of assessing the level of competitiveness, be representative in the market at the time of assessment and in the future (as reliable information evidenced), be selected according to an average time of the model change.

If the analysis shows that the product is not competitive in the market, the company can continue to study in other markets or spend some money to improve the product parameters. To this end, the manufacturer assesses the costs necessary for the improvement of the product, and sets a new selling price to meet the increasing values of individual indicators. On the basis of appropriate analytical tools involving the mandatory use of computer technology, the best options of most promising products are counted and chosen, targeted at specific markets and pre-defined group of consumers.

In order to assess the product competitiveness, especially those of its qualities, that are almost impossible to quantify (indicators of ergonomic, comfort, design, and others), such research methods used as consumer surveys, exhibitions of samples, organization of seminars for buyers, providing direct contact with consumers. The need to assess the competitiveness occurs until the new product appears on the market – at the stage of its design and development. This takes into account that the cost of the commercial use of products (operating) depends for more than 80% on technical parameters, which were laid down during the initial stages of the product development.

Companies seek to achieve the level of competitiveness of the product, which would provide them with the intended amount of profit. Therefore, the concepts of "management of competitiveness", and "quality management" appeared. In modern conditions, the level of competitiveness of production – is among the main objects of control.

5. Indicators for the analysis of the firm’s competitiveness in the market

The concept of "competitiveness of the company" includes a wide range of economic indicators determining position of the company in the industry market (national or international). This complex may include features of the product defined by the scope of production, and the factors that form the overall economic conditions of production and sale of the company’s products.

The competitiveness of product and competitiveness of the manufacturer of the products related to each other as a part of the whole. The company's ability to compete in a particular commodity market is directly dependent on the competitiveness of the product and on the aggregate economic activity of the firm affecting the results of competitive struggle.

As competition of the firms in the market takes the form of competition of the products, the value of properties imparted to the production by the firm, manufacturing and selling it on the world market, increases.

Major impacts on the level of competitiveness of the company have: scientific and technological level and the degree of perfection of production technologies; the use of newest inventions and discoveries; the introduction of modern manufacturing automation.

The analysis of a competitive position of the firm in the market involves finding out the factors affecting the buyers’ attitude towards the company and its products, and, as a result, changes in the company’s share in sales in a particular market: national, sectoral or global commodity market. These factors can be summarized as follows.

For consumer goods:

Commercial terms: the company’s possibility to provide customers with consumer or commercial loans, discounts from the list price, discounts when returning previously purchased commodity that has used its economic resource; the ability to make barter deals; organization of sales network: the location of a network of shops, supermarkets, their availability for a wide range of customers; demonstrations of the product at work in salons and showrooms of the company or its resellers, at exhibitions and fairs; the effectiveness of advertising campaigns; the impact of the means of "public relations"; organization of maintenance of the production: the volume of services provided, the terms of warranty repairs, the cost of after-sales service, etc.; consumers’ ideas about the company, its image and reputation; awareness of potential buyers of the company, of the range of its products, services; the impact of the company's trade mark to attract the attention of buyers to its products; revealing the views of customers about the company and its products through surveys; the impact of trends in the development of market situation on a position of the firm in the market.

Competitiveness of the companies processing raw materials is influenced by such factors: the value of profits from the processing of raw materials, which depends on quality and cost characteristics of the raw materials, and the cost of other inputs – labor, fixed capital, consumed fuel and energy; situation in the market of a final product of processing raw materials; the dynamics of prices due to fluctuations in supply and demand; the cost of transportation of raw materials to the place of processing or use; the forms of commercial and other relations between producers and consumers.

The level of competitiveness of manufacturers of raw commodities is largely determined by what products they sell, where and how these products are consumed.

Competitive position of the company in the market also depends on the support and assistance that firms receive from national government agencies and other organizations through the provision of export credit guarantees, their insurances, exemption from taxes and duties, provision of export subsidies, providing information on market conditions and others.

6. Indicators used to assess competitive capabilities of the company

Companies attach great importance to: the analysis of its strengths and weaknesses to assess the real possibilities in competition; the development of measures and means by which the company could improve competitiveness and ensure its success. In the process of marketing research, certain quantitative indicators are used to assess competitiveness of the firms, which indicate the degree of stability of the company, the ability to produce products, which are in demand in the market and provide the company to obtain the planned and stable outcome. The number of such indicators includes the following:

The ratio of cost of the products sold to their number in the current period. The increase in this ratio indicates the reason of increased sales – raising prices or increasing volume of sales.

The ratio of profits to the total cost of sales (Profit to sales). The growth of this index indicates an increase in the level of competitiveness of the company or a particular manufacturing branch.

The ratio of the total value of sales to the value of unsold products (Sales to finished goods) indicates the fall in demand for the company's products and an overstock of finished products.

The ratio of the total value of sales to the value of inventories (Sales to inventories) shows that there was either a decline in demand for finished products, or an increase in stocks of raw materials. The reduction of this index indicates a slowdown in inventory turnover.

The ratio of sales volume to the amount of accounts receivable (Sales to receivables) shows the proportion of sales delivered to customers on the basis of commercial credit. Typically, the higher demand for the product, the less the volume of trade credit. Reducing of this figure means a reduction in sales on credit.

Firms with lower production costs receives a higher amount of profit that allows it to expand the scale of production, to raise its technological level, economic efficiency and product quality, and to improve the distribution system. As a result, competitiveness of the company and the product manufactured by it rises, thus increasing its market share at the expense of other companies that do not have such financial and technical capabilities.

The analysis of distribution costs is important, made by attributing the value of selling expenses to the amount of profit. Such a comparison is usually made not only for the full amount of selling expenses, but also for individual elements: sales branches, resellers, particular products and sales markets. The analysis of distribution costs can detect dead expenses throughout the entire system of commodity circulation from the seller to the buyer.

Organizational measures aimed at improving competitiveness of the company can be summarized as follows: providing technical, economic and qualitative parameters to bring the production of the company to the forefront in the market, changes in the quality of the product and its technical and economic parameters to take into account the requirements of consumers and their specific reserves; increased attention to the reliability of the product; identifying and ensuring the benefits of the product in comparison with its substitutes; identifying the advantages and disadvantages of similar products manufactured by competitors, and the use of these results in own company; the study of competitors' activities on the improvement of similar products with which they act on the market, and the development of measures that provide advantages over the competitors; identifying possible modifications of the product by improving its quality characteristics, such as durability, reliability, economy of operation, improving external design; the identification and use of price factors to increase the competitiveness of products, including used by competing firms (price discounts, the timing and amount of guarantees); finding and the use of possible priority areas for the use of products, particularly new products; an adaptation of products to work in different environments: in tropical or polar climate, in different soils (rocky, sandy, swampy); product differentiation ensuring a relatively stable customer preferences given to certain types of substitute goods; the value of price competition in these conditions is reduced, because the buyers are guided by the existing preferences for quality of the products and others; the impact directly on consumers by artificially restricting the market for new and more advanced products, by pursuing active promotional activities, by provision of cash or trade credit, in particular, through deferred payment.

Thus, the assessment of competitiveness of the firm in a particular market or segment is based on a thorough analysis of technological, industrial, financial and marketing capabilities of the company. This is the final stage of marketing research designed to determine the potential of the company and the activities that the firm should take to ensure a competitive position in a particular market.

Such an assessment should include the following indices:

the need for actual investment and investment for the future both in general, and for individual products and specific markets; the range of competitive products, their volume and value ("product differentiation"); a set of markets or segments for each product ("market differentiation"); the need for funds on the formation of demand and sales promotion; a list of measures and techniques that can give an advantage in the market for the company; creating a positive image of the company for the buyer; production of high quality and reliable products; constant updating of products based on its own designs and inventions secured by patent protection; diligent and accurate fulfillment of obligations for transactions on the timing of deliveries of goods and services.

The results of a marketing research are taken as the basis for developing the strategy of the company, and its policy in the fields of technology, the range of products and marketing.

Conducting the marketing research with huge sets of figures is almost impossible without the use of computer technology. Therefore, companies widely use their own data banks that contain a broad set of indicators related to activities of the company. To analyze the status and development of the situation on the world markets, the companies usually turn to specialized information commercial centers that collect, systematize and produce such information.

Annex 2

DRAWING UP MARKETING REPORT
(PRACTICAL GUIDE)

Annual marketing report – is one of the main and the most important documents, included in a list of tasks to be solved by marketing department of a company, an enterprise, at modern production. In order to all the necessary information for the analysis was at the disposal of staff of marketing department in an accessible and visual form at the time of preparation of this document (usually at the beginning of the year following the reporting year), you need to generate monthly marketing reports, including the main points of the annual report. These should be monthly reports on sales, range efficiency, the effectiveness of advertising, on the consumers, competitors and suppliers.

Note that for the various fields of activity – wholesale and retail trade, manufacturing, services, consulting, etc., - the content of marketing reports should be adjusted according to the specific activities of the respective company, factory, production and commercial unit. Subsequently we suggest using the term "project" to summarize the different types of business activity.

Annual marketing report typically includes the following main points:

1. Introduction
2. Basic concepts and definitions
3. General information about the project
4. Description of selected market niche
5. Type of production, trade practices or other type of business activity
6. Description and characteristics of the consumers
7. Description of the location of corresponding production/commercial unit
8. Product policy (analysis of the range efficiency)
9. Price policy
10. Additional services, additional activities
11. Methods of sales promotion (advertising, RP-events, the work of sellers – for retail, quality assurance of products, services, customer service)
12. Competition and market
13. Conclusions, forecasts and recommendations
14. Applications

We consider the content of each item in more detail.

1. Introduction

The purpose of the report: the purpose of the report could be to analyze the production/commercial activities, or the development of plans and recommendations for the next period, etc. References to previous reports or documents. The description of original data, on which the analysis is done, the methods for its obtaining, storage, and updating. The description of the main marketing goals and objectives for this industrial/commercial unit. Brief description of an advertising concept, which was adopted for the relevant reporting period.

2. Basic concepts and definitions

In this section, you must provide a description of basic concepts and definitions that will be used in the report. For example, it is advisable to give a definition and a brief description of main consumer groups that exist in the market under study; a classifier showing the main features and price ranges of the relevant goods/product/service; to suggest interpretation of key terms and concepts.

3. General information about the project

- start date of an appropriate project;
- description of the main types of business activities involved in the project;
- project objectives, development strategy;
- the main financial and economic indicators for the last period;
- the level of technology, service;
- a brief description of the main types of products/services.

4. Description of the market

The presence of a group of potential customers interested in manufactured/offered products/services

Market segmentation:

- geographic segmentation;
- demographic segmentation (age, gender, family composition, income, occupation, education);
- psychological segmentation (lifestyle, hobbies, leisure activities, etc.) ;
- behavioral segmentation (the reasons of purchase, expected benefits from the purchase, consumption rate, willingness to buy, and so on).

Summary on competitiveness of a selected market.

A brief description of activities and features of work with the suppliers of goods, components, raw materials, etc. (the reasons for choosing a particular provider, the benefits of working with specific suppliers, difficulties in working with some suppliers)

5. Type of production, trading methods or other kinds of business activity

This is a brief description of the type of business activities organization. *For example, for the production:*

- serial, small-scale, single; discontinuous or continuous;
- sources of raw materials and components;
- technologies used with the emphasis on possible competitive advantages;
- secondary production, the use of wastes.

For retail/wholesale trade:

- a chain of stores or a few shops not connected into a single network on the range, pricing, style, etc.;
- the unity of trade process in the chain stores;

- the work of shop-assistants/salespeople with customers (communication style, appearance, qualification and competence, knowledge of the characteristics of the offered goods, communication, mobility, availability of instructions for the shop-assistants;
- decoration of points of sale, chain stores.

6. Description and characteristics of consumers

Retail consumer:

- a social portrait of the consumer (age, income level, education, employment and type of activity, marital status);
- more complete information about the consumer (interests, hobbies, TV programs watched, literature for reading, the press, favorite radio, car, the place of residence of potential consumers, living conditions – apartment, villa, etc.);
- motivation for the purchasing of relevant goods/products/services (providing physiological needs, ensuring their own safety or the safety of loved ones; assertiveness; taking care of relatives, respect from others, belonging to a certain social group);
- description of the consumer decision-making when purchasing the relevant goods/product/service;
- the benefits that accrue to the customer when purchasing the relevant product/product/service;
- analysis of the places of residence of the consumers (these data could form the guidelines for placement, for example, a shield or targeted advertising, location of new commercial and industrial areas, etc.).

Wholesale customers:

- a description of relevant groups of wholesale customers (production, shops, brokerage firms, foreign companies, etc.);
- a more detailed description of each major wholesale customer;
- a description of the option for using the goods purchased by the wholesale customers;
- a brief description of the final consumer of goods sold;
- a description of the basic principles and work organization with the wholesale customers (settlement systems, supply systems, the most popular models or products, brands of goods, the frequency and nature of complaints, the degree of satisfaction of the range, quality and technical and technological characteristics of the goods).

7. Description of the location of relevant industrial and commercial units

Retail:

- outlets location;
- the presence of the flows of vehicles, pedestrians, an assessment of intensity of the flows (the number of vehicles or pedestrians per hour with an indication of the change in intensity depending on the time of day);
- ease of driving up to an outlet by car or other modes of transport (the presence of subway stations, bus, trolley, tram stops, railway stations beside);

- the possibility of covering flows of transport passing from other areas that are not nearest to the point of sale;
- the presence of major offices, banks, industries, shopping-malls, markets nearby;
- description of the degree of solvency of the residents of nearby areas, their level and style of life, income level, social portrait;
- assessment of the cost of 1 sq.m. housing or rent of commercial and production facilities in nearby areas;
- assessment of the potential scope of an analyzed outlet (in population of relevant areas);
- location of competitors' stores nearby.

Wholesale:

- analysis of location in terms of convenience of driving up of wholesale customers;
- location of potential wholesale customers relatively to a relevant production/commercial unit;
- location of competitors relatively to an analyzed industrial/commercial unit.

Manufacturing:

- analysis of location in terms of convenience and the cost of delivery of raw materials, components;
- analysis of location in terms of ease of delivery of finished products to wholesale or retail customers;
- analysis of location of its own outlets for the sale of products with respect to the location of production;
- location of potential wholesale/retail clients relatively to corresponding manufacturing facilities;
- analysis of location of business partners;
- analysis of location of competing manufacturing facilities.

8. Product policy

- analysis of the reasons that formed existing range of products, the assessment of its optimality;
- a brief description of consumer and technical and technological properties of main product groups or products;
- assessment of sales volumes (in money and volume terms) for each product or a product;
- analysis of profitability, the rate of profit by a product group or a product;
- identifying unprofitable products or groups of products, analysis of the causes of low profitability;
- analysis of sales of similar product lines or products of competitors;
- analysis of the seasonality of sales;
- analysis of the reasons for the increase/decrease in the sales of products or product groups at certain time periods;

- analysis of the effectiveness of availability of specific products or groups of products in stock (taking into account production costs, demand, selling prices, difficulties in the production or delivery, convenience of working with suppliers or partners, etc.).

9. Pricing policy

- the basic principles of the formation of pricing policy (taking into account the specifics of purchasing power and an income level of consumer groups, on which a relevant industrial/commercial unit focuses on);
- specifics of the cost price formation for the relevant product/service;
- evaluation of the degree of influence of a price level and pricing system of competitors on your own pricing policy;
- causes for the changes in price level occurred during the analyzed period;
- analysis of pricing policy of suppliers of raw materials, components and related products;
- discounts, discount cards;
- description of bargain sales, which took place in the analyzed period;
- description of the features of the system of settlements with customers (credit cards, cash/non-cash payments, the amount of prepaid, customers lending, sale of goods on consignment, etc.);
- analysis of the corresponding competitors' system of settlements with customers.

10. Supplementary services, supplementary activities

In this section, you should give a brief description of additional services or additional activities. You may stick wherein to the main points, of which the description of main activities consists:

- causes of emergence of supplementary activities;
- a brief description of supplementary activities;
- assessment of the level of demand for the results of supplementary activity;
- the level of prices and the pricing system;
- the description of market conditions, and competitors;
- the description of consumers on supplementary activities;
- promotion of goods obtained from the supplementary activities on the market.

11. Methods of sales promotion

External advertising:

- the description of the main types of advertising and PR-campaigns used in the analyzed period;
- advertising in the press;
- radio ads;
- TV advertising;
- outdoor advertising; exterior design of the point of sale or manufacturing facilities, an office;
- billboards;

- addressable advertising;
- joint advertising;
- participation in exhibitions and fairs;
- advertising in the Internet;
- print advertising (advertising brochures, catalogs, press releases);
- souvenirs with company's logo and an address, and the methods of their distribution.

Internal advertising (a point of sale, an industrial/commercial unit)

PR-events:

- sponsorship;
- dissemination of information about the company through television, radio, press, through speeches of representatives of the leadership in the media;
- corporate communications;
- press conferences, seminars;
- presentations.

Sales promotion:

- discounts, price cuts;
- availability of discount cards;
- prizes, gifts for customers and clients;
- free samples, products testing, tasting;
- guarantees;
- demonstration of goods in the places of their sale;
- encouraging sellers/sales managers;
- encouraging business partners and sales agents;
- joint sales promotions with other companies.

An analysis of the effectiveness of advertising.

Providing quality of products, services, customer service.

12. Competition and market

The levels of competition relevant to an occupied market:

- competition of the products, product groups;
- competition of brands;
- production competition;
- industry competition;
- formal competition;
- general competition.

Information about the competitors operating in a selected segment of the market:

- analysis of the location of competing industrial/commercial unit;
- commodity policy and assortment policy of competitors;
- pricing competition of competitors;
- competitors' advertising policy, methods of sales promotion and PR-events;
- the description of consumers with which competitors work;

- the methods and techniques of competitors' work with consumers;
- analysis of the features of the production/trade organization of competitors;
- features of competitors' personnel policies;
- supplementary services offered by competitors;
- decoration of competitors' outlets/manufacturing facilities/offices;
- assessment of sales volumes of competitors;
- innovations, supplementary activities of competitors;
- analysis of the strengths and weaknesses of competitors.

Analysis of the competitive advantages of your own.

13. Conclusions, recommendations, and forecasts

It's appropriate to draw up conclusions, forecasts and recommendations in accordance with the main points of the report. This, definitely, a general conclusion made about the effectiveness of a relevant project activity for the analyzed period.

14. Annex

The graphs, tables, charts, and other additional materials presented that illustrate the content of the report. It can be:

- a diagram of market segmentation;
- an organizational structure of a respective industrial/commercial unit;
- the scheme of interaction between the respective industrial/commercial unit and the suppliers, partners, retail outlets, wholesale customers;
- the layout of their own sales outlets, offices or production facilities with an indication of traffic flows, pedestrian flows, the ways of driving up (for the supply of raw materials and components); mapping potential coverage by districts, regions, regions;
- diagrams, drawings, images of the produced/sold goods, their basic technical and operational characteristics;
- graphics of seasonality of sales;
- chart of the cost structure of the relevant goods/product/service;
- dynamics of changes in the profitability of products or product groups;
- images of ad layouts, locations of billboards, description of the content of radio and telecasters, other visual promotional materials;
- layout diagram of trade/production points of competitors with their areas of coverage by districts, regions, areas (can be compared to the coverage area of your own trading/production network);
- charts and graphs of sales forecasts by products or product groups.

In conclusion, we should note that marketing report for each case should not be limited to the paragraphs listed above. The specifics of a relevant industry, production or the sphere of trade, of course, require an adjustment of the content of marketing report according to the specific conditions of an industrial/commercial activity.

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