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SZÉKELY GÉZA – SIPOS LÁSZLÓ –
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Basic Marketing

AULA KIADÓ, 2006

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PREFACE AND ACKNOWLEDGEMENTS

This book provides English and marketing knowledge to students interested in horticulture and food industry. We believe our colleagues in everyday food and horticulture industry can use this book also. These chapters are based on the framework of Philip Kotler's classic marketing textbook, but we tried to provide further local, pragmatic and fmcg insight. We used real live cases, anecdotes and classic business school stories to explain theories and to make our argument live. Sometime we used stories not from horticulture, food marketing, but from other industries, or countries to explain complex marketing issues. Subject index makes our definitions easy to understand at the end of the book.

We appreciate the generous help of Ágoston Hegedüs, the first and founding general secretary of the Hungarian Horticultural Council. Dr. Péter Halmai, the professor of Szent István University in Gödöllő made helpful comments and recommendations. The Agricultural Economy Department of Purdue University and the S & J Ranch, Pinedale, California provided exciting training and cooperation opportunities to the authors of this book. We wish to express a great deal of appreciation to students writing their thesis's in marketing for their persistency, and to the companies and their employees for their supportive patience towards us and our students.

Budapest, 2006 August

The authors

1. INTRODUCTION, WHAT IS MARKETING?

1.1. The Definition of Marketing

"The purpose of a business is to create and keep customers"

Theodore Levitt

In other words, marketing is the complete panorama of all the tasks which serve the establishment and cultivation of the relationship between the seller and the customer. Nowadays, marketing means more than just a heap of professional techniques and tricks: it is recognized as a way of thinking. Let us examine marketing with three different principles, or attitudes.

1.1.1. Production based attitude. The point here is that the needs of the consumer are ignored. A better mousetrap: *"make a better mousetrap and the world will beat a pathway to your door"*. This is an elitist misunderstanding; but what is important and valuable for us as producers or owners must also be important and valuable for the consumer. That kind of self-contained, egoistic marketing, saying *"they need the same thing I do"* is a trap, the projection of our own opinion, situation or way of thinking onto the consumers. This is the dream of an engineer/designer, when *"we primarily consider the satisfaction of our own dreams, not those of the customers."* A product or enterprise of such a kind can be considered a "hobby" of the producer, and the only role of marketing is to get the money to finance it.

A typical example of this is the **grownup "expert"** who relies on his own childhood experiences and memories – what he loved and desired when he was a child – when he plans to communicate with children.

Further typical examples:

"We produce it, we sell it, and the customer has to buy it!"

"Customers are irrational. They don't want to pay for quality!"

"The customer has no idea how much work, and what sophisticated technology is needed ..." – The customer is blamed and the product is perfect!

A positive example:

"An interesting city is the one which is also interested in itself!"

(a Budapest author, early 1900's)

1.1.2. Sales oriented attitude (make-and-sell)

“The performance of business activities that direct the flow of goods and services from the producer to the consumer or user.”

American Marketing Association, 1948

Producer → Marketing → Consumer

This attitude over-emphasizes the activity of the salesman, and strives to find the answer to the following question: *“How can the consumer be liberated from his/her money”*. It has to be admitted, however, that *“the product does not get up and walk to the market, and does not change owners by itself!”* Citing Péter Veress: *“going to and fro, trifling and bargaining with the product”* – this kind of struggling is absolutely necessary. It has to be mentioned however, that such principles as *“a good salesman can sell anything”* and *“products are sold, not bought”*, or the advice to *“get in the revolving door last, but come out first”* often raise revulsion and disgust.

From the viewpoint of the **sales oriented approach**, business is only a profit-generating mechanism, and works like a leaky bucket. There is nothing wrong with an empty bucket, until more water flows into it than flows out through the hole. By many advertisements, agent tricks and activity, it provides a sufficient number of new customers and people who try out new products, but does not deal with keeping them. Just when it starts to lose more customers than it gains, the owner sells the business, or transfers responsibility to someone else. The following German anecdote highlights the real nature of this “money pressing” approach: *“he sold a milking-machine to the farmer, and as payment, he took his last cow”*. Harmful manipulation is a trading approach which does not even balk at fooling people, and thrives on exploiting the weaknesses of customers.

A good example of this is a statement of **Samuel Cummings**, the king of the arms trade: *“Human folly goes up and down, but it always exists and its depths have never been plumbed!”* or as P.T. Barnum said in 1869: *“There’s a sucker born every minute”*. G. B. Shaw’s opinion about fashion: *“A fashion is nothing but an induced epidemic”*. Neither had Oscar Wilde a better opinion: *“Fashion is a form of ugliness so intolerable that we have to change it every six months.”*

One of the disadvantages of the sales oriented approach is the **“Hermes complex”**. In Greek mythology, Hermes was the god of merchants and robbers, among others. Because selling is so overworked, these two have welded together in the people’s mind to such an extent that consumers are involuntarily afraid of the merchant who is humble, smiles a lot, and has a sleek manner, but in the end fools them and rubs his hands in satisfaction. Others however,

think about the merchant as a miserable anti-hero, who overplays his role and misuses, not uses market possibilities. Consumers love to buy, but hate to be sold to. Hermes was the swiftest among the gods. His distinguishing features were shrewdness, ingenuity, and creativity. According to Greek mythology, he was only one day old when he bribed a guard and stole Apollo's cows. Apollo – using his prophetic ability and also the unreliability of the bribed guard – figured it out, of course. The appointed judge, Zeus, awarded the cows to Apollo. Then Hermes enchanted Apollo with a homemade lyre, and armed with the lyre, he was able to keep the cows.

In the U.S., **J. D. Rockefeller** is known simultaneously as the benefactor of the nation and the symbol of business immorality. In his old age – driven by a guilty conscience and remorse - he supported many valuable social programs. His father, “Doctor Bill” peddled homemade ointments and oils, and managed to ensure a relatively good existence for his family. Not only did regularly cheat his customers, but even the members of his own family. “*I want to make 'em sharp*” he said. Well, he did, because Rockefeller even ruined his brother Frank's enterprise when his brother refused to join him.

However, **marketing does not simply consist** of tricks, even if it sometimes uses them! The point of the sales oriented attitude is to make the most profit. That is like saying that the point of life is to eat. Of course we have to eat to stay alive, so we have to make a profit to stay in business, but surely eating or making a profit are not the only point of it all (Calloway, 2003). **Unethical marketing** does not respect the basic needs of the customers connected to a product:

- safety,
- compensation,
- freedom of choice,
- information,
- deliverance.

The sales oriented approach can lead to loss of trust or unfounded generalizations.

1.1.3. Marketing-based approach, sense-and-respond.

“The goal of marketing is to discover consumer needs and wants and translate them into products”

Hoffmann Istváné, 1974

Consumer → Marketing → Producer → Marketing → Consumer

“Marketing is not selling what you have marketing is having what you can sell!”

Peter Drucker

Marketing tries to understand and to win customers! Stand up and leave any business meeting where the word “customer” or “buyer” has not been heard for ten minutes. *“Every product is a promise, put on the shelf, which takes an exam as many times as it gets into connection with the customer.”* The consumer votes with his/her money every day. Purchase is an action of change, which means that if he/she likes the product, he/she is going to buy it. In other words, the product rates higher than the money spent on it. The customer value, the bonus benefit, arises when the customer thinks the product is worth more than the money he spends for it. Thus, the task of marketing is to *“give people a good opportunity to spend money.”* The goal of the product is to help make the consumer’s life better. The producer and the salesman are in league with the consumer – who turns away in disappointment if the purchase does not work out right.

“People do not buy products. They buy problem solvers!”

J. N. Uhl

In his quote, **J. N. Uhl** means that he does not see people when he looks out of the window; he sees “problem packages”. According to an old Black & Decker slogan, they *“do not sell drills, they sell holes in the wall.”* The pragmatic professional calls them *“well designed products”*, and if the consumer does not mind spending money on them, they always fit the bill.

In 1995 Ken Greenly, a professor of vehicle design at the Royal College of Art in London was asked how the car of the future would look. *“First, tell me what the consumer of the future will be like!”* came the wise answer (The Economist, 1996).

Going further, people expect certain companies and brands to be proactive. They want companies to offer good and elegant response mechanisms to their problems, mechanisms that are beyond their imagination. The goal of marketing is to reveal unsatisfied needs and be prepared to satisfy them.

According to an old management school anecdote: *“If they had asked the **farmers 150 years ago** how they could best make their work easier, no one would have suggested the development of tractors. They would have asked for stronger horses that eat less etc.”*

Toothpaste that whitens teeth was developed because the **Colgate-Palmolive company** noticed that in order to raise their productivity people drink coffee, which makes teeth brownish. Yellowish-brown teeth are disturbing to people.

A good product, a good production only *helps* to solve problems, because problems are actually solved by people themselves! The customer is neither the property of the company, “*nor its buyer, whom it sometimes needs to condescend to!*” To sum up, the customer – as partner – participates in every decision of the company, so his/her wants are considered. Such a firm respects its customers even if they commit mistakes sometimes.

Marketing activity, which starts and ends at the customer, is a **cycle**, since customer wants are continuously changing. The act of purchasing is not the end, but the beginning of the relationship with the customer. Market success is a moving target, and it is based at all times on the pursuit for the better. Continuous feedback is like a **hamster in a wheel** – it never stops. It cannot be topped, only if you leave it, but in this case someone else is going to pick up where you left off. It does not work by itself. This is like a house that is painted white. If it is not regularly re-painted, it slowly turns grey. A good marketing expert is like a good farmer, who never stops watching, caring, and even improving the land and the opportunities.

“Consumers send a message to us with their each and every action, purchase or even non-purchase! We are listening to the words of the market and continuously check and reconsider the process.”

Samuel Walton, Wal-Mart.

Companies and products with a good reputation deserve the trust of customers. The key to success is the respect and recognition of the customers. The enterprise – and in the optimal case thus the employees as well – handle the customers like their bosses, on whom their future depends. The entrepreneur does not only risk his own, but even society’s resources when he employs people or gets credit and assurance for an economically illogical activity! The marketing-based approach considers consumers as adults. This approach assumes that the majority – even considering their feelings – thinks independently and rationally. Among the numerous market definitions, one of the clearest is that of a London Trinity College professor: “*The market... is a basic arrangement in which people can interact with each other and undertake mutually advantageous activities.*” – Amartya Sen (1998), Nobel prize winner. By the marketing-based approach – following the opinion of Umberto Eco – “*fashion is a system of symbols which expresses the style of the consumer.*” This is despite the artificially-made epidemic which emphasizes manipulation.

Marketing is assertive, but not violent or drastic: it attracts the attention and support of the customer, and then releases the customer to go his/her own way. It does not adapt after the fact, but thinks in advance!

1.2. How Does Marketing Work?

1.2.1. The hierarchy of needs. The hierarchy of human needs and their structure was described by psychologist **Abraham Maslow** (1908-1970), one of the founders of the marketing approach serving the quality of human life. He recognized that people always need more than they have. At first, they satisfy their basic needs, then newer and newer needs appear in place of the satisfied ones. In any given situation, the behavior and motivation of consumers is determined by the **strongest need**. Basically, their resources and attention are concentrated on satisfying their need. Abraham Maslow (1954) the pioneer of “positive psychology” did not survey sick, but healthy, successful and well balanced people. He started from the principle that everybody wants to be happy. He divided the needs into five groups which are built on top of each other. Basic needs are primary utilities and secondary utilities are psychological needs, and the need for self-actualization, or “want”. The threshold of balanced well-being follows the primary needs. A person has no chance to feel all right under this level.

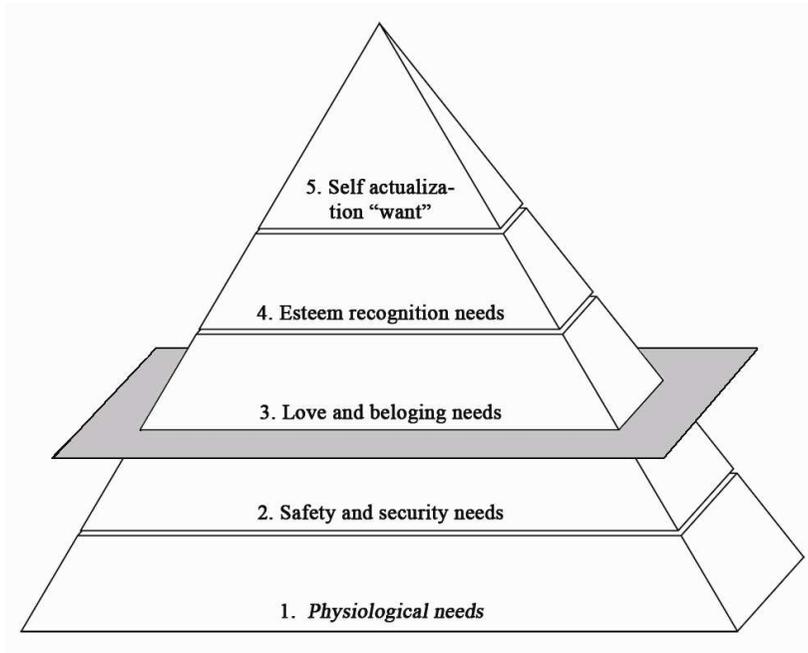


Figure 1. Maslow: the system of human needs

Source: Tartsay, 1993

1.2.1.1. Physiological needs, such biological needs of human beings as nutrients, water, oxygen etc. These are the strongest needs, because people die soon if they lack them. In this case hunger means starvation, not the appetite which an ordinary person experiences. And in this case, man is basically conceived as a being seeking nutrients.

1.2.1.2. Safety and security needs. People want to secure their previously satisfied physiological needs. During emergency situations like wartime, epidemic or economic crisis, they are in fear. In this case, man is basically conceived as a being seeking for security. In childhood almost everyone goes through such a period. Order, for example, gives a certain feeling of safety.

Basic utilities: tangible features connected to physical and physiological utilities, which means the satisfaction of primary needs (Maslow: needs). In marketing, these are also called intrinsic features.

Complementary utilities: lacking value, intangible, symbolic features, which satisfy secondary needs (Maslow: wants).

If we take a fur coat, for example (after Tomcsányi): warmth is the basic utility that the product ensures for its wearer. Complementary utilities are the envious and wondering faces of the neighbors, for example.

Car salesman are used to saying that “*your neighbor will surely notice chrome wheel rims, but not the ABS*”. The Parisian fashion business is called “the industry of jealousies”. As early as the fifth century, Saint Augustine distinguished functional utility, based on reasonable concern, from psychological utility, which is based on the lure of desires. And moreover, he also mentioned the constraint of need.

The two basic motives of complementary utility. Self-reassurance, when the action is directed towards ourselves, and we judge the product during consumption and use. We reward ourselves with things like this – a premium snack, indulgence, soothing – stress killing cigarettes, chips, a hobby etc. According to a 1996 Nike-Reebok survey, 70 % of Americans possessed some kind of sport shoes, but much fewer people actually did some kind of sports. By buying sport equipment, many customers ease their own remorse. A typical kind of self-reassurance is the “performance-enhancing effect”. For example the consumption of drinks by young adults changes drastically in favor of coffee when they start working or establish their own household. It is impossible to persuade anyone over 35 years of age to start regular coffee consumption, because at this age every possible candidate has already started.

Self-realization, when the action is directed towards ourselves through the environment. We yearn for a reaffirming reaction, positive feedback, recognition of our environment. In this case, the environment is the judge, as in the fur coat example. Showing off: many people consume completely different products in front of strangers, than when they are alone or among close friends. In the pub, some people show off by ordering a premium brand, and we find expensive perfumes being applied in a public restroom. But when at home, cheap beer or low-price perfume – the second-best brand will do. Thus, consumption is divided, but loyalty can also come into the picture.

1.2.1.3. Love and belonging needs. The need not to be alone and estranged, giving and receiving love, and belonging to a community. In this case man is basically conceived as a being seeking love and company. On the first two levels, other people are treated only as environmental objects or tools.

1.2.1.4. Esteem, recognition needs, for example, the joy of work well done. The need to feel valuable, and to have self-confidence. It is pleasant to know one is important, and to have self-esteem. This is a two-way process – it can be inwardly-directed (self-evaluation, one’s own opinion), and outwardly-directed, (others’ opinions, prestige). According to some, status, power and emergence also belong to this group. In the absence of these, people have an inferiority complex, and see themselves as weak, hopeless and unworthy.

The first four levels represent completely diverse needs, however they have one thing in common: they are needs, so they are based on the lack of something. In these cases, people strive to get and keep something. Hunger is the lack of nutrients, thirst is the lack of water, loneliness is the lack of company, and the point of the need for recognition is lack of personal and group support. All the kinds of deprivation motivation have the feature that they color and distort the person's sense of reality. Deprivation motivation even further distorts by making the person drawing up expectations: *"Feed me! Love me! Respect me!"* was one of Maslow's favorite sayings. The stronger the need, the more the person judges reality and other people as to whether they help or hinder in the satisfaction of the given need.

"If you have a hammer in your hand, you tend to look for nails!"

Abraham Maslow

For example, the person who is driven by the need to belong somewhere is going to "stick", by looking for a partner in every other person, irrespective of reality. According to Maslow, a situation of shortage motivation is like someone viewing the world through cloudy lenses. With the satisfaction of the given need, the clouded lens becomes clear glass. Thus the person who has satisfied all four basic needs will see the world more clearly and realistically. Such a person will not have expectations based on shortages, and will not be subject to fears and suspicions based on the lack of something. The sense of reality of this person becomes more effective. This kind of person is more likely to see reality itself, not public opinion, or the hope, fear or anxiety of a certain cultural group. The result of "true vision" is that the person can recognize falsity. This person's connection to the environment and other people is going to be much more admmissive, harmonious, and based on love and recognition.

1.2.1.5. Self actualization "want". This means a completely different kind of motivation compared to the previous four, since it is based on extension and not on deficit or shortage. The highest level of happiness is when the four shortage-based needs are satisfied, and in addition the person believes that life is meaningful.

Only a few of us manage to reach the level of "wonderful possibilities" because usually we spend our lives struggling to satisfy our four basic needs. The much mentioned significance of money and time decreases in relation to self-actualization, but grows as we go backwards in the hierarchy. Maslow believed that the higher and most human possibilities, however buried, depressed and waiting for expression, but can be found within us.

The **true luxury is self-actualization**. A true luxury consumer does what he/she wants and desires, and spends time where and how the most inner self dictates. Luxury consumption nowadays does not necessarily mean material goods, but rather the decent feeling of life.

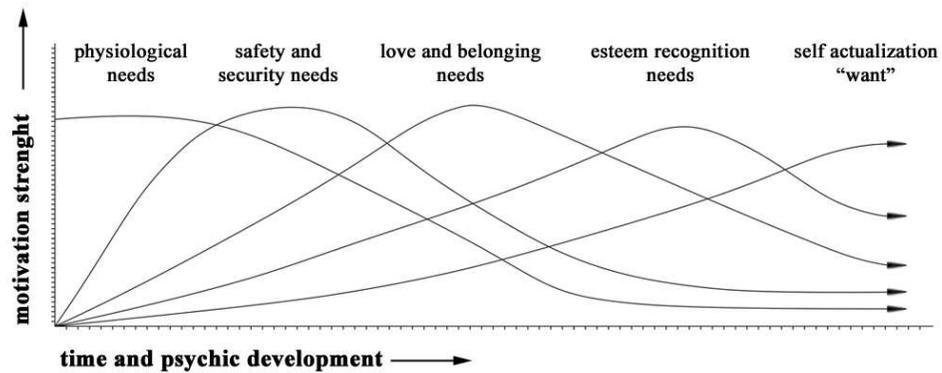


Figure 2. The dynamics of needs by Maslow
 Source: Pietrazisky, 1977

1.2.2. Four steps of successful marketing activity. The process as a company invents itself and its products, assesses the possibilities and measures the risk of decisions.

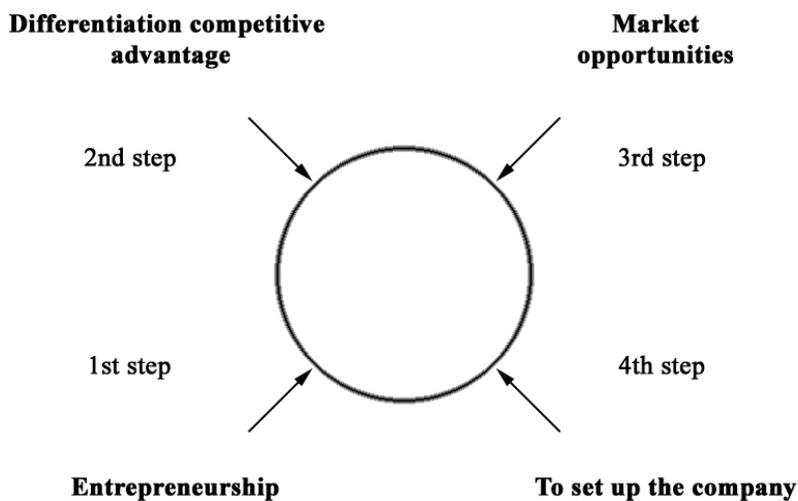


Figure 3. Differentiative competitive advantage
 Source: Kotler, 1998

1.2.2.1. Entrepreneurship. Three sources are needed for entrepreneurship: talent, money and time. Two of them will be sufficient for success. A beginning entrepreneur cannot stop to feel joyous: he has got rid of his boss, so he can be

the master of his own fate – until he realizes the fact that no boss is more demanding than the customer.

1.2.2.2. Differentiation competitive advantage. This is a kind of resource or ability: **resource**, e.g. energy source, weather, tourism appeal; **people**, e.g. professional knowledge, experience, diligence, connections, language skills; **technologies**, e.g. patent, trademark; **infrastructure**, e.g. roads, railway, pipelines, irrigation tunnels, airport etc. It is a resource of which the company has more than others, or the firm is the only one who has this (these) unique, scarce resources e.g. a thermal water well in the field. Moreover, these resources are persistently and abundantly available. Differential competition advantages are carefully guarded, above all by the entities who own them. For example Rodolfo, the famous illusionist, never even changed a light bulb at home, he was so cautious about his hands, they were his profit-making tools.

1.2.2.3. Market opportunities. Simply speaking: the exploitation, the utilization, and the recognition of differential competition advantages by the market. Only those can stay in a market who can give something special compared to the competitors: **cheaper**, **better/more reliable**, or **faster/simpler**. How can we serve the persistent consumer needs in the best way according to our needs? *“A dynasty can be founded on the catering of a prison, because it is certain that everybody is going to have breakfast, lunch and supper there.”* So goes the saying about the persistent demand, the certain market. If it lacks a large, valuable market, an enterprise is not a business, it is economic nonsense. This kind of enterprise is a charity and can not survive unless a gallant sponsor stands behind it.

This step is the creation of the **marketing conception PPM**, *Product-Market Match*, creation of the main idea and logic which surrounds the product. The norm at Nestlé is the 60/40 test. On the blind tests performed on target groups, every product must have a 60 % winning ratio against the competing products.

Market opportunities and the differential competition advantages provide the **“market window”**, the period in which the product is in real advantage compared to its competitors. This can be the period, when the product is a novelty and others simply do not produce anything similar, or a given period of the year. Spanish strawberry from January to mid-April, Hungarian sour cherry before July 1. – the ripening of German Schatten morels – the late, big-size Hungarian apricot after the Italian and Spanish varieties. The domestic watermelon-season starts around July 1, usually with a great price fall. By fresh products which rely heavily upon the weather and climate, the most interesting is the transition and overlapping period of the market windows, deals of different growing regions. An earlier stock can remain in the way of the new, which leads to a price fall. Sometimes the previous

stock is sold very early, and the new season starts with good prices. Producer associations can help to prognosticate these situations. In the critical, transition periods of the seasons branding or denomination of the origin can be significant.

1.2.2.4. To set up the company. The organization of the firm for the sake of shaping the organization, to utilize and protect, keep and expand the resources. By possessing the competition advantages which can be sold on the market, the principle of firm organizers takes effect.

“A good firm consists of good people and good contracts!”

Firm organizer proverb

A well-structured company is valuable by itself, since it is able to create distinctive competitive advantages and resources in a way that the market is going to recognize them.

1.3. The Marketing Mix: System of Marketing Activities

In corporate practice marketing means definite tasks and actions which can be divided into further activities.

1.3.1. The three “A”-s, the optimal product:

- **Affordability:** has to be offered on such a price that the target group should be able and willing to buy it.
- **Availability:** to provide access to the product for the target group. Marketing network. Logistics: the presence, the position in front of the customer.
- **Acceptability:** to fit to the needs, culture of the target group. It’s basis is product development, R&DA food with a bad taste can’t be sold even if it is cheap. However, generally cultural factors determine, what is “good taste”. Advertisement: helps only to propagate the reasons and grounds for purchasing. In many places, only the corporate communication is called marketing

1.3.2. Four “P”-s, the marketing mix. Marketing activities were historically divided into 4, later 5 main fields of activities (McCarthy, 1960). The 4 P-s: Product-Price-Place-Promotion, but Market research also belongs to them. In practice the 4 “P”-s are the basis of marketing planning.

Table 1. The marketing mix

1. Product	Product and service the packaging. The unity of content, functionality and shape. Customer value forming = product planning, which: <i>"designs products to the people!"</i>
2. Price	Cost + expectable profit = producers sell out their costs during selling. Price <i>"creates the money to make possible the satisfaction of people's needs!"</i> = Gathers strength to further developments. Customers confide their trust, employees their future, investors their welfare to the company and for these, money and turnover is needed. At the consumer, the costs of utilization (cost to the user) mean expense.
3. Place	Ways of selling, distribution, logistics, accessibility, convenience. Selling <i>"brings the product closer to the people!"</i> This way consumers save time and work (convenience).
4. Promotion	Marketing communication. In reality, each "P" communicates, but the emphasis is on this one. Advertisement <i>"moves people closer to the product!"</i>
4+1. Market research	Market research make companies <i>"not to misunderstand people's needs!"</i> This way they can think with the head of the customers. Even a waiter is only able to do a food offer, if s/he knows the taste, is familiar with the thinking of guest.

Source: after McCarthy, 1960

The significance of harmonizing the individual marketing activities, the adoption to the primary market – product development carried out by the results of market research – are so obvious that they do not require further argument. Nowadays two more P-s are mentioned regularly in addition to the 4+1 P-s. Process the "P" of corporate procedures and the People, the "P" of human relations. The individual units of marketing mix can be divided into further **sub-mixes**. The product mix for example applies to product design, packaging, brand and extended features like installation, warranty etc. These units can also be divided into further components, e.g. the material, color, graphics, size and shape of the packaging.

The 5 appropriates:

- appropriate product,
- appropriate place,
- appropriate time,
- appropriate quantity,
- appropriate price.

1.3.3. The marketing man, homunculus. The individual sub-activities are compared to the organs of a man, which are controlled, integrated by the brain, the marketing oriented attitude.

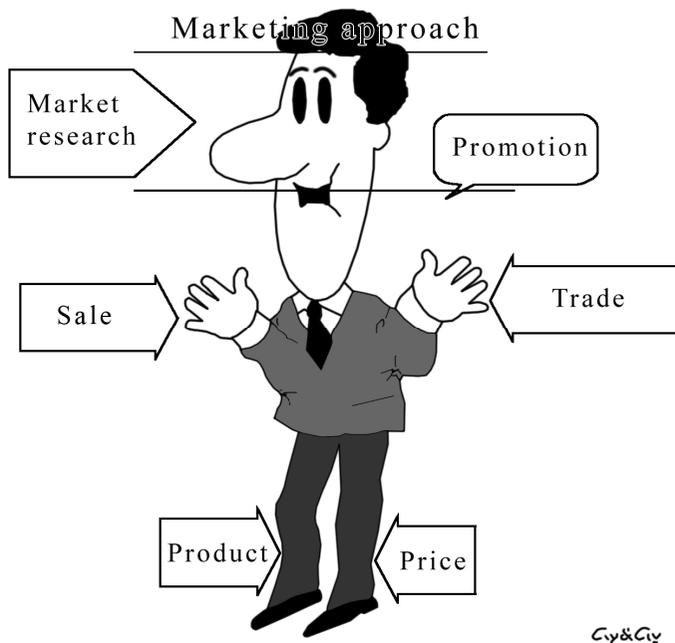


Figure 4. The marketing man
Source: after Tomcsányi 1987, Györgyi Gyula

2. CONDITIONS OF MARKETING ACTIVITY

2.1. Healthy, Consumer-driven Market

According to the Hungarian Constitution, our country is a market economy, which is obviously on one hand a fact, and a program on the other. **Free market** is where consumers can choose from numerous kinds of products in numerous ways. Everyone learns right in the first economics class that a gifted businessman strives to create a monopoly since it generates the most income. A prudent society's interest, however, is to make the entrepreneurs compete for the favor of consumers, buyers, viewers, audience, readers etc. and society tries to hinder efforts to create any kind of monopoly. Marketing activity is required only among healthy market conditions!

"We don't simply entertain teenagers, we own them!"

Robert Pittman, CEO and founder of MTV and Movie Channel, 1995

The saying in the title above is worth examination. Sometimes company leaders boast: *"We decide what the public wants"*. This kind of mental arrogance – if it does in fact exist – always refers to the **lack of market conditions**, usually a monopoly situation, or one which is influenced by politics. In the lack of market competition, there is very little driving force and the market can neither point out nor punish mistakes.

A good description of "alibi" or "illusion marketing" can be found in aesthetician Péter György's opinion about the 90's, when only two or three TV channels were broadcasting in the country: *"In Hungarian Television, everything was destined to success, which wasn't total idiocy."* These kinds of anti-market enterprises work well as long as the situation is protected, or until the support, e.g. EU funds, runs out.

One example of political influence is the British government. The advertisement costs of Tony Blair's government now stand at approximately 55 million pounds (138 billion HUF). With this, the COI Communications Company, which is coordinating the campaign, has become the second largest advertiser in the British market, behind Procter & Gamble.

People automatically resist the extreme market dominance of a company, a person, or the state and defend themselves against it if they can. People, consumers, do not like the feeling that a firm has captured them, when “*others decide what to consume*”. It has been observed in sports that the popularity of a game always decreases if the same team or person wins all the time.

2.2. Emergence of Marketing Parallel with the Development of Supply

Table 2. Emergence of marketing parallel with the development of supply

Supply level	Shortage	Relative balance	Oversupply, supply market
Direction of development	Enhancing capacity, production yields	Enhancing the quality and distribution	Increasing product utilities
Product strategy	Quantity	Quality	Selection
Attitude	Production-based	Production-based	Consumer-based
Features of activities	Public supply, distribution, “market asks for the product”	TRADE, opportunistic	MARKETING, organization of the market
Decisive role	State	Trader	Consumer

Source: Tomcsányi-Totth, 1987

This is how Professor Tomcsányi defined marketing activity, based on the connection between marketing and the different levels of supply: “*consumer-focused selection and organization of production, and influencing the customer.*”

2.3. Conditions of Marketing Activity

Table 3. Conditions of marketing activity

Conditions	Operational	Scale
Market	1. Adjusting to the market, e.g. near to the customer *	2. Influencing the market, e.g. price, selection
Corporal	3. Constraint of taking risks **	4. Cost bearing ability ***

Source: Tomcsányi-Totth, 1987

* The closer a company is to the consumer in terms of the product, the greater its need for marketing activity, e.g. a bakery shop as opposed to a grain producer.

** Typically the spice trade promises great profit, but also the risks are very high. In the case of Kotányi spices, only those products can be considered successful which return three times the launch costs in one year.

*** According to the managing director of Taylor Nelson Sofres Modus (early 1999), a minimum of 1.5 billion HUF annual turnover was required to cover the kind of marketing research TNSM needs.

2.4. Theoretical Explanations for Market Conditions

Distribution of goods on a social level. It is worthwhile to recall the market theory of the Hungarian sociologist, **Polányi Károly** (1886-1964) which deals with the organization of distribution of goods on a social level. According to his concepts, ancient times, feudalism, and modernization can all be characterized with the appropriate proportional mix of market, reciprocal “favor-like” and redistributive central power processes.

2.4.1.1. Redistribution. Simply speaking: central procurement and allocation. Goods are directly or indirectly collected in a center, and are redistributed from there.

In ancient **Babylon**, ruled by Hammurabi, there wasn't even a marketplace, because there was no need for it. Other, missing goods were procured by vendors who were in the service of the emperor. Conversely, the basic activity of the African empire of Dahomey in the 19th

century was the weapons business. Dahomey sold slaves to the Europeans in return for weapons. Authority was maintained by tight central discipline. Rituals were regularly held in the country, where the goods given to the emperor were centrally allocated. Central bureaucracy accomplished this task quite well because it had to control a very simple society e.g. there were only 12 blacksmiths in Dahomey. In both the Babylon and Hammurabi examples, the most important internal organizing power of the society was redistribution. Central procurement and allocation – in more complex situations – eliminates itself, because it leads to a corrupt, bizarre, unrealistic system.

”Shoes from the shoe store”. It made no sense to speak about marketing in Miskolc, where there were only three shoe shops, all selling the same shoes and all of whose profits went to the same owner. The famous financial advisor of Louis XIV, King of France – **Jean-Baptiste Colbert** (1619-1683) – was the founder of the centralized and planned state, high taxes, much state support, and a high proportion of state employees to other employees, in 1996 France’s proportion was 1:4, with England’s 1:6, the U.S. and Germany 1:7. The *“digging into the taxpayers’ pockets”* attitude of Colbert is well illustrated by his saying: *“The art of taxation is like plucking a goose: you have to free the goose from the most possible feathers with the least possible squawking.”*

Horticultural sectors have never benefited from redistribution. In the EU in 1996, the fruit and vegetable sector accounted for 16 % of agricultural production in value, but received only 3 % of the whole farm subsidies (Padisák, 1998).

2.4.1.2. Reciprocity. According to sociologists *“the network of mutual favors”*. This is an organization method of societies typically based on personal connections. In this case, goods move among persons or groups which are in a **symmetrical relationship** with each other. A typical example for this is the strict order of giving presents, which even sweep commerce into the background, such as in some tribal societies. A shadow economy is not uncommon even in the economic life of our age, however the significance of business gifts, the network of obligated persons, village weddings and house-building groups varies greatly among different cultures, see the Mafia for example. It is very characteristic that at first glance, these actions do not seem to obtain economic advantage, but ultimately, this is their decisive role.

“In the Chinese way of thinking, (business) contacts are totally replaced by friendship, and moreover in some cases protesting this can be considered as an insult.” – writes László Szegő, China expert. In Anglo-Saxon countries, the **“Talent Circle”** or **“Favor Bank”** are well-known alternatives where people get centrally registered Talents for their work from each other. In the case of Hungary, however, there is an oversupply of translators and information technology instructors.

2.4.1.3. Market order, or according to **Adam Smith** the *“invisible hand of the market”*. Customers and merchants buy and sell goods through the *“supply and demand”* mechanism. Every connection is determined by the *“worth-it-or-not”*

relation. In market oriented economic systems, production and commerce are determined by the decisions of consumers, when they vote with dollars (purchase something). Economics and democracy are not twins, but they surely could be siblings. The activities of reliable, well-controlled social institutions counterbalance each other, preventing panic and economic shocks.

A characteristic feature of the system is “**creative destruction**” – a principle developed by J. E. Schumpeter – the evolutionary development of the economy, where “*obsolete forms are continuously replaced or destroyed by more developed ones*”. This attitude has a personal analog the “**creative dissatisfaction**”, the constant striving for something better. According to theoretical economists “*the free market is the least dangerous economic system ever invented*”. However, it contains constant risks. The desperate pursuit of profit also has some social advantages. Maybe it is obvious to everyone that increasing income provides a possibility for newer and newer investments, but even more importantly, the growth of productivity is the driving force in raising the standard of living.

Creative spark. According to historians, the forerunner of modern capitalism was the early fifteenth century city-state, Florence, home of Michelangelo and Leonardo da Vinci. Even then, contemporary scientists agreed there were only four basic elements: earth, fire, water and air – and the creative spark – available for a successful state. It is not true that the dominance of money spoils the arts, because the same creative fire characteristic of the above two artistic genius’ minds also burned in the famous Florence banker, Bardi.

The theoretical background of the three extreme distribution systems can be easily illustrated with the example of the “**drowning woman**”. The redistribution, central power train of thoughts forces the rescuer to act, making it his duty to save her life, and even punish anyone who fails to give the obligatory help. Moreover, the state is surely going to reward the rescuer with money and fame – the newspaper “**MUST**” write the story. The reciprocal train of thought promises this champion that the woman likewise has to help him if he gets into trouble. In such a case, the woman becomes the debtor of her savior, since this is the custom. But the market mechanism has a contradiction, and this is the beauty of it. Moreover, it is beautiful because it contains no force or constraint, only risk. The daring knight can get money, distinction, and privileges; the cowards will be shamed. Although the rescuer can not be sure about this when he jumps into the water, and even the cowards are not sure to be ashamed when they just look to another way, they can all decide freely. Consider that a market deal always has some risk too, unless we bump into one of the other two cases.

2.5. Lack of Market Competition

The European Union oversees **four kinds of market behaviors** relating to the restriction of economic competition. In terms of economic dominance, the “principle of misuse” applies, which means that economic dominance is allowed, but its misuse is forbidden. A monopoly can be considered harmful only when it is detrimental to the customer. In Hungary, the *GVH (Office of Economic Competition)* is competent and people can turn to it with competition issues – decision and consultation – or even specialized law offices can help. Breaches of two sections of competition law – is within the competency of the GVH – these being namely the abuse of dominant position and the unfair manipulation of consumers. It is possible to appeal a verdict of the GVH to a jury, but the GVH is empowered to levy fines without further debate. The GVH has two important measures against the misuse of market dominance: a firm can be forced to pay a fine, or prohibited from illicit activity. The maximum charge imposed is 10 % of the firm’s previous year net income.

The work of the GVH is supported by its economic analysts and the so-called antitrust group. The antitrust group consists of people who – if it is necessary – visit the companies and collect all the documents even if the reception is not too friendly. When possessing judicial authorization, they can even make a surprise raid on business or non-business premises. Generally, the **Herfindahl-Hirschmann Index (HHI)** is used for the purpose of characterizing the intensity of market competition. If a company’s HHI value exceeds 4000, it is considered a competitive market.

It is also a question to decide whether the operation of the given sector falls under the authority of the Competition Act or the Farm Bill, and in the latter case what kind of regulative conditions are set by the ministry. By the ruling of Competition Act, with its so-called competition report, the GVH can participate in governmental decisions, and can publish an official announcement if the process is found to be legal, though questionable from a competition standpoint.

2.5.1. Monopoly. In everyday practice: a monopoly is an enterprise which solely determines the price of a given product. Due to its monopolistic status, the economic competition advantage is exclusive to this business. According to the **definition of the Competition Act**, an enterprise is in a dominant market position if the following apply:

- When planning its market behavior, it does not need to consider the business activities of the competitors, since they are not able to influence the market, neither separately, nor altogether.

- Lack of an alternative. There isn't any other product that can rationally replace, or appear as a substitute for the given product of the firm, or it can be accessed only by conditions that are far more disadvantageous than usual conditions.

The **economically strong party** or parties—cartel expropriates or gains such an activity which gives it monopolistic profit, or by displacement it extinguishes some kind of unfavorable economic activity and realizes monopolistic profit in its traditional product. Suspicion of abuse of dominant position can appear even in the case when the given party unilaterally modifies the formerly accepted contract conditions. Even the exclusive distributional agreements do not lead automatically to abuse. It can't be expected that a snack bar, for example, would carry every product of every soft drink, tobacco and snack company, since such a high number of items wouldn't even have room in the shop.

There is no vertical cartel in the case of exclusive supply contracts of small-area shops. The consumer has the option to go to another place also. The supplier can not even specify unreasonable conditions concerning the opening credit, beer mats, beer pumps, glasses, decorations, and food promotions. The supplier has the opportunity to bind these to the number and type of customers or how long the place has been operating – for example, the top ten party places in Budapest. Of course, the situation is quite different when the sign of a brand allures, but the place does not have that brand – and the guests only find out inside, when the waiter tells them.

The Act does not apply to the monopolistic situation itself, but to the **abuse of such position**. According to the Competition Act, not only the monopolistic situation, but also 30 % market share in general supposes dominant position. At first, the GVH states dominant position and then examines whether the enterprise misuses it or not. By abusing dominant position, the dominant party can set its prices at such a level that they are demonstrably higher than the costs – including even the expected returns of invested capital.

Formula 1 is alone in its market category, however, nobody thought up to now that it would misuse the dominant position to hinder the freedom of contracts.

Due to the practice applied in the EU, under 20 % market share, a monopolistic situation can not be stated. Between 20-50 % often, above 50 % always, without further examination, the monopolistic situation is declared. The true question is the limit of market and substitution. Coca-Cola, for example, never have been in monopolistic situation since according to a jury, even tap-water is an alternative to the soft drink.

Natural monopoly: when only one firm can satisfy needs more effectively than many, e.g. telecommunication, sewerage, gas and electric networks etc. The markets of these are ruled by separate, specific rules of law. These state-

controlled prices include – in addition to the production costs – maintenance, development costs and guaranteed profit. The French State gives a monopoly on selling cigarettes to 34,000 French tobacconists.

2.5.2. Cartel. Aligned behavior, restraining competition, background agreement. Aligned, coordinated behavior, price formation, market division based on the agreement of determining market participants made “under the table”. Done by a price cartel, or when purchasing or – in order to artificially keep the prices high – selling prices, or when other business conditions are set.

E.g. **Guaranteed price** – guaranteed advertisement. 28 federal states of the USA sued the 5 leading record companies of the world because they took over the advertising costs of those retailers who didn't sell their CD's under the price set by the producers. The reason: supermarket chains began to sell their CD's below price. They limit production, procurement. They divide the markets, or distribution.

The **GVH** has to reliably prove the consequence of cartel activity: overcharge – which means that the product is sold for a higher price than necessary. There was x million HUF price increase due to the cartel, and subsequently the fine is three times the amount of the price increase. It can be done only in the case if the GVH is able to continuously follow the run of costs. In sole cases, such an effect can hardly be calculated.

According to a **Swedish law** valid from August 1, 2005 not only the companies that sustained damages but consumers, organizations for protection of consumer interests, and/or consumer groups can claim compensatory charges. They need to prove that they had to pay a higher price as if the companies behaved according to rules, and the reason was a forbidden agreement between companies – namely a cartel. As a further aggravation in these cases the companies can claim the compensatory damages not five but ten years retroactively.

2.5.2.1. Among either all, or the determining characters of a given market, e.g. the suspicion of the “Easter ham cartel”.

In 2000 nine meat industry companies made written offers to Metspa (Metro+Spar) to deliver smoked meats for Easter, including that they deliver to other vendors at at least a 5-10% higher price. In 1994 the GVH fined the five biggest coffee producers, and in 1992 cited the big Hungarian sugar companies for illegalities.

Petty cartel. Low significance agreements are not considered a cartel where the sum of the joint turnover of the organizing companies in Hungary does not reach 10% of the total market turnover, and in the EU the limit is 300 million Euro. In the event of a **vertical agreement** it contains several measures: R&D agreements, exclusive conveyer and sales agreements, patents, the use of trademark, franchise, and know-how contracts. The unsure parties can turn to the cartel group of the GVH for its opinion before signing the contract.

2.5.2.2. Conjunction damaging the consumers. Block exemption. The Brussels committee can exempt certain agreements from competition law.

Positive condition: They improve the production of goods and provide some benefit, or profit precipitates to the consumers. Negative condition: it does not lead to the termination of competition. Coops or Paletta Kft is the wholesale company of cut flowers in Hungary. Hungarian Egg Reseller Kft is the common reseller for six Hungarian egg producers, covering 27% of the market.

In another example, the South African De Beers family is the leading power of the “**diamond cartel**” established in the 1930’s. The diamond industry and several countries owe their more than 60 year long growth, prosperity, and stability to the cartel. The argument of the crude oil cartel, namely the member states of the OPEC, is similar. In 2003 the Hungarian Poultry Product Board decided to self-restrict production. In the case of broilers and turkeys, the grey and black markets account for 40-45% of the market. It was to be feared that the self-restriction of member companies would only lead to the increase of production.

Professional cartels. The Hungarian Competition Office released a verdict against the Hungarian Veterinary Chamber in the following issues. Both the Chamber of Accountants and the Chamber of Engineers stood behind the veterinarians in the lawsuit contesting the verdict.

Minimum fees. The Veterinary Chamber set the minimum fees that veterinarians should receive and said they must not work for less. The reasons: under a certain level, high quality services are impossible. The GVH: setting of a minimum fee is not feasible in practice, and entrepreneurs should set prices according to their individual capabilities. The minimum fee keeps new entrepreneurs out of the market and freezes market and competition conditions.

Maximizing the payment period. The reasons: prevention of non-payment. Solution: publication of non-payment cases after warning – USA, PACA. The GVH: they are protecting the interests of current and new competitors mutual debts in cycles.

Prohibition of advertising. The veterinarian can not announce publicly that his services are better others neither can he say he charges less. The reasons: the special characteristic of the veterinary profession; maintaining the respect of the profession. The GVH: the entrepreneur has the right to improve his market position by publicizing his good reputation.

At numerous product boards, e.g. the Board of Livestock and Meat and the Apple Council, a separate price committee operates. The agreement among producers and processors is not a cartel if it is based on the law of agricultural market conditions and a representative of the FVM participates in it – it becomes published in the official journal.

The investigation of cartels is facilitated by the so-called indulgency process of the GVH. In the framework of this process, the party who claims the existence of a cartel and thus initiates the process becomes immune to any fines. Indirect proof will also suffice – when suggesting rational entrepreneurial behavior, the above steps are not allowed. The involved persons or enterprises usually defend themselves by referring to economic rationality.

In the 2000 commercial TV channel price increase, the management of both channels thought similarly about the advertising market situation, and even their cost structures were similar. A similar situation leads to similar steps and prices.

Recently one of the proven cases has been the so-called “**vitamin cartel**”. The largest vitamin manufacturing companies of the world, namely Hoffmann-La Roche, BASF, Rhone-Poulenc, and Degussa, along with three lesser producers, have been setting prices under the aegis of Vitamin Inc. since 1990. They set the prices every year, divided the market among themselves and even forced the vitamin-premix manufacturers to support their price increases. The U.S. Ministry of Justice charged the initiators of the cartel, the Swiss *Hoffmann-La Roche (H-L)* \$500 million, and the German BASF to \$225 million. A Dallas court ordered the former sales manager of H-L to pay \$100 thousand and even sentenced him to four months in prison.

A forbidden variety of dividing the market is the “**camouflaged cartel**” when parties only agree to only moderately represent themselves in each other’s markets. Beer producers Carlsberg and Heineken were accused of this in 2002. It is extremely difficult to prove because in secondary and tertiary questions there is spectacular argument between the parties.

In Hungary between the two world wars generally there was a market economy, but in the beer industry, for example, there was a well hidden cartel. Big **beer companies** (Haggenmacher, Dreher, Polgári) had divided the market among themselves. They agreed to they respect each other’s consumer territories, adjusted prices together, and refused loans for the establishment of new beer factories – their capacity was three times the sales. They covered up the agreement with smart tactics. They all had different extensive, spectacular marketing activities and they gave loans to customers.

2.5.3. Merger and acquisition control. Company concentrations, organizational interlocking. Acquisition of property share providing control rights in an other company conducting similar marketing activities.

The control of organizational interlocking of companies is based on the preliminary merger permission. The preliminary permit from the GVH is needed for the merger of firms exceeding the maximum amounts (10 billion HUF combined turnover and 500 million HUF net income). The GVH can even prescribe a detaching obligation for the merging parties in the case a given sub-sector is endangered – which means this division has to be sold.

Richter, Egis, Béres and Magyar Gyógyszer are the owners of Hungaropharma medicine-wholesaler Rt. The GVH gave its permission for the acquisition on condition the circle of owners would not apply any kind of discrimination which could harmfully affect the needs of the hospitals or pharmaceutical businesses they supplied. Due to the 139/2004 EC Regulation, the Union has to examine organizational interlocking and acquisition whenever the relevant world-market turnover of the product exceeds five billion Euro, or 250 million

Euro in the EU. The domestic national limit of a fusion permit is 10 billion HUF. This also takes replacing products into consideration.

Even brand and trademark are parts of the enterprise since the acquiring company (competitor) is able to conduct market activity with them. The takeover of brands and trademarks is also subject to permission.

For example, the Trilak-Haering Paint Factory, owned by TotalFina-Elf SA, acquired five brands of the Budalakk Paint Factory. The GVH gave its permission in the case, since the total 17 % market share did not raise competition concerns. The competition council of the **GVH examines** the following effects of the given concentration:

- Horizontal: identical activity.
- Vertical: commercial relation.
- Portfolio.
- Conglomerate: influence, possibility to become integrated into the society.

2.5.4. State aid: a distortion of competition. In a simplified model, the market is determined by the sellers, buyers and the state. In numerous cases the buyer or the seller does not choose the best solution, but rather that which the regulations allow. Governmental regulation has always been a simpler and more thankful task for politicians, easier than working out effective trade-development programs. Camouflaged state protection often occurs in companies, industrial sectors or social layers having great lobby force. It is based on the saying “*What’s good for GM is good for America*”. The trouble is that exaggerated state support, industrial protection and too much state control make people and enterprises too dependent: they get used to holding onto their purses and waiting for help from others. Legal market protection provisions which do not violate the principle of competition neutralism (*Article 87 of the EC Treaty*):

2.5.4.1. Aid having a social character, granted to private consumers unless it is not discriminatively connected to the origin of the product. E.g. school milk or “*An apple a day keeps the doctor away.*”

2.5.4.2. Support for restructuring damages caused by natural disasters, and other exceptional occurrences.

2.5.4.3. Assistnace directed to remedy a serious disturbance in the economy of a member state. In the case of significant market disturbance, state aid can be given to sectors, big businesses or even foreign enterprises.

In February 2002, the domestic demand for poultry collapsed due to the chicken panic in Liechtenstein. At the specific request of the Poultry Product Board, the Interministerial Agrimarket Committee voted 290 million HUF export refunds to speed up the exports of 4000 tons of chicken. In Germany, there is no paid social security for foreign employees for the first 50 days of work. The Italian and French government gave state aid for the suppliers of the bankrupted Parmalat dairy company with the consent of the European Commission.

The government of Italy gave a subsidy amounting to one million Euro to the milk producers in the second half of 2003 and also assumed 24 million Euro in bank guarantees for their loans and liberated them from the payment of social contribution. In France, the state undertook guarantees against risks.

The condition of providing **compensation aid** in order to bridge market disturbances is the appropriate organization of producers.

In the lack of this, the domestic sour cherry and raspberry growers failed to get aid from the Ministry of Agriculture and Regional Development in 2004. In the EU, the distillation of surplus wines during crisis times is a common practice.

Fast Grass. A characteristic of horticultural products is the seasonal overproduction due to weather conditions. By the help of a well-organized, short price support, this kind of overproduction can be by-passed, the high lawn can be mowed quickly. In the U.S. in May, 2000, the Washington Association of Asparagus Growers assisted the contracted producers' selling to contracted retailers by ten cents per kilogram. This was only available for quantities above eight tons, and valued up to maximum \$5000. The production peak was by-passed in three days, they quickly mowed the high lawn. The most prevalent problem of state intervention is that it lags months behind market needs.

An Interprofessional agreement can even determine the income of parties. The domestic sugar industry is a good example of this, where the price of sugar was shared between the producers and processors at a 50.78-49.22% proportion in 2003 and at a 51.5%-48.5% proportion in 2004. In the EU, this proportion hovered around 58-42%. While the factory outlet price of white sugar was 102 thousand HUF/t in Hungary, the price of the same product on the world market was 43 thousand HUF/t.

The production cost of cane sugar is approximately half that of beet sugar. The sugar tariff of the EU is 220 %, and 30 % of all export refunds are received by the sugar industry. Thus, consumers of the European Union paid three-fold the world market price for sugar. In 2002, the domestic sugar industry took over the EU regulation and received a selling quota of 400 thousand tons, which was divided among three domestic sugar companies. The Sugar Board divided the transport of 2.4 million tons of sugar beets among 752 producers. In 2003, the intervention (minimum) price of sugar was 632 Euro/t (160 thousand HUF/t).

Currently the EU is running **3 kinds of banana import** quotas with different customs tariffs for each quota. The whole 3.2 million ton import can enter the EU according to three quotas two of which are used in the case of the so called "original banana producers" with a 75 Euro per ton customs duty, while the third tariff free quota is for bananas produced in Africa, the Caribbean and the *Pacific Ocean region (ACP)*. The charge for bananas over the quota is very high – 680 Euros per ton in case of the ACP countries – the customs fee of this category is 300 Euro per ton. There are similar ACP discounts on sugar and cotton. Illegal mutual export: brings in sugar from the EU with favorable conditions and after repackaging re-exports it as sugar produced there. Poland enforces higher VAT for tropical fruits than for those produced in Poland, so the European Commission was planning to bring Poland before the European Court of Justice in the fall of 2004.

The rules of the union strictly **prohibit that governments pump money** into badly performing state owned or private businesses. Regardless in 2004 the Brussels committee of the EU supported the proposal that Italy recapitalize state owned, deficit-ridden (1.4 billion Euro) Alitalia. BA, KLM, SAS and Lufthansa collectively protested against this step. There needs to be a self proportion to be saved.

The directive of the European Commission that is valid from October 10, 2004 defines the ratio that needs to be raised by the company in danger as self proportion in order to have legal state intervention. For big companies, the amount is 50%; with the medium companies it is 40%, while with the small ones the ratio is 25%. Those in need of help need to claim the self proportion of restructuring and changing of structure from the selling of certain divisions or from self investments. It is a further obligation that following a budget life saver of this kind the given company cannot get another subvention for 10 years. According to the reasoning of the Commission it has a social explanation: an economic organization that cannot stay on the market after receiving a new opportunity at the price of serious sacrifices cannot guarantee the stability of jobs.

A company can not only receive state support through direct support or canceling of tax, but it can receive pension reduction and general state guarantees. The given state usually withdraws these later “privileges” at the request of the EU.

2.5.4.4. Deficit compensation of municipal service companies. The 1991/69 decree of the European Union imposes that municipal services on the one hand need to compete; but on the other hand the customer needs to finance the deficit. In the case of BKV the customer is the capital.

2.5.4.5. Promote economic development of underdeveloped areas to support investments. For example, in the car industry there is a possibility for state support of such investments where personal type expenses are higher. This support should just balance the disadvantage of competition against possible alternative investments outside EU territories. The definition of the sum is founded on detailed expense and benefit analysis.

In the investment located close to Lisbon, Portugal, **Opel AG** received 32.5% of the invested money from Portugal because the expense and benefit analysis showed 37.21% disadvantage to the alternative Polish location. The company needs to pay back the support if it does not fulfill the contractual obligations with the given state.

The **American Flextronics**, which withdrew from the Czech Republic in 2002, did not have to pay because during three years it invested \$10 million, 40% of it in machines and production lines and 225 trained employees who could do other work. The producers of developed regions refer to the stricter and more complicated regulation and the labor right specifications that increase the price of labor. The legacy costs of undeveloped categories are

either paid by the state or the investors. Regarding the American stainless steel industry, following the agreements of health and pension insurance it came up to \$21 billion in 2002 in the case of 30 stainless steel factories that were under bankruptcy protection (The McKinsey Quarterly, 2002).

2.5.4.6. Aids to promote culture and heritage conservation. States support some kind of activities e.g. publishing of school-books, and can even own publishing companies. Production of special foods facilitates the development of the given community and culture. With self-employment it raises the willingness to start enterprises and the sensibility for market opportunities; however, it has a negligible role in decreasing unemployment (Murphy et al, 2002; McDonagh-Commins, 1999).

3. PRODUCT AND PRODUCT UTILITY, FMCG

3.1. Image, Appearance, Identity

“A product is what the consumer, not the producer considers it to be.”

T. Levitt

Informational asymmetry. *“Each professional is judged by amateurs”* says one of the proverbs of product marketing. The producer is the master of his product, however, people cannot be expected to spend days getting to know it. Still, we do have some kind of opinion on most products. Marketing textbooks usually distinguish two kinds of image, i.e. the picture in our imagination which does not necessarily coincide with reality. Image only means *“I know who you are”* – it does not mean purchase at the same time.

3.1.1. Producer image. Product features what the producer and or manufacturer shapes and builds into the product. This can be intentional, **planned and shaped** image, and **performed image**, which also involves the **unintentional** activities of a company. The former, the image created on purpose is called identity; on the level of a company it is *corporate identity (CI)* too. Experience has shown that many corporations try to plan their products based on the study of consumer needs, and this is called **expected image**.

The **Marlboro cowboy** was born because the cigarette intended for men was supplied with a woman’s filter, which made it feminine to the men who had preferred unfiltered cigarettes. First it was advertised with a sailor’s fist, and only after its failure did Leo Burnett turn to the history of smoking. In Europe, smoking was spread by rugged, wealthy and elderly ex-servicemen after the 30-years-war, and had only been fashionable in port-cities till this time. From here, it was only one step to get to the solitary hero of the American wild west.

A good example of accidental image evolution is the old manger-school anecdote, according to which the director of the flourishing **British Ratners jewelry** store-chain disparaged his own firm’s products using taboo words in one of his speeches at the Institute of Directors. The press jumped onto the story and the turnover of the company dropped, along with the price of its shares at the stock exchange. This could not even be changed after the director was made to resign from his position. According to the experts, during the period, nothing changed in the actual products of the company. Most enterprises are not keen on talking about their difficulties or problems. Their communication is like the swan in the park, charmingly gliding in its beautiful environment, while under the water there is pedaling and hard work.

3.1.2. Perceived image. Product characteristics which are perceived by consumers and are formed in their minds. It is made up of controlled and spontaneous communication, and the physical characteristics of the product. It is important to emphasize though, that the perceived image of the product accomplished, or the service delivered does not necessarily coincide with the image established from the company's point of view. Nowadays, the influence exerted by people on each other is getting more important as well. We must not forget that the suitability of the product is often restricted to a given point of time, or to a closely defined user, or use.

3.1.2.1. Objective product image. Components: measurable objective characteristics, results. Those features which are easily understandable and obvious for everybody also belong here, such as the sweetness of fruit, or the physical presence of the product on the shelves.

3.1.2.2. Subjective product image, notion. Pictures: symbols, feelings, expectations, opinions. This is the psychological function of the product. Opinions, such as "*red wine makes blood*" belong here.

3.1.3. Kinds of image

Image of a product variant, e.g. opinion of Dreher Bak beer:

- **Brand image**, e.g. opinion of Dreher brand.
- **Category image**, e.g. opinion of beer.
- **Company image**, the image of a company, e.g. opinion of the SABMiller company.
- **Self image**, when choosing, people are strongly influenced by their image of themselves, e.g. is it worth buying for me; I can/cannot afford it; I can/cannot do it.

3.2. Product Types with Respect to Consumer Judgment of Quality

According to Philip Kotler, the concept of quality is very simple: "*the compound of the characteristics of the product which makes it suitable for fulfilling accepted or sensible needs*". Following the principle of "*a quality flower is one which already has its price in the cash-box*", in retailing, four kinds of quality categories, and accordingly, product types can be distinguished (Nelson, 1970).

3.2.1. Comparable products and characteristics of evident character and quality

Consumers can tell before the purchase, what product and what quality they are going to buy, e.g. bananas or baked rolls. These products have “**searchable characteristics**”, cues, which can be evaluated by the consumer before purchase, e.g. the color of apples, the size of the fatty part in a sliced ham.

Omission of comparison is an often-used commercial tool. Tricky dog sellers never show the puppies in a group to the customer, but start with the weakest one, showing them separately (breeders never do this). Even the first one is very cute and the buyer will take it. Sometimes they take the fault as an advantage, e.g. the white spot on a black dog. Naturally, they will be happy with it, although it will not win a competition, but usually that is not the purpose anyway.

Consumer oriented quality categories (Kohls - Uhl, 1998):

- **Perceptible difference.** Consumers do not recognize all defects, positive changes, or differences of a product. Just-noticeable-difference is what the consumers already recognize as a given characteristic, e.g. visible size difference. According to retailers, by fmcg products, a price discount less than 20% is usually ineffective. Consumers are willing to pay more for better quality fruit and vegetables, if they are at least 20-25% better. An example of this is the sweeter taste of Del Monte Gold pineapples (Novartis Produce Industry Panel, 1999).
- **Important, relevant.** Consumers are willing to pay for the difference. E.g. beyond a certain size, a bigger apple is not an advantage. Fresh-cut fruit and vegetables are not attractive for everyone, and some restaurants do not pay more for them, e.g. Eisberg and Vitagóra, because this does not help much, and a trainee will do it in a few moments' time. Hollywood movies are also full of minor quality faults, which are recognized by the professionals, but not by the viewers. Consumers forgive several unimportant faults, which are not beneficial to correct – “*fewer wrongs don't make a right*”.
- **Terminology is not misleading** e.g. we may believe that in the EU, first class is the best quality apple, though in fact, there is “extra”, too. According to the Hungarian Book of Foods, the best quality category of ground paprika is called “special”, the second one's name is

“delicate”, and the third one is interestingly called “sweet-noble”, whereas the weakest is referred to as “rose”, surprisingly.

3.2.2. Fast experience, easily compared products and characteristics. The consumer does not know the product and its quality in advance, but gets to know it quickly during usage, e.g. instant coffee or packaged wafers. These are such attributes as can only be judged after tasting the product. This is when we can speak of **experience characteristics**, like the taste of apples, ham, or a rotten apple core. In the case of uneven quality owing to these characteristics, purchase will be like gambling. Here the aim is to achieve balanced quality. A “window” on the package can inspire confidence, e.g. Ropi. Findings have proved that even light bulbs sold better, if it was possible to peep inside the package.

3.2.3. Slow experience, hard-to-compare products and characteristics. The consumer can get to know the product and its quality only after regular purchase, much experience and learning, examples: cosmetics or herbal tea. In the case of these hard-to-compare products it is difficult to “*win over customers*” with better quality; usually only a lowered price is effective. In this situation, people do not recognize the difference easily and are less likely to change the product. *“Imagine that we have three very similar products on the shelf with three different prices. The customer will buy the cheapest one and will not pay more for another product if the quality is acceptable, and it tastes good.”*

In the case of slow experience products, it is not enough if a product is better, it has to be accentuated in comparison with the others - the customer needs to be helped to better quality. People do not easily recognize the difference.

The case of the 100g and the 90g chips, or that of the 100g and 85g chocolate bar, is also like this. Its weight is displayed, as prescribed, but who bothers to read that? On the basis of “**size illusion**”, people decide according to the paper bag. In the case of identical prices, the consumer will buy the bigger product, even if it weighs less. A seed company recommends denser watermelon. The melon is smaller and does not need as much room. They are right, but you eat it more quickly and it cannot be divided into as many portions, thus the customer will not find it as useful: big fluffy ice-cream, chocolate with big puffy rice, big airy wafers last longer, and the kind of bread that can be sliced thinner.

As a result of the 2001 order concerning universal price tags, the comparable price also has to be displayed by retailers. Functional foods: the food industry artificially improves the characteristics of certain products and stresses this as well e.g. “rich in calcium”. Food acts do not allow listing something unless it is mentioned in the approved production report, and if it cannot be found in other similar products e.g. no calcium was added, as there is a lot of it naturally.

With slow-comparison products, reminders are important. Customers have to be reminded that they are “*on the right track*”, and “*what to look for*”, as the

advantages of the product are not easy to recognize at the beginning, e.g. writing onto chocolate Santas in a visible place that they are made of milk chocolate and not nougat.

In all these, **quality control** institutions give assistance: 1. Test Magazine, without adverts, Consumer Report, professional comparisons e.g. car magazines, Michelin booklet etc. The American Wine Advocate and Wine Spectator magazines classify wines with the help of experts and random checking of samples sent to them. “*Wine above 90 points cannot be bought and wine below 80 points cannot be sold*”, as it is said about the classification of the two magazines. Partners: e.g. the *EFSIS (European Food Safety Inspection Service)* standard, which unifies the demands of 15 food retailer chains in 35 points. In Hungary, Arvit Refrigerating Share Company and Eisberg Ltd. possess this certificate.

3.2.4. Confidentials. Significance of experience is minor, impossible-to-compare products, credence characteristics, e.g. rarely bought products, such as a lawn mower, or organics, such as bio underwear. Credence characteristics are present almost everywhere, but here they are typical. These are honesty, competence, commitment to a cause etc.

For example a well-known confidential is organic underwear, which fits tight to the body and is more comfortable, since “happy sheep” are healthier, theirs is better wool, from which a better quality material can be prepared. Buying it is subjective, either I believe in it, or I don’t. “*People counteract the high technology surrounding them by embracing nature*”, Foodwatch, Minneapolis. Whoever does not have such relations, will not believe this.

3.3. FMCG Products

Table 4. Product classification on the basis of the field of usage and the degree of wearing out

Deterioration rate	Exertion area	
	Customer market	Manufacturer market
Low	Durable consumer goods, e.g. TV	Invested means e.g. machine, instrument
High	Fast moving consumer goods F.M.C.G.	Material, consumables e.g. screw, lubricant

Source: Bauer-Berács, 1992

FMCG (Fast-Moving-Consumer-Goods): fast-moving and circulating consumer goods. Strawberries are fast-moving-consumer-goods. You can put them on the shelf only if they are quickly sold. Otherwise, these kinds of perishable products have to be put in a freezer.

3.4. Classification of Products with Respect to Retailing and Legwork

3.4.1. Convenience goods. In retailing, the basic idea is to save time, trouble and work for the customer (Copeland, 1924; Holton 1958). This customer is considered as one with **less time than money** – cash-rich, time-poor – who is under time pressure. For many people, convenience does not only mean speed, but efficiency, and not having to do important tasks. Working women find it increasingly hard to deal with their duties concerning cooking and traditional feeding of the family in addition to their jobs, but at the same time, the money they earn makes the purchase of convenience products possible. Convenience products include everything that can easily be bought, consumed, prepared and kept “easy meal”. The goal is that the customer should acknowledge higher prices. Some examples of convenience goods are petrol, soda and magazines. Among horticultural products, pre-packed salad mix, pre-cut watermelon, prepared soup vegetables, and peeled carrots are ready to enter the market. Most fruit belongs to the convenience goods category, but it is perishable and has a short “shelf-life”.

Table 5. Classification of convenience goods

Not at home useable comfort goods		At home consumed comfort goods	
Gastronomical stripping, cookspare products	Everytime handy, everywhere consumable snack	Traditional housewife spared products strudelsheet, musli	On the spot, immediately consumable, meal substitute solution
			Half-ready cooked, must be heat meal
			In minutes ready meal, instant

3.4.1.1. Away-from-home convenience goods.

Catering trade, the traditional away-from-home consumption. Assembly line mass production, which can be associated with Samuel Colt, who organized the workers in a location in accordance with the working process. Fast food restaurants take the accomplished working steps to the workers and thus to the customers. “*All they have to do is bake and sell!*”, the philosophy of the Fornetti

Company of Kecskemét – shared owner József Szabó. “Cook-saving”, large gastronomical packaging also belongs here, such as the components of hamburgers, the 7-litre-ice cream, or delivered pie.

Always at hand, food-to-go, well-packaged, hygienically treatable, portable, in-pocket, ready-made product. Today, even fast food restaurants are not fast enough. A really tasty ripe peach, however, can only be eaten “in the bathtub”, not to mention that it should be washed somewhere. Freestone varieties and plate packaging were already a step towards convenience. People get value when they buy something, and give up values with the alternatives not chosen. No matter how much healthier peaches are than chocolate, we were raised hearing “*don’t eat like a pig and don’t make a hog of yourself!*” **Snack**: besides its pleasures, it eases hunger as well. It replaces a meal, or fills the time between meals e.g. Snickers. Consumers of such products deal with other things while eating - they talk to each other, do something with the computer, drive etc. **Driver-friendly** products are consumable during driving and fit into the cup-holder.

That is why in the **U.S. washed strawberries** are sold in a package that fits into the cup-holder of a car. Cup-holders were introduced following an incident when a woman wearing a mini-skirt was holding her hot McDonald’s coffee between her legs. During a maneuver with the car her coffee spilled, and she sued McDonald’s.

In the case of away-from-home convenience goods, **convenience stores** are typical, e.g. petrol station shops and buffets. In this shopping situation, people are much less price-sensitive than at other times. In this case, brand, product image, and chic are important, and novelties go better as well. Advertising is basically the producer’s task. Here the so-called **fancy bakeries** take the commodity close to passers-by – in the underground, at the station, in the supermarket – of course at an accordingly high price. Additionally, downtown shopping centers are like this as well, where the pleasure of shopping is not enough for the customers going there; they have to be entertained, too. Convenience stores are able to make big profit. The “Select” store-chain was the fastest growing branch of Shell Hungary Ltd. in 1998.

3.4.1.2. Take home kitchen convenience. In the food industry, traditional convenience goods, “**housework-saving**” products, e.g. semi-finished meals, strudel sheets, pudding powder, sauces, and Iceberg salad belong here, where the industry does some jobs instead of the housewife. According to Meat Processing, a meat trade technical journal, the time spent cooking is radically decreasing. An average American spends 12 minutes, whereas a European spends 20 minutes a day cooking. **Sitdown no-fuss meal solutions.** These make a transition to the

direction of away-from-home consumption, as they can be consumed even at the workplace. Semi-cooked products for on-the-spot consumption, which can be made quickly, e.g. microwaveable meals. Instant meals, bagged, or canned soups.

3.4.1.3. Comfort food. By eating, we can put a little calmness and ease into the rat race of everyday life, which we often live through as a kind of routine. This is done by comfort food relating to a given time, which, contrary to our expectations, can be a comforting moment, too. The **pleasure-serum**, chocolate contains phenyletamine, which strengthens heartbeat, makes you daydream, gives you a lift and cheers you up what is more, the flavonoid content of cocoa is beneficial to the blood-support of the heart and to circulation – Carl Keen, (UCLA, 2000). Comfort food's other name is bonus: a bit of luxury and pampering, refreshment, time off monotonous work, which is affordable for everyone: chocolate, chips, ice-cream and pizza. **Psychological comforters:** e.g. Túró Rudi, biscuits, Unicum, or certain meals, such as meat soup and stuffed cabbage. Several hotels give their guests good-night chocolate as a present. According to observations, when they are in a better mood, people reward themselves with healthier meals, e.g. pizza, steak, fruit, than when they are disappointed, bored, or lonely e.g. chips, ice-cream, sweets. Comforting is important in horticulture as well.

“Have a little break and enjoy the season!

...and believe it or not you can do it in just a few hours on the weekend!”

Garden Centers of America, 2004

3.4.1.4. Impulse goods. The consumer decides at the point of purchase when he-she sees the product, whether to buy it or not, “*buys by eyes*”. The marketing of impulse products is based on the triple principle of “*seeing, wanting, buying*”. The opposite of impulse buying is routine shopping, when the customer buys the same product regularly and automatically. Some housewives do not know in the afternoon what the dinner will be, or at best, only that it is going to be some kind of meat. Many effects of impulse products are psychological. A strong correlation can be observed between impulse buying and being well-off with free money to spend. It is not practical to encourage people to do impulse buying which they might regret later, as the shop, or the product can lose the confidence of their customers.

Types of impulse buying:

- **Pure** impulse buying: “love at first sight”. The new impulse breaks the usual shopping habits of the customer, who decides on the spot.
- **Reminder** impulse buying: we are reminded in the shop that we have left something off our shopping list, e.g. the impulse gives rise to pleasant memories.
- **Calculated** impulse purchasing: the customer has already decided to buy the product, or the category, but is waiting for the right moment. The person is collecting arguments in favor of the purchase, or perhaps there is still a need for persuasion. Price discounts, allowance, and worry about running out of the product etc. belong here. The customer only seems to have made a decision on the spot.

Therefore, a general demand: hunger, the wish to buy a present for themselves, or somebody else etc. can be seen here. People do not know for sure exactly what to buy when entering the shop, but they have some vague general ideas. Researchers are trying to examine how many goods out of 100 get into the basket as a result of an impulse. With a lot of products, such as shampoo, the customer decides at home which segment of the product-range to look for anti-dandruff, and within these, the choice is made on the basis of impulse effects.

Table 6. The role of impulse shopping is different in various product groups

1. first aid products:	93%
2. toys and sports equipment:	93%
3. household goods:	90%
4. paper ware, office requisites:	60%

Source: Kreatív, 1998/3

We can also experience that people do not consume a product in a balanced way. Even if there is steady supply, they eat more of certain products for a while and less at other times. During these **eating bouts**, a person can eat three times as much of the same food as normal. Of course, we eat because we are hungry, but eating bouts can be influenced by more factors. Firstly we have inside factors, those are the person’s emotions, secondly there are the outside

factors, the perception of a product (sitting out), e.g. its sight and smell. Eating bouts are frequent in the case of healthy products - vegetables, fruit, and fish - although we usually relate them to meals labeled unhealthy (Wansink, 1996).

3.4.1.5. One of the most important characteristics of convenience goods consumed away from home is that they are “relatively cheap” in the case of one purchase, but in a monthly total, or compared to discount shops, in fact they are not. **Micro-shopping**, the mini concept on the part of the producer, e.g. coffee-cream, coffee-sugar, bite-size, one-bite-products, individual cigarettes, and cheese by the cube, where the price per ml/kilo is relatively high. “*Hungary is the country of chocolate bars*”, claimed the president of the Hungarian Sweet Producers’ Association at the beginning of 2000. We give out 50-80 HUF for a chocolate bar more easily than 100 HUF more for a tablet, he argued. The reasons are **price-limit**, or **price-ceiling**, the **entry level affordability** and the **inner reference price**. The consumer decides in advance the maximum amount he or she is willing to devote to daily comfort, and beyond this price, the product will prove to be too much. Micro-shopping can also be recognized in other contexts. With cell phones, the so-called prepaid solution is well-known, where the user only buys the card containing an amount of money below entry level affordability.

3.4.1.6. Intensive distribution. An old slogan of Coca-Cola is typical here: “*It should be within arm’s reach of desire.*” Well-packaged convenience goods cannot wait for people to look for them and go after them, so they are taken close to people. In the case of beer, for example shops under 200 square meters, which are hard to manage logistically, play a crucial role.

Hard convenience goods: they have to be present in every shop, even in the smallest one, otherwise the customer will buy the competitor’s product – as with Coca-Cola and chewing gum. **Soft convenience goods:** they may be missing from shops with the lowest turnover – e.g. ice-cream on a stick and beer, and what is more, middle-sized shops are also supplied by wholesalers. Distribution costs are high in this case, so all distribution opportunities are made use of.

According to an old anecdote, explorers even found a Coke bottle in an impassable area of the Sahara. Following the principle of global brands and global products, we can say that even **Coca-Cola is not a global product**, as in hot Southern Europe it is not as sweet as in the cool North. Some even say that in countries with a continental climate, it is not as sweet in the summer as in winter.

3.4.1.7. Packaging. Beyond its general product protective and logistic support function, this is the most important commercial communication device due to the nature of self-service, “*packaging = silent salesman*”. During self-service it is

the product that sells itself - there is no one behind the counter. Attractive packaging does not necessarily cost more than a dull wrapper. The eye-catching color is important. **Packaging:**

- **Color sells.** A chips product's sales dropped just because less red was used on its redesigned packaging.
- **Color code.** In the case of convenience goods the different variations of a trademark are endowed with distinctive colors, e.g. green: traditional salad mix, wine-red: Mediterranean mix, red-blue-green *Balaton* bar, blue-green Dreher etc. Special cases are the purple and green ketchup. Arranging them in shops is also simpler this way. Likewise children do not ask for their sweets according to flavor but rather by a characteristic figure: the one with Squeaker, Winnie the Pooh etc.
- **Secondary product placement:** Besides its usual place, the product is located elsewhere in the shop as well. Additionally we recognize the importance of **display packaging** and offering cluster cartons. There is an especially big importance of smaller value impulse products placed in the checkout area.
- **Promotional activity carried out at the place of sale:** advertisements in the shop, moreover "the dressing up of the shop" are sometimes more important than the product itself. One of the fundamental principles of fast-food restaurants, petrol stations, and supermarket chains is that "*one of the most important advertising surfaces is the shop itself!*"

Flexible product improvement. One of the important characteristics of the convenience product stars is the possibility of product improvement. Especially in impulse markets, besides maintaining the most widely known products, constant product improvement is essential, so that customers can feel the trademark cares for them. Large trademarks introduce 4-8 new products every year, in spite of the fact that the majority of these disappear in the following season. The flavoring, character, or packaging of a bar of chocolate can be swiftly changed considering technical terms, and moreover it can be adjusted to local needs, unlike a type of apple the purification breeding of which takes years, and working out its growing, storing and trading prices also consumes several long years. On the other hand, in terms of packaging, presenting and the range of species, gardening products also have potential.

3.4.2. Shopping goods, shopping target products e.g. detergent, sugar, clotted cream, margarine, clothing, pepper. The hypermarket is the **one-stop shop**, because the family, during its weekly major shopping trip, finds all the accessory items and services in one place, thus getting away with one shopping trip. In 2002 the average customer spent 45 minutes in an average hypermarket offering 40 000 items. Usually it is the place of purchasing the necessities, the mass merchandise and due to the principle of “*since I’ve got this far*”, impulse shopping and entertainment are not out of the picture. Such shopping units deliberately aspire to that. The **typical customers** are thrifty people, young adults and the masses of families for whom individual solutions are far too expensive:

- The consumer devotes more time to acquiring the items; he or she practically makes a plan. **Comparative shopping** is characteristic. The activity of price-readers is characteristic among the competitors, who check each other’s range of goods and prices. Following the principles of stealth marketing, competitors are always first to sign up for newsletters, leaflets or e-mail services. Wal-Mart in the USA took great pains to collect thrown away bills in front of its competitors’ exits. Tesco and Auchan of Budaörs even engaged in litigation after they read each other’s prices which did not always match.
- When more time is spent in the hypermarket, shopping is less frequent, less dynamic. People also purchase target products at the greengrocer’s during their daily minor shopping trips, when they run out of an item, or if something was left off the weekend shopping list.
- The larger family pack is characteristic, e.g. a jar of Kompleta. **Macro shopping** or quantity shopping: a larger quantity is purchased at a time. During regular trips the left-out and the top up items are purchased in micro pack, so that minimum money is spent before the next stock up trip.
- **Selective distribution**, only few marketing opportunities are exploited. It is less available!
- Retail/shop brand/image is important. Advertising is primarily the retailer’s duty. The customer does not purchase the commodity based on its brand, and does not think of its brand, but thinks of the retailer. Cooking oil bought in Auchan is referred to as “Auchan oil” in everyday talk sugar is “Auchan sugar” even if it is not printed on the

package. On the other hand, there can be trademark commodity items as well, e.g. Perrier or Evian mineral water, but this case is different.

Hypermarkets are retail forms designed for the Friday afternoon and Saturday morning collective major trips. The habit of the weekend stock up trips is enhanced by the “one car family model”.

The average **Hungarian family spent** 6000 HUF during their 1 or 2 major trips per month in 1997. The rest of the story is the daily fill-in trips – greengrocer’s, supermarket – during which the average housewife normally spent 850 HUF in 1997.

A phenomenon observed in connection with purchased items is the cyclically **recurring crave** or simply the need for change. It is very common that these products are not exchanged for the better when they do not function any more, but when the customer convinces him/herself that the time has come. In the case of cars this time comes every third or fourth year for certain strata of society, and the time to think of the next holiday is usually January or February. The good retailer knows that *“if someone had the means to purchase a better item before, he/she is probably in the same situation today”*. Thus the retailer identifies the cyclic time of the recurring crave and bears the customers in mind. The point is that he or she should be at hand in the right time.

The opposite of the recurring crave is the period when people regularly cut back on their spending. An example of such periods is the **“January bill-shock”** after the Christmas shopping rush. People spend and eat a lot during the Christmas holidays, put on weight, and then in January realize that the prices have gone up when they receive their first higher bill and they react by leveling off their shopping. This type of self-restraint yielded by the reassessment of individual consuming strategies disappears around March and the equilibrium slowly settles

3.4.3. Specialties, delicacies. They have at least one special idiosyncratic characteristic that makes a certain segment of consumers seek them, go after the items, and even pay more. The customer, emerging with complex, peculiar needs in this case is willing to make significant sacrifices and ready to search in order to acquire the desired product.

Customers wait an average of 4 years for one of the 800 British Aston Martin sports cars produced each year with a minimum value of 25 million HUF each.

It means a complex instance of shopping, when price is not the most important limiting factor. The argument on the basis of the “cheap and nasty” principle is that the price of the competitor’s product may be lower, but the customer later suffers disappointment, and realizes that s/he did not get what s/he expected. According to the meat industry, quality sausages are clearly distinguishable, so eating one pair of quality sausages is evidently worth more than eating 2-3 pairs of inferior ones. In this case, due to the *“I can afford it, too”* principle, many of us yield to the temptation.

“The customer is interested in the price only at the moment of purchase. But in all cases s/he will experience the value and quality of the product when s/he uses it.”

Carl Clayton

“Expert shopping” is when we check the product - give it a try, for example when we shop for a diet or for guests. The segment of customers with special needs is willing to pay more and does not accept substitutes. Specialized retailers employing well-paid, trained shop assistants with great expertise can succeed beside larger chains that have big turnover. The **characteristics of selling specialties**:

- **High price** and mark-up, low turnover, slow-moving product.
- **Exclusive distribution**, only utilizing a few distributional opportunities and comparatively low distribution costs.
- **All items are unique**. Presents are like this, when one wants to assure his/her family, friends, acquaintances or him/herself of love and care for them. In such cases the customer immerses himself/herself in the world of emotions and experiences.
- The **product** and the **retail brand/image** are **equally important**. Advertising is the duty of both the producer and the retailer.

Nowadays more and more shops are trying to compensate for the fact that they cannot offer the lowest prices through joy-shopping, providing narrow and deep supply, widening the range of services, and surveying individual needs accurately. The human being is not a robot; he/she automatically puts up a defense against monotony if possible, and this is also true for shopping. Fundamentally, we are familiar with three types of special products.

3.4.3.1. Luxury specialties, items symbolizing extreme wealth, high value goods, e.g. orchids. Due to the high price, a limited group of people can maintain the product. Such a product provides a real consumer experience and leaves its mark on the devotees. It is characteristic that the product boasts full-fledged quality, has a good-sounding brand, serves its customers with care, and is always renewable but does not lack tradition. It is the choice of distinguished customers with special and refined demands, whose list of expectations is as long as their arm. The trendmaking design and emphasis on the brand’s superiority can be anticipated, as clients want to feel, and even make others feel, that they own something really fresh and special. Traditionally, these products are for those

who want to impress others or themselves. Typical customers are from the older generation, “*we have gone without it for long enough, we want to enjoy life now*” – the well-to-do – “*we can afford it*” –, and the hedonist, not necessarily well-off – “*the coffin will be expensive*” – customer layer.

It is a serious blow to the value of the brand if the rare imperfect pieces/products are sold out at a low price. In the case of high-prestige, expensive goods it is unnecessary to emphasize the quality, the guarantee etc. For these, it is natural - why would we expect the purchaser to pay a lot if the retailer or the manufacturer spared the expenses of the details? As the father of David Ogilvy – a Scottish classical philologist and free-thinker – advised: “*If a firm boasts its excellence, a woman her decency, avoid the first and pay a visit to the latter.*” **Quality, guarantee** and servicing – in return for such a sum – are so much evident that mentioning them simply spoils the image of the brand.

One of the newly fledged Hungarian advertising agencies acquired the ISO 9001 certificate. It is typical that they commented on this in an article as follows: “*This certificate does not enhance our problem-solving abilities or our creative qualities. It is a guarantee of our problem-free service.*” Everyone is characterized by what he/she boasts about. A firm with a high profile and expensive services is not preoccupied with solving daily problems.

Keeping off people with wrong expectations is a traditional complication in the case of luxury items. It may happen that such persons wander in and annoy the customers and assistants. It is important to let the benevolent but out-of-place person feel that this is not his/her world. One good concept: “*if you can not understand it, you are not a client at all*”.

The unwritten laws and knowledge matrix of quality wine drinking, golf playing and cigar smoking could be mastered only through hard work or having a lot of money. **Unambiguous gestures** can also help. Colonial style furnishing, soft, springy carpet, exotic plants and the rushing crowd of neatly dressed assistants are all straightforward signals. There are few products on the tables and there is no opportunity for self-service. The narrow and cumbersome door with a tough security guard makes entry difficult for the unwanted person; moreover, it signals that it will make one feel uncomfortable if one leaves without making a purchase. But for the lady of haut-couture it makes the entry possible and facilitates the collection of post-purchase flattery. Security is very important, because the small product and high value is very tempting.

3.4.3.2. Style, ego-products and presents. Their special characteristic is “a still acceptable price” and extensive subjectivity. We may say: “*it is all right, but not my style*”. Thus through the product the customer expresses his/her ego, e.g. sunglasses, décor cosmetics, hair-dye, plush animals, or Tisza shoes... Customers satisfy some personal problem with the product, for example organic products or diet products. More and more people crowd their surroundings with

forgotten or rare artifacts and plants. Such delicacies serve no show of prestige but are rather a display of identity. Many people crave attention, and they are willing to satisfy this craving with their appearance and use of products. The reactions of surrounding people are equally as important as one's own personal opinion and feeling of comfort. With the increase of one's income, mass products in mass-shopping facilities are getting less appealing, and people crave more individuality. In this case, beyond individuality, for the customer, searching, joy, and experimenting is similarly important to the price, for which shops provide a wide variety of products, offered on a high standard of service, aided by complex consultation. Manufacturers are able to produce a richer assortment of goods after a while, and there is opportunity to create subtle differences between each and every product. *"The human being is not a robot; he/she automatically puts up a defense against monotony."*

The client may choose from a wide selection of products and is thus able to express his/her identity the better. Fashion trends are born like this! An example of the importance of fashion is demonstrated when the customer selects a certain flower to match her dress.

3.4.3.3. Professional products. Knowledge, experience and dedication are also sold to those customers to whom large assortment and services are more important than price and comfort. The clients are expected to be well-informed and experienced. *"Trying to recover one's investments"* is when the decision on purchase is at the same time *"registration for further orders"*. Language schools, diet products and computer technology come under this definition as well, due to the *lock-in effect* meaning that one has to purchase these products if one is following a certain consumer trend, or else the effect is lost. Its fundamental characteristic is the possibility of scaling, which originates from the selling practice of information technology products, and which is also indicative of the trade of service accessories, investment equipment, lasting implements and durable consumer goods, i.e. the small and cheap solutions on the entry level can be upgraded alongside the expansion of tasks, needs and financial means. A garden can never be finished, there is always something to do or spend money on. This is what perpetual exchange is based upon. For example, Herend is able to supply all parts of a porcelain set for a significant sum of money, of course. All decoration elements are kept available. We rarely buy emergency products, but if we need them, we have to replace them quickly and at all cost.

3.5. Design the Visual Problem-solving

Creating the unique shape, appearance and internal content, and adjusting it to the purpose of the given product. The purpose of the product is served by the primary and complementary utility: the optimal ratio of physiological and psychological functions. The communication function of the packaging and the logistic requirements have to be taken into account as well, as this way significant expense can be avoided later. The importance of shape increases when there are several similar products in one category with the same content and price. It is characteristic of Hungarian customers that they consider shape as more important than necessary (Gouyon, Peugeot Hungary, 2002).

Packaging's marketing functions:

- **I am good, it is worth buying me because...!** This goal of design is the message, the communication of the product's advantages. It should appeal to the eye to engage interest, and it rather expresses than impresses. The least possible words should be used to express the message. The striking, expressive brand name and its short explanation with "loud" graphics can help.
- **I am different from the other products, because...!** Unique, differing from others with consistently used visual elements. Surprise and diversity can be effective (if they must be used), but consumers instantly and unconsciously question the product's or brand's importance if faced with an unbalanced appearance.
- **Here I am,... see me!** In the supermarket, the packaging has a split second to call attention to the product. The use of eye-catching colors and graphics help, however, too many colors and a crowded overall picture reduce the chance of the product being noticed.

3.6. The Level of Activation, Involvement, the Elaboration Likelihood Model

3.6.1. Low involvement, emotionally neutral products, with which no buyer characterizes him/herself or wants to dazzle acquaintances. *"It is like the Trabant used to be; very useful, but no one was proud of it!"* For most people, the white bread known as Alföldi is like this. It is typical that they hide it in the pantry. Normally, people regard it a duty to purchase these. Buying out of

necessity is characteristic in the low involvement decision situations; it is something we want to get through – petrol, for example. The customer needs to be present only physically; further, the passive consumer has to exert little effort in order to obtain the product. One saves money on these seemingly unimportant, “must” products – minimizes shopping costs instead of maximizing shopping returns – moreover, a person forgives insignificant quality shortcomings and forgets disillusionments.

One **buys the cheapest** and most easily accessible of the products if no significant difference can be perceived between the products and brands, and if one does not consider the categories important. Women are, for example, more economical and practical shoppers than men – for example, in the case of cars. Women seek the cheaper, easy maintenance, lower gas consumption models, while in the case of the other gender, with a higher income than the average, these factors play lesser roles.

3.6.2. Products of high emotional involvement are suitable for making personal declarations by the consumer; they are the “*extensions of the personality*”, e.g. most cigarettes, cars, soft drinks etc. The owner is proud of such items, regards them as trophies, and puts them on display in a prominent place. From a sociological viewpoint, the purchase and possession of these products means the declaration of membership rights concerning the common future. The experience content of a high emotional value product can be created if we know the circumstances in which it will be used. According to one car industry proverb “*those who do not create cars with passion should sell biscuits.*”

It is a **pleasure to search** for just the right one – and purchase it. In the case of high emotional involvement products the customer is willing to become involved in the study of the product, looks for it, and does research. The active, curious consumer is typical of high emotional involvement products. These products are even more activating if the customers themselves provide the services: They search, select, transport, install, like do-it-yourself etc. Activeness decreases the level of risk taken by the customer and the shop assistant alike.

High emotional value and passion can be negative as well. In Ireland, difficulties emerged with selling Lada cars. Although many parents were interested in the cheap Lada, their children were embarrassed if they were driven to school in them.

The consumer has to make a compromise in the case of high emotional value products, and has to realize that not all of his/her demands are satisfied. He/she sets up the order of priorities, distinguishing key wants from secondary wants. The primary wants are the following in order:

- Self-assessment and moral.

- Mood-lifting, e.g. wine, sweets.
- Recreation, e.g. CD's, professional sports.
- Products intended for children.

More suppressible secondary wants:

- High costs, can be delayed, e.g. expensive modern furniture.
- Medium cost, but in the way of something more important, e.g. eating out, excursion.
- Cheaper, but not fashionable, e.g. spirits.

3.6.3. Compatibility management. A mixture of people appear during any shopping period, i.e. a number of individuals from sedentary to extremely active, and those who enjoy being active. The handling of such a mixed crowd is called compatibility management: documents, information materials, observation of the active customers, and educational work of the regular members, e.g. in a club format. For example: self-service emptying of trays in fast food restaurants.

Nevertheless, the activity of people and their involvement in connection with a product may change after a while. Some products may disappear into the World-Of-Indifference previously interested clients lose their attention, are not focused on the product anymore and make automatic, routine purchases. **The wall of silence falls down** when people who were recently half asleep, wake up and start intensive adjustment. A good example of this process is the first and second rounds of the 1998 elections. Increasing interest before the first round was not successful, and the consequence of this was the unprecedented low turnout. The Hungarian Socialist Party was believed to have far more chances than its opponents. The outcome of the first round brought the wall of silence down, and interest in politics increased, which, in the second round, produced the highest participation of the three elections held until then.

In case of a crisis the activity level increases. An individual crisis appears when the balance of one's self-assessment, behavior and experience is lost. In a situation like this one is actively trying to examine the problems associated with the crisis and is searching for sources of remedy.

In terms of the **activeness of customers**, in connection with a certain product's emotional value two factors are measurable *BCG (Boston Consulting Group)*:

- Measurement of the impressions and emotions aroused in the customer.

- The activeness of the customer in relation to shopping – to what extent can and do sales involve him/her in the process. This is the intellectual concern of shopping.

4. PRODUCT LIFE CYCLE - PLC

4.1. Definition of Product Life Cycle

The product life cycle is the market life of the product all the way from the time the first one is offered for sale until the last one is sold. The product life cycle accompanies a product or brand's market life from cradle to grave, but it doesn't handle the "family planning" part. It is a **Gauss cycle** like a converse U curve, but its decline depends on the kind of goods or the market. An innovative market is where there are many fresh, usually no more than one-year-old products, for example fashion goods and specialties. In the case of basic foods, the product life is longer, and the curve is almost a flat line.

Objective. To predict the turnover, profit and costs of a product (brand). So "*is there that much in the respective market to make it worth the effort?*"

For example, the cost to develop the **Peugeot 206** (the P-206 project) – until manufacturing began – reached 500 million FFr, and the project took two years. The annual sale of this category is around 270,000 cars. In 1999 in our country, half the Peugeots sold were P-206's. According to car industry experts, due to the success of the P-205 and P-206, the PSA (Peugeot-Citroen) brand family hardly sold at all. Interestingly, the UGS division of EDS makes product life cycle management computer programs for airplane producers and automobile factories.

To follow the different life stages of the product and manage the various typical challenges and problems respectively. **Product development on position analysis R+D "family planning"**:

- **Understanding and exploration of problems**, description of situations, level of interest: opportunity identification, definition of problems, and exploration of circumstances.
- **Concept development**: selection of real life alternatives to solve the problem.
- **Product development and design**. Choice of the best solutions, the real alternatives: qualitative market research. **Alfa test**, an in-house test: ask colleagues who are not members of the development team. Focus group discussion with people who are potential customers.
- **Trial**. To set up the finished version for the best market. **Beta test**, hands-off test: monitoring outside with probable typical users, later in real life conditions, STMs: simulated test markets, test-markets.

Customer test by test in the retail trade. The test item must be licensed. Disadvantage: competitor finds out about it. **Preparation of tactical steps.** “Thousand-year-old egg”, rapid prototyping, the aboriginal, first commercial version. The archived master (pilot), the first test version, plus the product generation is developed constantly by permanent checks and re-examination.

Product life cycle:

- **Implementation**, mass production.
- **Improved**, new version, generations.

4.2. Division of Products Based on Product Life Cycle Shape

4.2.1. Fads. Shape is unstable, usually shorter than a year. The business is based on one-off opportunity, on customer demand or on business source. It is very risky, but holds forth large benefits. For example, solar eclipse glasses, sports fan caps, food tins, candles, or tents at Szeged during the Yugoslav war. Real fads are entertaining movies, media stars etc. The fads with a short life cycle generally start with hype, when the product sells very well. After that it becomes clear that either it was one-off recrudescence or it succeeds in creating a persistent market value, in which case the item grows out of the fad category, and remains on the market as a permanent product. The burnout rate shows how quickly the fad eats up the market.

4.2.2. Fashion goods. The product life cycle is just one season long. The selection changes every year. The customers do not really know if there is a fixed range to choose from. In general, the retail business is relatively quiet: the shop just gets products and re-orders whenever stock runs low. Selling fashion goods is risky business. Their specialty is supplying goods which change from season to season, such as Artfleur Trend. *“The fashion must change almost every year in order to follow its products’ moral decay!”* There is a fashion clothing company that makes white T-shirts in Asia, which are then dyed in Europe to fit each respective month’s fashion color. The fashion industry can only get rid of remaining stock with significant end-of-season sales, or in the second season. The industry anticipates the end of the season, and modifies the range as follows.

4.2.2.1. Put it into storage, and bring it back out next year. It can not sell at the earlier price, because meantime the market has worked out a new fashion for the

season. The shops usually order on the basis of previous years, and as a rule, preferably less (underestimation), because they can re-order if necessary, but they have a problem with sales if the fashion and seasonal goods remain.

4.2.2.2. Supplier takes back the product if it is not damaged, and sells it in a different place or reworks it, e.g. chocolate figures. The price of a returned product usually can not be refunded. The sale-or-return contract – where the leftover product is taken back by the supplier – is very common in fashion goods. In the Japanese fashion business during the 1994-95 recession one-third of the product was sent back.

4.2.2.3. Clearance sales. Do not yield profit but at least the product is not occupying shelf and storage space, and it does not cost anything! Both at the end of a season and/or when the expiration date is near, the shops regularly propose that the suppliers sell at a lower price. Very often the product is sold in separate places where only an incomplete assortment is available, e.g. sizes: only very small or very large sizes are available and even some items may be missing from a package. The sale of the remaining stock can have a negative influence on the market. Sometimes the unit price of sale items is lower than the unit price of the “large economy size”, which is considered a trick by the buyers. The big western European apple stores sell out the remaining stock at a reduced price before the new crop appears.

4.2.3. Seasonal products: product can sell very well every year during a given period. Otherwise they move slowly, for example, apricots, depilatory in summer, and beef in barbeque season. The seasonal peak and the spending flow can be forecast based on the previous seasons. For the seasonal product a one- or two-week delay can produce a significant loss, which means that the industry can't afford bad timing or poor stock management. It may be worthwhile to use a secondary placement, in-store advertisement, better placement or seasonal novelty message to attract the customers' attention at the beginning of the season.

Something interesting is the “**New Year's resolutions**” season in the fruit and vegetable business. According to the vendors' observations at the beginning of January, traffic is lower for every product except fruit, vegetables and diet products. People get fat during the holidays, and after that suddenly they begin some weight-loss diet, which usually lasts several weeks.

In the holidays, during the season customers are disposed to spend more, and moreover they buy more expensive goods. For **Christmas** people tend to buy more expensive wine, and for New Year's Eve more expensive champagne. Between these two events only the party- and guest-related gift market is revived the general present-giving season is over. Regarding the

influence of tourism, summer dominates in some places. During hot summer or hot summer weekends more watermelon, ice cream, juice, grill products and suntan lotion are used. Two or three colder weekends and the season is over, and the product remains on the shelves. The weather forecast is accessible. Some seasons essentially change consumer behavior, e.g. the back-to-school in September “zeros the parents” purse, or Christmas and New Year’s decrease the January turnover.

Celebration days, e.g. popular name-days, and longer **holidays with “tents”** when turnover of food, gifts, and flowers is more expected, and the vendors and growers are prepared. Weeks before **large sports events** such as football championships, the retailers also start their own “championship” where they compete in three categories: TV, beer, and sports clothes. During the European football championship held in Portugal, not only the British retail business, but also the beer and catering trade flourished. According to the *British Retail Confederacy (BRC)* estimation, if England had lost during the 2004 European football championship, it would have caused at least 400 million pounds’ (152 billion HUF) loss in unsold food, drink and souvenirs. The English team was also of value to the organizers because its 60,000 fans spent several nights in Portugal.

Manufacturers and growers prepare for a season with a larger spurt, bigger assortment, gifts with exaggerated ornaments, extra placements, and publicity. Christmas (Santa Claus) and Easter are special holidays, however the experienced gift producing companies avoid the usage of a characteristic holiday design, because they also calculate with the surrounding name-days. The Toffifee Easter Bunny was composed of three normal size chocolates with a seasonal image, packed together and dressed up in a holiday wrapper. There is no need to emphasize the special Christmas campaigns; it is enough if the manufacturer changes the packaging. Usually ancillary products are packed together. Both a gift bag and ornamental box are good ideas. Also, customers are reminded about the upcoming holiday with advertisements by the shops. At the beginning of every season, the image of the seasonal sweet and its packaging is updated. It is worthwhile to come up with some new ideas for every festival season. It is destructive to the image of better quality products to mechanically “seasonalize” the trade mark – for example, the “Boci” egg. In this case the stable decorative elements accentuate the enduring experience.

For the gift, sweets, and flowers market, the higher turnover is from October to Easter – Christmas/Santa Claus, New Year’s, Valentine’s Day, Carnival, Easter – with some fluctuation, specifically the slow summer season, excepting the Balaton and Budapest tourist regions.

Preseason quality. A phenomenon well known since the beginning of the horticultural profession is that customers anticipate the seasons so impatiently that they are inclined to pay more for lower quality product, e.g. cherries in May and early Meteor sour cherries. Later on, those quality defects which were overlooked are no longer accepted by the customers. The problem with preseason quality is that on the highly competitive western market with many competitors there is seasonal novelty, i.e. many different types of fruit are

available on the shelves. Another source of trouble can be the food industry, which is able to produce the same quality all the time.

To achieve higher sales and better prices in the shoulder season, producers sometimes send unripe fruits and vegetables to the market. Also the logistics sector prefers “hard fruit” because of the possibility of longer delivery times. The retail dealer can come up on the market earlier than the competitors. Sometimes the customers speculate, waiting because many products can be purchased even on the last day due to the oversupply, or even because of the substantial sales caused by panicked suppliers. Of course this is risky, because sometimes the supply is exhausted and customers end up with no product at the end of the season.

4.2.4. Staples, mass consumption products: their PLC is nearly flat, e.g. flour, white bread, and sugar.

4.3. Characterization of Different Product Life Cycle Phases

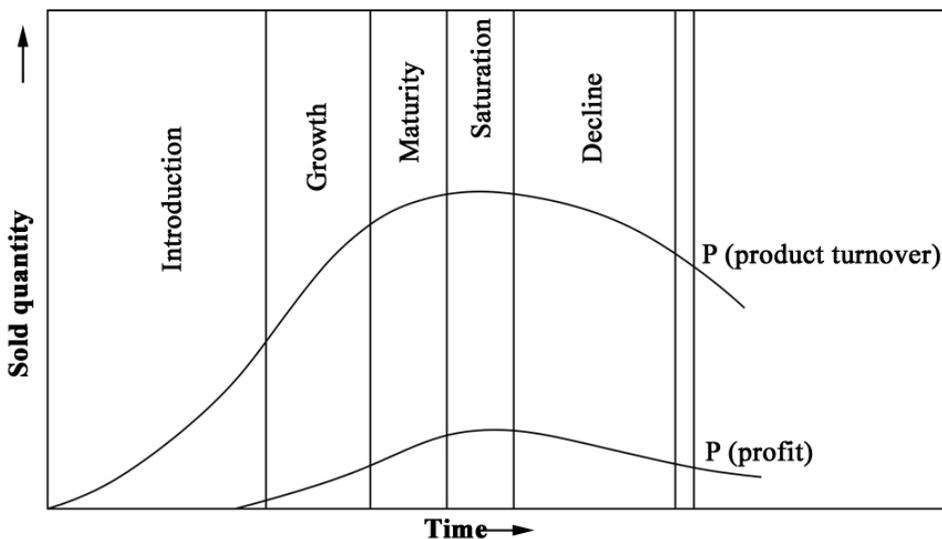


Figure 5. Product life cycle phases

Source: Kotler, 1988

4.3.1. Introduction: low turnover and demand + distribution has not evolved, sophisticated + the prices are high + Monopoly.

4.3.1.1. Technical reasons:

- **The novelties** are identified first by specialists and curious customers. Consumers do not know the product yet, the general public is not informed about its benefits.
- **Necessary conditions** for use are missing. It is available only in a few places, and also the trade has to be prepared.
- **Incidental defects** due to manufacturer's inexperience.
- **Defects of launch.** Packaging and wrapping is not 100% appropriate to the size and characteristics of marketing channels. A typical mistake is the wrong determination of the size of assortment and speed of turnaround, which can cause lack of product during early sales.

4.3.1.2. Emotional reasons

- Consumer distrust of new products, number of endorsements is very low.
- **Communication defects during launch**, e.g. at the beginning of 1990, Henkel detergent was so good that the bad publicity did not cause a negative effect on the sales process.

According to these, what do we need? An intensive marketing program and launch! The key to customer retention is to follow the motto of lifetime value: *"It costs five times more to get a new customer than to keep an existing one!"* The aim is to inform the potential consumers about the new product, to help the trial of the new product, and to ensure the distribution is organized precisely.

Introduction of a new product - launch is a major and risky event in the life of company. In some sectors the buyers and journalists are already waiting for the event, as in the car industry. The real novelty can later lead to the basis of a whole product category, for example, in 1999, Ariel detergent had already been on the Hungarian market for seven years, and during that time six generations were presented. For companies, a truly new thing is a big risk: it is difficult to forecast the possible turnover, and even more difficult to obtain the authorization. On the food market only every third new product is successful. Later it becomes clear that many new products are not real novelties. They are like a balloon, and they burst.

“You have to kiss a lot of frogs to find a prince. But remember, one prince can pay for a lot of frogs.”

Art Fry, 3M

The **Boeing company** risked its future, when 30 years ago it spent two billion dollars, two and a half times the value of the company, to develop the 747 (Jumbo jet). The 747 generated 20 billion dollars profit for the company by 2002.

It is **risk** from the point of view of the consumer also, because he/she buys an unknown product based on a promise. In the experimental period the company can afford more, but can lose a lot as well. That is why critics say product introduction is a “bluff war”.

A Hungarian top manager living in Germany in the 1970's discovered a way to make **artificial flowers**. He became inspired, and within two days installed a tiny artificial flower factory in Hungary (it still exists today). He asked a young newspaperman who worked for a gazette to make “some advertisement”. The enthusiastic young man wanted to do the job extremely well, so he published some wonderful photos and under them wrote: *“beautiful artificial flowers, so perfect, that even the bees land on them”*. With this, he angered all the contemporary environmentalists. The main accusation was the bees aren't sensitive to the color of flowers, but rather to pollen and its odor. In this case even the Hungarian Academy of Sciences published a statement. The young journalist was punished by his boss, but this dispute engendered huge publicity for the product. It is funny that the young journalist got no further work from his partners; they said artificial flowers needed no further publicity. They had already been introduced on the market.

4.3.2. Growth. Launch of the product has been already successful and it tries to keep its market position and enter the category of permanent goods on the shelves. The product has public awareness, and if successful, its market position evolves. **First high-tech chasm.** In everyday practice the large scale introduction of new product is extremely risky. After the first success the product is no longer meant just for professionals, and moreover sometimes leaves the world of gadgets and gizmos and fights for general acceptance. It is characteristic that the needs of professional buyers differ from those of the man on the street: average people do not even try the product. Even more, only that product can be long lasting in the market where the buyers who try it do not return to their previous choice. One growth period will predict if the product will be profitable or not, e.g. in the case of Hollywood movies, one knows if a given movie will be profitable or not from the first week's proceeds. In Hollywood one of every three movies is profitable. Stephen Spielberg holds the record: up to 1998, 13 of his 16 movies were profitable.

Characteristics of growth period:

- Turnover is growing.
- Production level is increasing and benefiting from capacity.
- Profit is increasing and the product will be self-financing.
- Competition is trying to catch-up.

What kind of **marketing activity** do we need?

- Pre-existing consumer experience.
- More and more important: word of mouth advertisement and consumer opinion.
- Emphasis is on relationship developed with consumers.

Applicable price strategy. Over the life cycle of the product, its unit price typically decreases. However, in the growth period when profit is generally the highest, entrepreneurs can choose from three possibilities.

4.3.2.1. Penetration strategy. At the beginning they charge a low price, and raise it after a while. The advantage of this is that competitors observe the possibility only slowly. For example, in the U.S., the price of the Gala apple increased gradually during the first five years after it was introduced. With predatory pricing – bait-and-switch – the price is raised when the procurer can't change to a competitor's goods, see the tactics of a French team for construction of underground transportation. The company is famous for increasing its prices in process, when the partner is powerless (NAPI, 1992, II. Évf, 211nr.). Cross-financing allows the abuse of economic superiority.

The biggest retail chain in the world, **Wal-Mart**, lost a court case because some chemists from a village were able to hand over a list of frequent customers who had patronized Wal-Mart, and the chemists were able to prove that Wal-Mart increased its prices after its competitors disappeared. Putting items on sale for less than the wholesale price is not likely to destroy the competitors, at least in the short run or in a minor market share.

When Elektro World opened in Budaörs, some people walked across the highway carrying their children on their shoulders, just to get to the store. The retailer, who based the event on a previous store opening in Sweden, did not count on **“the second Budaörs war”**. They likewise were not prepared for the next store opening in Prague, because the Czechs were thought to be more peaceful. The “peaceful” citizens broke down the entrance door and tore off the belt of policemen. No less than 70,000 people came to Ikea's first store in wealthy Saudi Arabia on September 1, 2004. That was because the company offered vouchers worth 150 dollars to the first 50 costumers. The crowd left three people dead and 16 wounded. Ikea opened its biggest store in Great-Britain in the north London district of Edmonton at the beginning of 2005. The company offered a significant discount to customers for the 24 hours

after the opening. On the eve of the opening, a crowd of 6,000 customers had amassed in front of the store. On the day of the grand opening, after just half an hour, the staff closed the store because of life-threatening mass hysteria, and did not open again till the next morning. In foreign trade it is called a dumping price, which means a price under costs. This is forbidden in many countries because it doesn't mean a deficit for the company as the loss is compensated by the government.

In the middle of the 1990's **Chinese garlic** was sold on price, that is to say, one-fourth of its costs in the U.S.A. in two years quantity imported increased 20 times. Because of this dumping procedure, the authorities introduced a 377% customs duty on Chinese garlic. In 1999 a Chinese American garlic importer who had falsified documents about its origin was sent to prison for one and a half years. The EU can fix the import quota if dumping is demonstrated, as Poland tried to do in 2005 with fresh and frozen Morocco strawberries.

The types of dumping are the following:

- **Aggressive dumping:** destroys the local competitors and afterwards increases the prices. Forbidden, and this ban is government-supported.
- **Scattered dumping:** Getting rid of unsold stock accumulated from overproduction. Also illegal.
- **Permanent dumping:** the scale effect, taking advantage of large volume, and competitive advantage. It is legal.

The prices of horticultural articles change quickly and permanently according to weather, so in their case determination of production costs is difficult. The dumping can hold back the whole consumption if the accepted measure remains valid after the domestic goods selling period.

Due to the influence of dumping, the **consumption of kiwis** decreased by 4% in the U.S.A. and increased by 73% in Canada, where import of New Zealand product was unhindered. The dumping litigation is expensive, and has to be entrusted to a professional law office. In 1999, according to the American Apple Association's estimate, the dumping action against the Chinese apple concentrate cost between three-quarters and one and a half million dollars. The state's first step is the introduction of a daily monitoring system for imports.

Other methods of non-tariff protection of local production:

- **Floor price.** Protects the EU growers against the low prices in case of some vegetables and fruit in a characteristic period of year. In the case of an import under previous established floor price, a countervailing duty has to be paid. With these goods the customs duty isn't very high (5-20%).
- **Sanitary and phytosanitary barriers (SPS).** Solution: must be based on sound scientific principles and must be the same for both domestic and import products. Sanction: fine (punishment), publicity; quarantine – the Latin word *cuarenta* means 40, in the 1300's, ships had to wait for 40 days before entering ports in order not to contaminate the locals with plague. **Phytosanitary measures** keep contaminated goods out of the transporting and importing countries. The border

control is not an optimal solution, so checking at the grower is done e.g. in the U.S. meat industry. The American apple growers who transport produce to Japan have to pay high sums for phytosanitary measures. The Japanese inspectors visit every orchard which participates in Japanese export at least two or three times a year. They check for fire blight, and are present at sorting and packaging. It is strange that in France, in mid-2005, only 30 hectares of apples corresponded to the Chinese quality and phytosanitary rules. **Minimum Residue Level (MRL)**: For WTO countries the maximum levels are determined by the Codex Alimentarius a standards committee, whose office is in Rome. There are problems with those countries which keep out such imports that contain a residue which isn't registered, this process needs a minimum of 3 months – the experimental data are given by Codex or the producer company.

- **Labeling and country of origin rules.**

4.3.2.2. Skimming strategy. The first supplier introduces the product at a high price, because there is no competitor. The competitors observe the juicy business, after a while the price goes down, and at the end the first supplier withdraws from the saturated market. The competitors notice the prices and if necessary diminish the price. It is characteristic of the skimming strategy that the customer is ready to pay a high price for the first articles, and later on gradually his or her inclination decreases. It is like the child and the pancake: he eats the first piece in one bite, but suffers through the last one.

4.3.2.3. Gravity, going-rate pricing. Follows the prices accepted on the given market. Such widely followed basic prices can be stock exchange prices, for example, or for fruits and vegetables in Central-Eastern Europe, the prices of the Munich Wholesale Market. Usually higher prices are charged in regions where incomes are higher. In practice, companies often try to obtain a better price where sales are going well, and try to swing on situations where it is not possible.

4.3.3. Maturity. Rate of turnover growth is decreasing, and the first selling difficulties and overcapacity appear. In the fresh food market in the case of unsatisfied demands when interest for product is high, there is almost no other answer than solving logistics, managing enlisting and enlarging the shelf space. But later competitors enter the market one after the other. First substitute articles show up, which are not expensive yet but still unknown. The rivals try to open new markets, and gain market-share with improved versions of the given product. The market disintegrates into smaller fractions: into numerous narrow little markets. At the end of this period the profit reaches its maximum.

What kind of marketing activity is needed? The product has showed what it is worth and the more elaborated marketing methods come to the forefront. Search for a new kind of opportunity and new market-share – open new market share! Relaunch a new improved version, start a new generation. Keep interest high with a little improvement on the first product. The replacement product is easier to register. Replacement is measurable. The product is introduced in test shops and they observe if the costumers pay for the substituted products. It can happen that brand loyalty remains strong, but a segment of the customers desire improvement, e.g. the new Persil – 20%. The substituted articles updated with “new” attributes and a slightly updated exterior cannot confuse the consumers! When P&G introduced a new version of Pantene products, it held back the older version for its discount shops, too. They hoped for slow surrender and sales. The product is produced until it is profitable, but the profit is used mostly for other purposes.

4.3.4. Saturation. Turnover achieves its highest level, it is not growing more and the whole market is saturated. New consumers can not be pulled into the consumption. The turnover can be increased only by decreasing the competitor’s market. This way some competitors leave the scene and the market is consolidated, cleared-out, settled in. Natural selection decides which product version is viable and which is not. The number of products and brands decreases because it is not worthwhile to start new ones. There are no novelties and the market is stable and transparent. It is very hard to say anything new about the products and the competitive products are very similar.

State-of-the-art technology gap: when achieving 80-85% of saturation, the turnover increase is very difficult! Everyone knows it, and but consumers reject it and will not use it. On the saturated market “*turnover without promotion can not be achieved!*”. It was characteristic on the tabloid newspaper market during the mid-1990’s that a newspaper contained numerous promotions or sweepstakes. People bought the newspapers as if they were no more than a lottery ticket.

4.3.5. Decline. Market shrinks, the product is getting tired and aging. It becomes obvious that the substitute product is better. The incomes will decrease and the costs will grow. In this life cycle phase, the product is floating away, and will remain behind not being able to use the incoming opportunities. What kind of marketing activity is required? The “retirement” of the product.

4.3.5.1. Communication support will be removed and the product will continue to “float” until it becomes uneconomical.

4.3.5.2. Run out campaign' of the declining product

Goal: run-out product should not cause any loss and has to prepare the scene for the successive product. **Goal:** to get rid of stock, discounts, sales, extra services product tying etc. In case of stable demand the marketing support is removed and it will allowed to run out until it is no longer profitable.

There can obstacles. In many cases the company – through no fault of its own – can not stop the production of the declining product, e. g. being obligated by contract, being forced to keep a high number of workers, exiting would be more expensive than continuing production, inability to sell capital equipment etc.

Tying: we can say pure tying for when the products can be obtained only together, or mixed tying when they can be bought separately too. Unpopular plays can be sold by “tying” season tickets in the theatre for a while. With mixed tying, of course a normal ticket can be bought besides. In the case of a smart combination of matching products packing them together is justified. Shower gel packed with a sponge was the most popular tying in 1998. Tying is illegal if the competition is significantly decreasing, or it can lead to monopolization.

Private label popularity is determined by the following: *“What more can I get for my money from the branded product, than from a retail brand?”* In some categories the manufacturers do not follow the changes in demand. They are creating confusion to customers sometimes with meaningless moves. The private labels become plausible this way. The first and second generation private label is characteristic of saturated and declining markets.

This step is achieved when:

- **There is a non-relevant brand:** no distinguished emotional connection. Private labels are creating concurrency mostly to those brands which have no compatible characteristics.
- We have **many competitors**.
- **Risk of delisting** is very high.

This way: the enlisting is secure, good placement *“one can see Aro liver paté all the time”* is sure. Supplier has no marketing cost territorial distribution can be achieved without a huge logistics team. But rise in prices can be achieved only after proven cost increase (audit invoices) and continuous retailer quality assurance for sure, so the supplier will not produce a lower quality product instead of price increase. To the consumer, it means no product loyalty, but rather shop loyalty. In Western Europe many retailers have their own production, and factory, e.g. SPAR-TANN. Spar has a meat-packing plant in Bicske, too.

We also have distributor trademarks, in the internal language of some retailers. In Real supermarkets, the pretzel distributed by Asix is called Asix Pretzel and also advertised as such. When we have a chance to identify the retailer, we can differentiate two types among the retail brands. **Spread retail brand** is when the brand is advertised on the whole surface of the material, so the product is dressed up in the brand's uniform, e.g. Tesco. **Retail brand is not mentioned**, or not emphasized.

A name different from the **retail brand** is developed, which is distributed only by them e. g. Tesco clothing, DM – Balinea, Sárkány and Pannon Gold beer supplied only to Spar and Metro, Arany Hordó beer supplied only to Penny Market. It can happen that the original brand name is kept and the retail brand name is written next to it co-packing.

Regarding the price stairs the following **retail brands** can be defined:

First generation. Cheapest in category, in other words, lower or first price retail brands: they are positioned on a low price and the cheap image of the given supermarket is enhanced, e. g. Tesco Value. Customers will compare the first price retail brands with the trademarks and if they can not distinguish any difference they will choose the cheaper one, usually the “B” category products. Sometimes no-name products, first price products or seasonal products are cheaper because the retail dealer will not risk its reputation. It is not an evolution but a survival tool for the manufacturer. Many companies plan for the time when their product will be taken over by a retailer.

Many manufacturers use first generation retail because they have no interest in endangering their higher quality or more expensive brands. Another case is that even if the profit is low, the excess capacity can be exploited and no one wants to give up high volume market share to one of the competitors.

Second generation. Middle price, retail trades: products for special needs having some benefits already, e. g. Tesco standard, which means “*Quality at a low price – 20% cheaper than known brand*”, Coop Euro. Of course this me-too product gives a discount to the customer and at the same time increases the supermarket's trade value! A huge number of markets are dominated by one manufacturer, there is no competition fight, and the manufacturer neglects the lower price segment. First the retail dealers will observe the gap and will decrease the price of their own products, which is not always the cheapest. In the developed countries sometimes they get into finance of the manufacturing because one small or average company is not able to buy the expensive production lines. Tesco in its Central-European cooperating program is making

regional contracts to supply its own brands. Hungarian product can be sold abroad this way. Tenders will soon be announced by the London head office.

Third generation. Premium brand with retailer guarantee, Tesco premium, Metro Quality. It gives a separate value to the retail brand in the category and it is also highlighted on the packaging. The co-packed goods are exclusively packed for the retailer, and two equal brands thus help each other.

Fourth generation. Image builder, innovative retail brand. Those retail brands which are the best in the world, first or second R+D generation advantage in category. DM Babylove baby cosmetics and diaper brand won several quality awards in Germany. Strong brands and high price presence helps the given supermarket chain's quality image.

In the 2003 GfK Marketing Institute research on the different brands turnover the highest rate was for milk powder 50%, tissue 43% and Kleenex 42%. Regarding the supermarket types in first place were the discount supermarkets. 25% of the turnover of Penny Market, Plus and Profi came from their own brands. In second place were the local chains like CBA, Coop and Real, in which 19% came from their own brand.

4.4. The Growth-Share, BCG matrix

Based on product life cycle in practice, products are divided into three groups:

- Goods with a possibility for growth.
- Goods with a saturated market.
- Declining goods.

Boston Consulting Group, a consulting company, worked out the classical strategy approach in the second part of the 1960's.

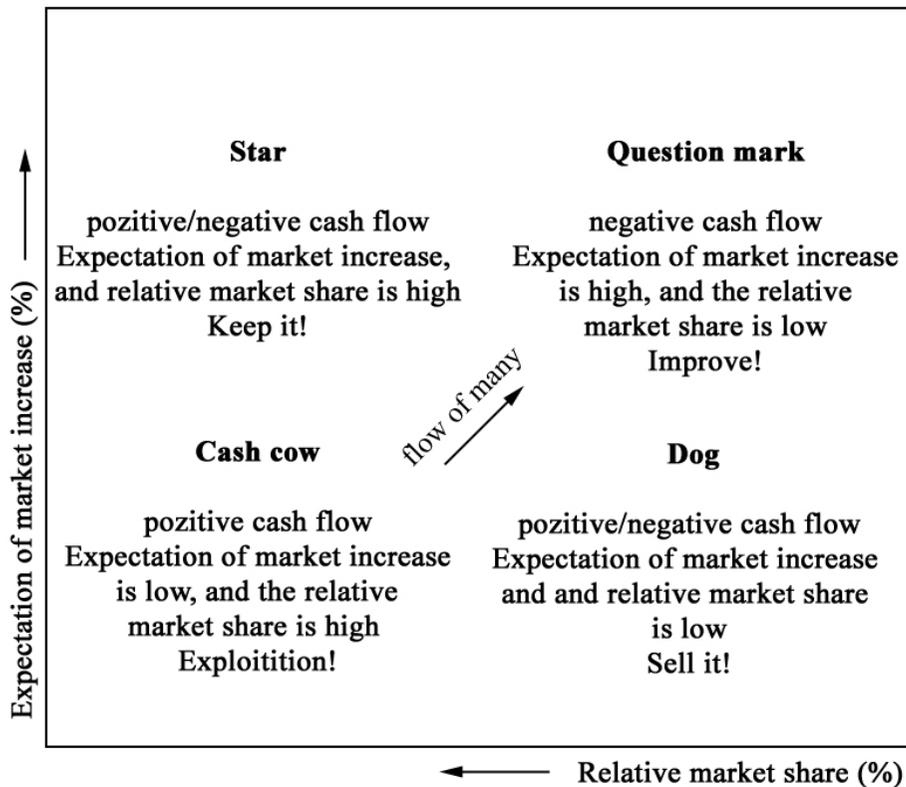


Figure 6. The BCG matrix

Source: Henderson, 1960

Its aim is to show the strategic location of a product on the market. It is based on the frame of reference. On its horizontal axis we placed the relative market share – our turnover benchmark compared with our competitor which had the biggest turnover – and on the vertical axis we located the expected increase of market share – turnover of all competitors. If our relative market share – our present turnover – is equal to the biggest competitors, we write “1”, if it is a quarter “0.25” and if it is double, “2.” The expected market share goes to the “good” position at 10% value, and under this rate is termed “light.” We have to spend money on it: negative cash flow; it produces money for the company: positive cash flow.

On the BCG matrix, strategic business units are located – with a little exaggeration, the independent accounting unit in domestic agricultural practice – respectively brands. Therefore, it can be used for two kinds of illustrations. Two different units of a company or the situation of the given brand can be compared. Beside the goods which are basic necessities of life, it is worth it for a company to develop one or two novelties or high quality products.

5. DIFFUSION THEORY, ADOPTION, INNOVATOR AND LOYALTY LADDER

5.1. Novelties

The concept of diffusion in marketing means the spreading of novelties the saturation of the market with a new product (Rogers, 1962). The market tolerates the introduction of a new product only in a case when the product is considered to give more or something different compared to those consumed before. According to Philip Kotler, **three categories of novelties** can be distinguished in terms of to what extent they contain new solutions.

5.1.1. New product innovation. The product is quite new in its specification, which means it is considered to be new by the market and the company. According to Spiegel's explanation "*the market consists of digs, cabinets, market opportunities, of which some are empty, and others are crowded by joint tenants. In the case of product novelties, a firm moves its product into an empty cabinet*". Product innovation raises excitement on the market and inspires people to try it. Those novelties which mean not only apparent, but real and living additive value are market creators. They open new horizons and rearrange consumption with revolutionary methods. The market breaks up and a brand new product category evolves. For example, the category of energy drinks has been created in Hungary by Red Bull. Such an evolutionary change would take over the whole market, because competitors can not afford not to carry similar products in their selection. During the launch phase, market leading products compete with whole product categories. Recognition of these products by the customer is usually quite difficult, because it means the purchase of a new product: there is nothing to compare with.

Extensive problem solving is a complex process, in which the consumer has to recognize and evaluate numerous distinct products. This is hardly ever done except by those who are especially interested in these products. Following the principle of restrained rationality, people usually seek for obvious solutions and thus often settle for less than they really could have.

At first sight people usually compare the novelty to something they know. If they hear about a new apple variety, then they imagine the **category king** (Jonathan) and compare the characteristics of the new product with it. If they hear about a refrigerator, they imagine a

refrigerator and correlate with it. They have a much harder task when there's nothing to compare to.

It may also appear that the fiasco of the first attempt to understand the product results in proud resistance instead of a second, further effort.

- It means procurement with a new purpose from the customer. Simply speaking, the demand has to be raised; it has to be proven that the problem which the product solves is important for the buyer. The advertising of these products is usually grounded in the explanation of the *unique advantages offered (USP)*.
- According to the survey of the American market research company, MIS, in 1997 only 6 % of the packed consumer product novelties were true novelties.

According to the 1997 survey by Nielsen and Ernst & Young, only 2.2 % of 25,000 new products were real novelties and only 20 % of them proved successful after one year. The novelty which forms the base of the new product category means great technological and financial risk for the producer. Many of the real novelties are not new in technological terms, but only a new market niche for an older product. This is the “**Walkman strategy**” of Sony, when the firm transformed its existing cassette players so as to open a new market. The tape player which could only play songs and be fastened to the belt not only almost failed in the crossfire of the Japanese press, but it was forced into a long litigation by a German firm whose patent had been registered somewhat earlier, but never released on the market. According to advertisers' observations, real novelties displease people by destroying part of their previous knowledge they have to make a huge effort to reconsider many things. In this case advertisement psychology advises linking new product to some kind of existing knowledge from which, when started, the advantages can be deduced.

5.1.2. New brand, a new old product. It means novelty only for the company but not for the market. This means that the company would like to break into an existing product category, and defines its product in light of an existing product. using Spiegel's example: “*the firm moves a joint tenant into occupied digs*”. This is the consecutive, exploratory development, further development, when consumers buy the original product, but they are not fully satisfied with it. The problem is well known, there's even an acceptable solution, but we offer a moderately better one – cheaper, more practical, simpler etc. – an improved version. **Limited problem solving**, because customers have to learn less in connection with a new brand, since they already know the category and they have the possibility to compare the new brand with a product they used before. Advertising emphasizes the comparative advantages of the product, because it can be placed in some already known category.

5.1.3. New model or package unit. Pleasant and appealing launch, but only a minor novelty for the company or the market. It can be instantly recognized that it is only the complement or deepening of the assortment of the company. Customers have no problems testing it, since it practically means re-purchase. **Routine problem solving**, because it is easily comparable with former experiences and many similar products, e.g. the pocket-size bottle of Unicum.

American supermarkets sold 17 % more strawberries when they were offered in two different sized packages. Horticultural varieties unfortunately lose their favourable characteristics after time. Strawberry varieties are changed in California every 8-12 years. In fruits, "sweet" varieties are currently fashionable.

5.2. The Process of Consumer Adoption of a Novelty

The sociologist Albert Bandura described the **steps of learning** which can be observed in society (Bandura, 1977). Adoption deals with the steps of consumer decisions accepting a market novelty. The number of people, their characteristics and the time they spend on different steps is usually examined. Useful conclusions can be drawn from the analysis of how people go from step to step. Decisions are made between steps. Components of these decisions and the aspects of such decisions also lead to useful experience.

Table 7. Steps of adaptation

5.2.1. Pre- contemplation phase	5.2.2. Awareness phase, recognition of need and problem	5.2.3. Interest, knowledge seeking	5.2.4. Final decision, acting	5.2.5. Acceptance, adoption	5.2.6. Affirmation
→	→	→	→	→	→

Source: Bandura, 1977

5.2.1. Pre-contemplation phase. The customer does not know our product and does not even know what problem it can solve. However, he can be affected by the problem and the given product can mean a solution for him.

5.2.2. Awareness phase, the recognition of the problem and the need. This phase begins with the awareness, the recognition of the problem's importance:

“*purchase does not begin in the shop!*” The customer already decides already at home what he needs in general:

- People only pay attention to a problem when it appears before them, it is recognized and becomes important – for example, exam period is starting soon: “*We need something stimulating and tasty!*”. According to Albert Bandura, this is awareness. **Teaser campaigns** exist to prove the importance of the problem.
- **Latent demand:** exists only in theory, because its satisfaction is obstructed by something, e.g. the lack of a technical solution, for example, the demand for mobile phones in the 1980’s. People would not have even been able to verbalize this demand, but as soon as cell phones appeared in the market, many people instantly recognized that they needed them.

According to one survey, we generally consider for 60 days before booking a trip, but even in the case of the simplest household-goods, like toilet paper we used to think for five or six days if we should buy or not. Mass advertising has a great importance in this phase.

According to Philip Kotler, the phase of problem recognition consists of two parts:

- The first one is **confusion**, when the customer has heard something about the problem, or seen it, or possibly he mixes it up with something similar. This is spontaneous evocation, or recall, e.g. “*Please make a list of what banks you know.*” This time the customer knows the problem that the product solves, but does not consider it very important.
- The second phase is **familiarity**, persuasion, when he does not mix problems up fundamentally, and even has a “positiv” or “negative” opinion about them. The first impression, the first meeting from the aspect of a product is just as important as in any other phase of life. This is why launch has critical importance.

5.2.3. Interest, knowledge seeking, and then the “exploration trips” (evaluation, consideration). The problem grows more and more important and people finally decide to solve it, and soon they enter a shop (door openers). In this phase product or products are placed beside the problems to be solved. As the importance of the problem increases, e.g. Christmas is coming, **mental trial** appears, people get ready to spend money, which can be work or pleasure). This kind of customer is the “fence-sitter”, the “hesitator”, who checks the price tags,

but does not buy anything yet (tagalong). At this time the customer “tastes the product with his eyes”. In this monitoring phase the customer knows the product but does not buy it. The concept of “possible consumer” is also known. It can be supposed that he will try the product. Such are the people who consume other brands, or who presumably have the demand and interest to solve the problem, but do not know the product well enough to come to a decision. Nestlé hands out Cappuccino sample bags at the entrances of universities in the first week of the exam period.

Fundamentally, people get product information from two sources. Nelson described in 1974, that people seek information before the purchase of expensive products while they are trying out and experiencing cheap items. This time the effect of advertisements is extremely different from that of the awareness phase or the pre-contemplation phase.

Purchasing funnel, see Figure. Most customers do not even know exactly what they want to buy when they enter a shop; they are only looking for a solution to their problems. There is a general demand – they are hungry, their fence is rusty, some present has to be bought for mommy etc. – and they are looking for the answer, the specific offers. To solve the problem, they take many products into consideration and in a funnel-like manner, they constantly narrow the range of possible solutions with the *“I like it, but there are some better”* explanation. Often they are faced with a broad selection and have to narrow it – in which brand names give them a hand. Aim: the product has to enter the sight of potential buyers, into the consideration set, to make contact with the target group. The customer is lost for the company who has no opportunity to make contact.

The **majority of customers** enter the shop with a relatively broad spectrum of demands. At first all they want is just to look around. In the case of self-service, such a visitor just glances around! The “visitor” just takes a look at the advertisement and the product. The “interactive” holds the product in his hand and often asks some questions, too. The “buyer” puts the product into his shopping basket and buys it. The job of the shop assistant is to identify the level of interest and help to narrow the range of potential products. First, the buyer has to be left alone to develop demands. The examination of the mentioned alternatives, especially at the end of the process, is very illuminating. For example, in the year 2000 in the US, 93 % of those customers who actually bought a Mercedes had the brand as their last two alternatives. This firm had to get 107 potential buyers for 100 sales. But Isuzu, which had the weakest performance, had to get 1300.

The prime time and point of communication is the time and place where the customer and the target group not only let someone tell them about something,

but they are even seeking information. For example, many books are published just before December and Christmas.

According to market data, customers need at least **10-15 days to decide** which item they would like to buy. Products have to be displayed three to four weeks before the season starts, because that is when consumers begin to explore the selection. Prime communication points are traveling on the underground and waiting or stopping at a red light, when people read almost anything just to make the time pass.

The Express classified advertisement newspaper has only intentional customers. People only buy this paper when they have a definite aim to purchase something, or they would like to explore a market they are interested in.

Optimally, seeking means joy: fascination, when people admire something from the outside, seek information; they study the product e.g. the circle of admirers of expensive perfume brands, wines, sporting equipment, flowers, and computers.

5.2.4. Final decision, acting, implementation, risk, trial! People finish, stop picking, choosing, and seeking “deal closers”, and give themselves permission to purchase. In this phase, the aim is to make the customer feel that he/she has achieved his/her goal and won after the long period of seeking. Customer penetration shows the proportion of people who bought a given product in the given period at least once.

People act when two conditions are met:

- **Outer conditions**, incentives should lead in the direction of trying out the product (incentives, affirmations, impositions). Reactions of the environment to the deed. A food wholesaler from Jászág placed more expensive Balaton wines on his list. They didn't sell until Christmas, when many people tasted them and from then on, they sold quite well. Social effects should lead in the direction of the deed. There should not be environmental factors which obstruct implementation, e.g. the product should be accessible in the region.
- **Inner conditions**. The customer should think that the advantages gained by implementation exceed the costs. There should be an inner driving force! The customer **should possess the necessary conditions** to act, e.g. money, knowledge, and cultural background. The act **should not contradict** either the customer's lifestyle or values which are important for the customer. According to the results of American surveys, more than 50 % of the behaviour related to health issues is explained by self-efficacy. The customer **should think** that his/her

environment will react positively to his/her actions (Abusabra–Achtenberg, 1997).

The role of personal sales and point-of-sales marketing and the shop staff is very important in this phase. There are certainly new customers who try products because they are afraid of being left out of something and lagging behind the others e.g. information technology and fashion. Apart from SRC, frightening the customers is forbidden in the advertisements, however avoiding “lagging behind” is the message of numerous ads.

In the case of some products, the implementation phase is further divided. In the case of **tourism there are five parts:**

- Waiting phase, before travel.
- Journey – event: the trip itself can bring many experiences and hardships as well.
- Experiences in the target location.
- Going home.
- Memories, reactions after returning.

5.2.5. Acceptance, adoption, the maintenance (Bandura, 1978). The customer has repeated the use of a novelty at least once, has found the trial successful and returned to the product. In this case, favourable personal opinion has been formed in connection with the use of the novelty. The basis for this is the after-purchase evaluation. In the optimal case, the trial is followed by exploration and the exploitation of possibilities. The “neophyte”, beginner, and inexperienced customer is often curious about the performance limits of the product and over-adopts it, like the 12-year-old boy who registered several hundred e-mail addresses to his first mail list. Mainly young people are characterized by the need for exploration and the pursuit of the limits of a novelty.

5.2.6. Affirmation, when the customer receives further information about the already adopted product and reconsiders her/his former decisions. The situation is “integration”: the loyal customer gives the product a regular place in his/her life e.g. registers only the e-mail addresses of those persons with whom he/she wants to be connected. The aim of marketing is to render the product part of people’s everyday life, namely to achieve the target group’s loyalty to the product. There are some product categories where replacement purchase plays a key role. In the case of durable goods and agricultural machine novelties, the target group buys the new product, but then the turnover decreases, since the obsolescence of these products takes a long time. Market research used to differentiate between the expected turnover generated by first and replacement purchases.

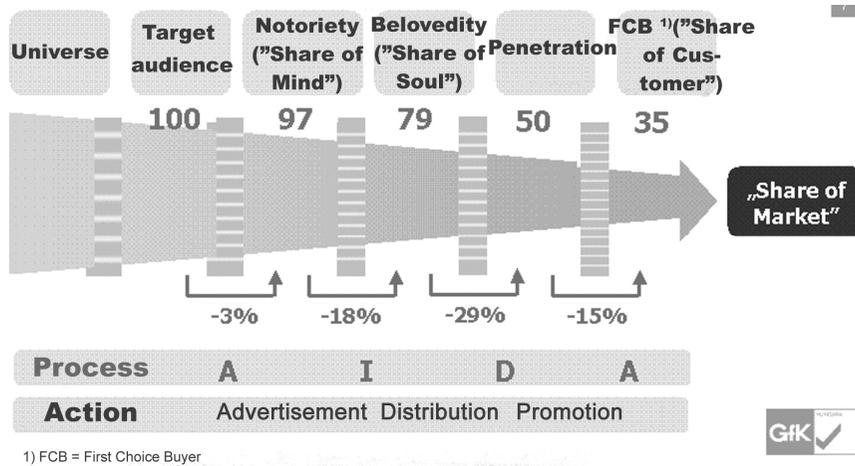


Figure 7. Target to share of market

Source: Bandura, 1977

5.3. Traditional Classification

Diffusion theory explores how people approach novelties, at what pace; and in what waves they accept strange phenomena (Rogers, 1962).

5.3.1. Innovators, the maniacs, novelty fans. Positive devotees of innovations in an extreme extent. The creation of novelties brings them pleasure, but the use of the new products is a boring routine for them. Obviously, ordinary means nothing to them. Dealing with unknown things is part of their self-image; they want to be distinguished from their environment this way. They like it when they precede others in gathering knowledge. They are the most informed. They make up a small, almost unnoticeable 2-5 % of the society:

- They know and apply novelties before the rest of the society.
- They have a one-way effect on their environment.

Not always does the inventor or the first one get the benefit! It takes time while the inventions come into use and their favourable effects spread in the society. Most of the successful products were inspired by existing but less prevalent market attempts. It may appear that the pioneer paves the way for someone else.

According to Paul David, economist at Oxford University, **40 years** had to pass until the effect of electric energy – invented in 1880 – became perceivable in economic efficiency. Around 1920 came the time, when half of the American industrial companies utilized electric power and completed those transformations which the new technology required. A

theoretically accepted novelty meets numerous doubters in academic circles, and possibly fades away or waits for centuries until someone confirms it.

“The early bird may catch the worm, but it is the second mouse that gets the cheese.”

Paul Saffo, California Institute for the Future

5.3.2. Early adopters, fast followers, professional users, the early minority the early users. They represent 10-12 % of the society. They are not the first in adoption of novelties, but they precede almost everyone (second movers). They think their duty is to try novelties from which they expect interest and excitement. They sort out the usable. **Style-formers** provide society with indispensable initial evidence and trust in the sale of a new product:

- They are usually recognized as respected people.
- Communicative personalities who are socially active.
- They are better characterized by imitation and “sniffing around” than research. They do not invent new things but they quickly recognize the possibilities which the novelties provide. They have above average skills in the specific field of the novelties they use. Many firms register the early adopters who are alert to novelties and take their opinions into consideration.

How can they be found and convinced? They should be rewarded through their interest! At Segasoft computer game trading company, players who register at the firm for \$50 can exchange their gaming results above a given score for a price discount.

The **myth of enterprising inventors** is quite attractive, but not typical at all. Many innovators are famous for their horrible business sense. The name of Gutenberg remained because he was mentioned as the father of printing in a written plea of one of his credit lawsuits. Christopher Cockerell, the inventor of the hovercraft, arrived at his invention with the help of a vacuum cleaner and two empty beer cans As a good English patriot; he offered his invention to the British Army. The authorities instantly classified it as a military secret and the inventor got some money and fame only ten years later. *“I have had a good life”* – he said when he was old – *“though it would have been nice to take my wife out to lunch sometimes.”*

5.3.3. Early majority, slow followers. Approximately 33-34% or one-third of the society. These people await the accumulation of appropriate experience. Those who belong here, often take the role of “expert” or “authority”. They are

in a key position concerning the market success of a new product. They are sober-minded, steady, reserved people. They can not make errors, because if they did, their economic and social support would be lost. These are customers who are looking for constant, reliable solutions and are not much interested in the product itself. The latter are similar to the near-avoiders, who take risks only with a safety net.

5.3.4. Late majority, or sceptic late-comers, hesitators. Also 33-34 % or one-third of the society. They only adopt novelties after a great amount of persuasion, after the first three groups. The bandwagon effect is characteristic of them. They don't want to be left out; they think they belong to the mainstream; however they get to know the novelties later. They also tend to give up their habits earlier than members of the early majority group.

5.3.5. Laggards, outsiders of the given market: 10-15% of society. This group is often criticised, however nobody has rationalized this kind of critical approach. Diffusion does not mean judging people. Those who adopt every novelty at once, with no critical thinking, can be easily fooled. Laggards might also be an appropriate target group.

Survey results prove, however, that the concept of innovator has to be handled with great caution. Practically speaking, there is no distinguishable innovator type. This group is very heterogeneous and hard to characterize, and consists of many smaller sub segments. Income, age and social status are very important, but not exclusive factors at all.

In the mid-80's, a researcher from Hannover, R. Bucholz, surveyed the characteristic features of innovators in connection with **urban housewives' food consumption**. He distinguished six separate groups:

- **Prestige innovators** (14.8%) – They intend to raise their social status by acquiring novelties.
- **Nutrition innovators** (20.9%) – They are considered to be innovators from a nutritional point of view, but not from other aspects.
- **Almost innovators possessing innovative potential** (19.1%) – Their innovative skills are quite low, since their consumption patterns are just being formed. For example, they are too young.
- **Critical laggards** (16.5%) – They adopt novelties only after some time because they try to avoid the risks related to new concepts and things.
- **Imitating laggards** (13.1%) – They need the help of others to make their decisions.
- **People possessing low innovative potential** (15.6%). They are not innovators, and reject new nutrition patterns. Mainly elderly people.

Based on traditional classification, only the first two groups can be considered as innovators. Their proportion is markedly high, 35.7%, since this study is dealing with urban population. It has to be emphasized that often people are innovators in one respect e.g. food consumption but not from another point of view e.g. technical skills. And finally, it is also worthwhile to distinguish groups whose members are not innovators yet, but later can become innovators, for example, they are too young now.

5.4. Opinion Leaders

Certain people or groups can have more or less influence on the thinking of certain consumer circles or even on public opinion. Prominent thinkers and great artists are traditionally a bellwether for a number of people, so their opinion cannot be ignored by companies.

5.4.1. The opinion leader, trend setter, the “centre”. Someone whom people know, and who gathers knowledge in one area of life and transfers it to many others, e.g. certain sports stars, famous actors, TV personalities, journalists, and people who are the main members of certain social groups.

In every community there are information gatherers, like the information mavens who are driven to develop their knowledge and communication, but lack interest. Connectors are hunters of numerous and superficial connections which improve their social status. There are agents who want to convince others out of personal or financial interest. There are **monomorph** opinion leaders, who are recognised in a given subject like the radio presenter gardener, and there are **polimorphs**, who influence the society in several areas of life, e.g. Pálffy István from TV2: First he got an Audi for his personal use, and then he got a Jaguar, too.

People listen to others to decrease the risk of purchasing, to decrease the time spent looking for the product, to deepen their knowledge, and because of social acceptance. It feels good to be an insider, so many people follow opinion leaders subconsciously. There can be opinion leaders in all five of Rogers' categories.

On the other hand, the **reference group** is the group of influencing people, e.g. the Julius Meinl retail chain gave 1000 HUF vouchers to leading colleagues of certain insurance companies although they were not the ones who needed it the most. According to sociologists, the role of opinion leaders and reference groups is often taken by swarming. Swarming is leaderless and still coordinated, orderly action.

Power and influence do not always coincide. An old example: in the village community the priest has direct power only over the bell-ringer, but the priest's

influence is often significant. The reference group mentioned above don't have power over consumers either, but they can have great influence on them. The reference group can mean a behaviour guideline for those who belong to it or who would like to belong. They often reward those who behave appropriately and punish those who behave badly.

Three different **kinds of reference groups** can influence the behaviour of a person:

- Where the given person really belongs, he meets regularly, e.g. neighbours, colleagues.
- Where the person would like to belong, the group he dreams of belonging to, e.g. artists, athletes.
- Whose perspective the person accepts, he/she sees is realistic, e.g. a regularly read weekly paper.

The diffusion of opinions can be measured with questioning. The role of the opinion leaders is well illustrated by a classic experiment. Researchers visited the popular music opinion leaders in a given high school of an American small town, and used the questioning method to evaluate the new hits. They told them to discuss it with their friends. One record company later examined the hit lists in these cities. The songs that were voted best performed better than in the control cities (Shiffman-Kanuk, 1994). The opinion leaders could judge which song would become a hit, and they used word-of-mouth to spread good things about them.

5.4.2. Motivation methods. Companies use different motivating methods to influence opinion leaders and through them, the people. It is not enough if we say that our product is good, an expert/authority is needed as well.

- It helps to have published scientific articles by authors whose names are well known. This way the product gets impact points that help it to have a certain scientific “flavour”.
- Companies support (pay for) participation at conferences. Scientific information can be obtained this way.
- They help research, advisory and educational work with material resources.

5.5. Loyalty Ladder, Classification of Customers

Examination of the regularity of product use or repurchase intention is a market segmentation method. It is beneficial to know the composition of consumer groups, their characteristics, and expectations. The circle of regular customers of a brand might change. The proportion, and the composition of a brand's admirers 5.5.2., friends 5.5.3., and acquaintances 5.5.4. is interesting, no doubt. The number and proportion of "forsakers", "wanderers" and "changers" is also informative, and it also helps to know where they wander to or from. Based on this approach, the following classification is used.

5.5.1. Core consumer, who regularly buys only the products of the given brand. Nowadays the aim of most companies is not to acquire core consumers or clients, but to gain **committed, loyal consumers**. Figure shows, that the two are not the same. **Hostages (pseudo loyalty)** are clients who are loyal to the firm but not from their own will.

For example, they are in a no-choice situation. What's more, even the discontented or neutral, indifferent customer might be **loyal** if he cannot find anything better, or the product is of low emotional value, or the competitor's product is not significant. A "**hostage**" client can be lured away by the competitor if he breaks free of his situation. For example, I always drink coffee in the morning at a place near the bus station, but I change it if a cheaper or closer place opens up. I'm not loyal, just a core client. Bank clients are similar, because it takes a heap of work to learn all the new banking services, charging and replacing accounts, thus they are willing to forgive the bank for many things before they change. A part of those who consider themselves core customers can be pushed off by some actions, e.g. purchase incentives. The primary customer (First Choice Buyer) considers his product as his main brand, and he buys it every time he can. He shows an active interest and seeks the product, but in a hostage situation, or in the case of a competing novelty he also buys from the competitors. Loyal customers are passive however they have faith in the brand, commit themselves to the brand without seeking other solutions. According to cynics, loyal customers are half-asleep and awaken only to a crash, when they get nervous and doubtful and start to inform themselves. The loyal customer is highly appreciated, and the company should know his habits. Loyal consumers, advantages of trust: "three in one".

Primary market. Loyal consumers are willing to pay a higher price, since based on the long relationship, they understand the advantages of the product, there's no need to argue a lot and thus they provide a higher profit (high profit customer). In the case of a TV programme the loyal viewers are especially valued. They watch the programme from beginning to end, and the further episodes for sure, due to their higher level of interest. They tend to watch the advertisements as well. Even with a newspaper, regular readers are more likely

to pay attention to the advertisements. They surely will not be affected by the competitor's discounts and they are not going to change. They remain loyal even in a hard economic situation, too.

Influence market. The loyal consumer recommends and suggests the product. He is the "ambassador of the product", and helps a lot by "word of mouth" advertisement.

Future market, e.g. children consume only a little now, but later they are going to have more money. The consumption of children and teenagers is influenced by the amount of their pocket money and whether they save or not. In 2003, German children spent 1000 Euro/head via pocket money at their own disposal and purchase of presents which they influenced.

5.5.2. Formation of loyalty

Identified. He/she has become a loyal customer via the family or primary groups. Though there might be some doubts he/she feels bound, committed to the brand.

Rational. He/she compares through analytical reasoning his/her personal tasks and values with the advantages and disadvantages of the product. Such consumers are explicit individualists. Attention: everybody wants to be a rational consumer, but we face so many decisions that we are in an impossible situation. Thus, in the case of a product with lesser importance, generally the rational consumer is forced to make limited reasoning type of decisions too.

Image-partner. He/she chooses by the image formed from the company information streaming towards him/her. Such emotional connections might contain rational elements too, however these are psychological components. In our culture, such an opinion is a shame.

Not only the loyal user may feel very close to the product. Surveys in this field facilitate exploration of new possibilities and gathering more exact knowledge of the brand. Customers loyal to a given brand can be addressed in quite a different way than others.

Table 8. Profitability of consumer loyalty groups on the example of 83 American food retail companies

Loyalty group	Value of average purchase	Average frequency of purchase	Value of yearly purchases	Average gross profit of the shop on one customer
1. Top 20%, core customers	35 USD	1.5 weekly	2,730 USD	24.4%
2. Average customers	17 USD	0.4 weekly	354 USD	undisclosed
3. Cherry picker- lower 20 %	9 USD	0.1 weekly	50 USD	15%

Source: "Measured Marketing" Coca-Cola, 1995

5.5.3. Medium user, swinger. They are also called repertoire users, loyal to a brand set or category e.g. medium and premium products in the category, not to a single brand. Others call them rotating consumers. They are committed to the category, sometimes called "homo hybridicus". They consume four to five products of the category, and decide only in front of the counter which one to buy. It is characteristic that they pay attention to the given category, they follow the changes. Many surveys make the mistake of forcing an unambiguous answer from them. It has to be admitted that even within a single person, many types of consumers, many personalities can exist. A further example of this, are the everyday and exclusive kinds of beer and cosmetics. In the retail trade, split-shoppers make half of their purchases with us, and half with the competitor. This is the group that has the greatest possibility of being persuaded.

According to American surveys, more than half of those who possessing loyalty cards do not have only one card in their wallet, so they are typical split users, despite their name. In politics, "basis" is the mass of those people, who regularly and surely vote for the given party. A frequent mistake of politicians is that they become over-confident because they only move in the circle of their supporters. There have been some cases when the network of supporters, were assigned the role of strategy forming, and it proved to be too little during the campaign. In politics these are the "hesitating" voters who decide in the polling booth which party they would like to support.

5.5.4. Heavy user, volume user. An average customer of this kind might even buy more from a given brand than a loyal, or core customer. An average consumer who eats yoghurt four times a week, but consumes other brands might buy more than a loyal customer who eats yoghurt only occasionally.

According to observations, 15-20 % of the consumers provide 50 % of the turnover. One of the most important characteristics of retail trade is the proportion of stable buyers, the basis,

the core consumers and average users, who are supplied regularly with the given product. In the pharmaceutical trade, such is the “connected pharmacies”.

Members of the following categories are high risk customers, who have little commitment to the brand or product and are discontented with it to some extent!

5.5.5. Light user, bargain hunter. He buys only rarely and little amounts, however regularly. These are for example those who only drink a little wine at Sunday lunch. Their typical behaviour is bargain hunting. They are also called price-driven consumers. Their motto is: “*only the most necessary at the lowest price*”. They don’t want to find the optimum, only to minimize their expenditures. They buy more from a given, more expensive brand only in the case of price discount. The company can’t realize much profit on them. Some of them are driven by an ancient preying instinct and hunt for discounts, since they do not appreciate the whole category and do not even perceive the difference between the best and the worst. In 2005, one-third of the domestic sales were accountable only to the fact that the product was discounted. **Latent interest** is characteristic for them, because something suppresses their activity, e.g. lack of money, knowledge or experience. This kind of latent activity can be transformed to real activity via advertising campaigns or discounts. They vote for the least disagreeable party if they ever go to vote.

5.5.6. Occasional user. The so-called “tumbling customer” who enters the shop by chance, and “he/she disappears as he/she came in”, e.g. a German tourist at Lake Balaton, who always spends her/his holidays at different locations. Such are the followers of extreme fashions, who are quite unlikely to return to the same fashion soon. This kind of consumer is not inquiring, chooses the “most familiar” and “least risky” and wishes to be the least ashamed by his choice – if he even buys from the product. In most of the cases he is passive, not interested in the whole thing, he doesn’t even find it important to get the knowledge to make more precise decisions. He typically follows others’ advice and changes when he is advised. These people are neutral. Usually they aren’t interested in the brand, and often the whole product category is indifferent for them. Generally they don’t even complain.

In an American experiment, people were divided into groups and had to decide which line among three had the same length as a fourth one. The choice wasn’t quite obvious, but it could be determined. Some members of the group were people placed by the experimenters, and those people gave a predetermined wrong answer. 37 % of the real participants submitted and also gave the wrong answer.

Those people who only buy a product by mistake (lapsed users) belong here too.

These voters are not interested in politics and they do not even go to the polls. If they ever go, they will vote for the party their family and their close acquaintances voted for. It is worth it to pay attention to one of the sub-groups of the irregular users, the “trial-buyer”. They are the ones who try a new shop or a product. There might be some chance that they leave the former one and come over. Small, cheap and low-risk “trial-size” packages are worked out directly for them. The target group of large-sized packages (economy – relatively cheaper, but means a greater one-time expenditure) is the core customers.

5.5.7. Non-users. Due to some specific reason they don’t buy the product. With the saying of insurance agents “*who do doesn’t have it, and won’t even have one!*” Such an example is cola drinks, which contain too much sugar for some, or wine for the nonalcoholic. The market economy is a social system, where there are no products that people have to love. There can, however, be **active non-users**: activists who even take action against the product. For some, it is only a pastime: “go out and make a show”. There are also **moderate avoiders**, who resist passively and do not propagate bad opinion.

5.5.7.1. Self-critical frustrated. They have tried the product and had a bad experience with it. Persuading them is practically hopeless what’s more they act directly against the product. They’re like a peevish child. Their rejection is heated by passion, and the denial of their reasoning leads to further resistance. The efforts to deny their reasoning during the campaign are not profitable, taking more energy than the benefit they bring. Of course, the situation is completely different when these types are in an opinion-leading role.

5.5.7.2. Critical frustrated. Selfish anti-supporters the anticipated distrust. They also cannot be persuaded, but at first sight they are in a somewhat more favourable position. They are uncontaminated, because they have not made contact with the product. The base of self-respecting resistance is the failure of the first attempt to understand. The loyal consumers of competitors also belong here in several cases, as well as those who reject the whole product category, not the single brand.

In politics, this circle is called frontline rejection. People are asked therefore: “*Who is the person you would not like to see as president under any circumstances?*”

Steps of the loyalty ladder begin at the inquiry, then continue to the first choice customers and arrive at the core consumers.

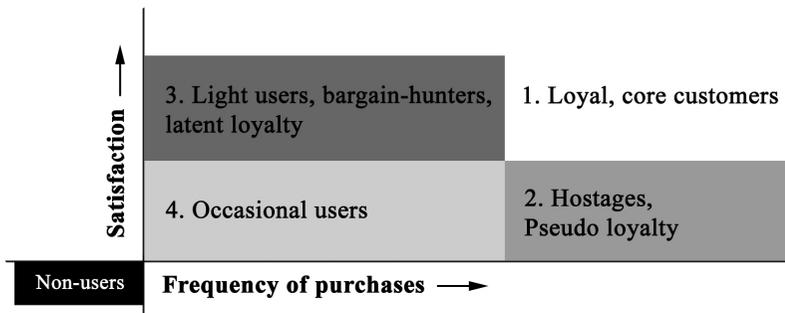


Figure 8. Satisfaction – loyalty matrix (based on TRI:M method)

Source: Burke, 1996

5.6. Classic Roles Influencing Consuming

Consumption cycle: time passed between two consumptions. The following roles can be distinguished:

5.6.1. Initiator – *“it would be so great, let’s do it...!”*

5.6.2. Consultant – *“I’m not involved, but if I were in your place...!”* For example, in the case of children the classmates who can laugh at one child. If you offer Tic-Tac to your buddies, they will think that you are cool. With teenagers, two things are extremely important: what their buddies think of them, and the support of the friends.

5.6.3. Decision maker, gatekeeper someone who has a deciding power at the purchase. Like the dragon type doorman or the secretary who blocks the road to the ever busy boss. The model of parents and family and their approval at decisions is important but the word of the children is becoming more important. The children’s culture is different in each product category – in the case of margarine for baking, only the housewife decides.

In 1998 in the U.S., children between the ages of 6-11 carried out \$25 million of their own purchases and directly influenced another \$187 million worth of purchases. According to Professor Blackwell, in the U.S., the word of children is decisive in 17% of car purchases and vacations. *“Children tell their good and bad experiences to their parents. Usually parents react to offences suffered by their children more sensitively than to their own!”*

Kind of family:

- **Autocratic family:** the child does not have a say in the decision
- **Indulging family:** the child decides everything. The power of the child is getting bigger because the busy parents do not have the time, nor the energy to argue with the child.
- **Single parents:** usually the child participates in the decision – because the parent is busy, and gradually the child needs to do more and more “grown-up” chores around the house.

Children like the following products.

- Playfully serious, the ice cream that colours the mouth with different colours or containing different flavour popping balls.
- It can be a subject of talk in the school during breaks.

5.6.4. Purchaser – *“anybody should go and get it – whoever does, becomes somebody!”* Usually this person decides the question of “where to buy”. In the case of the place of consumption, the mobility of the consumer is the determining factor. According to studies of the Glenmorangie company, 50% of whiskey purchasing customers buy whiskey as a present, and 50% of them are women. The company designed a label that both female and male customers liked. They left the old font type, used lighter colours, more graphic components etc. It is said that the customer involuntarily brings along his/her “shopping list” containing often conflicting desires, the demands of people in certain roles, the opinions of the person’s social milieu etc.

5.6.5. User – *“if it is already owned...!”* According to the experience of the KJS company, the housewives buy tablets of chocolate, and the children consume them. In the case of pesticides, growers sometimes do not prefer to buy low dose chemicals because they are not the ones doing the actual job, and the small weight/-high value product that is “pocket-sized” can be easily stolen. When questioned, they admit the advantages and modernity of the product.

According to practice, a **brand has three kinds of shares:**

- **Share of soul** – getting aware of it: who heard about it, foremost in the mind.
- **Share of market** (Share of Market) – in what proportion it appears on the market, in the stores, e. g. A.C. Nielsen.
- **Share of consumption/stomach** – in what proportion it is consumed. Getting into the stomachs: share of stomach, e. g. HSB Household Survey. It is not sure that the person who consumes the product knows the source or has selected the brand. Who knows from which poppy seeds grandma prepared the pasta (low

emotional value product? On the other hand, certain companies produce branded dog snacks, and many dogs have a favourite snack. In this case the dog is the decision maker, high emotional value product.

6. TRADEMARK AND PATENT LAW

“*Show who you are!*” is good advice. The logo and the brand are traditionally the signature, the distinguishing mark of the producer on the product. The reason why it evolved was that the producer was proud of his product sold on distant markets, where he had been unknown. Motto: “*A factory makes products, but people buy brands!*” According to professor Tomcsányi, 65 % of smokers are loyal to their brand, but couldn’t even single it out in a blindfold test.

6.1. Legal Protection of Intellectual Property

6.1.1. Copyright ©. Protection of individual and original work created in the fields of art and science. Artistic and scientific work = typically unique, subjective creation. The administrative tasks of copyright law are executed by the Hungarian Patent Office.

Copyright takes effect unregistered, as soon as the composer signs his composition and offers it for sale. **Artists** or artist groups working in the same field of activity or having a name that may be confused with others must alter their names by elongation or in some other way, if they are the latter arrivals in the profession. This obligation applies to them only in the case of expressed request from the first artist or group using the same name.

6.1.2. Industrial property rights. This kind of work is bound to a lesser extent to the creator, so it has practical use and can be measured more objectively.

The *TRIPS (Trade Related Aspects of Intellectual Property Rights)* agreement of the *WTO (World Trade Organization)* contains global industrial property provisions. It has been ratified in Hungary by the 72/1994. (XII. 27.) Act of Parliament.

The Hungarian Patent Office keeps an official list of applications (**® registered**). Industrial property law protects products based on creativity, innovation, and goodwill. In the European Union, many enterprises cannot afford the legal protection of industrial property. Thus, there is a 12-month grace period following filing of the application, during which the product can be tested on the market and make a profit, while the company does not have to pay. *MIE (Magyar Iparjogvédelmi és Szerzői Jogi Egyesület)* supports domestic small and medium-sized enterprises by procuring necessary funds.

Inventions and technical solutions: production processes and products can have the following industrial property status:

- **Public properties** - *one extreme*.
- **Undisclosed information** - the *other extreme*. Protection of business secrets. The most ancient form for protecting intellectual property. Even long ago, wise men expected to have an exceptional position for their knowledge. Know-how: undisclosed economic, technical and organizational knowledge, experience of considerable value.
- **Solutions** which provide protection for a specified period, product range and geographic location. Protection by patents or utility models, trademarks etc. a middle of the road solution.

Patent law. Patent = exclusive rights about producing and selling a new product to publishing in return for publishing the production secret. The inventor should publish the best use of the product, and this is available to the public. The owner of the patent educates its competitors. It is a frequent trick of plant breeders, to call the parent varieties “unknown variety” in the patent files in order not to provide too much information to the competitors. So, this information is compensated for by the legal monopoly of the competitor free period. Patent protection lasts for 20 years from the date of official application and can not be extended. Any extension would slow down the development of techniques and science.

Patent protection (CPVO), e.g. Petunia hybrid Surfina “Purple” PAT and Plant Breeders’ Right (UPOV) protection can be obtained for a new plant variety. Plant Breeders’ Right has a different content from a patent. Taking an example of general patent right, the inventor creates an invention and publishes its details only after gaining patent protection in order to prevent competitors from copying it. On the other hand the plant breeder tries to inhibit competitors from hurting him/her by using the natural self propagating abilities of the plant. Plant Breeders’ Right protection period lasts 25 years for grape and woody plants, and 20 years for other plants.

An **invention can be patented** only if it meets the following criteria:

- New: does not belong to the present level of technology and has not been available to anyone.
- It is based on inventive activity: not obvious even to experts.
- Useful for practical purposes.

The following creations can not be qualified as inventions:

- Scientific theory, intellectual plan, process.
- Aesthetic creation.
- Computer program, visualization of information.

Hungary is a member of the *European Patent Office (EPO)* so every patent given by the Munich center of the EPO is also valid in Hungary. Only one condition must be met: the owner of the patent must translate the patent into Hungarian. The first step of global patenting costs less than a few thousand HUF, and there are several funds and ministry subsidies where inventors can turn for support. There is a chance to postpone the deadline for

paying the patent fee up to one year. The inventor can do some business with the patented invention during this grace period and pay the fee out of his profits.

6.1.2.1. Industrial design, registered design. This is the trade “clothing” of the product, i.e. the protection of the product’s appearance made in order to achieve an aesthetic purpose. It is regulated by Act XLVIII. of 2001 regarding registered design. Every formal design feature can be protected this way, that makes the product unique and able to be differentiated – including design features not necessary for the use of the product, e.g. the shape of the VW bug, but not the handle on the tea pot. Design: outward appearance of the product, or a part of it that is created from its lines, contours, color, shape, texture, material and ornamentation. Its objective is to create a product impossible to copy without license. Industrial design is valid not only for the whole, but a part of the product also.

The application is published with the picture of the product in the Hungarian Patent and Trademark Courier for one month, in case someone has a counter argument against the application before registration. There was an enormous dispute in the Hungarian Patent Office about the square shaped “pogácsa”.

Counterfeit, copying: identical, equal quality copies. Counterfeit is a crime. Wholesale, transportation, and stocking of illegal product is also a crime. One important condition of criminal charges is that the counterfeited product have a value, today at least one million HUF in Hungary. An important sanction according to the wine act is publishing the name and the address of the guilty company. Other sanctions can be fines, destruction of the product and even plant closures. There are special protection methods of the producers, like building small signs or motifs into the product. Only the experts of the company can identify the fake products this way. Micro writing needs special printing technology and can be read only with a special lens.

Almost identical copying, imperfect counterfeit. Identical to the competitor’s product in looks, shape, and packaging so that it can mislead the consumer. The product clings to the competitor. Competition law protects only in the case of competing products. Hungarian Civil Law regulates this situation under paragraph 296, saying the competitor can not sell a product resembling another product without a permit. Any company selling product in packaging resembling the main characteristics of a previously introduced product is doing unfair trade practices.

A company introduced sparkling wine under the name Pompidou. The label of the product was so much similar to the label of Pompadour Champagne that even the printer mixed them up and sent the labels to the champagne company. The digestive bitter Zwack Unicum and

the Hungaricum of the Győr Distillery both have an equally round bottle. The only difference was that Unicum had a gold cross, but Hungaricum a gold X on the label. Zwack requested GfK Hungária, a market research company, to survey 800 people – a strong representative sample – and 80% of the respondents called Unicum Hungaricum.

The counterfeit is the **parasite of the identical product**. It is good enough to get market share, can undermine the market position of the identical product, and can cause financial damage to its producer. Goodwill, the good reputation can reduce marketing costs.

An old American anecdote says that an old time capitalist was asked what he would keep, his **factory or his goodwill**. He answered the goodwill immediately. He reasoned that he can build his factory within 90 days, but goodwill takes years. Some calculations say that selling fake products accounted for 9% of world trade in 2003. Several hundred billions of dollars are lost this way and make organized crime bosses rich. Immigrants frequently sell counterfeited products just for food and housing. Often fake products, like spare car parts, machinery, food supplements, drinks, and what is more medicines can cause direct harm to the consumer.

Classic Asian mentality. The manufacturer produces the contracted volume under license and transports it to the brand owner. He has a much bigger capacity, and produces more, but without a brand name. This overproduction is sold cheap locally, because a big part of his cost has already been covered by licensed production. Some of the license agreements limit the volume, forbidding further product without brand – and some manufacturers control second class quality production, too.

6.2. Protection of Product Marks

6.2.1. TrademarkTM. Marks to differentiate the product. Distinctive marks to exclusively differentiate products and services from identical or similar products within the product or service category (Act XI of 1997). The Czech Becherovka drink is protected with 15 trademarks. The protection lasts for ten years and can be extended twice (two more ten-year periods). A protected name can be used only with the permission of the owner. The owner can give a permit or license to use the name to someone else, but it is advised to register it into the trademark registry. The owner usually provides the license to after every product unit sold.

Calvin Klein sued the CK license user Wanaco, because they also put the Calvin Klein trademark on products which could not be proved to have been made by CK. The well known kiwi fruit is actually the Chinese gooseberry. Some farmers in New Zealand made up the name after their national bird, which is not able to fly. Now kiwi is a well known name

all around the world, with an annual consumption of around 800,000 tons, a quarter of which are produced in New Zealand. The New Zealand Kiwifruit Marketing Board has found a new brand name, **Zespri™** and registered it as a trademark because of large amounts of low quality kiwis and constant overproduction. Production and trading technology of the golden yellow Zespri Gold™ is protected by patent also. The Board has signed license agreements with wholesalers and nurseries to produce propagation material, and strict rules fix the volume and quality of the fruit which is produced and sold.

The **Trademark Act** classification has 34 product and eight service categories. The trademark is registered in the Hungarian Patent Office, which is a roughly one-year-long process.

They send it to Munich, to the **European Patent Office** in the case of international registration. It will be protected in the countries which signed the Madrid Treaty. The EU trademark system was established by the 40/94 EC regulation. The EU Trademark Office is in Alicante, Spain where protection can be obtained for every EU country with one registration. The Hungarian Patent Office can not register a trademark there. It must be done personally in the EU office. The EU trademark registration, which is expensive, costed more than 10,000 Euro, but was valid in every EU member country. There is parallel separate national trademark registration in every member country too.

Trademark infringement can be committed by both the producer and the trader. A customs alert can be requested at the customs office on the basis of the trademark act. The customs officers notify the requesting company in writing if they notice the given trademark in customs files, which points out the “grey imports” this way. The requesting company can ask for exclusion of the import or export of the given product. Therefore the papers of the problematic transports are usually in order, but something else is in the truck or the container. The Hungarian Association of Brand Protection says the importer usually defends himself by saying he had no knowledge about what really was in the vehicle.

Trademark infringement can cause non-property damage too. **Herend Porcelain Handicraft Works** had an employee who produced Herend branded products himself and sold them as originals. The indictment of the Metropolitan Jury claimed he “*greatly decreased the customer trust and good reputation of a product considered a national treasure*”.

The seized and confiscated products are destroyed or offered to charity. The brand, or trademark is usually removed and the brand owner suffers no damage this way. There are some funny cases too. Some years ago a shipment of towels spent years in the storehouse of the custom offices because the authorities had difficulties finding the owners of the rights of “Csőrike”, a child cartoon figure which appeared on the towels. And the Hungarian Charity Council was the beneficiary of a shipment of fake branded baseball bats some years ago.

6.2.1.1. Trademark that can not be registered. In a dispute, that company is the beneficiary which was the first in the market, and not the one which registered it faster. Usage has the advantage over registration.

The **misleading trademark** e.g. “Americanwear” jeans made in England. It hints of American origin, but it is not. The German Schöller Ice Cream Co. produced an ice cream sandwich under the name Manhattan Törökbálint, Hungary. They were allowed to register it, because it was made following an American recipe. The Samsung Co. tried to register the “organic” TV set. They argued that it was 100% rechargeable. Even Samsung’s advertising agency, Bates Saatchi & Saatchi, signed an agreement with them guaranteeing to cover every risk with this name. Another Asian producer wanted to register the Chagal watch trademark. They argued Marc Chagall spells his name with two l’s. Written agreement is necessary an individual is involved. The jury usually decides according to the intention of the sides in disputes. The written permit of the Academy of Sciences is necessary in order to use well known historic names.

Slight name change = misleading, e.g. Heineken–Henneken, Hugo Boss–Hugo Bossi, IKEA–IDEA, Opium–Upium cologne, PopCorn–Coca-Cola, Panda children’s magazine – the Panda trademark of environmentalists, Nike Sport Co–Nike Spanish trading company (incidental similarity), a Levi’s Strauss–B. Strauss 501, Leve Strauss and Live Strauss jeans, Adidas–Adios, Panasonic–Panasoanic, Budmil–Dubmil etc. Usually, identical first five letters disqualify registration, e.g. Auva–Aiwa, Contact–Contacta, Lee–Lee cooper, Möven–Mövenpick. Vodafone realized misleading V.fon trademark of Vivendi Phone a little too late, when a lot of V.fon clients called Vodafone’s customer service by mistake. The mistakeability test is used with visual trademarks. Different graphics and typefaces are important aspects of the decision. Local and international trademark research can be done in the computer system of the Hungarian Patent Office in order to avoid misleading trademarks.

No sign can get trademark protection what would be unfair to the competitors and is generally used and would hamper trade:

- Denotes the variety and quality of the product, like magnetophone, Roquefort cheese, Debrecen sausage.
- Shape originating from the character of the product, e. g. beer cask.
- Violates already existing rights of an individual, especially the rights to names and images.
- Indicates the objective of the product, e.g. tv paprika, “skin defender”.
- Generic word used widely in society, e.g. cellophane, Bakelite. Adidas AG was not able to prevent others’ use of the three stripes and McDonald’s did not win exclusive rights to the “Mac” prefix in foods.
- State, national and authority signs and religious or other belief oriented symbols. The written permission of the affected Government, the local

council or the Hungarian Academy of Sciences is necessary in these cases.

6.2.1.2. Whatever can not be offered for sale without the written permission of the trademark owner, even with the words like “formula”, “method”, “system”, “copy”, “variety” and “style”, e.g. salami made by the Pick method. Use involves the placing of a trademark on the product, packaging material, transportation and trade documents, and advertising.

It is allowed when the product is an accessory, or a fitting that can not be bought without the brand name it serves, e.g. seat covers for the Peugeot 307. Mentioning brand names is necessarily informative, but not more. A 2005 March EC decision deals with this problem. It is actually trademark infringement when a market vendor sells a different product of the given category from a trademarked package. Some years ago cheap waffles were sold out of premium Fundy waffle boxes.

6.2.2. Brand. Brand is a product differentiating sign, a trademark, without trademark protection, not registered, just used. There is a chance for legal protection in this case also. The “Neki” gym shoe instead of Nike is just laughable.

The **Hungarian Civil Code** says “Anyone who produces a product with a typical outfit, packaging, sign or name that resembles a competitor’s product, or a competitor can be identified, or someone buys such product in order to resell it, commits a crime punishable with a maximum three years in prison.

Brand name in marketing means *“an idea, an image, a meaning related to a product and created in the mind of the consumer and which differentiates the product from its competitors.”*

6.2.3. Types of brands / trademarks

6.2.3.1. Word trademark. Name created from parts of other words, like Postabank. *IBM (International Business Machines)* is not an example of an acronym, because an acronym is “an abbreviation consisting of the first letters of each word in the name of something, pronounced as a word: for example, AIDS is an acronym for “Acquired Immune Deficiency Syndrome” Frequent use of acronyms can confuse understanding. People can not understand them all. They need some education – advertising – to remember to their meaning. Abbreviations, like Budmil (Budapest, Milan), Főtaxi etc. Imaginary names, like Cocolino and Mercedes. Family names, like Herz, Pick, Dreher. Geographic names, like Budapest Bank. The sign, **I♥NY**, has been known since 1973 and was created as part of an identity program. The objective of the latter was to attract more tourists and investors to the “Big Apple”. This is the most

frequently copied communication idea, and its creator artist has also won several graphics prizes.

A famous copy was the British UKOK brand, which was a failure. Even the British people had to admit that not everything is o.k. in their country. The success of the slightly offensive FCUK brand is related to the public rejection of the UKOK identity program.

6.2.3.2. Figure TM, like the rainbow colored apple of Apple Computer, or the crocodile of René Lacoste, the tennis legend. This is written, drawn, or made by graphic arts, printed or made with other tools and visually identifiable communication form that explains its meaning irrespective of language, material and object, (MSZ 20582-85/ ISO 4361-1976). Its most important types are the following.

- **Picture TMs** – even a small scene, e.g. a nest with mama and baby birds – Nestlé.
- Michelin tire man, since 1890 – called Bibendum. Several Herend figures are also registered.
- **Emblem shaped letter signs**, quasi emblem, e.g. Siemens' old SH emblem.
- **Logo, brand identification**: the brand name with its special lettering, figure and slogan. Strong connections are necessary among the brand name, the figure, the slogan and the product.

6.2.3.3. Sound and music TMs, e.g. railway station loud speaker music, Family Frost. Harley Davidson could not get trademark protection for the special sound of its motorbikes because they could not put it on paper.

6.2.3.4. Number TMs, e. g. 4711 perfume, 8X4 deodorant

6.2.3.5. Color TMs. Heinz red, Kodak yellow and the Milka lilac. The German Federal Court decided that the lilac color is part of the Milka chocolate to the extent that other food companies can not use it on their packaging. The first Milka chocolate was introduced on the market by the Swiss Suchard company in 1901, but the cow on it was black and white. The lilac cow was first used first in 1973, and the Kraft company registered it in 1995.

6.2.3.6. Other trademarks (EU) can also be registered, if the most important visual features of the product, e.g. name, colors, figure, do not ensure effective protection:

- **Shape**, *three-dimensional (3D) TM's*

- **Container TM's**, e.g. Coke bottle, Tokaj Aszu and Zwack Unicum bottle, soup cubes the triangle shaped box of Toblerone chocolate, imitating the shape of the famous Matterhorn peak in the Swiss Alps.
- **Package TM's**, e.g. beer casks, French cheese boxes
- **Scent** – disputed, because the nose is an organ which tires quickly.

6.2.4. Well-known Trademark has special protection. It is nearly universal and is recognized automatically, e.g. Marlboro, Adidas, and Coke. A third party can not get protection for it, even though it is not registered in a given country. Its protection is not related to the class of product or service.

Ferrari initiated a lawsuit against a computer game manufacturer, because it used a rearing black horse similar to Ferrari's symbol to decorate the steering wheels and pedals in a game. The horse was a little bit different, a little bit chubbier, and had no flying mane. Anyway the Karlsruhe jury decided that the two symbols resemble each other. They said not the details, but the whole impression was important. This historic decision set the precedent that well-known brands deserve large scale protection in Germany.

6.2.5. Collective Trademark. One license holder and several licensees. This is a closed, club-like construction. Every collective trademark must have a code of rules fixing the common features of the products bearing it and the control method of its use. It is just a trademark family, or associated trademarks without control. One version of associated trademarks is the sign of producer country, e.g. *Gutes Aus Ungarn (GAU)*.

6.2.5.1. Certification Trademark. It proves the quality or other features of the product and is controlled by a quality control institute. The licensor can not use it, only give permission to use products. The quality control institute gives a written certificate that the product meets given criteria, e.g. *Kiváló Áruk Fóruma (KÁF)*, the EU "öko" label, the Austrian red and white "A" – used since the 1940's with "Ja zu A" advertising campaign. In Hungary FVM-AMC supports the "Kiváló Magyar Élelmiszer" certification trademark, which is a copy of the German CMA trademark.

The *International Pink Lady Association (IPLA)* has a certification trademark for the certified producers of the Australian Pink Lady apple variety. The stars substitute the kangaroo for the European producers. Only that quality Cameo variety apple can be sold under the American Cameo® trademark that meets the strict production and selling criteria of the *Cameo Apple Marketing Association (CAMA)*. It is a venture of the cameo producers in Washington State to keep the good image of the variety and to control trade.

Illustration 1. Pink Lady, Cameo trademark and the egg with crown**Illustration 2. Zespri and the trademark showing the M&SC potting soil standard****6.3. Protection of Trade Name and Goodwill**

Trade name is the goodwill, the good reputation based on a well known name of the company, which is spread in the market on a wide scale. It can be a **brand**, **trademark**, or **company name** registered in court. The company is doing its economic activities under a company name and this is what differentiates it from similar companies working in the same commercial area. Companies use the simplified version of the company name in its letters and communication. The company name is basically for the business partners however the brands and trademarks serve the consumers. Protection of company names is less strict, so bigger companies get trademark protection for their company name also.

The owner of the Belgian company Interbrew had an image problem with the “Borsodi beer” brand, because it meant a dirty industrial region for the people in the western part of the country. Some pub owners did not accept this beer because of the dirty image from the 1990’s.

6.4. Protection of Origin Claims

The objective is to protect special, regional foods and agricultural products with a simple registration process. Origin claims mean special product names with

quality, recognition, or other features derived to a great extent from its origin. This special product gets its name from the geographic area it comes from. Every producer who produces the product following the given description is eligible for this protection regardless of the company that initiated the legal process. It can not be licensed outside the given area. Specialty names and country of origin only partly belong here, but will be mentioned in this chapter. There are several regional products which are marketed in the world to such an extent that there is little relation to the native area, and they have become generic.

For example, **curry from India** (Madras State), **Dijon mustard** (France) and **pizza** (Italy) are “the gift to the world” of their geographic areas. Italy tried to protect the pizza name, but it was a great surprise that people in France consume two times more pizza than the Italians. The pizza is the most popular fast food in France, far ahead of the hamburger, the sandwich and the local steak fries.

Table 9. Categories of origin claims

Country of Origin	Protected Geographic Indicator	Protected Designation of Origin	Traditional specialty
Made in Hungary	Parma ham, Makói onion	Tokaj aszú, Feta cheese	Euroterroir

Protected Geographic Indicator and Protected Designation of Origin can not be registered, if it hints directly, or indirectly to another geographic region or does not contain a geographic name. It is regulated by the 1994 *TRIPS (Trade Related Aspects of Intellectual Property)* agreement of the WTO. The EU 2081/92 ruling deals with origin claims, the 2082/92 ruling with traditional specialties, and the 2092/91 ruling with organic products. Chapter five of the Hungarian trademark law describes Protected Geographic Indicator and Designation of Origin.

In Hungary, the law is administered by the *Hungarian Council of Origin Claims (MET)*, which has 15 members. Its headquarters is located in the Food Industry Department of the *Agricultural and Regional Development Ministry (FVM)*. The Hungarian Council of Origin Claims has a special Wine Origin Claims Committee. The registration of the accepted product description is done by the Hungarian Patent Bureau and published in the Patent Courier. The registration is published in the official courier of the *Agricultural and Regional Development Ministry (FVM)* too. The origin claim then is fixed in the Codex Alimentarius after registration. It is set down in the EU regulation that plant variety which resembles a geographic area, like Tokay or Oporto, can not carry that name,.

6.4.1. Country-of-origin shows just the location of production, e.g. Espana, or Cypria, and there is no registration. The product exported outside the EU can use the “Made in Hungary” and “Made in EU” label too. The consumer protection act says that except for foods, the country of origin is only required if the product does not come from the European Economic region. It is compulsory to put the name and address of the producer or trader on the product. Country of origin has **no relation to the quality** of the product, but several EU rules are linked to it. It was declared in the 2003 “made in the EU” dispute that the “made in Germany” label is a synonym of quality, expertise and outstanding engineering accomplishment, so now the EU and the name of the member state can be used also.

People **buy products from a given country** or region using the following argument (Philippidis-Sanjuan, 2002):

- Following tradition.
- Nostalgia about nature.
- Supporting the local community. 75% of product of Pécs champagne is sold locally in deli, food and wine shops. The remaining 25% is sold in Budapest. It was founded by Lőrinc Litke in 1859, and is the oldest champagne factory in Hungary. There is a cellar system consisting of several levels under the downtown area of Pécs. Aging of the champagne is done there, so it is a premium product.
- Looking for exotics, gourmands. Country of origin must be apparent when retailing produce. Origin can cause a negative effect also, so producers, and manufacturers do not emphasize it, or hide it in some cases.

There are some arguments about using the origin of the product:

- Distant relationship, e.g. Finnish products in Hungary, or American and Australian wine in the U.K.
- Historic relations, like Austrian products in Hungary.
- There is a frequent argument that the product is from its cultural world center, e.g. French perfume, Russian vodka.

6.4.2. Protected Geographic Indicator (WTO and EU list, local registry: patent office, PGI-2081/92 EEC). Following the 2005 EU-WTO Agreement, products from outside the EU can be protected this way also. It is important that the production or the processing is in the given area and it is related to the extraordinary quality of the product. The relation between the product features and the growing region are not obvious and can not be proven in this group of origin claims, as opposed to the Designation of Origin.

Examples: **Szeged paprika**, **garlic from Lautrec**, or **Parma ham** (prosciutto di Parma). The raw material is from a wider area in the last case. The ham masters produce the famous

Parma ham decorated with the crown of the Parma prince in the spectacular Langhirano village among the Appenine hills. Some people say the whole village has a ham smell because it is aged in the attics. Four kinds of palinka are protected in Hungary: *Szalmári Szilva*, *Kecskeméti Barack*, *Szabolcsi Alma* and *Békési Szilva*.

The minimum condition of getting on the Protected Geographic Indicator list is that both producer and manufacturer be registered. The European Court prohibits the retail chains from selling products having Protected Geographic Indicator in the packaging. In 2003 a French retail chain imported bulk Parmesan cheese and sold it shredded. An English chain sold Parma ham under private label that year, too.

The EU allows use of some product names only to some member states, but only when the given **technology and quality are certified**, e.g. the Italian grappa, the Greek ouzo, or the German korn. It is likewise with wines, e.g. Muscadet, Blanquette, Vino Verde, and Cava. Hungary has the name “**palinka**”, the use of which is attached not to a growing region but to a country and a given technology. The owner of the name is the Hungarian State. Four Austrian territories have the right to use the name and Rumania can produce “palinca”. Parallel with this, rum can be made only from sugar cane, and whiskey only from cereals, according to a rule that dates back to 1576. There is a special machine in Hungary which can show the origin of ethyl alcohol. A geographic word which is a generally used as variety name can not be protected, like tea, coffee, and whiskey (but Scotch yes), camembert, gouda, edam, and roquefort. It can be protected as Normandy Camembert, or Scotch.

6.4.3. Protection of Designation of Origin (PDO – 2081/92 EEC, WTO-EU list, local registry: patent office), e.g. Egri Bikavér, Egri Bikavér Superior, Debrői Hárslevelű, and Grenoble nut. The protection of Tokaji Aszú is similar. Classic examples of PDO are Bordeaux, Champagne and Cognac. It is more strict than the Protected Geographic Indicator. Only a registered producer or manufacturer can use Protected Designation of Origin:

- Production of raw material and processing should be in the given region and typical of it, e.g. “tokaj technology”. The region should be circumscribed. The “Kalocsa paprika growing region” was circumscribed in 1930, but does not have PDO.
- The product should be produced in substantial volume, extraordinary quality and traditional technology.

The wine origin protection agreement was signed in February of 1994. It protects the name of 437 Hungarian vine varieties and 1500 wine names in the EU. We protect 6000 EU wine names in return. The first official wine PDO is in Eger region.

The **Egri bikavér**, Egri bikavér superior and **Debrői hárslevelű** is protected this way. Wine with Egri name can be marketed only with the written agreement of the local wine authority and the most important technological processes are regulated in the local wine-code. Wine only from the given Hungarian region can be marketed under the **Tokaji name**. Italian producers need to give up selling wine under Tocai Friulano name, what is a local grape variety. The French Tokay name is from the name of a river in Alsace. Lazare de Schwendl retiring German general has brought the grape variety from Tokaj in the 1560s there, coming home from war. The French have given up using the Tokay name. The EU-Australia and EU-USA wine agreements provide global protection to Tokaj name, with Champagne, Bordeaux, Port, Sherry, and Chablis. Australian and US Tokay wine can be sold only locally. There is Tokaysky Furmint in Russia and the Ukraine too. The Tokaj Trading House sold around 15-20 million bottles of Tokaj wine to the former Soviet market in 2005. The export was around two million bottles earlier, but the 1998 ruble crisis decreased it to zero. The sales began again in 2003 with 100,000 bottles. Around 10% of the traditional Tokaj wine growing region is on the Slovakian side of the border. Now the quality requirements are the same as in Hungary, so they can use the Tokaj name on 565 hectares. The 2004 wine law requires the “Bikavér” name to be used only in Eger and the Szekszárd region.

What can not get PDO protection:

- A traditional product whose production has moved to other geographic regions and become a generic name, like Stilton cheese in England.
- A traditional product which has no geographic reference in its name, such as Serrano ham – the word “serrano” means “hill” in Spanish.

6.4.4. Traditional Specialty Guaranteed (TSG) means special features of the given product and traditional production technology, e.g. late vintage wine, “vin de pays”, calf raised on milk, and cattle raised in the open air. The Euroterroir (HIR in Hungarian) program handles collection of traditional regional foods and dishes. Its objective:

- Protection of special, regional agricultural production.
- Providing protected advantage to products accepted by consumers.

The difference between TSG and PDO/PGI is that there is no geographic indication in it. In Hungary, organic growing and integrated plant production is regulated by the 2092/91/EEC and by the 2/2000. (I. 18.) FVM-KöM order.

Table 10. Comparison of origin claims and trademarks

Protected geographical products and ancestry signals	Brand, trade-mark
1. Collective ownership	1. Private property
2. The customer conform to the product	2. The product conform to the customer
3. The accent is on the product	3. The accent is on the customer
4. Cheap tools for enterprises	4. Costly tools for the big enterprises

Source: Botos, 1994

Despite brands, the consumer adjusts to the product in the case of origin claims. The most important features of the product are fixed and it is not an objective to follow consumer needs with them. There are more and more wine brands and trademarks in Hungary. One of the best known Hungarian red wines in Germany is called Balaton. The “May Breeze” wine from Chile is an example from the U.S. A great success of the 1998 wine market in the U.K. was the “Fat bastard” wine with a hippopotamus on its label. Actually it is a French chardonnay. The slogan of these kinds of “fun wines”: *“Don’t over-think it; just drink it!”*

Illustration 3. EU symbols of origin claims (PDO, PGI, TSG and organic)



There are **other methods** to show the origin of a product besides origin claims. A University of Kiel study shows that 49% of the local Germans find out about origin following the “**SH Quality**” country of origin sign, 45% following the tradition country of origin, 17% following the name of the producer or manufacturer, 14% following the address of the producer or manufacturer, 9% following the shop signs and the advice of shop assistants and 8% by some other method. It is more difficult to increase the local image, if there is an internationally recognized brand, like French cheese, Italian pasta, or cigars from Cuba. **Cultural** and sometimes **politically supported stereotypes** are involved also, like German quality, Swedish humanity, the Italian temperament, French cuisine etc. Local German people in Kiel said they prefer local products because of better quality, short transit, and supporting local community (Alvenslaben–Scharer, 1998). The *Dolphin (Development of Labeled Products, Humanity, Innovation and Sustainability)* study covering several European countries demonstrated that knowledge of PDO/PGI is low among consumers. It was proven that people follow brands and trademarks, the name of the producer or the manufacturer, and even the advice of the shop assistant (Philippidis–Sanjuan, 2002).

6.5. Graphic Signs

“A picture is worth a thousand words.”

(Chinese proverb)

Pictogram means writing with pictures. Hungarian law has a regulation in Codex Alimentarius, paragraph 11 of the 1990 LXXXVI. act concerning unfair trade activities; it also contains some standards relating to graphic signs. Codex Alimentarius takes into consideration the EU regulations and follows the FAO-WHO Codex Alimentarius standards. There are two kinds of graphic signs.

6.5.1. Graphic signs for consumers. The objective is to pass on the message to the consumer quickly and easily, in an understandable manner. The packaging of Junior Plusz vitamin tablets has drawings explaining the effects of the vitamins. There are numerous recycling signs on products and packaging materials. Studies show that a product has 1.6 seconds to persuade the consumer in a self service shop. A further objective of graphic signs is to reinforce the essence of the message, and tell it in a small space. Another advantage is it communicates without language.

6.5.2. Communication to help transportation. There are signs on packaging to help shipping and handling, and to prevent problems and mistakes, e.g.  or , or the phrases “handle with care”, “fragile”. There is a thermometer on the paprika box showing the required shipping temperature.

7. BRAND – TRADEMARK TM MARKETING

7.1. Significance of Brand and Trademark Use

"If we are able to find a word for something, it doesn't exist!" – said Ludwig Wittgenstein. The language does not only limit what we say, but also what we understand. Two questions that need to be decided before the development of the brand are the following:

- Do we want to emphasize the advantage, origin or quality of the product?
- What do we want the target group to recognize our product for?

Brand: *"Separate knowledge or idea in the consumer's mind that is yours!"* is the definition of Al Ries for the participants of the economy. After the two positive answers, it needs to be decided who will be responsible for the brand: producer brand, commercial brand, license brand. This is easy, and complicated at the same time. The first planned brand name – later trademark – was the "Uneeda Biscuit Boy" of Nabisco that first appeared in an ad in 1904.

7.2. Components of Brand Image

A reliable and well developed brand has a complex meaning. It is not just a name. That can have three components – for the customer.

7.2.1. Authentic, identification components. Authentic: every product is identical and reliable. The authentic name is a helping hand for the consumers! It helps in the process of purchasing the product again and again quickly, comfortably and without risk. This way, the customer always gets the same value – *"I get the same whenever and wherever"* – *McDonald's Big Mac* – warranty function. The vendor gives the promise to the customer that he/she can consistently get the given set of characteristics, advantages and services. The *"loyalty capital"* developed during long years helps consumers so they are freed from the continuous everyday testing and detailed analyzing of different products and product variants. Brands decrease the burdens of choosing: the risk, the stress and the work. Even tourists feel better if they find familiar brands abroad. Traders feel better selling well known brands also.

In order to decrease uncertainty without brands, people tend to create brands for themselves when they are not provided with them. In the Soviet Union **the best quality soaps** were produced in factory number 19. These soaps could be recognised by the small lettering and gained higher prices on the black market. In Hungary it was the same with the Simphonia cigarettes from Debrecen, Kőbányai Világos beer in the green bottle etc.

A brand can be seen as an investment, based on earned and obtained consumer loyalty. Brand loyalty is a great honor, because the consumer commits himself/herself to the brand name. Brand loyalty is a bond between product and consumer following the promise principle of the name. *“Provides confidence in an uncertain world!”* The goal of the brand is not a one time occasional goal, but a continuous selling. The brand name protects the market position. In certain companies it reflects the famous founding fathers, e.g. Ford, Disney, Zwack, Adidas, Adolf Dassler, famous wine makers etc.

According to **brand function** there are several “symbolic road signs”, legendary, **icon brands**. The target group not only thinks of it first in the category, but it works as a common name, an etalon in the definition of quality, usefulness and price of other products. The expectations are higher in the case of big brands. This “fixed star” often becomes generally known as the first solution that comes to mind in its category; moreover, it becomes a **common noun** e.g. orange drink = “blonde” coke, Sidol, which has existed since 1930: sidoling (szidolozás), Közért: Községi Élelmiszerkereskedelmi Rt, Mirelit: Mezőgazdasági és Ipari Rt., Elit Terméke. They named a street in Hetényegyháza in honor of Piros Arany.

The original name of **“Közért”** was Budapest Székesfőváros Községi Élelmiszerárúsító Üzeme, which was established by the juridical authority committee of Budapest in 1911, to curb high prices. The food plant and its 50-shop network sold cheap meat and meat products and this way reduced prices without incurring legal action. It quickly became popular, and the product range expanded further. In 1948, extended with two more retail networks and with the meat plant separated, Községi Élelmiszerkereskedelmi Rt was established – “közért” in abbreviation – and its principal goal was to guarantee public supply.

Nowadays, the world is getting more and more complicated, and we should –rather, must know more and more products. The task is more and more hopeless, so we can only rely on our intuitions, instincts, previous experiences and faith in names. In 1992 in **Germany**, there were **2500 brands** fighting with each other for the attention of the consumer while the vocabulary of the average citizen was 2000 words. In 1992 in Germany there were 640 kinds of video recorders on the market.

Distinguishing, protecting function. The owner of the brand distinguishes his/her achievement in the jungle of the market. Therefore, the brand needs to be adequate in its qualities and features to be distinguished by a trademark.

Defensive trademark. Besides the actual trademark the company registers several similar trademarks as well, to make it more difficult to copy, and to avoid harmful consumer associations. The goal is the protection of the actual trademark. For example, they list the same trademark in different colors. The Minolta company logo is listed in five different colors, but with no other differences.

7.2.2. Emotional, communicative component:

- The trademark gives information-it communicates!
- Advertising function!
- It expresses the problem that the product solves, and the core values of the product.

Problem solving establishes and gives content to the brand. A good brand name expresses why the product is useful for the target group, and further, it generates desire. It was observed that the **brand sign** on the Internet opening page can only be positive if it does not contradict the goal of the visit. People are emotionally linked to various products: they like their favorite football team, magazine, or car brand.

The favourable value proportion qualities make up the **core of the brand**. People recognize regularly repeating characteristics in the product and they acknowledge the performance by excess spending. The good “clinging” brand is built on unique characteristics and can be understood easily, e. g. Puma sports equipment – of the quick-footed feline, Fiat Uno – was the number one mass car in Italy, Volkswagen – people’s car was originally designed for everyday use, Bear Cheese – the favourite playmate for children.

According to studies, it is not the length of the words but their understandability that counts. On the Internet, a **long URL name** e.g. everything4less.com means larger accessibility than the short, but not understandable version, the alias (e4l.com). The “*Cserszegi Fűszeres*” of Hilltop Neszmély won the Wine of the Year award in 1999 in Great Britain, although at the beginning they called it the “unpronounceable wine”.

In many cases there is no intention for the consumer to recognize the product’s producer or vendor. These are the **no name** or **generic brand products** where there is no use of brand names. The only advantage of these products is their low cost and of course a minimal quality. The product has the basic functions.

For example, the producer of many **Hollywood movies** is Alan Smithee. There is no chance for him to receive an Oscar, because in reality he doesn’t even exist. In 1969 they had to change the producer of a movie during the shooting of the film. The new producer did not even want to have his name on the movie. The motion picture trade union suggested to create

a fake name instead of the long and risky legal processes. Since then, problematic movies run under the producer name Alan Smithee. At the end of 1969, the above-mentioned movie was not a financial failure and received good reviews. In the case of actors, the fake name is George Spelvine, while for actresses it is Georgina Spelvin. The “*fantasy soup*” that we can sometimes have in restaurants often tastes good, but for some reason does not have a distinct name.

Negative experience, disappointment can be linked to the brand as well.

The Association of American Pensioners started using the abbreviation AARP in 1998 because for many potential members the word pensioner was unpleasant. Besides that, the name of the free monthly magazine is **Modern Maturity**.

“If the wine is bad, it is not a scourge on the wine maker, but on the person who is on the label”

L. Pavarotti, 1998, after refusing to give his name to any wine

7.2.2.1. Traditional consumer benefit denominations. Explain the product, e. g. General Electric, Burger King. It explains the goal, what the product is for, its basic advantages “*what it is better at, in what way it is different*” or at least the name implies it. These coded names which according to the “*talks little, says a lot*” principle condense the brand profile in one sign. In Hungarian, talking name, e.g. Traubiszóda, Vita Fruit syrup, Sweety sweetener, Édes Pista (*Strong Steve*), Édes Anna (*Sweet Anne*) paprika paste, Suzuki Swift, “aszú” which means dry grape, Csigavér (*Cool as a cucumber*) driving school, Hajtás-Pajtás (*Push it, Lad*) bike courier, Palmolive (originally palm tree oil based soap), and Nebuló candy – it was targeted at small children, but pensioners got to like it in the end. The emblem of insurance companies: rock (safety), umbrella (protection); bird nest with small birds and mother: Nestlé – which used to produce baby food. The white swan of Patyolat (dry cleaning company), the rearing horse of Ferrari.

Many horticultural variety names are talking names: Long Lasting Gustave is a Transylvanian apple variety that can be kept until May. The meaning of the Golden Delicious variety is obvious.

7.2.2.2. Consumption, usage situation based denominations. It illustrates this: how and on which occasion the product is consumed, e.g. Balaton red wine revives nice memories for German tourists.

Eskimo ice-cream has eliminated its red and blue striped umbrella because it symbolized the summer feeling of ice cream. The goal of **Unilever** is to make ice cream a more everyday delicacy, not just the dessert of heat-waves. **Fisherman’s Friend**, the very strong-tasting

candy, got its name because on the northwest coast of England the local fisherman had long been using its predecessor against bronchial maladies.

The problem with the usage situation brand names is that they invite competition. If the product is successful, as in the case of Túró Rudi (Chocolate covered cottage cheese), several other products appear, e.g. Csoki Túró, Sole Rudi, and Danone Rudi. Morning Drink was quickly followed by Morning Juice.

Nickname: what the people give to the product because of its use, e.g. paprika for stuffing, vitamin paprika, raisin corn, beef tomato, Durbincs (name of a fish) and brother-in-law cheap wine, which has been patented. By coincidence the brand name of Hajdú cheese sounds very good in the Arabian market. The word “hazsdu” in Arabic means “*the person who has been to Mecca*”. During Ramadan the product sells well.

Wine marketing knows the following brand names:

- Brand names taken from vineyards such as Gálbor, Moet et Chandon, E&J Gallo.
- Brand names from wine producing regions, e.g. Tokaj Kereskedőház and Egervin.
- Origin denomination, like Disznókő, Szarvasdűlő.
- Brand name borrowed from the market, as in Spar, Hilton, and Gundel.
- Brand name taken from a consumer, for example Durbincs sógor.

7.2.2.3. Projected associations. Denominations, that are not coined names – originally they do not mean anything. The adhered typical qualities and situations become generally known later on. For example, Coca-Cola is for young people, and that has been obvious since the end of the 1940’s. The good brand sign is not necessarily of artistic value. The graphic design of Coca-Cola was made up by Frank Robinson, the first accountant of the company, who had some graphic design experience. But we should be careful if the Managing Director pulls out his own pet emblem.

7.3. Affinity, social components. Provide information about the person who buys and uses it. A well-selected brand can make its user trendy, but a badly selected brand can be problematic. According to some, people buy a little bit for the identity the brand emits. According to the fans of the given brand, brand means quality, something worth paying for. Possessing it means status, gives self-confidence and is the precondition of success. The role model compares people to the characters of screenplays, where everyone has his/her own special

wording, props and costumes. For example the unique clothing, language and haircut of skateboarders are also backed with brands like Fubu or Vans.

“The fact is that consumers, not marketers, own the brand”

Schultz - Barnes, 1994

“Tell me what you buy/eat and I’ll tell you who you are!”

traders’ proverb

Lifestyle, modernity, richness, e.g. IBM. The user of the brand proves his/her commitment to the case for himself/herself and others. **Proficiency**, e.g. Felco pruning scissors. The user of the brand proves his/her commitment to the case for himself/herself and others.

Brand conveys values, e.g. skateboarders, Cosmo-girls, yuppies (Yuppy-Young, Urban, Professional and Protestant), eco’s, no cosmetics, no hair-dyeing, they ride bicycles, wear unbranded clothing, leather jewelleryes etc.

After its privatization, the name of **Gelka** changed to A.R.I. System Kft., because the current public mood, and the turning away from the old system required this. However, people soon became disillusioned with the system change, and a retro-period commenced, which demanded a return to the Gelka name. Not only the look of the company changed, while the firm started in 1960 with a primitive tube radio, in 2005 they also performed computer antivirus services.

Often the name of the brand addresses the customer personally, e.g. **Túró Rudi**, the periodical *Hócipő*, and Tibi chocolate. The legend of Pöttyös Túró Rudi (chocolate-covered cottage cheese rolls) goes back to the early 1950’s, when some Hungarian dairy experts made a study trip to the Soviet Union. They had seen a chocolate-covered dessert which was named Curd Cheese Eskimo. Based on this experience, the Hungarian Dairy Trust spent 12 years developing the product. The inspiration of the product’s name was Rudolf Mandeville – a popular supervisor of the dairy company – who is held to be the father of Túró Rudi. The name was given to the product by Sándor Klein, the expert responsible for the launch campaign. The original package design was created by two art-school students: what later became red spots had been originally heads of little girls with red braids. The launching campaign did not succeed, however. Béla Rajnai, a famous psychologist of the era, found the name too long, and advised Zaza or Titi instead. The leader of the advertising group of the *Hírlapkiadó Vállalat* – the only news publisher of the period – found the name immoral and filthy and refused to publish it. In the end, Túró Rudi was launched without any kind of advertisement. In the Mátészalka factory of Szabolcs Dairy Company the curd rolls have been cut manually and by measured by eye – in three shifts – for a long time.

What characterizes consumer denial of the significance of brands?

- They are proud to be smart consumers.
- Strong character, individualism.
- Denial of certain values of mass products.

Mistakes from the standpoint of social aspects:

- **Unnecessarily aggressive, pushy.** In one case, there has been a McZsolt's beside the McDonald's at Nyugati railway station. Some experts or inventors liked to exaggerate with names – One of George Stephenson's locomotives was named "Rocket" despite the fact that it could not exceed 39 km/h, and an average race-horse would surely overtake it.
- **Self-praising manner:** superlatives (unsurpassable expressions). Example: the advertisement of the Békéscsaba milk-discount: "*You can find the highest quality, the biggest selection and the best prices here!*" – it has to be proven!
- **Incomprehensible, disturbing.** Examples: "Hupikék Törpikék" (Smurfs) ice-cream, probably the only one who knows what kind of taste it has is "Hókuszpók", a character from the movie; Kleider Bauer Clothes Shop – every owner's name was in the name, but later it was abbreviated to RB Kleider Bauer. By the abbreviation of an over secured name, a tiny, unrecognizable "trifle" is created.

In practice, the greatest value of brand creation and image design is not the basic design of the brand itself, but the extended market research and product development activity which is performed before the creation of the brand. Based on the results of market research, the product and the packaging will be re-designed, the distribution reconsidered etc.

7.3. Brand, Trademark Equity

"The company that buys a brand buys the market!"

Trader's proverb

A good brand name has a value (brand assets, brand loyalty), which can also be realized in money. Thus, the brand/trademark is an investment, like any other economic activity in business. The many asset evaluations or estimation for the

sake of credibility and reliability are quite complicated processes and consist of different methods. Evaluation methods are as follows:

7.3.1. Comparison with a common product: how much profit is expected. How much added value and trust the product gets from the brand name.

The brand (name) asset can be considered with comparison with a non-branded, no-name product. Of course it varies greatly among the different sectors, e.g. with case of cosmetics it is very high.

7.3.2. Who has bought something similar on the market, and for what price? – Stock exchange evaluation.

Table 11. Value of several trademarks in 1992

Name of trademarks	Value of trademarks
1. "Herz"	180 bn HUF
2. "Egri Bikavér"	150 bn HUF
3. "Tungsram"	50 bn HUF
4. "Kemikál"	25 bn HUF
5. "Centrum áruház"	2.8 bn HUF

It is very interesting that the goodwill of Csemege-Julius Meinl, due to a corporate estimate, makes up 40 % of the corporate assets. In 2004, according to the calculations of Interbrand, a New York consulting company, the most valuable brands – based on their 2004. profit, role and expected profitability – were the following:

Table 12. Value of several trademarks in 2004

Name of trademarks	Value of trademarks
1. Coca-Cola	67.4 bn. USD
2. Microsoft	61.4 bn. USD
3. IBM	53.8 bn. USD
4. General Electric	44.1 bn. USD
5. Intel	33.5 bn. USD
6. Disney - 27,1	27.1 bn. USD
7. McDonald's	25.0 bn. USD
8. Nokia	24.0 bn.USD
9. Toyota	22.7 bn. USD
10. Marlboro	22.1 bn. USD

Source: Interbrand/Business Week, 2004

Nestlé, for example, paid £2.65M for the British Rowntree company, 88 % of which was the goodwill of brands. The high price can be understood if we consider that Kit Kat was also among the purchased brands. The evaluation of brand assets is a difficult task. In some cases it can be done in a simpler way: if it was recently sold, or it is registered on the stock market, quarterly financial report, balance sheets.

7.3.3. Expense method. For what price could the product could be introduced? Turnover in the estimated percent characteristic of the product group.

“In case of a product with a well-known brand, you need 36 % less advertising and public relations costs to convince the customer to try it than in the case of a product with an unknown name”

OC&C, London, 1995

An old rule is that marketing costs are approximately 3 % of the turnover. In the world of cosmetics, companies spend much more on marketing than is spent with basic foods, for example. The launch of a new brand is a very expensive process. On the German market, the launching of a new food brand cost \$15-25M over five years. But in the U.S., this cost is about \$75-100M, excluding production and R&D costs. However, it has to be seen that Procter & Gamble spent \$3.3Bn, Philip Morris \$3.06Bn, and Nestlé (Germany) \$172M on advertising in the single year of 1991. According to the literature, the value of the trademark makes up 0.1-10 % of the turnover of a given product. Profit calculated according to discounted cash-flow.

7.3.4. Complex indicator

Its target is to understand and to tighten the relations between the customers and the brand. Ogilvy advertising agency started a separate “brand-building” unit in 1988 in London under the name “*Ogilvy Business Network*”. Measurement of brand assets, **The 4+2 factorial, Media Edge model:**

1. The presence of the brand, familiarity level, differentiation. Do people know about it and to what extent?

- Familiarity, awareness, recall – I’ve heard about it, but I don’t know it, e.g. Mention some banks!
- First to remember top of the mind tip of my tongue? Top of my head?
- Supported recall – I don’t mix it with a similar one!

2. Consumer's satisfaction with the brand, relevance, fit to the target group. Relevance.

Simply speaking:

- Do they buy it and are they satisfied with it?
- Did they try it and buy it?
- Does it satisfy their needs? Is the user of the product proud to use it?

A. Brand strength: is presence (1) multiplied by consumer satisfaction (2). The “hard”, more easily measured components of the brand assets. If the brand is well-known, but only a few of the consumers are satisfied, it is problematic – the brand needs to be redeveloped, and does not warrant advertising. But when it is hardly known, however several users are satisfied with it, there is a chance for successful advertising, support and extension.

3. Brand esteem, personal affection. In other words: the level of loyalty, price sensitivity, looking up.

4. Brand knowledge. To what extent the advantages of the brand are understood. Will they suggest it to others - extendability!

B. Brand Stature, consumer trust: What kind of future is imagined for the product? The “soft”, emotional components of brand assets. There are some product types and market situations, when brands do not count much, for example in recession situations, when many similar products fight for the favor of the consumers, and there is only a little innovation in the sector. It is the multiplication of **brand esteem (3)** and **brand stature (4)**.

7.4. Brand Stretching, Brand Extension

To make use of the name of a successful brand, and brand loyalty, the company launches other products using the same name. For example the Honda motorbike-factory launched its cars, and even its lawnmowers using the successful Honda name. Due to successful brand extension, nowadays Honda cars are considered at least “Honda”, like the original motorbikes. The favored brand name **sells the product in advance**, but only guarantees **confidence at the beginning**. Those who are satisfied with a given brand name, would surely buy something else under the name of the brand. There must be attention paid, however, to keeping these consumers satisfied! Every product contains a promise for the consumer. If the promises are kept due to the synergic effect, the original brand gains strength as well; if not - because of “division” - it becomes weaker! The principle of brand extension according to Al Ries: *“The strength of the brand is in inverse ratio to the brand’s authority!”*

7.4.1. Thematic and monolithic brand family, and the brand hierarchy.

Companies regard their brands as a football team. Every brand, like every player, has its own well-defined role, position on the field; its positive and negative characteristics. The most important is that they should be in harmony with each other and they should have an overall strategy. In the case of **thematic** brand

hierarchy, few people know that the world famous Nutella, Kinder and Tic-Tac brands that are successful on their own are all brands of the family-owned Italian Ferrero company. It is not worthwhile to use the advantages of monolithic, "one-centered", brand hierarchy in all cases. In boxing for example, the name of the boxer is more important than the club where he trains.

In the **cosmetic and fashion industry** there are fashion houses that own several brands. The French entrepreneur Bernard Arnault's consortium - in 2000 it was worth \$8,9 Bn - owns the Dior, Givenchy, Fendi, Lacroix and Kenzo brands. His all time opponent Francois Pinault (Pinault-Printemps-Redoute) is the producer of similar luxury products with the brands Gucci, Yves Saint Laurent and Boucheron. Furthermore on the luxury product market there is the French LVMH - syndicate (Louis Vuitton Moët Hennessy) and the Swiss Richemont group.

In the monolithic brand hierarchy, the producer of the leader brand plays an emphasized role. It is the crown jewel, the flagship of the fleet. Next to it many other brands can stand that are more or less supported by marketing. In the monolithic brand hierarchy people bring over their opinion from the best known brand to the others. A case in point is Mitsubishi, where the name, and the opinion is formed about the car is the determiner. A double brand name like AEG-Electrolux means the company wants to emphasize that it belongs to a bigger group. **Megabrand:** an internationally known brand name, **master brand:** they sell different category products under the same name e.g. Milky Way. **Monobrand** brand, a brand that does not cross the boundary of its category, e.g. Coca-Cola.

Table 13. The monolithical, common noun brand hierarchy

Brand hierarchy	Example	Brand hierarchy
Company brand, covering brand	General Motors	vehicles
Brand family, umbrella brand	Chevrolet	cars and vans
Unique brand, serie	Chevy Camaro	sports cars
Sub Brand, modell	Chevy Camaro Z28	special features

Source: Farguhar et al, 1992

Umbrella promotion use of the goodwill of the brand being on the top of the brand hierarchy, to the point of sales promotion of the complete product group of the company. For example Coca-Cola built the point of sales promotion and

placement of its diet and caffeine-free products under the original one. Attention has to be paid to the fact that consumers will presume products omitted from the umbrella promotion are not even sold by the company.

Product line: versions of a brand or a product increased with lesser or higher values and characteristics. The most prevalent solution is the linear extension made along one feature: the good, the better and the best., e.g. the luxury brand of Armani is the Giorgio Armani Black Label, its second line is Armani Collezioni Blue Label, third line Emporio Armani and the lowest positioned lines are Armani Jeans and Armani Junior. **Brand family:** When the brands are differentiated by more than one aspect, but the sub brands are connected to each other like classic, diet and caffeine-free Coke. A thematic solution is for example the **second brand** or **“B” brand** e.g. Mirinda (PepsiCo)→ Toma; Fanta (Coca-Cola)→ Lift. This can be even observed in the case of permanent goods as well, of course in a bit different way. Sometimes customers don't like to buy a “lowly”, simpler and cheaper version of a well-known brand, or they stick to their local favorites.

A good solution is the second brand of VW, the Skoda. It is even displayed on it the car: VW system. People who buy Skoda are those who can not afford to pay for a premium VW, but stick to the brand. The brand hierarchy of the Elektrolux group: 1. AEG, 2. Elektrolux, 3. Zanussi, 4. Hajdú. The most famous single brand is the **masterbrand, mother brand, umbrella brand**. It serves even the customers of the inferior brands. In the case of monolithic brand hierarchy, it provides protection, and sometimes even makes a profit-sacrifice for the sake of the gross profit of the whole brand. For example, the priceless yet wonderful single brands of premium cars (the best). The existence of such a category positively affects the sales of the mid-category. Usually the firm produces only a very limited amount of these, and hardly makes any profit from them. But they are displayed in the biggest showrooms. The visitors come and see them, sit inside them and then they buy the smaller car. Their image affects the less expensive but quick sale single brands which are technically not better than their opponents, but they are sold because of the brand. **Twin brand:** due to unique, special reasons, different factories of the same owner produce identical products under different names, e.g. Opel and the British Vauxhall; the P&G shampoo: Pert - USA, Vidal Sasson - France and Rejoy - Japan. The nickname of Pöttyös Túró Rudi abroad is Dots. In Poland the competitor Danone Duett is called Danio Batonik (sticks). **Brother brand:** a similar product is produced in another factory of the firm under a different brand: Suzuki: Maruti - India, Geo - Kanada.

7.4.2. Opportunities for brand extension

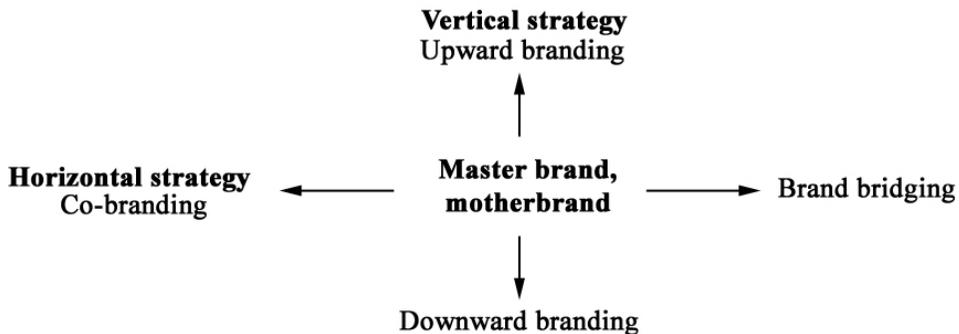


Figure 9. The compass of brand extension strategies

Source: Farguhar et al, 1992

7.4.2.1. Downward branding, sub branding, line extension means a change of smaller proportion, the development of a new product version. The goal is the broadening and fine-tuning of an assortment in a product category, the **broadening of the brand** to an umbrella brand.

- Quality categories (Johnnie Walker Red Label, Black Label, Gold Label),
- Tastes (Wrigley's Spearmint, Doublemint, Juicy Fruit),
- Functions (Kodak Kodacolor 100, 200, 400). Concentrates, "spray" packages etc.

The meaningless choice. It is a question of how wide an assortment the brand should have. One brand and many versions that only differ in small details can confuse the customer. People like to choose from versions that differ in one or two dimensions. The costs of development, licensing process and marketing activity, and furthermore the difficulties of shop placement and consumer choice should be calculated against the returns, otherwise *"the company will be the victim of its own expansion"*.

There was a year when **Crest toothpaste** could be purchased in the USA in 35 different versions (Economist, 1998). In 1993 Nissan offered 87 kinds of steering wheels, 1200 cases and 300 kinds of ashtrays. In a given model from the 87 kinds of steering wheels they received orders under 5 % for 70 different kinds.

7.4.2.2. Upward branding, super branding, brand stretching. During this process they enlarge the master brand with new points of view and new qualities,

thus significantly broadening its range. The most common example is the further developed product. Nivea was originally a hand cream but today Nivea shower and bath gel, shampoo, facial cream and male cosmetics are also available. Bacardi Rum from the category of spirits has made its way into the ready-to-drink alcoholic beverages category with the brand name Bacardi-Breezer. Upward branding is risky. This is why they suggest **indirect upward branding**. In this case they introduce the developed product as a new brand and they only reveal the master brand after it becomes successful, e.g. most people only later found out that Lexus luxury cars are made by Toyota. At the beginning according to guerilla strategy many newcomers set their foot in a less attractive part of the market, and after getting accustomed to it, they enter better markets when the time has come.

7.4.2.3. Brand coupling, brand bundling cross-branding. This means that two brands help each other. They use cross-branding in cases when the company has limited resources or few other opportunities for further strengthening the brand:

- **Branded extensions**, e.g. Intel inside, Dolby, contains Nutrasweet; etc. They call this a helping brand as well because it helps from the background, e.g. Kit-Kat and Nestlé.
- **Co-branding**. The consumer can benefit from several brands' advantages with one purchase. The confectioner Gerbeaud serves Julius Meinl coffee, a fact which is emphasized by both of them.
- **Product complementarities**, such as Ariel and Budmil. They suggest to consumers – in the advertising, for example – that the given branded products should be used together.

The advantage of brand coupling is the elimination of **brand names that sound bad** to the consumers because they have image problems e.g. associating with national brands.

7.4.2.4. Brand bridging. The master brand only helps the new brand at the beginning – like the parent helps the child – and when strengthened, the master brand pulls back. A case of this was at the beginning, Opel Astras in the Eastern European market were sold with a GM-Opel brand name. At the end it is useful to bear in mind the advice of Jack Trout “*Brand extension should follow expectations of the target group and not counteract them!*” In many cases what is considered development at the company just confuses the target audience's knowledge.

8. PRICE - REBATE

8.1. Price Discrimination

There are few more important marketing decisions than forming the price. Price has a direct effect on return through turnover and an indirect influence on costs. Economic power turns up as pricing power rather sooner than later.

“Successful use of the other elements of the marketing mix sows the seeds of business success while effective pricing harvests the yield.”

Nagle

Price is often the source of conflicts within the company although the responsibility for pricing is shared within the company.

8.1.1. Package of utilities. The consumer is not only paying the price for the product: price plus conditions. It appears that all transactions look like they are one but it is not so. In reality the number of transactions is numerous even in a simple exchange. In the next example five transactions are rolled into one. We should pay attention in all five transactions to make a good deal. The total cost of ownership of the product does not only mean the price we pay for it. Besides the price, the consumer pays for several services: the transportation, storage, financing, guarantee, the reduction of risk, getting rid of the packaging materials, the materials needed to be able to use the product etc. It is worth examining what collective costs are added to the product, which side takes part in it, and what is given in return. The thorough knowledge of the price, the product and the conditions facilitates successful business for both sides and also lowers the risk of making a mistake. Even in everyday consumption we pay on the level of a **package of utilities:**

- **Physical utility** – price.
- **Place utility** – commodity products: they are brought to me; discount stores: I need to travel to the outskirts of the city! Those who travel with low-cost airlines need to pay extra costs for local transportation afterwards. One significant cost is that the airport is far from the intended destination. In the case of Barcelona, many low cost airlines

use the Girona airport, 110 km from Barcelona, so the travelers have to pay an extra 42-60 Euros in addition to the airfare.

- **Time utility** – it is typical for convenience consumption; for example, the TV repairman who is called out during the Football World Cup. Many store chains occasionally make their purchases on the wholesale market. Promotions: need to stand in the queue, need to wait for the promotion. But the morning coffee, the champagne we drink at New Year's Eve, or the first car we buy represents a special value to us.
- **Ownership utility** – rental, for example: no need to buy it, repair it and it is optimal if the service/product is only used for a short period of time, e.g. leasing. Like the newspaper in the coffee shop, I can only make partial use of it: I can read it and take notes, but I cannot take it away and I cannot clean windows with it
- **Information utility** – you need to know about the promotion. Quality is questionable at the flea market, where vendors come and go. In elegant premium shops the quality is reliable, for example, the vase life of cut flowers is nine days, but at the flea market the consumer takes the risk of not having enough information. Furthermore, many products confer prestige on the owner.

8.1.2. Price types

Single price: product is sold for the same price to everyone. Tiered pricing, price discrimination: different price levels are set. For example, let's suppose that we have:

- four consumer segments (A,B,C,D,) with N customers in each segment,
- A is willing to give \$40, B \$30, C \$20, and D \$10- for the product,
- Our cost is \$5 per product and every customer buys it only once.

Single price:

If the price is \$10 and every segment buys from it = $4N(10-5)=20N$

If the price is \$20 and segment D does not make any purchase = $3N(20-5)=45N$

If the price is \$30 and segments C and D do not make a purchase: $2N(30-5)=50N$

If the price is \$40 and segments B, C, and D do not make a purchase: $1N(40-5)=35N$

Price discrimination:

Segment A gets the product for \$40 segment B for \$30, segment C for \$20, and segment D for \$10: $N(40-5) + N(30-5) + N(20-5) + N(10-5) = 80N$

8.1.3. Price menu: graduated price range. Explanatory example is the potato pyramid, which is the managing and development of the potato category according to different consumer needs and wallets. During **mass customization** the optimal price structure is formed according to consumer needs, values, and possibilities; and the possibilities of the company, e.g. source and cost. The problem was that consumers and stores considered the potato as a mass product, so they could only sell it for a low price. Nowadays stores have to think twice. How many kinds of potatoes and how much of each do they need to have on stock in each price range category? The disintegration of prices is not against the law if consumers have the chance to choose freely according to their spending potential and level of need. The goal, the big challenge is to determine the price recognized by different consumer segments and the different product characteristic preferences: the barter connections between values.

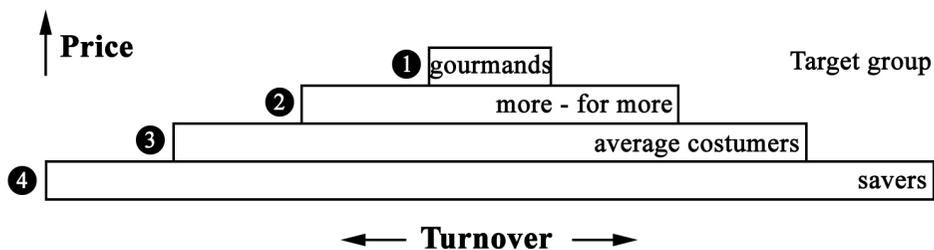


Figure 10. The potato pyramid
Source: National Potato Council, 2001

1. **Specialty.** Unique products and novelty for exclusive and wealthy consumers. Fashion items, seasonal items, catering items, for example: salad potato, cleaned spring potatoes.
2. **Premium category “the anteroom of luxury”.** Small selected rose potatoes in a small package. The average demand of the catering trade belongs to this category.
3. **Regular category “the everyday product”.** Uniformly selected average size, average 2-5 kg package
4. **Discount category:** Only the bad ones are taken out, otherwise heterogeneous in a 30 kg sack in autumn. Consumers store it at home in the cellar till spring and consume it gradually.

8.2. Dangers and Difficulties of Price Discrimination

8.2.1. Identification. It is difficult to define the consumer demands and the product characteristics that can serve them. The recognized price levels should

be connected to these product characteristics. With yield optimization we can resolve that even the company will not come off badly. It is difficult to tailor the product, and thus the prices to the opportunities, occasions, and characteristics of the purchase, the period and the individuals. It is difficult for consumers as well to make the optimal choice when they need to take into consideration several parameters. In these cases, when the price is uncertain, there are special agencies that can help (travel, insurance, investment etc.). The best solution is a given circumstance where the consumer “places himself” and can form the service and the price to go with it.

The case of a **Zurich parking garage** is a spectacular example of this. The system calculates the parking fee according to how many free spaces are left in the building, and displays it at the entrance. The driver can decide in time if it is worth it or not.

Airline companies offer several prices according to the services provided. The price is higher if the ticket is not bought in advance, if we spend a Saturday at the destination, if there is no cancellation fee etc. In this case the service level is the product characteristic to which we link the price discrimination. The demands of various consumer segments differ; so different factors are important for each of them. For those who go on vacation it is not a problem to reserve the tickets in advance, or that they should spend at least one Saturday at the destination, because it is not probable that they will cancel the ticket. But businessmen are in a rush, so for them service is important, for example they lose more if they are late, or cannot return immediately. Because of this process, airline companies have changed the product itself. They have narrowed the seats and decreased the space to offer cheaper seats, but they have increased comfort in the expensive luxury class. In tourist class the principle is high turnover and small profit – in luxury class, high profit and low turnover is the strategy.

A good example of this is the **block tariff** system of telephone companies, where the service and fee follow the demand and possibilities of the consumer. With the fixed price the consumer pays for the right to use the system and the high fixed cost infrastructure. The result of price discrimination is that people use the phone more and travel in airplanes more. The other big advantage of the price system of airplane companies is that the plane tickets contain a lot of useful information about the consumer – name, nationality, special needs, the classification of travel. With help from the computer, important market research can be done.

8.2.2. Regulation of access. For example that the product is only introduced to a certain group. It is important that all consumers should have the possibility to purchase it. The unfair exclusion of certain consumer groups for example, according to nationality or race is prohibited.

There is a long-standing argument about adverts like “*Chinese restaurant is looking for a Chinese chef!*”.

In 1997 VW warned the Italian dealers that they would be expelled from the chain if they sold to German and Austrian citizens. **VW**'s are cheaper in Italy than in Germany or Austria. The Brussels Commission found the exclusion of German and Austrian EU citizens unfair

and warned the company to stop this exclusion. The case of a **Danish pizzeria** owner is similar. He did not want to serve German and French tourists during the Iraqi war because of the politics of their countries. He was sued for 500 Euros. He refused to pay the fine, said he would rather go to jail, and did not take the sign from the shop window. He declared his restaurant off limits to Germans for the time their government's politics was not loyal to the US but the French were banned from the restaurant forever. His shop windows were broken several times and he received a dozen letters of protest from Germany as well. But he also received supporting letters from almost all the states of the U.S. – some even offered to cover his fine and expenses, and he received small presents as well.

The undue exclusion of **possible partner companies** is prohibited as well as undue exclusion of vendors in a similar position. *“I don't sell to Chinese vendors”* is just one example. In the case of the Italian VW dealer, the decision of the Brussels Commission was based on the Article 81 of the Treaty of Rome, namely that *“the producer needs to make sure that people can trade freely.”* In 1993 the Hungarian Competition Authority condemned Hungarian Radio and Television, because they did not want to sign a contract with other newspapers for the publication of TV and radio programs. The reason: they had their own program magazine of this kind.

8.2.3. Targeting, fence building. It is difficult to secure a given price level just for a given segment or in other words dividing consumers and customers with a fence. This is the elimination of “money left on the table”. It is difficult to prevent wholesalers from buying the product for a lower price level and then going on to sell to those who are willing to pay more for it.

In spring, 1998 the **Péti Nitrogene factory** paid 2,000 HUF for transporters who were delivering to the plant east of the Tisza, while it gave only 1,000 HUF for those delivering to the plant on the Great Plain. In these areas the fertilizers coming from Romania and the CIS countries are 2,000-3,000 HUF cheaper. The practical entrepreneurs said they were transporting the fertilizers east of the Tisza and to the Great Plain, but not selling it there. In response, the Péti Nitrogen factory started paying for railroad transportation. This is the **grey market**, the **parallel trade**. In wealthier countries the producers sell certain goods more expensively, and in poorer countries more cheaply. Then the importer reexports the products back out of the cheaper countries. The lawmakers of the EU do not control parallel trade because they expect price level differences between the member countries to equalize. A Swiss brand watch is more expensive in the U.S. than in Egypt. The Egyptian distributor transports the watch directly to a Panamanian custom free zone, and from there he sells it directly to a U.S. retailer... for a low price. The legality of this business is questionable. It is grey from the side of the American retailer, but in Egypt, the distributor has broken the law.

8.2.3.1. There are easily tradeable goods. Easily transportable global products like bananas and apple juice. The consumer can easily compare or follow their prices. In the event of a mistake, reselling soon starts. The solution:

build obstacles between markets with branding, design, and packaging. In the case of the Swiss watches you get the Swiss watch for the same price in Egypt as well, but they create a cheaper, slightly different brand for those who can pay less, like VW, Seat, Skoda /VW system.

8.2.3.2. There are difficult to trade articles and services. Examples of these are cable telephones or foods that serve a small regional taste - Unicum, Becherovka, parboiled bacon, and bonbons. In these cases it is easier to use price discrimination. Marketing regions are slowly being separated from national borders.

Cultural regions: You can only sell escargot in the French culture. In many cultures people do not like the sweet-tangy taste, such as that of Túró Rudi.

Logistical regions: it is not worth turning to a different market for a given product when one is inside a given region. Looking at the Swiss Bank UBS's consumer basket in January 2002, the Finns, who are condemned to spend the most in the EU, could get 50% more for their money if they did their shopping in Portugal, the cheapest country in the EU (Dornbusch, 2002). The transportation and warehousing risk is defined by how long quality can be maintained, and the profit content.

Tax based, control regions: because of the tax differences between countries the European price, the "*Pan-European product*" is practically impossible. In the U.S., for example, it is prohibited to bring a California wine to Massachusetts as private luggage. The local wine sellers have lobbied for this exclusion from federal law. Because of special tax and commercial regulations, in May 2003, a Peugeot 206 in Greece cost 9,290 Euros, but in Denmark it was 18,842 Euros (EU Competition DG, 2003).

The methods of fence building are the following:

- **The bargain helps the customization of price, product and the conditions of trade.** Examples are the commerce of machinery and fittings. During bargaining or negotiation, the two parties get to know and clarify each other's demands and possibilities. The fence building task of bargaining is that only the real and serious partner can get to know confidential information such as price promotions, transportation discounts, and special needs. In many cases a bargain is a rebate for important and well-informed consumers. The pressure of trying to achieving big business forces the partner to rethink his costs, capacities and other solutions, and this way a lot of useful information is established. From the fence building function of bargaining comes the law of sourcing negotiators: "*Find out how much your partner can allow in which field and achieve it!*". It happens that they test the competition's business deals with a fake call or with a hired fake client. Before crucial negotiation it is worth it to check the other side.
- **Recommended price list, recommended consumer price.** Here is an example: the recommended price of Globus pate is 49 HUF – near a

bus stop. The producer puts out the price at the point of sales, such as the colorful boards of ice cream companies, indicated in other advertising materials, too. They define the retail price in a contract and the regional representatives control it. They attach certain sanctions in case retailers do not respect these prices. Competition Law allows the producers to set a maximum price. The vendor can have a different price if it is lower, such as the maximum price of the state in the case of cigarettes. Suppliers cannot keep prices artificially high, and a **minimum price cannot be set**. The exception is the case of the producers of agricultural raw materials. It is the most difficult to make small shops respect the recommended consumer price.

Why is it needed?

- The **”brand killer”** tactics, **brand destruction**. Several retailers regularly try to bargain down the price of prestigious brand products, hoping in many cases for a higher turnover in return for selling cheaper. These kinds of activities result in the loss of prestige.
- It also happens that the vendor sells the producer’s cheap product, intended for high turnover, at a high price in hopes of a high price margin. This way it sells less than the producer expected. **Cheap design** and **wallet- friendly logo** help in this case. Many shop owners are not familiar with competitors’ prices and the product does not sell if they sell it at a more expensive price than others.

Abuse of dominant position is illegal: see monopoly, cartel, consumer protection. The important players of the market distort marketing conditions such as prices to push competitors out of the market and take over their places.

8.2.4. Consumer’s sense of justice.

Consumers feel that it is unjust that the same product is available at different prices. When they later discover the product at a cheaper price, it makes them lose the illusion of rational consumers, and they worry that they shame themselves: this is cognitive dissonance (Festinger, 1957). The “guaranteed lowest price” pricing technique means the retailer pays back the difference to the consumer if he/she can prove he/she is able to buy the same product cheaper somewhere else. John Wannamaker – a Philadelphia department store – discovered the marketing technique back in the 1890s, thanks to either a cheaper price or a post-purchase quality problem. Guaranteed lowest price does not

really mean the lowest price, because a competitor can undercut this promise and go to court against the misleading advertisement.

Contrary to this, prestigious consumers find it disturbing if other consumers who are not like them can use the same product. After they discover this they stop buying the product (Bhat–Pittalwala, 1993). As István Széchenyi put it: "*The horse cannot tolerate the smell of poverty!*" in 1979. the French luxury fashion company Louis Vuitton received letters of complaint from consumers saying that they had lowered prices in Japan during the Asian recession. Since then they do not lower their prices, but they also do not sell products that cannot be sold at a luxury price.

8.3. Rebate: Markdowns, Discounts, Price Reductions

Producers do not simply place their products in the market and leave them there. They give discounts off their price lists, and they support the retail of their product. These methods are called conditions in commerce. Retailers either pass on the discounts to consumers or they "swallow" part or all of them. **Primary conditions** are basic discounts that are deducted from the invoice. **Secondary conditions** – advertising service, category management etc. is paid by the supplier at the end of a given period. These fine "tailor-made" discounts made for the partner are collectively called rebates. To navigate in the jungle of discounts, sourcing managers make a written summary of incoming offers for each product. In the case of one offer they need to get two others in order to evaluate it. Certain retail chains send out the questionnaire with the required questions in advance and they expect that the supplier sends it back before negotiation or brings it to the negotiation. In this way, annual negotiations do not necessarily need several discussion rounds or last for a long time.

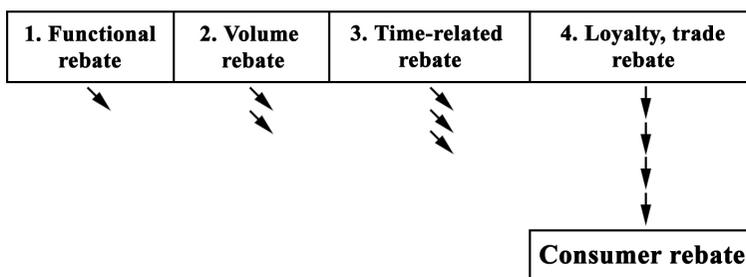


Figure 11. Wholesale rebate systems

Source: Tartsay, 1993

8.3.1. Functional discounts. Trading partner manages functions that should be done by the other side. Unfortunately in some cases sourcing expects a functional discount while there is hardly any connection between rebate and the tasks to be done.

8.3.1.1. Distributional-circulation service fee. Transportation and warehousing costs are always subject to negotiation. **Zone price.** The sales managers divide the market into well-defined zones, and set prices for each zone. This price includes transportation to a consumer in the given zone. In the case of base point pricing the producer calculates the price knowing that it includes transportation to a given destination as well. Certain store chains give a 3-5% discount when the producer delivers directly to the store. Many suppliers do not deliver under a certain amount and wait for many small orders to accumulate before they even start production. The producer can deliver to retail warehouses as well. In this case the retail chain delivers the goods to the stores.

Cost of packaging, impulse package. In retail, nowadays high turnover vegetables and fruits and, in some cases ornamental plants, require aesthetic packaging, whose costs are paid by the producer or packager.

Maintenance fee discount calculated for the upkeep and regular stocking of the shelves. Especially in peak periods retailers have less and less time to take care of the shelves. The producers do it themselves, outsource it, or pay the store employees to do it.

Advertising rebates are frequent, as in the retailers' flyers. Tesco pays two million HUF per advertisement, whereas at Metro it is 5 % of the turnover. Many producers do not see the benefit of advertising flyers; they just consider it as a price cut. Retailers regularly secure additional placement and promotion for products that sell well. Products that do not sell well are left out of these benefits and eventually taken out of the store. On the other hand, certain suppliers manage to bargain a higher fee from retailers in exchange for exact, on-time delivery.

8.3.1.2. Store opening, warehouse building, fee for computerization.

Larger investments damage the financial balance of the store chain, so they expect larger partners to assist. In most cases they can pay later, so they negotiate price promotions. Also in this category is the situation when the retailers set up an electronic system connecting them to the sourcing partner. Many foreign-owned companies are not willing to accept the domestic inflation rate in annual negotiations and only wish to cover the inflation in the mother country, claiming that they calculate in euros or dollars.

8.3.1.3. Enlisting and slotting fee. The real cost of slotting and laboratory testing of a new product. With a new sourcing company the process is more complicated. Shelves are not made of rubber, so only those products can get a place that open a new category or bring extra turnover resulting from a pre-existing product. During CBA “ankets”, **contact days**, producers can introduce their new products to the members of the chain. In the CBA “Öszike” chain the whole product range of a new supplier is displayed on the shelves for the first month and after that they discuss which products have no consumer demand. For example, in deodorants, a new product that sells well after six months can stay. The practice of German bookstores is to display every publication on the shelves for six months. Only those that sell well can stay – including those that have previously been on the shelves. The consumer can only buy the rest with a 24 hour repeat order.

The enlisting discount started its career in the U.S. in the 1960's. The producer had to pay \$50 to the retailer after every new product. Later the enlisting fee went up to \$50 per store. Nowadays this method is used everywhere although some chains – such as Wal-Mart – prohibit its use. They build it into the price.

8.3.1.4. Exclusive enlisting. The retailer only keeps one brand in a given category. This sometimes tests the limits of legality. In 1998, PepsiCo sued Coca-Cola because of its exclusive contracts with restaurants, theatres and cinemas. PepsiCo argued that in this way consumers also lost out, because Coca-Cola could freely dictate prices. According to Coca-Cola the charges were ungrounded because it was useless to sell too many kinds of cola beverage in a convenience shop.

8.3.1.5. Consortia enlisting. The multinational producer enlists its product in every store of a multinational retail chain. Consortium: a combination of several companies working together. Within the scope of Ahold Global Sourcing (Holland), Mitsubishi International is supplying the Dutch retailer's stores with processed tuna. Ahold saves \$1 billion per year this way. According to surveys of the multinational consulting company PricewaterhouseCoopers, although the amount of global and regional retail deals is increasing, nowadays it is under 10%. It is not convenient to transport washing powder, for example, everywhere from the U.S. It is more convenient to produce it regionally according to the **distribution platform system** and supply the region locally. For example, Heinz supplies the EU from Great Britain and Italy in the case of its basic products.

8.3.1.6. Dockage. The buyer uses stricter quality control than the industry standard. High price and excellent quality look very nice in the offer. During the

low quality season they do not take it seriously. In the good season, on the other hand, it provides a good bargaining position in negotiations.

8.3.1.7. Shelving fee. The retailer gets it in addition to the contract, because he puts the product on his shelves. The shelving fee is higher than the real cost of enlisting and laboratory test of a new product. **Failure fee:** the producer offers money in most cases because the product is "stuck". According to retailers the number of products competing for the shelving fee is increasing rapidly and *"there is no problem if suppliers are competing for the most precious value of the store, the place on the shelf"*. Actually, retail is the field of defeat, the place where it turns out if the given product is not fit for the market. Moreover, in our small country, retailers complain that in the case of certain products the number of suppliers is so scarce – sometimes only one or two – that they make retailers compete for the products.

Resolution. Shelving fee hits back on the retailer. For a given time the retailer cannot delist the stuck product that causes damage, and cannot give the shelf place to a more profitable product. The net profit of retailers is very low – \$1.20 for every \$100 – of income in developed economies, so they have to pay special attention to their product assortment.

Strong brand. The best producers can successfully fight back these kind of attempts of retailers saying that consumers demand their product and therefore good shelf spacing is in the interest of both sides. They reason is that the product fits the retailer's offer range and they can make regular and high quality delivery. If the retailer does not keep the product or places it badly, the consumers go to a competitor to buy it. This is why brand is so important, and this is why retailers compete with the produces by using their own brands. *"The place on the shelf should be earned from the consumers and not bought from the shop!"* – said an American fruit dealer.

8.3.1.8. One part of rebates is the collateral fee, and it is ethically questionable. Some call it corruption percentage. It is most effective if the decision making person and the user are not the same. In commerce it is a delicate part of negotiation. It is harsh to offer it at once, so first they mention the version that also serves the company's interests. If the consumer replies that he does not have any profit on it, then it is time to talk about individual tools. It is particularly illegal if it is like blackmail, and it is forced - how can the producer substitute a national chain with a contractor of similar turnover, pay-to-play and it is an unreasonable, non-performance fee.

The concept of **reseller rebate** unfortunately often amounts to the concept of **trade marketing**. The latter is not yet discredited, and sounds better. Trade marketing is the tool of the stronger party – and that is not always the retailer. The world’s largest spice distributor, the American McCormick & Co. has forced higher prices from certain retailers in the form of cash payment and payments outside the invoice (FTC, U.S.).

Almost every developed country penalizes personal premiums, and according to the OECD’s decision in 2000, the blackmailing of a foreigner is a crime. Secrecy the employee’s company does not know about it, and the motive for influencing must be proven. In spite of this, blackmailing goes on. In some developed countries the money spent on blackmailing can be written off the taxable value. In eastern countries separate companies advertise their services as **”contact builders”** for the well-off western companies.

In Hungary, according to law IV of 1978 (Criminal Code) for official persons, asking for, agreeing to, and/or accepting kickback money is a **crime**. The Office for Economic Competition in its 1997 decision related to the activity of Schering Plough C.E. ”medical sales representatives” dictates that such persons are only allowed to achieve a positive effect with personal persuasion and cannot offer a responsible person a commission for procurement.

In the U.S. the **PACA law** forbids the slush fund given to state employees and the employees of procurers. In 1997 JSG Trading Corp. gave its buyer a Mercedes, a yacht at less than normal price, and a Rolex watch through a covering company, which was actually the transporter, so the sourcing company bought more tomatoes from JSG Trading Corp. The authorities found the accounts of the bribe in the company’s books. JSG lost its commercial (PACA) license. Many companies have a separate rules for employees on what they can and cannot accept.

8.3.2. Volume markdowns, rebate. This is also a wholesale rebate. Often these are given on **rebate lists** based on the volume of the order. The producer can have a “one-pallet”, a “ten-pallet” and a “100-pallet” buyer. He rewards the bigger contractors via positive discrimination. One must be careful, however, because in an exaggerated case it leads to the defection of smaller partners and the supplier’s contractor base starts to shrink. Often it is given based on promises, and expectations, not definite orders. A large-scale distributor is obviously expected to order in greater volumes than a small shop. There can even be a fixed bonus also – e.g. above the turnover of the previous year – generally 3.5% at most, usually 1%. It is also often given in goods: **natural rebate**, or in logistics service: **transport rebate**. Above a certain level of turnover, the partner becomes a large-scale customer or **key client**, who is due to receive special care, key account management, and customized price construction. **Cumulative rebate** applies to the total purchases of a given period e.g. three months and not for single deals.

Multiple discount is due when the partner buys multiple products in large volumes. Full range, full assortment rebate, “*full listing*” is when the retailer buys every kind of product offered by the supplier. In this case the retailer keeps slower-moving products of the supplier also. In baby foods for example, some types can be consumed earlier by the child and sell better, but some of them are consumed for a shorter period of time, and thus they spend a longer time on the shelves. However, since these are very important for some babies, they can not be deleted from the product range. In general, the wider the range of offered products, or the greatest part of the remainder stocks that are purchased by the partner, the more discount is due to him.

8.3.3. Seasonal rebate. It is also a reseller-type rebate. Off-season discount, or discount for continuous reception are the most relevant types. Discounts can also be bargained for in the case of regular, predictable orders, since they decrease the risks of supplier. Western tree nurseries give significant discounts to traders if they submit their orders before budding time.

Suppliers prepare for the rush of customers just like retailers do. It is characteristic in such cases, when consumption is limited to only one or two seasons. Early bird meeting – it is used to coordinate interests, prices, and stock planning. From the producer’s point of view **consumption season** is preceded by **transport season** – nowadays refill time takes at least one month -, which is preceded by **storage season** and the crucial background stock. The producer calls his customers as early as storage season, and offers them a stocking allowance if they take over part of the storage tasks. The goal is to increase the sold volume and the refill of the vacant storage capacity, to have the least possible remaining goods after the season, to make the transportation more precise, and to decrease shortages in the shops.

Retailers also used to punish producers for transport inaccuracy. Late deliveries are charged a fee, by legal terms a temporally proportional penalty. In 1998, the Tesco and Kaisers retail chains temporally suspended the buying of Danone products due to transport inaccuracies.

8.3.4. Loyalty rebate (trade). Extra discount offered to the reseller for the preference of the products of the enterprise. It depends on the given customer’s aims and ethics whether such a bonus program is advantageous or disadvantageous. The favorite of some customers is the single return based on the sum total of a **longer period**, usually at the end of the year. Well-to-do firms invite their most important partners to free “**study trips**”. The “incentive tourism” sector has specialized in the organization of trips for excellent sales colleagues and decision-makers of the most important partner firms. It is quite

important to get to know the most significant partners. It is important that a return is expected from these programs. Sometimes there is trouble, because the participating partners are competitors, so they can not really enjoy themselves. This is why it is better to organize more events, each with fewer participants.

In 1997, the agricultural division of **FIAT** launched the so-called “Samba Campaign”. Everyone who purchased a FIAT tractor in a given period of the year could travel to Brazil at the firm’s expense. The travel costs for two persons were built into the price 350,000 HUF, and thus FIAT became second in the selling of tractors that year in Hungary. The 350,000 HUF was not a high price for the Brazilian journey for two persons, and the Brazilians were congenial hosts, since they receiving so many visitors. In the early 1990’s, the German manufacturer of agricultural machines Kverneland Group invited the directors of the biggest field crop firms to those factories where their machines – sold even in Hungary – were produced. As a consequence of the study trip, they sold 15 Air Plus spraying machines, 14 more than the single one sold the previous year. Some companies directly forbid the participation of their sales staff on such programs.

The loyal retail shop managers are rewarded by the system of **free cartoons**. The extra volume in transportation to compensate damages, which usually do not occur nowadays, is usually left in the shop as compensation. The manager takes it out of the cash register, or eliminates smaller irregularities there. Representational gifts are the “**weapons**” of delivery pilots. The 1-2 % of turnover commission of the delivery pilots also assists distribution. When buying a new machine or car, the company takes back the used machines, equipment or remaining goods, and counts them into the price of the new one. In many cases the factory upgrades and re-sells the used device.

The opposite of the loyalty rebate is **swapping discount**, the characteristic manifestation of hard selling. Microsoft, the software firm, asked for only \$99 (instead of \$260) when the buyer swapped from the competitor’s software to Java WordPerfect (Economist, 7987/1996). In a 1996 advertisement, Microsoft even listed those “old operations systems” which can be swapped at half price in exchange for an NT 4.0. The company later had to officially apologize to the other firm and published apologies in many newspapers.

8.4. Transfer Price, Clearing Price

A price which is based on subjective decisions, significantly differing from the market price and fixed between linked ownership companies, in order to move incomes and reserves. Firms thoughtfully select the place where losses are generated.

They intend to realize profit where the taxes are low or where they fear the strict tax offices e.g. the U.S., Germany. **Transfer price** can be detected if the firm can not support its existence with appropriate documentation. Since the January 1, 2003 modification of the law on company and dividend taxes, detailed transfer-price documentation has to be attached to contracts – excluding small- and micro-enterprises. Royalties, license fees, manager fees, leadership consultant fees and the reappraised prices of used tools are the hardest to control. The situation of the tax office is simple in the case of homogeneous products and those which are frequently traded on the free market.

8.5. Cash Discount and Delayed Payment

The circle of discounts connected to payment conditions also belongs to the topic of rebate, but forms a separate category. In the case of “**cash discount**” the supplier rewards the **fast paying** capability of the buyer. For example, the payment of the invoice in eight days can result in a 2-3% discount, when one month is usual.

In Texas, the **Produce Recovery Fund** protects producers from non-paying traders. The registered producer gets \$2,000 and 70 % of the remaining sum if the registered trader does not pay off the invoice. Another law in Washington (*PACA, Perishable Agricultural Commodities Act*) withdraws the permit of the food vendor who does not pay in a given period of time.

The relatively long payment moratorium, the **delayed payment** or commodity credit is also a significant discount, since the good vendor can reinvest the capital in this period. In agricultural sector the constructional credit is very prevalent. The suppliers of seeds, agrochemicals or machines favor the large-scale customer with this kind of preferential discount, and the crop yields or products serve as collateral. Banks ask for a mortgage on estates, and request machines as collateral.

9. CONSUMER PRICE REDUCTIONS, PRICE PROMOTIONS

9.1. The Traps of Price Reduction

The essence of a trap is that it closes when the prey tries to get out of it! A general negotiation rule is that it is always easier to reduce a price than to get people to accept a price raise. It is always a question whether people who were beneficiaries of the low price will buy the product again later at the real, increased price. Unfortunately since their income does not increase, people often cannot afford to buy again. Thus, they never reciprocate.

Trap of bad quality. In the eyes of the consumer what is cheap is often of bad quality at the same time: *“Cheap meat gives thin soup!”* Price reduction is often seen in the eyes of the consumers that the product is not of total, but a decreased value product. Perishable goods need attention and labor. Decreased value products need to be separated, to have a proportionally lower price and in some cases discarded.

Trap of fragile market share. Low prices increase market share but they certainly do not increase loyalty. As soon as the low price appears, consumers who are watching rush out to buy the product. Especially if it is advertised, competitors lower their prices as well. So, the consumers go back to their original brand. The status quo is maintained; only the profit drops and the boss gets angry.

According to cynics, an intelligent trade does not ruin its own market. It does not destroy the confidence of the consumers and belief in integrity. In a crowded market the participants can only increase the client base at the expense of one another. A **negative price spiral** endangers quality service and development, and according to some above a certain level this is a cartel (Kuncz, 1928). There is such a case when the competitor gains on the price reduction. On closed markets one company sells a product for cheap, which increases demand and publicity. They are not able to serve all the consumers, because they run out of stock. Consumers who arrive late need to purchase the patient competitor's more expensive product.

The trap of price war. There is such a case when the weaker competitors reduce their prices. They think they have bigger capital power and they will stand the price competition longer. The company that has a bigger capital value and lower costs can easily survive the weaker periods of the market. **Negative marketing** is market activity where the goal is the destruction of the market. Such is the reduction of turnover and profit of the competitor's goods without

the increase of turnover and profit of the company's own product, e.g. a candy company in Hungary that kept a deficit product just because the competitor lost more on the competitor brand as a result. In a price war often both sides lose even the winner. Brutal military logic leads to one-sided and unfair problem solving. It is said that "*In every war the first victim is justice*".

9. 2. When Is It Not Worth It to Use Price Reduction?

9.2.1. Price reduction is not followed by the increase of consumption, the demand is inflexible to the price. In this case, the **income decreases**. There is little number switching and wandering of consumers as a result of price reduction.

Certain products – peppers and bananas in the U.S. – are practically basic alimentary products, or mass products, so their price flexibility on turnover is low. To be clear: price reductions do not have an effect on turnover. Someone who likes bananas buys enough regardless of the price and someone who does not like them will not buy them just because of the low price.

The retail price of bananas decreased by 10% during the 1990's. We don't eat more "Alföldi" white bread or peppers if they cost less. In this case the consumer is cost minimizing so there is a price war in retail. It is not possible to increase the market – the size of the pie – with price reduction, so market share can only be taken from a competitor. The consumer saves money on these products, but spends his savings on something else. This replacing product is fighting for the same part of the consumer's wallet. Solution: to **expand the market** with the development of higher value replacement products. For example, next to "Alföldi" white bread, Bavarian rye bread, breads with seeds, whole wheat bread, German wheat bread etc.

9.2.2. Consumer stockpiling, advance buying. The fact that there are stores where at the change of promotion the turnover doubles shows the importance of promotional purchase. In this case the consumer pays for the stocking costs. Generally we keep a supply of items because it is unpleasant if we do not have our favorite food at home. There are some products that lead to increased consumption. There are certain consumer groups that *eat more sweets* if they have them at home, like Winnie-the-Pooh and honey. This cannot be observed in the case of toothpaste. No one will brush their teeth more just because there is more toothpaste at home. The "*left in the larder*" category is the following: 35% of marmalades and vitamin products are still unopened one year after they are purchased.

In the category of perishable fruit and vegetables, these stocks are very dangerous because the product that rots at home breaks the illusion. In childless households half of the sweets are older than six months. It can be determined from stocking reports of households that the majority of purchase and unused products were purchased for a special purpose that was never realized, or a recipe that was never prepared. Most of these products are so special that they are useless in such a large quantity. They end up in the back of the larder, cupboard, or cellar, never to return. The typical scapegoat, marketing and advertising, is only responsible for 16% of the meaningless purchases. Most of the time, we become the victims of our own aspirations (Wansink, 1996).

It is a **great blow for the competitor** if a merchandiser does a price promotion and consumers stock up before the competitor introduces their new product. The first turnover data is always important in the life of a new product. We can cause occasional shortages and overproduction – maybe later after the stock-outs – not to mention the consumers who are searching for the product with the advertising flyer in their hands. It is indicated on the promotional material that the promotions last until supplies run out. To avoid complaints chain stores often discount similar products when they notice the stock-out.

9.2.3. The effect of frequent or too long discounts is that price discount seeking becomes a habit. Because of the “*ancestral*” gathering practice, many customers like treasure hunting. The feeling of success can turn the other way when the consumer thinks that he was deceived and manipulated and that merchandisers played with him. This way the product loses consumer trust. Consumers can not only value a price promotion at the moment of purchase, but later they can feel that buying the product for the total price is a punishment. The product “*goes under itself*” with the price and suggests that it is available for a cheaper price, thus it is less valuable. Price promotions can make consumers that are less price sensitive become discount hunters. Even wealthy people do not want to be foolish by buying an expensive product that they can buy cheaper somewhere. The result is that there are price dependent products that only sell well during price promotions.

Discount stores reason that they use every opportunity for the sake of the consumers and that is why they “**knock down**” the prices. In certain weak spending power areas because of high competition there are certain stores that take over discounts in between price promotions. Stores calculate which products’ prices are so important that even the smallest discount motivates purchase. Discount stores radically reduce the price of these products, which involves the decrease of price margins, the costs of retail and the wholesale price.

9.2.4. The advantage of premium brands. The expensive and quality premium brands take market share from their own and simpler brands’ category when there are price promotions. Contrary to this the lowest positioned brands

only takes away turnover from its own category in price promotions. Price promotions of premium category products are more effective because they are less frequent. Price promotions of better brands motivate even more strongly those who do not buy the product. Cannibalization occurs when the company confronts itself. The price promotion eats up the market of the suppliers' own cheaper products, so they stay on the shelves.

9.2.5. Solution to these problems, is well thought-out price politics. The filtered pricing:

- Not everybody gets the discount, only the serious potential consumers who **would not try the product without** the discount. The goal is to make consumers who take advantage of this price promotion acquainted with the product and continue to use it. That is to say the consumer has to work for the discount, he/she needs to collect points, send back an answer letter etc. This is how “cherry-pickers” can be filtered out. Often the only people who get the discount are the curious, well-informed, or helpful types. It is useful to gradually take back the price promotion when consumers are well attached to the product.
- “Consumer loyalty discounts”. They give a **present** to the **faithful consumers** with the promotion because *“they are worth it!”* The consumers who would buy the product regardless of the promotion get the present. We can reward faithful customers with a Friday afternoon or Saturday morning “few hours long” discount. Several companies give discounts on the next purchase, linked to the previous purchase of an item. The consumer appreciates it if he gets a small present for buying his/her favorite brand or product, like price promotion from time to time...
- A „0 interest” **loan promotions** – boosting the fairly low seasons – summer season, for example. They give several days of payback grace time with no interest. In the U.K. two years pay back moratorium is offered, but only to regular and faithful clients because these generous conditions increase the risks of sale. In high seasons such as before Christmas conditions for loans are different.
- It’s an old trick to prevent cherry-pickers, promotion hunters, from **consulting each other**. For example, the store has such a short discount that people do not get wind of it until it is too late. The

discount that is only advertised in a narrow circle and valid for the same day forces consumers to a quick decision. The omission of comparison on promotions is fair in the case of discount hunters. Faithful consumers deserve a good price.

9.3. Is Price Promotion Profitable?

In the short run price promotion is only successful if we are able to balance losses. It is a minimal requirement that the turnover should increase so that the total profit achieved does not change.

Calculation: **previous margin (%) / planned margin = requisite increase of turnover**. The promotional product package is listed under a different bar code number on the wholesale price only for the promotional period because the sales of stocks that are not bought for a promotional price can cause the retailer a loss.

Table 14. How much turnover increase does the price promotion require?

Margin decrease (%)	Previous margin (%)										
	10	15	20	25	30	35	40	45	50	55	60
	The requisite increase of turnover (%)										
2	25	15	11	9	7	6	5	5	4	4	3
5	100	50	33	25	20	17	14	13	11	10	9
0		200	100	67	50	40	33	29	25	22	20
20				400	200	133	100	80	67	57	50
30						600	300	200	150	120	100
50										1100	600

Source: Tanndorf, 1998

The data of figure 2 of the high increase of turnover serve as a warning sign for retailers.

Minus:

- The increase of turnover comes with higher variable costs. This percent is deducted from the margin. Price promotion means serious work for the store staff because the opening stock needs to be taken into consideration and re-priced.
- The other retailers notice the price promotion and use it at price negotiations.

- The organization and transaction of price promotions requires a lot of precise work. Offers need to be gathered, dates and amounts need to be fixed in agreement with the supplier, and a license is needed from the State Tax Authority to even touch the cash register
- Producer, manufacturer: retailers prefer exclusive promotions that are only held at their stores. It is difficult for the producer to maintain order between almost day-by-day price promotions.

Plus:

- Surplus selling needs surplus supply, which means volume discount.
- Due to price discount, more customers come to the shop and they buy other products too.

Retailers usually top the price discount attained with the suppliers in a 1/3-2/3 proportion, for example they add an additional 5% from their price margin to the bargained 10%. Sometimes even discount with zero price margin can be found in the discount catalogue. In this case, discounted products are differently marked.

Of course, trickery also has its role here. Many shop managers order significantly more from the discounted product and after the discount period expires, they sell it at full price. There are some who don't even place the discounted goods on the shelves – or place them with an intentionally incorrect price – and later send them back at full price. This way they even earn a profit on the products. Attention must be paid to the amounts and prices on the invoices, this is why invoice control has been introduced at many companies. A significant part of perishable goods, like ornamental plants, for example, can not be used in any way after resale, which means a loss for the producer.

Large companies make their discounts based on annual plans and they even include them in their contracts with the suppliers. They determine in advance the exclusive discount periods for each chain. The annual contracts cover the price agreements, the conditions of price increases – their maximum value, notice deadlines – and the list of types and extents of discounts.

Price discount types in a retail chain:

9.3.1. Major discounts. The product is published even in the free discount catalogue of the retail chain. The marketing division of the retailer determines the product family with the agreement of the sourcing department at least six months in advance, and the product is also shipped one month in advance of photography for the discount catalogue. The copies of different discount catalogues can be compared, so the best selections can be marked, therefore these actions all serve the consumers. From time to time, an issue containing

supplier and image pages is enclosed in the discount catalogue. In this issue, suppliers get their own page or half-page, where their product is displayed exclusively in the way they require. For example, the slogan of the firm, or the characteristic color and font is displayed. In the usual discount catalogues all products are displayed the same way, thus the supplier has its chance for introducing product in these bigger pictures. The logistics department must have information on the estimated required quantity two weeks before delivery. If there is a computer system, the manager receives alerts about the discounts.

9.3.2. Minor discount. A discount announced in a smaller circle than above – for example the Profi Tipp, or Heti Sláger at Metro stores. It lasts generally for one or one and a half weeks. In this kind of discount, usually only the products of a single department are involved. Only the name and discount price of the products, but no pictures are displayed. These sheets are posted to the addresses of the “professionals” the largest, most significant customers, and are distributed only in the vicinity of the given retail unit. Proposals for products to be included in these discount sheets tailored for single shops are given by the warehouses. Discounts provided by regional centers, e.g. Coop or Mecsek Fűszért also belong to this group.

9.3.3. Silent discount, usually a daily discount, when the price of a single product is lowered for just one day. This is not included in the discount catalogue however the price tag or the customer stoppers highlight it. This is a unique discount which is not repeated every month. With weekend discounts, products with high turnover and items characteristic of the region are discounted. There are also phone discounts, when the most significant customers are notified about significant discounts by phone. Division managers of the hypermarkets arrange this with the suppliers, and those who are interested in the chain are notified in writing. Even in this case, logistics must be notified two weeks in advance about the anticipated quantities, except in the case of the remaining over-stocks, e.g. ten unsold microwave ovens, or discounts on slightly imperfect products. If possible, the manager notifies the centre via computer and often even price tags are computer-generated. In the case of fruit and vegetables the “rebounds” (sudden oversupplies) are caught – for example, an unexpected truckload on the wholesale market – and the distribution is arranged with the shop managers by phone.

9.3.4. Stock-lowering discount. The aim is to get rid of the over-stocks. An escape from the threatening, overstocks and huge warehouse costs. This kind of discount is initiated by the logistics or controlling personnel. Single-page, free

discount catalogues are characteristic of this discount. Computers alarm the managers in this case too. Sometimes the supplier initiates this, in order to sell a larger stock or to accomplish the annual target plan. At some multinational firms, the annual financial closing is in summer. Numerous producers not only think in annual plans, but even in seasonal targets. If they have not achieved their planned turnover, they discount at the end of the season. The effect of price change on the turnover varies by products and seasons. In terms of cable phone services, the mass of customers starts to react when the price difference is at least 20% (Bell Research, 2002).

9.4. Adaptation to Price Forming, Price-based Product Design

A good entrepreneur creates value and only then sets (formulates) the price. “*Quid pro quo!*” says the Roman proverb, which means “*A favor for a favor*”. The base of healthy self-esteem is to know one’s own values when making an offer to the customer. The aim is to exceed the buyer’s concern threshold, making such an offer, which is worth to deal with. The design-to-price does not mean that the price tag is designed first, but in every step of the product design, the price is taken into consideration. Cost-based price forming does not inspire reduction of costs, however even in mid-term bankrupts uncompetitive the market participant who applies it. Steps:

- **First step.** We conduct a survey among the competitors’ products, which are quite similar to our new product and offer alternatives for the consumer.
- **Second step.** We define what kind of relative advantages our product has compared to the currently available alternative products. We also ask, for example: How much faster do we supply it? How much more precisely? How much more cheaply can we offer it?
- **Third step.** We calculate our common gain on the deal: how advantageous it is for the customer, how much he/she saves and how much he/she benefits from switching to our product from the alternative. Then we compare the price with the minimal needs: production cost and distribution cost of the product, and the expected profit margin. Then we share the profit: we keep one part of it for ourselves, and give the other part to the buyer. The calculation of the profit occurs via the price formulation and bottom-up. Due to the

multitude of goods, the frequency of changes and the possibility of errors, in many places, software is used during price setting. Simply speaking: “*is there enough profit on the given market to justify entering it?*”

The rock-bottom price: the lowest, minimum price possible with the costs. We draw a red line of retreat. There is a point beyond which we cannot give any more discounts. Below this is the unacceptable price “*walk-away price*”, where it is not worth doing business. In the case of retail trade, controlling calculates the rock-bottom price for the sales managers. Producers, and wholesalers – or by greater quantity of products, even retailers – give two prices: one for the partners and the customers, and one “*confidential price*”, which they can just accept. Complex deals are divided and they form many points of margin, where they apply the price margin and calculate the rock-bottom price. According to experts, in the case of cable television, for example, there has been an eight- to tenfold difference between listed prices and real net prices (KreatívMédia, 1998, 3).

Discount rate: analysts tend to calculate how much prices go down compared to the announced prices in a given sector and period. In 1999, it was 40-60 % in the case of the advertising prices of the largest domestic television channels.

Unit price					
+ transport cost =	Tariff base				
	x tariff fee =	Payback price			
		x profit margin			
		x exchange rate security =	Net list price		
			x VAT rate =	Gross list price	
				x 1,1 =	Consumer price

Figure 12. Price forming pattern of importers

Source: Tanndorf, 1998

Month	1.	2.	3.	4.	5.	6.	7.	8.
Work phase								
The definition of the problem	→ →							
Analyzing the price strategy of the competitors		→ →	→ →					
Field research, examination		→ →	→ →	→ →				
Analysis of field research results				→ →	→ →			
Economic evaluation and simulation					→ →	→ →		
Workout of execution plan							→ →	→ →

Figure 13. Flow-sheet of price setting

Source: Tanndorf, 1998

9.5. Retail Practices in Price Forming

Successful consumer price campaigns are usually organized in the first three weeks of the month. Even in times of recession, price lowering also promises increased success.

9.5.1. Promotional pricing. A retailer decreases the price of some products under the usual level in order to keep customers coming into his shop. Such are the **loss leader products** on the insurance market, which attracts customer with low prices, so they will at least listen to the details of other products. Customers compensate the retailer on other products they buy for the profit loss. In a very hot summer, even the watermelon offered at a favorable price, or even the cheap strawberries are value products, because consumers who come into the shop for them almost always buy other items as well. In the case of many spring discounts, traders not only get rid of the remaining winter stocks, and not only bridge the low-profit period which is bound to follow the great Christmas rush, but also entice the impulse-buyer with the spring and summer collection. In the EU, even the strictest rebate rules allow short-term discounts, where – with cross-financing – even transient losses are taken by the traders based on the “**loss island in the profit ocean**” principle. Exceptions are: abuse of market dominance in a cartel or monopoly situation. The danger of frequent cross-financing is that the accountant can not follow the profitability or if he does, it is

with a half-year delay. Thus the real economic background disappears from sight and the management becomes confused.

The Law on Agricultural Market Processes (Farm Bill) forbids the selling of domestic foods under the supplier's price. However, such a situation is hard to prove, because even the producers are making discounts – often offering below each other's prices – especially in times of overproduction. Lidl and Spar produce part of their products on their own and can even avoid dumping prices.

The **prohibition of selling under supplied price** restrains price competition in the retail trade. Despite this, it is primarily meant to protect smaller-scale competitor retailers – and not suppliers. Based on experiences from foreign countries, the binding of prohibition to the invoicing price resulted in the increase of the significance of less transparent and traceable given-received discounts between suppliers and retailers. When the supplier is also interested in the deal, the rules can be circumvented in numerous ways.

According to an **OECD survey**, in countries prohibiting selling below supply price, inflation, unemployment and macroeconomic indicators significantly deteriorated in a very short time. In Great-Britain, for the complex, overall handling of problems of vertical purchase power affecting suppliers, the method of self-control has been introduced, which is laid down in the ethical codex created by the largest retail chains and competition authorities. This affects all known and possible contract conditions: from the setting of the contract conditions in writing, to the obligation to set rational payment periods, to the prohibition of post facto price lowering, to the access rules of marketing costs – market research, shop opening, shop renewal, promotional materials, to the prohibition of compensation for low profits, to the enlisting fees, and to the prohibition of shelf-fees etc.

“Enhanced utilities”, camouflaged discount, when some further services are provided along with the product. – These are harder to notice by competitors – e.g. more kinds of warranty, acceptance of credit cards, home deliveries etc. – and do not denigrate the reputation of the prestige product the way price reduction does.

9.5.2. Psychological price, odd pricing: 999 HUF instead of 1000 HUF. Prices ending with 9 or 5. Many people think about prices in “zones”, e.g. under 1000 HUF, the product is cheap, above it is expensive. The “psychological limit” or “price ceiling” are typical of many product categories where people consider the product expensive and its turnover falls back. In 1998, the category of the Mazda 323: 3 million HUF, potato chips: 100 HUF. For luxury shops, odd pricing can damage the image.

One explanation for the psychological prices ending in 50 HUF is that many customers think: “I'm going to save 100 HUF and this way I can buy some additional present, a little chocolate, refreshment etc. for myself.”

9.5.3. Multiple pricing. Three bottles of soft drinks for 99 HUF instead of one for 33 HUF. Multipack. Packaging of many identical products into one unit, e.g.

six-pack beer. Duopack contains two products, triple pack three etc. A drawback is that small shops take break them up if consumers request it. Another drawback is some retailers order too much in supplier discount periods and then they sell some individually, at full price. A “window” has to be cut at least on the top row of products on shrink-wrapped, palletted product because many customers can not tear them open. These can not be considered as multipack. They just facilitate transport. It is a basic principle that packages with handles or colored shrink wrap should not be cut this way.

Often **compound packages** can be found at shops, e.g. products are packed together with accessories, like shower gel+sponge, coffee+mug etc. An advantage of contracted price packages is the separate bar-code, thus its effectiveness can be controlled. In durable consumer goods, the set price is similar. There can be a problem as well, when some units of the package can be replaced in the shop, such as with goods which have gone bad.

Undiscounted, seasonal gift packs such as the Santa Claus gift pack are also very prevalent. The planting of different ornamental plants into the same flowerpot (combo) also falls into this category. In the case of seasonal gift packs, quality has always a greater importance to the customers, than the price. Based on the “flower syndrome”, it is also very important that the package should look very nice. For a gift, we always choose a well-known brand, because this way the effect is certain. More expensive products can be sold better this way. During the 2003 and 2004 Easter season, gift packs represented a fifth of the turnover of the domestic confectionery industry in terms of value.

Economy pack: a large outfit means the kind of packaging which contains more material than usual, e.g. 5-in-1 sunflower seed oil. Its advantage is whoever buys it, doesn't fall into the temptation of buying a product of an other brand for a long period of time. Its disadvantage is that the package does not protect the product after opening, e.g. vacuum package of coffee. It stimulate customers to a large-scale purchase. Primarily hypermarkets like it. Shops under 100 square meters are not advised to keep such economy packs, because they have neither the space nor the demand. Only special shops are exclusions. The economical **refill package** saves buying the expensive primary package, thus it is cheaper and environmentally friendly. The customer gets 250 ml for free when the product contains a bit more compared to the original, e.g. Sport Szelet Extra. Products are often made bigger only for the period of the discount.

Control of multiple pricing is measured with the **producer's own sales data**. The price and volume at retail level is not taken into account. Multipacks, mixed

multipacks, seasonal gifts, discount catalogues, timing, and psychological price levels are measured by turnover and price. Sometimes personal shop observation is included also, e.g. the observer dictates into a phone recorder, or takes photographs of the shelves. Results of these studies are used on annual price negotiations and as accurate proof to improve daily merchandising practice.

9.5.4. The display of prices. It is worthwhile to mark discount prices with a different color or size, otherwise customers are not going to notice them. – Comparing base-price by discounts, that is, beside the 30% discount the original and the discount price should also be displayed: “was–now”. A handwritten display is often hard to read and smacks of amateurism. When there is a discount, product information and the reason to buy is also advisable.

The display of item and unit prices used to be done by two methods: **price-rails on shelves** and the **collective method** – at the end of the gondola in a list-like manner. Exceptions from the display of unit price are: products below 50g, 50ml, or 5cm package units, vending machines, special ornamental packages or when many kinds of products are sold (in kits) in the same package. The price display of small and medium shops can be so incomplete, that producers – like in the case of annually changing fashion goods – make their own distinctive price tags e.g. ice cream.

9.5.5. The prohibited superficial discount. The retailer displays a false “former price” in order to make the consumer believe he can save a greater amount of money with the current discount.

In 2003, **Tesco was fined** by the *Consumer Protection Bureau (GVH)* because the prices the company displayed in its discount bulletin were not discount prices, but the higher prices preceding the discount.

The Competition Council of the GVH also charged the **bauMax** retail chain for the unfair influence of consumers’ decisions. In 2003 and 2004, the company announced the lowering of such prices which hadn’t been applied before. There is a dispute about whether or not it is legal to raise the price of the product right before the start of the discount in order to lower it again.

Quite a similar practice is the decreasing of the accessibility of cheap products, for example economy-class air tickets with short deadlines in favor of selling more expensive products like business-class tickets. After a clearance sale, customer complaints and validation of rights can mean a problem, especially when the business does not exist anymore and the shop itself imported the product.

I have been deceived at the shop – what should I do? The principle is that the settling of emerging quarrels should be tried if possible on the spot, as soon as they are purchased:

- If there is no agreement in the first round with the shop assistants, then the customer has the right to record the complaint in the customers' book, which must be kept by the shop. The manager of the shop is obliged to answer the entries within 30 days. In case the complaint has been orally made, it also has to be recorded in the consumers' book. The notary, the Central Office of Consumer Protection and the local Consumer Protection Offices can examine all the entries which have been made for the past two years.
- In the second round, the consumer can turn to the Central Office of Consumer Protection or to the local county (capital city) Office of Consumer Protection. with his complaint The case is investigated by the authority and within the jurisdiction of the office, the necessary steps must be taken. If the consumer feels that he has been disadvantageously treated in a shop or by a supplier, he can notify the local notary office. The notary is obliged to examine the complaint, take measures and answer in writing.
- And finally, the customer can notify the Office of Economic Competition.

9.6. The Category King

The **category king** is the most famous product in its category. It is a reference-product to which people compare other challenger products and brands. It is also called top of the mind product, because this comes firstly to people's minds when mentioning the category (*share-of-soul*). Usually in retail it is the category's pulling product, which is known by "everyone". Beside the category king, there are many challengers and passive products and brands. The producers of the passive products or brands (*validators*) actually do not add too much to the values of the category. But the producers of the challengers (*advanced validators*) spend much time and attention on research and marketing. The **category captain** is the producer of the category king, who is a determining factor of all the market research, surveys and knowledge concerning the category on the given market. The retail trade must cooperate with them, because they constantly come up with new ideas, developments, and research.

One category king, for example, is the **VW Golf** in the category of cars, and **Magnum** in ice-cream. It occurs sometimes, that not the category king generates the highest turnover, as with the VW Golf, but the other products of its category are compared to it. On the U.S. apple market, the Red Delicious variety group is the category king despite the fact that numerous novelties appear every year on this market, which is held to be one of the world's most popular ones. In some type of shops and circles of consumers the category king, and pulling product can vary. There are categories where there is no category king, but two or three products dominate the market.

Rules:

- The category king **must be carried by all “large” shops**. Reason: the people know and demand it. A basic condition is that it should get a proportionate attention and shelf place. The category often comes to the attention of the Competition Office. Thus it is highly advised to ask for the office’s opinion in case of merger, acquisition or brand name takeover.
- Traders coordinate selection, placement, discounts and advertisement with the category captain in the first round. In the second round, the opinion of the challengers may also be listened to. Passives do not or cannot care much about retail trade, so their products receive only little shop attention.
- **Price discrimination is needed even with the category king**. There should be at least two “luxury” and “family” varieties e.g. apple: bagged and mainline large. According to the 1998 research of the WAC, the gross profit grows by 2 % due to **two-part price discrimination**. Many American supermarkets sell the mass apple varieties (*Red Delicious, Golden*) cheaper, and the premium varieties (*Gala, Fuji*) at a higher price. According to their experience, in case of applying the same price, the image of the apple deteriorates. Due to the 20-50 % price discount applied for the bulk apples, the turnover of apple varieties altogether grew by 36 %. According to the surveys, the customer was likely to pay 20-30 % more for the premium varieties (Packer, 1998, 10.).
- **Spill-over effect**. Even the turnover of challenger products and brands are increased by sales promotion applied for the category king. Tasting has a positive effect on the turnover of the whole category, even the competitors’. Most of the products placed alone (*stand-alone*) sell worse than those placed together with competitors from the same category. According to the Driscoll Strawberry Co., berry fruits placed in a special display (*Berry Patch*) complement each other and do not reduce each others’ turnover. Price discounts however, are not characterized by spill-over effect. Consumers buy only the cheaper, discounted products.

Numerous product categories are dominated by many products and brands with large turnover (*category drivers*); a single dominant, well-known member can not be distinguished.

10. MARKET RESEARCH

10.1. The Concept of Market Research

"One should not be smart coming back from the market, but on his way there!"
 gardeners' proverb

"It is easy to be wise afterwards, but it is cheaper in advance!" – claims an advertisement of OTP Bank. It is much better to sell a product to people about whom we know a lot, than to people about whom we know nothing. Market research is an investment from which a refund is expectable. A lot of businesses are busy doing their everyday work, and are left without the capacity to observe the market in a wide angle, in a full perspective. One should get up and leave a trade meeting where the word consumer, has not been mentioned for ten minutes.

"The strategic plan cannot be better than the information it is based on."

D. B. Montgomery - C. B. Weinberg, 1979

Market research: Collecting, Analysis, and Forecast of information concerning the market. Market research produces the fundamental information for marketing. The process begins with the definition of the problem, and ends with a report containing the necessary steps or action. The aim of public-opinion polls is usually not the broadening of the knowledge of the market; however, its methods are similar to that of market research. Information: in a large sense, it is everything that influences the convictions of people.

The practice of market research nowadays distinguishes the basic research, instrumental market researches that are the usual basic means of market orientation, e. g. retail surveys (AC Nielsen), consumer research (GfK) and media monitoring (AGB). These are suitable for the mapping of a market, or to follow the general tendencies of the market. In addition, there is the occasional **ad hoc research**, when the task is single, project-type, or **concept, background market research:** expensive, complex research and mixed with special points of interest of the client company e.g. brand value observations, modeling, value and lifestyle research etc. An excellent example of the importance of market research is Philip Kotler's shoe-story.

A **shoe factory** realizes that they have a chance to sell shoes on an island in the Pacific-ocean. 1. An employee whose task is to visit shops and take the orders is available. The factory sends him to the island. The man writes back quickly: *“Everyone is walking barefoot here. No market.”* 2. The cautious factory management sends one of their agents there. The letter comes back immediately: *“People don’t know shoes here. A fantastic market!”* 3. The confused factory sends a market researcher to the island. He talks with the chief of the tribe, then some of the natives. Finally, he writes the following long letter. *“People walk barefoot here. However, they have problems with their feet. I showed them how shoes can help, and they were enthusiastic. In my opinion, 70% of them would buy shoes at a price of \$10. This amounts to 5 thousand pairs of shoes in the first year. Our transport and sales costs are \$6 here. The business represents a 20% return, compared to the usual 15%. Let’s go for it!”*

10.1.1. The three comprehensive steps of consumer market research, through the example of a small grocery.

Pay attention to what each consumer buys! A consumer file is suitable for the purpose to those who are not able to remember details. Record the customer’s name, where he/she lives plus, what and when he/she purchases in the shop. The problem with regular customer cards is the identification of the customers, since they cannot recognize anyone’s face, unlike the grocer who knows all his patrons.

Discuss with them why they are doing all this:

- How much do they spend and on what at your and at others’ shops?
- The customers’ habits, lifestyle, preferences, hobbies. Their relatives, and friends, and family events.
- Motivation research: why do they buy in your shop, and why only certain articles?
- Where do they get the information for those? How satisfied are they with your shop, and with your competition’s? The reasonable expectations of the customers towards the shop. It is easier to win over the support of the customers if the sailing ship of the enterprise goes with a tailwind, rather than struggling with a headwind!

Adjust the product assortment according to the previous criteria! „A rival will answer if we leave the customers on their own with their problems and questions!”

A company has three sources of information. Internal research. Usually, the easiest way is to obtain its own data. This is the corporate data asset. The level of expenses, the sales data, warranty data, planning data etc. are all important. **Secondary research** the purchase of external information, the commission of a market research company, e.g. ACNielsen, Gallup, or GfK Hungária. Its source is multi-client research, that is, it has many customers. Its disadvantage is that it takes into account others’ aspects as well, and the results are available for the competitors too. **Primary, focused research:** the company carries out the

market research itself e.g. creating and maintaining an address list, moreover, it might assign a market research company to gain external information only on that company. Often, even the questions are provided by the side placing the order, and the task of the market research company is to administer the questionnaires and supply the information.

10.1.2. Three different data collection aims, and thus, three different data collection methods.

10.1.2.1. Alert collection of data. Its purpose is to prevent surprises. Alert market research creates protection for the products. This is proactive, that is, initiative, anticipating the demands, not a subsequent market research, thus, providing the chance to alter the decision, or action. University students often talk with their fellow students from upper classes, which greatly influence their studying habits.

The daily, **Mai Nap**, has followed the AGB data of Dáridó, a party program for middle-aged adults, or kept an eye on the Friderikusz Show, a talk show, and if a guest seemed to have been getting along well, it assigned one of its journalists to the person. 2.5 million viewers watched **Inspector Rex**, a German series about an inspector and his police-dog, so the daily published articles about dogs the next day. Similar to that is the **Interbank Information System (BAR)**, which provides for the credit agreement data of the enterprise and private clients of the 13 member banks. Now even cellphone companies have a shared database about non-paying clients.

10.1.2.2. Passive collection of data. Its purpose is benchmarking. The determination of the dividing value, the standard, the benchmark compared to others, like a lighthouse to the evaluation of the company performance. Even athletes glance at the scoreboard sometimes to see where they are compared to their rivals. This is reactive, that is follow-up market research. University students are interested in exams they have already taken because they get a picture of their achievement by comparing their performance to others'.

In the United States the retail turnover in November around Thanksgiving is compared to that of the previous year, and thus, the expected Christmas turnover is concluded with a proactive method. Secondary, deductive demand. The demand for fresh raspberries grows if the demand for deep-frozen raspberry grows first. Experts say the increase of the Hungarian market is determined by the German economic activity. During the **Customer Value Analysis**, data is examined according to what aspects customers of certain companies choose and the performance of the company is compared to its rivals in light of this. An unsatisfied customer can be a regular customer – hostage – if they cannot find a better company, or if the rival is not significant. Sometimes unfaithful customers are questioned and the results are compared to those of the regulars.

10.1.2.3. The basic purpose of the Attacking data collecting is to discover possibilities on the market. This, again, is proactive market research. The early discovery of significant new markets, target groups and customer tendencies is an advantage over the competitors, according to the old wisdom: *"feeding on the past, living in the present and thinking about the future!"*. The real mistakes derive from the missed chances! Students in the large Western universities decide what courses to take and in what order based on the information gathered from friends, fellow students, departments and the dean's office. These all have significant influence on their future and success.

10.2. Marketing Information System

Marketing information system: the people, machines and methods providing information necessary for well established marketing decisions. In short, it is the organized flow of the relevant information providing a basis for marketing decisions. Information systems are not an aim, but an instrument. It works well if it helps. We can increase the value of our product, otherwise electronic information can harm the company! A too high standard of service might be disadvantageous sometimes. A valuable piece of information involves just as much expense and physical burden as an invaluable one.

Bertelsmann, the German media company, sold the Hungarian Book Club to the Budapesti Piac in 1998 because the book club was showing a deficit. Due to the conduct of affairs in compliance with the Bertelsmann-standard, the costs of the computer part and the registers was 10% of the turnover, instead of only 5%, and would have been profitable at 1 million subscribers, but not at the existing 0.42 million.

10.2.1. The Maturity Levels of Data:

- **Raw Data** – a group of facts, starting point of the examination, the process of studying, e.g. scanning data at the cash registers.
- **Information** – data, from which useful conclusions can be drawn, e.g. organized sales reports.
- **Knowledge** – Understanding trends, based on added experience. The world of facts can have different readings, various interpretations. An inexperienced person might absorb the huge mass of information and arrive at sometimes seemingly paradoxical conclusions. The same information might tell a lot to an experienced expert.

- **Wisdom** – Problem solving: leveraging knowledge into good decisions. The information of action that results in immediate steps. Knowledge that is not vague, that is, already useable, and has a measurable positive influence on the performance of the enterprise. Wisdom is “activatable” data, information, or knowledge. It is called practical, tacit, or everyday knowledge, or skillfulness. Knowledge is volatile, it becomes obsolete quickly, but it will not wear out from use. Wisdom is less likely to become obsolete, although it needs maintenance, like anything else. **Explaining and suggestive market research.** Evaluates the phenomenon and processes based on the results of the quality and quantity research, the theoretical knowledge and experience of the researcher, and offers solutions for the problems examined. According to American observations the typical strawberry buyer is well-respected in the supermarkets, because, according to the data, he/she spends more on food and household goods than the average customer. Thus, strawberries are a major product, receiving more media support from the chains, and producers also have a better relationship with the store managers (Kolosky, 2003).

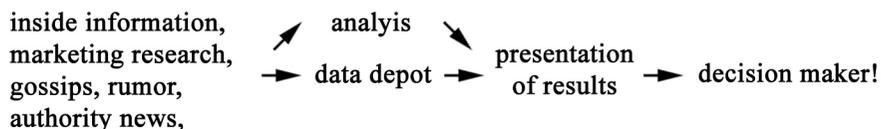


Figure 14. The structure of the marketing information system of a company

Source: Bush-Houston

10.2.2. Integrated Management System – a comprehensive, detailed computer system controlling the homogenous conduct of the affairs of the company, and reviewing and controlling its work process. With its help the management gets an up-to-date picture of what is happening in the company; two examples are SAP and Oracle. However, in practice the reasons for the development of information systems are usually concrete market problems, such as product recall. *“The real demand for the surplus information of the employers will come up, but we do not start out with that, because in the beginning they are not interested in it”* – says Attila Czigler, Deputy Executive Director of Logistics of Hajdú-Bét. MIS is only part of the company computer network e.g. the

German-American SAP, Edwards, Oracle, the ROSS-Renaissance – the system of the food and processing industry – Scala, offered to small and medium enterprises etc. The professional specialization of company management software is not a novelty.

The **first integral electronic information system** developed for a profession was MedSolution, for hospitals, created by IBM in 1965. The company managing software consists of building blocks, modules: individual elements that can be built into more modules, and are viable even if separated, and add up to a complex and clear system if joined. At first, a company need only buy a couple of basic functions, then the system can be extended step by step. Most of the systems manage the unique characteristics of the subscriber in the additional developments. In the summer of 2001 62% of the companies of the FMCG sector used some kind of an integral company management system (KPMG, 2001). The introduction of the system is mostly urged by Western machinery companies, wholesaler and supermarket chains. The following module groups are part of the integral company management system.

10.2.2.1. Production package. Production process tracking and scheduling, production management, programmed manufacturing, production planning. In case of a quality complaint, on the basis of the barcode on the product, the history of the product is retraceable within three hours “from the egg to the customer”, to take an example from the poultry industry. If the detected defect needs serious involvement, the defective product can be recalled even from the table of the customer after finding the exact customer of the specific product within moments, using the customer card, for example, in the case of the Metro company. The new product variants can be tested with the help of the integral simulation. The quick effect-examination shows what effect the manufacturing, the variation of one of the components of the product will have on the profit, on the coverage of different levels etc.

10.2.2.2. Financial/accountancy package. The first steps are usually the income and material registry modules – one of the important factors of the success of the German SAP is its cooperation with Hans-Georg Plaut, an outstanding figure of European controlling. One of the strengths of SAP is the CO (*controlling*) module developed with the help of Plaut. The advantage of the integral company management systems in comparison with the “box software” is that they make the companies rethink their internal correlation during the implementation of the system. **ERP, Enterprise Resource Planning package:** presentation, analysis, planning and optimization of the internal processes of the company. The basis for resource planning is the “fishbowl effect”, that is, the

planning center is capable of following the colleagues' every step, which is not popular among many of the middle managers of the companies. The center is thus capable of seeing their "private parties", and their subordinates can e-mail the center directly (B2E).

10.2.2.3. Commercial/logistics and marketing package. Sales support, MIS! In the case of machines, the "dealer" can order not only from the stock of the importer, but also directly from the production on a discount ratio. The dealer is thus able to work out personal financial packages. The warranty, maintenance, and the replacement/exchange data help in the planning of the new products for example. Solutions for gardening products: Famous, AgPower, Advanced *FoodSystems* (*FoodDISTRIBUTE*, *FoodEDI*, *FoodSCAN*).

In the case of the car dealer franchise systems, everything the dealer should provide is on a PC with Windows, and the rest is installed on the computer by the importer. The life of the cars can be traced from order placement to acceptance and beyond – in the case of extremely valuable cars, to further owners.

10.2.2.4. Decisions support package, the business intelligence, e.g. SAS CRM, *FoodBIS* (*Advanced FoodSystems*); and in the case of MIS, SAP-EIS. Statistical data processing and presenting the solution in order to solve economic problems. Search for the answers-hidden in the data. Practical advantage: more detailed and precise examinations, reports, and effective repetition like routine tasks. It starts up where the comprehensive and detailed module groups and programs leave off, practically supplementing them. It gathers the necessary details from the daily mass of data, turns them into index numbers and presents the results. Officials with an appropriate license are entitled to check all the measures taken on it, while others are allowed to solve subtasks with its help. The marketing tools of the decision supporting program packages are the following. **CRM, Client Response Management:** sales trends, profitability of sales, customer loyalty, customer churn, cross-selling, customers' demography, psychographs, geographical influence. **Campaign management:** from the selection of the market target directions to the analysis of the retroaction, for finding the hardly identifiable target groups and segments.

Profitability analysis: products, branches, sales units etc. **Risk management.** **Fraud reconnaissance.** SCM - Supply Chain Management: planning and management of logistics. **Data mining:** comprehensive programs designed for the retrieval of data and for the exposure of hidden tendencies and connections with the help of statistical methods starting out from a great mass of data. "Mining" the market value from the mass of data. **Data depot, data repository:**

organized database. Transforming the heterogeneous raw data gathered from numerous sources for easy use by the business analyst.

Example: In a mail-order house, 300 kinds of information were connected to a single customer. A database like this is incomprehensible for a human mind when several ten thousands of customers are involved. The decision supporting system showed that customers moving to a new flat spend three times as much in the three months following move-in. Especially, the turnover of furniture and decoration products is significant. The company issued a new "Moving-in Catalogue" and saved money by not sending any other catalogues to these people in that period.

Decision supporting programs are busy gathering data, but they do not analyze; they execute precisely, but do not think: "*they are getting faster and faster, but not smarter!*" Skeptics of technology often come up with the example of a supermarket that discovered a correlation between the sales of beer and diapers.

10.3. Market Research Concepts

"*Every profession is a conspiracy against dilettantes*" – wrote G. B. Shaw about the technical terms an expert uses to prove he is an insider keeping pace with his colleagues. Thus, we cannot avoid dealing with the concepts of market research. The **division of market research** is the following:

- According to the **nature of data**: primary, secondary.
- According to the **nature of the research**: desk research, executed far from the process, and the decision making situation, e.g. in a central location; field, e.g. at the location of the use: "*the moment of a slice of cheese*", about the cheese when a mother is preparing a sandwich for her child.
- According to the **subject of the research**: ecoskopic, demoscopic.
- According to **the nature of the result**, the most frequent division.

10.3.1. Exploratory, quality, qualitative: a market research method to discover, and understand problems, and striving for the composition of questions, e. g. exploratory research, when we are looking for new presumptions, and building new theories. Understanding-oriented research, because the ideas considered to be the final products of the research are formed from the series of feedback during the research. It is looking for the answers usually for the "**what**", "**who**", "**why**" questions. It might happen that, in the first phase of the work, the researcher – without having the final research method – seeks information for orientation for a starting theory frame, to gradually focus his

attention on the emerging important questions. Exploratory research is usually needed prior to the introduction of a new product on the market, or at the shaping of a new strategy. It is characteristic that prior researchers are not sure what to expect, or they do not understand why a process goes the way it does. Usually, it occurs as the introduction of the quantity research. Pure quantifying does not bring results if we do not understand the examined process. In these cases, we have a minimum knowledge of the problem, thus, the typical methods are unstructured, flexible, qualitative methods. Small sample market research, because it comes with the involvement of only a few consumers, it is not representative, that might be a monograph – examination of one, or a few units – as well. It is used in the following cases:

- The consumer relations, habits, in connection with the given product, need to be understood. It is better to spend several million dollars at the beginning, than end up with a deficit of several hundred million later.
- They want to use the observations, the ideas, and the creativity of the respondents. The aim is to discover the unknown, but significant problems. The saying “*What you don’t know won’t hurt you!*” is not true. Looking at an example from labor issues, it is important, because.

”Those who know the how will always find a job!

The one who knows the why will be the boss!”

Ralph Waldo Emerson

The typical example for it is the trial questionnaire, the exploratory interview, when the wording of the questions and the accuracy of the possible answers is talked over with some of the members of the target group. What works, and what does not work, in the questionnaire, and is anything significant missing from it? Similar to this is the **focus group** discussion, in another name, **discussion group**: some of the consumers of the target group are invited to a comfortable place where they discuss the ideas and plans about the product and information is gathered and at the end, they are given, usually, product samples, and PR presents. A further aim can be to get to know the vocabulary of consumers, working out hypothesis, and in the case of advertisements the early reactions. One must be careful during opinion gathering, because respondents want to live up to their own expectations, and usually they think they have to be critical, so

they start looking for mistakes. Many of them get over-enthusiastic if they are finally asked, somebody finally pays attention to them, and they start to complain about things that have not annoyed them before. It is a problem if the test material is different from the marketed product, e.g. not wrapped, not priced, it is a storyboard, or if the market researcher invites the same professional respondents frequently, or even he knows their opinion in advance. A further problem might be the influence effect of the momentary mood of the focus group. The focus group gives a group opinion based on a consensus, that is, they do not only pay attention to their personal opinion, but take others' into consideration as well.

Help, authentication:

- "brainbulding" is a regular reconciliation in advance, determining directions with the client company;
- observatory, a "plant" – person from the side of the client company;
- control examinations, checking interviews, continuous research;
- comparison with academic research,
- qualitative panel: the representative sample put together from the significant groups.

The fee of an average focus group is \$1,000-2,000. **Danubius Radio**, for example, puts its pilot programs under focus group examination. They put the group together based on age, occupation, earnings, and media consumption index (Kreatív, vol. VI, 1997, Issue 12, page 36.). Juventus Radio tests its programs four times a year with focus groups. RTL Klub tests the authenticity of its anchor people with the focus group method, to see what they do right and wrong, and what they should change. One of the TV-channels has even tested the forms of the tables planned to be used in the news program.

Concept-test. We mean by a concept a fully elaborated idea that can be the basis of a marketing strategy. A confrontation group discussion gives plenty of arguments, when the strong consumers, the enthusiasts of the product, discuss their decision with the weak or indifferent consumers. One must be careful, because respondents are not capable of thinking as creators during the testing of the concepts, and they bring up the existing examples again and again. Népszabadság, the daily newspaper, for example, has focus group surveys to test its plans, and it executes only those changes that the customers support.

Prosperity examination: forecasting by experts, e.g. the prosperity tests of Kopint-Datorg Rt. Market Trend Directory in every January. In comparison with the average consumers the well-informed experts are looking for more feasible

solutions, while creative people venture outside the existing limits also. Consider, for example: the multi-step **Delphi technique** worked out by Norman Dalkey, an expert with Rand Corp (Dalkey–Helmer, 1969). Its purpose is to forecast unexpected events with the utilization of common wisdom. The first step is asking for a forecast of probable events and the degree of possibility of their occurrence. In the second step they anonymously send the summary of these forecasts to other experts, and some of the same experts too. The experts have to say whether they agree with the summarized forecasts, whether the predicted events will occur, and when, and what their effect on their industry. Its advantage is its anonymity, the productive effect of the mutual use of the material, and the fact that those doing the forecasts never meet. Thus, the strong personalities, the prestige, or the opinion of the majority does not influence others. It inspires real consensus, since the holdouts in a given question feel their viewpoint to be reinforced, while the swingers have a chance to alter their opinion with minimum of risk of losing prestige.

10.3.2. Descriptive, quantity, quantitative, numerically corrected, quantifiable research involving great masses of people. The researchers know what they are looking for, thus the structured and quantified data collection is characteristic. It adds numbers to the studied phenomena, reinforces the already existing suspicions, assumptions, e.g. confirmation, refinement or rejection of the results of the qualitative research. In other words, this is commentary, verification research – where the objective is the examination of the cause and effect relations. For example, “*can we increase the purchases of the consumers if we improve the availability and conformity of the service?*” Representative, that is, the sample reflects the studied universe truly, and each and every element of the universe has the same chance to be part of the sampling. The focus group discussion is a very good method, but it is only the first step of the research. It does not substitute the further steps of the multitude sampling research. A qualitative market research answers questions to, for example: “**What?**”, “**Why?**” or “**How?**”, but it does not answer to “**How much?**” Typical problems are, for instance: “*How many new consumers react positively to our promotional campaign?*”, “*How many consumers do we lose if we raise the price?*”. Descriptive research is the majority of the market research work. Thus, their purpose is to present a comprehensive picture of the dominant elements of the product’s environment. Although they are not explanatory, they have certain forecasting value too.

10.4. Primary Market Research

Table 15. Division of market research methods

Qualitative and Quantitative				
Interviewing survey			Observation	Experiment
Standard	Deep interview	Product tests	Direct	
Face-to-face	Personal	Blind test	Mechanical	
In-home	Group	Compare: single evaluation, paired comparison, ranking, scaling	Remnants	
Phone		Once short interview	Testmarket	

10.4.1. Interview. Examination, where the active and subjective cooperation of the observed person is typical. An interview is active market research, since it counts on the active cooperation of the respondent. In other words, it is not enough if he does his everyday chores automatically, he has to do something for the sake of market research, e.g. he has to pay attention, he has to fill out a form, push buttons etc. This is a disadvantage, since in this case control is needed.

10.4.1.1. We can expect three basic answers from the respondent during the interview. Do not mix things up:

- **Opinion, viewpoint**, assumption, moreover guess, rumor – I don't like smoking! Sometimes, there is consumption even despite a negative opinion. In the case of "The Weakest Link", the quiz show with Krisztina Máté, everyone was infuriated about the questionnaire, but the ratings were high anyway. It was even higher than the rating of the much better liked competitor quiz show, led by István Vágó. Rumors and guesses might be interesting, but they might be misleading.
- **Intention, hope, wish**, – I want to quit gradually! Intention means planned action. It is not sure that it is a fact, since the customer is

undecided, the planned action might be altered by many things. The following questions are often added to improve answers about intention: purchase plans of the consumers and the reasons for them, and moreover the postponed purchase plans and the reason explaining them.

- **Fact** – I have been trying to quit for 20 years! The great advantage of facts is that it surveys what people do, and not what they say they would do. The supply index shows how many durable consumer goods 100 households have. Its method is the so-called stock recording. In this case, the question is what stock of consumer durables a given household has. Stock recording might lead to useful analogies. In the 1970's, the Hungarian refrigerator stock was lagging behind the Austrian one by 20 years.

Table 16. State of supply of households (%)

Appliance	1999	2001
Refrigerator	94	94
Gas cooker	84	82
Freezer	62	53
Microwave oven	38	47
Top-loading washing machine	44	40
Dishwasher	1	2
Rotating-disc washing machine	41	38
Centrifuge	37	36
Front-loading washing machine	15	21
Extractor fan, exhauster	11	13
Electronic combined cooker	8	9

Source: GfK, 2001

10.4.1.2. Interview techniques

Standard interview:

- **Face-to-face**, on the street, walking, moderator, e.g. in-store, in-hall and in-home. With printed questionnaires the *Computer Aided Personal Interview (CAPI)* ensures better quality. It means that interviewers visit the respondents with a notebook, instead of the printed questionnaires and the auxiliary material. As the effect of the

CAPI the readiness to answer and the quality of the answers increase during the interview. **Merging of the market research and selling:** we test those walking in the subway with a couple of questions, then we invite them to a meeting where products are introduced, and we might try to convince them in the name of an insurance company or a travel agency etc. They will never trust a market researcher again.

- **Written**, to be filled out individually, e.g. at the workplace, in- home, at the post office, group.
- *Computer Aided Telephone Interview (CATI)* and the moderator writes the answers immediately onto the computer. The computer takes the place of pen and paper, where the order of the questions, the optional answers, and the skipping scheme is preprogrammed. The main advantage of CATI is that it is very fast. The interviewing process takes one day, and a preliminary report can be given as early as the following day in the case of a moderate sampling. The Internet helps CATI in that the questionnaire is sent via the Internet and thus can be filled out by the respondent in his/her spare time. The purely Internet-based questionnaires are popular among those who have Internet access, like answering such questionnaires, and are really fond of the Internet the others will not take the time. The **exit survey** is done when the customer leaving the virtual shopping cart is asked, why he/she has given up the intention to shop. One frequent answer is “my boss came in.” In 1999, more than 60% of the virtual shopping carts were left on the web full of goods.

In-depth Interview. *“The behavior of the consumers is like an iceberg: only 10% of it is visible, but the place where things really happen remains under the surface”* – writes Paul Loose (Robinson, 2000). According to the subject of the in-depth interview, it usually takes 30-60 minutes. It can be individual or group. Housewives in the United States were asked on behalf of the Beef Association if they had good a selection of meat in the supermarkets. During the in-store interview, all of them said they were well-informed. However, during the in-depth interview it turned out that the customers’ self-confidence was due to the fact that they usually bought the same type of meat. Researchers found a great lack of knowledge when the respondents were asked about different kinds of meat.

According to the number of topics asked. Examination with one topic – its advantage: the client company has more effect on it! Single source analysis, in other words “multi-topic analysis”. One respondent is asked about several topics. Other questions, for example: media consumption, environmental consciousness, and product use are added to the traditional examination e.g. shopping habits,

product and brand preferences etc. **Omnibus survey** – questions can be bought in the survey which is usually carried out every second month. At the start of the omnibus wave the moderators get a pile of questionnaires, each of which contains the age, gender, and education level of the desired respondent and the location where they should find the respondents. The reviewer is happy in the beginning, since he/she finishes with the frequent combinations quickly, however, finding the rare combinations is extremely difficult and time consuming.

According to the **structure of the interview**. Structured, e.g. questionnaire prepared in advance. Half-structured, expository, that is discussion based on topics prepared in advance. Unstructured: the respondent is free to ramble.

10.4.1.3. The kinds of product tests:

- According to the **identification of the product: blind test** unpackaged product, **brand test** in market package. According to the experience those products doing well on the blind test rarely do badly on the brand test. The opposite, however, often happens, that is, the products less popular in the blind tests are often helped out by their brand. It is true until a better one than the rivals comes along. People tend to forgive a mistake of their favorites (Buck, 2003).
- According to the **nature of the comparison**: single evaluation, paired comparison, ordering/ranking, scaling.
- According to the **duration of use**: single use, trial given to the respondent to use for a short term (one week), long term use (over several repurchase cycles).
- According to the **phase of product development**: prototype – preproduction – production. The prototypes already get individual working titles before the tests, e.g. packaging: Blue-red, Blue church, Brown-red. The sensory test most of the time is the taste study, which means it assumes that the customers at least try the product. We do not choose a refrigerator by trying five and sending back four.

10.4.1.4. Methods of sampling.

According to an example from old textbooks, in 1936, **President Roosevelt** ran against Governor Landon for the U.S. Presidency. One of the popular prosperous magazines of the time sent ten million questionnaires printed on postcards all around the country, asking for whom the certain person would vote. Altogether 2.5 million postcard were returned, based on which the paper forecast the victory of Landon. The American Public-opinion Research

Institute interviewed only 300,000 people on the same topic and forecast the victory of Roosevelt. In the end, Roosevelt won by a great majority. The wider research gave a false picture because the postcards were sent to names from the phone book, and the supporters of President Roosevelt were of the poorer majority and had no telephone.

First determine the universe in connection with whom we would like to gather information. In the example it was the population with suffrage. The all-around data recording, the census, for example, is rare, because it is extremely expensive, thus, only a sample, a small portion should be interviewed, a portion that truly reflects the universe. In statistical terms: we distinguish a **sample** representing the universe, as the public-opinion research institute did in the example, and we correlate the results gathered this way to the whole of the universe. **Sampling error**, an error resulting from only asking one sample, and not the whole of the universe.

The **methods of sampling** are the following:

- **Simple random, arbitrary choice**, convenience sampling, the easy way out, e.g. the random walking interview, or every 1,000th name from the phonebook. The very convenient sampling is dangerous, because this way the person responsible for choosing will often choose the most convenient solution, and sacrifice the representative character. This is the requirement of equal chance: each element of the universe has the same chance to get into the sample. Earlier, for example, the slick interviewers of the Hungarian household statistics chose the bigger households, because those housewives usually did not work and were easily available. It is used when the universe cannot be determined with the necessary punctuality. A good technique is the so-called **“ladder technique”** or **snowball sampling**, when we ask from the respondent to suggest more respondents who are similar to him/her. The concept sampling is also helpful: by drawing of lots the systematic: e.g. every tenth, and – the typical: the universe can be divided into typical groups – which is also sampling.
- **Quota, weighted, judged, demographically balanced** sampling. two-step sampling, when the control categories and quotas are set up first, then they arbitrarily choose the respondents in the second step. It works in a way that the inner composition of the sample is graded up **“artificially”**. The elements of the sample are selected so that the different combinations are present in the sample in the adequate number, in accordance with the ratio of the universe. The price for this

is that we need auxiliary information in connection with the universe. Based on this, the groups, “layers”, set up within the universe are as homogenous as possible. It is representative because respondents are selected so that their composition reflects the universe in light of the occurrence of the chosen characteristics. In practice, in the case of the quota sampling usually a four-dimension representative sampling is used based on the data of the Census, because **(1) gender; (2) age; (3) degree; (4) residence = show the earnings-wealth** – position on the settlement gradient); are sociological indexes that more or less fix other characteristics of the respondents. Those aspects that cannot be taken into consideration are corrected by weighting. The adequately executed quota sampling is a good compromise!

- **Probability sample.** A sampling method, where the degree of possibility of every element of the universe to get into the sample is known. The researcher determines the mass of the consumers, the universe, whose opinion and habits he wants to know. He gets a list of them, and chooses names from it randomly until he has the adequate number of the respondents within the given margin of error, e.g. + or – 3%. The researcher projects the result to the whole consumer universe. It is rarely used in market research, because it needs a huge sample which is very expensive. The margin of error is also given in the case of the other sampling methods, meaning there is no use arguing against differences within this boundary.

10.4.2. Observation. Critical description based on what is observed. Observation can be used even when respondents have a hard time remembering the examined activity, e.g. when they decide. According to those visiting conferences frequently *“everything comes to light at the free buffet table”*. The content of advertisements, articles, television programs, and events are examined most often. Observation is a good method to supplement other marketing tasks, e.g. checking market research such as test purchase, or quality market research. There are two kinds of observations: passive and active.

10.4.2.1. Passive, external, simple observation.

The observer is not part of the events, and just observes a certain activity. The observer only takes notes on what a certain person does – the order of his actions, the time he spends with an activity etc. Its advantage is that cooperation

is not necessary, extra activity from the subject is not required, it is free of intervention, and people are free to do their everyday activities in the meantime.

10.4.2.2. Active, participant, ethnographic observation. During which the observer watches first, takes part in the examined process, and then asks questions. Its fundamental principle is the experience that *“much can be learned about the passengers from their suitcases”* This way, the observer can observe a customer at the meat counter of a supermarket and take notes on his/her actions. Then, the observer asks him/her what he/she was thinking when picking up a piece of beef and then putting it back in its place. The participant observation aims at the “why” not only the “what” or “how.” Adaptation: if the fact of observation does not influence the behavior of the subject. One of the examples of this type of observation is when the subject is present when a housewife prepares a dish based on a new recipe. Its purpose is to discover the functional, sociological, and psychological components of a given problem.

In the United States, researchers examined why **radios with CD-players** were not popular. They went to the shops and observed the customers. It turned out that expensive devices like these were bought by the whole family together. The husband usually chose big speakers, to prove that he was well-versed in music. Wives simply declared the boxes ugly, the husband lost the argument and the family left without buying anything. So, the company designed speakers that could be hidden, or built into the furniture, or “little smart” ones.

Based on the **degree of consciousness** it can be the following:

- Open situation: the subject knows the aim, his/her own task and role.
- Unclear situation: the task and the role is known to the subject, but the aim is not.
- Quasi-situation: the subject has no knowledge of the task and the aim of the observation, but he/she is aware of the significance of his/her role.
- Complex situation: the subject has no knowledge of the task, the aim or the significance of his/her role as the observed person. To protect the human rights of the subject, names and pictures cannot be used. Hungarian law says the pictures and video recordings in which a subject is clearly identifiable require his/her consent to make such a record. A crowd can be photographed and filmed.

Standardization can vary as well. Browsing observation there is no prepared work plan for the observer, for example in the beginning of the observation.

Fixed observation the observer can work by a known, descriptive aspect system, and assessment guide.

Content analysis is its quantification: the objective, systematic and quantitative observation of the content:

- **Direct.** I execute observation by sitting in a shop and counting how many people walk up to the shelf, who they are, and how much they choose of the product. Colgate-Palmolive filmed the customers at the shelves purchasing its toothbrush. Many of the pensioners spent a lot of time trying to read the label, thus the company enlarged the size of the print and redesigned the packaging so that the toothbrush was more visible. **Mystery Shopping.** Its purpose is to check the level of the service, and on the execution of the marketing campaigns. The anonymous test customer checks the service and the shops according to a questionnaire agreed upon in advance. The mystery shopping in the retail units of the rivals is a frequent and cheap method, too. Sometimes, only the prices and the assortment are checked, in other cases there is a complex examination based on an evaluation guide. A genuine full purchase process is not done, just inquiry in the shop of a competitor. The company's own shops, or partner shops to be examined take part in the working out of the plan preventing any kind of suspicion, moreover, sometimes a shop manager accompanies the test customer. The Shop'n Check Hungary company has a 1,000-person representative test customer team, who carry out mystery shopping within a few kilometers of their home. The necessary narrowing down can be carried out based on the target groups of the given principal. Surveying papers, advertisements, environment of advertisements, lyrics of songs and their imagery.
- **Mechanical,** e.g. barcode data and use of regular card. For example, how much more do regulars spend than the average customers.
- **Physical remains.** Case in point: the chocolate consumption of the women working in an office was checked in the dustbin, because those concerned did not admit their snacking habits in a questionnaire that had an "overweight consequence". A further example is when researchers wanted to find which of the exhibits in a museum was the most popular. In this case, those articles appeared in the questionnaires in the answers which the respondents believed being more popular or

were used in high school textbooks as examples. Finally, researchers examined how worn the floor was in front of the different articles. When first starting in business, the biggest supermarket chain, the American Wal-Mart, was willing to collect the price tags thrown away in front of the shops of its rivals to see what they were selling and for how much (Economist, 1998/8089).

- **Test market:** a small market is chosen to try the new product that is typical of the target market, but can be observed more easily. Thousands decide on what millions get. The company has a chance to observe the costs a little, see the effects of the campaign, and might even get an answer to numerous practical questions. The Test market is a cheap market research method in a favorable case, but it produces its own expenses too. Even an unsuccessful product might escape without upsetting the market. The test market, however, is suitable only for the examination of the first opinion. It is significant only if the client company and the market researcher are uncertain a reason, but it has no use if the client has already committed itself. The **colorless version of Coke** was Crystal Pepsi. It did excellently on the test market, but failed utterly. Everyone was curious to taste it, had a favorable opinion of it, but actually stuck to the original version. The test market of the commercial television channels is the weekday afternoon. The programs doing well in this period are transferred to a better time.

10.4.3. Experiment. Observation in planned and controlled circumstances. The ratio of observations executed in laboratory circumstances are decreasing in market research, and consumers are rather observed in life, under real circumstances. Such is the **laboratory test market:** an artificial shop is built in a room, products are placed in it, and researchers observe how consumers behave there. There is an extremely good opportunity for observation, since the shop was built by the researchers (hidden mirror).

Chip test. N. C. Mohn worked this out when he was commissioned by Coca-Cola. The chosen respondents are led into a room where they are shown the selection of soft drinks available on the market. The price is on the bottles, brand and packaging combinations. Then, the respondents get 10 chips, which they are free to spend based on the selection. This is the real market situation control examination. Then, the whole procedure is repeated with an assortment differing from the previous one in that the examined pop e.g. novelty is included. Any difference from the control examination is due to the examined product. The treatment and **control shop** is a good method, when the given product is removed from the selection and they observe what customers do if they do not find the product they are looking

for in the shop. The real circumstances are provided for the comparison to the control shop with similar turnover.

10.5. Secondary Market Research

Periodical and other publication indexes. They include the publications of one territory. The ripple effect of certain professional news, events can not be left unnoticed.

Trade directories, yellow pages, address lists. Lists the companies of a territory, geographical or professional. Examples: Kompass Hungária – *”compass of companies”* and Hoppenstedt Bonier – the *„business port”*.

Statistical publications, databanks.

The famous work of Károly Keleti *”The feeding statistics of the Hungarian population”* was published in 1887. The interview was executed by the teacher-scrivener, who knew the population of the settlements, and they filled out the questionnaires. The **Consumer Expenditure Survey (CEX)** of the Hungarian Statistical Office is carried out annually in great detail. Based on the statistics we might conclude, for example, that *”the significance of the time-saving comfort solutions are expected to grow with the increase of the number of the families with children and with two wage-earners”*.

Buying power surveys. The determination of the income of the consumers is difficult. For this reason researchers survey the *”the income that a person is free to spend in a household”* – the buying power. The highest buying power in Hungary was in the second district of Budapest in 2002. The community with the highest buying power per person in Hungary was Telki, while the with the lowest was in Kisbécs in BAZ county. There was a margin of 110% between the two places. Observing only buying power, Slovenia, with its 6.436 EUR/person/month, is slightly behind Portugal, the poorest country in the EU – 12. Moldavia is the poorest country in Europe. A Moldavian person has a buying power of 2.23 EUR/person/month, that is less than 1% of the buying power of a Swiss person. The local prices are also included in the **buying power index**. Based on this the buying power index is higher in Luxembourg than in Switzerland, and the buying power index of the Moldavian people is only 5% of that of the Luxembourgers.

Not only the accurate determination is complex (perquisites and illegal incomes), but the spending of the money is influenced by many factors e.g. household, family, overhead etc. as well. Researchers obtain accuracy by correcting the dictated income with variables per household.

It is calculated in Europe every two years by GfK in its headquarters in Nuremberg from the sum that one person can spend on shopping in a household, including APEH data, the spending structure of the households, and the prices of the products belonging to the statistical shopping cart of the country.

Table 17. Buying power index of European countries (German average = 100)

Country	1998	2002
Switzerland	131	128
Germany	100	100
Austria	95	100
Greece	67	74
Slovakia	38	38
Turkey	32	32
Estonia	28	32
Rumania	24	24
Latvia	29	23
Russia	18	23
Lithuania	22	22
Bulgaria	21	22
Ukraine	12	11

Source: GfK, 2002

Table 18. The price level of some of the joining European countries based on the purchasing power parity – 2003

country	price level %
EU average	100
Poland	61
Slovakia	42
Hungary	49
Czech Republic	47

Source: Eurostat, 2003

Hungarian households spend the most on housing, food and transportation. According to experience, the greatest influence on the spending of the buying power is age. Priorities change with time:

- The money spent on education and entertainment is dominant in a person's twenties.
- After thirty, people spend the most money on family and home.
- Around the age of 45 comes the midlife crisis, when we realize that life is finite, and we want to make up, in good financial condition, for what we have missed.
- For people over 50, health expenses gradually become dominant.

10.6. Techniques of Syndicate Information Collection in Market Research

Syndicate market research is an observation carried out continuously and systematically, and based on standards, that is a multi-client research, that is paid by numerous clients. The pre-financing of the syndicate market research is done by the client companies while the characteristic of the secondary research is that the researcher begins the execution, finances it, and then tries to sell it to as many companies as s/he can. Continuous – research carried out weekly or monthly, for example the household panel research of GfK-Hungária or the ACNielsen retail index.

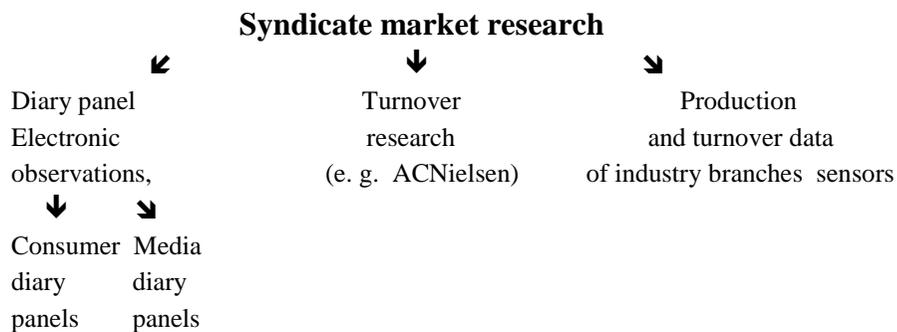


Figure 15. Syndicate market research
Source: Dillon–Madden–Firtle, 1987

10.6.1. Diary-panel research service. Information panel: consumer universe interviewed regularly. The buying habits and the media exposition are observed the most often with this technique. The former is, for example, the diary panel of GfK Hungária called ConsumerScan operating since 1993, that involves 2,000 households representing 3.8 million people. The households report weekly what

they have purchased. The market research not using a panel is called ad hoc market research.

10.6.1.1. Consumer diary panel. The modern version of the diaries filled by the consumer based on their memories is the loyalty card of the regulars that not only identifies the consumer, but it presents what, when and for how much the consumer bought (till-roll), moreover it contains basic segmentation (age, gender, marital status, address, education etc.).

10.6.1.2. Media diary panels. One of the examples of the electronic sensors measuring accurately is the “**people meter**”, an electronic device built into the TV set that reports the observed data automatically to a central computer. The system phones between 2 and 4 a.m. AGB Hungary has planted audience sensors in 1,000 Hungarian households about 3,200 people, that is representative of the 9.4 million Hungarian people above age four, according to the age, gender, region, type of settlement. 20% of the sample is changed annually. Furthermore, there is a preparatory research annually in 7,000 households about the number of TV-sets, the technical coverage of the TV channels, the ratings of the cable TV channels etc.

The first electro-mechanic device, commissioned by A. C. Nielsen, was launched in 1950. The first idea was when Mr. Nielsen sent out some students to the parking lot of the university to peep into the cars and find out what channels the radios were set on.

The **audience sensor of AGB** asks “*who’s watching?*” if no member of the family registers at the TV when it is turned on, or “*the same audience?*” in the case of a long passive period. The experts of AGB sometimes call the families and ask who is watching the TV, and compare the answers with those reported during the night. The error of the audience sensor is that it does not take into consideration if a channel is watched for less than 15 seconds. Thus, the whole selection of channels can be surfed without the device recording it. For the survey of group TV-watching – such as a football match, AGB has a guest-viewing question button on a remote controller. Radio listening is surveyed by Szonda-Ipsos in Hungary by the preprinted diary method, where the programs are on the questionnaire in fifteen minute intervals, and respondents have to tick the appropriate boxes. The talk-show stars of Sláger Radio remind members of the panel at the end of every month when diaries have to be handed in: “*Do not forget to indicate on the radio diary: you are listening to Radio Sláger!*”.

Radio listening at home, in the car, during work, in restaurants is measured by a single source device – that observes the television at the same time – causing minimum burden to the panel member. Its further advantage is that only the person within earshot is considered to be a listener.

The Swiss Radicontrol has developed **MediaWatch**, that can be worn as a wristwatch, that records radio programs listened to, or TV programs watched, three times per minute. Its user can set the watch according to what paper he is reading, and it can measure what billboards reach the consumer, for which it is necessary that the signs transmit signals. The member of

the panel places the watch into a dock station before going to bed, that transfers the data to the central computer, that compares the data with the programs of the channels. It is represented by Gfk Hungária in Hungary. The Portable People Meter of the American Arbitron records the inaudible radio signs modulated to the radio ads, so it also measures the radio listening TV watching done outside of the home pub, office, hotel or on the computer. This small device can be attached to the belt. It is represented by TNS market researchers in Hungary. *Cost-per-Thousand (CPT)* is calculated by the advertisement experts based on this: $CPT = \text{Cost of advertisement} / \text{Number of target audience in thousands}$.

10.6.2. Commercial turnover research, sales-tracking. The retail panel of A. C. Nielsen Research surveys the sales in 1,600 sample shops out of the 23,000 food and drug shops in Hungary with at least nine product groups. They gauge the total selection of the sample shops with the stock-list method, and they also get the CD turnover from them. The research audit enables clients to show not only what happens on the market with their products, but also to characterize the situation of the rivals, as in a brand map. The size of the market can be measured with the following **indicators**:

- market potential: the total of the theoretically possible sales;
- market volume: the realized sales;
- market share: the ratio of the shop's own sales compared to the market volume.

There was a retail category research study in connection with dessert grapes in the United States in 1998 (Willard Bishop Consulting Ltd.). It was shown that the dessert grapes gave 8.8% of the turnover of the vegetable and fruit category, but only took up 2.9% of the shelf space.

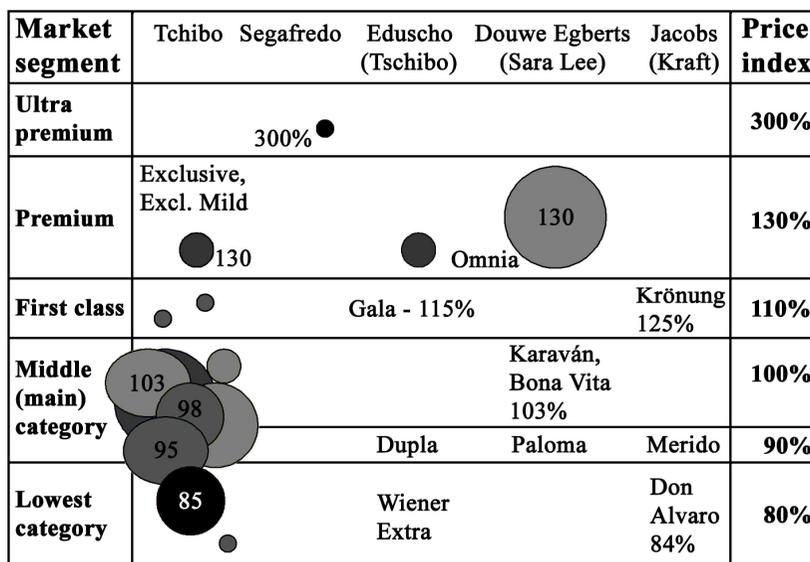


Figure 16. Portfolio and price positioning of the ground coffee – brand map.

Source: Tchibo, 2002

The “*Sales Check*” service of Lapker follows the market share of magazines and papers with a ten-day transit time based on a representative sample including 400 retail places. Data are gathered via telephone. Libri provides the sales lists regularly for book publishers.

10.6.3. Branch of industry production and turnover data. Often with cooperative work, barter, for service it gathers the data from the companies of the branch, then sells the anonymous averages and tendencies.

The University of Iowa carries out the accountancy work for hog farmers for free and sends back the averages of the costs of raising pigs, but in return it uses the data anonymously.

The cPulse Internet market research company carries out the examination of the effectiveness of a given Internet activity, using the data in return in its comprehensive examinations of the branch. An example of this cooperative work in Hungary is the debtor registry system of the **Hungarian Bank Association**, which includes the debtors’ data – at least with the sum of the minimum income – and those giving false data when applying for credit, thus protecting the banks providing the data. The client must be informed if put on the negative list it’s black list, since they might expect that they will not get credit for five years in Hungary.

10.6.4. Consumer habit surveys. People are not information tanks, but rather all-round information processors and analyzers. Quantitative market research work and focus group discussions lead to useful experiences in questions that people have thought over and decided on. However, there are complex,

undecided problems that people have not thought over. The aim of consumer habit surveys is to gather information like these.

“If someone wants to catch a fish, he has to think like a fish!”

Old Native American saying

10.6.4.1. Complex sociological examinations. *VALS (Values and Lifestyles).* There are nine groups formed in the Values and Lifestyles examination created in the United States and carried out nowadays in many places. In Hungary, Mareco Kft has distinguished 11 lifestyle groups. Eight of the nine lifestyle groups of VALS fit eight out of the 11 in Hungary. The other three that cannot be classified – losers, those lagging behind, and those resigned to be debased – belong to the demand-driven groups. Naturally, there are differences between the ratio of certain lifestyle groups within the population.

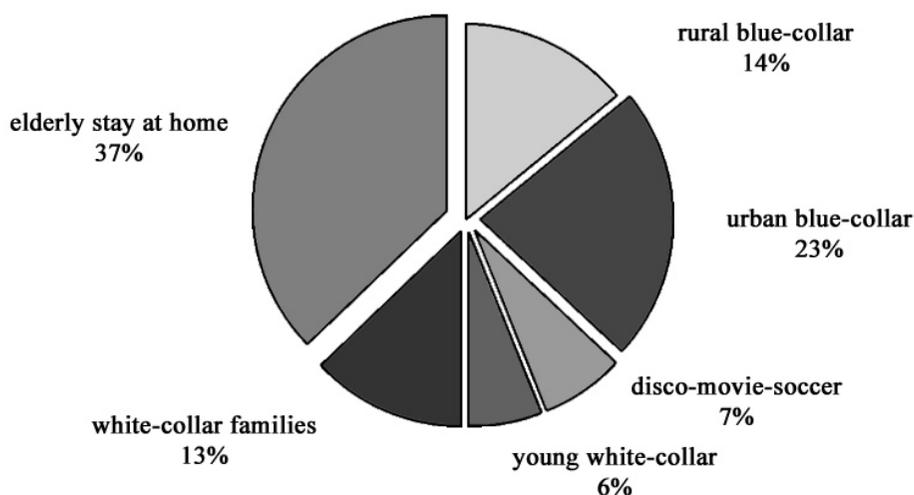


Figure 17. The rate of lifestyle groups in the active population in Hungary (1997)

Source: Kreatív Kutatás. 1998/1, issue 1.

Values are widespread beliefs that express the wishes of people. According to the research of Westel 0660, mobile phones mean four fundamental values to users: 1. safety; 2. comfort; 3. freedom; 4. care. Advertisements build on these values as well. Lifestyle is the life pattern of the given person. It is characterized by three components (*AIO*): the *Activities*, the *Interests*, and the typical *Opinions* of the given person. During the research, members of the representative sample

have to form an opinion on a great number of preformed statements of characteristics. Sociologists call the people following peculiar values and with similar lifestyle “modern tribes”. It is the characteristic of our age that it is not necessary that people belonging to one value and lifestyle group (tribe) do not have to be in connection with each other.

Table 19. Components of lifestyle and the demographic characteristics in relation (AIO)

Dimension	Examples		
Activities	Work, hobby, social life	vacation, going out, club membership	community, shopping, sport activities
Interest	Family, home, work	community, relaxation, fashion	food consumption, media, carrier
Typical Opinions	Self-estimation, social problems, politics	business, economy, education	products, future, culture
+ Supplement Demography	Earnings, age, family life cycle	dwelling, nationality, lifestyle	occupation, size of family, qualification

Source: McCarty-Perreault, 1999

10.6.4.2. Simple consumer habit examinations. Many products cannot warrant the high costs of the complex consumer habit examinations in this small Hungarian market, however, they still would like to get a picture of how consumers behave in connection with their products. The most frequent method is the examination of the Awareness→Trial→Repurchase, in short ATR. In greater detail it means the following.

- **Spontaneous popularity:** what brands of cottage-cheese do you know, for example? The spontaneous popularity does not include help in the question and opinion in the answer! Spontaneous popularity is often completed with a one-sentence characterization.
- **How often and on what?** The frequency of consumption and the use of the product.
- Further knowledge can be collected from the **consumption situation/occasion**. The situations and occasions of the consumption of chewing gum: breath freshening, rendezvous, meetings, before

dates; after meals, lacking the chance to brush one's teeth, mouth hygiene; after smoking, drinking alcohol; pastime, relaxing; during work, driving, studying: it helps people to stay awake and improves concentration, against hunger;

- **Substitution:** the rivals, lower and higher profit content substitution products. Compensation consumption: the turnover of what product suppresses demand and in what cases?

Table 20. Frequency and use of consuming cottage-cheese (1= inconsiderable, 5= consumed by the most people)

Use (2001)	Daily	Weekly 2-3x	Weekly	In two weeks	Monthly	Less frequently
Consuming on itself	1	2	4	5	5	3
Preparing warm dishes	0	1	4	5	3	2
For cookies	0	0	1	3	4	2
Sweet cream, filling	0	0	1	3	4	2
Salty, to spread on bread	0	0	1	2	4	3

Source: Veszprémtej

10.7. Specialization of Market Research Companies

Complex multinational companies. 6 out of the 25 Hungarian market research companies accounted for 70% of the turnover in Hungary, in 1999. Their advantages:

- basic research based on international experience,
- complex modeling activity (adaptation of international methods),
- they are usually expensive and concentrate on rich territories.

Market researchers specializing on industries. Most of them are already international. For example: IMS International – pharmaceutical industry – market research company with the second largest turnover in the world in 1998.

Companies specializing in one part of the activities. Example: data recording companies, AGB – measuring TV audiences.

11. STRATEGIC BEHAVIOR

11.1. Definition of Strategic Behavior

Strategic planning is not useless bureaucracy and time-wasting, because a prepared market partner has more chance of surviving unpredictable events. Louis Pasteur said: *“chance favors the prepared mind.”*

“Strategic planning is the process of developing and maintaining viable connections between the organization’s objectives, resources and the changing market opportunities.”

Philip Kotler, 1988

The three main components of business are the **consumers**, the clients, the shoppers, the **products**, and the **resources**, in more details the human resources, equipment, machines, tools, and materials.

11.2. Three Strategic Behavior Categories in Practice

11.2.1. Leapfrog, no planned behavior (leapfrog): utilizes the emerging opportunities by instinct and wants to meet the minutest challenges. It has objectives, e.g. maximum profit, doing agricultural activity etc. This is called a one-stair strategy, because it concentrates only on the next step. This weather-cock reacts late, doing campaign-like activities and sometimes panic-motivated business adjustments, similar to firefighting.

“Do not run away when the demonstrators are coming toward you, but grab the flag and stand in the front line!”

political proverb

This behavior is passive. The company is drifting with the stream, following the *“I will take care of it someday”* theory and adjusting to the circumstances only when they pass a threshold and force adjustment. As Professor Tomcsányi used to say *“it is like when two frogs are dropped into sour milk. One passively sinks and drowns. The other one begins to flounder instinctively. It churns the sour*

milk to butter and climbs out.” Passivity does not mean lack of activity, moreover crawling is typical. A Hungarian financial expert said about the end of the 1980’s that *“the following of major thought and ideas is substituted with over-zealous activity!”* (Lengyel, 1998). It is said about a person like this, that he/she is very busy, but gets nowhere.

11.2.2. Radical strategy. In the navigation model, the three basic questions of moving ahead are. *“Where am I? Where can I go? How can I get there?”* An American scientist, P. Murrell (1993), explains radical behavior with the example of the mountaineer who wants to get to the top of the mountain.

He has a map, so he knows the different ways up, and he sees the top. He chooses one way and starts climbing. He climbs without worries, following the map with the persistence of a door-to-door insurance salesman till it is clear whether he can reach the peak or not.

The navigation model divides the **strategy into four levels:**

- **Vision**, the ideal future: clear picture about the general position of the enterprise in the future.
- **Strategies**, long term processes leading to the ideal situation.
- **Projects**, major investments, the strategic processes are divided into middle term processes.
- **Tactics**, the short term steps.

This means **planning and control**, which is planned taking and holding the lead position. Military logic and army tactics are typical of thinking in a grand scale. The objective of the army is to occupy the enemy’s territory and then defend it. Company language discloses the military logic to the competitors on the market. They occupy markets, destroy enemies, attack and retreat, camouflage, use traps, demonize the enemy, have allies and ancient enemies. It is typical that the company wants to defeat the competitor rather than meet the consumers’ needs and wants. It pays undue attention to competitors, and neglects buyers. People expect companies to solve their problems and only deal with themselves and each other to a lesser extent.

The economic basis of marketing warfare is W. I. Baumol’s **market share optimization** theory (Baumol, 2003). This business policy is worked out for oligopoly companies and advises to force market share increase, because after a critical point it develops into a safe, bankruptcy proof situation. A conglomerate with thousands of employees, involved in several business areas of a country and paying a lot of tax is helped by its environment in case of troubles. There are three kinds of integrations following this direction. Vertical, Horizontal and

Conglomerate. The last one means standing on several legs, and integration into new markets and segments. A typical mistake of setting a sure and clear vision, and the program of charismatic dreamers is the promise of utopia, appealing, but floating in the far distance, with unmeasurable and unrealistic expectations. *“Hungarians have historical traditions of chasing mirages!”* say the foreigners who know us. The company is the **prisoner of its own vision**, appealing dreams, and utopia. *“It looks far, but can not see close up!”*

11.2.3. Adaptation, Evolution, Step-by-step Strategy.

The previously mentioned mountaineer needs to reach the cloud-covered peak by way of an unknown path. He/she has no other choice than to move on for a while and make sure he/she is traveling upwards. After a while the mountaineer takes a break, looks around, checks location, and modifies direction if necessary. Then he/she goes on till the next break or campsite, and repeats the process. In business life maps are rare, there is no clear track for the entrepreneur/mountaineer, and it is almost impossible to see all opportunities.

Reasonable businessmen make plans only in a well-founded time frame. Very few entrepreneurs can tell where the company is going to be in 20 years' time. “Later” is another situation, sometimes another world. Even the most talented chess masters can not predict more than eight moves. Sometime it is even not easy to tell which way is forward. Several times entrepreneurs must throw away the map and go on unbroken ground. As András Sugár of Westel – now T-Mobil – used to say at the end of the 1990's: *“Many times we tried to achieve what we could not understand!”* There is no other choice than organic development with a lot of discussion and rummaging in the mind for ideas. They plan ahead just in a reasonable time frame and develop parallel with the market. This is ongoing improvement, which concentrates on the process instead of the end result. *“We are the road, not the destination!”* – as a thousand-year-old proverb says.

11.2.3.1. Careful, patient strategy building to follow fast changes in the environment. Adaptation strategy is flexible, open to the opportunities, but target oriented and deliberate. This means regular evaluation and revision of the strategy. Carefulness is the first sacrifice that has to be made permanently in the insecure business environment (Petit, 1981). Planning is careful in long term and factual in short term. It is honorable to rely on the existing results, to synthesize and improve the reliable solutions. This is forethought development, step by step, test and correct behavior. It follows the old advice: *“feed on the past, live in the present and think about the future”*. They consider numerous opportunities and provide a set of solutions containing several versions of possibilities. A typical

slogan of careful strategy is the following: “*Retain and Improve*” (Saab Scania), or “*Invest in Reform and Insist on Results*”.

11.2.3.2. Drip irrigation marketing means that the trust of the consumer can be gained only carefully, step by step, drip by drip. The cautious buyer takes a look around, tries or just negotiates. Loyalty can be built only with positive experiences and grows slowly. Only a radical approach is needed in some closely reasoned cases, of course. The dentist pulls out the bad tooth all at once, not tugging on it bit by bit.

11.3. Four Levels of Adaptation Strategy

Permanent and stratified development can be divided into the following levels or layers. Company/Product/Brand **Philosophy, Culture, Mission, Corporate identity.**

11.3.1. Company, product philosophy, the self building power, the dominant view. Given rules and norms, behavior shapes itself to handle risk and insecurity at the company. These governing principles determine every activity, and the nature of every activity at the company, further they determine the given brand or product. Philosophy means the study of thoughts, ideas, and imagination shaping human activities. In ancient Greek it means “preference of wisdom” and wisdom means the “appropriate handling of matters”.

Company philosophy means core values, leading ideas, theories, deeper level system logic, and behavior and thinking forms related to the basic functioning of the company. These ensure that employees follow company philosophy, namely, there should be no substantial difference among people’s interests, from the CEO down to the lowest level. Values survive conflicts. If people support the corporation’s ideas, certain behavioral variations are less important. Every organization is based on two things: the extent to which people feel accepted, and whether there is justice in the way the company operates. Every workplace has its order, structure, and dynamics, and, what is more, its history. There are just as many rational, selfish, or philanthropic organizations, as there are people. These concepts determine the behavior of leaders and employees, regardless of whether they are written or not, or whether those who are affected by them know them or not. The value system based on traditions, the company philosophy, keeps factional groups together and prevents conflict and ambiguity from dominating. Thus, common values increase company identity and personal

loyalty and productivity. The company can be a work, interest, and productivity center. Basically it is the responsibility of the leaders to express the values based on wide scale agreement. Frequent personnel changes and lay offs hinder this process.

Striving needs strict **ethical values**, which help the company get through the difficulties. Marketing philosophy is not a scientific and systemized approach. It is rather closer to an individual's philosophy of life philosophy. Everyday life proves that having a philosophy of life helps people through difficulties. It is said that *"a person is like a football: if it is soft and you drop it, it stays down, but if it is firm, the harder it is dropped, the higher it bounces."*

The famous company philosophy of **3M (Minnesota Mining and Manufacturing Co.)**: *"Innovation, diversification and utilizing internal mental capacities."* It seems too general, but it helped the company a lot, because it was taken seriously. That means that it appears in everyday life also. *"IKEA morale is based on our enthusiasm, innovative mentality, thriftiness, accountability, helpfulness, modesty and simple behavior!"* (Ingvar Komprad, founder). A product, a brand can have a philosophy also. **Omnia Coffee**, the brand now owned by Sara Lee, was the first Hungarian product with a well-defined communication strategy, identity, advertisement, and philosophy. This premium category coffee was introduced in 1969 this way and still holds it position.

Not only businesses can have a philosophy. The philosophy of the Alhambra School District elementary/high school complex (U.S.) is the following: *"To love children is to educate them!"*. The philosophy of the National Medical Center and Beckman Research Institute, a hospital in Duarte, California: *"There is no profit in curing the body, if in the process we destroy the soul!"*. The mission of the hospital: *"Quality cancer treatment and research that improves survival rates and the quality of life.* Company philosophy does not always mean the positive attitude of nice companies.

"We are not doves, but hawks!"

broker company

"I collect capital, not works of art!"

Frank Lloyd/Lévai Ferenc, Marlborough Gallery

11.3.2. Company/product culture is the world of the company, its internal logic and order of activities. Culture is learned behavior, what accumulates and is inherited from generation to generation. So company culture is how the company philosophy is carried out in everyday life. Noble thoughts and great

ideas are not enough if they are not supported by everyday practice. Company philosophy is what people have in their minds, and company culture is what they do and the atmosphere that is created as a result. Company communication/public relations plays a role only in the first opinion, but it is overridden by what the company really does. Company culture has visible signs, like special company language and names. There can be different subcultures, brand and product cultures within a company.

The **operations manual** explains the company culture to the employees in detail. The operations manual and the ethical norms are based on the sum of the habits and behavioral rules already existing in the company. Successful and time-tested solutions are absorbed into the everyday routines of the organization and even into the technologies used.

An experienced senior employee provides on the job training to the new, junior employees in the form of a **“mentor program”**. It is a two sided process. The new employee and the senior expert helping him/her both win in this relation. The third winner is the company. The ancient Greek word “mentor” derives from the myth of Odysseus who, leaving to fight Troy, asked his friend and advisor, Mentor, to take care of his son. A number of companies help the junior employees to get to know the company culture with a **“handbook for new colleagues.”** Organizational capital, the sum of experiences tested by company culture, is that kind of competitive advantage or decisive strategic resource that can be copied, but can hardly be stolen. The products can be duplicated, the mission statement copied, but these mean nothing without the appropriate company philosophy and culture.

“The price is high, but that is not a big deal. The most important things we sell is the company culture!”

Disney World

To use the metaphor of H. L. Gossage, the good company culture is *“like the sun: energy radiates from its core.”*

11.3.2.1. Internal strategy. Several authors call company philosophy and culture *“internal strategy”*. Goal: the self organizing, controlling and motivating, self-propelling organization.

Company culture sets the loyalty, the motivation, and innovative readiness of the employees. The last can be measured by the number of patents. Innovation is the most important resource of long term economic development. It means

looking for better solutions by which people are able to solve problems, and make practical applications. There are jobs where innovation and creativity are expected, and where the employee must primarily concentrate on the given task. It depends on the culture of the given company too and it is advisable to ask about it in a job interview. The following statements of business leaders hint at internal strategy problems. “*We know what marketing and strategy are, but the problems are with their execution.*” or “*We fight with our colleagues and employees instead of the situation.*”

Strong company culture alone does not guarantee success. It is a mistake of the radical strategy to have “*yes people*” in the majority and so to lack critical thinkers. Correction of false objectives is missing this way. It is not an objective to copy predecessors in the coming and going generations, but to go on the way they have started. It happens that the motivated and loyal employees march hand in hand to the beat of the wrong drummer. The organization is not able to lead itself and to correct the mistakes.

A good example of this is the “**Titanic blaming**”. Two shipping companies were racing to see which one was able to cover the London New-York distance faster. One had built the unsinkable giant Titanic, and made a shortcut in an area where icebergs were prevalent. The company and the passengers believed so strongly in the invincibility of the ship, that even some minutes before the collision the captain told an officer there were no icebergs there. A well known example of the collective wrong direction is the *rearrangement of the deck chairs of the Titanic*. This was the number one matter for the officers of the ship before the collision. The illness called “captainitis” has been proven by air accidents. The staff trusted the famous, experienced pilot so much and were so awed by his prestige, that they did not dare to complain even when he made an obvious mistake. The situation is even worse when the captain has an autocratic personality (Foushee, 1984).

11.3.3. Company/Brand/Product mission. Self definition of the company, the brand, or the product. This means the self definition, the boundaries of the business and the main direction in which it wishes to grow. This is a long term, clear, profitable idea why the given business exists. Sometimes there is just an explanation of the values of the company, the brand, or the product – clear and short. Several times it sets the competitive ground, sphere, or market where it wishes to be better than competitors. In short, the mission is what the company focuses on.

The first step of finding the **right mission** is the clear picture of the given market. Then in the second step the question is “*what would happen if we had no market position?*” If they have a market position and that is not equal with the answer they calculate the price to change. The objective of this work is to find a winning position and to lead the company there. The idea is that colleagues should not follow the practice of children who go to the

neighbor to ask for something. Along the way, the children meet several people, and lot of things happen along the way, so at the end they forget why they have gone there.

An objective of a company, brand, or product mission is to direct the always limited resources to the appropriate direction. There is no market that offers no resistance, so the company must concentrate its efforts. The employees can understand the objectives of the company, identify themselves with them, and understand the strategic challenges they face. The **company mission** provides answers to the following questions:

- What markets do we target? Where do we want to be better than the competitors?
- What needs and wants do we wish to satisfy?
- How can we organize the company to meet these needs and wants?

The mission of the company is based on the mission of its products. The ideal product mission explains the **attractiveness**: why it is better than the competitors; **exclusiveness**: in what it is better than the competitors, and **credibility**: proof of the previous two of the given product.

11.3.3.1. Mission Statement Concentrating on Basic Abilities. Explains clearly to the partners and associates who influence the company, what the company needs and wants. In addition, the mission statement explains the brand, or the product it serves and how it does it.

”Vertical and horizontal transportation of people and material in a relatively short distance”

Otis Group, elevators

”To overcome distance with the help of technology - in order to solve communication problems of people, companies and cultures”

MATÁV, Magyar Telecom

”Everything for interior decoration with plaster”

Graboplaszt

”A few minutes of make up and hours of good looks”

Max Factor, 1911

Max Factor, Sr., a Polish immigrant, prepared wigs, costumes and cosmetics for the first Hollywood movies, starting in 1911. His son a chemical engineer, became the cosmetician of the stars of the “dream factory”. Max Factor even received an Oscar in 1928 for his products. The movie stars began to buy these products for themselves and gave them as gifts to their friends and acquaintances. This is how the rouge, eyeshadow and many other quick cosmetics for short term beauty became widespread.

“We desire to produce bakery goods that are part of people’s everyday consumption, and provide clean and neat snack spots in our fast-moving world”

Fornetti bakery franchise, Kecskemét

The advertising business explains – creation of the mission statement follows. As “brand” is to “product category” so “problem-solving” is to “target group”. That is to say: “XY” is a – “cornflake” – that “provides more nutrition than any other cornflake” to “adults having breakfast”. The – “for kids who take vitamin A tablets” – “VZ” – is a – “cornflake” – that is “more pleasant to take than tablets” (Schultz–Barnes, 1994).

11.3.3.2. Slogan Mission Statements, Challenge Statements. Use for an objective that needs direct efforts, is risky and can be reached within a reasonable time.

An old example is how president Kennedy set the **mission of NASA** in the U.S. “*Our goal is to get a man to the moon and bring him back safe!*”. In 1941, Robert Woodruff, the CEO of Coca-Cola when the company was a military supplier during World War II, set the following mission for the company: “*to see that every man in uniform gets a bottle of Coca-Cola for 5 cents, wherever he is and whatever it costs the company.*” They set up 64 new bottling facilities, one even in Africa. The first soft drink can was introduced at this time also.

11.3.3.3. Comparing to Competitor, Simple Slogan Mission Statements

“We are going to be the second Ford!”

Honda Auto

“Yamaha is going to be the number two motorbike company in the World!”

Honda Motorbikes

“Beat Xerox!”

Canon

11.3.3.4. Meaningless, Empty Mission Statements. Example: *“The mission of our company is to keep and increase value for our investors, while we strive to effectively and honestly meet consumer needs.”* *”We endeavor to facilitate development of a market economy, follow the interests of our employees and to serve the community where we do our activities.”*

The fastest method to identify these impractical blusters is to substitute the opposite of the statements into the text. If this produces obvious stupidity, then the original was stupid, too. A wrong, inside-out mission statement. *“Marketing myopia”* is explained by the father of the expression, Theodore Levitt, as follows.

The **American railway** companies got into financial troubles long time ago because they defined the need for rail transportation and delivery as declining. Actually the need was increasing, but the railway companies lost the opportunity. They left others to carry their passengers because they defined their business as “railroad business” not “transportation company”. The railway companies were actually product oriented instead of market oriented, which was an outside-in approach, and this was behind the wrong mission statement.

11.3.4. Corporate identity. A strategic element of a uniform, but constantly changing company, brand or product. An unchanged basis makes the product, brand or company memorable, suggest safety and differentiated from the competitors. Boring repetition has a boomerang effect, disturbing, but it is also confusing if there is no connection among the different components of the corporate identity.

11.3.4.1. Traditional, Formal Meaning explains – it is like an identity card of the company, the outside formal features, the visual connections, that can be seen by a bystander. Its objective is to show a solid face to the world. Parts of the minor corporate identity are the business cards, letterheads, envelopes, folders, and e-mail addresses which are not expensive marketing tools. Its design and upkeep costs some ten thousand HUF. It is the expression of the company, brand, or product strategy in the optimal case. It is like the identity card – it tells a lot but hides some features also.

According to the devotees of **bubble production**, it does not care about the product, just how others see it. But, nice words should be supported by content! It is a waste of time to call a service “lightning”, if the customer service calls the client back several days late! A purely visual, just masked kind of identity is like a bubble, and a bubble bursts sooner or later. H. L. Gossage, the San Francisco advertising expert, said: *“It is just a balloon – it only has a surface and spends most of its of time avoidingd pin-pricks!”*

11.3.4.2. Deeper, Substantial Meaning. Consumers come in contact with the product/brand through touch points. The following corporate identity levels have been identified by CI experts:

- **Corporate design**, e.g. company, brand, product appearance, package design, like Nutella and Tibi. This is the most frequent connection to the people. Changing it is expensive, but consumers see it the most.
- **Corporate communication**, the traditional communication, e.g. advertisements, PR, leaders statements. More is needed in this case, not just money, because the leaders must change also.
- **Corporate behavior**, company, product, brand traditional behavior, culture, e.g. personal selling, customer service, trade marketing. These are personal marketing tools. Company employees, and even more the trading partners take part in integrated marketing communication. Every employee, and colleague must change some time, so serious and time consuming education is needed.

Not just a company, brand, or product but a person, artist, athlete or politician can have identity that sends message to the world. The long time monopoly **Matáv** was declared to be a company with no identity in a 1995 market research report. A “colorless, odorless mass” was the common opinion about it and several respondents could not differentiate it from the Post Office. And these were the nice opinions! A lot of consumers identified the company with bill-paying. On the other hand president **Reagan** was known as the “Teflon president”, because no bad experience was related to his name, just as no food burns on the Teflon pan.

11.3.4.3. The four groups of CI elements:

- **Formal CI elements** = Strictly defined CI elements, the “photo”. Like: colors, emblem, names, slogans, name cards, company stationery, envelopes, internal shop design, portal etc.
- **Objective CI elements** = difficult to change elements coming from the past, the real situation, profile and product range of the company. Like: past, profile, size, number of employees, capital, product quality, technology level etc.
- **Substantial CI elements** = general elements which are not easy to see at first for customers and business partners. Like: customer service, CRM, recorded messages, handling of matters, style, culture etc.
- **Personal CI elements** = employees, colleagues, owners, typical partners. Like: appearance, clothing, professional background, negotiating style, language knowledge etc.

Corporate Identity Manual. Strict and detailed description of CI elements, and the different instructions about their use. Simply, the useful handbook of everyday marketing work at the company. It contains few final solutions and several practical principles in the optimal case. The corporate identity manual contains the necessary ideas that every marketing activity must follow. This concept was born 90 years ago following the initiative of Walter Landor in San Francisco.

The **Corporate Identity usually contains** the following:

- **Identification tools.** The emblem, brands, and colors of the company and their rationale of usage, and fonts and typography rules to use in texts.
- **Postal material.** Name cards, letterheads, envelopes, e-mail accounts, administrative material, invitation and greeting cards.
- **Trade information holders.** Negotiating tools, like agenda, notebooks, leaflets, Power Point presentation materials.
- **Special information holders.** Selling point and demonstration unit design, portals, uniforms, exhibition booth designs.
- **Indirect information holders.** Delivery vehicles, cars, offices and plant locations.

12. MARKETING STRATEGY

12. 1. Segmentation, Targeting, Positioning

It is almost sure that a consumer will be loyal if he/she has the experience that the product is designed to his/her needs and meets individual demands. Mass tailoring makes profitable the process for consumer statements like *“this is exactly what I want”*, or *“I was thinking about something like this.”*

12.1.1. General description of consumer needs, market trends and the present situation.

This means the size of the market, in volume and value, first. The Hungarian food market had 7.1 billion dollars in turnover in 1997, the Polish had 29.7, the Slovak had 2.6 and the Czech had 8.6 billion. This study contains the location of consumption, consumer and industrial markets and the recent tendencies there. The level of meeting the consumer needs and wants and the analysis of the competitors is also included. Description of the market does not mean that it can be explained, or forecasted in an appropriate way. The correct description of the market is the first criteria of the above-mentioned processes.

12.1.2. Segmentation means the mapping of the market and the categorization of the consumers and buyers. This is a process of dividing the consumers into categories according to unique demand characteristics in order to know who they are. The consumer groups on the market with unique demand characteristics are called segments. Segmentation has the initial assumption that the company can meet consumer needs and wants if it categorizes the consumers and buyers in special groups. Also, people do not like it if they are addressed as “dear consumer” and are handled like faceless, nameless strangers.

“The customer wants to be treated like somebody rather than everybody!”

“Everybody - Somebody, Anybody - Nobody!”

American sales proverbs

Aspects of forming groups:

- **Fixed, product oriented, technological** aspects, e.g. handmade ice-cream – ice cream bar (factory made); industrial, field, forced vine-ripe tomato, mature-green (ethylene ripened) tomato.

- **Market: consumption oriented, sociological, psychological** = hard to measure aspects, **demographic** age, gender, dwelling, education etc. = more objective, measurable characteristics.

Of course the most exact planning means designing to the given person, a one-person target group. This is not profitable in most of the cases. The solution is to find optimum size target groups.

Criteria of segments are the following:

- **Size** in volume and value, plus its sustainability, stability, the time factor, meaning that the behavior should be repetitive.
- **Homogeneity** within.
- **Difference** between segments.

12.1.3. Targeting means the choosing of the target group, the **potential customer base**. Target group is the market potential, the group of people who are the source of the business. It must be known whose needs and wants the producer of the product wishes to meet and whose it does not. Most of the products have primary, narrow and secondary, wider target group(s). It is a mistake if the product is against the later, or its message criticizes them. The characteristics of the perfect and the nearly perfect consumer are studied. There are associated target groups too, e.g. Schoolboy candy bar was mainly for kids, but grandma liked it also. Most of the products have the same target group, 18-34 years of age, living in the green belt of the cities, spending money independently. Interestingly, it takes three times more publicity to reach this consumer segment by television than the older than 50 consumer group.

12.1.3.1. Evaluation of consumer segments. Is it worth it to provide product to them, fill in the market niche? Value of the potential target group is estimated. How much they are going to buy from the given product annually. Is the investment profitable for the company? A critical value must be met by the turnover, because otherwise the production is not viable. The necessary investment is calculated to reach the objective.

Table 21. German female fashion buyer target groups

Target group		Population %	Spending %	2c.	Age consci- ous women	9	80
1a.	Avant-garde	22	200	3a.	Educated women	14	137
1b.	Fashion girls	6	98	3b.	Well groomed women	18	108
1c.	Farmer girls	6	65	3c.	Average consumers	20	61
2a.	Career women	7	183	4.	Price oriented women	10	48
2b.	Modern women	9	117	Total, *Average		100	

Source: Tonndorf, 1998

13.1.3.2. Study of competitor offers. It is checked if there is unmet consumer need or wrong competitor strategy. Sometimes brand new market segments emerge and competitors do not notice them. Market segments disappear in other cases and products are left without consumer basis. Dick Morris, the president's political adviser said: *"We attack the opponent, where he admits something he believes to be virtue, but people condemn it!"* it was said about Dick Morris, that the gene responsible for principles was missing in him.

13.1.3.3. Selecting the target group. Basically, three kinds of marketing programs can be set up. **Concentrated.** All effort of the company is focused on one valuable segment and the needs of other segments are ignored. The advertisements for kids are understood well by kids and young-at-heart grownups. All the others find it boring at best. **Differentiated.** Every important segment is served, but with different strategies. Different marketing mixes are created, this way. **Non-Differentiated.** The company offers the product, with the same methods to the public. There are no distinctive segments, or there are several small segments – difficult to work with separately. The companies on the small Hungarian market need wide consumer bases for the necessary volume to be profitable. They can not afford to alienate consumers with differences that are unusual for many products, obstructing communication.

12.1.4. Positioning. Understanding the market segment and fine tuning marketing concept. Consumer buys no product features, but advantages, problem solving:

Understanding. What are those consumers like, and whom do they wish to serve? They learn to know sensitive points, wishes, and dreams of a selected target group, get a grip on them and step into their world. They endeavor to understand their problems and sense their spirits, like the actor assuming his role before the performance. They live together with their consumers. They study what quality means in the given product category for the different consumer segments. The substance must be understood before the product takes root in the target group. The product should tailored to the group.

The Target Buying Incentives and the **selling points** are worked out. The basis of the marketing strategy is the irresistible offer, the selling advantage and the working out of the values of the product. This means the company's product should be the best for those who are ready to pay its price. This is the **marketing concept**: the good reason to buy the product. Positioning is the process with the objective of creating appropriate position in the minds of the target group members. The consumer will need and want the product as a result. Rosser Reeves, advertising expert, worked out the

Unique Selling Proposition, the USP in short, in the 1950's. Good, real marketing strategy is built on problem solving and reinforcing the sensitive points.

The **pollster** has a special job in American political social research, because it is he who studies what is typical to the voters of a given district, and which argument makes them move. A marketing example is when the American National Watermelon Promotion Board commissioned several universities and research institutes to study if there is enough "licopin", which is considered to have an anti cancer effect, to use it as an advertising argument. The following aspects of a target market are studied: the values, the needs, and the styles. Philip Kotler suggests the **7 "0's"** to explain these aspects (Kotler, 2000).

- Who represents the market? **O**ccupants - buyers
- What do they buy? **O**bjects - products
- Why do they buy? **O**bjectives – motivation research, e.g. candy + Christmas tree decoration
- Who takes part in purchase? **O**rganizations - persons, organizations
- How do they buy? **O**perations - action
- When, on what occasion do they buy? **O**ccasions - chance
- Where do they buy? **O**utlets – shops

David Ogilvy asks: *"What can the product do and for whom it was made?" "I could have positioned the Dove soap for the dirty handed males, but I decided for the dry skinned*

females. This strategy has worked for 25 years". The alternative strategies worked out for a given case are tested, for example by focus group discussions.

The mission of the product is set after the thorough study of the primary and secondary target group, e.g. "*Ráma is going to be the best tasting margarine in the Hungarian market!*" – when it was launched in the 1980's. This is the clear, easily understood, or "short trousers" version of the complex and professional strategy. **Connection marketing:** the points are set where the brand/product meets the consumers and can express its values in a relevant way.

The Result of the process can be twofold:

- In lucky cases at least one **selling point, big momentum**, or relevant product advantage is found that sells the product. All of the work of marketing is built on these product features in this case. Sometimes **agenda setting** is done: that means competition is concentrated on that point where the competitor is weaker. The taste of sweeter Pepsi is felt better than its main rival's taste, when the tasting is done in colder weather. Sometimes the competitor is attacked with direct comparison parallel with agenda setting. "*The new VW Polo greets the new Opel Astra*" – according to a German advertisement. The trick is that the Polo is in a smaller category than the slightly higher priced Astra.
- There are no simple advantages like this in most cases. Unframing is used in these cases. An easy to tell and appealing story is stuck onto the product in this case. Those advantages are added which are unrelated to the product. It can be seen, because the advertisement or the communication can stand on its own feet even when the product is taken out. Actually, it would fit any similar product.

12.1.5. Operative, Activity Plan, Realization, to turn ideas into results. This means working out the elements of the marketing mix following the results of positioning. The appropriate marketing concept radiates through the whole process of doing business. Activity plans are necessary to create the financial plan. Its three stepping stones are the **resources, means** and **timing**. The operative plan has three kinds of components:

- Marketing and financial data, ratios, milestones, and their measuring method and unit;
- Series of activities, practical jobs to do related to the program objectives; Timing of these two.

Two **important features of the operative plan** are the following:

- **Interrelated:** every step, data leads towards the goals, and everything is logically related.
- **Synergy:** every **step, data intensifies the others**, and increases the mutual effect to reach the objectives. The whole is more than aggregate of its parts $2+2=5$. Of course, there are mutually suppressing effects also, when $2+2=3$. Most of the bigger companies consider the plan almost like their Bible and there is a chance to change, and what is more opinions can only be expressed during the preparation for the next planning period.

In practice, simply it means the following:

- What do you wish to do with your 5-10 most important buyers? Usually they cover 80-90%-of your turnover.
- Who, when and what to do about it?
- When and how do you monitor the results?

Marketing myopia: advertising and sales promotion campaigns are calculated up to a maximum of one-fourth to one-half year ahead. This is much shorter than the traditional one year period of financial planning. A marketing campaign is supposed to cover its own costs and provide profit within a short time. Some advice for the operative plans are: Do your planning in a realistic, reasonable way. The necessary estimate of time, measures and investment should be exact. It is difficult to correct these later. *“It is better to measure two times, than cut the material wrong one time!”* – says the common proverb. *“What happens if not?”* = plan. Planners forecast what happens if parts of the objectives are not reached. The ideal, the compromised, and the “light” – still acceptable, minimum levels of fulfillment are fixed.

12.1.6. Checking, measurement and proof of results

“If one wants his car to run reliably, and not break down, it is wise to regularly inspect the oil level, the tires, the belts etc.”

W. Stanbury, PR expert

The objective is evaluation, feedback and ongoing talk with the target group to ensure that the realization of the strategy is on the right track. In short, this is the maintenance of the campaign to do the necessary changes during the process

following the practical experiences. It helps, if the company is able to see itself from outside. The best method of checking can be created with involvement of the people affected. First, it is determined what kind of information is necessary, then from where and how it can be obtained in a reasonable way. **Monitoring:** execution is broken into subsequent parts, and then, deadlines, measures, numbers, and indicators are fixed to serve the objectives. A necessary condition of evaluation is **documentation:** to put economic and market events and facts on paper, or to enter in a computer. **Ongoing analysis:** finding out if the strategy meets the target, or the targets are appropriate or not. **Management-by-walking-around:** a practical way of checking is personally taking part in the process.

12.2. SWOT Analysis

Different strategic factors have different importance, so it is reasonable to find the most important ones with respect to a company, or to a brand. The SWOT – GYELV in Hungarian – analysis goes thru the present factors, beginning with strengths and weaknesses. The second part of the process deals with the future strengths and weaknesses, the possible opportunities and threats. This analysis shows on what basis the company or the brand can be built, where it stands now and where it can go and with what amount of risk.

Weaknesses, e. g. losing market share due to ageing technology, permanent lack of paying ability, increasing time difference between sourcing, production and sales phases. **Strength**, e.g. a decentralized, creative and motivated organization, work culture, experienced employees. **Opportunities**, fast developing market, chance for cost saving, supporting government preferences. **Threats**, e.g. widening of the gap between market leaders, lack of ability to react to competitor market activities in time, losing top colleagues etc.

Company and brand strategies are described in two portfolio matrices. A popular version of portfolio matrices is the BCG matrix, which explains the situation of a company, a brand or a technology in its present and future market share and the growth potential of the whole market. This matrix can show the categories of buyers too. The “question mark buyers” are the likely buyers with investment potential. The “stars” are the buyers with cash or fast payment with obvious investment need. The “cash cows” are the reliable, but low volume buyers with limited investment reasons. The “problem buyers” cause more

troubles than the cost of the care they receive, so it is time to think about withdrawal there.

Strategic business unit (SBU) is the smallest strategic part that deserves separate strategic planning. Every single worker has an idea about his/her work. The minimal factors describing a strategic unit are the following. The unit should be professionally competent, must have measurable separate accomplishment and should have separate responsibility over its activities.

12.3. Complex Market Analysis by Michael Porter

Michael Porter, a Harvard Business School professor, has worked out the model of complex market positioning analysis (1980). According to this model, profitability of a company is determined by the specialties of the given industry and the position of the company within the industry. A strategic objective of every company is to cocoon itself in the industry by taking resources which can be defended against its competitors. Three important groups of factors have an effect on the life of a company, the **macro-economic factors**, the **micro-economic factors**, like the competitors, the suppliers, the buyers, the other market factors and the **internal intra-company factors**. Marketing deals with the second and third groups of factors, because companies usually have limited effect on the macro-economical factors. Only PR involves lobby activities and social responsibility.

12.3.1. The five forces table. First is the five forces table, explaining the market environment. It is studied in this case how many difficulties a new entrant has when entering the market. The interest of the companies already established in the market is to keep new entrants out. On the other hand a new entrant should study how much competition can be expected when they are within the market.

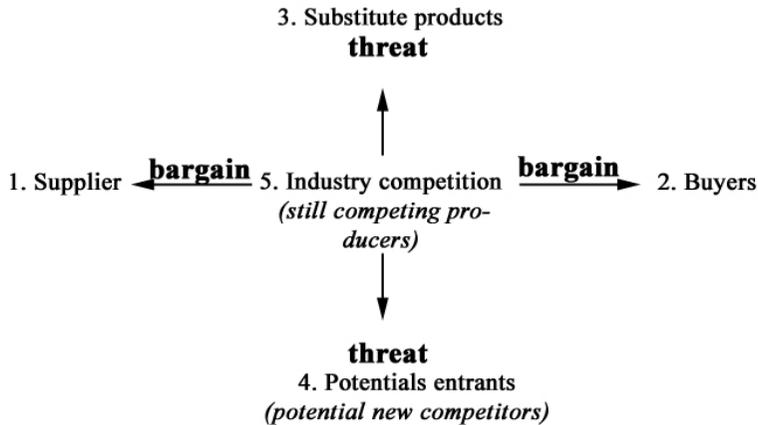


Figure 18. Five forces of Michael Porter
Source: Porter, 1980

The buying alternative products compete for the same fraction of the consumer’s purse. Competition between furniture factories and computer technology companies in the U.S. is like this. The amount of money spent on furniture decreased parallel with the increase of expenditures for home computers.

12.3.2. Industry Competitiveness, “Price-quality-niche” Analysis. It was created because the simplifying quality/price categorization is not acceptable in most of the cases. Porter suggests three kinds of general product strategies with the different mixes of business category strategies and positional advantages. This practically shows which one is the market where the company concentrates its efforts and wants to be strong. General market strategy means the company concentrates on a high volume, valuable market. These global needs can be met usually by economies of scale.

Table 22. Three kinds of product strategies

		Positional Advantages	
		Unique features	General low costs
Market Strategy	General	Differentiating	Cost leadership
	Niche	Focus, or “shotgun” strategy	

Source: Porter, 1980

12.3.2.1. Focus, or “shotgun” strategy. Big companies tend to enter high volume valuable markets. Smaller companies usually are not able to dominate

there, so they concentrate on critical points, or try to get good position on less well-served segments of the market. *“It is better to be a big fish in a small pond than to be a small fish in a big lake!”* say the old-timers. The **hiding champion** takes or creates a small market with special features for itself, where it is not reasonable for the big companies to enter and concentrates all of its efforts there. A new consumer segment, for example, means a new world of consumers, and not only does its exploration cost a lot, usually it provides a lot of difficulties during the introduction of the product serving it. Moreover, it is risky to reach the necessary minimal turnover and consumer basis to make the product profitable. So, the basis of focus strategy is the detailed and deep knowledge of the targeted niche market and the activities serving it.

The profile of the **big player in a small market** is the following. It is a think tank specialized to serve the unique problems of a small consumer segment. It is not dealing with other segments/products and gets no bid orders, but knows in minute detail the market niche to which it retreated. The “small fish” capitalizes on the mistakes of the local legal system, the misinterpretations of legal acts and the different official control and authorization systems. This is the world of atomized needs and personal services. These entrepreneurs are very creative, know a lot of tricks and use the practical methods not mentioned in academic literature. They finance their work with limited capital, a lot of hard work, and detailed practical knowledge. Local consumers can be made loyal with reliable products build on local needs, by entrepreneurs who know the local market to the minutest details.

Market of products like this is very narrow, but their production costs are usually high. This is like hunting. One shotgun covers a huge surface with small pellets, but has limited effect. The shotgun that fires bullets, on the other hand, has a huge effect on a very small surface, and therefore more precise aiming is needed. Slow, but permanent development is typical to these mini-monopolies in order to avoid the scrutiny of big companies. They are called **“competitive tortoises.”**

The company that produces **British Barbour water** and thorn resistant raincoats is like this. Their products are very popular among local farmers, fisherman and people working outdoors. The company repairs the coat at local fairs, sells only by reliable retailers, spends a lot on after sales services and has around 700 motivated and well paid employees, most of whose fathers worked for the company as well.

Price is not a decisive factor when focus strategy is concerned. A revolt breaks out if the price of the bread is raised, but if the price of honey, or organic bread is raised by the same margin, hardly anyone notices. Price is less important in a consumer decision than in the case of mass products. Usually there is a

“definitive price” or “leading price” that is followed by every important participant of the given market.

Threats and defense. The most important threat in case of focus strategy is the **change of consumer behavior**. These products usually compete only with themselves. The producer of the previously mentioned British Barbour raincoat would go bankrupt if the number of local farmers and fisherman declined. The flexible company realized the growing nostalgia for nature and its products gained popularity among London’s upper-class teenagers, too. The psychological definition of flexibility is a capability that makes possible changes, the adaptation and cooperation with unknown things till this point. Another threat is the **entrance of bigger companies to the grooving market**, because its size reaches the limit of their scope. The multinational companies calculate following a “segmentation, targeting and positioning strategy” if there is a potential to enter a market. A frequent threat is when the herd of small and short term minded investors and cheating fortune seekers realize the growing market, leap in and probably later jump out.

Traditional **protection** against these threats is solid professional and market knowledge. Lacking these skills there is no reason, for example, to open a new neighborhood shop, because it just makes loss and the investor soon starts up a new business, as was typical in the 1990’s in Hungary.

Yet another solution is **“bundling”**, meaning the entrepreneur with high market share in a small market invests in other appealing businesses related to the well known original one. There is not much need for further development in the original market, but the new technology adapted to it ensures not putting all the eggs into one basket. One business pushes the other in case of **“multicorner” marketing** like this.

Alternative consumption. According to the studies of sociologist Pierre Bourdieu, people have two kinds of capital, economic capital and cultural capital. People tend to consume alternative products against cheap mass products, when they wish to prove their economic and cultural capacities. They prove their higher social status by showing they are able to differentiate the sophisticated product from the mass product, the best from the merely acceptable. Sociologists say people can improve their social status by development of their tastes faster than by any other way.

12.3.2.2. Differentiation strategy. There are product categories where no market niche emerges. Differentiation or global segmentation is built on needs and wants not relevant to location and time and to “taken off the shelves”

solutions. Typical global products are cosmetics and medicine. The tooth of an Ethiopian or an Eskimo aches the same way, so why local pain killers? Global companies do not study in minutest details what is different in markets, but what is common in them. *“Market segments are rarely unique, there they have brothers all around”* said Theodore Levitt in 1993. Those products that we have been using for along time can serve our needs and wants too. Porsche and Mercedes are like this – they are what is produced in the same high quality for everyone in the world. The most important is that the *“world champion”* should be the best in every aspect. Giuseppe Bencini says the slogan of Pirelli luxury tires is the following. *“Good products, good buyers and good prices!”* This is what Philip Kotler calls the *“more-for-more”*. The motto of this concept is *“Not that medicine is expensive which is high priced, but the one that is expensive is the one that has no healing effect!”*

The second most important feature of a product with differentiation strategy is that it can be recognized within the category as unique, and can be identified from afar. Its owner or user is proud of it, so wishes to show it to everyone. These features are protected to a great extent by law and marketing, like the front cooler cover of the Mercedes or even the red color of Ferrari sport cars.

Successful differentiation strategy has its spectacular result, the high prices, loyal consumers and a lot of envy. Price sensitivity is low on the best premium products except in recession times. They proudly stand in ahead of the herd of challengers, who all want to defeat the champion. An important rule of this strategy is being brave enough to attack ourselves. This means to permanently attack our own perfect product with new versions. Anyway, challengers do it! Alfred Zeien, the CEO of Gillette, which employs differentiation strategy, says *“we always increase our R+D and marketing budget at least at the same pace as the turnover increases”*. This means innovation is permanent and so fast, that competitors can not copy the products. If not they are the first to invent, they immediately copy, buy or take it and block challengers this way.

The **philosophy of Gillette** is the following, *“we consider Gillette as a huge research institute, where R+D is more important than production.”* This company is like an innovative medical factory producing original medicine. A wealth of innovations protect the Mach 3 razor of Gillette, e.g. 37 registered patents and 200 innovations were used on the special production machinery to make this batch. Gillette even has a special shaving research institute in Boston. “Trade up”, when the innovation persuades the buyer to pay the high price for the product plays key role in case of super premium products. Two economists at the Michigan State University explained in 1999 that the share prices of those American multinational companies which spent a lot on R+D increased fast and the shaper prices of

those who hardly spent money on R+D decreased. The real lesson of the study is that size is not enough when going abroad.

What is a global product? Avon Products Inc. considers the following of its brands global (Kreatív, 1998, No. 1-2, Vol. VII.):

- It is among the first three in the six most important markets in its category.
- It produces more annual income than a given sum.
- It has features that make its advertising support possible. Even global companies take into account the local situation and taste.

Pizza Hut is the only one global pizza company, for example. They knew in 1997 that pizza was not considered the same in different parts of the World despite the idea that “pizza is pizza”, and global pizza consumers existed. The consumers, the market situation and the legal regulations can differ, and different activities were needed as a result.

1. The champion. In Asia, cheese was not known and was rarely consumed. The general opinion about roasted cheese was that it was not strange, but not bad. Asian teenagers said pizza was fashionable and worth eating. Pizza Hut had very few competitors so the first serious company entering the market became the champion in this situation.

2. The “innovator”. The market share of Pizza Hut was not lower than 50% in the big markets of South America, like Argentina or Brazil. They could introduce a lot of new products using local distribution and image power.

3. The “master of market niches”. Pizza Hut had to compete with a lot of local pizza restaurants in North America and Europe. There are several exclusive Italian pizza restaurants and the Pizza Express chain in the U. K. The pizza ordering network, called Telepizza was serious competitor in Spain. Domino’s Pizza is a threat in the U.S. etc.

The revolt of people. Need for the globally best products was explained philosophical depth and in spectacularly for the first time by Ortega y Gasset in the 1930s. He has shown that more and more people demand goods and opportunities which were available earlier only for the privileged. Bathroom of our days for example was the privilege of the kind 200 years ago. Nobody wishes to be the patient of the dentists of the nineteenth century. King Mathias was not able to eat roasted potato or tomato soup.

Differentiation strategy is not a choice, but a must for numerous companies. Increasing R+D costs combined with the fierce R+D competition force more and more companies to enter new, foreign and global markets. Half of the former West German market was enough for Siemens to cover the cost of developing a new electro mechanic switch. Today even 20% of the world market can hardly produce the necessary income to do the same.

A disadvantage of huge global companies is the **decrease of efficiency**. They must take part in challenging and risky R+D projects to protect their leading role in the market. Huge bureaucracy, scattered company structure, and slow decision making are the result of numerous local needs and rules, with lots of jobs and people under the company cushion taking more value than they give. A

multinational company is like an ocean liner which can not be turned around in a few seconds. It is a challenge for these behemoths, that the market utilizes capital more effectively than the management and the smaller competitors win. One-third of the world companies on the 1980 Fortune list of biggest in the world had lost independence by 1990, and a further 40% disappeared from the list by 1995.

12.3.2.3. Low cost strategy. It is not always reasonable to go for top needs and special wants because that can have a high price. The low cost products belong to the mass produced price warrior segment. The main advantage of the product is the low price parallel with still acceptable quality. This means the company understands the financial pressure on the consumer's wallet, and wins by not charging for useless service, prestige, design, advertisement, rent and human resource costs.

The slogan of hard discounts is "*Buy it cheap and in bulk!*" and "*Cut-price, no-frills*". It is not always junk that is cheap, like the rag rug-really useful, but not a hand made Persian carpet. Its target market is the millions of faceless consumers. The perceived expertise is low because mass production is its most important condition. **Added value** is based on expertise in case of other two strategies. It is proven by myths, secrets, secret formulas and marketing gimmicks connected to these products. Low cost products are camouflaged in everyday life, and only their price is spectacular. There is not much difference among products and brands of these categories. The same canned mushroom is used by the housewife, the company buffet, and the chef of a famous restaurant – and it is the same in Germany as well as China. The demand for low cost strategy products is very price sensitive. Not market, but economic political and technical risk is important in this case.

Several industries use "sampling", meaning that some original parts are bought from the original producer and built into the mass-produced product. Technology utilizers in computer science, clone or generic manufacturers in other industries, and pill poppers in the medical industry are like this against the technology creators, and innovative manufacturers.

Ambush strategy makes use of the mistakes of original, or innovative producers. They produce "me-too" products following the opportunities of the law with "slightly-changed-to-be-legal" technologies and products. They beat down the prices, and the first victim of this activity is R+D in the given industry.

Dangers of low cost strategy are the following:

- A commodity trap is that the minimum required quality must be met. “Cheap” is not the same as “junk.” The term “cheap” should not mean low quality. Mass producers use the term “affordable” instead of “cheap”. The Citroen CV was called the ugly duckling, or the Dutch cheese on four wheels, and its target group was French students. The designers were so thrifty at the beginning that a manual windshield wiper was built into the first series.
- Another danger is not being thrifty enough, what means putting expensive parts into the price affordable product. “*It is useless to put Mercedes wheels on a Trabant*” was a saying of professor Tomcsányi.

There is one further negative case too, called “*stuck in the middle*”. This means the lack of segmentation, targeting, choosing not one, but all three of the opportunities.

13. ADVERTISING/MARKETING COMMUNICATION

13.1. Marketing Communication

"It is not enough to lay eggs, you have to cluck as well!"

A village hen

"Nothing can be sold at a discount price if nobody knows about it!"

advertising proverb

Communication is the solving of problems deriving from the lack of information. Often, people are not aware that there are even better offers waiting for them. Not all the problems mean the lack of information, and blitheness is frequently just one of the factors of a complex problem. A typical problem of communication is when customers are not aware of one of the characteristics, significant for them, of a product. The *"we also managed to get it"*, and *"if someone wants to know about us he should be able to read about us"* are not real reasons: these are not business objectives, they cannot be measured, their fulfillment cannot be verified.

13.1.1. The position of marketing communication mix

13.1.1.1. Personal selling. Face-to-face introduction of a product for a small group of customers at a time.

13.1.1.2. Mass selling. Declaration in order to sell to reach a large number of customers at one time.

13.1.1.3. Advertisement. Declaration to promote the sales of a product (EU governing principle in 1984. No. 84/450), communication with economic purpose. The regulations created as EU provisions immediately override the national laws. On the other hand, governing principles need adaptation into the national law, and are not to be nationalized word-by-word, but only the most significant elements of the content shall be adapted.

The following, to be precise:

- It shall include brand or commercial name in all circumstances. The "face" campaign of the SB pharmaceutical company, for example, only drew the attention to the importance of the prevention of Hepatitis B virus.

- Explains the use of the product, and its advantages.
- Paid, rendered communication.

Goods: product, service, estate, law and liabilities, conception, feeling, or idea in commercial circulation.

We are proud to declare that the first phrase referring to marketing, and advertisement precisely, was in connection with horticulture, wine to be precise. The eruption of Mount Vesuvius in 79 B.C. destroyed the city of Herculaneum – at the same time as Pompeii – some **ancient advertisements** were left for us. The most famous goes like this: *"The excellent wine you drink here makes love hot"*. Our profession has something to do with the first advertisement campaign too. In the first 1907 edition of the Encyclopedia Britannica, the market organizations of the agricultural producers are already present, mainly as advertisers. The brand "Sunkist", which rightly has world-wide fame even today, was established in 1908 by the orange growers of California in order to manage their promotional campaign.

13.1.1.4. Public Relations. Marketing is basically a consumer-centered activity, but on the other hand PR aims not only at the customers, but other people or groups significant for the enterprise: authorities, the civil world, the media and the rivals. The organization influences public opinion methodically with the PR activity, building and maintaining a favorable social and political environment.

13.1.1.5. Sales promotion. Increases buying will by giving discounts to the customers, or to the trades people, achieving quick sales results (trade promotion).

13.1.2. Lasswell model

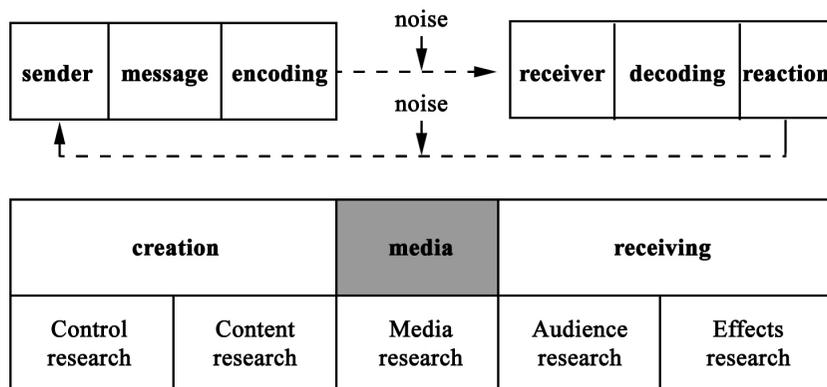


Figure 19. The marketing communication based on the model of Harold Lasswell
 Source: based on Lasswell, 1948 and Kindler, 1988

Harold Lasswell, sociologist, presents who says what, in what channel, to whom, and with what effect. Everyday language interprets communication as statement / notification, that is a message, transportation of content among people. During the course of advertisement communication the information is formed into advertisement and it is published on a medium of advertisement. Media plays the role of the postman, transmitting information, sharing them with those concerned.

In the **course of this circle** the communication source, the sender, sends the message coded, that is, transformed into symbols, to the receiver, who translates it to himself, that is, decodes it, and answers it, reacts to it, in other words, gives feedback to the sender. This communication process is interfered by the noise, the unplanned external distortion in the process. One of the magazines for men, following Western examples, sent graffiti artists to spray real supporting opinion on its giant posters calling for the vote for the most beautiful woman. Finally, the spraying had to be suspended, because others also started spraying the posters.

13.1.2.1. Message: every product contains some good news it is just that sometimes we have to try hard to figure it out. Message, content: the message the advertisement is built on = *“That’s me → This is why I was made → Buy me for this!”* Content is the best means to make an advertisement successful. Without a proper and strong thought advertisement is only a “thoughtence” a “bright nothing”. Advertisements do not solve problems they just refer to how the advertised product does it. **The parts of the message are the following:**

- **Content:** what it wants to tell.
- **Elements:** parts of the message, sub contents.
- **Structure:** the sequence of the elements and their relation with each other.
- **Treatment:** the principles of communication and the elements of the content, the form of its structure.

One of the fundamental principles of the message is that it has to be simple, despite the fact that it is created with a lot of work and sophisticated techniques. It is a common mistake that the advertiser wants to jam too much information into a couple of lines, or seconds. It is like when we throw many balls to a person, he/she will not be able to catch any.

13.1.2.2. Coding: marketing experts compose the message with artistic means.

Media: carrier, transmitter of the message, the communication channel, the advertisement surface, e.g. press, TV, or radio. The sender itself can deliver the

coded message to the receiver, such as personal sales, or it might assign a specialist. The great megaphone: media is just a tool, it can strengthen the coded message! Media, traditionally, affects all five of our senses: seeing, hearing, touching, smelling, tasting.

13.1.2.3. Receiver: consumer, customer, user, trades people. In case of the verbal advertisement, in other words the virus advertisement, the receiver is the one sending forward the ad, and it spreads automatically according to the domino theory. Without an initiative, it does not work, for example numerous Austrian inn owners give free postcards to their guests, so they can spread the fame of the inn and its programs.

13.1.2.4. Response: 1. refusing, 2. liking, 3. buying, 4. loyalty. All kinds of answers, even 'no', means some kind of a feedback.

Noise/wall unplanned external distortion, when the process does not work, the message, the feedback does not come through. Physical **wall/noise** is when the receiver cannot get at the communication physically, e.g. a given channel cannot be received at a given place. Receivers can actively choose what media, what message and to what extent they take it into consideration, and to what extent they believe its content.

An advertisement can hit **four kinds of walls** other than the physical wall/noise:

- **Requisite wall** – receiver problem = who is it aimed at? The target person does not need the product. It is irrelevant to him it does not solve his problem. He has nothing to do with the advertisement, and does not understand why it is necessary. It is also frequent that the target person is not in a "state of readiness". People are reached by huge masses of information, so they have to filter out the significant ones. An average American came in contact with 1500 advertisements a day in 2000. The monotonous noise of the flow of information means that the target person cannot do anything else than to rise above it and to filter out what is important to him. The plant protection experts of the big farms do not need brochures, since the representatives of the producers "chase" them anyway. They get all the information personally. The demand of people for information in connection with **baby food** varies with time. The interest of families in it suddenly grows when they decide on having the first child. Prior to that they do not show interest, and it decreases afterwards. Many take the useful information indiscriminately, if it is poured on them during their **relaxation time**. Moreover, great advertising can kill a poor product faster than no advertising at all. It convinces the customer, he/she tries it and becomes disillusioned.

- **Comprehension wall** – message problem = what does it say? The target person does not understand the message. He cannot understand it, cannot interpret it, so it does not reach his mind. The simplest example for it is the communication in a foreign language.
- **Opinion wall** – source problem = who says it? The negative opinion of the target person of the product, or the sender of the advertisement. He/she does not agree with it, and fundamentally refuses it: a smoker does not read the article against smoking, but turns the page. It might happen that the message can be interpreted in several ways, and the receiver misinterprets it.
- **Unclaimed advertisement:** it is hard to remember the sender, or the source of the solution for the problem. It happens in the case of many of the good products or trades people that the customer forgets about them when ordering. People think they will be useful in the future, or it becomes so natural that they do not consider where it is from. Imprecise memories often create benefit for the rivals. One of the trades people holds his presentation, then the rival sells the product, and gets the money. **Spam** = an unwanted advertisement letter on the Internet. Many people delete the e-mails with unknown origin. Similar to that is the fax advertisement, which cannot be stopped, and occupies the place of fax messages that are waited for, and it wastes paper, so it lands immediately in the wastebasket. The negative image transfer might have negative effects. In the case of the controversial reality shows, companies advertising certain premium category products forbid the broadcast of their ads during the program. In the case of the virus-spam the person providing the e-mail address of relatives and friends gets a reward, or incentive. The word ‘spam’ originally means luncheon meat in English. This use spread from one of the humorous scenes of Monty Python, where it stood for annoying, pestilent things. In the scene a couple would like to dine in a pub full of Vikings. It turns out that all the dishes are made of spam, and the Vikings start singing songs praising spam every time the waiter utters the word. Since this time it has stood for anything “*you haven’t asked for it, but you get it anyway.*” (Antenna, 2003).
- **Situation wall** – channel problem = how does it talk? Due to the environment, or the situation of the receiver, the way the advertisement is presented is unacceptable for/to the target person. The situation of the radio listeners makes it difficult to transfer too many accurate pieces of information, despite the fact that they understand them, e.g. background radio listening in the car or during cooking, or cleaning.

Only a few will start taking notes. Radio, then, needs divided attention moreover it is often a “noise curtain”. It happens that the television is only in the background, as during cleaning. The radio channel advertisements repeat so much in accordance with the “the word flies away, but the idea should stay” principle. It exists with the written press in certain instances, such as browsing, or it is characteristic of certain types of papers, e.g. free ad papers. **Background consumption:** people do something in the meantime, so they do not pay close attention to it. In the case of the ad cemetery, there is no attention at all, e.g. at a construction site, where the fence is substituted by giant posters. Drivers cannot look at all the posters. A lot of important information might be lost in the crowd.

13.1.2.5. Solution. The motto is the following: *“Either make the customer’s life easier, or do not bother him!”*

Addressable ads: advertisement based on the detailed and accurate information gathered about the target group. The ads broadcast during the Super Bowl in 2002, were available on the homepage of AOL, where several million people watched them. Integral marketing: customized and taking into consideration all the factors of the marketing mix, e.g. cross-media “mixed” advertising activity. A “clear” campaign uses only one advertisement tool.

Interactive advertisement: the target group can ask for more information based on the ad. It does not overburden people, it does not only talk to people but, listens as well, having a discussion with people. For example the free green number (06-80), and banners on the Internet. According to a survey, only 1% of the people click on them. Interactive advertisement gives a chance to choose. Let them feel that they are the boss! Interactivity becomes a burden if people have to cooperate when it is not convenient. It means the time, place, and way of the cooperation, and the choice to be alone when people feel like. The customer is not ignored, but left alone. Interactive advertisement is good for involving renitent customers. The typical switching intellectual likes, if he/she is not convinced aggressively, but feels cooperation, and realizes that purchasing is necessary.

Del Monte sells its pineapples in the United States with the label on the fruit containing a free phone number. By calling the number a pineapple cook book can be ordered for free. Thus, cook books are not wasted and consumer loyalty can be built.

13.2. The Division of Advertisements

13.2.1. Based on their effects. Advertisement is an orientation, helping consumers in decisions. New knowledge, new competence, experience, skill can be gathered from ads. Someone who watches ads is curious, and would like to learn! However, he/she wishes to learn not with tiring cramming, homework, difficult exams, and harsh grades, but through pictures, spectacular presentations, and proofs (fluid learning). One might learn from a nicely furnished room, or a delicious looking dish. The educational ads want to show that the product is useful in everyday situations. Regular promotion proves that the company is committed to its product.

According to the teachings of Aristotle “**rhetoric**” is the skill that helps the speaker to find the right forms of reasoning that convinces people. Rhetoric is the art of efficient speaking and writing. In the words of Aristotle the three most important forms of reasoning are “logos”, “pathos” and “ethos”. Logos: the logical components of the reasoning. Pathos: the feelings generated by the speaker. Ethos: the fame of the speaker, his social judgment, reliability, and status, e.g. “*Our company has been widely known for 100 years due to Your trust*” The decision someone makes during shopping is influenced by three factors: the head – rational thinking, the heart – the feelings, and the guts – with which he feels pleasant.

13.2.1.1. Informative advertising, commercial information. The definition of Albert Lasker, the father of advertising, is valid in this case: “*Advertising is nothing more than a printed sale.*”

The **first printed advertisement** was published in 1472, nailed to the gates of the churches in London, offering books of prayers. The English trade-people informed each other of the market news with News Letters in the 15th century. Informative advertisement is the classified ad, or the business card, which is in most cases an announcement explaining who the advertiser is, what its profession, and how he/she can be contacted. However, it can be detailed as well, e. g. a brochure, a catalog, a folder, moreover, a 30-sec advertisement block on TV.

The informative advertisement uses texts that sell the product directly. The message of the offering and testimonial ad is straight-forward, resolute, offers direct advantages, cannot be misunderstood, and contains numerous reasons for buying (call to action). It is often like the door-to-door salesman, who speaks fast, because his principle is: “*the more information I give of the product, the more I will sell.*” Realism, the naturalistic projection is necessary when the details represent convincing reasons. “*We utter the message word-by-word, and do not let the consumer put it together*” – wrote Richard Kirshenbaum, Creative Manager of KB&P advertising agency.

The *business-to-business (BTB, B2B)* advertisement aims at the entrepreneur, the expert, from whom rational calculation and knowledge is expectable. Experts wait for the data that are unnecessary, dry and boring for the outsiders, and are not annoyed by being given technical data, or parameters. Every new development of their profession, which gives them advantage against the rivals, gives them pleasure. The other big use of the informative advertisement is the circle of products with low emotion value, the purchase of which most of the costumers wants to get over with quickly.

Informative ads are usually “text heavy” and informs about the product without ornaments, but not necessarily “documentation boredom” According to advertising film makers, attention can be maintained for a maximum of seven minutes in the case of an informative film, so entertaining breaks are necessary. The argumentative ad is a talk ad. It also gives information, but explaining the given information from the viewpoint of its use, and containing reasons for the purchase. It shows, how the product is consumed, or presents how it can be misused in a funny way. The basic functional advantages of the product – price, taste, calming thirst etc. – are very important when customers choose. Such advantages of the product cannot be left out of the reasoning.

13.2.1.2. Emotional, persuasive advertising. The aim of such advertisements is to balance the problems of people with positive emotions. The emotional demands of the people cannot be left out from the consideration in the case of numerous markets. In these cases, we first decide whether we like it, then try to find a logical explanation for our decision. A little girl said, that when she sees something, she decides whether she likes that thing, and then decides if she needs it. “*Affect the heart and convince the mind!*” Its basis is one of the fundamental statements of political propaganda, that is: “*People easily believe the things they want to believe!*”. Our mood is sometimes just as important in our judgment as the dry facts. It happens that we do something first, and then start to think. Most of the times we start to think about how we justify our actions. Emotional advertisements give customers a chance to conclude the messages of the advertisements. The art and science of advertisement: to convince a person we have to put him/her in a situation where the person can convince himself/herself first. In the informative advertisement we convince the person, in the motivational ads the person convinces himself.

The **advertisement of Omnia coffee** is a well-known one. It seems that here the coffee is the last thing that counts. The product cannot be sold because it is coffee, but because it takes on the atmosphere of the film. Is there anyone not wanting a comfortable, happy home, where

she can relax? In the beginning of the film, the woman enters the home, takes off her shoes, gets rid of the control of the world outside, and enters a happy, warm cocoon. Comfortable home, nice people, sweet child, pleasant music, smile, well-groomed spaniel, and, of course, the certain coffee. In other words: *“Omnia coffee is expensive (objection, problem), but unfortunately, I like it. I can afford it once in a while...”*

Emotional ads do reasoning as well in fact it is often a set of reasons. It shows that the given product is for youngsters, it is healthy, makes people happy, when and under what circumstances it should be consumed etc. It is like a list. The psychological reasons can inform a person, but the difference lies in that for that purpose psychological wording is necessary. An example is the ad *“Have a break, have a Kit Kat”* – shows hard work in the last 30 years, like the trials of Hercules, but has not shown chocolate for a while. The target group knows Kit Kat. Shown like this, it is not monotonous and boring, but becomes attractive to the hard-working managers.

There are branches, topics, and market situations, where a lot of similar products compete for the customers' attention, or where the role of the emotional factors is traditionally important, e.g. cosmetics and fashion.

13.2.1.3. Reminder advertising, testimonial advertising. It has an all-pervasive truth about the product. It is an old practice to put the important things in words clearly, and repeat them, not let people forget. People like determined, clear reasoning. They consider the hidden message a swindle sometimes. Reminder advertising informs consumers in a determined way of what is right and good. Its basis is that we often decide by a value system, and community, when choosing a product. *“The answer to the like it – not like it question when evaluating an advertisement is scarcely aesthetic, it rather reflects a relation of a moral basis”* – wrote Gábor Hargitai, the advertisement psychologist of Szonda Ipsos (Iminfo, 1996). **Sympathy** and **antipathy** is important, when someone wants to decide on a thing not really significant or something he is not an expert on. According to communication experts, the regular, determined, straightforward, but not monotonous opinion, advertisement, the support of the winner works on the principle of the simplified buying. If someone is told ten times that he is limp, he will start looking at his legs. This is the case of *“we are running because others are running too.”* The much-debated testimonial advertisement only draws attention, it only puts an idea into people's head, but its effect depends on whether the customer is willing to go deeper in the set of information about the product. Testimonial advertisement is a sensitive genre

because people are not against change, but they protest against being changed, and they automatically defend themselves against monotony:

- “*Raised in a natural way*” – thunder is natural too, but often harmful!
- “*Alcohol kills, stupefies, and impoverishes*” – everything is harmful in a big dose!
- “*This is beer*” – Dreher advertisement from before the war – there were other beer brands too!
- “*Good to the last drop*” – Maxwell House, 1915 – other things can be good too!
- “*Coca-Cola, the real thing*” – other things can be real!

Supporting winners, social proof: people cannot think all their decisions over, therefore people who are not really concerned with the given topic do a decision-making shortcut, and adjust themselves to the majority – they buy the product most people buy – since, so many people cannot be wrong, and they do not want to get into an unpleasant situation. In this case they turn to the experience of others, instead of making sure that their decision was right (Festinger, 1954). Beggars, too, put a little change into their hats, and TV popularizes programs with fake laughter and applause. Who likes laughing and applauding for himself? In most cases society influences our decisions in the right direction. The conformist is someone who uses the most popular, dominant products in all cases. He is not a snob, because a snobbish person buys things others do not have.

The most comfortably available: the customer buys the most obvious, visible product from the items of very similar usefulness, those that are insignificant for him/her – e.g. a handkerchief in the supermarket – and then starts to pay attention to the things he/she is interested in.

George Katona proved a couple of decades ago that the question “*is the consumer reasonable, or unreasonable?*” is wrong. Customers are human beings whose decisions are influenced by their experience, the social and cultural norms, traditions, and their own emotions. People tend to prefer quick decisions, follow practical regulations, and behave according to the routine. However, they are also capable of choosing prudently, in the best way they can, if they feel that the decision is really important. Activity without information, or the slavish imitation, or the imitation of others against their own self-interest takes place especially when the decision is not really significant (Katona, 1974).

The timely flip-flopping of the above is based on the general truths. An example for **making fun of the outdated truths** is Sándor Fábry’s “*I hope I’m disturbing!*”. Chokit’so “*Ugly*

and delicious!” or the advertisement of one of the fashion companies *“Enjoy the bad weather!”*

13.2.2. The division of the advertisements in light of the target market.

13.2.2.1. Consumer Ads. It was observed on the ice cream market, that whenever the ad of one of the ice cream companies appears in the media the demand rapidly increases, sometimes by 50% (Napi, 1994 június 21.).

13.2.2.2. Business-to-Business (Ads, BTB, B2B). Its most important characteristic is that the information asymmetry is not present. Specialized experts sell to specialized experts.

The informative advertisement is typical of this:

- **Business-to-business advertisement** for the production company clients.
- **Trade advertisement** for the retail dealers and the wholesalers, it is also called commercial promotion. Frequent reason: high market share, so the shop has to have the product. The customer changes shops if he cannot find it somewhere. The trade presenter with 1-1 page advertisements of the commercial advantages, and the logistics data of the given product. The ad mutations of these pages are published in commercial magazines and newspapers too.
- **Sales personnel advertisement.** The producer tries to make the product popular for the shop assistant, and waiters giving advice to the customers. One of the posters of Red Bull, the energy drink says the following: “Price 280 HUF + 20 HUF tip”.

Posters about treatment of goods in the back of the shop e.g. how yellow is the banana to be discounted, or to be put out, and the one to be ripened; the storage, treatment advice, the nutrition value, and health regulations of the given fruit: who should wash hands, or the appliances and when etc.

Marketing planner: calendar, when the products of the company are in, when the peak season is, when the pre-, and after-season is, on what holidays, and special days a higher turnover can be expected etc.

Education of the shop assistants, discounts, rental. In case of bookstores sometimes those working in the shop can rent books in order to familiar with them. There is a bookstore chain where the employees are allowed three “voucher” books. The retail personnel can often buy the product at wholesaler price in certain shops.

For the **checking the “mystery shopping”** is a good method, when secret agents go into shops, restaurants, they test the personnel, e.g. is the logo or poster there in the shop and they give presents to those with good results. Visa, for example, checks sometimes whether people use their cards in a shop, or if the sticker indicating the acceptance of the cards is displayed etc.

13.2.2.3. Advertisements with social purpose, *socially conscious advertisement (SCA)*.

For the popularization of **non-profit oriented** and socially useful activities. SCA improves the social value of advertisements and thus, it increases the acceptance of the profit-oriented ads. Non-business ads, that is, those that do not refer to one certain product, or brand – that a certain company distributes.

It formulates purposes with which **the editor of the program agrees**. It is important that SCA cannot reach the aim on its own, so it is effective only as a part of a goal-oriented, complex campaign.

The publication is provided for a discount price, or free in these cases. It is a logical requirement that it should be really helpful. However, there are companies who only publish advertisements either for free, or for money. It happens sometimes that an advertising agency espouses a cause. It makes the creative material pro bono and tries to find an organization or institution to pay for the manufacturing expenses, and then together they look for a medium.

As the effect of the *“Budapest, Budapest, Spectacular You...”* spot interrupting the Friderikusz Show the money given as charity for the homeless was 16 times the amount of the previous year. Some of the famous slogans of the 1970s’ and 1980s’, e.g. *“Didn’t I tell you to buy cut-up chicken!”*, or *“Doesn’t the waste hurt your eyes!”* became famous as part of an SCA.

In the case of the quasi-TCR, following the lower cost TCR ads, the openness of the consumers’ enthusiasm for the product category is used with concrete product ads e.g. milk consumption.

In the case of TCR the frightening of the customers is acceptable, and the TCR outdoes the result of the ad. The Proposition 99 statute, an **anti-smoking law**, which has been in effect in the State of California since 1988, requires 25 cents on each regular pack of cigarettes, and since 1998 50 cents be spent on an anti-smoking communication campaign and education. \$836 million was spent so far on such brutal and famous ads as the Marlboro cowboy with the following text: *“I miss my lungs, Bob!”*, *“I’m afraid of chemotherapy, kid!”*, or the impotency sign and the Marlboro cowboy with the sagging cigarette in his mouth. Nevertheless, the most effective campaign was when Debby, a woman smoker, admitted to the audience that she could not resist the next cigarette, although she could only speak through a tube coming out of her throat, a tube that had to be implanted because of a disease she got due to her smoking habit. According to the calculations of the authorities of

California \$3 billion in direct health savings and \$5.4 billion in indirect savings are the outcome of the \$836 million spent on the communication program. The ratio of the appearance of lung cancer between 1988 and 1999 decreased by 2.7% in the eight other control regions, while in California it was 14%.



Illustration 4. TCR: Don't smoke in bed and the anti-smoking advertisement

13.2.3. The division of ads in regards to the consumer habits

Ads for changing habits. Its purpose is to make consumers give up their habits, and take on a new habit or routine. The chance for a consumer to turn to a new brand is greater if the lifestyle, or self-image of the consumer changes: e.g. marriage, moving, child birth etc.

Habit starting advertisement. Its purpose is to teach something new to the consumer and make him use that knowledge. Most of the times it reinforces the positive experience in connection with the product e.g. the spread of the cosmetics for men.

Habit reinforcing advertisement. It convinces consumers that their decision was right. For example the “Pepsi feeling”, which refers to the fact that the consumer of the drink is a member of the “yuppie” (rich, problem-free, self-confident) group. The habit reinforcing ad maintains attention continuously.

13.2.4. Advertisement strategies

Pull strategy. It aims basically at the final consumer and thus, it pulls the product through the pathway of sales.

Push strategy. It aims basically at commerce. It pushes the product towards the consumer.

Pass strategy. The “gatekeeper” of the market, there are decisive people whose help is necessary for the success of the product on the market. It can be a state monopoly authority, natural monopoly, bottleneck etc. The aim is to influence, or change the opinion of these people. – In the case of the business-to-business marketing the signer who receives 3-10% of the contractual value, according to the agent practice of the Balkans.

13.3. AIDA formula

Attention – drawing someone’s attention.

Interest – identifying the product, understanding advertising.

Desire – raising desire for product.

Action – activating, making someone act.

The AIDA formula (Elmo St. Lewis, 1989) is just like a hurdle race. The product must pass four obstacles faster than the rivals.

13.3.1. Attention. Drawing someone’s attention, catching one’s eye, “blickfang”. What we do not notice does not exist. “*In an abandoned church you cannot save the souls!*” states an old church saying. Another saying taken from the press: “*An average woman will read four advertisements in an average magazine. She will look at others too, and decide immediately what is boring and irrelevant*” (Ogilvy, 1963). The advertisement which is not noticed does not deserve to exist. The purpose is that our advertising be superior to the others and hold the attention of the target group. Such advertising will be discussed by the target group in an optimal case.

Advertisements raising interest. The general marketing purpose is to make the target people satisfied with our product. With an advertisement we give the target group a little present for finding us in the jungle of the market, in the form of a nice picture or a nice melody. We reward them for their attention with humor, a nice sight, a nice piece of music, a topic for discussion or some excitement. German parents complain that their children sing the stupid songs of the Maggi and Knorr advertising instead of the traditional children’s songs – some children’s songs are as stupid as the ad jingles!. One of Levi’s advertising campaigns used old pop hits. They were so successful that they published them again. “*Joy shortens the distance!*” – says Shakespeare. Being known, however, is only the first step towards the goal.

13.3.2. Interest. Identifying and understanding the advertisement. Read, listen! Or in another interpretation: “knowing! *“What you do not know, you won’t long for!”* – Ignoti nulla cupido – Ovid. Even if the target group has noticed the ad, it is not certain that they have understood it. And even understanding is not enough – they have to recognize the advantages provided by the product. The message should rise above the general noise of ads. It depends on the will of the consumer whether they continue a conversation with the advertiser. With an overload of information, there is a continuous struggle for a place in the consumer’s memory. One will recognize the advantageous qualities of a product if he/she has the necessary information. If not, we have to provide it (PR, sponsoring, descriptive article etc.). It is a common failure that *“the advertiser thinks that everybody is as much interested in the product or everybody knows it as much as he does.”*

It is important to give sufficient signals to those who are not interested currently, so that the signals can be recalled later when they are in a shopping situation. It has been observed that in case of buying non-perishable consumer goods, less than 10% of the population makes considerations. It is a frequent mistake that an advertisement overexplains something that everybody knows. An old example: *“Buy shoes in the shoe shop!”* Nobody will read it because there is nothing to understand.

Teaser campaign. Keeping back information can easily arouse the interest of the consumer. An example is Müszi snapping. *“What on earth does that mean?”* people would ask because at the beginning of the campaign the name of the product did not appear. The teaser is *“a big question mark, and the answer will arrive, some time later, in the form of an exclamation mark.”* It works because of the tension of the unaccomplished task. It arouses your interest and holds it for a while. You do not get an answer to your questions, you will start thinking and talking about them and try to find some kind of explanation. In an optimal situation, if the product meets your requirements, the interest will be of high level. It will have real significance if it foreshadows a really big change. It will simply arouse interest if it is merely something unusual.

13.3.3. Desire. Accepting the product, identification with the advantages of the product, raising desire for the product. Or liking. *“OK. But do I really need this?”* one will ask. Even the recognized advantages are not certain to help. Even if the product is known and appreciated, it may not always help. Every message initiates a course of thinking and you may agree with the message, reject it or stay neutral. It is important that the target group agree with the message of the

advertising, that it touches the consumers and they can identify with the advantages of the product. Virtual consuming means that the consumer likes the product but does not feel the necessity of buying it. The advantages have to meet the needs, wishes, lifestyle and demands of the consumer.

Mark Twain writes in an anecdote: *“A missionary visited the cannibals. They listened to him with interest and then at the proper time ate him.”* According to Szonda Ipsos, in 1996, TV advertising aroused interest in 46% of the viewers.

The person whose desire for a product has been generated but has not reached the decision to act is like a wounded man. He will run about the city and keep thinking whether he should buy it or not, whether it is worth buying. Such a consumer is the “hesitating” type who looks at the price tag but does not buy it yet (tagalong).

“We do not need virtual consumers! You do not need people who like you but never buy your products!”

Sergio Zyman

In the banking world, the virtual property is the existing, valuable property which can only be turned into money with great difficulty, like a house where the creditor lives.

13.3.4. Action. Activating, making someone do something, gaining the concrete support. This is when the interested person becomes a consumer. It is a general communication principle that the communication should be effective but not loud. Advertising, activating the target group by activating their intelligence, needs, wishes and interests, gives sound reasons for buying the product and this way it makes the consumer do so. Politicians say that *“it is not enough to be a nice man, you have to stand up for the voters and then they will vote for you.”* *“Those who do not believe this live in happy ignorance”* – David Ogilvy writes. It is favorable to expect simple actions from the consumer. A common mistake is *“to believe that the consumer knows what to do”*. Not everybody knows where to buy the desired product, where to get the necessary information or where to place an order.

When the Hungarian Radio celebrated its fifth birthday, they broadcast a show featuring the Krone Circus. The director of the circus was asked if he was worried that the radio broadcast would decrease the number of viewers. He answered: *“Those who listen to it will want to see it as well, and those who see it will tell their friends about it.”*

Szonda Ipsos is doing a survey with 800 samples – in greater Budapest and towns with a population over 28,000 – about the **attention**, **interest**, **liking**, and **activation** rate of local

advertisements. Sweet products are at the top among the best ten campaigns in activating. The score of the Zwack Unicum poster depicting the man in water are as follows: Attention: 2, Identifying: 1 (Soproni Ászok 12), Liking: 2, Activating: 19 (Soproni Ászok 8). The figures represent the ranking achieved in all surveyed campaigns. The most activating was the advertisement of Mövenpick La Crema.

Table 23. Activating – TOP 10 2003 Youth

Nr.	Brand	Title of advertisement	%
1	Milka	Coming from the green fields	66
2	Iglo	Seasons' revival	66
3	Tesco	Gouda cheese	64
4	Red hazelnut chocolate	I wish I knew ...	64
5	JVC	Palm leaf	62
6	CBA	Nesquick, Boci chocolate	61
7	Algida	Magnum, Cornetto etc.	60
8	Balaton medal	Girl	59
9	Frey	Two black-gold rings	58
10	Cyprus	Island of beauty and love	58

Source: Szonda-Ipsos

Table 24. Attention, Liking, Identifying, Activating

Identification	Characteristics	%	Month of launching
Attention TOP 20, 2003			
Túró Rudi	Don't forget where you wanted to go	59	June
Westel Dominó	A mere 25 Ft during the day!	55	May
Tesco	orange	54	December
Liking TOP20, 2003			
Pick	The tasty moments of the holiday	40	December
Porcijó	Sorry guys, I'm also waiting for my „porció” (portion)	42	November
Neogranormon	Generations' ointment	41	February
Identifying TOP20, 2003			
Nivea	Choose a real trade mark!	94	February
Túró Rudi	Don't forget where you wanted to go	93	June
EUKK	Gáspár Győző, Töröcsik Mari	91	March
Activating TOP20, 2003			
Red hazelnut (chocolate)	I wish I knew how it fits in...!	62	June
Iglo	Seasons' revival	61	February
Pick	The tasty momnets of the holiday	91	December

source: Szonda-Ipsos

13.4. The Two P's

13.4.1. Promise: direct or indirect advantage for the target consumers. It should be something that the rivals do not promise and cannot even promise, if possible. Furthermore, the promise must be so attractive that it urges the target group to try it. Typical advantages can be:

- **Timing:** It informs about introducing something new or the beginning of the season, e.g. Easter ham, special holidays etc.
- **New method of satisfying demands.** The benefit can be functional, such as high fiber content of dried plums it can be psychological, like experience, or economical, for example, discount price.
- **New ideas about the usage of the product,** such as a new recipe. Frequent promise is the so called company claim.

“Watch out! It is important who your promise is for!” Pampers diapers were designed by men. They made them easier to put on the baby than the other types, especially when on the road. That was how they started to advertise it, but the turn out only increased when the advertisement promised to keep the baby dry longer. For the mother this is more important than saving time. *“Good for the baby, easier for the mother!”* and not the other way round.

13.4.2. Proof. *“It is not enough to explain, you have to convince people!”* Many of the consumers seek for justification even after buying the product. The testimonial has three different groups. **Endorsements by consumers** should be typical consumer experiences and not only the statements of some satisfied consumers. In the case of **endorsements by celebrities** only the sincere opinion and experiences should be in the ad (expert power). The celebrity should really use the product if the advertisement refers to the use of the product. In case of **expert endorsement**, not only the competence of the person must be proved (sufficient qualifications), but the scientific opinion must be based on scientific facts. For the sake of objective and unbiased opinions, the science institutions determine ethical rules for their employees, so they cannot suffer what happened to one of the breeders of ARS in the USA, who often appeared in an advertisement. *“Who states that the Idaho potatoes are the best?”* was the question and he answered without any scientific basis, *“Me!”* In this case the basic problem is the media. The media transmits news to us from beyond the reach of our perception. This is difficult to control.

A case in point: “Millions of people saw on TV that man walked on the Moon. Not many saw it in person.” Instead, we simply believed it. A part of the pictures, however, was simulation. Those who saw it live said that the simulation looked much more convincing than the

“original”. At that time the technology was less advanced, so the original pictures were hard to see, so they played the simulation instead.

13.5. The Proper Persuasion

Who will the potential consumer believe? The appropriate reasoning is elegant, clear, knowledgeable and honest.

Sincere, likeable, straightforward, honest, natural. Objectivity is decreased by greedy personal interests. Advertising does not only explain out of conviction, it is a mistake if the members of the target group feel to be the target. It is very displeasing if the salesman’s eyes sparkle when it comes to money. *“If a salesman points out the faults of his antique furniture, he will win the consumer at once”* David Ogilvy says. Also, his advertising agency always bought the products of their clients, that is, they bought the advertised goods for themselves. *“If these are the best products in the world, then I myself should use them as well”* he writes.

There was an interesting case in the wine market of the U.S., the **“French paradox”**. In 1991 on one of the national TV channels during prime time, French doctors said that it could be statistically proven that there was a low proportion of those dying of heart and vascular disease in regions where people traditionally drink a lot of red wine. The consumption of California red wine doubled in a few months and only in 1993 did it fall back by about 20%. One gets suspicious in case of unselfish sacrifice for whom *“the child is the most important”*, *“most important is your health”* etc. Marketing is business! Do not feel ashamed about telling the truth! Nobody regrets honesty. **He belongs to us**, to the same club, group etc., as the target person, or where he would like to belong. Reliable a good advertisement does not speak in general to *“dear customer”*, but calls on you personally.

13.6. Advertising Methods, Technical Terms

The creative concept shows which influence mechanism and reasoning can guarantee the success of the message. The good advertising *“clicks in at once”* with the members of the target group. The use of symbols can also be misleading.

In the propaganda film by the U.S. army, *“Dear Daddy!”* a gun was fired. The scene meant to illustrate for 18-24 year-old young men, that coordinated team work is typical of the army.

A survey pointed out that two-thirds of the persons surveyed interpreted the symbol in a different way; they understood that such knowledge was of little use in civilian life.

Another example: from most beer advertising, we can learn the given beer has froth, it refreshes, makes you good-tempered, it was brewed on the basis of centuries old traditions with natural technology, and it was made from natural ingredients.

Advertising campaign. It is a series of integrated marketing actions. The advertisements linked by their homogenous central idea finish each other's sentences and do not interrupt each other. In case of a lack of planning, the campaign is merely a flow of ideas and the viewer's impression of it is that amateurs speak in two different directions. The effect is that the consumer gets confused. It is not necessarily evenly distributed in time. The aim is that it becomes one in the consumer's mind.

Props, visual keys. Props are motives, memorabilia in connection with a trade mark or product, which help people to recognize those and appreciate them. These are impressions, pictures, stimuli which are strongly carved into one's memory. It can be the design of the wrapping e.g. blue milk, or the combination of the advertising (Egerszegi Krisztina and the Plussz tablets or the Marlboro cowboy). English language teachers teach expressions and frequently used sentences rather than words for certain situations. A "semantic glossary" might be necessary related to the props to help the work of those creating the illustrations.

Slogan, commercial slogan, lead sentence. Short, easily memorized sentence, which expresses the message of the advertisement. A good slogan reflects the consumer's demand. Successful advertising titles often become slogans. The word derives from the Celtic "battle-cry".

- *"Your family's slogan, yeah: Everywhere Gorenje!"*
- *"Braun, and the day starts smoothly."*
- *"The king of wines, the wine of kings!"*
- *"It gives you the starting push, whatever you do!"* (Sport bar)
- *"Nothing else, only the juice of 48 raspberries!"* (Next 2dl bottle)

Many slogans are built on double meanings or plays on words:

- *"It is a good deal for you, and it is a good ride for you!"* (Suzuki)
- *"You can be sure of this, and you can be safe in this!"* (VW)

- *“If I could „give down“ /lose weight in Hungarian/ why would you give up!”* (diet substance)

13.7. The Regulation of Advertising

“Advertising is Truth Well Told” – Henry McCann, 1913. Long before in the first debates on the regulation of advertising, even Ferenc Deák, “the Sage of the country” participated. According to an anecdote, he claimed that the law on advertising should consist of one sentence only: *“The advertisement should tell the truth”*. Advertising is basically a profession related to display, thus complaints often target the advertisement although the problem lies somewhere else.

Compliance with the **media-law** in the case of TV and radio is controlled by the National Radio and Television Committee. It has established a monitoring service in Budapest, which has already pointed out several cases of abuse of time.

In the United States the Federal Communications Commission controls the advertising time-limit with regard to children’s programs. The ABC Family Channel controls the advertising time with the help of a special computer program so that such mistakes cannot happen.

In our advertising legal system there are several authorities and other organizations which one can contact after noticing advertisements that violate the regulations. The **Consumer Protection Law** (act CLV of 1997) enables the Consumer Protection Authority to commence proceedings in order to stop the violation of the law, and they can ban the publication of such advertising, or impose a fine if the advertiser cannot justify its statement, i.e. the burden of proof is reversed. On the basis of competition regulation also the Competition Office can impose fines and ban advertising activities. The purpose of self-regulation is protection from “regulating by uninformed people and outsiders”. It is always better if the industry initiates new solutions and not our legislative bodies. Self-regulation, operating according to the market’s demands, will always react faster than the balky and overcomplicated state regulation. Self regulation cannot be avoided, because the problems will sooner or later get to the authorities and then the industry will be in trouble

A bad advertisement creates aversion. Partly, it makes one reject the advertised product, and partly, it creates aversion to the media as well, which is bad for those who work in the media industry. Cautious advertisers consult the **Self-regulation Advertising Body** (ORT) before they publish their advertisements.

The ORT comments on any communication plan submitted to them on the basis of their own ethics code and the current legal regulations. The ORT also deals with cases where one advertiser raises objections to another advertiser. The Advertising Ethics Committee of the Hungarian Advertising Association also deals with the ethics of advertising. Its ethical principles are summarized in the Ethics Code of Advertising. The European Association of Self-Regulation in Advertising does not penalize, but prevents. They publish their resolutions, condemn certain activities like depicting driving and alcohol side by side in an advertisement, ask for the plans of certain advertisers in advance etc.

The Advertising Law (Act LVIII of 1997 amended in Act I of 2001) regulates all advertising activities. For an unlawful advertising, the actual advertiser (the one who commissions the advertisement), the advertising company (which creates the advertisement itself) and the media (which publishes the advertisement) are responsible. The advertiser may be exempt of responsibility if they can prove that they were not aware of the unlawful information. Certain companies ask for a certificate from the advertising company in which they claim that the advertisement complies with the regulations and the advertising company takes all responsibility for it. The Advertising Law also regulates the advertising of alcoholic and tobacco products. Advertisements for distributors and informative and price-related advertising in the shops are exempt from the ban on advertising of tobacco products.

According to a 2004 resolution of the **Supreme Court**, it is illegal to display any tobacco-related advertising on the façade of shops. In Sweden, only the wine bottles and grapes can be shown on the advertisements of wine. Besides, one must not make alcohol consumption attractive, and no depiction of people is allowed in film clips or banners, and also there must be something drawing people's attention to the harmful effects of it. Advertising must not target the age group below 25.

According to **the language law** (Act XCVI, 2001) the publication of business advertising and shop banners, and also certain announcements of public interest including slogans must be in Hungarian, with the exception of the name of the company and the trademark. This can also be done by parallel depiction of the original text and the Hungarian translation beside it. In the case of shop banners, the leading word relating to the product can be in the original language. In debatable cases, the counseling body assigned by the president of the Hungarian Academy of Science makes a decision. This body responds only to claims made by authorities; they are not investigating cases reported by the inhabitants.

The Advertising Law is a general law and it separately deals with advertising related to cosmetics, medicine, weapons, ammunition, explosives and banks. The traffic law regulates advertising on public places.

According to the **electricity law posters** can only be placed on lamp-posts of 4.7 meters or more. The regulations related to advertising also extend to educational products where the name of the manufacturer or the product is specified. Certain diseases must not be mentioned in the advertising of over-the-counter drugs, e.g. tuberculosis, sexually transmitted diseases, AIDS, cancer and chronic insomnia. Companies may only offer their products for use permitted by the pharmaceutical administration but doctors may prescribe them for any other use.

Unlawful advertising is usually the product of inexperienced advertisers because they do not know the regulations. The **advertising regulations of the EU** are not homogeneous, either. In Germany, for instance, to use the superlative you do not need a third example to prove it. Very often the text is just translated word for word.

13.7.1. Misleading advertising – harmful manipulation – unfair way of influencing the consumer's decisions. Such advertising "*makes the impression that the effect is certain to be expected on a wide range*" of consumers and on a significant range of the rivals. According to the advertising law, it is forbidden to publish misleading advertisements, and according to the competition law, it is forbidden to influence the consumer's decision in an unfair way. According to the competition law, the company publishing misleading advertising can be fined up to 10% of its yearly turnover. Misleading advertising does not mean violation of the law, if it does not influence the consumer's decision. However, it can lead to a loss of trust; if one takes advantage of people's credulity, they can lose their authenticity. Manipulation means the kind of influence where the target person is not aware of the influencing intention, but acts accordingly. However, reasonable cautiousness is to be expected. One cannot sue the winegrower just because he sobers up and then realizes he has married the wrong person. There is well-intentioned manipulation as well, which is advantageous for the target person. There are some who use the means of influencing, and there are others who take advantage of them.

13.7.1.1. Stating false facts. Telling lies is one way of deceit. Not telling the truth: stating facts which do not square with the objective facts, they speak about certain qualities of a product which it does not have, i.e. they tell lies! An express claim offers something which they cannot perform. According to the consumer law and the competition law, it is forbidden to state that a product has preventive or healing qualities unless it can be proved by the statement of the authorities. The letters of satisfied consumers can not be taken as objective

proof, and neither can the company's promise to refund the price of the product if it proves to be wrong.

Laska-Coop Mushroom-breeding and Trading Partnership, Kondoros, could not prove that the mushroom distributed by them had healing effects. In 2004 the Competition Authority fined them 500,000 HUF for deceiving the consumers. The Competition Authority stated that the shiitake mushrooms distributed by the company qualified as food but no authoritative certification gives evidence of their therapeutic effects. However, this is what three of their advertisements clearly claimed. According to the Competition Authority, they advertised the curative effects of the shiitake mushroom in a misleading way. The authority forbade the company to continue their unlawful activities and forced them to pay the fine.

Danone, "Danone Activia" and "Danone Actimel" as well as Parmalat committed misleading acts when they claimed that their dairy product called KYR had medicinal effects. Túró Rudi is an absolutely healthy product, according to the advertisement published in 2004, contrasted to candies, which seem to be harmful products.

Comparative advertising is allowed but only in an objective way and only with products of the same purpose. The comparative advertising states that the products have the same function but one of them meets the requirements of the consumer on a higher level. By law, the comparative ads may not damage a rival's reputation or lead to confusion of products. This is because the comparative advertising may help the given rival, and nobody would think that they are in the second place. The indirect comparison, the so-called "**white-box**" comparison is strictly forbidden. This is when you compare your product to a non-existing or unidentified product, for example the "traditional" washing-powder.

Entrepreneur **György Klapka** had had enough of the unlawful comparisons. He named his washing powder "traditional". In the mean time the court banned white-box advertising and the "**Traditional**" washing powder with the special fonts and green color proved to be a lawful name but it was not especially good, and also the price was rather high, so it slowly disappeared from the market. On the other hand, comparing to an entire type of products is allowed in case it is true, for example, the "smallest mobile phone", the "cheapest dog shampoo" or the "ketchup substitute". Direct comparison is quite usual in the world of advertising, however, Hungarian companies are rather reluctant about it. "Pepsi, the uncola". In Hungary one of the first direct comparisons was published in full page advertisements in our daily newspapers, where easyJet attacked **WizzAir** because of their cancelling several of their flights. The caption of the advertisement ran as follows: "*Dear WizzAir, How many of your flights have you cancelled so far?*" EasyJet launched the campaign against their rival in order to protect the reputation of the industry. Thanks to the information from passengers, easyJet came into possession of evidence of cancellations of flights which had already been booked by several passengers. The British low-cost airline began the campaign hoping that the Hungarian WizzAir would publish its statistics of cancellation and its passenger and

flight policy. In their opinion, the cancellation of flights for trading reasons should not be allowed. WizzAir responded in a press release explaining that cancellations occur with every airline, and even easyJet has cancelled flights and abandoned entire markets. In each case when WizzAir cancelled a flight, the passengers still reached their destination.

Product comparison ads. A given product is compared to another product which is used for the same purpose.

Situation comparison ads. A new function of a given product is compared to the traditional function, e.g. green pepper with bread and meat not only for dinner, but for breakfast as well.

Non-comparison ads. They simply state that a certain product is a reasonable choice for the consumer. More consumers remember comparative advertising than the other two types, if only because of the scandal, but on the other hand, the most influential advertising is the situation comparison ads.

Tall tales, exaggerations, exuberant praise, hardly provable swaggering, loud advertising full of slogans – less would be worth more. Advertising usually shows a positive image of the product. But exaggerations do not serve the purpose. Superlatives, like “the best, the cheapest, the fastest”, and bombastic claims draw attention, make you think for a minute, but they should be evaluated according to their effect:

- If it can be accepted that the advertised product has advantages over the other products on the market, then it must be proved, for example “*only here can you shop well, this is the only..., No. 1.*” The absolute priority must be proved supported by every rival in an objective way. A frequent problem is that there is no uniform standard accepted by everybody. According to the announcement made by the Hungarian competition authority June 3, 2004, Zott Hungária Ltd. stated on the wrapping of **Zott Monte** with nuts and Zott Monte with vanilla that “*this is the most suitable product for children*”, which could not be proved. The competition authority forbids the pursuit of deceiving the consumers. In February 2002, Terravis Ltd., **Sárvár** launched the following slogan: “*Sárvár – the best home-made!*” which was quickly changed to Sárvár – the best is what is home-made! An interesting solution is the way Carlsberg, the Danish beer brewery advertises its beer: “*Presumably the best beer in the world!*”
- **Loud,** meaningless clichés on the other hand are not deceit: alert consumers cannot believe them, e.g. admirable, wonderful, cheap etc. Even non-deceiving exaggerations create the impression that the company is irresponsible and tells tall tales.

13.7.1.2. Inaccurate, real facts used for deceit:

- **Implied claim.** “*Every seventh Hungarian suffers from depression.*” In fact, during the course of his/her life, every seventh Hungarian does experience

depression. In 1994, an advertising spot of 30 seconds was shown 130 times. It showed a Bonaqua bottle in a cave with stalactites and the caption stated that *“Bonaqua is the best water with the power of valuable minerals.”* The advertisement suggested that the product had a natural origin. In fact, it is tap water enriched with minerals and carbon dioxide. The competition authority fined the company two million HUF and banned the publication of the ad.

- **Reason.** The advertisement kept important information relating to the product back and this way it decreased the freedom of reasonable decision (Vj-61/1995).
- **Incomplete.** Keeping back significant facts or circumstances. The advertisement must include the most important qualities of the product so that the consumer gains a realistic image of it. Because of the nature of the advertisement, it cannot include every piece of data related to the product, but it should not keep anything back related to what it states. It is no excuse that *“it displayed the source of further information”* or *“getting in contact with the product the consumer can obtain more information”*. For example, *“50% discount”* – but only before 3 pm.
- **Bait and switch.** It is unlawful to advertise a product that the company does not want to sell, when instead they want to sell something else, usually something more expensive.

13.7.2. Advertising to children and in the school. With certain restrictions it is allowed by the education act. In the secondary and higher education it is the administration of the institute which can decide what kind of advertising they allow e.g. free press material. In primary education and kindergartens only advertisements of social purpose, mental hygienic information and cultural advertising are allowed. The education act claims that *“the advertisement cannot rely on the faith of the child in their parents, teachers or other persons, or on the lack of experience and gullibility of the child”*. The **media act prohibits** the transmission of certain advertisements during time periods when children may watch television. According to the media act *“it is forbidden to set violent behavior as an example to children”*, and also *“the transmission of programs which can seriously affect the development of a child is forbidden”*. The advertising law says: *“it is forbidden to transmit advertisements which harm the physical, intellectual and moral development of children”*. That is, in the advertising the child should not eat from the floor or throw spaghetti around etc. because children may feel like doing the same. Exception: advertising of social

purpose. Besides, according to the advertising law, “*it is not allowed to directly call upon children to shop taking advantage of their lack of experience and gullibility*”. The **Advertising Codex** deals with the protection of children and the youth in a separate chapter.

The most important preventive force is the parents. Advertising is a part of our everyday lives, neither better nor worse than anything else. One should teach children to handle the phenomena of the world, above all to handle and understand advertising as soon as possible. This is why there are negative characters in the folk tales. The way of thinking, the behavior of the child is most influenced by the parents, family members and friends. Advertising should reach the children, like most of the other phenomena, with the explanation offered by the parents.

Doctors have observed that it is useful to find out what the grandmother keeps complaining about because the child often repeats the same problems spontaneously. There are special rules for the advertising of tobacco and alcohol products. **Tobacco products** can only be advertised in the shops where they are sold, except for advertising aimed at distributors. The minister of economics can give a special permit to advertise tobacco products at significant international motor sport races. The target of alcohol advertising must not be young people, e.g. in the cinema it is forbidden to show such advertising before 8pm, or before animated films.

13.7.3. Disguised advertising is seemingly neutral information. Such advertising which is not named advertisement. It cannot be identified as an advertisement or the manufacturer or the distributor does not name the product or itself. Media channels are to retain the material of their programs and all the relevant documentation for 60 days so that the ORTT can monitor them.

13.7.4. Subliminal advertising is strictly forbidden. An image is briefly flashed on the screen or a sound played so shortly that it is not noticed, only by the subconscious mind.

In 1957 **Jim Vicary** in his famous experiment cut in the film the notices: “*Drink coke!*” and “*Eat popcorn!*” As a consequence, the audience got hungry and thirsty so they bought popcorn. It is interesting to note that people do not notice the trick. Later on, he could not prove his results so that he had to withdraw them and repeating the experiment was not successful either. Some testify that Vicary manipulated the results (Weir, 1984). Anyway, whoever uses this type of advertising will be excluded from the advertising industry. Supposedly, in the former Soviet Union they carried out widespread and secret research in connection with this method. In the course of a cold winter they broadcast a text which suggested that it was warm. According to the research, people who were asked felt 2-3 °C warmer than it actually was in the poorly heated blocks.

13.7.5. Aggressive advertising. Example: *“Trample on it!”* – Ford Fiesta slogan. According to the agency, the message of the advertisement made in Poland: *“It is easy to handle but if you step on the gas pedal, it is better than the other cars in its category.”* The target group was energetic businesswomen. The party who ordered the ad may not have been satisfied because they switched to another advertising agency.

In Hungary, Vodafone advertising caused a storm of indignation, when in the ad the guy threw the cable telephone sets out of the window and the Westel phone cards into the toilet.

- **The background of the violent advertising** is that they sacrifice the friendly disposition of the great masses of people to find favor with a narrow layer of the population.
- In case of advertising from low budget, it is frequently assumed that one has to **shout loud and something very striking** in order to catch the consumer’s eye. An important criterion of advertising is to be a good media neighbor. If someone enters the world of the consumer, they must behave properly. Be like good neighbors! Do not act conceited, do not confuse or anger anybody!
- **Violent advertising is pushy**, it nags the consumer in contrast to advertising which is to inform the consumer and to help them and the product to find each other.

Most violent advertising is **based on technical mistakes** e.g. market research, media research, advertising test. Different branches of the media can endure advertising of different rudeness. The notorious “bra” advertisement of Cosmopolitan caused no trouble on the pages of Pesti Est; on the other hand it generated a lot of complaint when it appeared on pillars in the street. The reception of strong advertisements is not always the same, as it is not obvious that people will find them violent. Smart advertisers make a soft and a strong version of the same advertisement. For example an advertisement can imply that something is dangerous or it can directly show it. The social effect of the communication does not only depend on the message and the execution but also on the readiness for reception.

The famous song *“Sad Sunday”* (Szomorú vasárnap) popular between the two world wars increased the number of suicides. On the other hand, the advertisement of Holstein depicting someone jumping out of a window had no similar effect. In America in the shops you can buy a Superman costume which has a warning on it: *“Humans cannot fly, and even this costume does not enable them to do so!”* In the history of advertising, the most complaints – 589 - were provoked by the advertisement of a Scottish soft drink, **Irn-Bru**. The advertisement depicted a cow with the following caption: *“If I were a hamburger, I wish I could be washed down with Irn-Bru!”* The following American beer advertising initiated a lot of complaints as well: *“If you drink a pint of X beer, you will feel like you’re in Germany. After the second pint you will feel as if you had defeated Poland!”*

There is less technical literature on the methods of defense against the rival's manipulations than on the different methods of convincing the consumer. The first step is to find out whether the manipulation has any harmful effects. If there is, we have to take into consideration the following **three factors** (Cialdini, 2001):

- **Counter-argument:** disproving untrue arguments, pointing out deceit, and questioning the reliability of the source. One must be careful because picking a fight, arguing with unsound reasons can create negative messages about both parties, as they seem unfair. People will treat this just like the referee in football does with fighting players: they both get the red card regardless of the fact who initiated the fight or who was more violent.
- **Mnemonics:** counter argument linked to manipulative communication, as medium, for in the first step we figured out that it had a convincing drive. Without this, even the most powerful and most striking reasoning can get lost.
- **Humor:** ridiculing the false and deceitful communication. "*Ridicule is the best test of truth*", said Lord Chesterfield.

14. DISTRIBUTION AND WHOLESALE

14.1. Definition of Trade

Trade: activities providing a connection between producers and consumers by solving differences of location, season and demand. The objective of trade is to make products available to the consumers of target markets. It is a two-way process: collecting and distribution of goods. It is a double process also: a deal, a transaction, a legal-financial process and a physical distribution, logistics.

14.2. Functions of Trade

Table 25. Functions of Distribution

Production – Manufacturing		
Marketing Trade	1. Location differences	
	2. Seasonal, timing differences	
	Demand	3. Volume differences
		4. Assortment differences
		5. Differences in values and information
Consumption – Final Consumers		

Source: McCarthy-Perreault, 1989

The function of trade is to cover three (five) essential differences, which are discrepancies between the interests of the producer and the consumer. Resolution of the following differences forms the basis of the frequently mentioned trust capital, reputation, and system of good relations of the trader.

14.2.1. Location, geographical position differences. Producers want to produce where the economic factors are optimal. Consumers usually prefer to buy in different locations. The distribution and sales network and the system of warehouses are some of the most important added values of wholesale in promoting a product.

14.2.2. Seasonal, timing differences. Consumers do not wish to buy the product only when it is economical to produce it. It is a huge advantage in trade to be able to supply the product 52 weeks a year, but somebody has to cover the risks, labor needs and costs of warehousing and sourcing. It is typical that there

are seasons when every producer has a huge quantity of goods on the market, and other seasons when demand is high and a lot of people are looking to buy the product.

14.2.3. Volume differences. The producer's interest is to produce large lots of a given product because of fixed costs that can be shared on volume this way. ⇔ The consumer tries to buy less, because he/she can only consume a limited amount.

14.2.4. Assortment differences. It is in the interest of the producer to turn out a narrow range of products. The consumer likes to select from a wide assortment. Selection of the optimal product assortment requires a lot of experience, because it is a risky, costly activity. A substantial amount of the products must be destroyed or discounted because of mistakes in selecting the assortment. Traders working with perishable and sensitive products tend to say the following: *"80% of our workday is spent on the worst 30% of the products we sell."* Transportation and warehousing involve high fixed costs, so they are profitable only above a given volume and handled together with other products.

14.2.5. Perception and value differences. The producer has limited knowledge about who needs the product, when, and how. The consumer is not knowledgeable about the what, or the where – for what price and where it is produced. Neither is it taken for granted that the consumer finds that product valuable which is considered premium by the producer. It is an important and unending task of the wholesaler to search for hard to find products which may have good market potential and create selling opportunities for them.

14.3. The Four Steps of Assortment Building

The four typical market institutions which build optimal assortment constitute a point of quality control also.

14.3.1. Sorting into categories, equalizing following size, shape, color regulations and the sorting out of items which do not meet the minimum demands. The location of these activities is the manufacturer's packing shed. The basic unit of these activities is the pallet, the bulk bin or the CC-container. Every unit is assigned a bar code to identify it and enable it to be followed along the marketing channel (AutoID). Only part of the goods is presold by contracts at producer level secure after-sales, to get deposit for loans and to avoid losing major buyers. The other 50-55% is to be sold on the spot market, which

hopefully will provide higher prices. The pulp or mash quality should not emerge on the spot market, even though some may argue that the buyers will sort it out anyway.

14.3.2. Consolidation, building blocks means assembling uniform blocks which are worth the cost of transportation and warehouse storage. These blocks are also what the wholesalers demand. A narrow product range of a typical producer or a manufacturer is not enough for a wholesaler if wholesaling can not be done profitably. Consolidation is assembling blocks and permanent checking of the offers of the producers coupled with cold storage, packaging and primary processing. These are done at collection points in the growing regions, which are called “window to the production of the region” for the wholesalers. Trading cold stores and glasshouses are for short term storage of the products and handling turnover coming across.

The location of primary processing, if it is done in the growing region or close to the place of consumption, is determined by economics of transportation. The question is whether it is profitable to transport the raw material, like cucumbers in the bulk bin, or the primary processed product, like cleaned cucumbers in cold water. Most fruits and vegetables can be transported no further than 30-50 km without cooling. Highway transport in refrigerated trailers allows a maximum 600-800 km of transport for fresh fruits, vegetables, and average cut flowers.

14.3.2.1. The role of Wholesale Markets in a Production Region, e.g. the Aalsmeer Flower Auction (veiling) is to provide an overview of the local offerings to the wholesalers and the producers. Wholesalers can assemble uniform and manageable blocks from the crop of the region. Wholesalers and producers rent stalls in the regional wholesale markets. The Dutch auctions are producer cooperatives, so members automatically get a stall. For some producers and wholesalers, going to the market is a way of life.

The German NBV/UGA has opened a **Dutch system auction** near the Dutch border in Herongen, Germany for potted and cut flowers. Around 1,000 producers earned turnover of 135 million Euro there in 2003. The temperature never exceeds 13-14 °C in rooms where plants are kept. The Kecskemét and Debrecen wholesale markets are considered producer wholesale markets. Several Hungarian authorities and business bodies support the development called Provosz Kht, a regional agricultural logistical center in Szeged-Kiskundorozsma, whose purpose is to foster direct contact between the local horticultural producers and the wholesalers. This 20 ha logistical center is on the side of the busy Dorozsma Wholesale Market.

Interprofessional groups. The *PO (Producers Organization)* is a producer controlled selling organization in the fruit and vegetable industry. PO is a

sourcing and supplying organization controlled by producers in agriculture. TCs is a producer-organized group working in agriculture.

14.3.2.2. Wholesalers, or jobbers buy the products of a region and represent its producers in distant markets. The producer partners transport their products to the wholesale centers, or the wholesaler collects the products in warehouses. It is typical in horticultural industries that leading producer members of the interprofessional groups who have marketing ability expand and become wholesalers. They integrate the other producers, they warehouse, transport, pack, select, clean, buy and sell their products, and what is more, they also import when necessary.

14.3.3. Redistribution and dispatching platforms. It means packing the products into transportation packs to pallets or into trolleys according to the individual orders of the retail units within an area. Its job is to provide all the necessary products to the retail units of a defined geographical area. It can be considered as a one-stop-shop for the retailers, providing the retail units with low logistical costs, accurate stock, and saving warehousing space. These regional professional logistical centers, or depots also hold slow-moving products. A chain of shops needs low volumes from wide assortments of goods. The given product is available regardless of the season, because minor demand always exists within a huge geographical area.

One spectacular example is the regional warehouses of the modern retail chains, like Spar in Bicske, Tesco in Herceghalom and Gyál (perishables), or the CBA Center in Alsónémedi.

14.3.3.1. Regional, city, metropolitan terminal markets. These are local wholesale markets serving independent retailers and chain stores within a region or city, like Flóra Hungária, Nagykőrösi Street Produce Wholesale Market in Budapest, or the Rungis in Paris. These are built around the needs of the given region or city. Traditional retail and food service people like the metropolitan wholesale markets, because they can buy low volumes too, they can walk around, take a look, personally talk to wholesalers, and not just take whatever is sent to them. Peer-to-peer selling and buying, and direct contact is typical here. The advantage of metropolitan markets is the huge number of minor items, and not the mass commodities available everywhere else. Buyers come to the whole market and not to an individual wholesaler. These markets serve as “safety background” for the organized retail chains too, because there are seasons when it is hard to get some individual products, and they must follow the market price fluctuations of some products there. There are some small scale farmers who

regularly go to the wholesale markets, sometimes as a must, because the space rental and transport may exceed the profit gained from the price difference.

Trading parks and business centers play the same role in general wholesaling that **wholesale markets** play in selling agricultural products. Wholesalers usually rent offices and showrooms of 50-200 square meters. Wholesalers tend to locate close to each other where they can share costs and have the availability of the necessary service. Retailers visiting these offices can find a concentrated palette of different products and services. Historically these were meeting points of salesmen and producers, then offices were opened and permanent service centers were established complete with showrooms, warehousing, and other services. In the six buildings of the Dallas Market Center, 26,000 producers, manufacturers, and importers are represented in 2,400 permanent and 2,000 temporary sales offices.

The **Trend2 fashion** wholesale business center near Budaörs is similar with 13,200 selling in a 2,400 square meter office area. The China Mart near the Asia Center, where Chinese, Vietnamese and Turkish merchants rent space, serves the retailers with 40,000 square meters of office space, high level infrastructure, logistical services, banking and custom warehousing. Its objective is to show Asian products to European wholesalers and retailers and thus to secure the market presence of these products. The Asia Center has offices in Shanghai, Hanoi, and Saigon, as well as cooperation from the Chinese Embassy.

14.3.3.2. Broadliners, wholesalers. They sell by **medium term contract** to retailers, who call this method **program buying**. These contracts contain seasonal, **flat prices** and do not follow the daily ups and downs of the market. The regional area wholesalers carry out time-consuming permanent market studies for the retailers of a geographical area in the case of a given product category, so they can concentrate their effort on the shop floor. It is too much for the retail chains to follow and manage the scattered producer network and to do logistics, assorting, cleaning, and packaging, so this work is done by the area wholesalers. Minor products provide adequate volume only with a broad supplier and buyer foundation. These wholesalers qualify as broadliners; in 2002 in the U.S. they averaged a 50% wider and deeper assortment than the logistical center of a typical supermarket chain.

The risk of daily price changes is covered by the two parties in the case of two to three weeks, or one season long in the case of supply contracts. The objective is to benefit both sides in general. The flat prices are set according to the previous season's results and the forecasts. The supply contract contains no price – only some considerations – when it is an **open-ended deal**, and the final price is set following the current market situation. There is a separate price bargained for every transport, case-by-case, when **transaction-based pricing** is used. Sourcing can follow the process on the daily spot market this way.

14.3.4. Daily Assortment in Retail is the job of the retailer. Its objective is to keep the appropriate assortment in the shop for the area the retail unit serves. It is not a simple job, because the retail chains find that not exactly the same products sell well, even in shops located not far from each other. The **metropolitan consumer markets**, like the millennium market halls in Budapest, do retailing. They serve the end-users, the consumers. There are 30 markets like this in Budapest, 15 of them run by the Budapest Market and Market Hall Directorate. The ancestors of the shopping malls, the first market halls were established in England in 1822 (Davis, 1966).

The first five market halls in Hungary were built in Budapest in the 1850's. Some of Budapest's historic market halls are called millennium halls, because in the 1900's, they were restored to their original elegance. The 10,400 square meter "**Nagycsarnok**" was connected to the river Danube by underground channels, and the gate of one of these channels can be seen from the Szabadság bridge even today. The majority of the people selling there are retailers, and the number of farmers selling directly is decreasing. The Leadenhall Market of London is already a tourist attraction, occupied by pubs and cafes instead of butcher shops and vegetable stalls.

14.4. Distribution Channels

Products get to the consumers through marketing channels. The distribution channel, or the path of the product, is not a passive part of the process, but a chain of events which increases the value of the product.

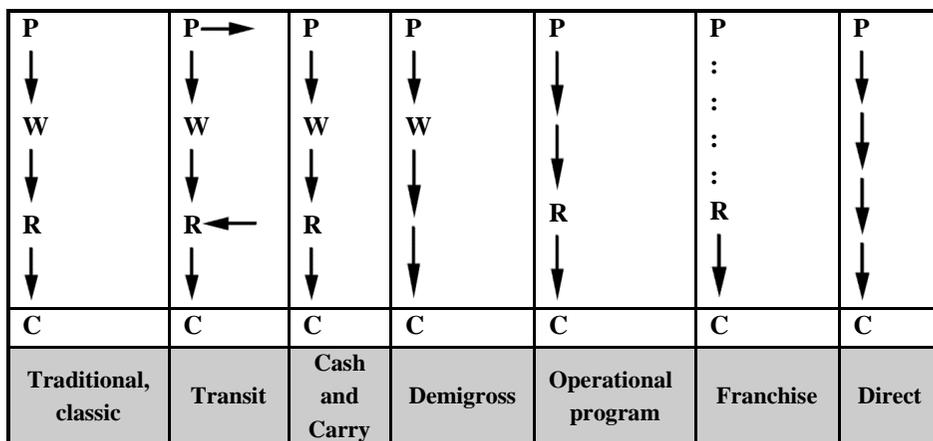


Figure 20. Distribution channels

Source: Tomcsányi, 1978

P= producer, **W**= wholesaler, **R**= retailer, **C**= consumer. **F**= Facilitating companies and institutes which help participants of the marketing channels to do their work and to increase the competitiveness of the given marketing channel. Facilitating service is the export loan system, like Hermes in Germany, or Eximbank and Mehib in Hungary.

14.4.1. Transit marketing channel – the wholesaler the jobber – just gets the parties together and simply tells them when, how much and where to transport for a given commission fee.

14.4.2. Cash and Carry, C+C (Metro, Interfruct) is the self service “shop of shops” for retailers, restaurants and cafes. It is known in Transylvania as “angro”. Retailers and restaurant managers can not get such an assortment and discount from the producers. Warehouse style: huge selling area, vertical warehouse style shelving, filling up the shelves from the upper jumbo shelves. Planned purchasing and professional buying is typical contrary to impulse shopping in hypermarkets. Buyers come here with well defined objectives. Most of the wholesalers transport the selected items to the frequent buyer who preorders over ten thousand HUF worth of merchandise during working hours. But, the independent retailers and restaurant managers rely on Metro and other C and C’s if they run out of stock during weekends

A few entrepreneurs also buy for their own personal consumption at C and C’s. They get the card and shop for their family as well as their friends, all for wholesale prices, thanks to the card. Today every C and C is open to individuals so they sell retail, too. But, the majority of products are in wholesale packaging, there are volume limits for prices and the C and C’s handle piece, carton and pallet turnover separately. Only volume buyers are eligible for special discounts in C and C’s. Sometimes the pallet price is not written on the product, because the serious buyers ask for it anyway, but the competitor’s price writer can not see it. Metro attracts retailers and restaurant managers with its quality fresh assortment, produce logistical center near the Budapest Wholesale Market, and wine-shops. 6-8% of the turnover of Metro is from produce.

Two traditional advantages of C and C’s are cash payment and no late payments. Nowadays, five to ten days delayed payment is not unheard of, but Metro allows 15 days to the Metro Club members for handling private label products.

Traditionally the buyers transport the products from the C and C’s, unlike wholesalers. It is also an advantage that the buyer can do walk-in sourcing; they can check the product personally. Metro even gives cooling boxes and bags to professional buyers. Nowadays several C and C’s do delivery to shops and fill-ins for restaurants. For example, the MOL and ÖMV gas station shops are served with food products exclusively from Interfruct. 25 trucks equipped with deep

cooling and lift-back-walls serve the gas stations from the national network of Interfruct C and C's. Metro has set up a loose franchise partner system called the Aro-shop program. The approximately 200 partners can do sourcing with special beneficial conditions and can get decorative and promotional material as well.

The **history of Metro** began in Hungary in 1987, when they created the Metro Trading office to do direct sourcing. Hungarian citizens spent 600 million ATS in the three Metros around Vienna in 1993, when the number of metro cards owned by Hungarians exceeded 50,000. These facts persuaded the German company to open its first store in Hungary, in Budaörs.

14.4.3. The Demigross, warehouse store is typical in the furniture and fashion industry. These 2,000-15,000 square meter warehouse stores are set up on cheap real estate property in the suburbs, in deserted industrial areas, in the so called "brown zones" of the cities. They are usually inaccessible from the main roads for traffic reasons.

14.4.4. The operational program distribution channel. Hypermarkets and other key clients tend to do sourcing directly from the manufacturer or the producer. Nestle, for example, transports 70% of the products directly to the retailer and only 30% remains for the wholesalers. The importance of this marketing channel is increasing. Especially the popularity of **Direct Store Delivery** is spectacular for convenience products, a fact that makes wholesalers' lives difficult. Another solution, operational programs, involves transporting to the warehouse center of the retailer, from which point the retailer then distributes the product to the retail units. Most of the major producers and manufacturers do direct store delivery only above a given volume. In "tele-selling" the producer or manufacturer calls the independent retailers and restaurants for orders and organizes direct store distribution.

A special version of direct to store distribution is **van selling**, when the transporting van brings the whole assortment out to stores and restaurants, and the manager can order, or buy from the van, payment in cash. The driver takes the requested products out of the van in the case of pre-ordering. It is difficult to forecast the turnover, but this method is ideal for testing new products for popularity and profit-generating capacity. This can be a good initiating argument to begin negotiations with the major retail chains.

Direct to store delivery can be facilitated by **retail clubs** organized by a producer, or manufacturer. The Sole Club was organized by Szegedtej (Gala Italia) for independent retailers around Szeged. In 2001, they had 130 members who could get milk and milk products at a discount. Similarly in the meat

industry there is the “Kaiser Partner Program”, where the members even get a membership identification card.

14.4.5. Franchise. The producer to retailer franchise, the dealer, the retailer selling under the producer’s brand. This means a direct and strict relationship between the producer and the retailer. The annual cumulative turnover of car dealers in Hungary exceeds 1.5 billion HUF, and they employ around 30,000-35,000 people. Each of the car dealers had to invest an average of 100-300 million HUF at the beginning of the 2000’s to comply with the regulation of the manufacturers and to reach the required level of sales and service.

14.5. Direct Sales, Zero Level Channel

In terms of agricultural products, the market share of direct sales is low – as low as 2-5% for produce in the U.S. and 20% in Hungary – the latter is a rough estimate. Direct sales is not an all-purpose miracle cure for every business illness. Professional producers use it to get hands-on market experience, test new varieties and packaging formats, and for selling low volume and overripe products. Direct selling can cause serious problems on the market – occasional producers can confuse the market. Herds of small scale producers sell their products when there is a good crop, depressing the prices; this is their one and only chance to earn some money, or they are having trouble disposing of their unexpectedly large yield. On the other hand they also try to sell low quality products – bad crops, regional plant protection problems – they can not resist the temptation of getting high prices. This is how they destroy the image of the whole industry.

It is typical that the producers prefer middlemen for **introduction of a new product** and on **small remote markets** – except in the case of products left over after consolidation. Selling through a wholesaler requires less investment than a direct presence. Producers tend to think in terms of direct sales and shortening the distribution channel. They try to save money using their growing and selling experience.

14.5.1. Shortening the Distribution Channel is Risky. A middleman’s professional knowledge, market experience and other services make him valuable in the distribution channel. There is no reason to hide the partners further in the channel, or make detours in this case. The vendor, the middlemen, and the merchant should receive their due income following the value they

create just anyone else does. The producer should perform the following functions in the case of direct sales:

- Carry out the all functions of the wholesaler and retailer.
- There is hardly a chance to get economy of scale. A wholesaler has a 50% bigger assortment than a distribution warehouse of a supermarket chain buying directly from the manufacturers and producers
- There is a small profit these days on the wholesale and retail price gap. The fat profits of retailers in the 1990's in Hungary are just a memory today. The net income in retail in the U.S. in 1994 was 0.5-1.5% of the turnover. A 2003 McKinsey Global Institute study shows that fast efficiency growth in the 1990's in the U.S. was due to only five industries. Two of these were the developing wholesale and retail trade.

14.5.2. Methods of Direct Selling.

14.5.2.1. Farm gate market, factory outlet is when the consumer buys at the point of production. Usually bigger units are sold this way and there is home delivery in case of higher volume e.g. above 20,000 HUF. It is ideal to test new products and packages and to sell lots which are not preferred by wholesalers

Daimler-Chrysler Company's Sindelfingen factory even has a hotel with discounted prices and child care for those who wish to choose and take home a car from the factory. Kékkuti, the mineral water producer, has home delivery service in Budapest from the company depot.

14.5.2.2. Roadside market. Producers sell their own products beside busy roads. They must have a permit for temporary occupation of public space from the local authorities. Another permit must be obtained from the roads authority, proving that the seller does not bother the traffic and the buyers have enough space to safely park their cars. One selling method that is popular with Italians is gaining ground in Hungary. Tents and easily assembled temporary buildings are set up in season near gas stations, shops and household service centers in the outskirts of the cities to sell fruits and vegetables, but not only local produce is sold there and not only producers are doing it.

14.5.2.3. Farmer's market. These are producers' markets where direct selling goes on, e.g. the *MDF (Market Development Fund)* market and the two organic product markets held on Saturday mornings in Budapest. It is an EU regulation that a foreign citizen can not sell at a producers' market. There must be tap water, toilets and a hand washing facility at the consumer markets owned by the local authorities. These producers' markets exist in every city of the world, and

what is more they became fashionable in the 1990's. The atmosphere of selling fresh and local products is even copied by the hypermarkets. These markets are gradually increasing. There were 1,755 in the U.S. in 1994 when the U.S.D.A. began registering them; by the end of 2002, their number had increased to 3,100. In the U.K., according to the National Association of Farmers Markets (Bath, England) farmer's markets increased from 200 in 2000 to 450 in 2002. The British farmers suffering from an agricultural crisis helped themselves to the tune of 166 million GBP during these two years, thanks to the producers' markets.

Just because nuts, seeds, and popcorn are roasted, and vegetables are cut up for freezing or processing, it does not mean a substantial change in the fresh character of the product, so they can be sold directly. These products are **not processed products**, so their producer can sell directly at markets and fairs without a special permit. An independent producer can sell his/her processed products – pickled products (not heat-processed), sour cream, cottage cheese, cut and cleaned poultry (but not pieces), smoked pork, bacon, lard, without a permit at markets and fairs. However, they have to follow the rules of food and plant hygiene. They have to show their producer permit on request of the market authorities.

14.5.2.4. Directly to Foodservice, HORECA (Hotel, Restaurant, and Catering). Catering means a regular, daily industry like selling of meals, e.g. the catering services of airlines. The foodservice market requires heavy investments. Coolers, outdoor and internal lighting equipment, advertising material, ash trays, cups etc. must be supplied to consumers and sometimes must be complimentary when getting exclusive rights in return. Sometimes it is also necessary to allow an additional fee and free product. The Colima strawberry variety was bred in California to meet the needs of the foodservice market. It has deep red flash and looks marvelous cut in pieces on the plate. The two kilo tray specially designed for foodservice makes the strawberry easy to handle in restaurant kitchens and protects the fruits well.

The categories of foodservice are the following:

- **Catering in trade-like units.** There are **free-time facilities**, like restaurants, cafés, pubs, bars, dance clubs etc. **Room-and-board catering**, like hotels, motels, camping. **Travel related catering:** air catering, train, ferry boat canteens. For tobacco and drinks there are special catering facilities for adults: *ASMP (Adult Smokers Meeting Point)*.
- **Catering in institutes, work places.** School cafeterias, buffets, hospital catering, and military catering. Such institutes have special

regulations. Alcohol and tobacco are sensitive products and sweets and candies are regulated also, for example, in the Hungarian school canteens. Several companies expect effective and fast catering in the company restaurant. The most important catering companies in work places in Hungary are Compass, Sodexo and Aramark, who offer reasonably good food.

- **Catering suppliers.** The Prodirest foodservice supplier chain of the French multinational retailer Carrefour serves around 40,000 restaurants, food counters and cafés from 25 distribution centers.

Only an **EU tax identification number** is necessary to buy products in another EU member country, so restaurant managers can do sourcing abroad. The favorable buying circumstances have incited many entrepreneurs to start new businesses. A lot of people make a living from traveling abroad with their trucks and buy food supply which they sell at home.

14.5.2.5. Pick-Your-Own, U-pick. The spot must be shown directly where the individual buyers can pick, because they just pick the large fruit and crush the rest underfoot in the process. Big stones and water are taken in because the cars and sacks are weighed as they come in. Transporters soak pallets in water to make them heavy before weighing in some cases, and even pour gasoline into the waste water pipe inside, when the transported product is very expensive. The waste water channel in the Debrecen Tobacco Factory once burst into flames when a burning match was thrown in by accident.

14.6. Contract Suppliers, Partner Programs

“These days, market competition is among supply chains, not companies”

Flextronics

A typical tendency is that there are different **branded product manufacturers** and different **suppliers**. When products become part of a (supplier’s) bigger and complex unit, the differentiating characteristics of individual products are hard to recognize. The manufacturer of a branded product can guarantee only products whose parts are produced with a guarantee. The accountability of the company that produced the branded product can not be passed on to the supplier when the system is not transparent. On the other hand, suppliers do guarantee the parts they handle if they are warehoused, assembled and used according to the given technology. The 500 biggest U.S. companies used an average 50 suppliers five years ago, today they have 1,000 and likely this will jump to 1,500 in the next

five years (Modern Kor, 1998 October). The supplying of spare parts generated \$3.7 billion in exports for Hungary in 1998.

14.6.1. The Objective of the integrator is to choose the best suppliers and increase the effectiveness of sourcing. The integrator can build long term relationships and that allow mutual development such as standard setting, ECR, and EDI ordering etc. Suppliers sometimes acquire long term volume buyers who pay well.

Mocca Negra Rt., for example, began supplying private label coffee to the Penny Market hard discount chain, building step by step, winning several supply tenders. Now they are the international suppliers of Tesco Plc. too, and export private label coffee to Tesco hypermarkets in Poland, Slovakia and the Czech Republic.

The **direct supplier** provides products and material necessary to the final branded product. The **indirect supplier** products and material not for the final product itself, but for the special machinery and equipment necessary to manufacture it, which includes office and communication equipment as well. Currently, direct products represent around a 30% share in the supplying of an average manufacturer company. Suppliers can be categorized according to the **nature of the work** they perform. The **evolution process** of the supplying connection has three phases. **Paid work:** the material and the machinery are sent by the integrator to the supplier; they are not his property. The supplier merely completes hand labor at his location. It is practically a work management solution serving the integrator, because the supplier can do other work only with the permission of the integrator. Suppliers like resemble the small planetoids around a major planet. **Passive supplier:** a subcontractor who uses his own machinery and materials, but following the strict regulations of the integrator. **3. Active supplier:** supplies solutions to problems of the integrator as a result of joint activities. The active supplier takes part in the development of the product, too. The final result motivates the integration, not just low costs. Labor intensive jobs are done where labor costs are low. Final assembly and research and development are usually accomplished close to the final markets, since transportation of the final product is usually expensive and it is reasonable to carry out build-to-suit activities near selling points (Flextronics, 2003).

14.6.1.1. Tender and Code of Rules for Suppliers. In terms of companies working with several suppliers, an internal code of rules regulates the most important relationships with the suppliers. Tenders and invitations to competitive bids must be announced if the value of items to be supplied is over a certain amount. Contracts usually do not exceed one year, and applicants are usually

pre-qualified. The contract contains the following important conditions: details of the item, its value, the method of control/inspection and the possible volume. **Control** of the suppliers stands on two legs. The first leg is **pre-qualification**, which verifies that the supplier making the offer meets the requirements. Only pre-qualified suppliers are invited to supply tenders. This first leg also has two parts. The first part is **verification** – actually, comparison of the applicant's actual data to the required data. Also, the general legal and financial background of the applicant are checked. The second part is **qualification**, when the financial and professional capabilities of the applicant are confirmed, related to the proposed work. During qualification, sometimes there is a personal visit as well.

The **code of rule for suppliers** is the second leg of control. The tenders are set according to the code of rules. The quality control department prepares the professional **requirement profile**, the basis of the decision and the daily check of the transports. The quality requirement is sent in advance to the applicants for the tender. The second leg of the contract, sourcing, is to fix the circumstances not mentioned in the general contract, and to choose the best offer from among the applicants. There are two suppliers in case of an important product. The first is the lead, the key supplier and the other is the substitute, who can do the work if the lead supplier fails for any reason. Having a substitute reduces risk and keeps the competition lively. Buyers can protect their positions with a secured supplying contract, meaning the supplier should procure the product from someone else if unable to deliver from his own facility. In other cases the buyer buys the product from somewhere else, but the price must be paid by the original supplier.

Table 26. The individual shipments are awarded points, as the following

1.	price	50 points
2.	Quality (internal values, technical requirements etc.) i.e. ISO 9001	30 points
3.	Ability to deliver on time, service, supporting the competitor, keeping company secrets	15 points
4.	guarantee	5 points
	Total:	100 points

The “**partner book**” is the database containing the pre-qualified regular partners and suppliers. Sourcing can be related to buying products and material, services, and complex subcontractors. Suppliers can be the manufacturer’s own company, a partnership, domestic and foreign suppliers. There are two kinds of partners, or supplying programs, as follows. **Supplying program to project:** immediate use, assembling and therefore programmed shipments. Base prices and bonuses are preset by contract; price is calculated at the end. **Sourcing program:** the buyer stores product and times its use. The price is fixed in advance.

14.6.1.2. Control of transports. There is a record card for every shipment, containing the production number and the warrant letter of the producer. The production number is on the bills and e-mails to enable tracing if necessary. Every supplied product arrives with a “passport” and leaves the company with the same “passport”. The product passport contains official and company quality control data, certificates elaborated to every level of the food chain from the raw materials to the consumer’s table. For example, with Metro’s private label so (Aro, Metro Quality), the company audit of Metro is added to the product passport.

The national (Magyar Szabvány) and the EU standards are not required by law for every participant of an industry, only if they are mentioned in the law. The highest level regulation of food security is EU 178/2002. The Food Law or the Codex Alimentarius is compulsory. The Hungarian Codex Alimentarius applies only to Hungarian made products.

The professional organizations (NGOs) demand their own standards from their members. The most famous of these is ISO, but there are several other organizational standards. The four pillars of quality control of produce are the **GAP**, the **GMP**, the **minimum residue levels (MRL)** and **product traceability**. The MRL levels are set by the International Committee of Codex Alimentarius, Rome, Italy.

Good Agricultural Process (GAP). A quality control system regulating the path of fruits, vegetables and ornamental plants all the way to the farmgate is set by the *Euro-Retailer*

Produce Working Group (EUREP) and is called EurepGAP. Some of the first products to receive the EurepGAP certificate are the fresh wax pepper, tomato and cucumber of DélKertész in Szentes. Today there are ChileGAP, SpainGAP, USAGAP1, USAGAP2, and even ChinaGAP. One competitor of that system is the Australian *Safeway Quality Food (SQF)* standard used, for example, by the American Wal-Mart. The German Metro has its own “from the farmer to the shelves” quality control system called EKS and uses “Cali” the brand name. Tesco’s “Nature’s Choice” system is nearly equal to EurepGAP. The *GAP (Good Agricultural Processes)* checks *critical control points (CCPs)* in production and harvesting technology.

Some critical inspections areas:

- personal hygiene on the fields,
- maintenance of production equipment,
- plant protection process, MRL levels,
- water management.

Good Management Process (GMP). The same as GAP, but checks the processes beyond the farm gate and follows ISO criteria. It assesses the critical control points in packing, processing, shipping, warehousing and retail. The most important quality control standard systems in this case are the German-French **International Food Standards (IFS)** and the **British Retail Council (BRC)**. These systems are adhered to by Aldi, Rewe, Lidl, Tengelmann, Auchan, Carrefour, EMD and Provera. Some food industry companies follow this standard also, like Fornetti, Champion Union, and Vitamor. One international quality control and standard system is the **European Food Safety Inspection Service (EFSA)** located in Switzerland. The frozen food companies of Miskolc, Székesfehérvár and Békéscsaba have this certification. FAO, WHO, WTO and the compulsory Codex Alimentarius and the officially enforced standards only accept third party certified e.g. DNV, Campden and Chorleywood Food Development Institute, SGS quality control schemes.



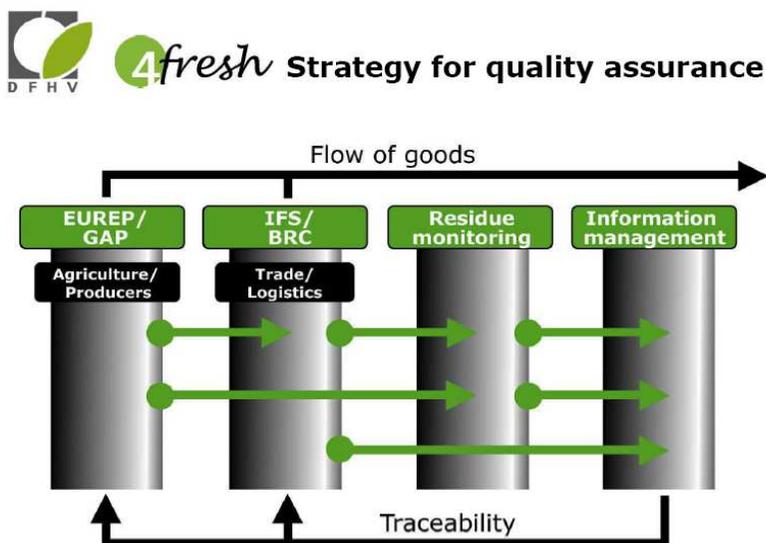


Figure 21. Professional standards, HACCP control in a shop and the four pillars of quality control

Source: www.brc.com, www.ifs.com

The most important tools of product traceability are the bar code (GS1) and the lot number identifying the different production and transportation units.

The supplier status is not for ever, as it was mentioned earlier. Suppliers are regularly evaluated: the value of their activities is summarized according to the scorecards. They have no chance to win the contract if they fail inspection. The evaluation is discussed during quarterly negotiations and sourcing forums and supplier conferences. They explain the plans of the company, talk about opportunities and check the different directions of possible cooperation. The partner meeting of Provera, the sourcing company of Cora, Profi and Match is usually held in the Papp László Sport Arena. CBA holds regional CBA Anklets where their members and sourcing experts meet the suppliers. Several integrators award "Supplier of the Year" certificates to their best suppliers. These prestigious awards can be used as references, for example with banks and other integrators, too. Pilze Nagy, the oyster mushroom company is a "five star supplier" of the German Metro.

Another advantage of supplying a contract to an integrator is collateral for the banks. According to the 1999 data of Eximbank, Hungarian companies are in a 120-130 day financial disadvantage compared to their Austrian, German and Italian competitors. The supplier program of the *Hungarian Investment and Trade Development Agency (ITD Hungary)* enables the suppliers of the exporting integrators to get a **50% export financing**

interest preference and the export insurance preferences of the Hungarian Export Loan Insurance Company (Mehib). ITDH is the supporting institute of the Ministry of Industry and has 16 offices within Hungary, and 30 offices in 27 countries. The system is similar to the German Hermes export financing scheme which has been working successfully since 1932. The exporter gets the price after the shipment leaves customs and the buyer owes the German Government from this time.

The Ministry of Economics established Supplier Investing Ltd. to improve the chances of the small and middle size companies. This company helps them with 50-120 million HUF capital investments, and with discount loans as part owners. The non-profit, but self financing company gets income from earning after shares, advice and selling ownership after three to five years. By the end of 2004, they had given 3.3 billion HUF worth of investment assistance and created 1,100 new jobs. The Office of the Prime Minister and the National Association of Entrepreneurs coordinate the **Supplier Trade Development Program** for small and middle size entrepreneurs and for the disadvantaged regions. Their purpose is to build supply relationships with buyers like Metro, Auchan, CBA, Plus or Bábolna. It is in the interest of the latter to have a solid supplier base. Multinational retailers tend to have local suppliers too, to prove their intention to support local economy.

14.6.2. Industry Cluster: enlarged supply chain. Direct, first step and indirect second and third step suppliers of a big company imply both huge turnover and a huge network. Retail chains and multinational branded product manufacturers form sound and well-developed regional professional trade coordinating groups, or industry clusters. The decision making heart of the industry clusters is the cluster committee. The objective of the small and middle size suppliers is to get substantial professional bargaining power and gain key supplier status. Participating local authorities wish to improve employment in the region, want to provide work to local entrepreneurs, and obtain tax income. Each member of the industry cluster is associated by contract to the cluster committee. The **Tomato Cluster** in Szolnok integrates the 50 tomato processing plants in Hungary and the Hungarian Association of Tomato Growers. They handle the 140,000-ton Hungarian EU quota and hope to increase it. The Pannon Fruit Cluster in Zala county has 16 members.

The **Pannon Thermal Bath Cluster** was found in 2001 to support tourism in western Hungary. The Meat Cluster of Pápa has 20 members from the region and its objectives are to provide a solid meat supply, to harmonize marketing activities and to solve environmental problems. The Pannon Car Industry cluster sponsors cooperation of the Audi, Opel, Suzuki and Rába factories in Hungary and their local suppliers. It is a fashion to have regional shelves in hypermarkets to support regional suppliers. The *"Taste of Cornwall"*, or the central English *"Heart of England"* group in British Tesco stores is a good example.

Electronic sourcing. Several multinational companies put their buying programs on the Internet. They hope to gain savings for themselves and their partners this way. The supply system of Ford Motor Company has 30,000

suppliers and \$300 billion annual turnover. In 2004, \$80 billion of it was on the AutoXchange (Ford+Oracle) Internet supplying scheme. General Electric's Trading Process Network, which is working in Hungary, also reduced administration cost by one-third and lowered the price of the purchased products by 5-50%. The number of suppliers decreased, but also the efficiency of sourcing increased because of the e-trade which has reached \$1 billion annually. The process of ordering is the following. Special software chooses the right offer from a special catalogue containing contracted supplier products. The catalogue contains the sales and shipping conditions also, so the special software can evaluate those too. The order is sent to the sourcing director for endorsement and the endorsement process can be tracked by computer. The system automatically orders the product after endorsement, receives it when it arrives and verifies compliance.

14.7. Wholesaler Categories

Agency, business agent, middleman. Just gets the parties together, gets no ownership of the product and provides no logistics.

Traditional agent, who represents the producer, or the buyer. Trade representative: mediates deals, maintains contact, advertises, manages insurance for the client. Consignee = gets commission for turnover and the client takes back the left over product. **Basic wholesaler**: fixes a given volume before season by contract, otherwise an agent. **Broker**: represents both sides. Seasonal, always changing markets, get case by case assignment.

Traditional merchant wholesalers: dealing with logistics, export-import handling and usually takes ownership of the product. **Full service merchant wholesalers**:

- **General wholesalers**. Keeps more than 10 SKUs – U.S. (broadliners), Japan (Shogo Sosha) – Germany (trading houses in the Hansa cities). The average wholesalers buy fruit and vegetables from 25-26 sources in the U.S. (Perosio, 2003). Predictions say that the role of category wholesaler is increasing to the detriment of general wholesalers.
- **Category wholesalers, e. g. food**. In 2001, there were four or five major food wholesalers in Hungary. One of the biggest is Asix Ltd representing Fisherman's Friend, and Jump (energy drink), for example. Dunabest Ltd was the exclusive importer of Joe waffles.

Ramexa Ltd was dealing Anton Berg pralines and Neutro Roberts cosmetics among the others. The fourth largest is Maresi Foodbroker Ltd. Most of the small and middle size west European companies have tried exporting to Hungary only by wholesaler.

- **Specialized wholesalers, e. g. produce.** A complex fruit and vegetable wholesale company has three departments. **1. Traditional Wholesaling:** for example on the wholesale market. It is done usually with company trucks, sourcing, and warehouse. The importer is responsible for providing clear labeling in Hungarian. **2. Supplying key buyers, programs:** selling to retail chains, Horeca, institutions (hospitals, army etc.) and food industry by contract. **3. Added value services,** like packaging, cleaning, cutting (fresh-cuts), kitchen ready processing, banana ripening. Exclusive import contracts are typical. The average specialized produce wholesaler in the U.S buys fruits and vegetables from 110 sources (Perosio, 2003). The advantage of specialized wholesalers is that a lot of products can be bought only in their stores. Their added value is taking the risk and making extra efforts to stock such small volume products (Coolfresh, Container Centralen).

Limited service merchant wholesalers. Cash. & Carry stores, Catalogue wholesalers. **Van Sales,** e.g. The Flying Dutchman: they buy at the auction/factory and make rounds at shops till the shipment is sold. Orders can be placed too. **Rack jobber,** service wholesaler:

- transport to the shop, fills up the shelves,
- takes back what is left over,
- handles guarantee and complains,
- rents place on the shelves, or changes the rack,
- holder on his rented space in the shop,
- keeps his shelves clean, puts prices on the products,
- gets a part of the price gap plus pays rent.

The **rack jobber,** the **service wholesaler** plays major role in product categories where:

- The market is seasonal, therefore the cost of a traditional wholesaler can be covered only on this way, e.g. Christmas trees and fish at Christmas – and gets space in shops only for a season. There are rack

jobbers, who even use the Dutch auction CC-trolleys and change them regularly.

- Serving the consumers in retail calls for special knowledge and experience, in special areas like flowers, toys, IT products, and multivitamins.
- Slow movers, or products which generate a lot of consumer complains, but despite the fact they are an important part of the assortment in given shop, or attract important buyers, e.g. special cosmetics, kitchen furniture, and exclusive wines (on the basis of McCarthy–Perreault, 1989).

15. FRANCHISING, BRAND PARTNER, TURNKEY BUSINESS

15.1. Definition and Importance of Franchise

15.1.1. A franchise, by definition, provides technology that is proven in practice and widely accepted – and provides it by long term contract to another independent entrepreneur. The franchisor, the provider of the franchise technology, ensures that the franchisee can concentrate all efforts on its basic activities. The contract is the translation of the technology system to rights and obligations. The franchisor is the initiator of the franchise network and the owner of the name, the trademark and the technology, or at least has the right to use it. The network consists of the franchisor and the independent franchisees. The franchisee can enjoy the rights only if it follows the business rules fixed by the franchisor. The legally and financially independent franchisee gets a reasonable share of profit. There are a number of multinational companies who do their distribution through joint ventures. This is not franchising, because a franchisee is not an independent decision-maker, but joint venture partners are.

In the case of **global franchise systems**, the international franchisor sells the “master license” valid for a given geographical area to the “regional franchisors” who in turn sell the rights to the individual local franchisees. In our part of the world, the “master license” constitutes a certain body of technology, fixed in rights and obligations, and valid for a country, or a region with five to ten million people.

Global franchisor → Regional franchisor → Local franchisee

Master license

Partner contract

Figure 22. The global franchise system

Source: Kovács, 2002.

15.1.2. Philosophy and Theory of Franchise. A basic rule: the success of one side depends on the success of the other side. This mutual interest system, in addition to the practically proven and widely known technology mentioned earlier, raises the franchise above the other market organization forms:

- **Long term relations.** The franchise contracts are signed for at least three years. This means the system protects a franchisee from going bankrupt until the contract expires.
- **Ethics.** This is a “detour” based on the interest of both parties. The contract limits the business activities of the franchisee in time and scope. The franchisee can do business only following the rules, not on its own. On the other hand, the business position of the individual unit is helped by the power of the whole system. The sides build their existence on each other. Competition law prohibits a vertical cartel, and the competition office inspects every business contract valid for at least 10% of a given market. The franchise agreements have been excepted from this – since 1997, in Hungary – by a government regulation.

15.1.3. Importance of Franchise. In the U.S., consumers spend an average one dollar out of every three in a franchise outlet. In Hungary, the 2004 retail share of franchising was 4-6%, and the number of systems in practice was 300-400, according to the Hungarian Franchise Association. In general, 20% of new individual enterprises go bankrupt in the first year, and 70% in the second year of business. The bankruptcy rate of franchise enterprises, however, is under 10% for the first two years. This does not mean that a franchise is a secure business. The world’s second biggest franchise system, Domino Pizza, has nearly gone bankrupt twice. Both times, its lending banks took over from the lead from the hands of the governing body.

The Ministry of Economic Affairs and Transport supports franchise network building with Invitation to Tenders No. 2.3.2., which supports the franchisees, too. The chapter on small and middle size enterprises of the operative program to improve economic competitiveness of the **Ministry’s National Development Plan** provides support to develop franchise enterprises. More than one billion HUF was distributed as support to franchise development with the Széchenyi Program in 2001-2002.

15.2. Advantages of a Franchise

15.2.1. Combines Advantages of Big companies e.g. supply and loans, with Flexibility of Small Ones (independence, motivation). The big franchisor needs not deal with thousands of employees. The big company gets a motivated, ambitious retail and wholesale network and cheaper capital than usual. Company technology can be disseminated with relatively small seed capital. Cynically, a

franchise is no more than a well organized reselling network. The cooperation package is so partner friendly, that the franchisor only needs the partner's money.

15.2.2. Increases Local Employment. The video rental business unit of Vico has 1,500 units and employs one to two people in every outlet. The Hungarian unit of the Coca-Cola Company has 1,300 Hungarian employees. A huge part of the work is done by contractors, so they provide an additional seven jobs per one company job.

15.2.3. Sells Local Products. McDonald's once sold 80%, later 50% and currently sells 40% Hungarian products. Their company policy is to try to use local products wherever they have a franchise system. The substantial supply contracts can be obtained on tenders.

Piszke Paper Company has been the Central and Eastern European **supplier** of McDonald's in paper napkins since 2003. This means around 1,100 restaurants in Hungary, Slovenia, Croatia, the Czech Republic, Austria, Italy, Slovakia, and Poland. Bábolna, for example, supplies chicken not only to the Hungarian restaurants, but to 11 other countries like Greece, Switzerland, Austria, or the Czech Republic. The salads of the Swiss-Hungarian joint venture Eisberg are consumed in the Austrian McDonald's restaurants, too.

15.2.4. Advantages in financing. Lending banks find it advantageous to finance franchise enterprises, because the franchisor has already screened the franchisees. Proven, successful technology reduces financial risk also. And lower risk means lower interest rates. It is a basic rule of serious franchise systems, that they do not let a partner fail as long as the contract lasts. This does not mean that they always renew an expired contract. McDonald's, for example, assumed the management of a loss-making restaurant from a franchisee who ran several units. Later on, the franchisor was able to manage again without loss.

The need for a large initial investment also weeds out some entrepreneurs. There are entrepreneurs who have a lot of enterprises and this way. By requiring a large investment, the franchisor can make sure "*he spends all his effort with us*". The tendency of the 2000's is that the multinational companies promote their own reliable staff, whom they know well, rather than employing some attractive stranger.

The **story of Charlie Bell**, an Australian who was elected *CEO (Chief Operating Officer)* of McDonald's in 2004, is a typical McDonald's career path. It shows how a person can move up through the ranks in a franchise. He began to work at the age of 15 as a part time employee in one of the company's Australian restaurants. He was promoted to manager at the age of 19 and eight years later became the deputy president of McDonald's Australia. He moved to Europe in the 1980's, where he began to work in the Frankfurt center of the fast

food chain. He was promoted to CEO of McDonald's in the January of 2003, becoming the number two. Leader of the whole company.

A **major difficulty of franchisors** is finding entrepreneurs. Even the well-known franchise systems can not create enterprises. At the beginning of 1993, only four of the 11 McDonald's outlets in Hungary was a franchise; all the others were corporate restaurants. At the beginning of 1995, the ratio of franchise to corporate was 17 to 27 and today it is around 50%. In the U.S., 85% of McDonald's restaurants are franchises, but in the U.K., for example, only one-third operate as franchises.

15.3. Disadvantages, Obstacles, Pitfalls of Franchise

15.3.1. Franchisors Cheat. There are franchisors who just want to get a substantial sum of money for their idea and then disappear, according to the Hungarian Franchise Association. They charge a 500,000 to one million HUF **entrance fee** from each of 10-20 franchisees – and then take the money and leave the business. Foreign master licenses must be studied carefully at the beginning to determine if they are really useful in practice. It is important that the franchisor should provide the working manual of the system. A feasibility study, as well as checking the franchisor's financial situation, are also advisable. In some cases the franchisor just used the franchisee **to get the necessary practical experience** and then took over the franchisee's business when the contract expired. There have been cases when the **franchisor sold the system** to a competitor who did not need a double network.

15.3.2. Franchisees Cheat. Franchisees were not born yesterday, either. It has happened that the franchisee simply disappeared with a huge amount of stock, leaving a behind an enormous unpaid debt. A supermarket chain lost 60% of its franchisees like this, each leaving five to six million HUF in unpaid bills.

In some case, the franchisees skipped out when they realized that the competitors' technology was equally profitable. It was almost impossible to recoup the losses. One franchisee even gave back a restaurant to McDonald's because he could not get the profit, he expected. This was one case, however, when the company managed to turn a losing restaurant into a profitable one. It happens also, that the franchisee hides profits in order to pay lower fees to the franchisor. Very few restaurant guests ask for a receipt. Selling without a receipt is an important problem in food retail and food service. In Hungary in 1993, 40% of food retail sales were transacted without a receipt. But naturally, a franchise system must follow the rules of the tax office.

15.4. Franchise Types

15.4.1. By the Position of the two Sides

15.4.1.1. Producer/retailer Franchise – the “dealer”. The producer is the franchisor and the retailer is the franchisee. Typical examples are the automobile dealers – sales and service centers, in other words – the gas stations, fashion and sport flagship stores, or the Fornetti bakeries, where the company of József Palásti is the franchisor. The MOL gas stations provided the highest turnover among franchise systems in Hungary in 2000. The majority of the famous British pubs work by the franchise system. The breweries are the franchisors and the pubs are the franchisees. The first “brand supporting” pub chain is “Rolling Rock”. These units are practically “outlet stores” which sell only the producers’ products. In some cases, half a retail unit or a single shelf can be run by franchise in a store, but the circumstances are fixed in the franchise contract.

15.4.1.2. Producer/wholesaler Franchise. The producer, as the primary owner of the license, permits the production and wholesale of the product in a detailed contract. This is common in the soft drink industry, with Coca-Cola and PepsiCo. It is a basic element of the philosophy of the Coca-Cola Company not to go for direct product export, but rather set up bottling units and franchises abroad. The franchise system makes the management of the bottling factory interested in doing effective work and taking local tastes into account. Quality is guaranteed by the franchisor.

15.4.1.3. Wholesaler/retailer Franchise. McDonald’s runs a system like this. This method is typical of most of the fast food chains, the sourcing alliances (CBA, Reál, Profikolor) and the retail franchises e.g. Spar, globally.

15.4.1.4. Producer/producer Franchise. Typical of introduction of novelties and possibly successful plant varieties in a closed system. Its objective is to avoid initial over-enthusiasm and overproduction with quality deterioration as a result – which can be the case of commodities, or commodity varieties.

The product organization of the **New Zealand kiwifruit** has franchisees in the northern hemisphere: in California, France and Italy, they produce the Hayward and Zespri Gold kiwi varieties in a closed, club-like franchise system. The mission of Zespri International is the following. “*We intend to sell kiwis 12 months a year!*” in Europe, Zespri Gold ships from New Zealand from June to October, and comes from Europe between December and February. The planted acreage, number of plants per acre, the technology, and the harvest volume are strictly regulated. The whole crop is sold by the marketing and logistics system

of Zespri and under the Zespri logo. Zespri has exclusive sourcing agreements with several retail chains for given periods of the year.

F1 Racing Teams – the franchisee and the franchisor agree in a contract to share some technologies and tasks in order to concentrate their resources on the remaining ones. The Formula 1 racing teams do not produce car engines, but buy them or cooperate to develop new ones with factories like Ford, Ferrari, Honda, and Mercedes).

15.4.2. Other Categories.

15.4.2.1. Conversion Franchise – changing an existing marketing network to a franchise system. It was a privatization method in Hungary. A typical example was when British Airways converted some of its lines into franchises. The now 100% Hungarian-owned Diego chain originally imported Diego carpets, but was not satisfied with the attitude of the retailers, so they took retailing into their hands with the help of the Italian supplier.

15.4.2.2. Family franchise – the family enterprise is the franchisee. It is important in the U.S. and Hungary as well. The only way it differs from other franchises is the relationship of the management members to each other.

15.5. Duties of the Franchisors

- The products and services serving the needs and wants of the consumer – in short, the **assortment**.
- **Practically proven technology and selling methods** e.g. brand, product identity. The system should have at least one sample unit working successfully for a given time. McDonald's success is just partly fast food – in Hungary, for example, some customers spend hours at "Meki". It is just a part of the company philosophy to feed as many people as possible as fast as possible, in such a way that speed does not harm the food or the service. Motivation research proves that *a McDonald's restaurant resembles the playrooms of rich children whose parents are not home at the moment*. It is a safe and free place for teenagers, the arena of social life and social learning. Elder generations on the other hand feel nostalgia towards the free and happy period of their life that a McDonald's restaurant reminds them of. They tend to compensate for what is missing if they had no such experience. Without this, McDonald's would disappear in the colorful ocean of fast food and second hand product outlets like Dunkin Donuts, City Grill, Flamand Bakery, and Dixie Chicken.

- **Training new employees and on-the-job coaching.** Previous restaurant experience is no advantage getting a job at McDonald's.
- **Ongoing help** to solve emerging problems for the duration of the contract. In the case of Hyatt, or **Intercontinental Hotels** this means the international room booking service of the network, or the strict and professional accounting and computer services and data analysis. Budapest's Hyatt Hotel receives 20% of its guests through the international booking service of its franchisor. This data was published when a French franchisee wanted to buy the Hungarian partner's share and change to a French franchisor, in 2001.

15.6. What Does the Franchisee Have to Pay?

- **Entrance, license fee.** Its objective is to prove the serious intention of the franchisee. *"The success of the business would be much greater if the individual who invested was active in the business"* – said Ray Kroc of McDonald's. It must be paid only once and upon entering the system. This is the "tuition fee" to get a share of the successes of the franchisor. The entrepreneur can lose by the time he/she amasses the experience he/she can get this way. The size of the entrance fee depends on the business, geographical area, and the market position of the franchisor, but the low entrance fee is always a warning sign. At McDonald's, the entrance fee in 1996 was 4-5 million HUF, covering the costs before the opening, like advertising.
- **Franchise fee** 3-6, maximum 10% of the turnover for the use of the real estate and to pay back the construction costs. It has to be paid back from the 3-5th year for the kitchen technology, the furniture, advertising instruments and parking lot construction. McDonald's keeps its ownership on the real estate and does construction on its own. Automaker Fiat takes back the real estate if they are not satisfied with the franchisee (Economist, I/N8055 72. p.)
- **Royalty*** for the use of the services of the system. It is a percentage of the turnover also. **Licensing pack** is the basis of every franchise system. The financial pack is a part of it, what consist of the financial tools what is available for the franchisee at the financing bank. Royalty means a member of the royal family in England too. It meant that king of rights in old English law which could not be obtained automatically with royal buying land. Today nurseries and seed companies pay the royalty for propagating

horticultural varieties. The American Sun World breeding firm agreed with the South African table grape producers in 1999 that they pay royalty fee for illegal planting and selling Sugarone (Superior Seedless) table grape variety for the previous 6 years. The company allowed them to plant and produce the variety, if they follow the rules of the breeders right.

Conclusion: the franchisor ensures the following:

- The franchisee can concentrate all her/his efforts and resources to run the retail unit, the restaurant.
- Reduces the risk of the enterprise with professional services and business background.

15.7. What Does the Franchisee Provide?

- **Follows the rules of the system**, e. g. keeps the assortment, or avoids selling of given products in case of looser systems, and the franchisor provides adequate supply in return. Even the image elements of McDonalds is not 100% standard. The secessionist style of the restaurant hall was kept unchanged at the Nyugati Railway Station, for example. Standard elements are the logos and 15 basic products what has to be present in every restaurant, like the Cheeseburger, BigMac and Coke.
- **Management knowledge.** A lot of franchisors consider professional practice disadvantage, because it means prejudice in several cases. Cynics say they just need the money of the franchisee. Herbária got rid of substantial maintenance costs by changing 14 retail units to franchise from its 29.
- The franchisee must not give the technology to a third party else before and after the contract expires.

15.8. Typical Marketing Methods in Franchise Systems

15.8.1. Test Unit, Restaurant: A retail unit or restaurant run by the franchisor where new technology, methods, and products are tried out. Some franchisors keep some units in their possession just to make sure a competitor can not acquire them. The **education center** is a unit used to train new employees and franchisees. Sometimes there is a **training manual** to help new employees.

McDonald's even sends the best franchisees and employees to one of the five Hamburger Universities to make sure "*the same ketchup flows in their veins*", as cynics say. Most multinational companies have some kind of education center whose purpose is to teach company culture and professional knowledge. The education center of Nestle, for example, is an old castle in Switzerland on the shores of Lake Geneva. The California Strawberry Commission have been organizing Strawberry University an one and a half day long intensive program, for nine years.

15.8.2. Operation Manual: the summary of company technology which is provided by the franchisor to the franchisee. This is the "Bible" of the system. In terms of McDonald's, it is very detailed, and about the size of a phone book. It even explains how the guests must be welcomed and how to clean the restrooms.

15.8.3. LSM (Local Store Marketing) Handbook. General expectations, descriptions, explanations and graphic details for carrying out local marketing work by the franchisee. The global and national level marketing is done by the franchisor, but there is a small budget for every franchisee to use locally.

15.8.4. Franchise area, regional coverage. The geographic region that is served by an individual unit. It meant at least 30,000 people for Porst Photo in the 1990's. No franchisee likes it when the franchisor opens another unit within his/her franchise area, and takes away business from the original unit – except, of course, if he/she is the other franchisee also.

15.8.5. System Documentation and feasibility study: A study that is made before the introduction of the system in a country. Its objective is to prove the viability of expanding the system. If someone only bought the ideas, that would not be a franchise. A study shows the system from the point of view of the franchisor. Sometime it depicts the "ideal franchisee" too. Some local systems lack these documents, which is a mistake. The amount of the fees to be paid are subjective and can lead to disputes later.

The **ideal franchise system** is better than competitors from the point of view of the market:

- can be standardized,
- can be taught,
- its benefits can be communicated.

15.9. Brand Use, Licensing, Selling Rights

It is possible to rent a well known property such as a figure, a logo, a brand name, along with the right to use or sell a product by contract. The **licensor** is definitely not interested in the prosperity of the **licensee**, but only in obtaining the contracted fee and that his/her property not be harmed. Selling the licensing rights for the movie “Jurassic Park” yielded seven or eight times more money than the direct box office income. Even retail shops can be run by license: the famous 7-Eleven convenience store chain in Japan is a well known example. Several CBA, Electronics and Electro Plus outlets are working in looser than franchise cooperation with the licensor in Hungary. In these cases the freedom of the franchisee is greater, but the risk is bigger, too. The regional franchisees prefer licensing agreements with the network and they have a franchise agreement when this is the only choice if they want to compete with multinational chain stores.

Aspects of using a figure on a product are the following: the character should fit the product, the figure and the product should have the same target group. Personality components of Winnie the Pooh: simple, honest, naive and curious.

The **process of licensing** is the following:

- The owner’s licensing agency checks the quality of the product.
- The agency studies the circumstances of the agreement. The agency can not license the figure to competing products. Pepsi and Stollwerck both were licensed in the case of Anastasia, for example. The agency checks what distribution channel the licensee will use to sell the product and by what media they plan to advertise it. It is the duty of the agency to prevent counterfeits and illegal copies.
- The contract, containing a given time period and geographic area, is signed and the licensee begins to pay the licensing fee.
- The agency controls the administrative, accounting and other duties of the licensee fixed in the contract.

The most important license owners, such as the Walt Disney Company, have a separate **consumer products business unit**. This unit coordinates and supports the marketing work of the individual licensees in order to make the best use of the given figure.

Licensing agencies: *Eastern European Merchandising Corporation (EEMC)*, Plus Licens. The hollow chocolate figures of the candy industry have only two major seasons, each only

three or four weeks long – Christmas and Easter. Bad weather can further reduce these brief seasons. Consumers love browsing in shopping centers, downtown areas, and hypermarkets, but tend to stay home when it is raining, for example. That is why more marketing ideas are needed during the off season to compete with such items as Kinder eggs, and one idea is licensing.

Club varieties, production controlled by licensing. This is similar to the franchise-like production system of Zespri, since it also is based on a fixed number of producers, but the marketing of the crop is centralized. Rubens, the trademarked apple of the Italian Mazzoni company, is produced as a club variety in Hungary, too. This is the Civni variety, bred in Ferrara, Italy. It is a hybrid of Gala and Elstar. Similar license club varieties are Pacific Rose and Jazz, varieties of the Enza Company, New Zealand; and the very sweet Ambrosio apple variety of the Canadian Okanagan Plant Improvement (British Columbia). Other examples are the French Delbrush variety club and the efforts of the Dole Company to organize the controlled production of the Cameo apple variety.

PLA, formerly the product organization of Poinsettia growers, deals with flower breeders. Today they manage the production and breeding of Cape Daisy *Osteospermum*, too (*PLA[®] Cape Daisy[®] Arusha*). The logo and the name of the organization are protected by trade mark and production is carried out under license.

15.10. Facility Management

This is a type of rent derived from tourism. Since the 1970's, facility management has been known in cases when franchise and leasing is not acceptable to the participants. The owner of the property provides the place to the other party, the operator by long term contract. Some owners – i.e. of a restaurant, office building, service etc – have neither appropriate management experience, technology, nor a network. The hotel, restaurant, café, and office operating companies need good locations and capital, they do not mind shared risk, but have limited knowledge of local real estate. With facility management, the operator pays rent and fees after turnover. The owner of the property pays the insurance and other non-operating costs.

16. BASICS OF RETAIL

16.1. Definition of Retail, POS Terminal

Retail trade activity is a trade activity that serves the end consumer directly. Act 15/1989/IX. 7 KeM. delineates domestic trade activity, whereas Act I. 1978 paragraphs 5 and 7 provide the basic definition of domestic trade activity as a concept. It describes domestic trade with the classical selling-purchase process. Retail trade buys goods in large volume and sells in small portions. In the opinion of Jan Carlson (1988), the famous manager of SAS Airlines, the last half meter of the way from the producer to consumer is “*the moment of truth*”. This is the moment when the value of the product and the hard work either pays off or not.

The **basic assets of a retail** enterprise are two: the consumer base, and the frequent buyers. There are physical, financial and human networks serving the stores, like logistics and systems of sourcing. Evolution of technology is fast in the retail trade. In developed countries retail stores are reconstructed every six to eight years. 1% of turnover is saved for modernization. In the food retail trade the domestic consumption must be differentiated from home consumption: shops, home delivery, and out-of-home consumption vis-a-vis HoReCa and vending machines.

On September 30, 2004, according to data from the **Hungarian Central Statistics Office**, 112,000 enterprises managed 165,400 retail units. In the third quarter of that year, 18.4 thousand stores opened, and 18.2 thousand stores closed. By the end of the reporting period, the total salesroom floor space of chain stores was 16.7 million square meters, and the average floor space of one store was 101 square meters, a 1% increase compared to the end of the previous year.

The advantages of computer and scanner connected intelligent “**POS terminals**” – *EPOS, Electronic Point of Sales* – is the fact that prices need not be punched into the cash register, and for that reason it is:

- **Faster.** Nobody likes to wait in line, and it is disadvantageous for the store if the buyer has to be at the cash register for a long time. Often the buyer would like to buy something during the workday, between household tasks, or in his-her spare time. The fast and numerous cashiers help a lot in this case. In the store chains Wal-Mart and the British Asda, the staff already does scanning in the shopping baskets while shoppers are waiting in line. There were 500 such cashiers working in Europe in 2002. The

American Kroger retail chain, in cooperation with a credit card company, is experimenting with fingerprint identification, and 10,000 people are already using this solution.

- **Fewer mistakes.** With a traditional cash register, one in 300 punches is wrong, whereas one in three million barcodes is wrong with POS scanning technology. Naturally, there are more mistakes during the initial period. In the Cora hypermarkets there are girls outfitted with roller skates whose principal function is managing the problems of goods with wrong, missing, or illegible barcodes. Already there are fewer mistakes in the management stock, because with the system's support software enables the store turnover to be checked. Without barcodes cashiers cannot manage the discount prices or remember the current sale list.
- **Less theft.** The "European Theft Barometer" reports that half of stealing in retail is shop lifting, and half of that is done by store personnel. The other 50% disappears during transport and storage. The stores often request compensation from suppliers for lost goods. They argue that in Europe, the supplier is responsible for 7% of store theft and shrinkage. The tiny but valuable items are appealing for shoplifters, and must be protected, so they are usually kept behind the counter, with the shop assistant. The POS/EM makes a video recording of goods during the checkout process. **Product protection has another face:** employee and guest entry cards, a stamp on purchases that shoppers bring in from other stores, protection signs, and detector buoys.

Mechanical product protection (safer): devices featuring one-time or multiple use, they offer protection for heavy goods. The devices require a special tool for removal, and without it can only be removed by seriously damaging the item; also their large size hampers shoplifting.

One method of **electronic product protection** –EAS, *Electronic Article Surveillance* – is the sales area video (CCTV). The thief completes the crime in the sales area, and hides the stolen items on his person. After taking the person to a separate room, the security guard inspects the wrongdoer's bag etc. A store employee is allowed to do this only in the presence of a policeman. There is a certified video record of the unauthorized act, and this record is acceptable as proof in court. Goods with a high theft level are given extra attention. The shoppers like the store cameras too, because they protect their personal valuables as well. In western countries, if they have good cause, the chains can ban

notorious thieves from the store. The other method of electronic product protection is the safety label. The manufacturer places the safety label on the product, and premature removal of the label is a violation which is prosecuted.

Source labeling means the manufacturer hides the safety label in the wrapper so the shop employees do not know where it is. This way it is more difficult for them to give stolen merchandise as a gift. In this case a small antenna in the area of the detector buoy sends a signal, the label answers, and the alarm sounds. The labels are deactivated or removed during purchase.

In the case of *Radiofrequency Identification (RFID)* the label which can be activated can be also programmed and can be overwritten if needed. This eliminates problems regarding personal rights. The safety label can be utilized to identify product in other parts of the supply chain, too. The unit packages need not be opened. Thus the path of the products can be tracked all the way from the manufacturer to store shelves, and finally to the actual purchase.

For example, Wal-Mart, Target, the Metro Group, the U.S. Secretary of Defense, and other companies starting demanding in 2005 that the big suppliers mark their palletted shipments with **RFID labels**. It is not expected that the new sticker will replace barcodes immediately, but rather the two will coexist in the trade. In the case of large volume there is no big expense involved; and the retailer just needs to add some equipment. The new solution is already accepted by Gillette, for example, whose small products are the frequent target of shoplifters. Source labeling is ideal for identification. The Wal-Mart store chain put the electronic items code into practice, and saves 6.7 billion USD a year, because human intervention is hardly even necessary. The U-Scan Self Check-out is intended to hurried buyers and innovative impulsive buyers who get less than 10 pieces of goods. However there is a helper employee for every three U-Scan Self Check-outs.

Theft methods:

Swapping. The thief buys an expensive brand of a product, which is boxed. Later, outside the store, he takes the product out of the box. Returning to the store with the empty box in a shopping bag, he shows the empty box to the security guard at the entrance. The thief then goes to the shelf, takes another product of the same kind, puts it in his empty box, and leaves the other empty box on the shelf. Then he buys a few other items and leaves the store.

Mass attack. A noisy crowd goes into a smaller shop where only a few women are on duty. The crowd, arguing loudly, buy a little mortadella. The most aggressive member of the group complains that the mortadella is rotten and stinks, and his buddies loudly approve. The whole shop is in a commotion over the complaint. After a lot of difficulties, the crowd leaves the shop, and only then

do the frightened staff notice missing expensive drinks and exclusive branded products.

Non-stop shopping units located in remote places are especially in danger. Sales people can even be beaten by thieves they catch and try to hold until the police arrive. A **BRC** survey reported 318 aggressive acts for every 100 shops in the United Kingdom in 2004.

16.2. Basic Strategies of Retail

According to the **MOST model** the customer can be convinced to make a purchase where the following four “mosts” exist:

- Most discounted, lowest prices.
- Most extensive assortment, most services available.
- Most comfortable, easiest and fastest purchase.
- Most beautiful, pleasant shopping environment.

Of course there is no such store therefore we need a strategy, namely priorities. Emphasizing some factors at the expense of others, there can be a reasonable exchange of several advantages. The customers use this reasoning, too. The main aspect of the **strategy is the store location and the pillars**.

16.2.1. Location of store or unit. *“There is only one main street in Zalaegerszeg!”* – says the sales manager of the Csipkeházi ABC. Some local storekeepers determine which real estate is worth buying with this method: they spend one hour in front of the store during the high season and count how the number of people who pass the shop in one minute. If the total is more than 60, the property warrants a high price. Retail chains also check for potential competitors in the neighborhood (within striking distance). Location is completed with **visibility** which consists of how much the store is hidden from people passing by and if one can guess at first glance what the store sells, and how it is different from the other stores. This is supplemented with a clean, safe environment. The right place is so important that sometimes, if the location is right, it saves a lot of hard work later.

A finance expert of the **McKinsey consulting company** frequently visits Japan. For the last 15 years he has been checking a “dust catcher” hat on the shelf of a particular shop. The owner is in no hurry to sell the hat, since he always gets state aid. The shop lives from credit and is located in one of the most expensive properties in the world, therefore every creditor knows the money will be paid back from the ever-increasing value of the shop.

16.2.2. Pillars

16.2.2.1. Assortment and Prices

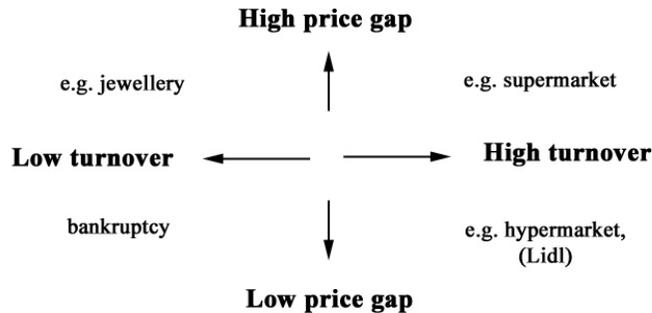


Figure 23. Basic theory of retail, turnover – price gap relation
Source: Kotler, 1998

Wide assortment-deep assortment. In retail the assortment is measurable with *Shelf Keeping Units (SKU)*. The Shelf Keeping Unit is the smallest measure (unit) of goods in accounting. The package units of the brand of all kind of goods get different SKU numbers in accounting. This is quality-mass. It means always up to date products, storage in deep freezers etc. and cheap, still marketable products.

16.2.2.2. Services. How much help does the consumer get? Services are goods as well, they involve expense, and they, too, are sold. Minimum demands (basics) – value added. Staff – trained **and numerous** - a few and untrained (cost saving self service). **Loan-No loan. Open hours** – Sunday – people ready to pay more. In the “non-work” time, like Sunday, the greater part of the turnover comes from more expensive products in whose selection the husband, wife and children all want to participate. This way the turnover comes mainly from household appliances, furniture, more expensive electronic entertainment products, and computers. Home delivery – buyer takes it home. Pre-order – no pre-order. Minor modifications – “as is”. Store personnel bagging at the checkout. A bagger is faster and more hygienic, and it is more convenient to take purchases home in bags. The plastic bag which decomposes in a few months or the paper bag is environmentally friendly.

16.2.2.3. Physical characteristics such as pleasant ambience incorporate the strategy and are evidence of it. **Clean** – it just has to be clean.

At least every three months, the county or town **ÁNTSZ** makes unannounced inspections at the hypermarkets and large shopping centers. The compulsory **EU guidelines and Hungarian law of the HACCP system** are as follows:

- Codex Alimentarius (Food Codebook) published by the European Union.
- The Council Directive 89/397/EEC (June 14, 1989), regarding official inspection of foods.
- The Council Directive 93/43/EEC (June 14, 1993) on foods and hygiene.
- XC. 1995 regarding foods.
- Act 40/1995 (XI.16.) by the Ministry of Agriculture on the required regulation of the Hungarian Codex Alimentarius.
- Collective Act 90/2003 (VII.30.) by FVM-ESZCSM describing regulation of food production, distribution, and hygiene. The most important requirements for workers are a separate place for clothes, inside toilet and shower, a thermometer in every freezer, and at least once daily washing of shopping baskets. Cleaning must registered in formal report book (continuously).

It is easy-complicated to shop McDonalds or Selfridges. The aim of a complicated, staggered structure is to provide entertainment for the customers who come for the fun of shopping, and also to allow people more time on their own, leading to more impulse buying. According to one survey, German people rate shopping fourth among stress factors. The response to this is the “racetrack design”. Its aim is the transparent display – rounded shapes, circular pathways (the shopper does not feel like he is shopping in a box), low shelves (people can see over them), and the various products are organized by categories in distinct, adjacent areas. Every section is separated by different colored wall-to-wall carpet.

Easy-difficult to get there. The **Pólus Shopping Centre** was built to handle 36,000 people daily. That much volume calls for two extra traffic lanes from Szentimányi Road to the M3 freeway. The local governments require the hypermarkets to invest money in social programs. Auchan and Tesco, two Budaörs hypermarkets, had to build a separate motorway exit lane at a cost of billions. Auchan of Óbuda had to rebuild Jégtörő Street and then foot the bill for widening a road to the north, instead of the city government. In Chicago numerous downtown malls have separate tunnels leading to underground parking lots.

“Many people would rather drive ten more minutes than walk two minutes!”

A discount antique shopowner

16.2.2.4. Need for working capital. In fact, the store buys goods for cash, and days or weeks pass until it sells them, again for cash. This is a pillar which the buyer does not sense directly, but which eventually shows up in prices, assortment, and in the exterior of the store.

“Every treasure of the west and all the spices of the Orient cannot be accumulated with one million capital stocks.”

A retail entrepreneur, 1994

The significant aspect of return is the stock-to-sales ratio, that is: stock to sales = 2.5. In the case of the domestic chain, gRoby, the monthly average is five inventory turns. Nowadays, the English Tesco stores keep two weeks' worth of inventory, but for several years they kept an 11-week inventory. The minimum stock of a small “abc” store is 10-20 million HUF, and two to three million in cash (1998).

The most **important instrument of financing** is:

- **Delayed payment**, which is provided by the supplier partner. In principle the small suppliers give 20 days, the larger ones longer commercial credit. The long commercial credit is especially important for seasonal products. In our country in 1995, a retailer had to have at least one billion HUF annual turnover in order to get the wholesalers' attention. In this case they offer not only volume discount, but 20-30 days commercial credit too. Meanwhile, the fast-moving product turns around two or three times on the shelves. The supplier finances the store this way. For example, the soft drinks season lasts from the end of April to the end of October. The wholesalers and retail chains start to build up the stock at the end of March, because they are afraid of running out of product during the season. If retailers have 60 days to pay, suppliers have more time to build up stock and fill the shelves, and the retailers have the chance to pay from their first returns.
- In practice the supplier can have a **sale-or-return contract**. That means he can give the goods on consignment to the retailer.
- Another alternative is the **bank loan**. The bank sets aside two to three million HUF – at Christmas and Easter time, four to five million – for retailers, at a 2-3% interest rate. When drawing on the amount, the retailer of course pays the normal interest. The bank can help the retailer partners by providing a reference (about reliability) to suppliers.

- The **retail alliance** e.g. CBA, Real, Honiker unites the small stores and helps its associates with safe payment and installment payments. The banks can provide cheap loans for small shops this way. Kisosz has a guarantee cooperative (Győr, Nyíregyháza) for its solid members. The EU KKV Guarantee Construction offers support programs for member states' retailers.

16. 3. Most Important Indexes of Retail Efficiency

16.3.1. Sales value per square meter.

Volume versus shopping area – average 400,000 HUF per year in 1996, which is low. The best was at gRoby: in 2000 it was 3.8 million HUF, in 2001 2.2 million HUF. The CD is a good product because it takes up a small space, but its value is high. Today it can be bought everywhere.

16.3.2. Average purchasing value.

The value of a shopping basket and the average bill. How many HUF's in the basket? And how much is the bill? For January to June, 2004: hypermarket: 3,950 HUF, discount store: 2,090 HUF, supermarket: 1,320 HUF, independents: 960 HUF, associated independents: 1.440 HUF.

16.3.3. Sales value per employee.

In 1996, including part-timers and helpers the sales value per employee was seven million HUF per year, and those who went under the average were stores with many cross-trained employees, who are able to work in several positions effectively.

An important aspect of return is **efficiency of manpower**, and **service**. The Germans retailers note that 60% of their total cost is labor. According to the *Economist Intelligence Unit (EIU)*, after Slovenia our country is the second most expensive new EU member state in terms of labor costs. In 2004, the average gross hourly work expenses per employee were \$4.37 in comparison to Rumania with \$0.95. The retail efficiency of labor in the U.S. between 1995 and 1999 tripled, and during this time, retail achieved 25% efficiency in the overall economy of United States. The functional costs of Hungarian trade, excluding labor, are the highest in Europe; just remember the fuel, the highway fees, the phone, the energy costs (Nemes, 2001). The stone age infrastructure, especially the underdeveloped and overburdened road system (compared to western countries), and the high logistics expense hit the retailer, the distributor, and the grower alike.

If all three indexes are below average, sell the unit. If only two are less than average, there is hope for recovery.

16.3.4. Number of frequent buyers. How many households do they represent? In the case of corners shops it is under 300, which usually means 1500-2000 people, so the indicator is bad.

There are around 3.8 million households in Hungary. At fast food restaurants in the U.S., the minimum requirements is 1,200 visitors per day.

16.4. Food store sizes

Just part of a store's total area is selling area, for example the tenants' concession stores are excluded. The Tesco hypermarket in Nyíregyháza has 19,000 square meters, 10,500 of which is sales area, which includes the concessionaires, too.

16.4.1. Hypermarkets (super center): above 2,500 square meters of sales area (respectively, in square meters: France 6,500; Tesco above 6,000). Hypermarkets are placed outside of a city, on the outskirts, typically at an intersection. A hypermarket is sustained by towns which have a minimum of 50,000 inhabitants. In most cases they have **single space hall** (big box) in a sea of parking lots.

Parameters of a hypermarket: more than ten cashiers, non-food and household goods are above 30% of total goods, and they have more than 10,000 SKU's. The appeal of hypermarkets is the large assortment, for weekend shopping. The key to their success is that besides the conventional supermarket type food assortment, they can offer many other products as well, e.g. a larger fruit and vegetable assortment, seasonal foods, and macro or jumbo packages.

The quality is good, but not top quality at acceptable price, and they offer just the best-known articles in a category. The hypermarkets have their own quality control teams which check product supply. They form their control system in conjunction with suppliers. Besides offering family entertainment, some stores make the weekend major shopping trips more attractive with cheap gasoline and loans.

In 2000, **Tesco was the fourth biggest gasoline** retailer in England. According to the store's brief, they sell gasoline in domestic gas stations for 5 HUF less per liter – and above 8,000 liters for 10 HUF less – than the market price. The gas station equipment is unique. they use a special gas station pillar, a cash register equipped with “**Autoamos system**” (touch monitor), and further they have a computer system which speeds up refueling and makes it more controllable. At the gas station convenience stores, there are 1,200 items priced on the price level of hypermarkets. They sell some basics like bread and milk also. In the U.S., gas has been distributed at some of the bigger non-stops since the end of the 1960's, but their share on the petrol market has just recently grown to 7%. In Europe the scenario is very different: In Italy, the market share of hypermarkets in the fuel market is negligible, in Great Britain in 2003 it was 28%, and in France it came to more than 56%. By the end of 2004 in Hungary, there were 11 store-owned gas stations, nine belonging to Tesco, and one each Cora and Auchan.

The hypermarkets help regular shoppers who own a “loyalty card” with one month or 45 days interest-free credit. Small mom-and-pop stores often register the shoppers’ purchases in a notebook and certain families pay only on payday (when the breadwinner gets his-her salary).

Based on their **supplying function**, **three types of hypermarket** can be differentiated.

16.4.1.1. Close to cities. Huge hypermarkets welcome the customer with 10-15,000 square meters of shopping space. Auchan of Budaörs has 130,000 SKU’s.

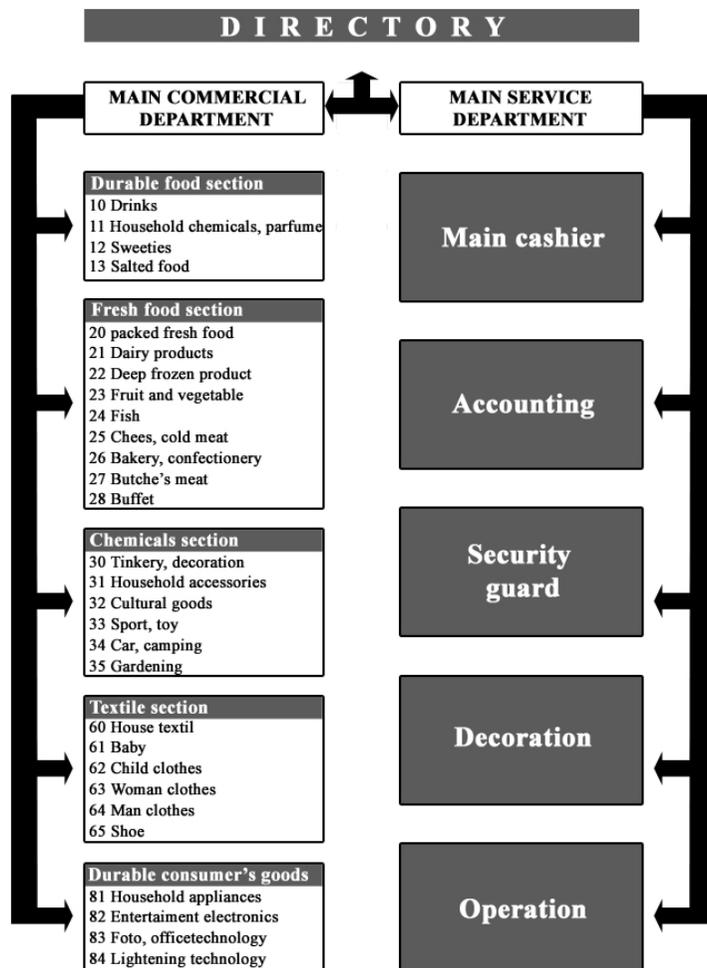


Figure 24. Organogram of Cora Hypermarkets, 2002

Source: Rados, 2002

The following store types complete the range:

- **Shop-in-Shop.** The owner of the area takes in several shops with a certain area of floor space (with separate employees) within the cash register (tenants), e.g. the jeweler-watchmaker, pizza place, and coffee machine in Auchan. They share the income. The reason: the specific activities would not be profitable in a hyper- or supermarket, but they are necessary to the complete assortment. In our country, in the case of food this is forbidden.
- **Separate cash register,** complementary concession stores. The tenants with a separate cash register are usually in forefront of the line of stores e.g. Cora. Floor space figures (square meters): Auchan: 10,000, Tesco on Fogarasi Street: 12,000; Tesco in Miskolc: 15,000; Tesco in Szeged: 20,000. The U.S. average is 3,600 square meters. Bigger is not profitable.

16.4.1.2. Dual-function. 3-6,000 square meter city hypermarkets can be workable for weekday small purchase trips, too. High-priced real-estate in downtown areas allow only 20-30,000 SKU's. Generally they are located in busy city centers, near the main arteries, e.g. Interspar.

The small sized Tesco units have about 3,000 square meters. The Tesco at Fogarasi Street is mentioned as a wonder, because it has a large floor space but is situated within the city.

16.4.1.3. Regional hypermarkets. Usually at a crossroads. In Budapest or in other big cities Tesco, Interspar and Auchan are just some of the many available hypermarkets. In the countryside, however such a store has an important function in the neighborhood, because is not feasible to build up competition such as that found in the city.

Tesco in Nagykanizsa has gross 12,000 square meters with 7,100 square meters of shopping area, and keeps 40-45,000 SKU's. The Székesfehérvár hypermarket keeps 70,000 SKU's, like Budapest's stores. We can mention department stores, traditional downtown stores, (Skála-Centrum, Kaufhof, Selfridges). Their characteristics are extensive, but not deep assortment, the high percentage of non-food and household articles, and profiting from being in busy city areas.

16.4.2. Big supermarket. With 1,001-2,500 square meters of sales area, it is a food and household store. Usually it has 10-15,000 SKU's, there are 5-10 cash registers, and the non-food categories I and II are substantially represented in the assortment. Typically is near the bank, coffee shop, post office, and pharmacy, and maybe in a shopping center. The aim of the Coop chain is to get permission

for non-food II in half of its stores, and to make competition for the countryside hypermarkets.

In 2004 in our country a big supermarket could be supported well by 20-30,000 inhabitants. The heavy-discount Lidl chain has units with more than 1,600-2,000 square meters.

16.4.3. Supermarket. Covering 401-1,000 square meters, it is basically a food store with a number of complementary products, e.g. household chemicals. As a rule, supermarkets keep 5-7,000 SKU's and the value of stock is around 60 million HUF (based on 2005 prices); they are run by 25-30 employees. There are usually three to eight cash registers in the checkout area. The freezer area is typically 100-150 meters long. According to domestic practice, the size of a discount store is 500-800 square meters. The highest turnover per square meter that can be obtained on this shop size is found in northwestern Europe. This store size is ideal for the discount price level, which is 5-10% below supermarket level.

Tesco is present in the supermarket section under the S-Market name, which is not strange, because the original profile of the parent company was the same. They began to build large area stores in Great-Britain just after the Hungarian hypermarkets were proven prosperous.

16.4.4. Small supermarket (grocery store). They have 201-400 square meters, and in France are called "superette", and basically they are a kind of self-service, with a separate meat and produce department. It can be the corner shop niche (household articles and food), too. It is important in the fresh product category as well as the beer-wine-cigarette category. It usually carries 2,500-5,000 SKU's, but in the discount gRoby stores of this size, there are 7,000 SKU's. Shopping carts can not be used in these stores because of the small space. That is too bad, because six to seven shopping baskets' worth of items fit in one shopping cart.

16.4.5. Medium food and household goods store. It contains 101-200 square meters net shopping area. There is no need to mention the number of SKU's, because if it is justified, they can press 7-8,000 SKU's into a 130-150 square meter sales area.

16.4.6. Small shops. These are the less than 100 square meter mom-and-pop shops. There are just one or two registers, one of them run by the owner, as a rule. On 100 m² can be pressed A maximum 2,500-3,000 SKU's can be jammed into 100 square meters, with 10-15 items in an aisle.

The CBA supply corporation established a separate franchise network named "Cél"-Chain for its shops under 100 square meters, because they were not able to maintain the CBA standards, like eight million HUF per month turnover, required assortment size etc.

The small shops like to supply at least the fast moving strategic articles: milk, bologna mortadella, bakery. The wholesalers and the delivery van people provide more and more discounts and services. The survival of the gradually vanishing small shops is helped by the “doorstep delivery” of almost all products. This enables the shop staff to accept separate deliveries of the products, because they arrive at an agreed time, and the different products for one small shop are even packed together in a big cardboard box if needed.

16.5. Retail chain

“Global scale, local skill!”

Wal-Mart, Tesco

16.5.1. Similar strategy. It is composed of at least five retail units having a common strategy (Chain Store Guide, U.S.) The corner grocery and the Skála department store can not be handled in the same way, because they have different product assortments and customer profiles. There is no retail chain containing all retail units from bakery to boutique. Different local demands are answered by different chain stores, sometimes owned by the same holding company, like Cora, Match, and Profi. Similarity in strategies is shown by similar interior and exterior design. The store units are categorized based on the products purchased.

The American Dollar General hard discount chain, which has 6,800 units in 29 U.S. states, is managed in separate 800-store clusters, or formats.

16.5.2. Centralized purchasing.

16.5.2.1. Purchasing is “the soul of the store”. The central office signs annual draft agreements with suppliers, and daily purchases are done on this basis. The store buyer decides what has to be on the shelves, who will be the supplier and also decides about the quality of the product. An important question is what the consumer price should be and, moreover, what delivery price the store will accept. The **retail chain** takes into account whether the supplier has enough logistics background and is able to accept the store’s business policy. For the given department head the sales statistics, inventory and the minimum acceptable order quantity are combined in a computer assisted purchase proposal. For special products on the record sheet even the photo of the product is attached for better identification. Based on the final order the supplier

confirms the order and takes responsibility for the type of product and quantity he can deliver. Afterwards the supplier has 24 hours to do feedback about an unexpected product deficit and after that the order is considered accepted.

16.5.2.2. Reception of goods. Shipment frequency is defined by the schedule depending on each store's turnover and also on the type of the product: non-perishable or fresh product. The product is taken by the shops based on the accepted confirmation and this is also the grounds for penalty, should one be necessary. Suppliers can pass the gates based on the agreement made over phone. At the entrance there is a sign indicating which product line is received and what is the procedure of reception. Here are the gates where the trucks can wait to be unloaded. The receiver has to check if the product meets the criteria – integrity, quantity, Hungarian inscription, core temperature, shelf life – and afterwards the product is received by scanning in or typing. The last step is the return of the empties and making the necessary records on the delivery report.

16.5.2.3. Storage and goods preparation. Goods are moved from the loading area to the connected storage and preparation area. Based on the sanitation storage rules some goods are stored in a separate room. Some of the goods e.g. whole carcasses, bakery go through a special process besides the obligatory sanitation and technology requirements. Some of the hypermarkets' bakeries have programmable bread making machines and ovens, so it is possible that at five o'clock in the morning the dough is already made when the bakers arrive at work.

16.5.2.4. Placement. From the placement point of view there are three types of marketing:

- self-service,
- over the counter
- from store, e.g. only of each type of item is placed in the sales area. The consumer is served with a different one from the stockroom.

16.5.2.5. Return, packaging material return

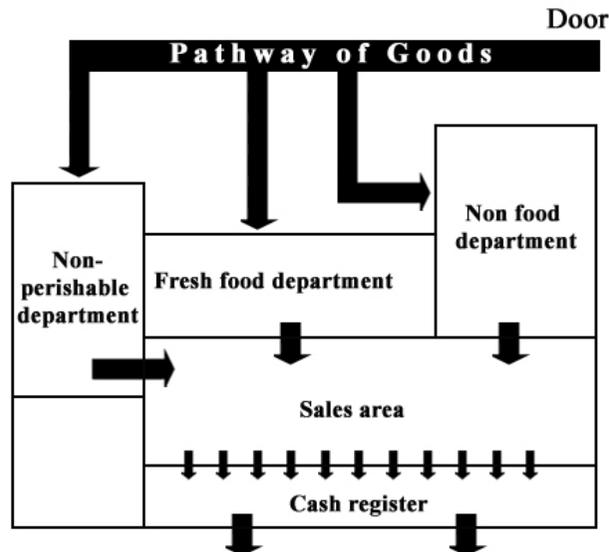


Figure 25. The pathway of products within a hypermarket
Source: Rados, 2002

Every retail chain, even the loosest club style group, has **mandatory standards** for its members. The price and product keeping agreement determines the mandatory standard assortment which has to be kept by every unit of the chain. Volume and quantity benefit are determinant during purchasing in the case of these products. The central unit together with the supplier defines the place on the shelves, but the appearance of the shelves is usually an on the spot matter.

There are chains where the price can be lower than the standard price. In some rigid chains, depending on the buyers and placement, centrally defined modules exist, e.g. shelves for socks, underwear, bio cosmetics, or picnic supplies. The stores get **secondary profit**: Coop-Slager motivates price and goods keeping by ensuring a 4% return on the delivery price after every period if the store orders from the Coop-standard list. The CBA network also gives a regular return to the stores based on the centralized turnover.

Every network has:

Centrally accepted products, standard products which are offered by the central unit to the store leaders (MiniCoop: 600 items, Coop: 1200, MaxiCoop: 200-2,200, 1,000 items at CBA, 14,000 items at Match, at Coop in one big supermarket 80-90% of the offer). The networks' central unit makes yearly blanket contracts with its suppliers around November. A new supplier can enter the chosen contracted suppliers' group only if its product gives extra turnover.

Regional contracts – following local needs and reasonable logistics – together with the immediate supply associated partners e.g. meat industry, baking industry, milk industry, vegetables and fruit, for whom they offer the products regionally. The shipment is done this time, directly in the shop or in the retail chains regional stores e.g. Tesco, Coop, CBA, Real.

Products may be **individually sourced** and priced by the store manager. This enables the store to comply with the local needs. The objective is to have a harmonious and advantageous relationship among stores and central unit. Many storekeepers only order after a trial. First, the grower or manufacturer places its entire assortment on the shelves. After a certain period of time, the store keeps only those products which are accepted by the customers. In the very closely controlled chain, the store leader's choice is fixed. He can not negotiate with suppliers.

Retail chains have closed, automatic procurer, demand-offer coordinating, **pulls systems**. In the case of Rossmann or DM every cash register is connected to the central computer. It slows down sometimes, if the store manager is working on his own computer. In the case of one store, one invoice, one truck type systems, the retail chain computer system does not register the decrease from the shelves, but rather from the storage inventory, which is also reported to the supplier. The object is to remind the store manager to order, and besides that in the case of predictable goods, e.g. dry product, it places the order automatically.

This way the selling area becomes bigger, and a smaller storage area is enough. The assortment becomes bigger, e.g. with perishable goods – as is the case of the British Tesco with cut flowers and clothing. This way the store staff spends less time on ordering, reception and administration, and more time with the customers. The size of the assortment decreases. The British Tesco supermarkets had an inventory for 5.1 weeks in 1980. Due to the pull systems this went down to 1.5 weeks. Fewer products have to be eliminated due to exceeding the expiration date.

16.5.3. Private labels, store brands. Retail is the closest to the consumer, so it is first to observe the opportunities. It is able to solve the consumer's problems by itself. The manufacturer's main advantage versus the retailers in negotiations is more information and knowledge about the product. A department store chain's competitive edge versus the self-sufficient small corner shops is that it can summarize the knowledge, and in a given situation can start the production this way.

16.6. Shopping Center, Shopping Plaza, Entertainment and Shopping

In a broader sense, this is the accumulation of retail, entertainment and consumer service units within a 10-15 minute walk, trip or drive. Most of the shopping centers are based on the one-stop-shop theory. Thanks to the “greenhouse effect”, the customers are not cold even during the winter, will not become wet if it rains, they will not be hot during the summer, and they do not even have to cross the street. The European Retail Institute defined the shopping centers as follows:

- A unit containing other retail and service units, having at least 10,000 square meters of space. **Small Plazas:** 10,000 square meters with at least 7,500 square meters of sales area, the rest used for offices, common areas, and service areas. **Big Plazas:** 20,000 square meters.
- The shopping center is administrated by a central management. The shopping center handles common marketing activities for all units situated there, e. g. organizing regular programs for visitors.

The shopping center is owned by one investor company, e.g. the French Klepierre group, and the store places are rented by numerous retailers and services with different profiles. In the hypermarkets, the dominating owner makes his living from retail, but selling areas and boutiques also can be rented. “Hymall” is a shopping center rented by a hypermarket.

Renters in a plaza believe that they do not compete with each other, but the shopping center competes with outsiders.

A survey done by the **American Cinema Advertising** company shows that 73% of the movie-goers also eat something, and 69% buy something. Based on a 1997 survey, people spend an average 1-1.5 hours per occasion in the shopping centers, and they spend about 5-10,000 HUF each time.

The competitive edge of the stores with different profiles which are placed close to each-other is that they also attract customers to each other. From the stores' point of view, the advantage is the division of the infrastructure – garage, warehouse, roofed and air-conditioned walkways. Usually retailers placed in a shopping center do not rent a warehouse, they only rent a storeroom and an office or sometimes they just use a small upper area of their rental space. However, they use the common loading and delivery places. Main competitors are the central downtown areas and commercial buildings with the same scope. The turnover of downtown stores is dominated by two main seasons: Christmas

and spring. The freeways located far from city centers cause a lot of problems for the downtown stores. It is also problematic that lots of people just browse, then buy in cheaper stores situated near the shopping centers or in backstreets.

The story started 50 years ago in Detroit's downtown area, dominated by the **Hudson's department store** and a few other shops. They made strong alliances with the local politicians and kept others out of the "fat" downtown area. Sears and some of its partners had no other alternative but to build the business in the outskirts, this way creating small city centers. The inspiration of the industrial environment and security and the cost savings explain the block building. Architecture blocking out the outside world, independent from the city or location, is reasonable in the "**brown zone**". Only the blue sky remains from natural beauty. The senseless reapplication of the Detroit model is a different question. Since 1999, rules have regulated what kind of buildings can be built in which places in Budapest. The investor with this in mind has to carry out a feasibility study and then consider the investment. The novelties of the first few years of the 21st century are the wide range of **thematic shopping centers**, e.g. the household furnishing shopping center, called MaxCity.

16.6.1. Pull radius. This is the most feasible area from where people regularly shop. Generally people are disposed to walk, travel or drive 10-15 minutes to buy something. In the case of the city shopping centers, the consumption is studied in a narrow 2.5 kilometer and a wider 5 kilometer radius.

In 1996, in Duna Plaza's narrow sphere, there were 66,000 people, and in the wider sphere 200,000 thousand people. In that year the latter spent 59.5 billion HUF for food, clothing and entertainment activities. Besides home, also the workplace has to be taken into consideration because on the way home from work, people buy a lot, take Europark for example. Department store chains qualify the location of the new stores according to the existing stores' territory.

16.6.2. Retail gap. Sometimes it happens that the spending power of one sector's population exceeds the sector's retail turnover. A retail gap is the difference between the whole value purchases of people living in a district and the value of local purchases. For e.g. the earnings of the people from an inner city quarter are much lower than those of people living in the greenbelt suburbs, however locally, they spend more.

In the U.S., people living in the downtown areas spend 67% more for clothing and 89% more for food consumed in their area. Pull radius defines the assortment of the stores. Pull radius characterizes the customers' quality choice, too: the "**ham to bologna mortadella**" proportion in a worker-district was 1/14, but in an upper-class district it was 14/1. Rolls are similar: for an upper-class district the brown, whole-wheat cakes with seeds are characteristic, but in a worker district, it is the white-flour, high sugar content ones. Shoplifting and damage done by shoppers is also lower in the case of good quality shopping areas.

Anchor stores are the shopping centers' engines. These are the pillars of many other businesses there, too. Many customers come in just for these, e.g. Pólus: Tesco, cinema, bowling. The rental fee of these should be lower than for the coffee house or bakery which do not generate turnover. Shopping centers with several levels occupy less actual land surface, but people like to walk downstairs more than upstairs, therefore the upper levels are not as profitable places as the others. This explains why there is no need to build more than three levels. From this point of view the best locations are in the floor where the entrance is located.

17. THE FORMS OF RETAIL TRADE

17.1. Retail Alliance, Service Company, Unstructured/Inorganic Private Trade

Retail alliance service companies are non-profit partnerships of retail shops that create a wholesale basis for themselves. This occurs when some merchandisers consider that this associated form is the only way to guarantee their potential and effective operation in the market. Shops situated far from each other are not competitors endangering each others' operation, and moreover, they may cooperate in order to face certain commercial challenges and fulfill various business objectives. Members of such partnerships are provided with public utility services (gas, electricity, water supply etc.), telecommunication facilities (telephone lines, information technology services, e.g. Internet lines), equipment, stationery and waste-disposal services at discount price in exchange for their associated balancing of accounts. This generally means **pooling purchases**, occasional discounts, wholesale and logistics.

The main drawback of small private shop is sourcing, namely hunting for occasional discount offers. It saps their strength and leaves no time for shop management. This kind of searching for discounts is fashionable, but demands too much time and energy. The characteristic feature of these small shops – strong in their partnership – is the inside autonomy, since each shop has its own special operational environment. The practice of pooling purchases is based on condition agreements, carried out by the purchasers of the members throughout the business year. Advantages from the supplier's point of view are the nationwide coverage, presence in the various merchandising channels, the harmonized marketing and the secure financial background. They provide further advantages to the suppliers: it is relatively easy to introduce a new product – as with the CBA exhibition – on the other hand, it is just as easy to be dropped from the supplier list.

This is not a brand new idea. Edeka Purchasing Ltd., a significant retail alliance in Germany, was founded in 1907. Its **Hungarian counterpart is CBA**. The domestic cooperative Coop, integrating 3,000 shops, has six regional centers and 11 warehouses in our country. Coop has launched associated business with the Czech and Slovakian affiliates called Coop Euro Ltd. and there have been negotiations about starting a common business with the Polish and the Italian Coop units as well. In connection with certain categories such as margarine and cooking oil, products with the Coop-Euro brand are market-leaders in all three countries.

Shop alliances motivate their shops with secondary profit-facilities, e.g. bonuses and allowances - based upon their stock ordered from the preselected purchasers. A common problem is that the wholesalers and the representatives of the suppliers underbid the central prices. They support their shops with HACCP certificates – risk analysis, critical inspectional criteria – in order to be able to comply with the EU standards, moreover, they often finance a certain part of the certificates. This system is mandatory in the catering and retail trade. The consumer's experience with HACCP is very basic: only the cleanliness in the shop and that the various products are kept separate.

The purchasing and merchandising company CBA – an inverted anagram of ABC – solely owned by local merchants, had more than 900 retail shops and 22 regional logistic centers in 2001. Since 2001 five Croatian companies, with 450 retail outlets, have belonged to CBA. CBA Romania consists of 200 shops and four regional centers, and the organization of CBA Bulgaria is in progress. All in all, there are 7,900 retail facilities selling CBA products in ten countries. The company has 50 Hungarian owners. The members hold a regional conference every two weeks. The company boasts a new, 30,000 square meter logistic and processing center in Alsónémedi. In 2000, it was established that any shop that joined the group could become a joint owner also. **Two-week discounts on a country-wide scale** are supported by leaflets and followed likewise by two-week regional discounts, with even lower prices for stockpiling retail shop owners. Joining the franchise system is a question of give-and-take. On one hand, a contribution must be paid to CBA's guarantee fund, but on the other hand, the limited company takes the responsibility for its partners being on time in their payments. By joining the franchise, the members obtain a long term delay of payments. As a secondary profit element, the retail shops are also granted frequent allowances after their turnover. Their investments related to equipment, refrigerators, vans and information technology are also backed by preferential acquisition conditions.

The variety (mandated by the association), the prices and the number of items are defined by the type of the shops. Chain-stores also categorize their shops according to their sales profiles. The American hard-discount franchise company, Dollar General, has 6800 units in 29 states, and records and manages its 800 different shop-types - called "clusters" - separately:

- One of the business segments is "**Cél-lánc**", a network of small family stores with a monthly turnover of under eight million HUF and with floorspace under 150 square meters. Stores with a small selection are also provided with a uniform image (trade-signs, working-clothes, and throw-aways of 30-50 products). The regional centers deliver the products. Sales consultants visiting the stores also supervise the requirements of the network. Cél-lánc had 1,500 member shops in the spring of 2005. The competitor, Reál, offers "Partner Üzletlánc" for the smaller stores; a network which had 420 members in the summer of 2002.
- The other segment – which carries the CBA logo – contains three categories: 1. the **CBA – marts**, 2. the **CBA - superstores**, 3. the **CBA – center stores**. CBA –

marts receive the throw-aways of the country-wide discount offers and participate in the image campaigns. Shop specific marketing, secondary placement and wider aisles (with floor design) are more characteristic of CBA superstores, whereas in CBA – center stores, the great majority of varieties is non – grocery specific; marketing support is designed for specific stores, and there are special discount offers and draws. Floorspaces in some centre stores may even be 5,000 square meters.

- The **HB Perfumery Chain** is an integration of the CBA perfumeries, where household cleaning products and chemicals can also be in the product mix. It had 30 members in the early part of 2001.

Reál Hungária Stores Ltd. is a purchasing company made up of shops that have left the CBA network. **Reál Hungária** practically gives shops the full autonomy they had before; with its nine regional centers and 33 regional warehouses it can provide every shop in the country with products. In the fall of 2003, nearly 3,000 shops co-operated with Reál group in strategic partnership with the GRoby network. Reál Pont is a network of 1,600 units with a floorspace of 30-100 square meters. The data of the ten most important products in the seven regional centers are compared with that of their own turnover on the Nielsen data every two months.

Based in south-east Hungary, **Hansa-Kontakt C+C network**, a partner of the Reál purchasing company, has already integrated its computer-based ordering system at more than 100 family shops belonging to the partner network.

Hungária Kerholding Ltd. is a purchasing company of ten liquor wholesalers. The proprietors own nearly 100 stores and deliver products to more than 10,000 shops and catering business units.

The purchasing company uniting the retailers of electronic products in the **Euronics network** is present in more than 21 European countries, Brazil, and Australia. In Hungary they focus on the suburbs of the capital and on the towns of less than 40,000 people. So far, 54 Electro Pont shops have contracted with Euronics via its German member, the Electronic Partners. The members decide about the ordering directives every two months. The contract is concluded by the international center but delivery contracts are concluded by the partner companies of the individual countries. That is, they are provided with products at discount prices from the domestic factories of Electrolux.

17. 2. Shop Retail

It is not necessary for all products of every producer or manufacturer to be present in every shop-type. Therefore it is advisable to study carefully the special features of different shop-types and deliberately focus on these certain ones while paying less attention to the others.

17.2.1. Discount retailers. Price is a vital factor even in the richest markets. It is an important argument for or against a shop or a product. The question is how much quality, service or shopping experience the consumers are willing to sacrifice in order to pay less for a product or receive a considerable discount. The task for producers and manufacturers is to serve the discount stores in such a way that they not spoil their relationship with the other shop-types and consumers. The typical case when a market is profitable for a discount business is when the standard of living reaches a certain level, justified by the spending capacity per capita. Discount stores are not able to really differentiate themselves from the vast majority of the other stores and shops till almost everything can be purchased at the same low price. Discount stores make profit from mass purchasing – and the consumers need to have enough money to do it.

17.2.1.1. Hard-deep discounters. These kinds of stores, aiming to sell products strictly at low prices, are preferred by the consumers “*who have more time than money*”. Their assortment is mainly of *basic household goods* and their method of serving the customers – thus generating value – is that they become their shopping partners. The managers of these hard deep-discounters reason that “*they represent the consumers and argue down the prices instead of them*” since the consumers pay less as the result of their rationalization. “*The consumer should not pay the unjustified costs of ineffective producers, manufacturers and merchants!*”

It is not always the people with low income who represent the ideal consumer base of the hard deep-discounters. It is the consumer with low, but permanent income, living life modestly and economically. They prefer safety to the “smash-hit” offers of the semi-legal merchants and the constant flow of discount offers. They are reasonable people, so they find it most disturbing to run into high prices.

Polls in Britain state that as of 2005, only 30% of the specifically price-oriented consumers had low income. The rest chose low prices of their own free will. **Hard-deep discounters** had a 31% share in Norway, 26% in Austria, and 15% in Northern Italy (AC Nielsen, 1994). In Italy they can not compete with the prices offered by the street vendors and the markets. The fact is that not only the hard deep-discounts are responsible for low prices.

Hard-deep discounters keep only fast-selling products, since their aim is to make capital flow. The main focus is on premium products with low margin and high turnover. They apply a so-called *EDLP* that is “*Every Day Low Price*” method. They provide consumers with a limited assortment of products generating high turnover.

In Hungary, the effectiveness of the **discount stores** was expressed by the existence of at least 100 such units in 2002. They mainly distribute basic, packaged consumer and consumption goods such as flour and sugar. They hardly ever offer fresh products, because they find their storing and handling problematic. Exceptions are potatoes, bananas, and oranges and salad cucumbers. They even carry a limited assortment of 700-900 products to be able to work with very low prices, e.g. they sell wine but they do not sell corkscrews. In Germany, supermarkets with a full-range assortment have 50% higher operational costs than those of the hard-deep discounters. The domestic hard-deep discounter, Profi, keeps approximately 1,000 kinds of products in their stores with 1,200 SKU's, contrary to the stores of the usual supermarkets with 3,000 SKU's. Pensioners with a considerable amount of free time can purchase the basic products here and the rest somewhere else. Discounters take special care with seasonal products, too. A new supply was needed to be delivered (product turnaround) after 39 days in 1991 contrary to 14 days in 1995.

Here lies the great risk of the hard-deep discounters: they can **run into the red easily**, that is, the whole chain may **suffer considerable losses**. It is known by all students how risky it is to go for the second-class, for in case of a trouble they may fail at the 4exam: it's much safer to target the second best and get a mark less. Lidl increases this risk to a desperate extent with its aggressive foreign expansion.

Even the hard-deep discounters consider the following aspects when defining prices:

- season,
- given product categories,
- competing stores and shops.

This ensures that the strategy will not do any harm to the company. The manufacturers and the producers themselves also employ such method: e.g. the books in the paper industry.

Hard deep-discount strategy is applied by the German Lidl & Schwarz, the Danish Nettó and the British Kwik Save. A characteristic in their business practice is low margin, which is generally 1% contrary to the usual 6.5% (Great Britain). Then again, return on equity is rather advantageous owing to the high turnover. In the early of the 1990s, Kwik Save's ROA was 35-40% compared to the 20-25 % that of the British supermarkets.

17.2.1.2. Soft discounters. Apply the strategies of one-off sales, the Hi/Lo (High/Low) method, or the promotional price. They define the hard deep-discount product range as follows: frequently purchased products, comparable with the basic consumer goods – consumers carefully follow these product prices, then they decide whether the shop or store is expensive or not. These general key-products are: sugar, bread, milk, flour, cheap deli meats – e.g. bologna and mortadella. Regular discount sales (low prices) are held to attract customers and entice them to buy other products (higher price), too. The low-

price category is the necessary evil for it is not profitable but it is still essential to generate turnover. Nowadays, in Hungary, even the more expensive supermarkets keep low- and medium-priced products in the most important categories to please customers seeking discount offers. Further characteristics of the soft discounters: the main drive of the traditional supermarkets is the bakery, which, on the other hand, boosts costs – and product prices. There are also the delicatessen and other fresh grocery sections and the products that can only be handed over the counter by shop assistants who serve the customers from the shelves. Plus discounts have a range of 1,500-2,200 different kinds of products. Producers and manufacturers steadily try to convince the discount stores that based upon their market research the products could be sold at higher prices.

Domestic hard deep-discounts tend to adopt from the soft discounts: they also hold discount sales, carry fresh products, have increased their assortment and would not offer the cheapest price for every product. But they still take care to satisfy their customers and make them feel they do not spend much money if they buy several kinds of products.

Clock-wise distribution is achieved – apart from employing high-technology, not keeping problematic and damageable, hard to transport and often criticized products. Faulty distribution occurs when a shop is disappointed about the assortment ordered assortment, or quality is often called virtual distribution. The shopping area of the shop is maximized whereas the storage-room is small, since the products are kept there only for the short period of time, just during the necessary administration.

Warehouse like a store – no luxury! To be able to offer low prices, one has to minimize cost. The aim is to achieve extreme cost-effectiveness and the motto is “*Pile-’em-high-and-sell-’em cheap*”. Light-weight, packed-for the-consumer products – such as mineral water, soft drinks, beer and animal food – (labor-intensive in regular shops) are displayed on pallets. Discounters like to deal with prepacked, portable, en-gross products packed in cardboard boxes. They are not easily damagee, demand less loading and can be kept on the shelves for longer period. A number of producers and manufacturers offer a special packing solution, “discount-cartons” for hard deep-discounters. A “cartoned” product may sell better, but reduces the assortment that can be stored on the shelves. The solution may be the “mixed-carton”, when different products are collected into a single transport package. Vegetables and fruits are usually displayed in shops in the package they were shipped in– e.g. watermelons in containers. Such shops can easily be identified at first sight: simple facilities, huge shopping carts, few coolers, mainly durable – grocery – products, in limited assortment.

Hard deep-discounts hardly communicate – the almost never advertise, because they believe their customers decide upon the prices and not upon the ads. The slogan is: *“Expensive ads are harmful!”* Lidl, for example, is famous for its remote communication policy – they consequently are silent about their activities and goals. As a member of the Schwarz-group, the chain does not meet the press. Most of the information about Lidl and the group itself are discovered and distributed via independent analysts, based mainly on estimates. Lacking official information, apart from some vague hints in the press, there are only registry court records, precinct, real estate and other property acquisitions and licensing records to rely on. The structure of this company – a network of a number of smaller companies - makes it possible to avoid the (otherwise) mandatory financial statement.

Small, untrained staff. Hard deep discounters only employ the self-service method and a very limited number of staff in their stores. An employee has only to be capable of refilling the shelves (*“similar product to the similar”* method) and preventing shoplifting. In the past, small-time book discounts dealing with cosmetics distribution as an additional product had the slogan claiming: *“Shop assistants able to read more than the price-tags in books are hopelessly overeducated!”* A small, untrained staff is practically incapable of merchandising and sales promotion.

In recent years, the very first enthusiasm towards hard deep-discounters has vanished. Nowadays an increasing number of customers consider more than prices when buying grocery and household goods. Discounters have been forced to change their merchandising strategy. Their assortments have been extended with perfumery goods and branded products; and being provided with more potentials by technical improvements, they are involved in merchandising more and more prepacked fresh products. Since the summer of 2005, Lidl – in co-operation with DB – has been merchandising railway tickets in Germany.

17.2.1.3. Formula shops which have been made well-known by the German ALDI. They are hard-deep discounters taking premises on lease for a short time and setting up the shop with completely standardized methods of industrial design. The best store premises are sought by scanning: sparing market research costs, they take a property for a year and if it fails, they simply move on to another area. Formula shops employing hard-deep discount business strategy can easily generate profit even with relatively small income because of the low costs. An ALDI store has a rather limited assortment – generally 700 products. Most of the categories contain their own exclusive products.

ALDI customers were once surveyed in a poll to find out whether they miss other brands in most of the product categories. Many of them came responded that the established method was even advantageous, because it prevents them from having unnecessary arguments with

their spouse about which product they should buy. Formula shops with hard-deep discount strategy are a characteristic of the retail trade in northern Europe. In these countries weekly shopping is very popular: people go shopping with their families and buy products at discount prices, in multipack or economy pack. Many thrifty people in northern Germany do not wish to spend money by shopping every day.

The first ALDI shop was founded by the **Albrecht brothers** in Essen in 1946. Getting the jump on Coca-Cola and Volkswagen, ALDI had become the best known brand in Germany whereas they scarcely spend anything on advertising. Contrary to their status in the German high society, the Albrechts still live a simple life. Every workday they buy a low-price lunch and spend time with their employees in the company canteen. During the period of German terrorism the police tried to caution them against this practice. They didn't give it up, because everybody knew that their kidnapping would have been a vain effort – no one could squeeze even one pfennig out of them!

The pride of Germany is the Porsche Company but the second favorite is the ALDI Discount Network. Harris, a market research company polled the best enterprises and service providers in 2004: Porsche was the winner with 75.4 points, and in the image competition ALDI was the runner-up with 75.2 points. The maximum was 100 points.

17.2.1.4. Off-price retailers. The competitors of hard deep-discounters with the most potential. Their shop types are the “clean-up stores”, the outlets – gaining ground upon the American example in the clothing retail trade -, and the so-called dollar stores. They distribute remnants and oddments, dud stock, products marked down because of overproduction, out of season stock, cancelled orders, over runs and excess stock, flawed stock, stock of defective quality or brand products that are still guaranteed but have started losing value. Domestic shops also offer already discontinued foreign products. Surpluses originate at regional level and four or five outlets can get rid of this stock of individual products. According to the leaflets and ads, prices offered by domestic outlets are 30% less than the price level in the downtown areas, and the leasing fee is 8-15% of their turnover. The rest of the rest is also sold at discount prices since the store has to be cleared for the new stock remaining from the actual season – for example after the Christmas season in January.

Buying in an outlet is different from doing one's shopping in a branded store. One should feel fortunate to find clothes of the right size, color and above all else, just at the right price. Otherwise, this retail trade is especially effective in merchandising stocks and products that are missing in some sizes. It is also not by coincidence that these shops are bigger – the average place is about 180 square meters, compared to the 50 – 100 square meters of the ordinary city shops. It is because almost each item of the stock has to be displayed in the shop.

Outlets in Törökbálint and **Biatorbágy** are similar to the one in Parndorf, Austria, although the two domestic stores communicate quality. Premier Outlets Center of Biatorbágy lies at the junction of the M1 and the M0 motorways; and has 46 retail shops and a parking lot of 900 stalls on 13 500 square meters. GL Outlet of Törökbálint serves 1.5 million customers on an annual basis. Domestic outlets plan to be closely connected with travel agencies, since they expect potential customers from the shopping tours from Austria. These two outlets have made a contract that forbids their leaseholders to start business in any other outlet in or around the capital.

The distribution of the durable goods repossessed due to insolvency of the buyer is based on a similar method.

Asian throw-away goods are distributed at such a low price-level that no guarantee can be expected. Business English speakers invented the phrase GIGO meaning “*Garbage In, Garbage Out*”. GIGO in the industry is called “garage industry” and in the commercial jargon it is labeled as “garage discount”. Local authorities tend to be permissive since even these so-called garage shops help to decrease unemployment. The intruders are vendors selling their products in front of other shops. Shopkeepers can only drive away intruders as far as the curb, or if the intruders, drawing nearer and nearer, are not authorized by their license to conduct commercial activity at that specific place. Their products are usually unprotected from dust and dirt. Such retailers at least possess a license from the municipalities authorizing them to occupy a place for haggling.

In the cheap **Chinese markets** rental fees are very low and are the markets ruled almost entirely by families. In the first half of 2003, Chinese markets gained 30 billion HUF and Chinese shops five billion HUF in the domestic market worth approximately 175 billion HUF. According to a study carried out by Gfk Hungária FashionScope, most of the clothes (by piece) purchased by households in 2004 were sold by vendors and in the market places. This means 26% of the total distributed stock. The Asian shops represented 20%, hypermarkets had 15%, clothes shops gained 14% and other merchandisers had 10% a share of the total market.

Those who sell from their “bags” and refill their stocks from their cars do not have a license at all. In the case of black marketers, when they are asked, they say they sell goods fallen off trucks. **Cover businesses** – well-known in the developed Western countries also – are started in the impoverished, run-down suburbs where people often plan no further than the next couple of days. Naturally, such entrepreneurs do not waste their money and time to obtain the necessary licenses so they operate with low costs and prices. They employ an illegal work force: they do not pay taxes. On the other hand, local politicians know that “*the black market merchants and their customers are all voting citizens*”, even if they do not pay any taxes.

Typical customers of the shops below the price range are the unpaid and irrationally price-governed people whose income is insufficient and erratic. When broke, they try in the shops below price-range, but when they have money, they buy in the more expensive shops. They focus on the luxury products of lesser value, for in the absence of the unattainable car or villa, they just have to show off something. They avoid hard deep-discount shops.

17.2.1.5. Mass merchandisers, superstores could be taken as a form of the hypermarkets. They have low prices (*EDPP*) and the speed important for them. With a developed infrastructure, that is, excellent roads and the advanced information technology background, each of these two elements can match the hypermarket description. Their further characteristic is their offering of quality products at low prices. The number of non-grocery products is very high in these huge hypermarket stores. Auchan of Budaörs has 130,000 SKU's, the American Wal-Mart sells 300,000, and the German one 150,000. In 2000, the Wal-Mart retail business had the biggest share in distributing beer, clothes, confectionery, and computers in the U.S. market.

Price Clubs, like Costco, Sam's and BJ's, are almost *warehouse stores*. Members can purchase in the U.S. shops by paying a modest annual fee of \$25-30. Big American price clubs began to expand their business in Europe in the middle of the 1990's. The European supermarket chains like the three big British ones (Sainsbury, Tesco, and Safeway) kept the American companies away e. g. Costco, by legal and political means. In the beginning of 1993, France passed a bill against the building of such stores outside the cities. They reasoned that these price clubs in the city limits are certain to ruin the shops and stores in the inner city – as they have in the cases of Chicago and Detroit.

Characteristics of price clubs are the following:

- Prices are low, retail margin is minimal.
- They offer lots of quality products, brands – brand is the killing factor.
- They offer a wide and then again not very deep assortment.
- Member card is mandatory for any kind of purchase.

Based on Lidl's success, Metro is has chosen a similar strategy; distributing not only used cars, but delicate perfumery brands too, like Hugo Boss, L'Oreal, Fendi, Giorgio, Astor or Rochas Bizance.

17.2.1.6. Specialty shops. They sell wide assortments of non-grocery products and have deep assortments in a big physical area. Such shops selling products of the music industry are the Virgin Megastores. **Furniture shops:** Ikea, Domus, Kika, Jysk. **Stationery:** Office Depot. **Home entertainment and electronic products:** MediaMarkt, Saturn (members of the Metro AG) and Electro World

(Dixon's Group). **Books and Magazines:** Alexandra (Pécsi Direkt Ltd.), Libri Ltd., Lant és Lira Ltd. DIY – “*Do-it-yourself!*” stores are BauMax, Obi (Tengelmann Group), Praktiker (a member of the Metro AG Group) and BricoStore. The idea originated in the United States in the 1960's and '70s. The aim is to offer the assortment of 12 different speciality shops in a single store. Instead of hunting through the various shops, customers can purchase their goods at one place. For many people it means a further enjoyable experience to put the final touches on their work or to decorate their environment in their own style and taste. The name of OBI comes from the pronunciation of the French original, written without the unstressed “h” sound, meaning “hobby”.

The annual turnover of the **Hungarian DIY market** was estimated at 150 billion HUF in 2004: this was only 10% of the total amount spent on home improvement. According to the polls by Praktiker, approximately 100,000 customers living in the vicinity are needed on an annual basis for a Hungarian DIY store. BauMax waits on a clientele of less than 30,000 people.

Such specialty stores can be **category-killers** since they bankrupt specialty shops of similar profile but of smaller scale distributing one or only a few brands and operating with higher costs and generating lesser turnover. Based upon Czech polls, in the DIY business competence and spacious parking facilities are more important factors than low price level.

Garden Centers they are different store-types since they satisfy the needs of the purchasers with vested interest in the products as well as and the demands of large order wholesalers. The advantage of a Garden Center is that they distribute living plants while most of the DIY stores face problems with their handling.

17.2.1.7. Wholesale Clubs – wholesalers, C+C enterprises. Club members organize product introductions, samplings for their regular customers and also provide them with discount sale offers (Áfész – 2%) and special information. The Aro network by Metro supports the private trading partners of the C+C chain with discount procurements, allowances on turnover, and in shop-equipment and information technology procurements, furthermore, they also provide them with a unified image. Within the frame of the Aro shops they expect to contract at least 20 partners with each C+C store. The idea, originated in Hungary, has spread in Europe via Düsseldorf and has become a most significant practice even in Poland and in the Czech Republic.

17.2.2. Other, “better quality for higher price” retail shops

17.2.2.1. Neighborhood shops – family groceries, small shops located in the residential area. Grocery shops offer and sell products which the super- and hypermarkets leave them – the average consumer goods. Here we talk about products for which customers take top-up and regular trips. Customers mainly do accessory shopping besides their weekly shopping and buy products in a so-called “*Aw, I forgot this!*” manner. Such products are soft drinks, mineral water, fresh products, and those which are not worth stocking for longer time – for example: pork (which goes bad), milk – goes sour, bread gets dry etc. Family groceries are founded upon the demands of the few hundred people within a hundred meters of the store. In cities they attract mostly residents within a range of a somewhat eight-minute walk. Advantageous locations are: parking lots, gas stations, a physician’s office, cinema, school, pharmacy nearby, and the street-corners.

Their characteristics are: the **frequent purchases, high number of customers** and the **low amount of goods per shopper**. They are basically crowded because “*lots of selling goods have to be packed into a small place*” – they practically have no free space. Their raison d’être is the fellowship-feeling of shopping, similar to the Southern European retail model. Nearly one person in every two tends to buy grocery products on a daily basis in Hungary, contrary to 22 % in Northern Europe. It is also important to facilitate fast shopping – for example in Quickie Marts.

Advantages:

- **Knowing the neighborhood**, the service of their special needs, “family-feeling” – since their shopping generates shopkeepers’ profit. The slogan is: “*My customers don’t go shopping, they call at John’s!*” John, the owner of the store, knows all his customers and their families by name, even their phone numbers. Serving customers in a polite and friendly manner does not cost anything – only one’s own effort. Having a good insight, local grocery owners do not try to force anything on those who do not wish to buy anything at all. They also know each one of their items – almost every piece goes through a most thorough inspection. Further quality control is carried out by purchasing companies (CBA, Honiker) or C+Cs e.g. Metro and Interfruct. Several family shops provide services for their customers: they are open non-stop or fulltime at weekends, have flexible business

hours on national holidays, sell on credit, return items with a receipt, receive orders and inform customers about the arrival of their orders via phone. They also satisfy special demands, which have higher costs comparing to the bigger stores, such as: serving coffee, preparing delicatessen packages, open the shop if someone calls them and asks them, deliver products on demand for customers living in the neighborhood. The latter service is rather popular with the old, the handicapped and busy people. On the other hand, the shopkeepers do not care about their working hours, nor those of their families, not to mention the amortization of the car.

- Nowadays, **apartments are not fit to store a great amount of goods.** Expensive gas also discourages people from shopping cheap but far-off discount stores. This explains family groceries providing the most balanced turnover during a week, that is, there is practically no difference between the Friday afternoon and Saturday morning peak and the turnover on Monday. There is, however, a significant fluctuation of turnover between mornings, afternoons and evenings.
- **Tax fraud.** Nowhere in the world is it worthwhile for tax authorities to constantly inspect small family groceries. These shops just start again anyway, if they are closed by tax authorities. This is the so-called “come and go live forever” category. Family groceries not only hold business hours on national holidays and on bank-holidays, but they consciously plan for periods with higher turnover, when people do not go to hypermarkets. Sunday is a significant day in family groceries. Hungary represents a half-way solution in the **question of weekend opening hours.** Shops must be closed on ten major national holidays. After that, it is up to the shopkeepers if they want to be open the rest of the year. In Germany shops must be closed on Sundays, holidays and between 8 p.m. and 6 a.m. – except shops at airports, railway stations and gas stations. According to the National Chamber of Commerce, such a situation here would harm tourism and decrease the earnings of the employees working in such commercial units. The labor code forces employers to grant two holidays a week to employees with an additional limitation specifying Sunday as a mandatory holiday. Authorities order an extra payment for working on Sundays: employers are to pay an additional 50% of daily wages and to grant a holiday – for the lack of the latter, the amount to pay is 100%. Even so, in 2003, only 4% of the weekly turnover of daily consumption goods was generated on half day long Sundays in most of the shops. According to

a survey by GfK, the strongest day is Friday with a share of 20%, on Saturdays this figure is 19%.

Disadvantages:

- The **higher price**. People running out of flour in the middle of cooking will not consider the price – they get it as soon as they can. The reason for the higher margin is that shop-keepers have to support their family and furthermore, pay the high rent of the inner cities.
- The **assortment** and the **refrigeration capacity are limited**. Shop-keepers worrying over costly expenditures are most tempted by dairies and meat-products; soft drinks and ice-creams as seasonal products. Family shops aim to solve this problem by increasing their space and their assortment - the former with the reduction of the storage place, but it is limited. Many family stores have been forced to be operated in the sunken stories of old apartment blocks. Shopkeepers tend to buy the flats behind the shop if they can.
- Another disadvantage lies in **logistic problems**. Parking in front of the shops – especially in areas with parking meters. They are also called “*shop without a parking place*”. Sometimes there is practically no room in front of the shops, presenting a further problem since all people working in the area park there. On the other hand, the high number of items, frequent delivery, small lots, difficult parking – “delivery” sign on cars and lorries -, double parking in the middle of the street, constant traffic jams, and stairs in almost every shop – storage rooms are generally located in cellars or in lofts -, make delivery and unloading more difficult. Some shopkeepers use cases with sliding lids or parking trucks for acceptance of deliveries. Some shops, reflecting the owners’ character, are sloppy, or even untidy.

17.2.2.2. Village grocery shops. Small, generally privately owned variety shops (20-30% of the stock is of non-grocery products); their goal is disposing goods for the residents in the area. They are also common in the outskirts and suburbs of cities. People in the country need more attention than those living in Budapest. Typical customers are the old, who are reluctant to visit bigger shops but cook every day. Because of its geography, 40% of the Hungarian retail market will never be able to establish and maintain large area shops of bigger chains. It is not the multinational retailer who causes troubles for village grocery

shops in a settlement of 3,800 residents, but the other grocery shop in the next street:

Village grocery shops usually do not join supplier companies since they can not finance the investment demand of several million HUF and also can not put list too many brands in their assortment, because they have to satisfy the demands of their regular customers. *“Going for the safe bet”*, they purchase from the wholesalers directly for their customers. Since there is no accidental buyer, unspecified goods basically will not sell. According to estimates as of 2000, it is not worth it to join the CBA network under an annual turnover of 30 million HUF. In gross products just do not increase turnover with elderly, regular, or low-salaried customers. These shops usually keep Coop products, but do not join the franchise. The MiniCoop like format may represent the best chance to join a franchise.

They operate with low margin. Their margin on daily consumer goods is 15%, on goods selling between 5-10 days 20%, and is 25 % on slow movers (non-food, regularly). Their fundamental principle is to *“make business on what you can and if profit is low, there is not too much to do!”* However, this doesn't mean that their prices are always much lower than those in Budapest. For example, in Zala County, where milk production has better capabilities, milk is still more expensive than it is in the capital.

Village grocery shop owners are very flexible tradesmen; they often take chances on other products. A product on trial has usually ten days to prove itself. They are practically non-stop shops, because they are ready to open if a customer rings them up on a Sunday evening since the shops are practically in their house. They are able to gain modest but constant profit by running the local pub too, and they also have some rooms to let next to the flat. Apart from the low turnover, suppliers like these local merchants, because in smaller settlements people are affected by much less advertisement, so the message of the producers and that of the merchants' is much more effective.

Village groceries get commercial credit from their suppliers; and they usually pay within ten days.

According to AC Nielsen, in 2004, 93% of the **Hungarian grocery shops** had an area of less than 200 square meters– the same can be said of the Southern European retail trade. However, the turnover of the household chemical products is more concentrated than that of the groceries. This proves that the increasing number of customers is ready and able to pay for comfort and quality service.

17.2.2.3. Delicatessens, deli, shops at gas stations, kiosks. Their goal is to save time and effort for the people who are often in a rush, but for a higher price for sure. The bar counter, the tall tables, the coffee-counter and the free toilet are all there to serve this comfort. Events taking place in the outer section can be well-observed through the glass-window from within. Customers come into the shop with a direct purpose of buying a product – e.g. gas, a cup of coffee, a newspaper –, then go straight to the cash register. So there is only two to four minutes to display the full assortment. They sell mainly ready-to-eat products but there are also personal hygiene products and household chemicals, too. The assortment is generally of the traditional *CTNs*, that is, *confectioner, tobaccoist and newsagent* categories. These can also be found right outside railway stations, in shops inside post offices and at the high traffic spots of the cities. Well-positioned delicatessens can be valued partners to several high quality suppliers since deli shops have unsteady but fairly good turnover.

The **French 8 á Huit** delicatessen chain – with shops of 70-400 square meters – has 800 outlets in France, in the West-Indies and in Guyana, and sells 2,000-5,000 different products between 8 a.m. and 8 p.m. at price level 10-15% higher than the average. The chain offers 20 kinds of services, for example *home delivery, dry cleaning, gas container drop off, faxing-* and Internet services, color photocopying, four of which have to be present in each of the shops.

Resti Ltd. has sole rights to distribute provisions at 260 stations of the Hungarian Railways Public Company, and full beneficial rights at others, and – according to news reports - was acquired by some of the proprietors of CBA Commercial Ltd. for 3.5 billion HUF in 2002. Shell Selecta shops at gas stations are 50-80 square meters, and carry 2,000-5,000 different products per shop. Their stocking is provided by Interfruct.

17.2.2.4. Seasonal pop-up shops represent another type of the delicatessen. These “pop-ups” always appear at places where customers do. Shops are opened extremely fast when there are enticing trade prospects. When these chances are fully exploited, the shop moves on to pop-up at a totally different place. They practically occupy places of public – cultural, commercial etc. – events and busy spots – no wonder they are also called **commando shops**. At tourist areas, such as Váci Street, the Vajdahunyad Castle and the Formula-1 race in the summer, and at Christmas and New Year’s Eve in the winter, pop-up markets sell ice-cream, mulled wine, mineral water, soft drinks, cookies and candy, souvenirs, and flowers. Buying from such delicatessens may form an important part of the ambience of such an event, for example buying soft drinks, pop corn, and twists when going to the cinema, to the theatre or to the circus.

They also offer services for **customers having special demands** not provided for in other shops. These are: fittings and parts for *experts* or extra seed packing for people devoted to gardening. Hard-to-find products are located and delivered to customers. Special shops satisfying the needs of the customers devoted to a certain field must be mentioned. Examples of such stores are those selling natural products, special wine shops, shops in gardens and nurseries, “1000” tea shops (Asian culture), and pot-houses with the producers’ brand like Bock Bistro, Omnia Cafeterias etc.

Fotex-Ofotért runs its chain of more than 100 shops retailing optical products in Hungary with an additional 13 Polish and 9 Czech shops, each of them operating in shopping malls where Carrefour hypermarkets are also present. Raab Karcher-Tüzép Ltd. targets wholesalers in the building-materials trade. Produce specialty shops need no expensive freezing equipment because of their daily delivery. Glamorous product definition and quality certification are also unnecessary, since they procure their products via their regular partners and accept delivery almost item by item. Their crucial factor is **store management**: products sell much more slowly than those in the discount stores. A large stockpile is needed, for if a product is in short supply in a specialty shop, customers can not buy it anywhere else. They often reorder, for example, they procure the demanded product from Vienna. Nevertheless, an entrepreneur dare not suffer losses because of a machine being out of order and an investment can not be jeopardized because of goods in short supply.

17.2.2.5. Drugstores. They are basically specialty shops selling drugs and beauty products. They must convey the impression of cleanliness and inner harmony. They can operate as a small specialty shop – like an Estée Lauder shop –, or as a delicatessen shop – e.g. Azúr or Rossmann-Kruidvat. The place displaying provisions is usually of 200-250 square meters, and offers stationery, phone cards, CD’s, film developing, and vending machines selling postal products, but they can also operate as discount stores. In Austria and in Hungary they are rather of delicatessen profile whereas in Germany the preferred profile is the discount store-type, for they are unable to employ enough skilled shop-assistants. The concept of the German DM mini stores is the so-called complex-mini wall displaying goods, originally samples and gifts, e.g. shower-gels and sun-creams.

17.3. Non-store Retail

Government Act 307/2004. (XII. 26.) regulates contracts made outside business premises whereas door-to-door trade is regulated by government Act 44/1998 (III. 1.). It grants customers the **unilateral right to refuse**: customers are entitled

to reconsider their decision within eight working days from accepting delivery, and may send the product back with an attached written statement about their decision, without a written argument. The postal delivery period is not included in the above mentioned period. The act rests upon the following reasons.

Inasmuch as the offer is *prompt*, it deprives customers of the opportunity to compare quality and prices of similar products in the market – for example at impromptu demonstrations, since customers do not visit them with the definite intention of buying. A different case is when customers only accept the offer, order it and the distributor acknowledges it. Customers do not have the chance to inspect the product on the spot, so the “back-off” period begins when delivery is accepted.

It may present a problem when customers are not able to send back the given product. Customers are not entitled to return product if they can not send back the whole, undamaged item. They may demand a fraction of the price if goods can be partially returned, and the value and the usability of the remaining part(s) are still intact. Such is the case when separate units are packed together. On the other hand, the merchant can not demand interest on the refund amount.

17.3.1. Street vendors selling from bags. A semi-legal form of trade next to markets, on the streets – a solution that has nearly died out. One should be cautious for if these vendors see the chance, they can be most aggressive. It is best to avoid them, to reject them firmly right at the beginning. Hesitating and being willing to inspect their products only lessens one’s chance to get rid of them. If asked about their business, they would answer that it is still better than stealing and breaking into places, however, their trade does not exclude the existence of the latter activities.

17.3.2. In-home trade, home shopping. A trade form in which customers do not even have to step outside their apartments or houses, they only have to pay. Such a trade form can be called peddling.

17.3.2.1. Classical door-to-door. A trade form which is regulated in order to protect the civil rights of the customers – for example, in which part of the day salesmen are allowed to visit customers at home. One further direction is that salesmen are required to show personal identification.

17.3.2.2. Mail order trade. They are practically discount stores with a big warehouse, a packing room, and a customer service department. Such business activity is regulated by Act 15/1989 (IX. 17). It is defined as the following: merchandisers send their leaflets to the customers or raise interest in their

products by ads and make deliveries of the selected products to the specified address. A cost-effective method of mail order companies is the so-called “**drop ship**” system, when they do not transport from their own warehouses but directly from the producers and manufacturers. An important additional service is the easily accessible credit.

Mail order stores send their products via the postal service. The Hungarian Post Office grants 10% allowance which is minor compared to that of the 50% in Portugal. Still, one-third of the turnover of the Hungarian Post Office, Inc. is of the trade it makes with mail order stores. Here low prices convenience and partial-payment plans offset the negatives of waiting and “blind” purchase. There are two types of mail order stores: the first type distributes only its own products, the second type offers products of more than one manufacturer. The Hungarian market is dominated by *Quelle* and *Otto*. **Difficulties:** prices have to be defined well in advance – this means a period between six months and a year. Sales flyers have to be sent to all targeted customers on time, not to mention graphic design and printing. Initial difficulties arise from **buying without trial** and the long-existing absence of the relevant regulation (decree of 1989). Because of their initial scandalous practice, such enterprises have to be registered at the IKM. s have Flyers have to contain the company address, the name and address of the headquarters, and the registry number. Customers have the right to cancel without written argument within eight working days. The period during which the assortment is valid, the prices and the offer also have to be printed. It is also worth paying attention to delivery deadlines and delays.

One of the advantages of **On-line Shopping** is that it provides wide-range and deep variety, which may also enable many specialties. Contracts made by telecommunications device between merchandisers and customers are governed by decree 17/1999 (II. 5.). An on-line shopping company must have a registered location, a depot, and a license to conduct mail order business, so that it is accountable for its activity.

TV-Shops: TV channels lease low-rate periods saying “*small scale, small money – but still money*”. During these periods, a customer service is operated. TV – Shop companies do not invest in market research, and unproductive programs are taken off the air; moreover, if the trade itself is not profitable, broadcast time is decreased. TV channels have a fixed turnover connected to commission on the products sold. TV-shops are characterized by a repetitive, schematized style. The thematic satellite program, Shopping TV has proved to be a complete disaster.

Nowadays the business activity of the catalogue stores, mail order, and TV shopping companies show some orientation towards each other. The Association of Hungarian Mail Order Companies has more than 14 members and in the past five years – 1999 excluded - their annual turnover has increased by 10% with more than 1.4 million active customers. Business activities of the member companies are co-ordinated by the Association's rule of ethics.

Pull ads: insertions, Internet pages, trial-sample leaflets containing address, e-mail address and phone numbers – catalogues can be ordered this way.

Push ads: ads in mail-boxes, picking target customers from registries (address-books).

The second best selling book for farmers in the U.S. mid-west after the Bible was “**The Great Sears Book**”. The first Sears-Roebuck catalogue was published in 1893, and offered everything a farmer ever needed. It even published marriage proposals. Richard Sears worked as a sparkman at a railway station. He used the newly developed railway network to distribute his catalogues and his products. The “Great Book” ceased to be published in 1993 since the company could not compete with its competitors targeting consumers' special demands. The secret of the success is the segmentation of the customers, that is, the company issues many well-targeted catalogues to satisfy specialized customer demands, instead of publishing a general, big one. The biggest mail-order company, Spiegel, issued 30 different kinds of catalogues throughout the U.S. in 1993. Spiegel was founded by Werner Otto, an immigrant from the German Democratic Republic who started his business in Germany with a hand-stitched brochure with 28 black-and-white pictures in 1950. The Hungarian catalogue “Margaréta” is also a member of the German “Otto Empire.”

Table 27. The turnover of the mail-order companies (2003)

Country	Turnover	Turnover/ person	Country	Turnover	Turnover/ person
	mill. €	€		mill. €	€
Austria	1177	145,3	Gr. Britain	13259	226,3
Belgium	655	63,6	Germany	21300	257,9
Czech Republic	263	25,5	Italy	796	14
Denmark	643	121,3	Spain	735	17,9
Finland	764	146,9	Switzerland's	1322	181,1
France	8900	145	Sweden	943	106
Netherlands	2196	136,4	Slovakia	153	28,3
Ireland	99	26,8	Russia	335	2,3
Hungary	147,5	14,6	USA	8200	289

Source: MÁE, 2003

In a catalogue-showroom, sample products are displayed and the selected products are delivered from a central warehouse – e.g. ElectroWorld.

17.3.2.3. Mail-order clubs – e.g. Kossuth Book Club and Kossuth Multimedia Club in Hungary. The German media empire, Bertelsmann, has the biggest book-club division in the world. Bertelsmann has become the third in the line of the media conglomerates in the past 40 years with the help of its book-club. These clubs are practically mail-order clubs providing special prices for regular customers who place their orders well in advance of the variety offered by the published catalogues. Their greatest asset is the database which is maintained about the purchasing habits of their customers. This provides the basis to configure catalogues. The market of the general book-clubs is being taken over by the book-clubs specialized in a certain genre or field of interest (science-fiction, history, psychology etc.).

17.3.2.4. Multilevel network distribution (Avon, Amway, Oriflame). All distributors – they do not like the label “salesmen” – manage two basic tasks. For a commission, they distribute to the customers, and they also attempt to recruit new distributors in whose turnover they are interested. They multiply by building their own distribution network. In 1995, the two million Avon Ladies – this is a virtual shop – had \$2 billion turnover. Their disadvantage is that they have very similar structure and business practice to those of the dishonest “pyramid” schemes. Their members deny this in every possible forum. Anyway, pyramid schemes are different since they focus only on incoming payments while excluding distribution. In the so-called pyramid systems, the members joining later pay those who have already joined the network. In the computer based fraud “*Magad Uram! II-III*” they had to have an additional 256 members to pay a new member. This meant that when the 1,000th person joined, there were 256,000 members in the network. For example, the member with the code number 7,653 have had to wait for his payoff for 130 years (Napi, 1996. II. 16.).

Improper multilevel marketing business methods:

- **Appeal to potential members with enormous profit at inaccessible levels.**
- **Disguised pyramid structure** – a fraud: system collapses at the stage when more members quit than join. Expensive entry fees and unreasonably expensive initial packages belie the nature of such fraudulent enterprises. Such unsellable packages may contain magic

tools and devices, exotic treatments, even training and services related to information technology, advisory services etc.

Direct multilevel merchandise:

- **Using personal relationships** to distribute products and services. A disadvantage is that Hungarian people are rubbernecks; tending to take a look-see in shops and stores, so in a way many distributors are forced to be too aggressive.
- **Levels are easy to penetrate** – successful members can soon be superiors. It may present a problem that some members had easy success because they joined the multilevel network with a pre-existing business. For example, an entrepreneur, already a supplier to some hospitals may easily produce an exceptionally high turnover.
- **Interacting with customers and subaltern distributors** is a must and it may prove to be an asset with many lonesome people. Compared to traditional companies, they spend less on advertisement and more on networking with distributors and organizing regular meetings and conferences.
- In Hungary, the Hungarian Multilevel Marketing Association acts to safeguard its members' interests.

Solutions to their problems include:

- **To widen their variety** – e.g. they introduce new products from other companies.
- **They prefer distributing to colleagues rather than to relatives and close friends.** Expanding distribution via phone, postal services and using leaflets are also possible alternatives. Their target group is the busy people having little or no time to shop in stores.
- - Faster delivery – the goal is two days.

“Avon-Heaven”: in most of the developing countries. Reasons:

- **Underdeveloped commercial infrastructure** – MLM infrastructure is less demanding. According to fast-food franchise McDonald's, in the developing countries and in Central and Eastern Europe it costs twice as much to launch a McDonald's restaurant than in the U.S.

There are lots of unemployed housewives eager to work and high turnover can be generated by a relatively small investment. In 1993, Avon invested less

than \$ 0.5 million in Russia and its 1,600 distributors generated a turnover of \$ 30 million in 1996.

17.3.3. Consumer group organizations, or consortia – the word comes from Portuguese (Carion, Poligruppo, Promo-Indra). They generally offer discount installment plan options which do not require voucher and certificate of income and are not credit products. This is a solution specialized for car and property acquisition. It provides **interest free installment payment options** for customers lacking large sums of cash but able to pay in relatively high, monthly installments. The basic method is that the customers, who are formed in groups - as members – pay for the monthly portion of the actual price, or value, of the purchased product in every month of the contracted term. Such accumulated funds provide a purchasing base purchase for warranted members. Group organizers are negotiators. They organize the group, collect the monthly contributions and co-operate in the purchase of the product selected by the warranted members. They pay the purchase price on behalf of the customers, who pay their negotiators on a monthly basis. One further advantage of such an acquisition club is that they circumvent **inflation** since they execute immediate purchases from the incoming installments, preserving the actual value. Such accumulation of time-deposits, unlike a commercial loan (Baf), is not a financial activity. Commercial loans are deferred payments of goods or services.

Suppose that ten people intend to **buy the same type of washing machine**. Each of them has to pay 10% of the price for ten months, so each of these ten people can buy a washing machine every month. Which of them should get the actual washing-machine is settled by ballots. It is also possible to purchase rights and liabilities with purchasing positions. In the tenth month even the last customer obtains the purchased washing machine, and he does not even have to pay interest on the installments. There are generally twice as many members as the actual payoff period.

An important element of the system is that the exact date of acceptance can not be predefined since those dates are decided upon ballots, so there is a significant element of luck in the venture. Members paying in advance may obtain the selected products before the others. Costs – besides the installments - are generally registration-, commission fee and the operation costs are covered by membership fees.

A further one or two members may occasionally obtain products by bids. Bids can be made by paying a certain part of the remaining installments in a single payment and the winning member is the one paying the most installments. At the beginning of the time frame, bids can be started by paying 40-50% of the full amount, but later on this rate decreases to 20-30% and in time members can win by paying less and less amounts. Properties are mortgaged

until the end of the term and during that period they are not purchases, members can only use them.

A problem arises when a member does not pay the installments – despite the mortgage contract – putting the others at a disadvantage. At Poligrupo there have been 104 collection cases in the last ten years, while at Carrion there have been two or three such cases since 1994. In most cases bankruptcy occurs because the members do not pay the installments, since most of the companies do not tend to obtain loans. Protection for the members. Purchases of goods are entered into by restraint of alienation, purchases of properties by mortgage right until all members obtain their properties. The reason is to force individual members to meet their obligations.

There have been cases when organizers ab ovo did not intend to carry out their part of the deal, still wanted to appropriate the money paid in the capital provides cover. Organizers can not possess members' assets and properties, and they can not pay off their creditors with them. Organizers are only entitled to commission fees and authorized expenses. Organizers should manage paid sums by actual customers' groups on deferred accounts. Over contributions of ten million HUF, the organizer should be an incorporated company. The alliance of the Group Organizers was founded in 2001 to ensure the legal and ethical operation of such enterprises and customer satisfaction.

17.3.4. Vending machines, non-stop snack bars. They are considered automated versions of the non-stop shops and the snack bars at workplaces, railways station and in office blocks. They are always open. They are the labor saving competitors of the expensive delicatessens at railway stations, workplaces, in schools and other institutions. They can be operated on any premises, which complies with the regulations of the sanitation authorities. According to regulations in force, on-line service is a must in premises where at least 15 vending machines are installed. Vandalism and stuffing paper into the slots present many problems in bad neighborhoods. Cheap, used machines demand more frequent maintenance. New machines are usually guaranteed for over one year. Many entrepreneurs operate vending machines on lease or long-term rental. Cleaning of the machines is important – with smaller vending machines, it is best to provide daily maintenance.

90% of the domestic machines sell hot or cold drinks, while the remaining 10% are snack-machines selling candy and chips. Novelties are cut flowers, sandwiches and cheese bars coated in chocolate (Túró Rudi). Intelligent vending machines are just coming out of the factories – they call the center if they need

refilling, and customers can buy from them without paying in cash. With some domestic chocolate machines, it is also possible to pay by using mobile phones. The phone bill is charged in this case. Customers are able to save time and money when buying low price products. Machines selling hot meals are also under development. Certain employers in the West provide their employees with such tax-free cards as meal allowances which can only be used with specific machines. Such distribution of hot or frozen meals is rather expensive, so these machines are very rare in Hungary. In Japan, in most of the cities there have been experiments with computer-operated robots selling prepacked products without actual human labor. In Western Europe and in the U.S., reverse vending machines are rather frequent devices to recycle bottles, which in most cases give tickets to cash in at the checkout counters, but are also a coin dispenser – there are the so-called *fund raising machines*. Unreturnables are also accepted, sorted then pressed and prepared for reuse. In the Scandinavian countries and in Germany, such machines were traffic builders in 2005. These were planned, weekly shopping so customers – because of the reverse vending machines - spent 50% more than the average customers. Several Scandinavian authorities pay a *handling allowance* to the local unit for every returned container.

Out of the 30,000 domestic vending machines, 20,000 are operated by the Hungarian *Vending Machines Association (MIÁSz)*. A new member, Coke, has a 30% share. Small-time enterprises operating one or two machines are not members of MIÁSz.

According to the Association, the return generated by the business was 20 billion HUF in 2002, and the market is becoming saturated, little by little. In Hungary the rate of the machines per thousand inhabitants was 1/8th that in Western Europe. There are 3 million vending machines in operation in the EU countries, and 100,000 have been exchanged for new ones. Austrian vending machine producer ASCO, manufacturing in Csesztreg, Zala County, has a 5% market share in the European market.

18. MERCHANDISING, CUSTOMER FRIENDLY RETAIL MANAGEMENT

18.1. Definition of Merchandising

By definition, merchandising means goods displayed in the store in such a way that customers feel willing to buy them. This way the customer will find what he wants in the shop. If the customer looks for something but cannot find it, it is a loss for both the manufacturer and the seller. In-store marketing has a major effect in this process. It is an important moment when the three most important marketing factors, i.e. the money, the product, and the buying intention are present. It is based on the observation that *“there is always a higher consumption from well-differentiated and assorted products, than from those displayed among others’ goods”*.

The following **factors determine the retail brand experience**:

- **Brand presence.**
- **Work and management attitudes.** According to firsthand experience, the most effective solution is a well-arranged display of price tags and the cleanliness of shelves, even if the customers are negligent or do not complain about untidiness.
- **Consumer behavior and attitudes.**
- **Retail space design.** Stimulating display is also very important as well as packaging and secondary displays.

On the supply side of in-store marketing there are four basic factors serving the customer:

- **Retailer.**
- **Manufacturer of the product, or the brand owner.**
- **Manufacturer of the marketing tool.**
- **Displays and signage.**

Authorization is a two-level procedure in retail trade. While there is a centralized authorization in the case of major chain stores, we can not neglect in-store negotiations. Both chain stores and small shops expect that the campaign should fit their profile and installation, and the space design should not be chaotic. Many retail chain stores will not allow any kind of advertisements in their shops

besides the product itself, even if it means a safe annual income for them. It has happened that despite the negotiations and agreement, the head of a certain product department simply removed the tool. It is possible by means of contracts to test products, and to maintain the shelf-system on a regular basis. Most often the chains let only some point-of-sale agencies of into their shops, who have already signed exclusive contracts with them. The representatives of well-known brands and the manufacturers of marketing material visit the shops with previously agreed design ideas and do precise sizing there, and then retailers accept the plans. Marketing materials are produced or manufactured only then. The contract with the point-of-sale company is prepared in such a way that the given tool can not be used by the competitors.

Retailers allow **supplier marketing campaigns** in their shops according to:

- How much the expected income growth will be
- How big the price reduction will be after the sale, i.e. from the higher profit what rate is offered to the buyers
- How much the new tool disturbs the old ones

Retail trade chains keep test shops for testing the merchandising techniques. It is difficult to measure them! In most cases the previous sale/campaign serves as a test, i.e. they decide about certain tools on the basis of experience.

The representatives and the producers of brands or products offer marketing tools in proportion to the turnover, and they organize it in a catalogue system. They back the hypermarket chains and national chains based on minor units and wholesalers in different ways. It is not rare today to find **POS materials** which are suited to retail trade units, exclusive products, and campaigns in shops.

Producers often refer to merchandising as **in-store marketing**, or **sales promotion**. The latter gives a reward to the customer and in this way contributes to the growth of turnover, e.g. tastings, price campaigns, and combined (combo) packaging.

18.2. Category Management, Store Assortment Optimizing

Customers decide what to buy by answering three questions, namely:

- Should I buy from the category?
- Which brand, product, or variant should I buy?
- How much of it should I buy?

The first decision means the product category; therefore the assortment is a basic question. The aim is to have not the biggest stock, but the best. A much too large variety of items can be a disadvantage concerning profitability. Of course, it is the same with a too small assortment. The customers might be confused in the case of too many colors, tastes, sizes etc. That is, they will have less time for examining one product. Besides, shop personnel cannot handle too large a variety of goods. In the retail trade it is important to pay attention to small details, but of course within reasonable limits.

Category management, in other words **assortment competency**: continuous shaping and cleaning the assortment in the shop according to the market factors. Small shops do this calculation in a mental arithmetic way. Retail chains are in contact with lots of products and suppliers/expeditors, and such a huge mass can only be handled in an organized way. With the help of scanning data and computers, retailers follow and analyze the information of their categories, and they provide more shelf spaces for popular categories. In our country it is only in special cases, and in the case of special offers, that they deal with products on the basis of brands. In most cases the chains' agreements contain category management parts in those categories where the chain has a reasonable market share compared to other retailers. Wal-Mart is the second largest data analyzer in the world following the Pentagon.

“Goods that don't move within three weeks practically can't be sold”

Centrum Department Stores, 1995

It is important that producers and traders should speak the same language, and they should decide together what a category means for them. ECR Hungary, which works within the framework of the Hungarian Brands Association, prepared the unified list of national product categories in 2003. The material is published for the public in the category management handbook, and it is checked regularly.

Product category, like-items: means products which fulfill similar customer demands, and can be handled in the same way in trade, e.g. laundry detergents, snacks, soups, and vegetables (ECR). The objective of category management is to increase sales concerning the product category or a special brand. The following items and products can be found in a super- or hypermarket:

- **Perishables:** fruits and vegetables, meat-fish-poultry, bakery, snacks-pizza-grill, milk-dairy products.
- **Non-perishables,** and household products: drinks, animal food, chemicals, cosmetics frozen food. **Non-food I:** carpentry products, decorations, sport items, non-food, gardening, books, magazines etc. **Non-food II:** household electronics, clothes – fashion products.

Each item can be divided further, e.g. seasonal vegetables – melon – watermelon – sliced watermelon. The products can also be distinguished according to the pricing, the price step, e.g. 4+1 scale: super premium, premium, standard, economy, and special.

Table 28. GCI Wall, Variant, Brick

GCI point of entrance – Wall	Bread and bakery.
Point of search – main item group, category of products, starting point for search	
GCI division – Variant	White bread etc.
Matching the products and the characteristics – product, subcategory, unit of search	
GCI matching value and the characteristics - Brick	1 kg, packed, sliced, white bread etc.
Further details of the characteristics – item unit	

18.2.1. The basics of planning the shop assortment is Pareto’s 80-20 rule, i.e. 20% of the stock means 80% of the turnover.



Figure 26. The assortment pyramid

Source: Handbook of merchants (Coca-Cola, 1995)

Assortment competency means to clean the assortment continuously and thus search for those products which have a low moving speed. The ABC analysis divides the variants into three categories.

18.2.1.1. “A” category, basically to keep products, core items that increase turnover. These are items that consumers are looking for, and that are of strategic importance for the store unit. **In a food shop:** bread and bakery products, dairy

products, meat, cigarettes, candy etc. These are the must-have products, even if they do not provide much profit. They determine the retail outlet selection of most of the customers, i.e. which shop to buy in. These products cannot be absent from the shelves, not even for a minute, therefore the safety stock level is high in the chain's warehouse. Many smokers leave the filled shopping basket in the shop if they can not find their favorite cigarette. These items are generally delivered from the central warehouse, so that they don't have to rely on suppliers/expeditors for the time of delivery. The shop needs to pay special attention to these (freshness, continuous filling of the shelves, displaying the products etc.). It is best to place these items in the end part of the shop, so the customer has to walk past other products to reach them. In some cases customers do not plan to buy other things, but sometimes they find other important products, so it is in their interest to have a walk around.

18.2.1.2. "B" and "C" category products, which should be chosen according to the features of the shop. **"B" category** products come right after **"A" category** products, but the difference is that they are not that much searched for. There can be short term shortages, as it is very costly storing them. A typical example is the postcard: the customer does not leave just because he can not find a certain postcard (not seasonal); in this case he will compromise and choose another one. **"A" category** products need a lot of space. Typically these are the "last-in-last-out", they are tested, and then some **"C" category** products are replaced by a challenger, i.e. one which is expected to be more profitable and get into the **"B"** or **"C"** categories. In choosing the challenger it is important that the retailer see the opportunities hidden in the product.

"B" Supplements: customers buy these products because they are related to the use of another product they have already purchased, e.g. coffee-cake, drinks-chips, potted plant – complex fertilizer.

"C" Seasonal items: certain fruits, watermelon, ice-cream, chocolate Easter figures. Besides, the "to be kept" products something new is always needed so that the customer has the feeling: it is worth entering the shop. Seasonal items are the best for this purpose. In a number of stores, there is a separate seasonal items department, and they sign a contract with seasonal item suppliers that can only appear during the special season. During the season a five to six times bigger area is left for the variants. Every retail trader signs short term contracts related to seasons.

18.2.2. Assortment map. Assortment means the total variety of items that can be found in the shop. In an average American hypermarket the fruit and.

vegetable category consists of more than 500 items. The assortment of the beer category consists of 150 items in a hypermarket close to Budapest. Often a photo is supplied by the item to help displaying the product. The assortment map shows the range of assortment. According to table in the case of a man's suit, there are 576 variants, or items of this product. This is too much; the assortment is fragmented. We need to differentiate between **hard and soft factors** of a product to handle category assortment. The customer does not buy if he doesn't find a suitable size for him/herself, for example, which means it is a hard factor. Maybe the brand is a less important factor and he/she might buy another brand, this is a soft factor. In this case the brand name can be replaced, and thus the factors of choice can be reduced.

Hard factors are a minimum requirement whose shelf space is not a point of debate, and they have high priority. In food marketing such a hard factor is taste. You can not sell a product that tastes bad, even if it is cheap. *"Taste is not negotiable!"*

Table 29. Assortment map, man's suit

Shopping factors	Variants	Total	Explanation
Price	3		cheap, medium, expensive
Models / brands	6	18	Hungarian, Italian, English, etc.
Colors	4	42	Navy blue, dark grey, etc.
Materials	2	144	Ratio plastic
Sizes	4	576	S, M, L, XL

Retail traders need the assistance/help of suppliers/producers in the following two fields.

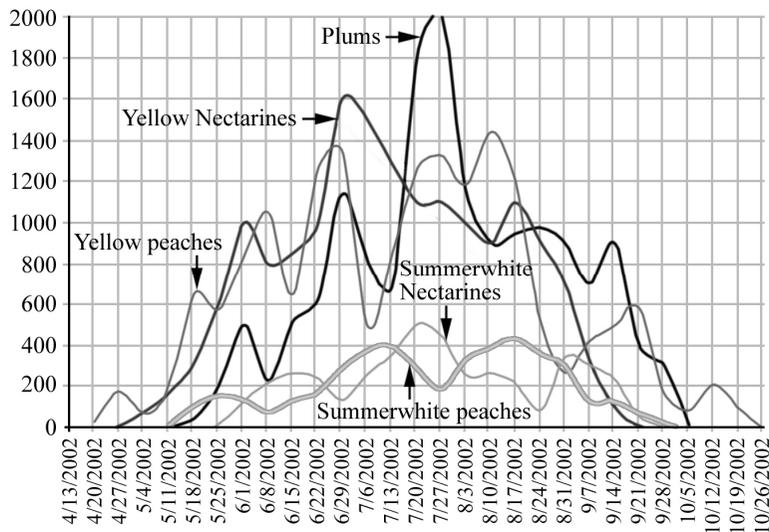
- **Marketing information:** because such a big assortment cannot be known, kept in mind in details. The producer, the manufacturer cannot leave his product on its own in the shop.
- **Perfect order completion:** or advance notice in case the order cannot be delivered on time due to weather or logistic reasons. While meeting to discuss category management, the supplier and the retailer exchange information and carry out marketing planning together.

ECR Scorecard – in certain chains and according to periods – the producer can obtain the following information:

- Consumption of the whole category and the brand/product.
- Differences in turnover of the various shops of the chain.

- Rate of purchases, and fluctuations during the period.
- Feedback related to the use of products and opinions within the category. Non measured data, opinions.

Graph 1. Crop Estimate of California Summer Stone Fruit Supply in 2002



Source: CTFA, 2002

18.3. Presentation and Display of Products in Retail

“Out of sight, out of mind!”

Proverb: John Heywood, 1562

18.3.1. Display of products in the shop area is done by retailers in order to create the best conditions for buying. Human beings can see 180 degrees horizontally and 120 degrees vertically, but in reality the effective sight in both directions is not **more than 30 degrees**; the rest is peripheral vision. Visual chaos, i.e. the mass of colors, shapes and sizes, is not favorable. This no longer signifies wealth; it only confuses the customer, who simply can not recognize so many products. Especially in the case of categories of many items which are in small bags and bottles – spices, for one – shelves can be very crowded. A typical customer knows what he is looking for in the shop, and he moves in a certain direction, all the while talking to people, looking for certain products, pushing

the cart, avoiding obstacles, and looking around. Meanwhile he or she observes, rethinks, connects and compares things and beyond all these does lots of other things as well. In other words, he/she chooses what he/she is interested in. And it is done mostly by peripheral vision, unconsciously.

In the retail trade, one should try for a balance between two basic principles: carry the products and display the brand items according to their turnover, and show off the higher profit merchandise in attractive places. What makes this difficult is the fact that the producer and retailer often have different ideas about which products are more profitable. There may even be disagreements among different shops of a chain. This problem can be solved by doing the following: place small amounts of higher profit product in the best spots, and relegate cheap, low profit earners to the less favored lower shelves (they sell in high volume no matter where). The customer will find these anyway.

Blocs are often created so the lead brands, the driving products are placed in the front. The most popular products draw the eyes of the customers to the other brands. Using visual rows really pays off. First come the premium brands, to the right (humans look from left to right) then the medium brands, and finally, from the top down, the cheap category products and brands, which are sure to be found. The demand of people is not permanent; seasons change, therefore each shelf should be **reorganized frequently** e.g. in the case of beer, every three months. Shops display products according to product categories and tastes, because they think it is easier for the customers to choose in this way, than if products are placed according to brand names.

The **shelf mirror** in the shelf map shows the fixed place of each product. The software used for this solution is the “**planogram**” (Spaceman and Apollo software). It is very difficult to work out a stable, precise shelf mirror due to the constant price reductions. It makes the customer’s life easier to find the same product in the same place in all of the chain’s stores. It is also useful if the order of brands is the same. Many people are unsatisfied and find it unpleasant when they can not find the product in the shop in its right place.

Merchandising standard: detailed rules of the companies laying down in what environment their products should be displayed. The producers and retail chains discuss the promotion packages and the vision plan and decide within the framework of annual programs. In the case of retail trade chains there is a special coordinator who negotiates with the suppliers/producers so that the sales will be in harmony with the demands of the chain. Some shops and catering trade units

first sign a contract with the company believed to be the captain of the category. In this case it is typical that blocs are created according to brand names.

Secondary placement means each and every place where the customer stops, looks around, such as the cash register, the entrance etc. It is often said in the case of luxury and impulse items that *“the more the customer meets up with our product, the more likely he will buy it”*.

Based on English practice secondary placement is far more efficient than any other **POP method**, and even in our country only price discounts and shelf cleaning rate more efficient. It is fundamental that the basic requirements of the store should be kept in mind. A challenger’s products are displayed so that customers see them when they go after their “traditional” product.

Store-specific, micro merchandising: especially in the case of big turnover hypermarkets, a special display plan is prepared for each shop division, e.g. Borsodi Beer- Tesco. Nowadays, the emphasis is on satisfying local needs. It depends on the type, the style and the location of the shop, as well as the kind of the customer, the visibility of the shop and the possible complementary services.

18.3.1.1. Facing. The front side of the product by which it can be identified. Frontal display means the product should be placed on the shelf with its front side towards the customer. Just as with books, publishers spend a lot of money for an attractive cover, but it is not enough if only the spine of the book can be seen in the store on the shelves.

Facing number: How many units of a certain product are needed side-by-side in order to attract people’s attention? In the case of crystal sugar, the number is four. A further task is to fit as many possible items on the shelves in a simple way. There is proof that with toothpaste, four boxes standing take the same space as one lying. Always place the product with its face towards the customer, and never lying!

Superfacing: means only one brand or brand family is placed on a shelf that can be well seen by customers e.g. cigarettes in the stand above the cashier.

18.3.2.2. Vertical zones. Expensive brands should be easy to reach and easy to see; the cheap ones “the must-have” products can be placed in less favorable places, because customers will find them anyhow. Note! In the case of children the products should be placed lower. Pensioners cannot bend down easily, or reach up high! In most stores, the top two rows cannot be reached without a ladder, and they are used for stocking the lower shelves. Small packed, exclusive products are appealing, hot products for thefts; therefore they should be placed such that temptation is avoided.

The rules of thumb of a store structure:

- **Uppermost zone** (lean-up).
- **Eye zone**.
- **Reachable zone**.
- **Bend down zone**.

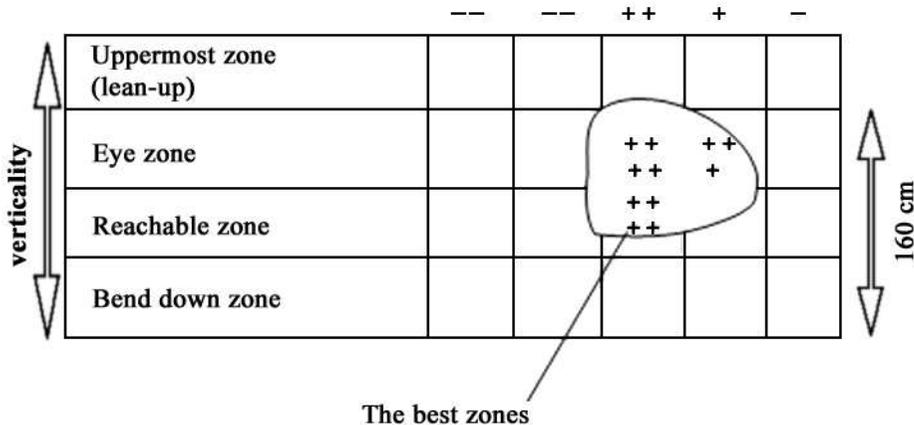


Figure 27. The rules of thumb of a store structure
Source: Copeland, 1978

18.3.1.2. Waterfall-like, column display. The different products should be **separated** vertically and not horizontally. Products should be placed above and below each other, never divided with a horizontal shelf. The mass of product is like a waterfall, especially when a mirror is placed above. The waterfall-like display causes the customer to stop; the assortment is clear and neat. If there is a horizontal division line, maybe the customer will not look above or below it. Shelf-systems used in the retail trade are similar to the stands used in stores. There are shelves that can be fixed to the walls, and two-sided shelves. It is important that the product should dominate the shelves; the shelf should almost be invisible. The shelf has complements, such as metal or plastic protective bars which keep the products from falling. It is most difficult to protect products that fall easily without the use of such extra parts. The shelf-track, or price track helps affixing the price-tags, and it prevents the customer from mixing up products.

Gondola: it is a shelf-row that is completed by end caps. On the end caps customers always see the front side of the product. In some places they use aero or mist curtains in the case of fruits and vegetables.

In the case of **strip merchandising**, the products are placed vertically so that they are easily seen, and these can be placed in many places, and above all they are easy to use. The disadvantage is the special packaging that is needed. The shelf-extender hook is similar to this. The extreme use of both leads to chaotic shelf image, and they fail to promote the sale of hidden products.

In the case of “**Christmas tree**” shape shelves the depth of shelves decreases upwards and thus the shelf image is tidy and neat. Coolers are very costly, and only affordable in the case of highly profitable products. Their placement needs special care. It is important that they are not exposed to damaging air-currents, and the hot air coming out of the fridge does not damage other products, and finally customers should not be disturbed by the hot air and noise. Products that should be kept in cool places are kept in one bloc for economic reasons. In self-service stores, the glass door decreases turnover by 10-15 %. It prevents the food aromas from spreading, which is a turnover decreasing factor, but on the other hand the expense of cooling can be reduced. In the case of frozen products, it is obligatory. Advertisements can be placed on fridges, and they can be changed.

18.3.1.4. Heat map. A customer movement map reveals the density of customers: it shows us the flow of customers in the shop, and the hot spots that are most suitable for impulse buying.

Hot spots: customers move around in the shop according to tendencies. There are special intersections on the heat maps. There are 115 intersections in the Erzsébet Interspar market, and only 18% of the customers pass through each. This is why the ice-cream industry uses “impulse freezers”. Practice shows us that there are only nine intersections that are sought out by 70 % of the customers.

When customers pass by a fancy bakery, they become more willing to buy other things, too. Items in small packs, “*don't forget!*”, basic utility items like batteries and razor blades are placed in the checkout zone, otherwise known as the Mecca of impulse buying. Customers have time to look around while they stand in line, and they can reward themselves after a long and exhausting shopping trip. It is pointless to place different impulse products at different registers, as the customer will not wander from one to another in the crowd.

Cold spots, small turnover places, dead areas. These are the spots customers only enter for a specific reason, where they rarely look. These areas are poorly lighted, the entrance is narrow, and the whole environment is dirty and

unpleasant. In some categories the shopping is planned before customers arrive in the store, e.g. only those customers visit the area of the refrigerators who already have decided they want to buy something from there.

18.3.1.5. The “ask for it shop”. Products are placed behind the salesperson, or sales counter, and often they are higher quality items (cosmetics, drinks, chocolates etc.) than those placed on a self service open shelf. Gift wrapping of such products takes place at the sales desk, too. Prestige stands, and decorative shopping wardrobes are placed optimally, e.g. behind the sales clerk, closed/locked; they provide safety and they communicate the message of prestige. It is worth it to sell those products from behind a counter. The salesman can give useful information about them, such as food extras. There are often separate stands in front of hypermarkets, where tobacco, candy, cakes, newspapers, sausage etc. are sold, because in this way people do not need to go into the store just for a pack of cigarettes or a little bag of candy. On the other hand the locking away of products into boxes for safety reasons, or placing products behind sales personnel leads to a decrease in turnover. Many people are in a hurry, they do not want to wait in line, and often the salesman is not around.

18.3.2. Optimal customer flow, the leading of customers. “Soft leading” is becoming more and more popular, that is, helping customers by means of pictograms, arrows, tableaux, colors, floor design, and the placement of the cash register, rather than defining the road in a definite way. Inner and outer lead is part of the image of the store chains (car park, information, green areas etc.) Even in IKEA there is a short-cut route:

- **Quick checkout, express lane** for those who are buying just one basketful. Thus customers in hurry can be separated from others.
- **Discount area at a fixed place in the store** is most often at the entrance, at a hot place. A typical shopping process usually takes place at a predictable rhythm: a quick start followed by a slow medium search part and finally a quick end phase. The entrance is a quick period, because that is when everyone thinking about what to buy, and how to find it. Here the customer is slowed down by impulse and the lure of discounts.

Then he or she calms down, and the stress caused by shopping and spending money decreases. The music in the shop also relaxes the customer; therefore it is not appropriate to play music from nerve-wracking radio channels. The entrance has another advantage in comparison with the checkout, here the customer has

not spent his/her money yet, and is ready to consider a bigger expenditure. More often nowadays, there are temporary streets for seasonal products in the shops.

The **employee does the packing** and the store provides the customer with a plastic bag because thus the customer leaves faster, the line is shorter, and he makes room for the next customer. The sales people at the cash register can pack faster. They even help pensioners count their money.

In an ordinary department store, the food department is usually on the lowest floor and the electronics are placed on the uppermost floor. Food can spoil delivery is needed as well as nice packaging thus it has to be closer to the store's point of delivery.

18.3.3. Tonnage packing

“Stock it high and let it fly!”

Products in large amounts draw more attention, thus they sell easily. No one is willing to buy the last pieces. Shelves are so high that they can store products in the upper parts, which are only used for show. This method is not useful in exclusive shops as it seems as if there is a price reduction. Customers feel by instinct if there is a price reduction, sensing it from the size of baskets, and the large amount of products.

Products satisfying different customer needs should not be mixed, e.g. salty crackers and sweet cookies. In bigger shops you can often find product islands e.g. grocery, dairy islands or book **“pyramids”**, or brand corners, because customers spend more time in a specific division. A good island is visible: it can be well differentiated from the background, and it lengthens depth perception. In different departments of shops brand products are collected in one location and are decorated with POP advertisements.

18.3.4. Cross merchandising, different customer worlds

Cross promotion: means when selling a product also drawing attention to the accessories as well, such as fertilizer and potted plants, for example. During a pizza sauce and pasta price reduction campaign they also place cheese, ketchup and even wine on the edge of the stand. Cross merchandising is most important on the Internet, in the case of on-line purchases, where there is less opportunity for tasting.

In **up-to-date shops** they create worlds according to the lifestyles and habits of the customers by using different colored decorations. Products for women are placed in the **“women's world”**. Toys are placed next to it so that women who

have children can find everything they wish to buy easily. Young salespeople are found working in the “**teenagers’ world**”. Customers often define their needs in a wide sense or are just looking for solutions for specific events like a Sunday evening dinner, a garden party – and they expect the shop to meet their needs. One retail world consists of multiple product families.

Products related to each other are products people use together, or combined, or products that are used by the same types of people. These should be placed next to each other, no matter what category they belong to according to the shop or the producer. In the case of the solution-selling product category, management exceeds the limits of the category, because even customers themselves search for a solution to their problems.

Sales can be increased by the mixed display of products, i.e. exceeding the borders of the sectors of the economy branches. Customers do not just simply buy goods; they hunt for solutions for their problems. Such are drinks and chips, strawberries and ice-cream, potted plants and fertilizers.

People buy more **baby toys and baby clothes** if they are side-by-side than when they are placed far away from each other. A customer decides he will cook spaghetti, so he chooses the pasta and he must go all over the store in order to buy meat, or even red wine. We get all this prepared in an eating-place, and besides it is not expensive if the customer is smart. It is worth it to place products and their complements close to each other e.g. bread, butter, and milk; toothpaste and toothbrush.

Creating worlds depends on **shopping habits**. Children’s toothpaste is placed next to the toothpaste for adults because usually the mother buys toothpaste for the whole family at one time. In western hypermarkets it is fashionable to have regional divisions where the products of manufacturers and producers from the neighboring areas are sold locally, like “*Taste of Cornwall*”, and “*Heart of England*” in the U.K.

Daily category changes. In the shops of the Dutch chain, **Albrecht Heijn**, products are organized every day according to the period in which people usually buy them. In Japan 10% of the stock of Food Plus supermarkets changes daily. Owners of groceries have long since known that bread is a driver, a lead product after 7 p.m. There are certain shops that make 2/3 of their turnover after 7 p.m.

Weekly categorization. According to observations, different people buy different products on different weekdays. For example, there are more fathers with children shopping on the weekends, and they buy impulse items for their children more readily than mothers and grandparents. In TESCO in Miskolc they even change the setting of corridors and gondolas

during the daytime. That is how they were able to make a whole quarter's turnover during the Christmas rush months of 2000.

Dirty trick I. To prevent comparison, higher priced products are given secondary placement because the high price can be too easily seen easily in their normal place.

Dirty trick II. Maybe someone will overlook it if we tuck poorer quality, easy to miss cheaper products between expensive, high quality products. It has happened that normal drinks prepared with less fruit content appeared among nectars, or juices containing more fruit.

The lesson is the following: "*He who buys fast, buys twice.*" During the shopping process, we have to pay attention, read the labels and the information panels, and we have to share what we know with our friends. But in the case of retailers and manufacturers these tricks are dangerous, because they can cause loss of customer confidence.

18.4. In-store Advertisement

POP: point of purchase - **POS:** point of sales. Its advantage is that it separates the product from others; it differentiates the product from competing products, thus achieving a **trap effect**. In the catering trade the method similar to this is *POC (point of consumption)*. This is discussed in the chapter on sales promotion. Proper labeling and POP can answer most of the customers' questions, and it generates impulse shopping. Small piece products can only be displayed in this way. A dozen pencils or pens are not attractive, nor is the brand name that is written on them. It is very difficult to recognize small pieces of cheese among other dairy products, but a photo placed above refrigerators draws much attention. A wide variety of goods with the same brand name can be integrated under one advertisement! The **planning of POP** can only be started when the assortment is known. In the case of products related to Santa Claus, this period is usually in the middle of summer.

This is the important last half meter on the way from the producer to the consumer. The advertisement can be more effective if it is close to the product, or the purchase itself in the case of impulse products. This is the last point, and in the case of impulse products it is the most effective way of communicating a message as customers do not have to remember it. According to observations, the customer is thinking two things constantly during shopping: he is trying to remember what he came into the store for, and he is continuously attracted by advertisements that make him think about what else he should buy. The **efficiency of POP** is measured locally by the method test and control shops. For this reason, shops with the same turnover and similar location are selected. It is

necessary to take into account that low stocks of products are disturbing during a POP campaign. The shop staff are not always capable of recognizing the low stock and refilling it.

Table 30. In-store, POS advertising

18.4.1. Visuals	18.4.2. Explaining marketing tools	18.4.3. Traffic builder shop ads
18.4.1.1. Product display stand	18.4.2.1. Leaflet dispenser, coupon holders, pocket	18.4.3.1. Huge, giant glass surfaces
18.4.1.2. Product imitation, scale models, giant traps	18.4.2.2. Decorative packaging	Outside stoppers
18.4.1.3. Indoor flags, molinos, ceiling hang downs, posters	18.4.2.3. Hostess promotion	Dressing up the retail unit
18.4.1.4. Shelf communication		
18.4.1.5. Moving advertisements		
18.4.1.6. Floor ads		
18.4.1.7. Shopping trolley ads		
18.4.1.8. Special evocative, non traditional tools		

18.4.1. Visuals, attention drawing marketing tools. *POP (point of purchase)*. Typically these are sales increasing, motivating tools that enable a trial, but in the case of a second or later purchase, they only have an effect if those products proved to be good. The aim is that customers recognize the product and go for it, i.e. to differentiate them from the mass of other products. The aim of activity ads is to **draw attention** to the cheap prices, or the reduced products. A further aim is to stick the potential customer to the point of purchase and keep him there. In many supermarkets they found shopping displays inefficient and they are concentrating on the shop environment. People who are in a hurry never look at displays; they can get information about the product from many different places. Other specialized shops even pay money to their suppliers for shop displays.

In 2002 some favored methods for children were face-painting, make-up, and plasma television. The disadvantage: grabbing the attention of many silly people with negative feelings who are not interested in the product itself. It is not difficult to produce the advertising material, but placing and set up is the challenging job, as shelf sizes are not standard. Companies dealing with the outfitting of shops can help. Each shop has to be informed before delivery and collection. Shops prove with bills that they received the displays, or other expensive tools, and thus they are obliged to take them. All items that are to be delivered to a certain shop are packed in sets. Color stability is a problem, i.e. components prepared from different materials with different techniques should have same color. It can be expected that the display being stable, and after their removal the shelves should not be damaged, glue remains should not be left, or pieces of paper. It is also a problem that due to the hurry during production and displaying, they usually don't leave enough time for the glue/materials to dry.

18.4.1.1. Product display stands. An attention concentrating creation made of products which consumers can pick up. According to types of display we can differentiate between:

- countertop display,
- wall mounted,
- floor display,
- bulk display,
- Huge area product islands.

Each of these can be freestanding, or placed in a group.

According to the material used there are:

- **Durable.** metal, wire, plastic stands that are returned by the manufacturer after the campaign/sale is over. The creative parts of durable materials can be changed. Stands consisting of wood give the feeling high quality.
- **Seasonal, temporary,** e.g. cardboard, plastic stands.

The **parts of a durable floor display** are the following:

- **Fixturing.** The part that holds the weight and the communication materials.
- **Display area.** Holds and offers the product. It can have from one to four sides.

- **Crowner, topper.** What attracts consumer attention first is the narrow and busy shopping space.
- **Cloak.** The largest, biggest communicative surface.
- **Skirt/footing.** Usually a pallet, plastic feet, or rolling footage. Its size is based on the EUR pallet standard.

The product display's best worked out and most important communication tool is its crown. It is the crown that first attracts people. The crown is a practical, useful communication surface in small area shops, as it extends upwards; therefore it is not in the way. The cloak is most often left out, and it is displaced by a display full of products. A display area is created so that the whole surface of the product can be seen, something which cannot always be maintained in the case of shelves. Big market chains only allow product displays that have big price rails. A good product display fills the requirements of communication, but meets the following demands too:

Big load-bearing capacity needs small space.

Easily to fill up, labor-saving. In the case of advertisement made from products it is a cheap solution to display them on a pallet, of course with the help of a special skirt to cover it. Advertisement can be placed on the transport packaging. The plastic wrap used during transport must be torn off, because otherwise customers cannot take out the products. Structures built on half, or quarter pallets with small decorative parts, e.g. pallet skirt, crown, and cardboard decorations are a cheaper solution. Company representatives can create secondary displays in smaller shops this way.

Environment friendly: can be cleared away as waste material, e. g. paper, and cardboard.

Reusable displays can be combined, and dressed up with various complements, and graphic solutions. It can be refreshed, and reused in the case of more brands, sales, and products. The display area and the decoration can be changed seasonally. It can be cleaned, taken to pieces and re-assembled easily. The assembly guide helps. It can be transported: it fits in the car of the representative. It is not fragile; it can not be damaged, for example, if a shopping cart is pushed against it, or accidents happen during the delivery, or reassembly. Round end caps are not only more aesthetic, but they are less dangerous; they don't cause accidents:

- **Displays for temporary use**, which are only used in the shops for the time of the sale or campaign. **Temporary display**. Most often paper, cardboard displays, or sometimes strengthened by metals, plastic and plastic film. Cardboard collects the humidity and water vapor from air during its use. In places where vapor content is high in the air it is preferred to use more expensive, water-proof materials. Even so vapor harms its stability and eventually it collapses. Its strongest enemy is the daily cleaning, when workers push on it, therefore the base of the stand is usually covered by plastic film, or the display is placed on plastic stands. Displays with paper shelves are mostly used for one to three months. Custom-designed displays built from plastic parts are expensive because the price of construction has to be paid even if only a of small series is built. **Semi-permanent display**. Usually made from standard plastic, metal, steel or wood. The cheapest ones are the displays that are made from 10-15 kinds of elements, but there after a time they become scratched and dirty, therefore the number of products consumers take from them decrease as time goes by.
- **Permanent displays**, that are fixed and they provide permanent placement for the products. For example, permanent displays for spices, used throughout the year. They are not to be moved, and they stay in the shop until the end of their lifetime, which is about 12 months; they are made from wood or metal. Regular maintaining is not needed, only cleaning and dusting.
- **Bulk Bins**, e.g. bags and boxes. In the case of watermelon, sliced melons should also be put next to the watermelons in order to demonstrate the freshness and the high quality of the product. According to the position of the displayed product, the stands can be displays with shelves or hooks; there are also dump bins and display cubes. There are optional doors in the case of display cubes, or their lower part is raised so that customers do not have to bend that low. Many people would like to stand in the display cube containing melons in order to make a selection. If the store is the self-service type, staff must always fill up melon bins! Many people will not climb into the crate just to choose from the melons found beneath. The advantage of gravity feed displays is that they do not have to be filled up too often. Sometimes the amount of remaining product is visible.

According to the size and turnover of the store, there are the following **types of displays**:

- Countertop displays.
- Display stands for smaller shops.
- One-eighth palette.
- One-quarter palette for supermarkets.
- Palette island: palette display for hypermarkets. Some module systems like product displays and coupon holders can be fitted together like pieces of LEGO, and thus they fill the special requirements of shops.

18.4.1.2. Product statues, imitations, scale models, giant “attracts”.

Customers can not buy from these. They are most often the large versions of the product boxes, bottles, or the package, or a cut-out standup advertisement figure. They are not suitable for storing the product, like a huge bottle, or cigarette box. Such is the A00 size cardboard cutout, or standup, or the B1 size mobile cardboard cutouts. Nowadays it is possible to create combined advertisements that contain both displays and **3D figures**. It can be a custom-made creation, or a solution customized according to the brand, the product, the chain store or the requirements of the style of the market. The product statue is a creation made by using the product, and it is a most sophisticated and very creative form of drawing and graphics. Of course, they are not meant to hold and sell products.

18.4.1.3. Indoor flags, molinos, ceiling hang-downs, indoor posters, window stickers, banners, in- and outdoor neon lights. **Indoor advertising**: decoration companies dealing with indoor advertisement also deal with display planning and execution. In the case of indoor ads and light boxes, it is important that they can be opened and locked/closed easily, and posters can be easily changed on their surface. The molino is a sheet that is stretched out, and it is fixed on several sides. Big surface back light boxes: these should be placed in the darker areas of shops, in catering trade units, and movies. They are not to be missing in fast food restaurants, either.

18.4.1.4. Shelf communication: price rails, shelf rail graphics. Shelf rail stickers should be cleaned away when necessary, after the campaign is over. It is difficult to place posters close to the product, therefore they are usually placed at the entrance, and thus the stress is bigger on marketing tools that can be used close to the product, e.g. shelf talkers. The changeable element can be parallel to the shelf, or it can also be placed vertically to the shelf and the customer-flow in

order to draw more attention. Row dividing sheets and shelf flags divide product categories from each other vertically and simultaneously serve as advertisement. They should not hang out too much; otherwise they will be knocked off. Pre-printed price-tags are used to differentiate the brands of retailers, who use black-and-white price-tags.

It can contain ads, or it can be used as a communication surface without ads, e.g. Discount, New. In the case of changeable elements, it is very important that it should be changed easily. We rarely use price cassettes for advertising purposes. Digital price tags are only being tested now in our country. Of course, exaggeration, that is too much use of these ads leads to a chaotic environment, and it hampers both the customers and the shop workers; thus it is bad for the product, the manufacturer and deliverers as well.

18.4.1.5. Moving ads are based on the basic law of nature that humans perceive unusual movements. In the case of mobile ads the perception rate is 43% bigger than static ads. But the excess use can be harmful, as the target group can perceive it as environmental pollution. **Wobbler:** moving arms, text and logo. The aim is to point out the product from the shelf. Fishermen call this a twinkler. **Animated display** is a marketing tool that is suitable for secondary display, and it contains an animated part for attracting customers. The shop window shade contains photos of two pictures, and a small machine continuously turns it. **Audiovisual tools:** huge projectors, touch-screen information screens. It has been proved that scientific explanations are not very efficient, but some attractive, easy-to-understand and funny information can be perceived by customers through video shows placed in shops. Its basic message is that a companies using such an expensive, special and creative tool have special and creative products. DVD players show ads without rewinding. By using them the most successful ads can be kept in mind.

18.4.1.6. Floor advertisement: floor level signage, floor reminder. With their use the place of products can be identified from a big distance. Its advantage is that it does not need much space, it can be placed easily, and it can be put close to the product. Floor graphics is a special, extremely thin plastic sticker with a non-slippery surface, and big load-bearing capacity. It is anti-wear as well. Floor graphics stickers consist of film layers. One is to stick the media to the floor, but they can be removed without leaving traces behind even several months later, when the campaign is over. Thanks to the special printing techniques, despite the traditional two-dimensional appearance, a three-dimensional image is created, and that can draw much attention.

Many floor reminder companies have exclusive rights in certain stores. Many chains do not support the display of floor level signage, because in many cases they themselves have to clean away the scratched ads. None of the chains ever allows them to be placed in front of the competitor's shelves. It is similar to the ads stuck on the product belt at cash checkouts.

18.4.1.7. Shopping cart ads. Rate of perception is extremely high, i.e. 80%, and the rate of awareness is 70% in the case of shopping cart ads. Especially, in the case of daily consumption products, the effect of such ads is very important. It is also called mini billboards. Similar to the giant posters, it cannot contain much text and details.

18.4.1.8. Special evocative, non-traditional indoor ads. These are special evocative tools such as noise/sound and light-techniques, scent effects. The aim of the store radio is not only to entertain shop assistants, but also to influence customers with the mood of the music.

Directed sound, talking shelves, can only be felt in the two to three square meter environment of the product, so it is not disturbing. Due to a sensor it gives the spot when someone passes by. It is useful if not only the "old" radio spots are announced but the special version of fit as well. Of course, it has to be harmonized with the radio used in the shop, and with other talking shelves.

Scent, odor marketing:

- **Natural odors** that have a clean feeling. According to English research, customers spend 15-16% times more time money and they buy 6% more in a pleasant, "well aromatized" environment.
- **Emotive odors.** Lemon used at the fish desks, ham among other meat, or the scent of the pine trees at Xmas are examples of this category.

18.4.2. Explaining POP marketing tools

Its aim is to fulfill the niche between the customers and the product.

18.4.2.1. Leaflet dispenser, coupon holders, pockets. Leaflets, promotion booklets, recipe cards, recipe booklets give further information to the customers. It is important that the recipe offers should fit the possibilities and the lifestyle of the target group. Easy-to-make and delicious food recipes are successful. Tester holders are prepared with the same purpose, i.e. something that is placed in front of the shelf containing a test spray or cosmetics. Old, expired promotion material gives the feeling that the manufacturer and the shop owner are irresponsible and their product is expired.

18.4.2.2. Decorative packaging has advertising value also. The decorative packaging, e.g. coffee cans and mugs are used for years in kitchens, and closets at home.

18.4.2.3. Hostess promotion. Hostesses and promoters explain the advantages of the product to the customer. The promoter in costume, e.g. a person dressed like Cheetos Chester cheetah of Lay's talks with kids. Usually a discount or other campaign is connected, so it is difficult to measure its effect on the turnover. An **In-store demonstration** is used several times when the use of a household machine or preparation of a food is presented. It can be seen, tried or tasted. Hostesses can demonstrate to the consumers why a given product is expensive, and why it has high value. The promoters receive training before the campaign, and supervisors monitor their work. They must have food safety education. They maintain a record booklet indicating that they are following the food safety and work order of the retail store. Hostess promotion is suitable to make consumers get acquainted with and try out a product. Its disadvantage is that less people can be reached this way than with traditional media advertisement. *"We haven't got several hundred people to send out!"* said an organizer. Hostess promotion is the method to be used in high turnover hypermarkets and shopping centers. There are special demonstration rooms and gardens to help selling in several special shops. In special cases a manufacturer's representative is present here to help the work of the shop assistants.

18.4.3. Traffic builders

Outdoor traffic builders guide customers from the street to parking lot, and then in-store advertisements lead them to the products. Apart from the shop's own ads, it is worth placing only one to two messages in highly visible areas, because if too many ads are present, they cause disturbance, losing efficiency. The traditional function of the awning is to protect the glass window from sunlight, and protect people from rain. **"Toledo tables"**, which are placed on light bars, are very useful for showing the way. They help customers to find special parts of the shop by the use of logo, arrows or by telling the distance. Posters and mullions can be placed at the entrance, and leaflets can also be spread out there. **Glass decoration** has become a creation that adds further impetus to the actual ad campaigns and images, instead of *"easy to forget tiny things and long text"*. Window sticker foils, neon lights and window-lights and other creative elements are used as well.

Big size traffic builders placed at the front of stores or at the entrance should be mentioned here, e.g. the 205 square meter glass surface on the front Duna Plaza or the huge homogeneous wall surface next to it. Special outdoor floor graphics are thicker; they can be a burden.

18.5. Merchandiser, Shelf Service

Bigger companies use regional merchandisers, shelf service, and representatives for merchandising as well as helping and monitoring retailers. Sometimes they outsource this work to a company specialized in this. Behind this lies the following motto: *“Those who are not present personally in the shop can’t sell their products!”* Markets let the shelf service personnel in only in periods that they have already agreed on, and always in different times from their competitors, in order to prevent chaos and quarrels between them. Even bigger publishers have POP controlling teams. The pilot and the driver can handle merchandising tasks as well, in the case of delivery to retail shops.

In the case of merchandising, distribution means: what percentage of the assortment of the products of the company the shop sells how big the customer accessibility is. The percentage of the retailers contract, determines how much he usually stores.

Weighted distribution: they calculate distribution proportional to turnover e.g. by 1999 the weighted distribution of fruit yogurts reached 100%, though this is a luxury item.

O/S (out of shelf), no stocking, degree of services: what percentage of the contracted assortment is missing from the shelves, e.g. is not placed on shelves, but is present in the storage. It happens that retailers do not order products that are missing from the store on time.

It occurred that a fanatic merchandiser pushed the competitors’ products to the back of the shelf, in order to increase shelf-space for the favored product. Another trick is to push the price-tag aside, or take it from beneath rival products. Merchants should pay attention to this! Because it is he himself, or his shop, which is punished by customers even if it was not actually his fault.

Fresh service: the checking of freshness, and the changing of less than fresh, not yet expired products in the shop.

Table 31. Logistics data on MiZo yogurt

Logistics data		
Product name	MiZo strawberry drinking yogurt	MiZo apricot drinking yogurt
Product code	18243	18244
Packaging size, unit	150 ml	150 ml
Taste	strawberry	apricot
Packaging material	plastic glass	plastic glass
Collective packaging	20 db/paper tray	20 db/paper tray
Unit /pallet	2,000 unit/pallet	2,000 unit/pallet
Best before (date of expire)	21 nap	21 nap
Storage temperature	0-5 C	0-5 C
EAN code	59982E+11	59982E+11
Customs tariff number	403105300	403105300

source: Mizo, 2003

18.6. Trade Marketing

This involves introducing products to wholesalers, retail chains and shop owners. In many companies trade marketing belongs under merchandising. It is often a regional meeting (150-200 people) e.g. CBA “ankets”, where manufacturers introduce and show off their products. Product introductions are often made on brand clubs e.g. Kaiser Club, which a regional and permanent meetings between producers, manufacturers and retailers, wholesalers, and small shop owners.

18.7. Customer Types in Retail Trade

There are six basic kinds of customers:

- **Careful customer**, who goes into details, and likes to do comparisons. Likes sales discounts, and informative communicative advertising. Such is “the double-glassed pensioner”. He wants to win a lot, therefore he has to take some risk. For them shopping means precise calculations and stressful decision making situations.
- **Result motivated customer**. Economic, planning, expert. He/she directly goes to the product he or she wishes to buy, then pays. This person does not enjoy shopping, but is ready to spend a lot, if it is

worth it. Examples: a manager, a single mother who takes the child with herself everywhere. This customer is looking for special products.

- **Self entertaining customer**, who seeks enjoyment: walks around in the store, and has lots of spare time. He/she likes impulse, spontaneous shopping, and game-like sales. He/she talks a lot, and participates in everything. He/she uses shopping to build up his/her society life. People who buy at a gas station during a long journey belong to this group also.
- **Dreamer, customer who is looking for miracles**. He/she likes campaigns that promise big prizes, awards, and dreams about winning the top-prize. He or she is brand loyal, and does not try new things.
- **Neutral, opportunist**, who is only interested in basic, fundamental things. He or she shops in the store that is on the way; he/she does not try new things. He/she buys “whatever can be bought”. Usually, he or she finishes shopping very quickly
- **Harmony-seeking customer**: mixture of the previous five kinds.

Daily typical customers’ groups:

- **Morning customers**. People who are hurrying to work, and buy breakfast or lunch. This period is the time of the neighborhood and the small shops nearby. The typical “early bird” who wakes up early in the morning, and stays in top form until noon.
- **Daytime customers**. Housewives, mothers with small children, and pensioners who do the shopping for their families. People who eat out: “food to go”, offices nearby, shops, fancy bakery, salad bars, takeout food
- **First afternoon spike**. In a worker’s region: the afternoon spike is reached between 3-5 p.m.
- **Evening spike**. Businessmen, entrepreneurs, intellectuals: only 20% or fewer customers between 7-9 p.m. than between 3-5 p.m. The typical “night owl” gets up late; he/she works mostly in the afternoon and early in the evening, and goes to bed late. He/she buys more partially cooked products and expensive goods (drinks, chocolate). **Sundays**: opening hour is 9-10 a.m., and ordinary noon buyers come earlier on Sunday.

19. SALES PROMOTION, TRADE PROMOTION, GASTRONOMIC PROMOTION

19.1. Definition and Aim of Sales Promotion

The aim of the normal **in-store sales** promotion is to result in an **immediate sale**. Usually, at least 30% increase in turnover is expected of sales promotion campaigns. They increase the customers' involvement by giving them extra products or discounts. Besides, sales promotions enhance customer loyalty. Consumers always like to receive something extra added to their favorite product, especially at the weekends. According to cynics, someone always has to pay, even for price discounts, and every little bonus ice cream has its price, too. Surveys have shown that, after promotions are over small shops count the needs of customers as the second most important factor in deciding whether they should keep a certain product on their shelves.

Shopkeepers and restaurateurs prefer to get exclusiveness, i.e. a specific promotion appears only in one chain. It greatly helps suppliers if some customers complain when the product is missing.

Experience shows that during economic downturns, manufacturers tend to use marketing tools with a quick return rate. Above the short term increase in turnover, in an optimal case, **beyond boosting spending**, the product can be tested and gain more ground. The basic idea behind sales promotion is a long-established trick of salesmen: involving the customer in the process of selling – this way he/she understands all the benefits the product can provide. The customer can test the product, check it out, and be involved with it, and thus the manufacturer increases the value of the product.

“How can I bring my customers around to the the special things I offer?”

“The definition of market stall-keepers”, Pottebaum–Bullerdiek

Thinking consumers like loyalty campaigns and regular purchase programs the most. They speculate that *“as I provide the seller with information by shopping regularly, I deserve discounts in return.”* Pseudo-loyals or indifferent customers can also be led with sales promotion to better solutions and persuaded to be more constant.

A further objective of sales promotions is to reward only customers who truly deserve it and keep parasitic “cherry pickers” away. Optimally, customers experience it as a gift, “falling in by surprise”, as they go for it voluntarily and with pleasure. The two typical participants in promotion games are the consumer of the product, who purchases more as a consequence of the campaign, and the one who is explicitly searching for campaigns. There is a segment which openly hunts for campaigns. Sales promotion by itself is rarely effective; normally it is part of a complex advertising campaign. It can not stand on its own without an integrated marketing program. Otherwise the whole point, its loyalty characteristic, and the customer benefits are lost.

For example, the average American or Western European owns four or five **shopper loyalty cards**. In reality this reinforces a previous decision and provides the final push; therefore, sales promotion intensifies the impact of other advertising devices. Sales promotion is usually positioned. A certain campaign is not brought to each and every type of retail store. It is also important that sales promotion not be violent. It is too adamant if it bothers the customer who is in a hurry.

19.1.1. Typical errors in promotion systems

Being one-sided: *“I collected one thousand points and what did I get? A little package of coffee!”*

It is not customer friendly: the system is complicated, points are difficult to collect, and the redemption is difficult. A promotion game that lasts for several weeks with many rounds combined with questions demands a high level of activity from the participants. One has to stand in line at the post office or collect points for far too long. Saving bottle caps and receiving cash in the packaging are good solutions. It makes no sense to call a campaign “loyalty” and count on reasonable consumers if the post office box where they send the points is closed down, and the answers that missed the deadline are returned with a “no such address” stamp!

The British company, Asda/Walmart, stopped its card program as early as 1999, as their experience was **that customers prefer lower prices** to collecting points. 76% of those surveyed claimed that the plastic cards actually bear no significance at all. Often, the manufacturer or the supplier is not able to meet the increased demand generated by the campaign, and as a result, retailers force them to pay compensation.

The **mechanism of sales promotion** campaigns describes the functioning of the campaign from the point of view of the participant. To put it simply, what does he/she have to do, and what can he/she gain by it? It is crucial that the promotion be comprehensible and tempting to the target group.

The consumer has to buy 500 grams of product to participate in the game. He/she has to post the barcode from the packaging. You win a prize of one million forint every other month to those sending the barcodes in the right time, and at the end of the promotion the luckiest participant can win 25 million forint.

The EU regulates **promotion activities** in a unified law. Except for selling under production cost, there are no barriers. In a few countries the ban on selling products under purchase price is maintained after 2002 for two years, for example, in France and Italy, they will reconsider eliminating this later. In order to inform the customers there are:

19.1.2. Obligatorily displayed pieces of information, e.g. the prize, its value, the deadline, who can participate and in what geographical area, costs beyond the purchase of the product, whether it is necessary to prove there was a purchase etc. Incomplete, misleading information about the conditions of the game can result in a fine from the Economic Competition Bureau. The important details of the promotion have to be communicated: time interval, exact tasks, and the winnings. It is not an excuse if the customer can only gain information after purchasing the product – that is, after making a consumer decision, such as when information is provided inside the packaging. The promotional strip fixed to the bag is a good solution. It is similarly not an acceptable explanation that the information is obtainable through the Internet, as many people do not have access, and it is unlikely that the customer would delay the purchase in order to check the details beforehand.

19.1.3. Information provided on request, e.g. members of the jury, the method of selecting the winnings, date, and mode of announcing results.

In terms of taxation, the **promotional gift**, the product accessible to everyone publicly and with the same conditions, is a benefit in kind, and is tax free, such as free sight improver glasses for every purchaser of a monitor. The VAT law does not use the concept of advertisement. Thus the rules of discount, sale, product sample, small value gift, or discount in kind should be applied to advertisements depending on their character.

The product, benefit in kind (except for service or stocks) given without compensation, on the basis of a special decision of business policy to individuals in business, professional, administrative or religious contact with the enterprise counts as a **business gift** and is subject to taxation (44% personal income tax and 11% benefits tax). In terms of corporate taxation, the taxable business gift and the tax-exempt benefit in kind are both legitimate expenses that do not increase the tax base. If the discount on goods intended for sale, of which the original destination at the time of purchase was its use in the course of entrepreneurial activity, and its value had been compensated for, (a parasol to protect the ice cream freezer), the VAT is deductible. If it was purchased for the sake of giving as a business gift without expecting anything in return, the VAT is not deductible. The VAT of business gifts valued under five thousand forint is deductible if the product does not fall within the deduction ban (alcoholic drinks, for example).

19.2. Two Classic Periods of Sales Promotion Campaigns

19.2.1. Introduction. Some campaigns provide facilities for the would-be customers to test and experience new things free of charge. Provoking them taste and get acquainted with the product is only effective if it is better than the rest, or the customers are not fully satisfied with the one they are using. Campaigns are likely to be more effective with products the target group is already interested in. Sales promotion is especially useful in the case of seasonal products, before the seasons – ice cream at the beginning of summer – as people await the product and calling their attention to it is very beneficial. Naturally, the impact of campaigns lessens following the season, although a price campaign is different. **Teaching.** Testing of the new product may create new habits in the consumer. The typical example of teaching is the **visual demonstration**.

The shopping cart, for example, was invented by a retail chain in 1936. They found out that many people stopped shopping and went to the cashier when their baskets became too heavy. The first shopping carts did not win much popularity among customers-consumers insisted on their good old baskets. However, the retail chain did not give up. They hired people to push the carts up and down the aisles and pretend they were shopping. Another assistant was positioned at the entrance to greet customers and offer them a shopping cart. Influenced by the demonstration, customers accepted the aid and the solution became widespread.

In a campaign the distinct motives should resemble the complementary traditional advertisement. Testing the new product highlights the advantages of the whole brand family. Consequently, it increases the consumption of products that bear the same brand as the one involved in the campaign (spill-over).

Re-launch of long forgotten habits: there were customers who were led to reinstate their forgotten habit of taking photos by the free film received as a promotion gift.

19.2.2. Overstocked market, where innovations are rare, many products have reached maturity, and there is a great number of people, who are uncertain, thus the goal is to persuade the vacillators. The statement of the marketing director of Aral characterizes this as: *“increase in turnover can not be realized without promotion nowadays!”* Sales promotion on the saturated market is a minimum demand. In the case of draught beers – a mature market – service equipment is a basic demand on manufacturers. Likewise the promotional game boom, when all competitors used this tool and the campaigns neutralized each other. The campaigns ceased to increase consumption, but those who did not mount campaigns fell out of the market.

In the case of Hungarian tabloid newspapers the promotional game boom, Blikk Bingo for example, started at the end of 1995 and faded in 1998. People oriented towards “free” electronic media instead of the written press.

19.3. Timing the Promotion

19.3.1. On trade promotion, instant win

The customer receives the gift while shopping.

In pack surprise put in the package in the factory. Invisible from the outside, e.g. Kinder surprise. Most parents prefer price-discounts and promotional sweepstakes, whereas children find gifts placed inside the pack more attractive.

Unpack prize the gift, placed inside the pack, is visible from the outside. The Coca-Cola Company once placed a bar of Mars chocolate on its duo-packs as a gift. The majority were torn off and eaten in smaller shops. The “loosely” packed bottles were separated and sold individually at full price. The pack of cards wrapped with Nescafé is a good example, as is the mug accompanying two packs of Jacobs instant coffee.

Container: the packaging itself is the gift. Especially when people are buying presents, stress the importance of the decorative box or gift pack – which promotes impulse buying. The use of such containers is aided by refills.

On condition of proved purchase, a product gift can be obtained separately in the shop. For example, a gift may be connected to the barcode. After the cashier reads the barcode, the customer receives a gift. Nowadays, getting the gift at a gift-sorting desk beyond the checkout is more common. The purchase is proved by the receipt.

19.3.2. Off trade promotion, separated gift: the customer has to take further steps after the purchase and has to wait as well – this assumes more trust. In this case it is also possible to ask for the proof, that is, the customer sends the barcode or coupon back. Some examples are: postal premiums (send back the card found inside the packaging, give his/her name, address, occupation, and how/when use the product); Send and Win! type sales promotion, or postal refund of a fraction of the price.

19.4. Classification of prizes

The proper prize **attracts the target group** and **supports the values of the product** as well. It is most effective if the two brands are related in some way. Customers obtain ideas and solutions for their problems from a good campaign. A further advantage is its lower cost: the manufacturer and dealer of the prize do not build extra profits into the price – instead, costs are charged as advertising expenses. Lower prices can be expected especially when the trademark of the prize appears in the advertisement,. However, certain TV channels, newspapers, and exhibitions charge extra money if more products are advertised or put on display in the same ad or on the same stand. It is worth making a contract for long term cooperation, naturally retaining the right to change; and parties should be flexible for the sake of success. In the case of long term relationships, the parties swap leadership of the project from time to time.

The steps of elaborate cooperation:

- **Working** out the principle idea.
- **Creating** joint communication.
- **Harmonizing** operative tasks, expenses, manufacturing, logistics and media relations.
- **Execution.**
- **Monitoring**, assessment.

19.4.1. The valuable and eye-catching prize.

Ten to 15 years ago, it was a TV set-, now it is a car, a trip, a flat. The partner normally offers and/or awards the prize in the framework of a **“barter contract”**. An international advertising agency operating in Turkey carried out a campaign in Azerbaijan in 1996 where contestants who mailed in ten cigarette package tops of a certain brand could win a Jeep. In that country of 7.7 million inhabitants, six million packs of that brand of cigarettes were sold in a month. The **“desert island”** is a prize of high value and prestige but has little practical use for the winner. On the other hand, it carries news value, because if someone wins an island, all the tabloids publicize it. Coca-Cola once had a drawing for a desert island. The luxury residence is similar to this because it is unlikely that the winner will move in; rather he/she will sell it. In a contest sponsored by Kurir, the prize was a helicopter. It is doubtful that the winner used it to commute to work or took up flying as a hobby.

Beware: It should be valuable to the consumer as well. The winner of the **Schöller Manhattan** ice cream contest, a teenager, became the owner of a brand new BMW. She was not impressed when she got it and only asked *“Why isn’t it metallic green?”*, and then the family sold the car. For the consumers of Manhattan ice cream the dream car of a different consumer group is *“un-appreciatable”*. On the large-scale coffee campaign of Douwe Egberts

titled “*You should have your own café!*” there was a coffeehouse worth six million forint at stake, and more than 220,000 people competing for the prize. The winner was a mother of two from Budapest.

The typical participant in lottery-like contests promising expensive prizes is the “**daydreaming consumer**”. People need dreams that make their otherwise dreary life bearable. The most popular among these is gambling, when with a small investment one wants to become extremely rich quickly. The chances are slim, but it is comforting to rave about it. Be careful not to let participants have the impression that this is just a fake lottery! The prize is in the limelight, not the product. That does not lead to loyalty. Also bear in mind that except for the daydreamers many believe that an ordinary person has no chance of winning. Furthermore, cynical observers may draw the conclusion that the company operates at such a high profit that even this is affordable.

19.4.2. Practical and useful prize in connection with the product, so that less fortunate customers will not leave empty-handed. It is a prize which will be frequently used by the consumer and thus reminds him/her of the product. The good practical prize is not just utilizable in everyday life, but other members of the household welcome it as well, e.g. coffee – coffee set, mug; washing machine – detergent; grapefruit – grapefruit spoon; kiwi – kiwi spoon. These are large quantity, lower value prizes accompanied by high chances of winning. It is worthwhile to organize things in a way that only the interested target group which is ready to exert an effort can obtain the prize e.g. those who checked out the catalogue, have been to the store, answered questions.

During the popular point collecting campaign of Coca-Cola in 1997 the most popular prizes were the set of bell shaped glasses and the T-shirt.

19.4.3. Extra product, fill-in. Actually price discount, volume discount, a version of buy one get one off. The loyal, enthusiastic consumer gets a little bit more from the product.

19.4.4. Prize pyramid. There is an attractive main prize which is accompanied by several smaller prizes. This way there is chance for winning and there is a spectacular prize as well.

19.4.5. Philanthropy. Charity connected to purchase. This is the blend of sales promotion and charity; this is also called cause-related marketing. The consumer gives a percentage of the purchase price to charity by buying the product.

For example, **Douwe Egberts** offered the price of one cup of coffee from every package of their Omnia, Karaván and Paloma brands to the Miskolc Ambulance Service. The result was a ten million forint donation.

The charity campaign is mentioned in the company advertisements, too.
Advantages:

- People are more prone to understand the message of an advertisement if they agree with its charity objective.
- The campaign improves the image of the brand, the company and the industry all at once.

According to a GM survey, there is a 75% greater chance that consumers will buy a product if it can be connected to some positive phenomenon. Danone Ltd received a number of complaints that they earned several hundred million forint of profit by offering one-forint coins and transferring a few million to charity.

19.5. Sampling

Free testing by potential consumers operates on the principle of “*you would never believe it if you did not experience it yourself.*” The retailer’s and staff’s interest is fundamental they need to get extra money. A lot of good promotions fail as a consequence of leaving the retailer out in the course of planning. Because of this, the practice of the **self-propelled** campaign was invented, for which there is no need for staff the game structure and the product itself is sufficient enough.

19.5.1. Sampling in the store. Generally, a two- to fourfold increase in turnover can be achieved compared to basic selling without promotion in the given shop. It is very common to use it in order to eliminate the hindering effect of high-priced quality products, since nobody wants to invest in an unknown but expensive product. With sampling the more well-known competitor’s customers can also be won over in the given market. Its disadvantage is the low contact number compared to other communicative means. Sampling does not automatically lead to purchase. Its greatest problem is that the gift should be concentrated on the target group and not given to acquaintances and friends of local staff. The keeping away of less serious samplers can also be troublesome, or else it may turn into “feeding”. “The prize of curiosity” is a good solution: samplers are required to make some type of effort that the less serious customers are unwilling to undertake, e.g. filling in a survey.

In 1996, a **sampling cost** 50-60 thousand forint, and around 20 sampling scenes are needed to have an effect. It is necessary to make sampling in the proximity of the selling facility, as it is rare that people would search extensively for the product after sampling it or perhaps wait until the next day. We should be familiar with the store due to this, know where we may

find free space, sockets etc. The possibility of reaching customers where they purchase the products is getting lower. As we move out from the shopping arena the place available for promotion is getting bigger and cheaper. Qualified personnel are needed for carrying out sampling. It is a practice to train and regularly check assistants during the campaign. Almost all store chains strictly regulate cooking and frying in the shopping arena due to unpleasant smells, and the risk of accident. Some firms install whole sets of mobile show kitchens if possible.

Deep fryers, microwave ovens, food bars in or outside the store, or thermo-protective boxes can be utilized. Durable implements are usually provided by the supplier. It is advisory to ask an expert to assess the pieces of equipment: on size, transferability, fragility, whether it can be cleaned properly etc. Normally, the promotional product originates from the stock of the store, although, in some cases it is justifiable to have it arrive with a separate delivery note. The organizer has to indicate the extra amount that the store should order, so that in case of a successful promotion the store will not offer the customers a “**sampling of empty shelves.**” It is also fruitful if shelves are continuously stocked during the sampling. In case of products not extremely separated, the competitor also enjoys the benefits of sampling, e.g. Univer and Glóbus dressing, Vitagóra and Eisberg salad mixes.

Numerous store chains have entered into exclusive contracts with professional firms for the execution of promotions and samplings in order to ensure standardization and proper organization. In order to harmonize campaigns and for the sake of unified permission, Tesco-Global Co made the Hazay-Decker Inter-service Hostess Agency its exclusive partner.

19.5.2. Tie-in promotion. Its goal: cutting the costs of sampling and the focusing of advantages on potential purchasers.

The campaign of an Austrian company is an excellent example of this. They added a sample bottle of spirits to a branded cognac at the price of the larger set “*the customer had to pay for the larger one and only potential consumers got the sample this way*”. In 1997, Tesco of England filtered out wine lovers from regular customers with the help of its Club Card system, and they received, as a gift, a bottle of Hungarian wine that had just been freshly introduced to the English market. It is a smart idea to **cross-sample**, when two firms work jointly. Motto: “*If you buy baby food, you probably have a baby*”. In the case of gifts packed together, the well known product, or one of a similar target group, the **dragger-product**, is accompanied by the sample, thus making consumers of complementary products happy, as with sausages accompanied by mustard, salad mix with dressing, cereals with juice, and cognac with a cigar. Occasionally, there are extra services such as guarantee programs are provided. Nowadays, it is also getting customary to provide guarantee for consumer goods, as the servicing, exchange or money-pay-back is difficult to manage. For example: Blend-a-Med is a consumer item. The guarantee program is based on the joint campaign of dentists and Procter and Gamble. Participants take part in a preliminary dental treatment. Subsequently, participants have to brush their teeth at least twice a day with Blend-a-Med toothpaste according to the method prescribed by the dentist; then they also have to eat

properly. The firm agreed to pay for the toothpaste if any dental examinations revealed new cavities. The guarantee program is aided by leaflets distributed country-wide, plus a free hotline.

19.5.3. Other, not tie-in promotion. The goal is to raise the attention of potential customers:

- **Professional sampling**, when professional representatives hand it out. The list of addresses is mostly compiled on the basis of previous purchases, or client histories.
- **Direct mail promotion** – mail, courier service etc.
- **Lobby promotion**: free sampling opportunity is offered in cinemas, theatres, festivals, office halls, or waiting-rooms; based on the type of interest expected of the location, the customer audience can be well targeted.
- **Insertion in magazines**, gluing in, binding in. The sample can be targeted according to the magazine's popularity records.
- **For inquiring**, interested candidates: the target group that proves its serious need by activity.
- **Prize on condition of executing** a task, such as answering questions. Such questions are generally easy; the prize is rather a gift (name four theaters in Budapest – win two tickets!). The first person to phone in with the right answer gets the tickets; this is why it is a prize and not exactly a major winning. The point is the enthusiasm for the product, the radio station, and the theatre. The winner listens to the radio, has some knowledge, checked a few facts, and is an enthusiast.

In-store makeup counseling or product show is organized by cosmetics companies. The **complex sampling** (lengthy written explanation, tester stand) and product show aided by personal counseling carried out at a carefully selected location e.g. Frankfurt airport is the efficient advertisement. The Dove SPA double-decker is following a German example of transforming a London bus in which cosmetics counseling, massage, and relaxation await women in the proximity of busy shopping scenarios. *“Primarily, it calls women's attention to the fact that beauty treatment and caring for our body help us in establishing an inner harmony”*. It is expected that an estimated 300,000 clients come into close contact with Dove products this way.

Service without ordering. There were such business solutions in Hungary as well, when some commercial organization sent products or performed services

for clients without the clients' request, but eventually, the client had to pay for the "gift". In these cases the association can not demand any compensation, even if the customer has accepted the product or service.

Another type of product sampling is the **monster promotion** or "**road-show**". In this context a whole program package arrives in a country. There are always gifts and samples attached. It is characteristic that consumers even go to locations where they would certainly not go every day, just for the promotion. Grey promotion is when a company popularizes itself without proper contracts, e.g. distributing products at a festival. Advantage-seekers are typical participants of promotional trips combined with product exhibitions.

The German "cafe fahr" is the tool of political propaganda, when people, after attending presentations accompanied by travel as well as a meal and coffee, are made to sign prepared political protest letters.

19.6. Discount Campaign, Low Price Promotion and Programs

The turnover of the product is increased without increasing its value. It is an ideal device in case of mass categories where consumers are highly price-sensitive. It is crucial that only those should gain advantages that deserve it! It is a traditionally mass discount. The aim of the promoter is that all of those customers who take the campaign seriously shall automatically get the discount and not just people with time on their hands, young mothers on maternity leave and pensioners should collect them. For hundreds of years there has been a practice of giving a prize or gift to all customers who exceed a certain sum in their purchase. Customer service, dealing with consumer and retailer questions, is important. In the case of expensive luxury items the discount campaign has a prestige lowering effect. In this context other sales promotion methods can be employed. **Upgrade** is a widespread type of premium in the hotel trade meaning that the regular guest who has a special card will always get the highest possible level of service no matter what he/she has booked.

19.6.1. Buy-One-Get-One-Free (bogof) type of bonus. Usually, the producer and the retailer finance the discount to a different proportion. In Hungary, the most frequent is to get four units for the price of three. **Cross discount**: tomatoes at a reduced price if one purchases a bag of lettuce.

19.6.2. Coupon collecting campaign. The coupon is a ticket with limited exchangeability that can be, either by itself or accompanied by others, interchanged for a product, gift or can be used for reduced price purchase. The

target group can acquire the coupon either in the store or out, as in cutting it out of magazines. Hungarian accounting regulations, unlike Polish ones, consider coupons as supplements for money, not discount vouchers. There are clearing centers inside stores which are run by separate firms, e.g. Sogec, where coupons used in the store are collected and processed at the commission of the manufacturer, and then the appropriate sum is transferred to the store within five days. It is important to **protect coupons from counterfeiting and forgery**, so as not to let others gather illegitimate profit (color copy and duplication). At one occasion the whole stock of samples, planned to last three days, was carried away on the first day of a product presentation for which the coupon was released in a women's magazine.

Table 32. Motivational factors of using coupons

1. Price reduction	+ ↘
2. Self-respect: wise and economical customer	+ ↘
3. Social impact: exchange with relatives, neighbors, who expect the usage of coupons	+ → Use of coupons
4. Institutional limitations: not universally accepted	- ↗
5. Time and effort: interchange and collecting	- ↗

Source: Tat-Bejou, 1994

300 billion coupons are released each year in the U.S., of which 2-3% are actually validated. Copies of banknotes can only be used for promotional and communicative purposes with the permission of the national bank. The national bank does not allow the creation of copies that can be mistaken for the real banknotes.

19.6.2.1. Instant discount, also known as instantly redeemable coupon, does not urge the customer to spend his/her savings inside the firm or system, or return there. It is like the sale providing an instant discount when people take advantage of the lowered price right in the store. In developed countries the barcode coupon is gaining ground. The reason for this is that many coupons are not exchanged.

19.6.2.2. Coupon stimulating further purchase. The simplest variant of this is the coupon received during shopping which the customer can exchange for something off the price the next time. This is the favorite method of the catering

industry to foster guest loyalty. Exchange locations are expensive, due to the costs involved: renting the place, hiring employees etc.

19.6.2.3. Direct mail coupon: is an off-store coupon campaign. Coupons are mailed according to demographic considerations or club card ownership. The large envelope which contains not just sheets of paper but other objects as well, counts as a small package, for which the post office charges more.

19.6.2.4. Coupon exchangeable for a prize inside magazines, the free standing insert. The coupon is interchangeable in contracted shops, firms, and exhibition stands. A sample not demanded generates no turnover. It is a better solution if the potential customer reads the advertisement, familiarizes himself/herself with the arguments, and thus practically the customer is the one to demand the sample. Not only do we learn who is interested in the product, but also we stimulate people to act. The message of the advertisement is more likely to be forgotten without the coupon. The sample is either mailed based on the coupon, or one may acquire it in the given store. Recent experience shows that this attracts four times as many customers. Naming the stores on the coupons is a great advantage for them naturally the employees should know about the campaign as well.

19.6.3. Point collecting.

Bonus points received during shopping are interchangeable for discount or a prize. Coupons stimulating further purchase evolved from variations that reward loyalty where one has to buy on several occasions and collect several coupons in order to get a prize. Points can be exchanged for valuable products: sports equipment, jewelry, air travel etc. in contracted stores and businesses.

During the 1997 **Coca-Cola point collecting campaign**, 39 exchange spots were established and every other Hungarian family redeemed a prize. A loyalty booklet is crucial, because many customers lose or forget about the coupons. The idea originates from the "green point" loyalty campaign of the American Sperry and Hutchinson Company, which was practically a popular movement in the 1970's. The customer receives ten points for every dollar spent in stores contracted with the company. Points are handed out at the checkout in the form of small green stamps which are pasted into a green point booklet, or loyalty booklet. A portable CD player, for instance, costs 37,200 green points.

Loyalty card. It serves the regular customers with % discounts, or the system automatically accumulates purchases, gained benefits and points which can be used for shopping another time. A valuable database can be assembled from the shopping information, e.g. extended registration system of hotel chains.

In the case of simple customer **identification cards** it is the system whereas in the case of **smart cards** it is the card itself that collects transactional data,

benefits and points. Shared cards go to family members or household members so that there is no need to swap the card all the time. Active participants use the cards regularly, for example at SuperShop, 60-65% of shoppers used the card in 2002. **Multibranch** cards combine several companies, stimulating cross-purchase and bonus points are added, e.g. Smart card – Shell and McDonald's. Three-quarters of Shell's 2002 sales were transacted with the help of a Smart card; SuperShop – Skála Centrum, Plusz, K&H Bank, ÖMV, OBI, Hungarian Book Club, Fuji Film, and – with more than 750,000 registered members; Multipont – OTP, MOL, Matáv with 50,000 registered members. This is not to be mistaken for the MOL card with 400 thousand members. In certain company systems partner bonus points can be obtained, e.g. after flying with a given airline one receives Hilton Honors points that are valid for discounts in hotel services. Two firms give separate points for this service both in their own systems (Double Dipping).

The basic case of point **collecting campaigns**: the frequent flier program is very effective in making passengers loyal, but from the point of view of the airlines there are two significant drawbacks: firstly, it is getting more expensive to maintain them and register the bonus points originating from different sources, secondly, too many points and miles have accumulated on the accounts of the passengers. According to the facts provided by a Belgian airline the whole air traffic sector would be brought to its knees if members of the regular passenger programs all exchanged their \$765 billion bonuses for free air tickets (based on MTI news, 2004.) A specialized form of loyalty cards is the tourist card, the Budapest Card being one example. The goal of the benefits clustered together is to make visitors see as many tourist sights as possible.

19.6.4. Shopping coupon promising savings. The Centrum Áruház Co.'s "Growing Shopping Voucher" could be purchased in advance and increased by 3% monthly, thus providing a discount of 36% by the end of the year. It is as if people shopped by paying in advance – in other words, as if customers lent money to the company.

Shopping vouchers can be bought and sold at many locations, moreover their off-stock exchange securities trade has appeared in Hong Kong. Their current price always expresses the level of trust in the issuer and even has an effect on the value of its stock shares.

19.7. Sweepstakes, Promotion Games, Prize Lottery

These kinds of prizes are **not guaranteed** at every purchase, only winners receive them. No matter how enthusiastic the participant is, he/she may not win any gift at all. The campaign counts on the activeness of the target group. The

customer service is an important component of such games, because that is where consumers and retailers can make their enquires. The Lottery Law (1991/XXXIV) and its executive act by the Minister of Finance (25/1991/X.16) regulates games of chance. In specific cases the **Gambling and Betting Inspector's Office** (DBI) can be consulted. Every step has to be verified by a notary. It is a basic principle that employees of the companies involved in the campaign can not participate in the game. The participants form a valuable targeted database.

Gambling: the purchaser of the stake can exclusively or in the majority of cases, acquire the prize by chance. A lottery can be organized only with the exclusive permission of DBI and by state owned conglomerates, or at least the majority of shares should be state owned. In the case of prize lotteries the stake, the sum spent on the game, is insignificant compared to the prize. The purchase of a product at a reasonable price, the price of the stamp, or the base fee of an SMS do not count as stakes, however the higher priced SMS does. The prize lottery has to be reported to the DBI at least ten days before the launch of the campaign. On the other hand, anyone can organize a campaign which is not based on prize drawings and raffle tickets. It is worth asking for the position of the DBI if a company or agency has not organized campaigns before or is planning to launch a campaign different from the previous ones. The position of the DBI is communicated in 30 days.

19.7.1. "Collect and send in" style contest, which can be organized routinely nowadays. The desire to purchase is enhanced by the prize. The customer only needs to buy the product and mail in the raffle ticket, and then a few winners are drawn. Examples of this are raffles and drawings, prize lotteries, collecting, and customer contests. The "send in contests" require work and sometimes even extra effort from the consumer, thus only those campaigns can assume success which have straightforward and easily accomplished schemes for high turnover products—e.g. 301,000 customers collected and sent in the family members in Danone's Mézga family campaign.

19.7.2. Sweepstake combined with questionnaire. Normally, it is a sweepstake accompanied by a questionnaire on the advantages of the product, on the packaging and the advertisements. Those who do not exert an effort answer the questions, or do the check-up fail to receive the gift. This way the company makes sure that the winner is not just one of their own customers, but has also checked up on the product (for this reason the product or advertisement that the questions are about is usually given as a hint). In spite of this – as experience

shows – a great number of people want to win, but very few take the pains of checking up or watching the given program. It is like a crossword puzzle or a riddle: it offers the consumer the pleasure of playing and the excitement of search. The real gamer participates not merely for the sake of the game itself, the excitement, and the chance to test his/her capabilities. Anyway, stress and excitement are necessary, and life does not provide enough stress and excitement for many people. Extreme sports, hobbies, and aggressive behavior, are all substitutes for this void.

Szonda Ipsos carried out a market research study in the context of participation in sales promotion contests in 2003. They found that there is a regular audience for such campaigns fundamentally from the lower middle classes whose status is C-2-3 or D. In general, people participate in promotional contests as follows: 6% frequently, 26% rarely, 68% hardly ever.

TV and radio contests are not solely for the winner. There is a motto regarding this: *“There are more guessers than participants!”* There are a lot of viewers and listeners who all are delighted by having solved the task successfully. It often happens in the company of the family or others that the question posed on TV is quickly answered by someone who then complacently looks around to gather the appreciation of family members or friends. That is why games with only two opposing yes-no solutions are useful, as there is 50% chance of getting the answer right.

It is crucial that the *execution* of the task, not necessarily the task itself, be easy. We can not anticipate that masses of people will take part in a *“collect for months, check it off, give the answers, glue in, address it, mail it and if you are lucky enough you might win!”* type of contest.

19.7.3. Contests without a drawing. The prize is placed inside the packaging and is invisible from the outside, but not all customers win. It can be money. Bakers used to do exactly this in the early years of the century, when they baked coins inside the loaves.

The **Borsodi Brewery placed one**, five and ten thousand forint banknotes and also hundred thousand and one million forint warrants packed in special rubber cradles inside beer cans in a way that they popped out when the can was opened. The “talking” beer cans of Soproni Ászok told the customer after opening the can that he/she was a winner and what the prize was. The talking module turned on as light entered the can after opening.

An old example is the **“key in the washing powder”** campaign when a car key was hidden inside the box of detergent. One prankster employee started throwing Wertheim lock keys into the boxes. The winners appeared, although the campaign had not been started by the firm yet.

19.8. Trade Promotion

19.8.1. Sales promotion motivating traders. Trade promotion bridges the gap between marketing and selling. The space on the shelves in the exhibition hall is scanty as well. Trade promotion materials, free samples, and accessories are almost compulsory services nowadays. It is expected of the manufacturer that they support contact days, press conferences of the trade and exhibition participation, and moreover, to send an expert.

Hajdútej (Hajdú-milk) Club: the distributor retailers receive points based on the turnover. If one has a few points, they can be exchanged for prizes; but those who keep on collecting may win a major prize of a half million forint. Pepsi's VIP Club Coke Dollar campaign is similar. The retailer received one "dollar" after every bin of beverage sold and could use these dollars to buy different prizes e.g. TV set, radio, watch. This was only available for smaller shops. For the larger chains a different type of trade promotion was arranged by which they could receive 10% off of the list price.

Fly Free with Field Fresh Tomatoes. The Californian Tomato Producers gave one mile of free travel for every crate of fresh California tomatoes sold in the catering sector to wholesalers participating in the campaign in the framework of American Airlines' frequent flier program. A further 25,000 miles of extra bonus is granted to a specific employee of the given mediatory firm after every 50,000 crates sold.

Trade relation is ruled by the **trader-supplier contact** which fundamentally means price disputes, campaigns, information exchange, logistic timing and to a lesser extent trade promotion. However, beyond free cartons, retailers nowadays start to appreciate the importance of programs. The contracted participants of the **"Mexican grape program"** receive the following:

- **Product information:** availability charts, provision of health and nutrition facts materials, type and product descriptions, storing-transporting- shelving advice and price data.
- **Merchandising aid.** In the framework of the program supporting Mexican grapes in the U.S. two shop visitors check participating shops well before the first shipment. Shop visitors conclude their experiences in regular reports for the participants of the program.
- **Advertising incentives.** The whole program is financed by the one cent paid after every crate.

19.8.2. Strengthening trade employee motivation for the benefit of consumer campaigns. **Retailer staff promotion.** In the catering sector the guest asks simply for a mineral water and frequently it is the waiter who decides. In

Western Europe firms involve waiters so that it is in their interest as well to select the firm's product in such cases. Here are some solutions:

Mystery shopping the firm's advocate visits the shops and rewards good behavior. In Austria, the mystery shopper gave checks of 500 shillings to those petrol station employees of Agip who try to sell him motor oil as well, following the previously learned behavior model. The markup of petrol is little but the motor oil's markup is high in Austria (Andrea Feichtinger-Tassul, 1996). Supervising is done by a crew of test shoppers monitoring quality. This could be assessed in terms of the amount of work executed, for example the amount of product sold, or after the value of the interchanged coupons.

19.9. Food Service, HoReCa Promotion

The target group is the **catering sector**, the "on the spot consumption", in contrast to the takeaway "future consumption". It is characterized by the fact that the place of purchase and the place of consumption are the same. Potential customers can be reached in the act of consumption. In these places people are casual and have more time, and few of them refuse promotion campaigns. Fashionable health clubs are also frequent target groups: training halls, sports facilities, canteens, and entertainment complexes. It is a basic requirement that customers already come in contact with the details of the campaign at the entrance. The one who ordered the product is involved to a large extent in the organization of the campaign as well. They establish mechanisms that comprise separate elements thus those that do not fit the given location can be neglected. Keeping contact with units forming a chain is simpler. Its components:

19.9.1. Enlisting, for making sure that the product is there! In restaurants, amusement parks, hotels, and hotel chains, the product has to be listed; it has to appear on the menu, similar to the case of retailing. It is the chef who decides about the menu in restaurants. Many of them are very reserved and lock themselves up in the kitchen, thus we can only enter the menu with the help of a special campaign. **Brands-on-menus**: makes it easier for the product to be selected and the brand can spread better if it appears on the restaurants' menus.

Table 33. The most widespread brands on menus in the U.S. in 2002

Restaurants belonging to a chain (5545 restaurants)		Independent restaurants (30137 restaurants)	
1.	Authentic Angus beef	1.	Authentic Angus beef
2.	Sea food from Alaska	2.	Sea food from Alaska
3.	Oreo	3.	Amaretto
4.	Idaho Potato	4.	Kahlua
5.	Wisconsin Cheese	5.	Idaho Potato
6.	Amaretto	6.	Wisconsin Cheese
7.	Jack Daniels	7.	Oreo
8.	Kahlua	8.	Jack Daniels
9.	Nestle	9.	Nestle
10.	Bailey's	10.	Bailey's

Source: Dataessential Research, 2002

A special packaging unit is developed for the catering industry. The alcohol content of the 0.33 liters of beer is not enough to have an effect during an important discussion or meeting, however, it is sufficient for the beer lover to ease his/her craving.

Enlisting can be enhanced. The Californian Strawberry Committee released a special poster for restaurants which explains the temperature at which the product should be stored, how it should be washed, how the frozen strawberries should be defrosted, and which are the seasons of fresh supply. The committee supports the spread of the gastronomic plastic trays weighing 2.3 kilograms. This protects the product better, enables longer storage, and is a better protection against dirt than the traditional uncovered wooden or plastic crate.

19.9.2. Visibility, service, so that customers can take notice of it, it should catch the eye (merchandising)! **Indoor solutions** connect to the direct servicing of the drink, to the “basic implements”: beer tap, glasses, ash-trays, mats, napkins, platters, table cards, and “accessories”: lighting boxes, menu folders, and illuminated posters. The trademarked beer-mats in England have a joke printed on the back.

Neon lights advertising the trademark are spreading in bars. Indoor neon advertisements that are within reach are covered with transparent fiberglass in order to prevent electric shock. Manufacturers and distributors provide gastronomic advertisement aids on a contractual basis, in proportion with the turnover, in catalogue system, e.g. Top 10 Budapest bars.

Outdoor implements are parasols and awnings. The keeping of fire-protection and work security regulations, beyond their weather durability, is fundamental. Franchise selling is frequent. The facilities supporting a trademark: cafés, beer stands, selling corners, kiosks installed as variable components at festivals, busy locations all increase the number of selling spots. In the course of designing, the usage of the compulsory components of the trademark is adjusted to the atmosphere of the given place.

19.9.3. Other food service promotions.

Mediator promotion, e.g. display contests in restaurants for caterers. **Consumer promotions.** The company's sampling campaign and popularization in amusement parks e.g. Tequila parties. This was the starter of such promotions in Hungary in 1996. Zwack Unicum sampled prunes immersed in Unicum in bars. Jägermeister, Unicum's competitor, had hostesses dressed in orange called the "Jägeretts". Manufacturer participation in the caterer's own promotion: unlimited consumption (self-service buffet), childrens' offers, delivery, member or regular guest cards with different levels and allowances, Happy Hours, or free doggy-bags. Caterers are grateful for the assistance of the suppliers.

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