

Viability of primark's strategy in current recession in the united kingdom



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2. LITERATURE REVIEW

2.1 Introduction

Literature reviews are considered as an essential part of the research to understand the theory related to research problem and find out the specific research gap. The research aim is to identify viability of Primark's strategy in current recession in the United Kingdom. In order to fulfil the purpose of the research topic, some selected reviews of the literature have been presented here. This chapter begins by depicting the literature on factors of consumer behaviour, effects of recession and its influence in marketing, recession and economy of Great Britain. After that it follows the concept of marketing strategy and general marketing strategy during recession. At the end of this chapter, it concludes with a summary of the key points made through the literature.

2.2 Consumer behaviour

According to Lancaster et al (2002) the main objective of marketing is to understand and identify the needs of the consumer and satisfy the customer accordingly. For which marketer need to understand what influences these needs and how the customer satisfy their needs. It is necessary for marketer to understand the buying behaviour of the existing and the potential customer. The consumer buying behaviour consists of the products and services consumer used to buy for their personal and household use. There are two types of influences that influence customers to buy products or services. It influence customers memory subconsciously or consciously to take the decision for buying. These influences are environmental and individual. The environmental influences are external effects to the

customer's purchasing decision. Individual influences are personal to the consumer which also affects the purchasing decision.

According to Kotler and Armstrong (2010) the central question of marketer is how consumers respond to different kind of marketing efforts by different companies. For the marketer it is important to understand the buyer behaviour. The buyer behaviour is the final consumer that they buy goods and services for the personal consumption. But it is not a simple task to understand this behaviour. The stimulus-response model is a model to give an idea of consumer buyer behaviour. The diagram of stimulus-response model is given below.

This model consists of marketing stimuli and other stimuli. Marketing stimuli are the four P's of marketing. They are product, price, promotion and place. The other stimuli are the major forces and events of the environment around the buyer. These are economical, technological, political and cultural. These stimuli go through the buyer 'black box' which afterwards creates the buyer responds accordingly. In the buyer 'black box' first buyer characteristics influences by different stimuli and then decision making process works according to the buyer behaviour. Buyer takes decision by choosing products, brands, retail, dealer, purchasing amount or frequency of purchase. The buyer characteristics are strongly influenced by different factors which are not under the control of the marketer. Marketer needs to take these factors under consideration. These factors are cultural, social, personal and psychological. The diagram of the factor influences buyer behaviour is given below.

Cultural factors had a broad and deep influence on the behaviour of consumer. It is essential to know and understand the culture of buyer, subculture and social class. Culture is the main reason for an individual's wants and behaviour. Buyer culture is learned by a member of society from family and other important institution. These are the set of basic values, perceptions wants and behaviour. Again, each culture has smaller subculture or group of people. They shared same valued system. It is based on common life experiences and situations. Mainly subcultures include nationalities, religions, racial groups and the geographic regions. For example subculture group in USA are Hispanic, African American and Asian American. Besides, in every society there are some similar class who has same types of needs, interest, values and behaviour. In a word there must be an order of different classes in the society. The similar class responds similarly to a product in the society. Marketer needs to understand the different class in the society. Social class can be divided like: upper class, middle class, working class and lower class. These classes are divided in the society according to the income, occupation, education and wealth of people in the society.

However, social factors also influenced the consumer purchase decision.

These factors

are small groups, opinion leader, family and social roles and status which influence the behaviour of the buyer. Person's behaviour is influenced by many small groups. This group can be two or more people interact together.

Reference group has a direct impact on person's behaviour and attitude.

People sometimes influenced by the reference group which they do not

belong to. This group will be aspirational group. People wishes belong to <https://assignbuster.com/viability-of-primarks-strategy-in-current-recession-in-the-united-kingdom/>

different aspirational group. Sometimes people are influenced by the opinion leader. An opinion leader is a person in a reference group who has special skills, knowledge and personality. By which they can influence others in the society. Family member also has strong influence on the behaviour of the buyer. Marketer needs to understand the role of husband, wife and children on the purchase decision of different products, goods and services. Person's position in a family, class and organization is known as role and status of that person. People choose products and service according to the roles and status. Marketer needs to know all of these which influence the buyer behaviour of the consumer.

Furthermore, physiological factors influence the buyer choices. These are four major factors. Such as: motivation, perception, learning and beliefs & attitudes. Motivation is a kind of drive that is directing the person to find satisfaction of the need. A person tries to satisfy the most important need at the first. Again, a person already motivated is ready to act accordingly. Perception is the process through which people interpret, select and organize information in a meaningful way. People learn from the experience. When people learn it changes their behaviour. As for example people buy Nikon camera. If the experience is rewarding people will buy this camera again and again. Through the learning and experience people acquires belief and attitudes. Belief is a thought a person holds about something. Again, people have different attitude towards different religion, cloths, foods, politics, music and all most for everything. Attitude is a favourable or unfavourable evaluation or feelings towards different object or idea. Buyer behaviour are also influenced by these psychological factors.

Finally, personal factors influence buyer decision as well. These factors are age & lifecycle stage, occupation, lifestyle & personality, self-concept and economic situation. People always change the consumption of products and services and buyer behaviour throughout the lifecycle. Normally, the lifecycle stages include young singles, married couples with children and old singles. Now-a-days marketer are catering for some non-traditional growing consumers like unmarried couple, single marrying later in the age, same sex couple, single parents and extended parents. Besides, person's occupation affects the buying decision. The products bought by the blue collar will be different than that of white collar people in the society. Marketer needs to identify different occupational group for their product in the society.

Moreover, consumer buying behaviour depends on the individual's life style. Lifestyle is a pattern of living which is expressed by individual activities, interest and opinions. Besides, each person personality influences his or her buying decision. Personality is the individual's unique psychological characteristics. This can be described as self-confidence, dominance, sociability, adaptability, aggressiveness etc. Brand choice depends on these different human traits. Another factor is the economic situation which affects the individual buying behaviour. Product choice depends on a person's economic situation. Sometimes marketers target consumers who have lots of money and resources. For which they charge prices to match with them. And sometimes marketer target consumers in a more modest way. So, consumer's personal income, savings and interest rates all of these need to take account by marketers in case of income sensitive goods. They need to watch the trends in the economic situation of the consumer. If there is an indication of downturn in the economy or point to a recession marketer need <https://assignbuster.com/viability-of-primarks-strategy-in-current-recession-in-the-united-kingdom/>

to take necessary steps. They need to redesign, reposition and re-price their products closely.

According to Needham et al (2003) economic environment consists of those that influence consumer buying power, buying decision and marketing strategies. It includes stages of business cycle, inflation, unemployment rates, resource availability and changes in disposal income. There are different stages in business cycle. Recession is one of them. Consumer buying power declines during recession. It may remain in the depressed level when economy enters the recovery period. In the last recession during 1990 in EU consumer buying pattern shifted to more basic products and more functional products cost lower price. Consumer stops spending on nonessential products and rejecting the decision on buying luxurious items like cars. In the recession consumer are on more likely to save rather than spending and buying on credit. In the recession power shifted from the producer to buyer. Unemployment rises during recession. It affects marketing by modifying consumer behaviour. As a result consumer will have less income to spend and buying behaviour is likely to be affected.

A brief overview of recession and effects in economy which influence the consumer purchase decision are depicted below.

2. 3 Recession

According to Stock Market Investors (2008) “ Economic recession is defined as a significant decline in the economic activity across a country, lasting longer than a few months. Normally, the recession is visible in real GDP

growth, industrial production, wholesale-retail trade, real personal income and employment.”

According to tutor2u. net (2009) there are different trends in economy. These trends can be categorized as slump, recession, recovery, and boom. Boom is a period of fastest economic growth due to increase in demand. Slump is a stage when output slows down in economy due to decreasing in demand. As a result confidence in the economy starts to suffer. Recession is a period when the level of output decrease actually and unemployment rises, business loses their confidence and consumer start to save rather than spending. Government will spend more money for unemployment benefit and will get less money from income tax and vat. And recovery is a period when the economy goes through recession and boom.

2. 3. 1 Effects of recession and its influence on marketing

According to Shama (1993) recession creates decreasing demand of raw materials, products, and services. Different researchers and federal agencies technical operational measurement indicates the beginning, progress, and ending period of recession. If for the two consecutive quarters gross national product (GNP) declines it is called as recession in USA. Otherwise, if the leading indicators (LEIs) in the economy decline for three straight months then it also figure out as recession. During the recession marketing strategy need to be modified. In order to be profitable and consumer-responsive it needs to be aware of effects in the recession and necessary steps should be taken. In general terms it means to adapt the marketing mix and/or the target markets needs to be changed.

According to Stock Market Investors (2008) there are different cycles in the economy. Recession is one of them. During the recession unemployment rises, prices of products start to increase and the living standard goes down. For which businesses stop in expanding. So, it can be said that recession started. There is another indicator of recession. It is decreasing the gross national product (GDP) of a nation. Many experts consider the negative GDP growth over two consecutive quarters in a as recession in the economy. However, even there was positive growth if it is slowing for several quarters recession seems to start.

According to Dibb et al (1994) in the time of recession unemployment problem rises and buying power of the consumer declines. As a result many consumers become more price and value conscious because of decreasing of buying power. The products that are basic and functional customer tend to go for those products. People normally try to reduce the consumption of more expensive convenience foods. They try to save money by growing and preparing of their own food. They will buy fewer durable goods. And people will try to go for more repair and do-it-yourself products. In the time of recession some companies made mistake by reducing their marketing efforts. But it damages their ability to survive in this situation of the economy. Obviously, marketer needs to conduct some revision of their marketing activities during the recessionary period. In the economic downturn functional value of the products is the main concern of consumers. So, company must need to focus marketing research. This research will help to determine precisely about buyers want on the functions of different product. After that it needs to make sure that these functions become part of

the products. In the recession promotional efforts on different products should emphasise on the value and utility of it.

Russ and Kirkpatric (1982) called business cycles as the fluctuations in the level of economic activity. It will cause changes in the price level which will cause inflation or deflation in the economy. But business cycles in the economy are more typically thought of in terms of production and employment. The bad time in the business cycle is the recessions or depressions with low production and employment. It is the bottom of business cycles. When there are upswings with the high production and employment it is termed as reflect of good times in the economy. The common measurement of business cycle is Gross National Products. By GNP it indicates of a country where it is in the business cycle. Total value of goods and services that are produced in a country is known as GNP. Business cycles also measured by the unemployment figure. It is difficult to understand the causes of business cycle. It is also difficult to predict their turning point of business cycle as well. But, it is important for the marketer to forecast the turning points in the business cycle. The sales of product rise and fall with fluctuations in the economy. So, marketer should be able to forecast on the business cycle.

However, recession can cause inflation. Inflation is an increase in general price level. The introduction of inflation can be measured by the consumers when they feel pressure on their pocket books while shop for their goods and services. Indexes are used by the government to measure changes in price level. It can be done by using producer price index and the consumer price index. It reflects the market basket's percentage of changes in price of <https://assignbuster.com/viability-of-primarks-strategy-in-current-recession-in-the-united-kingdom/>

goods. According to the proportion of spending habits of consumer, market basket weight goods. If the individuals are spending for goods different from national market basket then they face more or less service price than average. Marketers are affected by inflation. It depends on direction amount and cause of price level changes. In general, consumer's amounts of money are affected by inflation on normally what they have to spend and type of product they purchase.

So, from the above literature about recession it is seen that this is a part of cycle in the economy. It can come in the economy which can be identified by figuring out some specific points in the economy. The main point is that there will be a decreasing trend in gross national product of a country. By which it is understandable that the economy is in recession. And if the recession or depression identified the people will stop spending. They will cut the extra price and because of unemployment and the decreasing value of money. They will become more price conscious. It needs to be accepted. For which they need to adopt strategy so that they can become loyal to the customer to conduct business in recession and survive for the existence.

2. 3. 2 Recession and UK economy

According to Euromonitor International (2009), UK entered in recession in late 2008. It was seen from the financial concerns of the previous year that the economy went to downwards. As a result UK consumers began to stop spending. The devaluing of the housing made the year 2008 as a challenging year for the retail environment. People become scared over job security because of the regular media reports on job losses. As a result a number of

retailers entered to administration. It is not only in terms of consumer's restricted disposable income but also for the rising in debts.

According to BBC (2009) since 1991 official government figures have confirmed that UK is in recession for the first time. The widely accepted of the recession is, there will be a negative growth in the economy in two consecutive quarters in a year. In the last three months of 2008 UK gross domestic product (GDP) fell by 1.5%. Before that it dropped as 0.6% than this quarter. So, it means that the definition has been proved. Since 1980 it was the biggest quarter-on-quarter decline. This fall was 1.8% on same quarter a year ago. It was the lowest value of pound sterling in last 24-year against the dollar. It was one pound buying 1.355 dollar. The figure of Office for National Statistics (ONS) showed that largest contribution to the slowdown was made by manufacturing. Every element of economy shrank from the previous three months except of agriculture. Unemployment is rising faster than anywhere else. Besides, businesses were closing every day which is deeply worrying. The unemployment problem is increasing rapidly. Now, about 1.92 million people are out of work. The housing market is depressed and retail sales are in weak condition. The retail figure of December 2008 was raised by 1.6%. It was better than expected. But was done by heavy price-discounting and which should be treated with caution. Since 1955 on an average the recession lasted for three quarters in UK. But the last recession lasted for five quarters. This recession could be last until spring 2010 which is believed by many forecasters. There is a 2.1% decline in GDP in the year 2009 which was a consensus forecast. But in December it might drop to 1.5%. These highlights can be seen by rapidly deteriorating

economic picture over recent weeks. As a result, Woolworths and Zavvi and a number of the UK's best known high street retailers gone into administration. Besides, lower value of pound sterling against the dollar which was slumped against the euro as well. In order to driving down the interest rate and cut the cost of lending the Bank of England has aggressively cut interest rates to 1. 5%. It was done to make easier for consumers and businesses to access credit. Banks are now reluctant to lend sufficiently. To encourage consumers for spending and boosting the retail sector for wider economy there was a temporary cut in value added tax from 17. 5% to 15%.

According to Walyat (2009) the total GDP contraction until now is -4% on a quarter on quarter basis. It is now against the forecast by him which was -6. 3% total in the quarter three of 2009. The recent analysis suggests that during the second and third quarter the contraction of GDP is moderating. During the year 2010, GDP points to bounce back. However, because of the post general election tax hikes and deep public cutting on spending it will trigger a double dip recession during 2011 to 2012 according to the forecast which is shown on the above diagram. GDP contraction less than -6. 3% it was against the forecast, which implies there will growth in economy in the year 2010. But it will not sustain in the year 2011 as the economy will do an about turn because of the unsustainable mountain of debt.

2. 4 Strategy

During this situation it needs to implement appropriate marketing strategy for get the consumer for their products. A brief overview of marketing strategy what it all about is described below.

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According to Mintzberg et al (1995) " A strategy is the pattern or plan that integrates an organization's major goals, policies and actions sequence into a cohesive whole. A formulated strategy helps to marshal and allocate an organization's resources into a unique and viable posture based on its relative internal competencies and shortcomings, anticipated changes in the environment and contingent moves by the intelligent opponent." (p. 5)

Literature on marketing strategy and general strategy in recession are as follows:

2. 4. 1 Concept of Marketing Strategy

According to Perreault and McCarthy (1999) a marketing strategy consists of a target market and a related marketing mix. It is a broad picture of a firm's activity in a market. Target market and marketing mix are two interrelated part. In a target market there will be fairly homogeneous customer. A company wishes to appeal to those customers. The controllable variable is the marketing mix. Company puts these together to satisfy this target group. Marketing mix is being surrounded around the customer. A typical marketing mix includes some products offered at a price with some promotion. The reason is to tell potential customer about the product and a way to reach the customer's place.

According to Bearden et al (1995) marketing strategies consists of target market and marketing mix. First of all a target market need to select and after that marketing mix should be developed to satisfy that market's needs. Marketing exchanges are done with a defined group of consumers or organizations with whom a firm wants to interact. This group is the target

market for that firm. Target market is appealed by an overall offer of marketing mix. Marketing mix consists of the decisions of four basic areas. They are product for example development of a product, service, or idea to exchange. Then the pricing like: what to exchange for the exchange. After that communications like as how to communicate with the target market about the possible exchange and finally distribution such as: how to get the product service or idea to the target market to consummate the exchange. The main key to marketing success is to satisfy the needs of the target market better than competitors. For which a consistent and integrated marketing mix need to be developed.

According to Dibb et al (1994) first of all a target market need to select and analyze that market. After that an appropriate marketing mix for that market need to create and maintain. This is all about the marketing strategy. In elaborately means target market is the group of people to whom the organization wants to reach. And marketing mix are product, distribution, promotion, price and people. It will satisfy the people in that target market. In order to make the best use of the organization resources and tactics the marketing strategy is developed. It helps to articulate the plan to meet the objectives of the organization. It needs to deal with two broad set of variables to develop and manage different marketing activities. These variables are marketing mix and the marketing environment. Product, distribution, promotion, price and people are the decision variable of marketing mix. Organization has control over these factors. On the other hand economic, technological, political, legal, regulatory, societal/green and competitive forces are the marketing environment variables. Organization

has less control over these factors. But these factors affect buyer needs. It also affects decisions related to marketing mix variables. Marketer need to focus on different marketing task such as: market opportunity analysis, target market selection, marketing mix development and effective marketing development for developing and managing of marketing strategies.

According to Kotler et al. (1999) target consumer is the centre of the marketing strategy.

First of all company need to identify the total market. And then it divides the total market into smaller segments. After that company goes to select the most promising segments. And then company focuses to serving them. In order to serve the promising segment company needs design the marketing mix. Marketing mix are product, price, place and promotion. By using the mechanisms of company goes to work on them. Marketing mix is under the control of the organization. Number of factors need to take under consideration in order to identify an appropriate marketing strategy. These factors are target consumer, competitive environment, demand measurement and forecasting, market segment and market targeting. A short overview of these factors is as follows:

Today's marketing place is very competitive. In order succeed in the today's market company needs to centered to the customer. Customers can be won from the competitor by delivering a greater value. However, before satisfying the customer company must understand first the needs of consumer and before going to satisfy them. After that company needs to know about the competitive environment around it. This environment is

macro and micro. Political, economical, social and technological are the macro environment. All the organization faces it. Besides this companies also face a unique micro environment. After that it is the time to measure demand of the consumer. Company need to estimate the current and future size of the market and its segment. At first, company will identify all competing products. Then the current sale of the products needs to be estimated. Then it needs to determine whether the market is large enough to support another product profitably. It is equally important of the future growth of the market. If the forecast of the demand looks good then company decides to enter the market. Different types of customers, products and needs are the elements of a market. Marketer has to determine which segment offer the best opportunity in order to achieve the company's objective. In a market segment consumers responds similarly to a given set of marketing stimuli. Company can enter one or more segment of the given market after defining the market segment. Selecting one or more segments after evaluating each market segment is the market targeting. Large companies try to serve all market segments by offering range of products. On the other hand small companies decide to serve one or few special segments.

According to Kotler and Armstrong (2008) company decides which market segment to enter. After that company decides how its market offering can be differentiated for each targeted segment. Company need to know about the position it wants to occupy in those segments. A company's product has a position in the market. It is a kind of position which occupies the mind of the consumer relative to the competitor's product. By charging lower prices than

competitors or by offering more benefits to justify higher prices can be done to offer greatest customer value.

According to Wilson (1996) in order to get the competitive advantage over competitor, Michael Porter identified three types of generic marketing strategy in the year 1980. They are overall cost leadership, differentiation and focus. By pursuing a cost leadership strategy the organization concentrates upon achieving the lowest cost of production and distributions. So that it has the capability of setting its price at a lower level than its competitors. In differentiation strategy the organization gives emphasis to a particular element of marketing mix that is seen important by customers. Focus strategy involves in concentrating its effort upon one or more narrow market segments rather than pursuing a broader based strategy. The firm will typically then depending upon the specific demands of the market, develop either a cost based or differentiated strategy.

So, from the above literature about marketing strategy, it can be identified that it needs to know two main things for implementing the strategy. One is the target customer and another is the marketing mix. Marketing mix are product, price, promotion and place. If these are identified properly then it can be made an appropriate strategy for their business. It is important for an organization to run the business in a proper way with the right strategy. If the strategy fails then business will fail and incur losses in the long run. And if it is the recession the marketing strategy needs to be modified.

A brief literature on marketing strategy in recession is as follows:

2. 4. 2 Marketing Strategy in Recession

According to Shama (1993) during the recession, by using different strategies consumer demand can be stimulated. First of all target customers and the marketing mix need to redefine. Strategies can be offer the cheaper products, making the product line narrow, and use quantity discounts. Moreover, strategies can be changed by keep the price down, increase the promotion, and consumers need to get direct products offer. In order to protect from the recession, Bonoma (1991) advises to avoid practicing empty middle marketing, not to make mistake expansiveness for empire and need to do more for less. In a related study, Goerne (1991) suggest that in the promotion mix significantly more coupons need to use. To fight from the negative impact from sales during recession it needs to be done. It is important to make sure that the company is actually one of recession what the economic environment facing their organization.

According to Dibb et al (1994) marketer and consumer decisions and activities both are influenced by economic and competitive forces of the marketing environment. This examines the effects of general economic condition. It also focuses on the buying power, willingness to spend, spending patterns and competition. In all countries the overall state of the economy fluctuates. These changes in general economic condition affects the forces of supply and demand, buying power, willingness to spend, consumer spending level and the intensity of competitive behaviour. Therefore current economic conditions and the changes in the economy have a broad impact on the success of the organization's marketing strategy. In the period of depression unemployment is extremely high and

wages are very low. In this situation the total disposable income is at a minimum level. For which consumers loose their confidence in the economy. In order to remove the effect of recession and depression, governments need to use both monetary and fiscal policies in the country. Money supply in the economy is controlled by the monetary policies employed by Government. As a result, it affects on spending, saving and investment by both individuals and businesses. Government is able to influence the amount of savings and expenditures through the establishment of the fiscal policies. Government need to adjust the tax structure and change the level of spending on benefits. Depression can be completely removed by the effective use of fiscal policies which is believed by some of the economic experts.

According to Hudak (2009) for surviving in the downturn company need to know how it should market itself. Most of the companies respond in recession by cutting their budget to reduce cost. Often, marketin