



Basics of trade and marketing

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1. BASICS OF TRADE

1.1.Introduction to trade

1.1.1. *History of trade*

Trade has been around since antiquity, made possible by the fact that people were abundant in some goods and scarce in others. When the right barter partner was found, the exchange of goods took place. Of course, it was not easy, as this barter transaction only took place when the parties needed each other's goods. In addition, the difficulty of determining the relative value of the bartered goods to each other made this form of trade difficult (DAY, 2018).

These factors led to the emergence of commodity money. Commodity money was a product that was known to everyone and had a recognised value to the people. Examples were oil, grain or even salt. However, as these products were not durable and could not be transported over long distances, the demand for money of lasting value increased, resulting in the creation of the precious metal coin system. This also allowed international trade to expand. Money changers and the first banks soon appeared (KÁRPÁTI and LEHOTA, 2010).

With the rapid development of trade, the demand for precious metals, which could no longer be met, grew. This was helped by the banks, which issued money substitutes. These bank certificates later evolved into the banknote system (DAY, 2018).

With technological advances, the use of electronic money has become commonplace in both international and domestic payments. Online shopping is the most popular form of commerce in the 21st century. In economic terms, e-commerce has come closest to the concept of a perfectly competitive market. Here, price, cost and information are evenly distributed, an almost infinite set of suppliers compete with each other, and buyers have the information they need to make a purchasing decision. In this context, virtual money has also emerged. Virtual money, as such, is a rather broad concept, encompassing almost anything from money used in online games to digital money that can now be used to buy real-world things. An example is bitcoin, a digital currency that can be used to buy real-world goods and that moves directly between the seller and the buyer. Thanks to virtual money, you can transfer money anywhere in the world without an intermediary or bank.

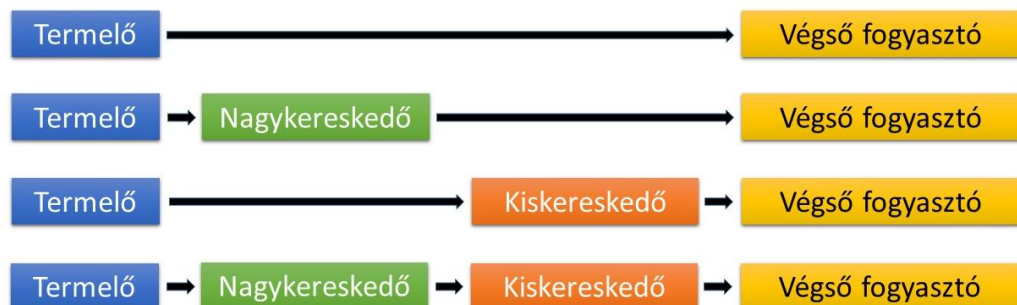
1.1.2. The concept of trade

Trade is an intermediary between production and consumption, ensuring that the goods produced reach the consumer (DAY, 2018). Trade is the sale of any marketable good or service of value (KÁRPÁTI and LEHOTA, 2010).

The primary function of trade is to satisfy consumer needs. It also bridges the gap between production and consumption in space and time, providing a steady supply of goods. Warehousing, the storage of goods, the protection of consumer interests and quality protection are also parts of trade.

The role of trade is distribution, but it also helps to distribute income. In addition, it contributes to public revenue (pays taxes). It also has an impact on consumption, its volume and quality, and on the producer and production.

The organisation of trade is the organised institutional framework within which the trade in goods takes place. The activity of supplying goods is the totality of the work processes by which goods are transported from the producer to the consumer. The flow of goods takes several different paths, as illustrated in Figure 1.



Producer, Wholesale, Retailer, End consumer

Figure 11. Product flow pathways

Source: own edits based on KOTLER and ARMSTRONG (2008).

It is a classical product flow path when goods are transferred from the producer to the end consumer through intermediaries, typically wholesaler(s) and retailer(s). The end consumer may also purchase the goods directly from the wholesaler, although the vast majority of these players serve retailers. In the direct distribution channel, producers sell their product directly to the end consumer and there is no intermediary in the distribution chain. It is also common nowadays for a retail chain (e.g. Aldi, Lidl) to buy directly from the producer and deliver the goods to the consumer.

1.1.3. International trade

Trade as a branch of the economy includes trade in goods, hotels and restaurants and tourism. The organisation of trade in goods can be divided into two main groups: foreign trade and domestic trade. Foreign trade crosses national borders and has two main directions: exports and imports.

The evolution of world trade by country is shown in Table 1, based on 2017 data. The table shows that China is the largest exporter by value of trade, while the United States is the largest importer, followed by China. Taken the trade of the 28 EU Member States as a whole, they would rank second as both exporters (\$2,122 billion) and importers (\$2,097 billion), accounting for 15% of world trade.

Table 11. Trends in world trade in 2017

Hely	Exportőrök	Érték (milliárd \$)	Részesedés (%)	Hely	Importőrök	Érték (milliárd \$)	Részesedés (%)
1.	Kína	2 263	12,8%	1.	Egyesült Államok	2 410	13,4%
2.	USA	1 547	8,7%	2.	Kína	1 842	10,2%
3.	Németország	1 448	8,2%	3.	Németország	1 167	6,5%
4.	Japán	698	3,9%	4.	Japán	672	3,7%
5.	Hollandia	652	3,7%	5.	Egyesült Királyság	644	3,6%
6.	Korea	574	3,2%	6.	Franciaország	625	3,5%
7.	Hong Kong	550	3,1%	7.	Hong Kong	590	3,3%
8.	Franciaország	535	3,0%	8.	Hollandia	574	3,2%
9.	Olaszország	506	2,9%	9.	Korea	478	2,7%
10.	Egyesült Királyság	445	2,5%	10.	Olaszország	453	2,5%
Világ összesen		17 730	100%	Világ összesen		18 024	100%

Source: WTO (2018).

Rank, Exporters, Value (billion USD), Importers, Share (%)

China, USA, Germany, Japan, The Netherlands, Korea, Hong Kong, France, Italy, United Kingdom, World total

1.1.4. Key features of domestic and foreign trade

As regards Hungary's external trade, the evolution of trade in goods in 2018 is shown in Table 2. The table shows that Hungary's largest partner in terms of both imports and exports is Germany, which accounts for more than a quarter of foreign trade by value. It is followed by most of the countries surrounding Hungary. The United States ranked only 11th in 2018 with 2.9%.

European countries are also in the lead in terms of imports, although China ranked 4th with 5.4% in 2018. The United States ranked only 15th with 1.8%.

Table 22. Trends in Hungary's external trade in goods in 2018 by largest export and import destination countries

Hely	Kivitel	Érték (millió Ft)	Részesedés (%)	Hely	Behozatal	Érték (millió Ft)	Részesedés (%)
1.	Németország	9 106 961	27,3%	1.	Németország	8 212 974	25,9%
2.	Szlovákia	1 737 019	5,2%	2.	Ausztria	1 935 323	6,1%
3.	Olaszország	1 731 286	5,2%	3.	Lengyelország	1 831 709	5,8%
4.	Románia	1 719 259	5,1%	4.	Kína	1 715 836	5,4%
5.	Ausztria	1 582 267	4,7%	5.	Hollandia	1 624 357	5,1%
6.	Csehország	1 491 058	4,5%	6.	Csehország	1 602 350	5,1%
7.	Franciaország	1 451 374	4,3%	7.	Szlovákia	1 579 737	5,0%
8.	Lengyelország	1 410 478	4,2%	8.	Olaszország	1 482 761	4,7%
9.	Egyesült Királyság	1 231 750	3,7%	9.	Oroszország	1 240 874	3,9%
10.	Hollandia	1 159 780	3,5%	10.	Franciaország	1 179 335	3,7%
11.	Egyesült Államok	953 413	2,9%	11.	Románia	876 497	2,8%
12.	Spanyolország	926 318	2,8%	12.	Belgium	757 758	2,4%
13.	Belgium	722 763	2,2%	13.	Egyesült Királyság	584 228	1,8%
14.	Kína	631 192	1,9%	14.	Koreai Köztársaság	576 732	1,8%
15.	Ukrajna	603 558	1,8%	15.	Egyesült Államok	575 469	1,8%

Source.

Rank, Export, Value (billion HUF), Import, Share (%)

Germany, Slovakia, Italy, Romania, Austria, Czech Republic, France, Poland, United Kingdom, Spain, Belgium, China, Ukraine

Figure 2 shows the trade in goods by commodity groups in 2018. Comparing the two charts, it can be seen that exports of machinery and transport equipment are 8% higher than imports, but imports of manufactured goods are 5% higher (37%) compared to exports. Exports are also stronger for food, beverages and tobacco (7%), but at a relatively low rate (2%). For energy products, imports are much more important (8%) than exports (3%).

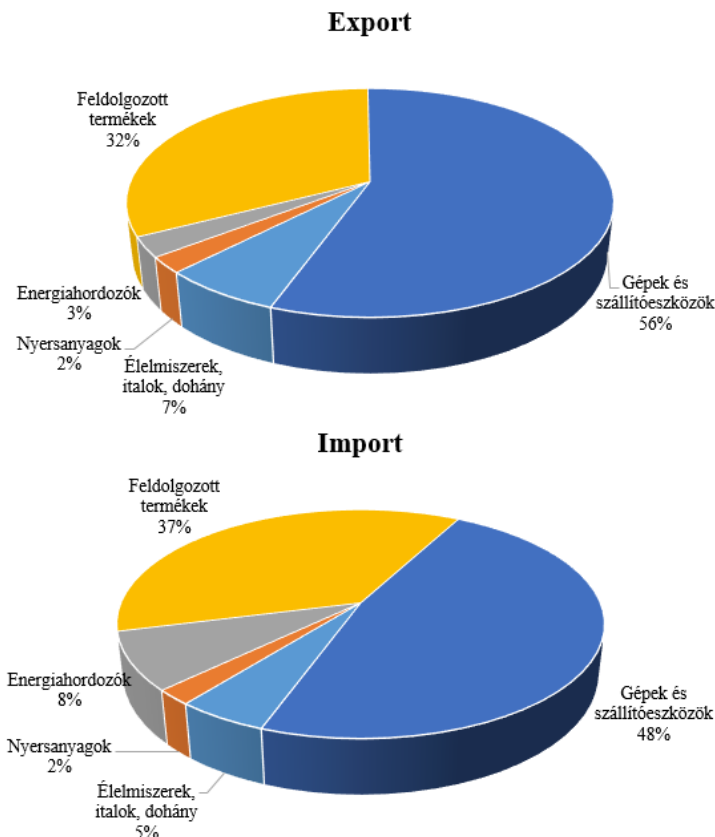


Figure 22. Evolution of trade in goods by main commodity groups in 2018 (%)

Source.

Processed products, Energy carrier, Raw materials, Foods, drinks, tobacco, Machinery and transportation tools

1.2. Types of commercial units

Trade is one of the most spectacularly growing sectors of the economy (*MÉSZÁROS, 2007*). Retail trade is an economic activity in which consumer goods are sold directly to consumers, i.e. it aims to provide the public with a supply of goods.

According to *LEHOTA (2001)*, retailing can be divided into the following functions: assortment; warehousing, transport; ordering, buying, selling; sales promotion; information function and risk taking.

There are several groupings of types of retail trade. The following types are distinguished based on their appearance, according to *VERES and SZILÁGYI (2006)*:

1. *Forms of shop retailing:*

- Convenience stores: small shops with a narrow range of products and few sales staff. Price levels are generally higher than in discounters, supermarkets and hypermarkets. They typically sell fast moving daily items (e.g. fresh bakery products).
- Specialist retailer: usually sells a specialised group of products or brands. For example, a shoe shop, a bag shop, a brand shop.
- Cash & Carry: self-service stores, usually with a large selection of goods. They operate on the "pay and carry" principle, serving mainly retailers and bulk buyers.
- Discounters: usually have a narrow range of products, which means they have a high turnover and can keep purchase prices low. They tend to open stores in more densely populated municipalities, although they have recently started to open stores in smaller municipalities as they do not yet have competition there. Their target customers are those with lower incomes and for whom low prices are important (*KÁRPÁTI and LEHOTA, 2007*). Examples are Lidl, Aldi and Penny Market stores in Hungary.
- Supermarket: the range of goods is wider than in discounters, but prices are higher. Most have a floor area of over 400 m². They target the more affluent shoppers for whom quality is as important as price. They are usually located in city centres and main squares, with a sophisticated, attractive interior design and aesthetic display of goods (*KÁRPÁTI and LEHOTA, 2007*). An example of such shop is Spar.
- Hypermarkets: they have the largest floor area (over 500 m²) and their main target group is large family shoppers, so they are mostly located on the outskirts of towns with large parking areas. Their price strategy is to compete on price with around 5-10% of the product range, thus targeting discount prices. However, the price levels of other products are similar to supermarkets (*KÁRPÁTI and LEHOTA, 2007*). Such stores are Tesco Extra, Interspar or Auchan.
- Shopping centre: usually a 50-70 thousand m² facility with many small rented shops, entertainment and catering units. Examples include Árkád, Debrecen Plaza.

2. *Forms of retailing without a shop:*

- mail order - direct marketing: products are sold from a catalogue and then delivered to your door by post.
- Vending machines: you can usually buy sweets and drinks from vending machines. Their advantage is that they are self-service and operate around the clock.
- Home delivery.

- Direct selling - MLM (Multi-level marketing): a form of personal selling where advisers visit customers in their homes. Examples include Avon and Tupperware.
- Purchasing service: retailer with a specialised clientele. It usually serves employees of large organisations who are entitled to a discount in exchange for membership (KOTLER and KELLER, 2012).

3. *Forms of retail organisations:*

- chain stores,
- franchise: a distribution system through which goods and/or technologies are marketed. It is based on close and continuous cooperation between legally and financially autonomous and independent entrepreneurs who are the transferors and transferees of the franchise (KOTLER and KELLER, 2012).

According to MÉSZÁROS (2007), three major groups of companies can be distinguished in food retailing according to the type of ownership:

- **international chains** such as Tesco, Spar, Auchan, Aldi, Lidl. Their aim is to gain a bigger market share, so they are expanding aggressively and have a lot of capital. Those that follow a *multisegment* strategy have different types of stores to serve different customer groups (e.g. Tesco - Tesco Extra, Tesco Express, Spar - Interspar, Spar). Those with a *monosegment* strategy operate only one type of chain (e.g. Aldi, Lidl).
- **domestic chains:** for example CBA, Coop. They have lower capital strength, cannot expand as fast as international chains and cannot keep their prices as low.
- **independent shops:** they are not part of chains, they develop their own shop, image and product range. According to some experts, the only way for them to survive is to join a purchasing association.

Wholesale trade refers to all activities where goods or services are sold to resellers or business users. The main types of wholesalers (also known as distributors) are:

- wholesalers working for their own account,
- full-service wholesalers,
- wholesalers providing a limited service,
- brokers and agents,
- units and offices of manufacturers and retailers,
- specialised wholesalers (KOTLER and KELLER, 2012).

1.3. The trade strategy

A trading strategy is an overall plan or action plan that guides a trader. It usually lasts for at least one year and summarises the trader's mission, objectives,

consumer market, general and specific activities, as well as control mechanisms. Without a well-defined and structured strategy, the company may become unable to operate in the market. The specific elements of a commercial strategy are illustrated in Figure 3.

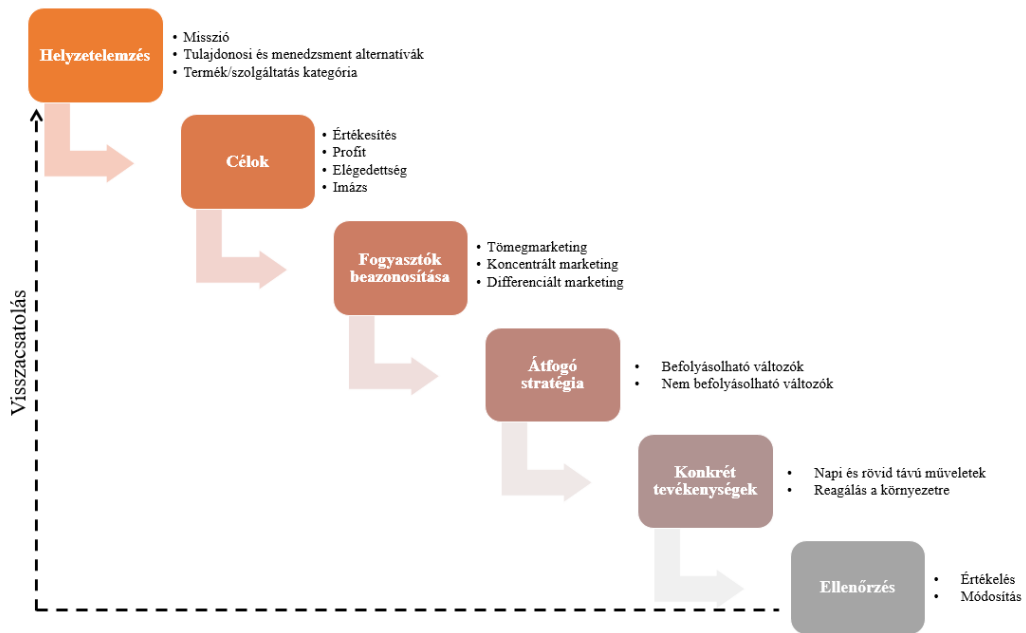


Figure 33. Elements of a commercial strategy

Source: *BERMAN and EVANS (2007) p. 59.*

1.4. Classification of goods

A good is a thing which, by its very nature, is suitable for satisfying human needs and is marketable by virtue of its utility value, its quality being expressed by its standard.

Traditional commodity systems provide clear information to the trader and the customer, while commodity codes facilitate identification and stock management, and therefore commercial work.

A distinction can be made between consumer goods, research equipment and production equipment. The distinction by geographical origin is relevant if the origin affects the quality of the good (e.g. Chinese tea) or if the good can only be produced in a certain area (protected goods, e.g. Tokaj wine).

Classification by material property is based on the physical, chemical, physiological characteristics of the goods (e.g. density, colour, smell).

Classification by degree of processing: raw materials, semi-finished products, finished products, waste materials.

Separation by mode of transport and storage: solid, liquid, gaseous, piece goods, bulk goods, flammable, non-flammable goods, etc. Other special groupings are also used: by size, weight (e.g. fruit), by modernity (conventional and energy-saving appliances), by technology (combed and carded wool).

The Commercial Tariff classifies products into 21 sections (Table 6). They are identified by a Roman numeral (*VÁNTUS, 2011*).

Table 3. Commercial Tariff Classification

Kereskedelmi Vámtarifá áruosztály száma	Áruosztály megnevezése
I.	Élő állatok, állati termékek
II.	Növényi termékek
III.	Allati- és növényi zsír, olaj, ezek bomlás termékei, elkészített ételzsír, állat és növényi eredetű viasz
IV.	Élelmiszer - készítmények, italok, alkoholtartalmú folyadékok, ecet, dohány és elkészített dohánypótlók
V.	Ásványi termékek
VI.	A vegyipar vagy vele rokon iparok termékei
VII.	Műanyagok és ezekből készült termékek, gumi és ebből készült áruk
VIII.	Nyersbőr, kikészített bőr, szőrme, ezekből készült áru, nyerges és szíjgyártó áruk, utazási cikkek
IX.	Fa és faipari termékek, faszén, parafa, másfonásanyagokból készült áruk.
X.	Papíripari rostanyag cellulóztartalmú anyagok, karton
XI.	textilipari alapanyagok és textilárúk
XII.	Lábbeli, kalap, esernyő, napernyő, sétabot, ostor, művirág, emberhajból készült áru
XIII.	Kőből gipszből készült áru, kerámiák, üvegek
XIV.	Gyöngy, drágakő, féldrágakő, nemesfém
XV.	Nem nemesfémek és ezekből készült áruk
XVI.	Gépek, mechanikus berendezések, villamossági cikkek, hangfelvevő lejátszó
XVII.	Járművek, légi járművek, vízi járművek,
XVIII.	Optikai, fényképezési, mérőműszerek, hangszerek, órák.
XIX.	Fegyver, lőszer, ezek alkatrészei tartozéka
XX.	Különféle áruk
XXI.	Művészi tárgyak, gyűjteménydarabok és régiségek

Source: *VÁNTUS (2011)*

1.5. The flow of goods

The flow of goods can be basically divided into three main stages: buying, stocking and selling.

1.5.1. Procurement

Procurement is responsible for providing the various materials, equipment and services needed for the company to operate. The average industrial company spends 55-60% of its revenue on inputs, while for a food company this can be as high as 75-80%.

The materials and equipment to be purchased can be grouped according to their use:

- related to the production activity: raw materials, auxiliary materials, equipment needed for the products produced by the enterprise (e.g. in the case of a canning enterprise, the maize as raw material, the can as packaging material or the canning line).
- related to a service activity (e.g. shampoo or clippers at the hairdresser's),
- related to day-to-day activities (e.g. printer, computer, paper, paperclips used by administrative departments).

It is also the role of procurement to drive the performance of the logistics system through timely and quick delivery, improve quality, and explore opportunities to reduce costs. It can also play a major role in innovation, as the introduction of a new raw material or component to the market is crucial to making a company's products more innovative. Procurement is an important source of information, as it also provides information on new potential suppliers, new products, new technologies and competition in the supplier market. In addition to information from outside, procurement can also affect the image of the company: for example, if a company has liquidity problems and is late in settling supplier invoices, there may be a perception that the company is not worth contracting with.

The objectives for procurement are summarised in the following points:

- achieve optimum quality,
- minimise the overall cost,
- contacting, selecting and evaluating suppliers,
- contribute to low stock levels and a steady flow of products,
- cooperation and integration with other departments (market research, corporate planning, etc.).

Within a company, *centralised procurement* is when the purchasing activities are carried out by a central department. *Decentralised procurement* is when purchasing activities are carried out by several departments in parallel.

A *host procurement* system is when each product is sourced by the department that is the most typical user or best acquainted with it, and this department is responsible for supplying the needs of the whole company.

In addition, the concept of outsourcing should also be mentioned. Outsourcing is the process whereby an activity traditionally carried out by a company is outsourced and is then carried out by another company specialising in that activity. Outsourcing is often carried out by the procurement department.

In the classical sense, outsourcing involves the transfer of people and assets, but differs from a simple sale in that there is a contractor's part of the contract, whereby the outsourcer takes services from the recipient. The outsourcing company ensures sufficient control over the outsourced activities and the service provider by laying down the main parameters of the cooperation, usually in a "Service Level Agreement" (SLA).

The opposite process to outsourcing is insourcing, where an activity that has already been outsourced is taken back into the company's own organisation. Insourcing usually takes place when a company is dissatisfied with the results of outsourcing and reverts to its previous operating model.

When a company performs an activity using both internal and external resources (e.g. outsourcing some software development but bringing some development in-house), this is called cosourcing. An example of cosourcing might be when a company has an internal audit department but outsources a number of internal audit tasks (e.g. project audits, site audits).

Two forms of buyer-supplier relationships are distinguished: the competitive and the cooperative model (Table 3). Whereas in the past the competitive model was predominant, i.e. buyers only interacted with suppliers for individual orders, today the relationship is closer and both parties are in a better position to benefit.

Table 44. Buyer-supplier relationships

Features	Competing model	Cooperation model
Nature of the relation	The supplier's opponent	The supplying partner
	Lack of trust	Existence of trust
	Disputes, isolation	Joint problem solving, information sharing
Number of suppliers	Many	One or few
Length of connection	One-off, short distance	Medium, long distance
Contract	Regulated, rigid	Flexible, provides a framework
Joint activity	None	Important
Production, activity	Separately	Integrated, interconnected
Ordering	Occasional	Frequent, few items
Negotiation strategy	Winner-loser	Beneficial for both parties
Supplier selection	Competition	Negotiation

Source: VÖRÖSMARTY (1998).

The first step in the procurement process is to identify exactly what materials, tools and equipment are needed to carry out the activity. The next step is to identify the source of supply. Suppliers can be identified and located by using procurement market research, which can be based on information from previous purchases, catalogues or company directories, or most commonly the internet. The selection of suppliers is followed by contacting them and requesting a quotation, which can be done verbally, in writing or even through an intermediary. The selection of a prospective supplier can be based on quantifiable criteria (such as price, payment terms or the supplier's capacity) and also on non-quantifiable criteria (such as the quality of the supplier's products, flexibility to change requests or the timeliness of deliveries), which can only be measured after delivery.

The order is sent to the selected supplier by filling in an order form. The order can be rejected or confirmed by the supplier. Confirmation can be done by a confirmation letter, a draft supplier contract or tacit acceptance.

Operations following receipt of the ordered goods:

- the goods received are identical to those ordered,
- checking the quantity of goods received,
- checking the integrity of the packaging,
- registration of the goods.

The buyer then receives the invoice together with or after the delivery of the goods, which is a prerequisite for financial settlement. This can be done by bank transfer or cash payment.

The procurement methodology

Various methods can be used to increase the efficiency of procurement. The most important of these are: needs analysis, market analysis, price analysis and value analysis.

1. Needs analysis

A critical element of the procurement process is that the supplier has a clear understanding of the user's needs. In defining needs, the specification of products and services must be separated. Product specification can be based on brand name, sample, technical description, composition description or functional description, among others. The specification of services is much more difficult than that of a product, and therefore a precise formulation of performance criteria should be sought.

2. Market analysis

Procurement market research is used when purchasing a new product/service that has not been used before. The steps of a procurement market research are:

- the precise definition of objectives,
- stakeholder involvement,
- identifying potential sources of information,
- obtaining and evaluating the relevant information available,
- obtaining additional information,
- draw conclusions.

3. Price analysis

Price continues to play a key role in procurement decisions. The formation of the selling price is influenced by both internal and external factors. These can include:

- In *cost-based pricing*, prices are set on the basis of the costs incurred. Types:
 - With a cost-plus price, a profit is added to the costs according to a specified profit margin to arrive at the final selling price.
 - For a price based on the target profit principle, the price is calculated as the sum of the costs and the amount of the planned profit.
- In *market factor pricing*, the price of a product is influenced by supply and demand conditions, economic or political situation, emergency situation, etc.
- *Competitive price* is determined by comparing the price of a product with the price of a similar product or a competitor's price.

Factors taken into account when setting current prices for companies:

- the deadline for payment,
- the number of ordered items,
- the stage of the product life cycle,
- seasonal factors,
- the advertising objectives.

The price drivers and price reducers taken into account in the price analysis are presented in Table 4.

Table 55. Factors that increase and decrease prices

Price drivers	Price-reducing factors
Procurement costs: – Packaging, – fares and charges, – storage and transhipment charges, – customs, – insurance, etc.	Price reductions: – rebates, – discount, – annual bonus.
Other costs: – risk of damage, – financing costs, – additional payment costs, – reduced value of deliverables.	Other cost reductions: – customs and tax refunds, – financing benefits, – extended payment deadline, – exchange rate gains, – additional services, etc.

Source: *NÉMON et al. (2005)*.

A rebate is a trade discount, and it has the following variants:

- quantity rebate: a discount for buying a certain quantity.
- sales rebate: a discount on the purchase of a certain quantity or value during a given period.
- wholesale rebate: a discount for resellers.

A discount is a price reduction offered by the seller to the buyer to encourage him to make a more favourable payment arrangement.

4. Value analysis

The concept of value analysis is that we only buy the features of a product that we really need. The company evaluates market offers in terms of the function(s) it really needs (GÁL, 2011).

Supplier assessment methods

Supplier evaluation is one of the most important techniques used in procurement. The most commonly used methods are: the categorical method, the weighted point system valuation method, the cost ratio method and the total cost of ownership concept.

Traditional supplier assessment methods

Important aspects of defining a good supplier:

- consistent quality,
- on-time delivery,
- the right price,
- a stable background,
- good background services,
- reliability,
- accurate information.

1. Categorical procedure

The simplest method for comparing the above aspects is the categorical method. It is simple, inexpensive and does not require the creation of a large database. However, it does not rely on quantified, concrete data and may sometimes reflect subjective opinions.

2. Weighted point system

The weighted point system supplier evaluation method defines the main criteria to which weights are assigned based on the importance of the buyer's objectives (e.g. price 40%, quality 35%, on-time delivery 25%). The method has the advantage of minimising subjective elements and is significantly less costly than the categorical method (NÉMON *et al.*, 2005).

Cost-based supplier valuation methods

One of the most important aspects when evaluating suppliers is the cost trend. To this end, two methods are presented that examine the cost-based implications of these aspects.

1. *Cost ratios method*

The essence of the method is to express and examine the costs associated with the purchased product as a proportion of the total price of the product. The cost categories considered are usually determined by the characteristics of the product.

Examples include:

- purchase price,
- quality costs,
- transport costs, etc.

The advantage of this method is that the individual cost factors can be compared on an item-by-item basis. The method has not been widely used so far because it requires a significant amount of data.

2. *Total cost of ownership (TCO)*

The Total Cost of Ownership (TCO) concept is a tool used for supplier evaluation that takes into account all of the costs incurred in a given relationship.

Costs that affect the valuation of a purchase may include: purchase price, costs associated with the management of the purchase, costs of holding inventory (warehousing, capital commitment, insurance, etc.), costs of quality, costs associated with the reliability of delivery, and lost sales or business opportunities.

1.5.2. *Stocking*

Inventory management is part of the overall flow of materials from extraction to consumption. Inventory management is necessary because in most production processes the rates of the individual sub-processes are not precisely synchronised and where the flow of materials is interrupted for a period of time, stocks are built up.

Stocks are accumulated material assets that serve to meet some future need, protect against unforeseen uncertainty and vulnerability to others.

Grouping of stocks

Stocks can be grouped according to various criteria, but here we will only deal with accounting and functional groupings. From an accounting point of view, a

distinction is made between purchased stocks and stocks produced in-house. Purchased inventories include raw materials, consumables, supplies, lubricants, fuels, goods, rolls, spare parts, etc. Own produced inventories include finished goods, work in progress and unfinished products (GÁL, 2011).

Functional grouping distinguishes stocks based on logistical processes. *Planned (anticipated) or prepared stocks* enable an organisation to cope with forecast demand surges and are used to offset supply shortfalls (e.g. outages, promotions, strikes, etc.).

Batch (cycle) inventory is not based on the current demand for batch production or ordering, but on the need to produce or purchase in stages, taking into account the demand over a longer period of time, for reasons of economicalness.

Fluctuating stocks (buffer or safety stocks) are built up in case of unforeseen events, fluctuations in supply and demand. These are stocks of products for which demand cannot be calculated in advance or varies from season to season (e.g. canned goods, fertilisers, etc.). In the event of an unexpected increase in sales or difficulties in obtaining supplies, a fluctuating stock ensures a steady flow of products.

Transport stocks are stocks in the distribution channel and stocks that provide flow, i.e. stocks in transit. Such inventories occur, for example, in car manufacturing, where different parts are produced on different continents and transported to one or more central locations where assembly takes place.

Spare parts kits are used to replace parts of equipment already in operation. These stocks help avoid prolonged downtime in the production process and the resulting loss of revenue (NÉMON et al., 2005).

The ABC analysis

The grouping of stocks according to their importance is a procedure based on the ABC analysis, which is a Pareto's principle-based procedure for stocks. The procedure consists of grouping the types of materials used (stock items) according to their relative importance and applying differentiated inventory management methods according to the formed groups.

The most commonly used criteria for creating groups are:

- the annual usage cost of the item,
- the unit cost of the item,
- the specificity of the material used for production,
- the availability of resources to produce the item,
- the production or lead time of the item,

- the critical characteristic of the item,
- the cost of replacing or missing the item,
- the sophistication of the technical design.

On the basis of the selected criterion(s), each type of material is sorted into groups (A, B, C), but subgroups can also be distinguished if necessary. On the basis of use value, the items with the highest use value, representing 20% of the total number of items, are classified in group A, 40% in group B and the remaining 40% in group C. These percentages can be varied according to the specific circumstances of the company, but it must be ensured that the items are well separated into each group.

Assessing the efficiency of stocking

When analysing the efficiency of inventory management in absolute terms, we can look at the total capital employed, its planned evolution and the reasons for deviations from the actual value. Based on the actual processes, the stock level that best suits the mode of operation should be determined.

The two most commonly used indicators when assessing relative indicators are the *number of rotations per year or rotation rate* and the *rotation time*.

The rotation speed of stocks (KFS) is calculated using the following formula (rotation speed is measured in cycles):

$$\text{KFS} = \frac{\text{értékesített termékek bekerülési költsége}}{\text{évi átlagos készlet}}$$

cost of products sold / average annual stock

The indicator represents the average number of times that stocks theoretically need to be replenished to maintain annual output.

Turnover time (RTO) in days shows the average level of the final product that is sufficient to satisfy the demand for a given day.

Calculation:

$$\text{KFI} = \frac{\text{évi átlagos készlet} \times 360}{\text{értékesített termékek bekerülési költsége}}$$

average annual stock $\times$ 360 / cost of goods sold

The efficiency of inventory management can also be measured with percentage indicators. For example:

- the ratio of orders fulfilled on time to the total number of orders;
- the proportion of order items completed on time in relation to the total number of items;
- the ratio of the value of deliveries on time to the total value of orders;
- the number of days of stock-out during the total operating period.

Efficiency can also be measured using absolute indicators, such as:

- number of days with stock shortages;
- stock value of days with stock shortages;
- downtime due to shortages of materials and parts;
- the number of days with an order shortage (GÁL, 2011).

Stocking systems

The process of stocking a product can be described by a function, where time is plotted on the x-axis and quantity on the y-axis (Figure 4).

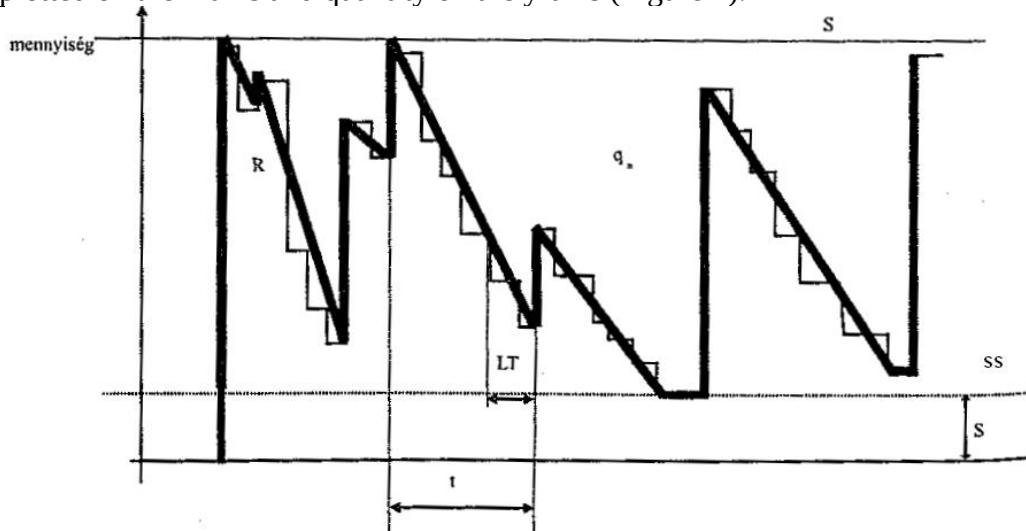


Figure 44. The inventory process

Source: NÉMON et al. (2005).

The figure shows that the stock is not being used and replenished at the same rate. In practice, this is usually described by a continuous function (GÁL, 2011).

The process can be described by different variables and parameters. Elements of the system:

- Maximum stock level (S): the maximum value that the stock level cannot exceed.

- Minimum stock level (s): the stock level below which the stock quantity cannot fall.
- Stocking cycle time (t): the time elapsed between two arrivals.
- Order lot size (q): the quantity of the order actually received.
- Cycle average stock ($q/2+s$): the quantity that is the sum of half of the order lot size and the safety stock, assuming uniform consumption.
- Order Lead Time (LT): the time elapsed between placing an order and receiving it.
- Rate of use per unit of time (R): means a rate per hour, per day, per month or per year, to be specified according to the specific application.
- The quantity of stock when the order is dispatched (ROL - Reorder Level).
- Safety Stock (SS): the reserve of the system.

The mechanism of stockpiling

The stocking process can be controlled by the order. When ordering, two factors have to be decided: when and how much to order. The description of the inventory process that captures the quantity and time parameters of the order is called the inventory mechanism.

You can order either a fixed quantity (q) or a quantity to fill the stock to the maximum level (S). The stock to be accumulated can be ordered at fixed intervals (t) or only when the stock reaches a certain level (s).

Based on combinations of the above, four basic mechanisms can be distinguished:

1. (t, q): fixed order quantity per fixed stock cycle;
2. (t, S): replenishment to maximum stock level at fixed intervals;
3. (q, s): order a predefined quantity (q) when a certain stock level is reached;
4. (S, s): replenishment to the maximum stock level when a certain stock level is reached.

The first and fourth cases are not typically used in practice.

Statistical Order Level (ROL) system

The statistical Reorder Level (ROL) system is an inventory mechanism in which the order quantity is recorded. Based on historical data, statistical methods are used to calculate the stock level at which an order is placed. The model is illustrated in Figure 5.

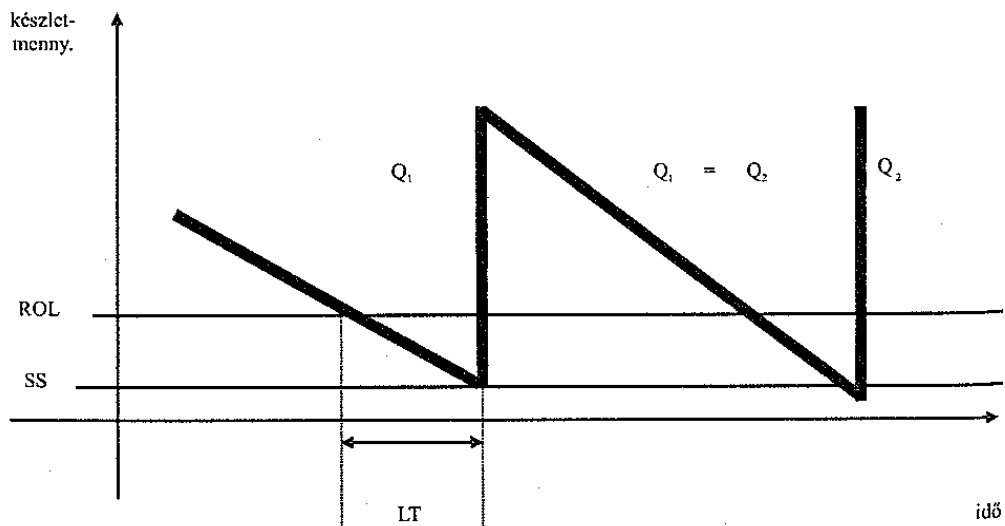


Figure 55. Statistical order level model

Source: NÉMON et al. (2005).

Calculating the reorder level (ROL):

$$ROL = r \times LT + SS$$

where

r = use per unit of time;

LT = the order lead time;

SS = the safety stock level.

The order stock level is generalised:

$$ROL = (\text{use during lead time} - \text{order during lead time}) + \text{safety stock}$$

For a fixed order:

$$ROL = r \times LT - n \times Q + SS$$

where

r = daily requirement;

LT = the order lead time;

$n = (LT / \text{cycle time})$ rounded down to the total number of orders already dispatched;

Q = order lot size;

SS = the safety stock level.

The size of the Q order lot is determined by the delivery conditions, the minimum order quantity and the cost of stocking. The size of Q determines the average committed stock of the inventory cycle. For the system to work, stock changes must be up-to-date.

The periodic review time system

This system is an inventory mechanism where the receipt of orders is recorded based on inventory control. Stocks are counted and orders are placed at a fixed

observation time. The time between two observations is therefore called the observation or revision period. The order is designed to achieve a maximum level of stocks by the quantity of the order, taking into account the consumption needs during the lead time (Figure 6).

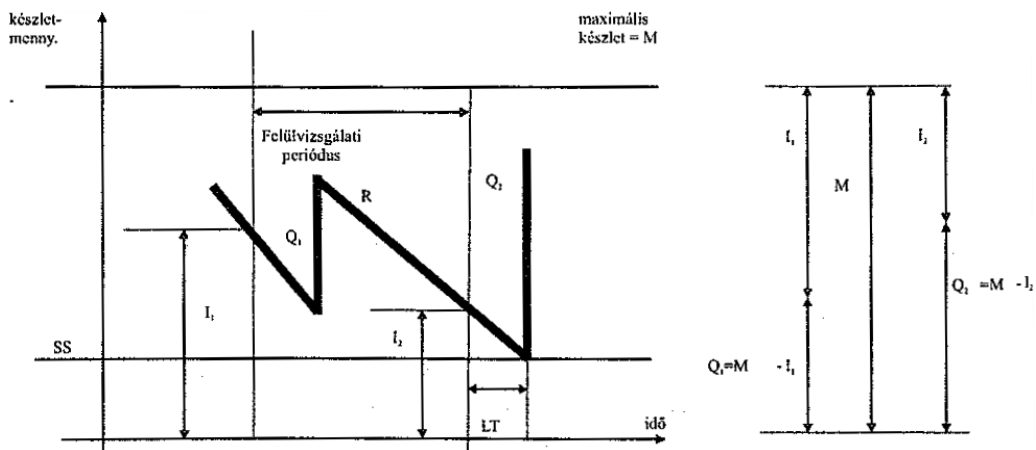


Figure 66. Periodic review model

Source: NÉMON et al. (2005).

The system can be modelled as follows:

$$M = r \times (R + LT) + SS$$

$$Q = M - I$$

$$Q = r \times (R + LT) + SS - I_n$$

where:

M = maximum stock level;
 r = daily use;
 R = length of the observation period;
 LT = order lead time;
 SS = safety stock level;
 Q = order quantity;
 I_n = stock at the n^{th} observation time.

In this system, the stock level always remains below the stock maximum. This rule allows the emergency stock to be replenished at all times and to be replenished in the event of a shortage.

Mixed systems

Mixed systems are those where fixed ordering levels and periodic ordering systems are combined. The system is based on periodic ordering (e.g. on the second day of each month), but when the stock level reaches a certain level, orders

are also placed regardless of the period (Figure 7). This system is preferable in conditions when the value of the items is high and the cost of holding the stock would be high.

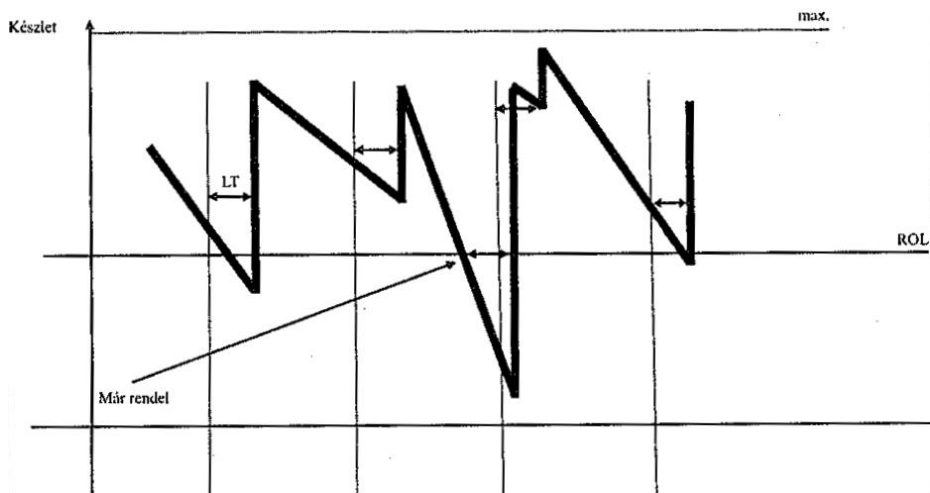


Figure 77. Mixed system, where orders are placed also between review dates

Source: NÉMON et al. (2005).

Another way of working could be where the order level represents the safety stock of a two-store model. In this case, only the stock is checked at the review dates and an order is placed only if the current stock is below the order level (Figure 8).

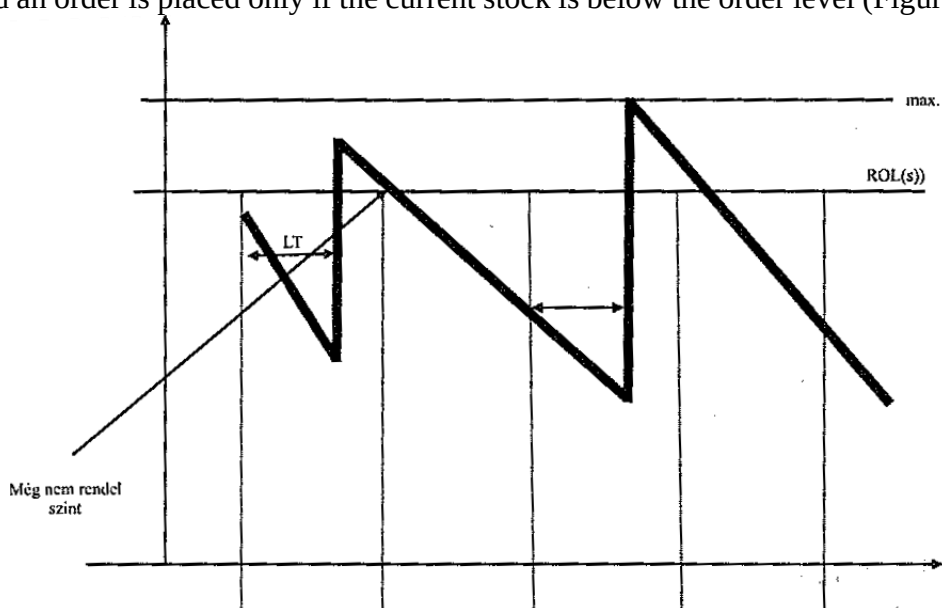


Figure 88. Mixed system where only orders below the order level are placed at the review time

Source: NÉMON et al. (2005).

Stocking models

Inventory models aim at defining the parameters of the inventory system and their utilisation.

Classical inventory management approaches the optimisation of inventory on the basis of costs.

Costs of stockholding:

- Preparation costs: all costs related to the issue of orders to purchasing or production:
 - transfer costs: the cost of readjusting machinery to fulfil a production order,
 - order dispatch costs: material and personnel costs of order dispatch, costs of obtaining information and insurance,
 - order records, etc.
- Stocking costs:
 - capital investment costs;
 - the costs of wear and tear, moral theft, misappropriation, insurance and taxes;
 - storage costs.
- Item cost: the actual cost of an item.
- Costs of stock shortages: occur when the customer cannot be served immediately, so they have to wait for the product to be manufactured or purchased. Types:
 - Compensable shortage: when the buyer is willing to wait for the product. In such cases, extra administrative costs or the cost of out-of-order delivery may arise.
 - Non-recoverable shortage: when sales are lost, i.e. loss of revenue (*NÉMON et al., 2005*).

Economic Order Quantity (EOQ) model

The inventory process for each product can be described by a process of inventory cycles similar to a sawtooth. By minimising the costs of the inventory process for a given period, an order lot size can be determined which will result in an optimal cost level for the system.

The Economic Order Quantity Model (EOQ) takes into account preparation and inventory costs to determine the order quantity. The inventory holding cost increases linearly with the quantity stocked, while the order cost per unit decreases as the order lot size increases. The total cost is minimal where the cost of holding stock and the cost of ordering are exactly the same (Figure 9).

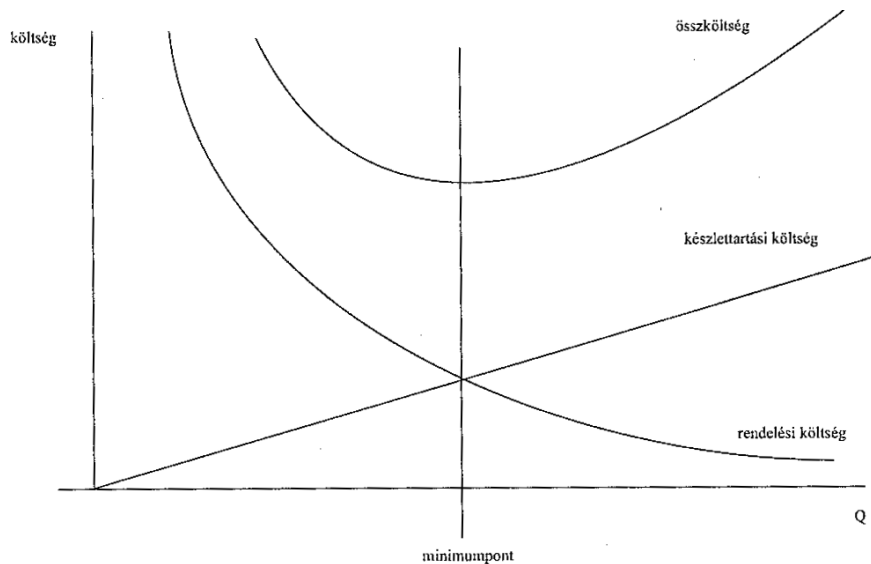


Figure 9: Graphical representation of the inventory cost function

Source: NÉMON et al. (2005).

cost, total cost, inventory holding cost, ordering cost

The inventory holding cost can be determined by multiplying the unit inventory holding cost by the average inventory.

$$\frac{K \times Q}{2}$$

where: K= cost of holding a unit of product in stock
Q= the order size

If K is expressed as a quotient, the formula is modified as follows:

$$\frac{C \times k \times Q}{2}$$

where: C= the price or value of the product
k= cost of inventory holding expressed as a percentage

The order cost can be calculated as follows:

$$\frac{S \times R}{Q}$$

where: S= cost of placing an order
R= demand for a given period

Q = the order size

The cost of stocking for a given period:

$$TC = R \times C + S \times \frac{R}{Q} + \frac{C \times k \times Q}{2}$$

The minimum total cost will be where the cost of holding stock and the cost of ordering are equal:

$$\frac{C \times k \times Q}{2} = \frac{S \times R}{Q}$$

Sorting the equation by Q :

$$Q^2 = \frac{2SR}{kC} \rightarrow Q = \sqrt{\frac{2SR}{kC}}$$

The EOQ model can be used under the following conditions:

1. Order lead times are known and constant, demand is relatively constant and known, and stock shortages are not allowed.
2. The costs of stockholding are known and constant.
3. The receipt is one-off (point-like) and its date is known.
4. The order lead time is known and constant.

There are several variations of the EOQ model that take into account other conditions in addition to those mentioned above.

Examples include:

- The order value model specifies the order size in terms of value and not in terms of quantity, as in the basic version.
- In a continuous replenishment or consumption model, replenishment is continuously running in parallel with production.
- The price break model takes into account the discounts received for purchasing larger quantities (GÁL, 2011).

1.5.3. Sales

The purpose of commercial work, and the final stage in the process of trading goods, is the sale of goods. The stages of the goods supply process that precede the sale - purchasing and stocking - are for the purpose of sale.

The sales process involves:

- preparing goods for sale,
- the stages of sale: the reception of the customer, the presentation of the goods, paying the purchase price, packaging,

- post-sale activities related to the sale.

Based on the interaction between buyer and seller and between buyer and goods during the sale, different types of sales are distinguished, as shown in Table 5.

Table 66. Main types of marketing

Viewpoint	Traditional sales	Self-selecting sales	Self-service sales	Sales after sampling
The relationship between the buyer and the seller	Direct	Direct	Indirect	Direct
The relationship between the buyer and the goods	Indirect	Direct	Direct	Direct
The product presentation form	Personal	Personal and impersonal	Impersonal	Personal and impersonal
Labour needs	Large	Medium	Low	Medium

Source: CZIMMER (2019).

1.6.Site selection

The problem of facility location usually arises when a company:

- wants to increase the capacity of its existing site,
- creates a new business unit to manufacture a product when expanding production capacity, or
- eliminate its existing capacity and relocate it elsewhere.

On the input side, one of the most important factors in choosing the location of the plant is the availability of labour. Wage conditions and the skills of the workforce are the most important factors here. Other determining factors are the location of sources of supply, the cost of supplies, the availability of services, the proximity of institutions carrying out capital operations (e.g. bank branches).

On the output side, the most important factors are the distance to markets and the transport, storage and distribution possibilities. Economic effects (e.g. tax conditions) and other non-economic factors (e.g. waste management solutions) also influence the choice (GÁL, 2011).

1.7.Consumer protection

In a competitive market, consumers can become vulnerable due to a lack of knowledge, and consumer advocacy organisations have been set up at international level and within countries to address this. The protection of the Hungarian consumer is covered by several branches of law: civil law, commercial law, criminal law, tort law and administrative law.

The task of consumer protection is to protect the safety and economic interests of consumers against the dominant position of manufacturers and traders. Consumers have the right to safe products and services. Manufacturers, importers, traders and service providers share responsibility for ensuring product safety (*VÁNTUS, 2011*).

The system and factors of consumer protection in Hungary are presented in Figure 10.

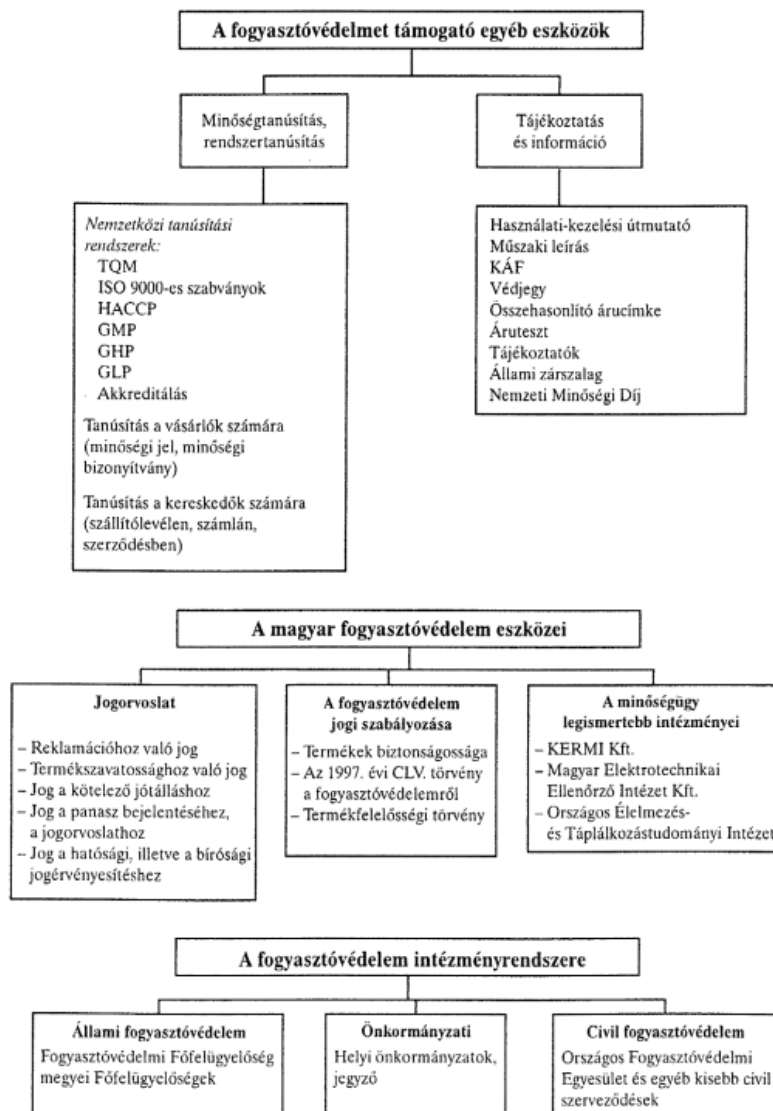


Figure 10. The Hungarian consumer protection system

Source: *VÁNTUS* (2011)

2. THE BASICS OF MARKETING

Marketing science emerged in the first and second decades of the 20th century, along with the differentiation of social science (sociology and psychology) and economics (LEHOTA, 2017). The American Marketing Association defined marketing in its early years (AMA, 1936) as "comprising all those business activities which are concerned with the flow of goods and services from the place of production to the consumer's table". The concept focuses primarily on the

business linkages of the flow of goods and services and less on the marketing tools and consumer orientation. In contrast, *KOTLER's (1991)* management-oriented definition gives a different perspective on the essence of marketing: 'Marketing is a chain of social and managerial processes in which individuals and groups create and exchange products among themselves while satisfying their needs and demands. The definition of marketing by *AMA (2004)* already reflects today's modern understanding: "marketing is an organizational function and process that creates, communicates and conveys value to customers and cultivates customer relationships in ways that benefit both the organization and its customers" (*LEHOTA, 2017*).

2.1.Types of corporate market orientations

Companies can organise their marketing activities around six different concepts.

2.1.1. Production concept

The production concept is that customers are looking for low-priced and widely available products. Managers in production-oriented organizations place the main emphasis on high productivity and wide distribution (*KOTLER, 1991*).

There are at least two situations where this concept should be applied:

- When there is a shortage in the market, i.e. demand exceeds supply (demand market).
- When in order to reduce production costs, the company intends to improve productivity (*KOTLER, 1991*).

2.1.2. Product concept

The product concept is that customers prefer products with the best quality, performance and features. Managers in product-oriented organizations focus on producing quality products and their continuous improvement (*KOTLER, 1991*).

Typical corporate thinking is: "How could customers possibly know what they want until we have figured it out?" But this kind of attitude leads to marketing myopia in most cases, with the company focusing too much on its product rather than on the needs of the consumer.

In product-centred thinking, the company's engineers first develop the product (R&D), then start manufacturing (production) and then determine the price based on the costs incurred (finance). Marketing is only involved at the end of the process and is only responsible for selling the product. On the contrary, marketing-oriented thinking starts from marketing (market), develops the new product (R&D) and then produces it (production), based on the needs of the

consumer, and finance is responsible for setting the price in line with the value recognised by the customer (KOTLER, 1991).

2.1.3. Sales concept

The sales concept is that customers, if left on their own, typically do not purchase enough of the company's products. The company therefore engages in aggressive sales and advertising in an attempt to sell its products to consumers (KOTLER, 1991).

The sales concept can be used by companies in at least two market situations:

- selling goods that are not in demand (e.g. insurance, high-value technical goods),
- agency work in general.

The sales concept is typically used by companies when there is excess capacity. They want to sell what they produce, rather than produce what they can sell. The main objective of marketing, on the other hand, is to ensure that sales are no longer surplus (KOTLER, 1991).

2.1.4. Marketing concept

According to the marketing concept, a company first identifies the needs and demands of its target markets and then satisfies them more effectively and efficiently than its competitors (KOTLER, 1991).

If the marketing-oriented mindset is compared with the sales concept, the following can be identified. The sales concept proceeds "from the inside out", i.e. its starting point is production. The managers of the company concentrate on the product and engage in strong sales and advertising activities in an attempt to sell their products to consumers (KOTLER, 1991). Profit is achieved by maximising sales volume.

In contrast, the marketing concept is "from the outside in", starting from the market, i.e. the consumer needs of the target group. Profits are achieved by focusing on the needs, wants and demands of the customer, using the tools of integrated (coordinated) marketing to meet those needs.

Four basic elements of the marketing concept according to KOTLER (1991):

- Target market focus
- Customer orientation
- Integrated (coordinated) marketing
- Profitability

Target market focus

Nowadays, it is becoming less and less a strategy for a company to be present in all markets at the same time, satisfying all the needs of consumers (mass marketing strategy). Instead, companies need to define the boundaries of their markets and develop a specific marketing programme for each of their target markets. This is called differentiated marketing (KOTLER, 1991).

Customer orientation

Customer orientation requires the company to define the exact needs of its customers, not from its own point of view, but from the point of view of the customer, the target market. In classic terms, while a satisfied customer will tell three people about his or her pleasant experience with a product, a dissatisfied one will complain about it to eleven. This fact draws attention to the importance of customer service, the main objective of which is to retain customers by ensuring their satisfaction. Listening to customer complaints is also an effective tool for corporate product development and innovation (KOTLER, 1991).

Integrated (coordinated) marketing

On the one hand, the concept means that the various marketing tasks - sales, advertising, market research, etc. - must be coordinated within the marketing department, and on the other hand, it means that marketing must be coordinated with the other departments of the company. In order to achieve interdepartmental coordination, the company carries out both internal and external marketing. External marketing focuses on the outside of the company, i.e. the customers, while internal marketing is responsible for motivating employees to ensure customer satisfaction. Internal marketing forms the basis of successful target market marketing (KOTLER, 1991).

Profitability

A marketing-oriented company targets profit not directly, but as the result of a job well done. In this sense, a company can make a significant profit if it is able to meet the needs of its customers more efficiently and effectively than its competitors. The level of customer satisfaction is a more important indicator than the level of profit (KOTLER, 1991).

2.1.5. Socially-focused marketing concept

The short-term needs of customers often clash with the long-term interests of society (Table 7).

Table 7: Practical examples of "conflict of interest" between marketing and society-oriented marketing concepts

Name of the product	It takes into account	
	the needs of the customer	the interests of society
<i>Fast food</i>	Yes	No
<i>High performance car</i>	Yes	No
<i>Disposable plastic bottle</i>	Yes	No
<i>Synthetic washing powder</i>	Yes	No

Source: SZIGETI and SZAKÁLY (2011).

According to the social marketing concept, the task of the company is to take into account the needs, demands and interests of the target markets and to satisfy them more efficiently and effectively than competitors in such a way that the welfare of customers and society is maintained and enhanced (KOTLER, 1991).

The social marketing concept takes three main aspects into account at the same time:

- Profitability
- Consumer needs
- Societal needs

2.1.6. Holistic marketing concept

The holistic marketing concept is the embodiment of an extended marketing approach (KOTLER and KELLER, 2012; SZAKÁLY, 2019).

Holistic marketing, while continuing all the elements of the social marketing concept, is further extended with relationship marketing and internal marketing (Figure 11).



Marketing osztály = Marketing department

Felső vezetés = Top management

Egyéb osztályok = Other departments

Belső marketing = Internal marketing

Kommunikáció = Communication

Termékek és szolgáltatások = Products and services

Csatornák = Channels

Integrált marketing = Integrated marketing

Holisztikus marketing = Holistic marketing

Teljesítménymarketing = Performance marketing

Árbevétel = Revenue

Márka és vevőérték = Brand and customer value

Etika = Ethics

Környezet = Environment

Törvényesség = Legality

Közösség = Community

Kapcsolatmarketing = Relationship marketing

Vevők = Customers

Csatorna = Channel

Partnerek = Partners

Figure 11: The components of holistic marketing

Source: SZAKÁLY (2019).

2.2.The modern marketing process

The process of marketing consists of analysing marketing opportunities (MIR, marketing research), planning marketing strategies and programmes, and organising, implementing and monitoring marketing operations (Figure 12).

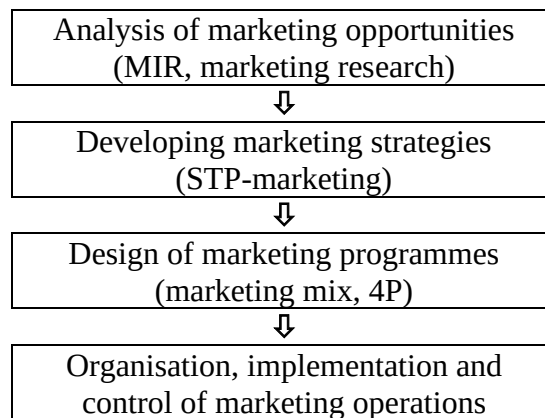


Figure 12: The steps of modern marketing

Source: SZIGETI and SZAKÁLY (2011).

2.3.MIR and marketing research

In today's information society, a company with up-to-date information on its macro and micro environment can gain a huge advantage over its competitors. Many companies have developed advanced marketing information systems that provide management with fast and detailed data on customer intentions, preferences and behaviour, as well as on possible actions by competitors. By obtaining the necessary information, companies can carefully assess their opportunities and select their target market strategies (SZIGETI and SZAKÁLY, 2011).

A marketing information system (MIS) is a set of people, equipment and procedures that collect, organize, evaluate and deliver necessary, accurate and timely information to marketing decision-makers (KOTLER, 1991).

Elements of the MIR

- Internal records (orders, sales, stocks, prices, accounts receivable data)
- Marketing monitoring system (a set of procedures and resources that marketing managers use to obtain day-to-day information about relevant processes in the marketing environment)
- *Marketing research system*
- Marketing analysis system (statistical analysis, etc.)

2.3.1. The marketing research process

Marketing research is the continuous, planned collection and evaluation of information and the development of the best business decision options for a specific market situation (KOTLER, 1991).

Marketing research consists of a sequence of the following steps:

1. definition of the purpose of research,
2. preparation of the research plan,
3. collection of data and information,
4. analysis of data and information,
5. summarizing of the results of the research.

2.3.2. Definition of the aim of research

In research, it is required to distinguish between the research problem, the research objective, the research question and the hypothesis (premise). The research problem describes why it is necessary to carry out the research in question. The research objective describes in broad terms what is to be investigated, what area is to be covered. The research question is a formulation of the objective in the form of a question. The hypothesis or premise is the researcher's preconceived answer to the research question. The hypothesis must be decided at the end of the research; it is accepted or rejected. If there is a complex hypothesis, it can be accepted, partially accepted, rejected or partially rejected (SZAKÁLY, 2019).

2.3.3. Preparation of the research plan

The second step in marketing research is to develop an effective research plan to obtain the information you need. The types of information sources need to be considered, a sampling plan needs to be drawn up, research procedures need to be decided and the necessary research tools need to be developed (SZIGETI and SZAKÁLY, 2011). The structure of the research design is illustrated in Table 8.

Table 8: Structure of the research design

Information resources	Sampling plan	Research procedures	Research tools
• Secondary • Primary	• Sampling unit • Sample size • Sampling procedure	• Observation • Inquiry • Focus group • In-depth interview	• Questionnaire • Interview transcript • Script

Source: KOTLER (1991).

Types of information sources

Secondary information is the set of data already collected for other purposes and available somewhere. These include internal company sources and external market sources (e.g. textbooks, journals, statistical publications). Primary information is the set of data collected first-hand for a specific purpose (KOTLER, 1991).

The sampling plan

The first task in sampling is to define the population, which may vary depending on the objectives of the research. It can be a city, a region, a larger area or the entire population of a country. The sampling frame is the part of the population that is directly available for sampling (e.g. a telephone directory). The sample population is the sample taken from the population, which for national questionnaire surveys typically means a sample of 1000-2000 persons (SOÓS and SZAKÁLY, 2017).

Scientific sampling has two important pillars (criteria). The first is representativeness, the second is random selection. The essence of representative sampling is that the structure of the sample population selected should faithfully reflect the composition of the population (MALHOTRA, 2001). Typically, representativeness can be ensured for background variables that are known for the population, such as gender, age, education, and, in the case of a national survey, type of municipality and region. For a reliable sample, widely accepted census data are used (SZAKÁLY, 2011).

Sampling should also ensure that each element of the population has a known and equal chance of being included in the sample. This is particularly important for large sample surveys. This is achieved by the random sampling procedure, which in practice takes the form of the random walking method for household selection. The appropriate person is selected from the household inhabitants visited using

the so-called birthday key. The interviewer conducting the interview asks: how many persons aged 18 and over live in the household? The next step is to select the respondent whose date of birth (birthday) is closest to the interview date (in simple terms: who had the last birthday?) from the persons of the right age. In this way, complete randomization can be ensured in a second step (SZAKÁLY, 2011).

Research procedures

The two basic methods of primary market research are quantitative and qualitative data collection. Quantitative market research produces quantifiable results which, in the case of random sampling, can be extrapolated to the population under study (SCIPIONE, 1994; MALHOTRA, 2001).

The best known form of this is the large sample survey, the data collection instrument in most cases being the questionnaire. The results are descriptive and the data are suitable for statistical analysis.

Qualitative market research provides results that are more indicative (not generalisable) than statistically reliable. It involves observing the attitudes, motivations and preferences of a small number of respondents. The most common forms are individual in-depth interviews and focus group interviews. The results obtained in qualitative market research are exploratory, generally not amenable to statistical analysis, and the information is textual and not quantifiable. While quantitative questionnaires are primarily concerned with finding out what the respondent does, qualitative interviews are primarily concerned with finding out why the consumer does something (SCIPIONE, 1994; MALHOTRA, 2001).

In observation, researchers systematically record patterns of consumer behaviour, objects and events in order to obtain accurate information about the phenomenon under study (e.g. a detailed analysis of the shopping process in a department store). Based on the degree of participation, the researcher can assume four positions (fully participant, participant-observer, observing participant and fully observer) (SOÓS and SZAKÁLY, 2017).

2.3.4. Collection of data and information

The most costly and error-prone activity in marketing research (e.g. respondent misdecoding or misinterpreting the questions asked; high costs of hiring a survey agent in face-to-face surveys).

2.3.5. Analysis of data and information

The analysis of data and information always depends on the method used. In the case of qualitative methods, statistical analyses are not appropriate because of the

small number of elements. The analysis of quantitative research depends on the empirical model of the research, an important principle is not to look for data and research questions for a selected statistical method, but to match the appropriate statistical methodology to the research problem and hypotheses (SZAKÁLY, 2019).

2.3.6. Summary of the research results

The results of the research should be summarised and presented in a way that can be interpreted by a person not familiar with the topic and marketing research and support appropriate decision making. The problem should be highlighted and the results presented, together with the conclusions and recommendations that can be drawn from the results (SZAKÁLY, 2019).

2.4. Analysis of consumer behaviour

Consumer behaviour refers to all the activities in which a consumer acquires and uses a product. The aim of consumer behaviour is to maximise customer value and customer satisfaction (SZAKÁLY, 2019).

It is required to distinguish between organisational and consumer markets. A consumer market is made up of individuals and households who buy products for personal consumption. The organisational market is made up of organisations (businesses, non-profit organisations, government agencies) that purchase products (usually for business purposes) to achieve organisational goals. Thus, on the organisational market therefore there is no consumer behaviour, but purchasing behaviour (SZAKÁLY, 2019).

2.4.1. The consumer behaviour model

Consumer behaviour can be modelled using the so-called black box method. The idea is to understand what factors influence the "black box" (inputs) and what consequences this will have on the purchase (outputs). In other words, we try to model what is going on in the mind of the buyer (SZAKÁLY, 2019).

The consumer can receive external stimuli from the marketing toolbox (company level) on the one hand, and from the macro-environment on the other. Marketing stimuli include the so-called marketing mix (product, price, sales channel and marketing communication). Other influencing factors are the economic, political, technological and cultural environment of the individual.

The output of consumer behaviour is the result of the purchase, where the consumer chooses the retailer, the product, the brand, while determining the time and budget spent on the purchase.

Between the inputs and outputs is the black box of the consumer. The buyer goes through a buying decision process, which is influenced by the buyer's characteristics. Figure 13 illustrates the basic model of consumer behaviour.

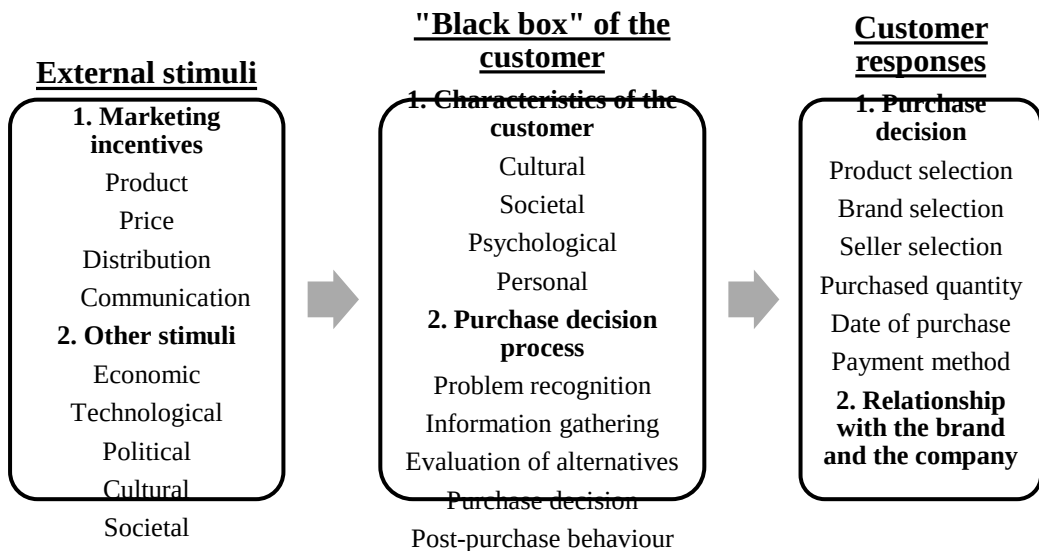


Figure 13: Basic model of consumer behaviour

Source: Kotler, 2001; Kotler and Keller, 2012 based on Kiss, 2017.

ASSAEL (1987) distinguishes four types of buyer behaviour based on the level of interest of the buyer and the magnitude of differences between brands (Table 9) (KISS, 2017).

Table 9: Four types of purchasing behaviour

	High level of interest	Low interest
Significant differences between brands	Complex purchasing behaviour	Purchasing behaviour seeking variety
Small differences between brands	Purchasing behaviour that reduces dissonance	Routine purchasing behaviour

Source: ASSAEL (1987).

Consumers behave in a complex purchasing behaviour if the product is expensive, rarely needed, or has a high purchase risk and is significant in itself. The consumer is then engaged in a cognitive learning process, actively gathering information, and the role of print media is prominent.

In dissonance-reducing shopping behaviour, the purchase is costly, infrequent and risky, but consumers do not distinguish between brands because they do not know them or do not consider it relevant. The consumer makes a quick decision based on price and convenience. Later on, they seek justification for their decision, so the main task of marketing communication is to dispel any doubts (dissonant feelings) that arise.

In routine shopping, consumers tend to buy more out of habit and less out of brand loyalty. Consumers are not interested enough in buying the product to actively seek information. Therefore, they acquire information passively, e.g. while watching TV or reading the newspaper. Repeated advertising does not lead to brand persuasion but to brand awareness.

In a variety-seeking shopping behaviour, consumers do not buy a new brand off the shelf the next time because they are dissatisfied with the brand they purchased before, but simply because they want variety (*SZIGETI and SZAKÁLY, 2011*).

2.5.Segmentation, target markets, positioning

In STP marketing, a company tailors its value proposition to one or more market groups, thereby concentrating its resources and improving the effectiveness and efficiency of its marketing activities.

STP marketing takes its name from the initials of its three steps (*SZAKÁLY, 2019*):

1. **Segmentation**
2. Targeting
3. Positioning

2.5.1. Segmentation

Segmentation is the process of dividing a heterogeneous market into homogeneous groups, called target markets. An important consideration is that the differences between the groups should be the greatest, while the individuals within the group should be the most similar.

We call these groups with unique demand characteristics segments (segments) (SZAKÁLY, 2019).

The segmentation criteria can basically be grouped according to two main approaches. One group divides the market based on the characteristics of consumers, while the other is based on the relationship with the product (KONTOR, 2017). The segmentation criteria for a consumer market (B2C) can be geographic (continent, country, region, county, municipality, climate, population density), demographic (e.g. age, life cycle, gender, income, family size, occupation, religion, nationality), psychological (e.g. social class, lifestyle, personality, culture) or behavioural (e.g. buying habits, attitudes, brand loyalty, product usage characteristics).

The segmentation criteria for a business-to-business (B2B) market may include: geographic factors (continent, country, region, county, municipality), demographic characteristics of the business (size, legal form, number of employees, turnover, industry), operational factors (e.g. technology), purchasing behaviour (based on public procurement, network of contacts, power structure), location (order lot size, order frequency, delivery time, payment time), personal factors of the buying organisation (e.g. loyalty, familiarity) (SZAKÁLY, 2019).

2.5.2. Selection of target markets

The next step in STP marketing is targeting. The target group(s) are the segments to which the company designs and offers its value proposition (SZAKÁLY, 2011). During this process, the company must evaluate each segment, taking into account two factors: the overall attractiveness of the segment and the company's goals and resources.

After assessing the different segments, the next step is to decide how many segments the company should target (SZIGETI and SZAKÁLY, 2011). There are five ways of selecting target markets (Figure 14):

- Concentrated marketing
- Selective specialisation
- Product specialisation
- Market specialisation
- Full market coverage

Koncentrált marketing				Termékszakosodás				Teljes lefedés			
	S1	S2	S3		S1	S2	S3		S1	S2	S3
T1				T1				T1	X	X	X
T2		X		T2	X	X	X	T2	X	X	X
T3				T3				T3	X	X	X

Szelektív szakosodás				Piacszakosodás			
	S1	S2	S3		S1	S2	S3
T1			X	T1		X	
T2	X			T2		X	
T3		X		T3		X	

T= termék
S=szegmentum

Figure 14: Target market selection strategies

Source: KOTLER and KELLER (2012).

Koncentrált marketing = Concentrated marketing

Termékszakosodás = Product specialisation

Teljes lefedés = Full market coverage

Szelektív szakosodás = Selective specialisation

Piacszakosodás = Market specialisation

Termék = Product

Szegmentum = Segment

2.5.3. Positioning

After segmentation and target market selection, the next task is to position the value proposition. Companies need to position their offer in such a way that the target market recognises the product's distinctive offer and unique image (SZAKÁLY, 2017a). The concept of positioning is defined by KOTLER and KELLER (2006) as "the process of designing a company's offering and image to occupy a distinctive place in the minds of the target market's customers". Positioning, in the most commonly used terms, is the process of distinguishing and separating a value proposition from alternative offerings in the market. The aim of positioning is therefore to place a unique 'label' on the product that will enable the consumer to recall it first, should the need arise.

When is positioning good?

- If the benefit (value) offered is important to the buyers in the target market.

- If the offered difference is not offered by any other company, then the position we offer is distinctive and unique.
- If the chosen position is well communicated to the target market.
- If the difference cannot be copied by competitors.
- If customers can afford to pay the difference.
- If the company can be profitable with the chosen position.

2.6. Use of marketing tools

When planning a value proposition, the company defines the marketing programmes that will be used to carry out market interventions that support the achievement of the company's objective (*SZAKÁLY, 2019*). In this chapter, a narrower area of the value proposition is the marketing mix. The marketing mix is a combination of corporate marketing tools used in different market situations, its elements are the 4Ps, i.e. product, price, sales channel (place) and marketing communication (promotion).

2.6.1. Product policy

A product is anything that can be offered for sale, can be sold and satisfies a need. Two main categories are distinguished according to the form in which they appear: goods and services. Goods are marketable products that have a tangible, material form. The aim of product management is to create a product, in a quality and quantity that satisfies the needs of the target groups and supports the achievement of corporate objectives (*SZAKÁLY, 2019*).

The product life cycle concept

The product life cycle is a model describing the competitive situation of a product. It follows from the product life cycle that

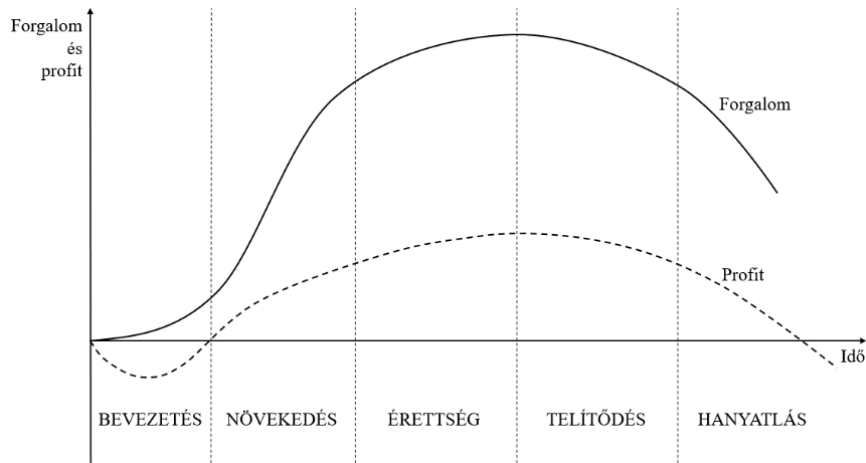
- all products have a limited lifetime,
- the turnover of the product at each stage poses different challenges, opportunities and problems for the company,
- profits rise and fall at each stage,
- at each stage, the product requires different marketing, financial, production, purchasing and personnel policies.

The life cycle of most products is an elongated bell-shaped curve (Figure 15). This curve can be divided into five characteristic stages: introduction, growth, maturity, saturation and decline.

Introduction: the phase of launching the product on the market, with a slowly increasing turnover. Due to the high costs of developing and launching the product, no profit is made at this stage.

Growth: the market accepts the product, rapid sales growth brings significant profits.

Maturity, saturation: the product reaches the potential limits of its market, its turnover is at a maximum and then slowly decreases. Profit stabilizes or decreases as the amount spent to defend the product's market against competitors increases.



Decline: as turnover declines, profits gradually decline.

Forgalom és profit = Turnover and profit

Bevezetés = Introduction

Növekedés = Growth

Érettség = Maturity

Telítődés = Saturation

Hanyatlás = Decline

Idő = Time

Figure 15: The classic product life-cycle curve

Source: KOTLER and KELLER (2006).

Product levels

In marketing literature, different levels of product can be distinguished (*LEVITT, 1980; WIERENGA, 1982; KOTLER and KELLER, 2006*). One of the most commonly used divisions is the definition of five levels of product (five-level product onion), the elements of which are illustrated using the example of foodstuffs (Table 10).

Table 10: Five levels of product for food

Name of product level	Food
<i>Elementary Benefit/Paper Utility</i>	Excellent taste, healthiness
<i>Basic product</i>	The subject food
<i>Expected product</i>	Food with high enjoyment value and health-promoting properties
<i>Extended product</i>	Fortification with various minerals and vitamins, branding
<i>Potential product</i>	Organic and functional foods

Source: based on *KOTLER and KELLER (2006)*, own ed.

In conclusion, product benefits play an important role in the product evaluation of consumers. Product benefits become known and experienced through tangible attributes such as quality, branding and packaging.

Product quality

Quality from a marketing perspective can be defined as the difference between the expected and perceived performance of a product or service. Quality can be assessed in three ways: producer quality, expected quality and perceived (consumer) quality. Manufacturing quality is the objective performance standard that is created by professionals during the design and manufacture of a product. It includes all the qualities and characteristics of a product or service that make it suitable for satisfying needs. Expected quality is the subjective level of performance that the consumer or user expects from the product. It includes all the qualities or characteristics of the product or service that the consumer or user has in mind about the product or service. Perceived quality is the subjective level of performance that the customer or user experiences when consuming or using the product. It includes all the qualities and characteristics of the product or service that the customer or user encounters afterwards (*SZAKÁLY, 2019*).

Branding

Increasing competition in the market has led to the emergence of more and more products that meet a specific consumer need. The "opacity" of supply increases

consumer uncertainty (*LEHOTA, 2001*). As a result, consumers are looking for "handholds" to help them choose between products. Consumers therefore buy well-known products that reduce uncertainty.

The American Marketing Association defines a brand as a name, term, sign, symbol, or combination of these (*KOTLER and KELLER, 2006*). It is intended to identify and distinguish the products (services) of a particular seller or sellers from those of competitors.

However, a brand is more than a set of identifying characteristics. Rather, brands are complex symbols. A brand can carry six levels of meaning (*KAPFERER, 1992*): descriptors, benefits, values, culture, personality, users.

According to *AAKER (1991)*, brand equity is the set of assets and liabilities associated with the brand name and its symbols that increase (or decrease) the value of products and services to the company and/or consumers. Brand equity is positive when consumers are familiar with the product, have a close relationship with it and associate strong, positive and unique associations with the brand.

The components of brand equity are:

- brand awareness,
- perceived quality,
- brand associations,
- brand loyalty,
- other brand equity components.

There are four main branding strategies:

- generic products (unbranded products)
- licensed brand names (e.g. products bearing the names of cartoon characters)
- producer brands
 - unique brand name (Ráma, Magnum)
 - single surname (Philips, Heinz)
 - corporate and individual name together (Pick Rákóczi, Suzuki Swift)
- commercial brands
 - cost-driving brands (e.g. bearing the name of the commercial enterprise that markets the product)
 - competing commercial brands (Milfina)

The packaging

Packaging is also an important part of product policy and its importance has increased in recent years. The emergence of self-service shops has intensified this process, where packaging has to fulfil a number of marketing functions

(differentiation, information). On this basis, packaging is partly included in the product mix and partly in the marketing communication mix. Due to its differentiating nature, it is also considered by many as the 5th element (Packaging) of the marketing mix (SZAKÁLY, 2017b).

Packaging has a commercial role in ensuring easy transport, stocking and transshipment, but it is also an important tool for product protection and safety. From a commercial perspective, packaging facilitates space-saving storage. For raw materials (B2B organisational market), the commercial role of packaging is stronger than the marketing role. If packaging is to be positioned in the marketing system from this point of view, it is clearly part of the product mix.

The marketing role of packaging is to present the product in a good light and encourage purchase. Packaging is important to differentiate a product from its competitors in the marketplace, and packaging also serves to inform the customer. The role of packaging for finished products (B2C consumer market) is mainly to inform consumers and to attract their attention. It can facilitate the use of the product and acts as a "silent salesman", i.e. it has to sell itself in the stores. Packaging in this case is more likely to be part of the marketing communication mix.

2.6.2. Price policy

Prices have traditionally been set by market bargains between sellers and buyers. Traditionally, the buyer's choice has been determined mainly by price, but with rising consumer incomes, non-price factors are becoming increasingly important in consumer behaviour (SZIGETI and SZAKÁLY, 2011).

When discussing the importance of prices, we cannot avoid the definition of price, which has been formulated in similar terms by different authors (REKETTYE, 1997; KOTLER and KELLER, 2012). Price is the "monetary" value that the buyer is willing and able to pay for a product or service.

In practice, cost-centric pricing often prevails, with companies rarely revising previously set prices, thus divorcing them from market demand and making pricing policy inflexible (SZAKÁLY, 2019). In many cases, price is not even taken into account as a market positioning tool and is therefore set independently of other elements of the marketing mix. As a consequence, the effectiveness of positioning deteriorates. Another problem is that prices are not differentiated by product and segment.

Pricing methods

When setting prices, companies need to take into account their costs - cost-based (cost-oriented) pricing - and the value that the specific characteristics of their products bring to their customers - customer-oriented pricing (*HUSZKA, 2017*). Of course, substitute products and their prices should not be ignored, nor should the prices of similar products produced by competitors - competitive pricing.

If a product has specific characteristics, the company has much more room for manoeuvre in pricing (*HUSZKA, 2017*).

Cost-plus pricing

There are two basic types of cost-plus pricing: margin pricing and mark-up pricing. The absolute margin is the difference between the selling price (or cost price) of a product and its purchase price (or cost price). If the margin is to be expressed as a percentage, the absolute margin is expressed as a percentage of the selling price. The profit margin is the margin expressed as a percentage of the purchase price (SZAKÁLY, 2019).

Market-driven (customer-oriented) pricing

Generally speaking, market-driven pricing focuses on the willingness of the buyer to accept prices, rather than the producer. In this case, price calculation is a much more complex task than starting from costs. Buyers make their purchase decisions based on the expected utility of the product and the prices of similar products on the market (knowledge of competitors' products and reference prices of substitutes) (HUSZKA, 2017).

In perceived value pricing, consumers seek to spend their limited disposable income rationally, by purchasing the product with the highest perceived value (i.e. the product that is most profitable for them, for example, by buying products with a more economical packaging) (HUSZKA, 2017).

Competitor-driven, so-called alignment pricing

If the products are very similar, customers do not perceive the differences, so the competitor's price may be the determining factor. The consideration of competing prices is also strongly influenced by the type of market, the circumstances of entry and the characteristics of the product. Oligopolistic sectors producing undifferentiated products (e.g. steel, oil and paper) are characterised by competitor-driven pricing (KOTLER, 2012; SZIGETI and SZAKÁLY, 2011).

Bidding (e.g. competitive tendering or public procurement)

Competitive pricing is common where companies bid for work.

The company does not set the price strictly according to its own costs and demand, but according to the bid prices it expects from competitors. If it wants to win the contract, it has to underbid other companies without going below its own costs, as it will then make a loss.

Psychological pricing

Psychological pricing is a pricing tactic whereby a company uses the psychological characteristics of the consumer to make its value proposition appear more favourable. The most common example of this is the use of so-called "price to the nines" in retail. For high-quality products, so-called image pricing, i.e. pricing according to the image of the product, works well (HUSZKA, 2017; SZAKÁLY, 2019).

2.6.3. Marketing channels for different market types

Marketing channels are groups of autonomous organisations that are involved in the process that results in a product or service being ready for use or consumption (KOTLER and KELLER, 2006). An agent is an intermediary who seeks out and negotiates with buyers on behalf of others, but does not take ownership of the goods. A trader is an intermediary firm that buys, takes possession of and then resells the goods. A wholesaler sells the goods to those who buy for resale or business use. A retailer sells goods or services directly to the final user (household, consumer) (SZIGETI and SZAKÁLY, 2011).

In the case of consumer goods, there are usually a large number of potential households and buyers who are geographically dispersed, the products are relatively simple and there is no close seller-buyer relationship, usually with longer marketing channels (SZAKÁLY, 2019).

The possible types of marketing channels in the consumer goods market are illustrated in Figure 16.

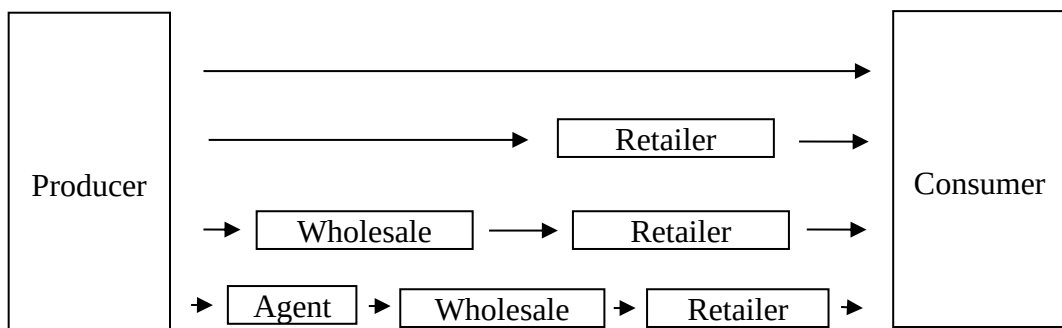


Figure 16: Distribution channels for consumer goods

Source: KOTLER and KELLER (2006).

A zero channel is when the producer sells directly to the consumer. This type of channel is sales in the own shop or door-to-door delivery. A single-level marketing channel is one in which an intermediary appears between the producer

and the consumer, usually a retail organisation. If two intermediaries enter the sales channel, typically a wholesaler and a retailer, it is a two-tier channel. A three-tier marketing channel is one where three intermediaries (typically a wholesaler, a retailer and an agent) are inserted between the producer and the consumer.

For industrial products, there are fewer buyers, buyers are usually companies that are more geographically concentrated, products are more complex, and therefore there is a close seller-buyer relationship, which results in shorter channels (SZAKÁLY, 2019).

Shorter channels are also created in the services market, where the product is intangible, there is a close seller-buyer relationship and products cannot be stocked (SZAKÁLY, 2019).

2.6.4. Marketing Communications

Communication has undergone significant development and transformation thanks to technological progress. According to SAS (2012), the last decades have witnessed a paradigm shift in communication, with an interactive explosion. Whereas before the paradigm shift, issuers (companies/advertisers) could control and filter certain information, today consumers can react to it even instantaneously (SOÓS and KONTOR, 2017). Marketing communication is the fourth element of the marketing mix.

Marketing communication is the process by which an organisation delivers a carefully designed message to its target markets, with the aim of influencing the market, influencing market participants, increasing sales and ultimately supporting the company in achieving its market objectives (SZAKÁLY, 2019).

Tools for marketing communication

Marketing communication consists of five plus one tools:

- advertising,
- sales promotion,
- PR,
- personal sale
- direct marketing and
- other tools (not communication tools).

Advertising is any paid form of presentation of ideas, goods or services from a non-personal, identifiable source. Sales promotion is a short-term incentive to try or buy a product or service. Propaganda (public relations, PR) is the set of programmes designed to promote and/or protect the image of a company or its

products. Personal selling is a face-to-face communication with one or more potential customers, which requires the activity of both parties. The objectives are: presentation, answering questions, obtaining orders. Direct marketing is direct communication with actual or potential customers (by mail, telephone, television, e-mail or other non-personal means of contact), where the person contacted either responds voluntarily or is persuaded to do so (KOTLER, 1991, SZIGETI and SZAKÁLY, 2011). The other category includes tools that are integrated with communication. These include the product itself, its quality, appearance, features, packaging, price, range, related services, warranty, after-sales service and distribution network (SZAKÁLY, 2019).

In recent decades, marketing communication has undergone radical changes, the main driver being the emergence of online marketing. The innovation, efficiency and complexity of online marketing sets it apart from traditional ATL (above the line) and BTL (below the line) marketing communication tools.

The roots of line-based categorisation date back to the time when, in accounting and budget tables, high-cost channels were placed above the line drawn on paper (ATL: radio, press, TV, etc.) and less significant items below the line (BTL: sales promotion, personal selling, PR, etc.) (ESZES and BÁNYAI, 2002; SOÓS and KONTOR, 2017).

Companies need to keep a number of factors in mind when developing their marketing communication mix. They need to take into account the type of product market they want to market, decide whether to follow a push or pull strategy, and know at which stage in the life cycle the product being promoted is (SZIGETI and SZAKÁLY, 2011).

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