

Glossary of Aviation Terms

Accidental No-Show

A passenger who fully intends to use a booking they hold, but who is prevented from doing so by unavoidable circumstances e.g. road congestion.

Air Operator's Certificate

A certificate, issued in the UK by the *Civil Aviation Authority*, by which an airline's safety standards are controlled. Withdrawal of its AOC would ground an airline.

Air Services Agreements (sometimes "Bi-lateral Agreements")

Treaties between governments which set out the rules under which international *Scheduled Services* will be operated. The international network of air Services Agreements was negotiated following the failure of the *Chicago Convention* of 1944 to agree on a multi-lateral basis for post-war aviation.

Airport Co-ordination Ltd

The company responsible for Slot allocation at the UK's congested airports. To ensure neutrality, thirteen airlines now have a shareholding in ACL.

Anti-Trust Immunity

In the USA, the Anti-Trust laws are those which forbid collusion between supposed competitors, and impose draconian penalties on firms which are guilty of violations of them.

For strategic alliances between US and European airlines to work effectively, immunity from the Anti-Trust laws is essential. The US government has used such immunity as a bargaining chip in its quest to conclude *Open Skies Agreements* with individual European governments.

Apparent Need

Factors claimed by Customers to govern their choice-of-airline decisions.

Association of European Airlines

The trade association of Europe's scheduled airlines, based in Brussels.

Available Seat-Kilometre (ASK)

An output measure in air transport, defined as one seat available for sale flown over one kilometre.

Available Tonne-Kilometre (ATC)

An output measure in air transport, defined as a tonne of uplift capability flown over one kilometre.

Bermuda Agreement

The name given to the Air Services Agreement between the UK and the USA first negotiated in 1946, it has always been a restrictive agreement and was made even more so when re-negotiated at Britain's insistence in 1977. The US government regards the Bermuda Agreement as anti-competitive and is seeking to have it replaced by a so-called *Open Skies* agreement.

Cabotage

Has two meanings:

1. An air service between a mother country and one of its colonies e.g. UK – Bermuda. As empires have been broken up, so the number of routes in this category has declined into insignificance.

2. Domestic rights in a foreign country. Still firmly resisted by almost all countries, except those in the European Union. The USA is notably opposed to Cabotage despite its ostensible “Open Skies” approach.

Capacity

Many Air Services Agreements limit the commercial freedom of the airlines receiving *Designation* to mount the capacity of their choice on a route. Often, a 50/50 split of capacity between the airlines of the two countries, is required with capacity normally defined in terms of number of flights.

Capital Lease

Alternative name for finance lease.

Charter Service

An anachronistic description of an air service which is not operated according to a published timetable and where the seats are not on retail sale to the public because they can only be bought through a wholesaler.

The distinction between *scheduled* and Charter services has now been abolished with the European Union but is still significant in some long-haul markets.

Chicago Convention

An international meeting held in 1944 with the aim of agreeing on the post-war basis on which international air services would take place. Though Chicago saw substantial achievement in technical fields, it failed in its primary aim of achieving a consensus on economic aspects. There was a fundamental disagreement between the free market philosophies of the USA and the remaining governments which were represented, who all favoured tight regulation.

Civil Aviation Authority

A government quango, responsible for a number of functions in the UK

aviation industry including safety, air traffic control and the regulation of air travel organisers through the ATOL system. It also in some cases regulates airport landing fees.

In terms of economic regulation the CAA decides which airlines will receive route licences where the relevant Air Services Agreement limits the number of airlines which can receive Designation.

Clearing House

A bank run by IATA to assist airlines in making interline payments to other carriers.

Code-Sharing

The process whereby an airline uses the two letter code of another carrier to identify its flights. Began as a result of passengers' preference for *on-line* rather than *interline* connections. Now often used by carriers to form co-operative, rather than competitive relationships with other airlines.

Consumer

The person who actually boards an aircraft. May, or may not, also be a *Customer*.

Controllable Cost

Cost with the control of airline management e.g. labour, commissions.

Cross-Elasticity of Demand

Relationship between the demand for a product, and the price or quality of competing products. In airline economics, a relevant cross-elasticity on short-haul routes is that with surface transport.

Customer

The person who makes decisions on such aspects as choice of transport mode, choice-of-airline and class of service. May, or may not, also be a *Consumer*.

Damp Lease

The lease of an aircraft together with qualified flight crew but no cabin crew.

Deliberate No-Show

Someone who deliberately does not turn up for a flight on which they hold a reservation. A common reason is that the person concerned has made multiple bookings for their return journey.

Demand

The number of people coming forward to fly. Is not an absolute number, but rather a relationship with the price of air travel.

Demand Factor

The average number of passengers who wish to book on a particular flight. Of little use for planning purposes because of variations around the average.

Department of Transport

Is the Department of the UK government responsible for aviation matters. In particular, carries out the negotiation of *Air Services Agreements*.

Department of Transportation

The Department of the US government responsible for economic aspects of the American airline industry.

Departmental Costs

Cost classification whereby costs are divided according to the department responsible for them e.g. Flight Operations, Maintenance and Engineering.

Deregulation

A process whereby traditional controls over entry, capacity and pricing are removed. Even in a so-called “deregulated” market airlines will still be subject to regulation of their safety standards, and to the controls associated with questions of collusion, anti-competitive behaviour and mergers and take-overs.

Derived Demand

A product which is not consumed for its own sake, but rather to give access to something else. Almost all air travel is a derived demand.

Designation

Under the terms of an *Air Services Agreement*, the number of airlines from each country which can fly on the routes between the two countries signing the agreement. Many ASAs are still *single designation*, though some allow for *dual designation* (e.g. UK - Japan). A small number permit *multiple designation* (e.g. UK - South Africa).

When more airlines wish to fly a route than can do so under the terms of an ASA, someone has to decide which will, and which will not, operate. In the UK this function is carried out by the Civil Aviation Authority, though conceivably in the future it may be taken over by the European Commission on a EU-wide basis.

Differential Pricing

A pricing philosophy whereby prices are varied to reflect different demand elasticities between different market segments.

Direct Operating Costs (DOCs)

Airline costs which are aircraft-related e.g. fuel and oil, landing fees. Of most relevance to airline fleet planning decisions.

Direct Subsidy

A payment to an airline by the government which owns it. Will appear on the revenue side of the profit-and-loss account.

Dry Lease

The lease of an airframe only. Normally only of interest to airlines already operating the aircraft in question.

Economies of Scale

Unit cost advantages enjoyed by large scale producers. Generally held to be small in air transport, though they are perhaps now increasing.

Economies of Scope

Advantages of marketing muscle-power available to large producers. In air transport, an effective frequent flyer programme is an example.

Federal Aviation Administration

The department of the US government responsible for safety and technical aspects of the American airline industry, and for air traffic control.

Fieldlength/Range Diagram

The relationship between available fieldlength, aircraft take-off performance and the trade-off between payload and fuel (range).

Fifty Per Cent Rule

The rule, operating with the European Union which states that 50% of so-called “new” slots must be given to *New Entrant* airlines rather than being awarded to incumbents. A “new” slot is defined as one which becomes available through an increase in the airport’s capacity, or because another airline has given it up.

There is general agreement that the Fifty Per Cent Rule has done little to enhance competition, because it has resulted in valuable slots often being awarded to very weak airlines. There are proposals to change it but after a lengthy consultation period still nothing has been agreed.

Finance Lease

A lease for the full operating life of an aircraft. Lessee may have an interest in aircraft residual value. Must appear on balance sheet. Mainly undertaken for tax reasons.

Fixed Costs

Costs which do not vary with output e.g. aircraft ownership.

Fleet Age Profile

Relative ages of the aircraft in an airline’s fleet.

Fleet Commonality

A situation where an airline has only a small number of aircraft types in its fleet. Benefits come through in such areas as pilot training and spares inventories, but may mean that some potential routes cannot be flown, or are operated with the wrong type of aircraft.

“Fly America”

A policy of the US government whereby all air transportation paid for by the US government has to be undertaken by US airlines. Has been used by some European governments to question the true nature of American “Open Skies” credentials.

Fortress Hub

A situation where in a deregulated market, an airline seeks to control

competition by achieving a high degree of dominance at a particular airport.

Freedoms of the Air

A description of the operating rights of designated airlines under the terms of an Air Services Agreement.

There are six relevant freedoms:

- 1st The right to overfly a country's airspace without landing
- 2nd The right to land in a foreign country for non-traffic purposes such as refuelling
- 3rd The right to set down commercial traffic carried from an airline's home country to a foreign country.
- 4th The right to bring back commercial traffic from a foreign country to an airline's home country.
- 5th The right for an airline to fly commercial traffic between two foreign countries on a flight originating in its home country.
- 6th Arguably, the 6th Freedom is not a "Right" comparable to those contained in Nos 1-5. It refers to airline's using their home base as a hub or stopping point in order to fly passengers and freight between two foreign countries. In practice it is a combination of two sets of Third and Fourth Freedom rights.

See also *Cabotage*

Gateways

Under the terms of an Air Services Agreement, the points in each country which can be served in each country by the airline receiving *Designation*. Details of Gateways are usually set out in a confidential *Memorandum of Understanding* rather than in the Agreement itself.

Grandfather Rights

The principle by which an airline, once granted an airport *Slot*, will keep it in perpetuity providing it is used with sufficient regularity.

Grandfather Rights are being increasingly criticised as a way in which the Slot allocation system is biased in favour of long-established incumbents at the expense of new entrants. Incumbents, though, defend it as a necessary basis for planning and investment.

Within the European Union, the principle of Grandfather Rights has been modified by the so-called "*Fifty Per Cent Rule*".

Income-Elasticity of Demand

Relationship between changes in income, and the demand for a product. In developed countries, air travel demand is highly income-elastic (ie. it is a desirable luxury which people purchase in larger quantities if their disposable income increases).

Gross Yield

Yield before the payment of commission

Indirect Operating Costs (IOCs)

Costs which are airline, rather than aircraft related e.g. Reservations. Of no relevance to airline fleet planning.

Indirect Subsidy

A situation where airline costs are reduced by favourable treatment by a government. e.g. government loan guarantee reduces borrowing costs.

Input Costs

Airline cost classification method whereby costs are divided up according to the input they are used to purchase e.g. labour, fuel etc.

Interline Connection

A connection whereby the inbound flight to a hub and the outbound flight from it are with different airlines. Passenger dislike of interline connections was the driving force behind the growth of *code-sharing*.

International Air Transport Association (IATA)

The trade association of most of the world's international airlines.

IATA has a number of important functions, including those of the settlement of inter-airline accounts through the Clearing House, and providing a forum within which airlines can co-ordinate their schedules planning.

Historically, IATA's most controversial function has been concerned with so-called *Tariff Co-ordination*. Air Services Agreements were generally written in terms which exclude price competition between airlines. IATA provided the forum within its Traffic Conferences whereby airlines met together to agree on fares and cargo rates. Today, Tariff Co-ordination activities continue but they are mainly only concerned with full, interlinable fares. Mostly, airlines introduce cheaper promotional fares outside of the IATA framework.

International Civil Aviation Organization (ICAO)

ICAO is the specialist body of the United Nations dealing with aviation. Its most important functions concern the setting of technical standards through the so-called Annexes to the Chicago Convention.

Market Segmentation

The process whereby a market is divided up as a prelude to a product/price/promotion decision.

"Marketing Myopia"

A situation where a firm takes too narrow a view when answering the question "What business are we in?"

Memorandum of Understanding

Supposedly, all Air Services Agreements are public documents. However, there are often confidential Memoranda of Understanding which set out the true restrictions on competition which the Agreement encompasses.

Net Yield

Yield after the payment of standard commissions.

Net Net Yield

Yield after the payment of both standard and override commissions.

New Entrant

Under the *Slot Allocation* rules, defined as an airline with four or fewer services per day at the airport in question.

No-Show

A passenger who holds a booking on a flight and who fails to turn up to use it. Can be divided into *accidental* and *deliberate*.

Non-Scheduled Service

An alternative name for a Charter service.

Notice of Termination

All *Air Services Agreements* contain a one year Notice of Termination clause which allows a government to require an Agreement to be renegotiated if it is regarded as no longer being appropriate.

On-Line Connection

A connection whereby both the in-bound flight to a hub and the outbound flight from it are with the same airline. *Code Sharing* is sometimes used to give the impression that a connection is on-line when in fact it is *interline*.

Open Skies Agreement

A form of Air Services Agreement promoted by the USA in which the restrictive conditions of traditional ASAs are replaced by Freedom in terms of entry, capacity and pricing.

The USA's promotion of competitive ASAs does not stretch as far as agreeing to *Cabotage*, nor to the abolition of the controversial *Fly America* policy.

Open Skies Agreements have now been signed between the USA and many European governments, but the validity of these is now being challenged by the European Commission which argues that they run counter to the principles which underlie the *Single Aviation Market*.

Operating Lease

A lease for less than the full operating life of an aircraft, with the lessee having no interest in the aircraft residual value. Does not have to appear on balance sheet.

Operating Licence

The basis of airline regulation with the *Single Aviation Market* of the European Union. In order to obtain an Operating Licence an airline must qualify for an Air Operator's Certificate regarding its safety standards, and must comply with rules about its financial fitness.

Once it has an Operating Licence, an airline can fly anywhere in the EU, with no artificial distinction between *Scheduled and Charter* services.

The only constraint on this freedom of entry is the very important one of airport *Slots*.

Operating Permit

The question of which airlines will exercise the *Traffic Rights* set out in an *Air Services Agreement* will be decided by the government of the home country. However, once Designation has been obtained, the airline in question will still have to obtain an Operating Permit from the government of the country at the other end of the route. Such a Permit can only be refused on grounds of safety, or if the airline in question does not conform to the relevant *Ownership Rules*.

Orient Airlines Association

The trade association of Far East airlines, based in Manila.

Output-related Costs

A cost classification method which relates airline costs to the decisions airline managers must make. Can be divided into:

- seat-related e.g. meals, drinks, airport passenger charges
- flight-related e.g. fuel and oil, landing fees
- route-related e.g. route-related advertising
- airline-related e.g. reservations system.

Ownership

The question of airline ownership and control is still an extremely contentious one. All *Air Services Agreements* are written in terms which state that the *Traffic Rights* defined by the Agreement can only be exercised by nationals of the countries signing the agreement.

Passenger Load Factor

A measure of the relationship between output produced and output sold. It is calculated by dividing an airline's *Revenue Passenger Kilometres* by its *Available Passenger Kilometres*.

Payload-Range Diagram

For a given aircraft type, a diagram describing the trade-off between payload and fuel (range).

Peaking

Changing levels of demand through time. As all air transport output is instantly perishable at the time of production, a very important question is when demand arises, not just its quantity.

Price-Elasticity of Demand

The relationship between changes in price and changes in the quantity bought. In air travel, business demand tends to be relatively price-inelastic, and leisure air travel highly elastic (i.e. a small change in price will have a disproportionate effect on the quantity bought).

Prorating

The process by which fares are divided up between the airline who fly a passenger on different sectors of a multi-sector journey. Airlines use the IATA *Clearing House* as the mechanism to make and receive the necessary payments.

Public Service Routes

The small number of routes with the European Union to which the principles of freedom of entry implicit in the *Single Aviation Market* do not apply. They are routes to isolated communities where there is a social service requirement for air services to be maintained. A monopoly can be granted to an airline for a period of time on such a route to enable it to become established.

Revenue Dilution

A situation where a customer pays a lower price than that which they are prepared to pay. In a *Differential* pricing system a combination of fare conditions and capacity controls are used in order to minimise dilution.

Revenue Management

A process by which an airline decides which seats are to be sold at which prices and in which currencies.

Revenue Passenger-Kilometre (RPK)

An output measure in air transport, defined as a filled seat flown over one kilometre.

Revenue Tonne-Kilometre (RTK)

An output measure in air transport, defined as a tonne of payload flown over one kilometre. The payload can either consist of freight, or passengers and their bags converted into weight.

Scheduled Service

A now-anachronistic description of a service which will be operated on a year-round basis, irrespective of short-run variations in demand, and with seats on retail sale to the public. The opposite of “*Non-scheduled*” or “*Charter*” services.

The distinction is still significant in some long-haul markets where scheduled services are regulated through the system of *Bi-lateral Agreements*, whereas charter services are the exclusive responsibility of the government of the destination country.

Scheduling Committee

The Committee responsible for overseeing the *Slot Allocation* process at congested airports. Membership of the Committee is open to all airlines serving the airport in question, provoking the criticism that the system is biased against new entrants.

Seat Accessibility

The probability of a *customer* being able to obtain a seat near to the

departure time of a flight. Should be divided into “high” and “low” rather than “good” or “bad”.

Single Aviation Market

The term used to describe the present, largely deregulated, regime for aviation within the European Union. In a progressive process of reform, the old, restrictive system based on Air Services Agreements has been replaced by one based on freedom of market entry and access, the abolition of controls on capacity and the virtual, but not complete, deregulation of pricing.

Slot

The right granted to an airline to use an airport for either a landing or a takeoff at a particular time.

As the airline industry has grown and the provision of aviation infrastructure has failed to keep pace with this growth, so the question of slot allocation has become steadily more contentious.

The allocation of slots at a congested airport is carried out by an appointed *Slot Co-ordinator*, using principles based on the concept of *Grandfather Rights*. With the European Union, these principles have been supplemented by the so-called “*Fifty Per Cent Rule*”.

Slot Allocation

The process by which it is decided which airlines should use which slots at a congested airport. It is the responsibility of the appointed *Slot Co-ordinator*.

Slot Co-ordinator

The person appointed by an airport *Scheduling Committee* to oversee the allocation of airport *Slots*. At many airports, the Slot Co-ordinator is still an employee of the largest airline using the airport. As airport congestion has increased, this has increasingly been seen as unsatisfactory and the attempt has been made at some airports to introduce a greater degree of transparency and neutrality into the slot allocation process. At congested UK airports the Slot Co-ordinator is now an employee of *Airport Co-ordination Ltd*.

Spill

Customers who request a seat on a particular flight but cannot be accommodated because the flight is full.

Start-Up Economics

The economics of new airlines. New carriers often have cost advantages over longer-established rivals, suggesting few benefits for airlines from *economies of scale* or learning curve effects.

Status Goods

Those goods where if the price increased, the quantity bought also increases. In airline economics, the First Class seat may be a Status Good.

Tariff Co-ordination

A function of the International Air Transport Association, whereby IATA arrange Traffic Conferences with which airlines can meet to discuss fares and cargo rates.

Traffic Rights

A description, within an *Air Services Agreement*, of the rights that can be exercised by the airlines designated by each country. See *Freedoms of the Air*.

True Need

Factors which actually govern customers' buying decisions, as opposed to *Apparent Needs*. Can include such human failings as greed, laziness and the desire for recognition/status.

Uncontrollable Cost

Cost largely outside the control of airline management e.g. Air Traffic Control charges.

Uniform Pricing

A pricing policy whereby all customer are charged the same, as opposed to the varied price levels of *Differential* pricing.

Unit Costs

Costs incurred per unit of output (e.g. cents per RPK).

Variable Costs

Cost which varies with output e.g. fuel & oil.

Weight Load Factor

A measure of the relationship between output produced and output sold. Is calculated by dividing an airline's *Revenue Tonne Kilometres* by its *Available Tonne-Kilometres*.

Wet Lease

A lease of an aircraft to include trained flight and cabin crew opposite of *dry lease*.

Yield

Revenue earned per unit of output (e.g. cents per RPK). Can be divided into *gross*, *net* and *net net* yields.

Glossary of Marketing Terms

ACORN

A classification of residential neighbourhoods. Social grading using district of residence. This and other similar classification methods are becoming more important now in airline direct and relationship marketing.

Action

Fourth stage of a sale. Involves *closing* the deal.

Advertising Agency

Specialist firm providing advertising services. Agencies are rewarded by the fees they charge to clients, and the commission paid to them by advertising media.

Advertising life cycle

Cyclical increase, followed by decline, in the impact of advertising. Life cycles can vary from days up to many years.

Advocate

A term in Relationship Marketing whereby a customer not only buys a *firm's* product, but actively recommends that others should do so.

AIDA

Stages of a sale, divided into *attention, interest, desire* and *action*.

Apparent need

The needs which those taking part in the work of a *Decision-Making Unit* will admit to, and will claim form the basis for their opinions.

Assumptive close

Closing technique whereby the sales executive assumes that the order has been given by, for example, starting to fill in an order form.

Attention

The first stage of a sale.

Attitude

Predisposition on the part of a customer to behave in a particular way.

Boston Box

Framework for decision-making with respect to a firm's *Product Portfolio*, based on the two variables of growth in the total market and the share of the market held by the firm's own product.

Brand

Product where customers perceive significant differences between the offerings of competing suppliers. These differences can be either “tangible” or “psychological”.

Brand equity

The price premium obtainable from a strong brand, in comparison with prices paid for a commodity product.

Brand mapping

Graphical representation of the position of different brands.

Brand positioning

The values that position a brand from other, competing brands.

Brand stretching

Extending a brand's scope by using it to market another product.

Brief

Instructions given to advertising agency by client.

Buyer

Representative of purchasing department in industrial buying. *True need* will be to obtain a good deal from the seller, in order to justify existence.

Cash Cow

Situation in the *Boston Box* where a firm's product has a high share of the total market, but where total demand is no longer growing strongly. Competitive pressures should therefore slacken, allowing good profits to be made. However, the “cash cow” may not remain profitable for long.

Closing

The point at which the sales executive attempts to complete a sale.

Commodity

Products where customers perceive no difference between the offerings of competing suppliers.

Communications Mix

Mix of spending on different methods of communicating with customers.

Competitive advantage

Factor which will enable a firm to outperform its competitors.

Consumer

Person who actually experiences the product.

Consumer Marketing

Marketing targeted at the individual or the family unit.

Creative strategy

Interpretation of *brief* by advertising agency.

Customer

Decision-maker with regard to choice of supplier and type of purchase.

Database

The use of a database in direct marketing.

Database Marketing

Information about customers and potential customers held on computer. Must include information about purchasing history.

Decider

Final decision-maker in model of industrial buying behaviour.

Decision-Making Unit

Process whereby a firm makes industrial buying decisions. Often includes the elements of *deciders*, *users*, *influencers*, *gatekeepers* and *buyers*. Those taking part in a DMU will have both *apparent* and *true* needs.

Decline

Final phase of *Product Life Cycle*, characterised by declining sales. Its onset is a sign that the product should be withdrawn and resources devoted to new products where demand is growing.

Demographics

Characteristics of a *market segment* in terms of age, sex, income levels etc.

Derived demand

Demand which does not arise for its own sake, but as a result of another demand. (Almost all air travel is a derived demand).

Desire

Third stage of a sale. The “desire” phase will also require answers to any objections which the prospect may raise.

Destroyer

A term in *relationship marketing* whereby a person not only does not buy from a firm, but actively tries to persuade others not to do so as well.

Differential Pricing

Situation where prices are varied according to customers willingness/ability to pay.

Direct mail

Direct marketing using the mail or fax. Now characterised by rapidly-growing consumer resistance, and increasing legal constraints.

Direct marketing

Marketing by direct contact between supplier and retail customer.

Direct representation

Communicating with customers through a field sales force.

Display advertising

Advertising material for the *point-of-sale*.

Dissonance

Feelings of concern experienced by buyer once sale has been concluded.

Distribution channel

Channels through which suppliers make the link between themselves and the final customer.

Diversionary marketing

Marketing aimed to increase share of existing demand (opposite of *generative marketing*).

Dog

Boston Box situation where a firm's product has only a low share of a stagnant or declining market. The investment message is "give up".

"Do nothing case"

Analysis of possible future position of a firm, if its present strategies are continued unaltered.

Dual-positive suggestion

Closing technique whereby the prospect is offered two positive alternatives from which to choose.

Early adopters

Customers who follow *Innovators* in purchasing a new product. Their coming into the market corresponds with the *growth* phase of the *Product Life Cycle*.

Early majority

Customers who follow *Early adopters* in purchasing a product. Their coming into the market corresponds with the part of the *Maturity* phase of the *Product Life Cycle*.

Explicit need

Need which customers express for themselves. Much more powerful in major sales than the alternative of an *implied need*.

FMCG

Fast-moving consumer goods.

Frill

Minor aspect of product detail, easily matched by competitors.

Gatekeeper

Player in model of industrial buying behaviour. Controls access into the firm's *Decision-Making Unit (DMU)*. Tactics to deal with gatekeepers include "kill", "by-pass", "frighten" and "convert".

Generative marketing

Marketing aimed at growth through increasing the size of the total market for a good or service. Of vital importance in air freight market.

Goal statement

Broad, usually qualitative statement of the nature of firm's business.

Growth phase

The second stage of the *Product Life Cycle*. It will be characterised by rapidly rising sales. However, this increase in sales will attract the attention of competitors who will begin to develop their own rival products.

Implication

Consequence for a firm of a problem. One of the central skills required in

industrial marketing is the ability to build the implications of a problem being experienced by the customer.

Implied need

Statement by customer of problem. Sales executive must convert the implied need into an *explicit* need.

Income elasticity

Relationship between changes in demand and changes in customers' disposable income. Can be subdivided into:

Income Elastic Demand: Change in demand more than the change in income.

Income Inelastic Demand: Change in demand less than the change in income.

Industrial marketing

Firm-to-firm marketing.

Influencer

Contributor to a *Decision-Making Unit (DMU)*, who will not actually use the product or service once it has been bought, but whose opinions will still influence the final decision of the *DMU*.

Innovators

The first consumers to adopt a new innovation. Their willingness to do so reflects a combination of psychological need and financial resources. Only a small proportion of consumers come into this category. Their coming into the market corresponds with the *Introductory phase* of the *Product Life Cycle*.

Intention

Statement of how a customer's behaviour might change in the future, if the supplier changes his product specification and/or price.

Interest

Arousing interest constitutes the second stage of a sale.

Internal marketing

The process of selling the concept of marketing to different departments within a firm.

Introductory phase

First stage of the *Product Life Cycle*. It will be characterised by low sales and low or non-existent profits.

Laggards

The last customers to come into the market for a product. They correspond to the *decline* phase of the *Product Life Cycle*.

Late majority

Customers who follow the *Early Majority* in buying a product. Their coming into the market corresponds with the later part of the *Maturity* phase of the *Product Life Cycle*.

Lifestyle

Market segmentation based on the values and aspirations that individuals hold.

Lifetime value

The purchases made by a customer over the whole period during which they buy from a particular supplier.

Likert scale

Method of measuring attitudes in consumer surveys. Runs from “Agree strongly” to “Disagree strongly”.

Loyalty marketing

Marketing based on giving rewards to customers who are regular purchasers. Likely to be especially valuable in industries where *switching costs* are low.

Marketing Mix

Marketing process expressed as four “P”s - product, price, promotion and place. Other “P”s such as “politics” now often included.

Marketing myopia

The mistake of taking too narrow a view when answering the question “What business are we in?”

Market segment

Group of customers who have sufficient in common to form the basis for a product/price/promotion combination.

Maturity phase

The third stage of the *Product Life Cycle*. Growth in sales will slow and then stop, due to market saturation and increasing competition. A product *relaunch* may be necessary.

Media advertising

Advertising by purchasing space or time from media suppliers.

Media buying

Purchasing of advertising space.

Media relations

Communication with customers by obtaining beneficial publicity through communications media.

Need

A customer requirement which it is essential that suppliers should meet. Can be divided into *apparent* and *true*, *implied* and *explicit* needs.

NPD

New Product Development.

Objection

Point raised by prospect against making a purchase. Must be answered at the *Desire* stage of the *AIDA* model.

Objective

Specific, quantified statement of the progress which a firm intends to make over time.

OTV

Opportunity-to-view. Quantitative measure to guide the amount of *media-buying* necessary to ensure that advertising has the desired impact.

Pareto's Rule

Generally applicable rule stating that 80% of profits are derived from 20% of customers.

"Percentage of Revenue"

Method of setting promotional budget. It is quite wrong, as it ties promotional spending to market conditions.

PESTE

Method of establishing a *scenario* using the five headings of Political, Economic, Social, Technological and Environmental.

Planning horizon

Period of years ahead for which strategic plans are formulated.

Planning system

Framework within which strategic plans are formulated. Describes, too, participants in the planning process.

Point-of-sale

Point of contact between supplier and customer.

Position Audit

Framework for analysing a firm's present position using the four headings of *strengths, weaknesses, opportunities* and *threats*. Also known as *SWOT* analysis.

Pricing elasticity

Relationship between changes in price and changes in demand. Can be subdivided into:

Price Elastic Demand = change in price produces a greater change in demand.

Price Inelastic Demand = change in demand is less than the change in price.

Problem child

Alternative name for *wildcat* in the *Boston Box*.

Product Life Cycle

Model exploring the relationship between demand for a product and time. Its message is that product development is a never-ending process for the successful firm.

Product Portfolio

Range of products being offered by a particular firm.

Promotional budget

Amount of money available in a given time period for communication with customers.

Psychographics

A description/summary of *attitudes* in a *market segment*.

Quality Gap

A concept in *Relationship Marketing* to describe a situation where a customer's experience of quality is above or below their expectation.

Random sample

Sample where all members of a target population have an equal chance of inclusion.

Relationship marketing

A marketing philosophy whereby a firm gives equal or greater emphasis to the maintenance and strengthening of the relationship with its existing customers as it does to the necessary search for new customers.

Relaunch

Initiative undertaken during the *maturity* phase of the *Product Life Cycle*. Can take the form of product enhancement, price cuts, increased promotional spending, or a combination of all three.

Resistors

Consumers who can never be persuaded to come into the market for a particular product.

Sales promotion

Attempt to increase sales through running competitions and similar activities.

Scenario

An analysis of the most likely future situation facing a firm. Is often prepared using the technique of **PEST** analysis.

Semantic Differential Scale

Method of measuring attitudes in consumer surveys.

Sensitivity Analysis

Testing of the resilience of a strategic plan by reworking it using different, pessimistic, assumptions.

Social grading

Classification of households according to head-of-household's occupation.

Sponsorship

Communicating with customers by having the firm's name associated with a particular individual, team or event. May be a cost-effective way of building awareness and image, but poor method of closing business.

Star

Situation in the *Boston Box* where a firm's product has a high share of a rapidly growing market. High share should enable some profits to be made

but the growth in the total market will result in heavy competition. High investment to protect the dominant position will therefore be necessary.

Status goods

Goods where an increase in price is associated with an increase in demand.

Switching Costs

The costs of changing from one supplier to another. Where switching costs are low, there is likely to be a need for *loyalty marketing*.

SWOT Analysis

Alternative for *Position Audit* (qv).

Synergy

Situation where a firm producing two or more products together can obtain lower costs than firms producing each product separately.

Task based method

Correct method of fixing promotional budget, based on the question “what do we need to spend?”

Test Marketing

Marketing initiative taken on an experimental basis over only a small part of the market area it is hoped eventually to penetrate.

Tracking

Monitoring the success of advertising through the progress of a campaign.

Tradeoff

Situation where additional costs are incurred in one area of marketing, in order to secure more than compensating benefits in another.

Trial close

The sales executive testing to see whether the prospect is willing to buy, without seeking a “yes” or “no” answer.

Uniform pricing

Situation where all customers are charged the same, irrespective of their willingness/ability to pay.

User

In *Decision-Making Unit*, person who will actually use the product. Will want to gain maximum utility from product and to protect status. May be less concerned about price.

USP

Unique selling proposition. Statement of where a product is uniquely different from its rivals.

Want

Customer requirement which may be important, but not essential, for suppliers to meet. Can be divided into “tangible” and “psychological.”

Wear-out

Cyclical decline in the impact of advertising towards the end of the Advertising Life Cycle.

Wildcat

Boston Box situation where a firm's product has a low share of a rapidly growing market. The investment message is to spend money to improve position in the expectation that profits will come in the longer term. Also known as *Problem Child*.