Uttar Pradesh Rajarshi Tandon Open University

Master of Business Administration

MBA-2.4

Marketing Management

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MARKETING MANAGEMENT

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आन्तरिक कवर–दो का प्रारूप

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परिमापक

अनुवाद की स्थिति में

मूल लेखक	**अनुवाद**
मूल सम्पादक	**भाषा सम्पादक**
मूल परिमापक	**परिमापक**

सहयोगी टीम

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UNIT-1 INTRODUCTION TO MARKETING

Objectives

After reading this unit, you should be able to:

- Understand what marketing is
- Understand the difference between need, want and desire
- Explain the need of marketing strategy at different levels
- What are the tasks necessary for successful marketing management?

Structure

1.1 INTRODUCTION

Though marketing is talked and discussed in business terms today, its origin goes back to the ancient civilization when man used symbols, signs and material artifacts to transact and communicate with others. The term ‘market’ originates from the Latin noun ‘Marcatus’ which means ‘a place where business is conducted’. A layman has somewhat similar connotations of the word ‘market’ which brings to his mind the vista of place where the buyers and sellers personally interact to finalize a deal. However, for the students of marketing, it has wider and deeper implications. It is not merely a place of exchange but an arrangement that provides an opportunity of exchanging goods and services for money.

Marketing, in modern times, means learning from customers, listening to customers and transforming the organization around customers. In this context, Philip Kotler has defined the term market as "an arena for potential exchanges". Similarly, as C.K. Prahalad puts it, the future lies in co-creation – a process where companies and their customers will collaborate to come up with products and services. The marketing professionals agree that this is one of the greatest challenges and that there are no ready-made solutions available. Customer education involves putting the knowledge of one's product at the disposal of customers. Educating the customer is tricky because it involves establishing a rapport and an emotional connection with the customer.

1.2 MEANING OF MARKETING

Some marketing experts think that what we need today is 'customer connect' and educating the customer is the only means to achieve this. It involves everything, skills, attitudes, behavior and knowledge – and service also as a part of customer education. William J. Stanton has defined marketing as "a total system of interacting business activities designed to plan, price, promote and place want-satisfying products and services to present and potential customers". Marketing not only deals with goods and services but it also focuses on ideas, issues, concepts and principles.

In the present highly competitive economy, which can be called a buyer's market, it is the customer who wields full power. Marketing is managing profitable customer relationships. The basic objective of marketing is to attract new customers by promising and offering superior value and to retain and grow current customers by delivering satisfaction. Marketing deals with customers more than any other business function, and deals mainly with customers. "Marketing is a total system of business, an ongoing process of discovering and translating consumer needs and desires into products and services, creating demand for these products and services, serving the consumers and his demand through a network of marketing channels and expanding the market base in the face of competition. Most successful firms today practice the marketing concepts. That is, marketers first identify consumer needs and then provide products that satisfy those needs, assuring the organization's long-term profitability.

Needs

The concept of human needs is the fundamental concept underlying all marketing activities. A need is the difference between a consumer's actual state and some ideal or desired state. They are biogenic in origin and include physiological needs for food, clothing warmth, shelter and safety. Social needs are craving for belonging and affection. Knowledge and self-expression are the other individual needs of human being. When the difference between consumer's actual state and some ideal state is big enough, the consumer is motivated to take action to satisfy the need. Needs can be related to physical functions such as eating or to psychological ones like wanting to look good. All these needs are basic requirements of any individual, and are not a creation by marketing people.

Wants

The specific way a need is satisfied depends on an individual's history, learning experiences and cultural environment. A want is a desire for a particular product used to satisfy a need in specific ways that are culturally and socially influenced. However, how each person satisfies the need might be quite different. When an American needs food, he may want a greasy cheeseburger and fries; whereas, if an Indian needs food, he may want chapattis or rice, and coffee or tea. Wants are shaped by the society in which one lives and are described in terms of products that will satisfy needs. The only other difference between needs and wants is that while human needs are limited, wants are unlimited.

Demand

When desire is coupled with the buying power or resources to satisfy a want, the result is demand. Based on their needs, wants and buying capacity, consumers ask for or demand products which they feel will give them maximum value and satisfaction. Most of the marketing companies take pains to study and understand their customer's needs, wants and demands, based on which they plan their strategies for products and promotions.

Difference between Selling and Marketing

Most of the people use 'marketing' and 'selling' as synonyms, though there is a substantial difference between both the concepts. Selling and marketing brings different orientations to business; hence managers are expected to follow different kinds of strategies for business success.

Under selling concept, the need for some selling is taken for granted. It has a product focus and is mostly producer driven. It is only the action part of marketing and has short-term goals of achieving certain level of revenue, profit and market share. When the focus is on selling, the businessman thinks that sales must start immediately after the production schedule is complete. Also that the task of the sales department to sell whatever the production department has manufactured. Selling converts the product into cash for the company in the short run.

Under the marketing concept, the aim of marketing is to render selling superfluous. Marketing is a wider approach than selling and is dynamic in nature. With full understanding of customer demand, the product must fit or match the buyer needs entirely and it should sell itself without any promotion efforts. Its focus is on the customer rather than the product. In marketing, the process starts with the identification of consumer needs and will not end until consumer feedback is taken to measure his or her satisfaction. According to Theodore Levitt 'the difference between selling and marketing is more than semantic. A truly marketing minded firms offering is determined not by the seller but by the buyer by creating value satisfaction.

Marketing is the basic reason for the existence of a business organization. It works as the guide for all business/non-business organizations. Marketing is something which is going on all around us. Marketing people are busy calling for our attention always, to try a product or service. It is a powerful mechanism which alone can satisfy the needs and wants of consumers at the effectiveness with which its marketing strategies are formulated and implemented. It is said to be the eyes and ears of a business organization as it keeps the business in close contact with its economic, political, social and technological environment and informs it of events that can influence its activities as per requirements of the market.

1.3 DEFINITION OF MARKETING

Marketing helps in having a good range of products and suggest to the management the scope for improving and developing new products to satisfy the changing customer needs. An effective marketing effort is in accordance with ethical business practices and should be effective from both the social and business point of view. This approach emphasizes the need for efficiency in distribution. The nature, type and degree of efficiency are largely dependent upon the kind of marketing environment within which the enterprise operates. With the changing business scenario, marketing has taken the shape of value-added marketing activity, wherein the basic pressure of any marketing activity for sales in a planned way is how the four Ps, i.e., product, price, promotion and place are tuned.

In short, modern marketing begins with the customer, not with production cost, sales, technological landmarks and it ends with the customer satisfaction and social well-being. Under the market-driven economy buyer or consumer is the king.

The American Marketing Association defines marketing as "Marketing is an organizational function and a set of processes for creating, communicating and delivering value to customers and for managing customer relationship in ways that benefits the organization and its stakeholders.

Michael R. Solomon defines marketing is a process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational objectives. From a broader social point of view, definition of Paul Mazur is more relevant. Mazur defines marketing as the creation and delivery of a standard of living to society. This is a much broader approach, which views the firm as an organized behavior system designed to generate outputs of value to consumers. The modern marketer is called upon to set marketing objectives, develop the market plan, organize the marketing function, implement the marketing plan or program and control the marketing program to assure the accomplishment of the set marketing objectives. There are various misconceptions about marketing. Many people assume that marketing is expenditure and it does not take care of the scarce resources of the organization. Contrary to this, an effective marketing program is always linked with a performance measure like return on investment. Marketing means managing markets to bring about profitable exchange relationship by creating value and satisfying needs and wants. Therefore, it is defined as a process by which individuals and groups obtain what they need and want by creating and exchanging products and value with others. The elements of modern marketing system are shown in figure 1.1.

The suppliers provide raw materials to produce goods. The company (marketer) and its competitors send their offers and communication to customer directly or through marketing intermediaries. The customer compares the value and satisfaction offered in each product or service and decides to buy. All these factors in the marketing system can be affected by environmental force like – demographic, economic, social, political, legal, cultural and technological etc. A company's success in marketing as a function depends on how well entire system serves the needs of final customers.

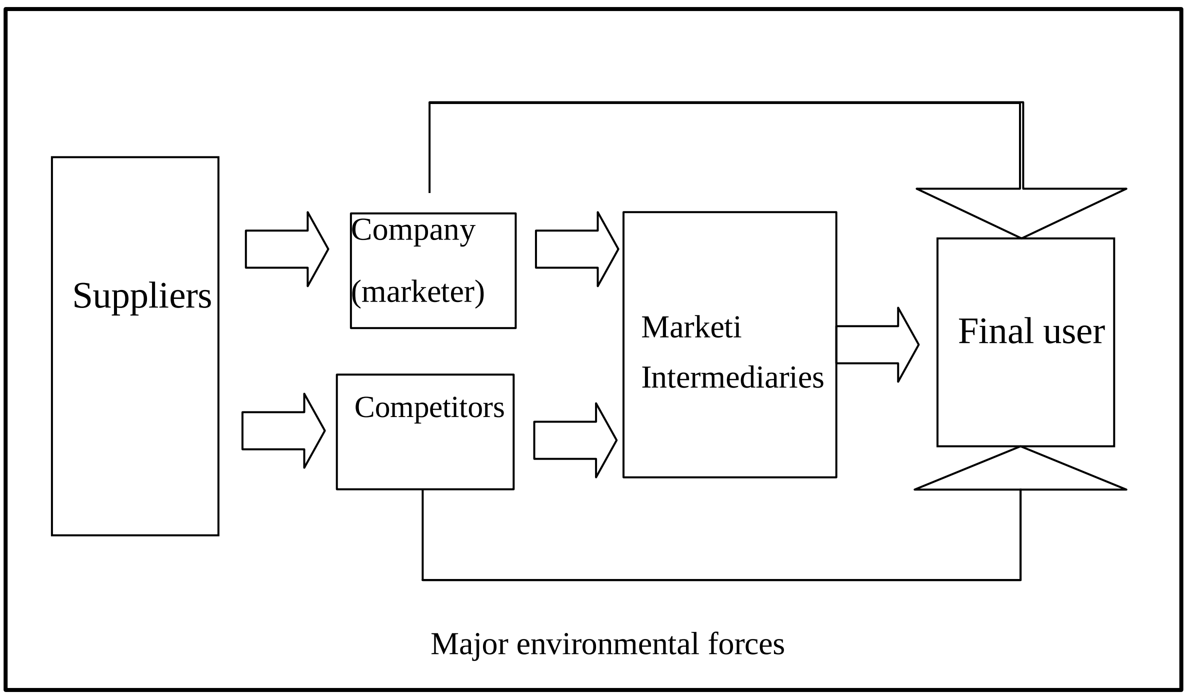

Figure 1.1 : Elements of a Modern Marketing System

1.4 MARKETING MANAGEMENT

According to Philip Kotler, "Marketing management is the art and science of choosing target markets and building profitable relationship with them. This involves getting, keeping and growing customers through creating, delivering and communicating superior value." Thus marketing management involves managing demand, which in turn, involves managing customer relationship.

Marketing as an exchange of value

To create exchange is the heart of every marketing act. An exchange occurs when something is obtained for something else in return, which means that some transfer of value occurs between a buyer and a seller. The buyer receives an object, service or idea that satisfies a need and the seller receives something he or she feels is of equivalent value. That means that something (or someone) may be worth a lot to one person but not to another. The challenge to the marketer is to create an attractive value proposition; a marketplace offering that fairly and accurately sums up the value that will be realized if the product or service is purchased. There are two pitfalls to this basic idea: First, the product or service can be oversold and the second, the product or service can be undersold.

Marketing as an exchange process has gained significance over the years, as it has tried to conceptualize marketing behavior. Though a customer can get involved in different kinds of exchanges while buying a product, the scope of understanding exchange in the context of marketing is confined to the economic institutions and consumers in the traditional sense. Broadly there are three types of exchanges: restricted, generalized and complex exchanges. For an exchange to occur, at least two people or organizations must be willing to make a trade, and each must have something the other values. Both parties must agree on the value of the exchange and how it will be carried out. Each party also must be free to accept or reject the other's terms for the exchange.

Successful marketing does not generally come about by accident, it needs to managed effectively. Three fundamental aspects of marketing management can be identified: processes, structures and outcomes. Marketing is a matching process by which a producer provides a marketing mix (product, price, promotion and physical distribution) that meets consumer demand of a target market within the limits of society. The process is based on corporate goals and corporate capabilities. Marketing process brings together producers and consumers – the two main participants in exchange.

Marketing management is a process of identifying customer needs and wants and then developing a marketing program to satisfy customer needs with a profit. So, effective marketing starts with the identification of a set of consumers and their need structure. A marketer needs to identify marketing opportunities by analyzing and scanning external environment and collecting market related information to estimate current market demand and forecast future potential. Marketing management process consists of four key stages, namely market analysis, marketing planning, implementation of the marketing program and control of the total marketing effort. Some of the basic questions which needs to asked are as follows:

Analysis : Where are we now? What are the strength and weaknesses of the company and its products? How does the company's market share compare with that of its competitors?

Planning : What is the mission of the business? Where do we want to be? What strategy will be adopted in order to achieve those objectives? What objectives should be set for the next year?

Implementation : How are we going to put into effect the strategy that will lead us to our objectives?

Evaluation and control : Did we achieve our objectives? If not, why? How can deficiencies be rectified?

The marketing manager assumes the role of a solution provider rather than a product manufacturer. Market analysis helps the marketer to identify new markets for existing products and for the new one. Marketing plan is not effective unless it is implemented. Without a proper implementation program, marketing planning exercise is just paper work. Companies typically produce a strategic marketing plan for a five-year period. Over this time period, projections can be subject to a great deal of speculative estimation. Nevertheless, a five-year strategic plan can be vital to give a sense of direction to a company's marketing efforts. Over the shorter terms, companies usually produce an annual plan which gives more details of how the strategy will be implemented over the forth-coming 12-month period.

A marketing manager has to take various decisions for developing a successful marketing program. Marketing decisions are taken under certain assumptions about the environment. Many a times, when these assumptions go wrong, marketing program fail. Environmental factors are external to the organization and beyond the control of the marketing manager. He needs to take note of the current environment and assume risk to develop opportunities and avert threats for marketing success.

1.5 MARKETING MIX

The marketer's task is to determine the best way to present a good or a service for consumer's consideration, the marketer has many decisions to make, and so he or she needs many tools. Marketing activities comes in all forms. McCarthy classified these activities as marketing- mix, which consists of the tools that are used together to create a desired response among a set of predefined consumers. Marketing mix consists of four Ps: product, price, promotion and place. These tools include the activities that introduce it to consumers.

The particular marketing variables under each P are shown in Figure 1.2. A successful marketing strategy must have a marketing mix as well as a target market for whom the marketing mix is prepared. The firm can change its price, sales force size and advertising expenditures in the short run. It can develop new products and modify its distribution channels only in the long run. The marketing mix will change according to changing marketing conditions and also with changing environmental factors like social, technical, economic and political etc. affecting each market.

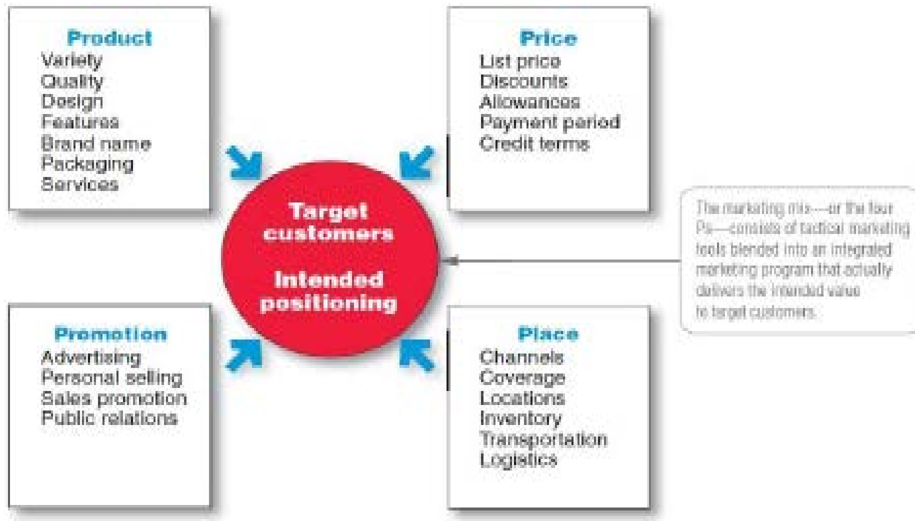

Figure 1.2 : Elements of Marketing Mix

1.6 MARKETING STRATEGY

Planning is an ongoing process of making decisions that guide the firm both in the short term and for the long term. Peter Drucker has rightly defined business planning "as a continuous process of making present entrepreneurial decisions systematically and with best possible knowledge of their futurity, organizing systematically the effort needed to carry out these decisions against expectations through organized feedback. Planning identifies and builds on a firm's strengths, and helps managers at all levels make informed decisions in a changing business environment. Planning means that an organization develops objectives before it takes action.

Strategic Planning

Strategic planning is the managerial decision process that matches the organization's resources and capabilities to its market opportunities for long-term growth. Strategic planning is long term planning by the top management. This plan specifies organization's primary goals and objectives and focuses on the entire organization. Many large firms realize that relying on only one product can be risky, so they have become multiproduct companies with self-contained divisions organized around products or brands. These self-contained divisions are Strategic Business Units (SBUs) – individual units within the firm, each having its own mission, business objectives, resources, mangers and competitors. At the SBU level, top managers typically establish a mission, conduct an analysis of the environment, set business goals, and develop growth strategies.

Characteristics of a Good Marketing Plan

A marketing plan is a document that describes the marketing environment, outlines the marketing objectives and strategy and identifies who will be responsible for carrying out each part of the marketing strategy. A good marketing plan should communicate to every member what is desired of each member, so that they have some level of goal clarity, understanding of assumptions that lie behind the goals and the context of each activity and decision. Different organizations follow different kind of planning approach. Organizations where top management sets both the goals and plan for the lower management, follows a top down approach. In some organizations each unit creates its own goals and plans, which are then approved by the top management, are called as bottom up approach. Because marketing is so central to a firm, in many cases strategic planning and marketing planning are almost inseparable. Of course, top business planners and marketing managers don't just sit in their offices dreaming up plans without any concern for the rest of the organization.

Strategic Planning at Corporate Level

Top management is involved in the corporate planning process. Corporate planning is a term used to denote a formal, comprehensive and systematic appraisal of internal environment to achieve organizational objectives.

Establishing Corporate Mission

Top management's first step in the strategic planning stage is to answer few questions such as: What business are we in? What will it be? What customers should we serve? A well-defined corporate mission guides all other decisions, including the marketing strategy of a firm. A corporate mission statement is a formal document that describes the organizations overall purpose and what it hopes to achieve in terms of its customers, products and resources. For example, DuPont's mission statement reads as "Better things for better living through chemistry". Coca-cola has a mission statement that reads as "Our challenge will be to enhance and protect the coca-cola trademark, giving shareholders an above-average return and entering new businesses only if they can perform at a rate substantially above inflation." Organizations develop mission statement to share with their multi stakeholders, including customers. The ideal mission statement is not too broad, too narrow, or too shortsighted. A mission that is too broad will not provide adequate focus for the organization. It doesn't do much good to claim.

The next step in the corporate planning process is setting up of corporate objectives. These are specific accomplishments or outcomes that an organization hopes to achieve by a certain time. Every company has a potential set of objectives such as follows:

- To grow the business profitably.
- To enhance shareholder value through a balanced program of dividends and share repurchases.
- To increase the ability to compete in global markets.
- To conduct the business as a responsible manufacturer and marketer.

Finally, corporate objectives help in narrowing down the procedure for setting goals. Goals are used to plan, control and evaluate business activities of a company. They provide source of motivation, a basis for incentive, standards of performance evaluation of the marketing personnel and to uncover the strength and weaknesses in the marketing structure of the firm. Goals should be measurable otherwise the success of a business and marketing plan cannot be measured. Goals should be acceptable to majority of peoples in the organization and should suit the company's image and market position.

The Business Portfolio

For companies with several different SBUs, strategic planning includes making decisions about how to best allocate resources among these businesses to ensure growth for the total organization. These plan allocation is on the basis of the performance of the SBU in the past, its current market position and future potential in generating revenue for the firm. Just as the collection of different stock an investor owns is called a portfolio, the range of products that a large firm owns is called its business portfolio. Having a diversified portfolio of products reduces the firm's dependence on one product or one group of customers. Portfolio analysis is a tool management uses to assess the potential of a firm's products or businesses. It helps management decide which of its current products should receive more or less of the firm's resources and which of its lines of business consistent with the firm's overall mission.

The Boston Consulting Group's Growth Share Matrix (BCG Matrix)

The BCG growth-market share matrix is developed by the Boston Consulting Group (BCG). The BCG method focuses on the potential of a firm's existing successful products to generate cash that the firm can then use to invest in new products. New products are chosen for their potential to become future cash generators. The BCG matrix involves strategic business units being positioned in a matrix on the basis of market growth rate and their market share, relative to that of the largest competitor. The vertical axis represents the attractiveness of the market, the market growth rate. It ranges from 0 to 20 percent; it can be separated into 'high' and 'low' areas. The horizontal axis shows the company's current strength in the market through its relative market share. It ranges from 0.1 to 10. Relative market share is calculated as an SBU's market share, divided by the market share of the largest competitor in the same market. Strategic business units can be positioned as a circle in the matrix. The size of the circle represents the proposition of company's sales generated by that particular business unit.

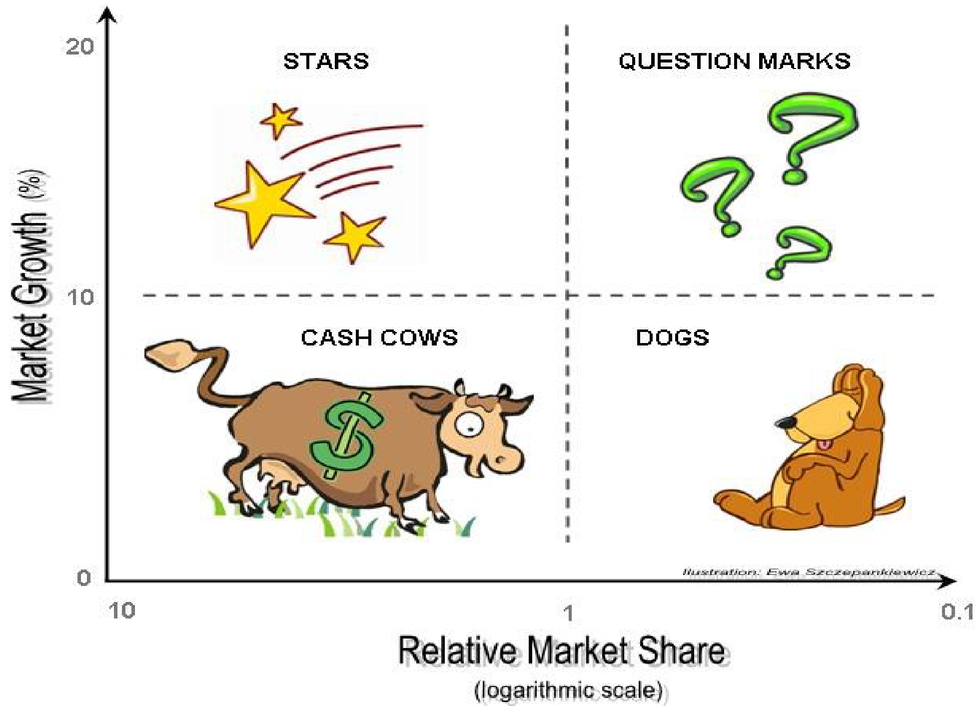

Figure 1.3 : BCG Growth-Market Share Matrix

Let's take a closer look at each cell in the grid.

Stars : Stars are SBUs with products that have a dominant market share in high-growth markets. Because the SBU has a dominant share of the market, stars generate large revenue, but they also require large amount of funding to keep up with production and promotion demands. Because the market has a large growth potential, managers design strategies to maximize market share in the face of increasing competition. The firm aims at getting the largest share of loyal customers so the product will generate profits that can then be plowed into other parts of the company.

Cash Cows : Cash cows have a dominant market share in a low-growth potential market. Because there's not much opportunity for the new products, competitors don't often enter the market. At the same time, the product is well established and enjoys a high market share that the firm can sustain with minimal funding. If the firm's goal is to increase revenues, having too many cash cows with little or no growth potential can become a liability.

Question Marks : Question marks-sometimes called problem children-are products with low market share in fast-growth markets. When a business is a question mark, it suggests that the firm has failed to compete successfully. Perhaps the product offers fewer benefits than competing products. Maybe its price is too high, its distribution is ineffective or its advertising is too weak. This firm could pump more money into marketing the product and hope that market share will improve.

Dogs : Dogs have a small share of a slow-growth market. They are specialized products in limited markets that are not likely to grow quickly. When possible, large firms may sell off their dogs to smaller firms that may be able to nurture them or they may take the product off the market.

BCG growth share matrix has some limitations. SBUs have life cycles and over a period of time, they change their positions on the matrix. Merely by identifying position of a SBU does not lead to selection of a particular strategy. This is because firms do not aim for the same growth rate or relative market share. Each business unit has different potentials and needs its own strategy.

General Electric Multi Factor Portfolio Matrix

Some of the problems faced with BCG matrix can be improved in the Multi Factor Portfolio Matrix used by General Electric Corporation. This matrix involves SBUs being positioned on a matrix on the basis of market attractiveness and business strength. These two factors make excellent marketing sense for rating an SBU. Market attractiveness and business strength depend on a number of factors. The procedure involves assigning each of the factor a weight depending on its perceived importance, followed by assessing how each SBU compares on each factor on a 1 to 7 rating scale, and then computing a weighed composite rating. The size of each circle represents the size of the relevant market rather than the size of the company's business. A strong company operating in an unattractive market or a weak company operating in a strong market will never give better results to the firm. So for the business success, it is necessary that both the factors should be strong for the SBU.

Strategic Planning at the SBU Level

After discussing how strategic planning in large firms occurs at the corporate level. Now it's time to strategic planning for business unit level. Each SBU operates in a different market conditions. So the business mission should stem from the overall corporate mission and objective of the firm. It should essentially express why it is in the business portfolio of the company and what function the corporate expects it to play.

Evaluating the Environment: SWOT Analysis

For a small business or a strategic business unit, the second step in strategic planning is to assess its internal and external environment. Managers call this evaluation a SWOT analysis because it tries to identify meaningful strengths (S) and weaknesses (W) in the organization's internal environment and opportunity (O) and threats (T) coming from outside the organization-the external environment. A SWOT analysis enables a firm to develop strategies that make use of what the firm does best in seizing opportunities for growth, while at the same time avoiding external threats that might hurt the firm's sales and profits.

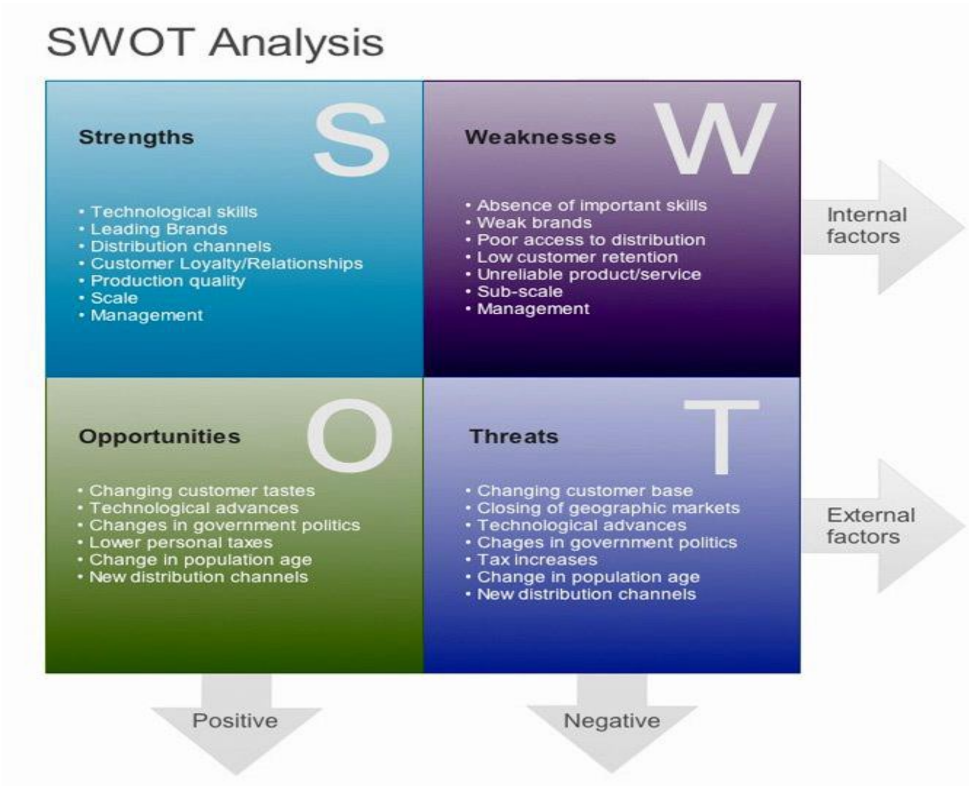

Figure 1.4 : SWOT Analysis

By internal environment, we mean all of the controllable elements inside an organization that influence how well the organization operates. Internal strength may lie in the firm's technologies. A firm's physical facilities can be an important strength or weakness, as can its level of financial stability, its relationship with suppliers, its corporate reputation and its ownership of strong brands in the marketplace. The external environment consists of elements outside of the organization that may affect it either positively or negatively. The external environment includes consumers, government regulations, competitors, the overall economy and trends in popular culture. Opportunities and threats can come from any part of the external environment. Sometimes trends or currently unserved needs provide opportunities for growth.

1.7 SUMMARY

Marketing is a dynamic and pervasive subject in business that makes the whole organization ready to serve the customers. Philip Kotler who defines marketing as a social activity directed towards satisfying customers' needs and wants through an exchange process. Marketing management is the art and science of choosing target markets and getting, keeping and growing customers through creating, delivering and communication superior customer value. Marketing are skilled at managing demand: they seek to influence the level, timing and composition of demand. Marketers are involved in marketing many types of entities: goods, services, events, information, persons, places, properties, organizations, information's and ideas.

The marketing mix is the four Ps of marketing: product, price, promotion and place. The product is what satisfies customers' needs. Products can be goods, services or ideas. The price is the assigned value or amount to be exchanged for the product. The place or channel of distribution gets the product to the customer. Promotion is the organization's efforts to persuade customers to buy the product. The four Ps are strongly interrelated, so decisions about one P influence the other as well.

Business planning includes strategic planning by top-level managers at the corporate and at the strategic business unit (SBU) level. Tactical planning is done by middle managers and operations planning by lower level managers. Decisions about the firm's portfolio of strategic business units are often made with the help of such planning tools as the Boston Consulting Group matrix, which assesses SBUs on market growth potential and the firm's relative market share. Strategic planning for SBUs or smaller businesses begins with defining the firm's business mission. Managers may determine the business growth strategy with the product-market growth matrix. Each product level within a business unit must develop a marketing plan for achieving its goals. The marketing plan is one of the most important outputs of the marketing process.

- **Marketing:** The performance of business activities that direct the flow of goods and services from producer to consumer or user.
- **Exchange:** The process by which some transfer of value occurs between a buyer and a seller.
- **Need:** Recognition of any difference between a consumer's actual state and some ideal or desired state.
- **Want:** The desire to satisfy needs in specific ways that are culturally and socially influenced.
- **Demand:** Customer's desire for products coupled with the resources to obtain them.
- **Marketing Plan:** A document that describes the marketing environment outlines the marketing objectives and strategy and identifies who will be responsible for carrying out each part of the marketing strategy.
- **Strategic Business Unit:** Individual units within the firm that operates like separate businesses, with each having its own mission, business objectives, resources, managers, and competitors.
- **Portfolio analysis:** A management tool for evaluating a firm's business mis and assessing the potential of an organization's strategic business units.

1.9 SELF-ASSESSMENT TEST

1. Go through any newspaper. Find an ad for a product that you feel gives you good value for your money. What have you learned about the concept of value from this exercise?
2. Marketing is a reflector of standards of living, compare the products available in the nineties and in this century to show how marketing has improved the standard of living of the people?
3. To understand what marketing is all about, pretend you are looking for a job, you need to market yourself. Using the four Ps, write a description of your product, price, place and promotion strategies?
4. Do you agree that marketing is a firm's most essential functional area? Write a short note to your boss about how many resources to devote to each of the major functional programs and why?

1.10 FURTHER READINGS

Peter F. Drucker, Management : Tasks, Responsibilities, Practices (New York: Harper & Row, 1972), 64-65.

E. Jerome McCarthy and William D. Perreault, Basic Marketing: A Global-Managerial Approach, 14th ed. (Homewood, IL: McGraw-Hill Irwin, 2002).

UNIT-2 MARKETING IN A DEVELOPING ECONOMY

Objectives

After reading this unit, you should be able to:

- Understand the concept of a developing economy
- Understand the relevance of marketing in a developing economy
- Understand the relevance of social marketing
- Understand the role of marketing in relation to some selected industry and service sectors.

Structure

2.1 INTRODUCTION

Before discussing the relevance and role of marketing in a developing economy let us first understand what exactly an economy means and what the significance of developing economy is. In simple terms an economy means system or range of economic activity in a country, region, or community or it is the wealth and resources of a country or region, especially in terms of the production and consumption of goods and services. Developing economy means when an economy shifts its emphasis from agriculture to industry, and it is less developed in terms of gross national product, per capita income, industrial development, infrastructure facilities, motivations and attitudes of its people etc. as compared to developed countries.

In other words, in a developing economy there is a shift in the standard of living, education and the use of technology rise. These countries are developing countries. In such locales, there may be a visible middle class, often largely composed of entrepreneurs working hard to run a successful small business. The developing economies always try to achieve growth in the gross national product through generation of additional income in various sectors of an economy such as agriculture, industry, mining and international trade in a panned manner.

2.2 MARKETING AT DIFFERENT LEVELS OF ECONOMIC DEVELOPMENT

When marketer lookout for opportunities, it helps if they consider a country's level of economic development to understand the needs of people who lives there and the infrastructure conditions with which they must deal. The economic level of a country is the single-most important environmental element to which the foreign marketer task. The attitude towards foreign business activity, the demand for goods, the distribution systems found within a country, and the entire marketing process are affected by the stages of economic growth within a country. In static economies consumption patterns become rigid and marketing is typically nothing more than a supply effort, whereas in dynamic economy consumption patterns change rapidly. Marketing is constantly faced with the challenge of detecting and providing for new levels of consumption and marketing and marketing efforts must be matched with ever changing marketing needs and wants.

Economic development puts forward a two-sided challenge:

i) A study of the general aspects of economic development is necessary to gain empathy regarding the economic climate within developing countries.

ii) The state of economic development must be studied with respect to market potential, including the present economic level and company's growth potential.

The current level of economic development prescribes the nature and degree of market potential that exists, while the knowledge of dynamism of the economy allows the marketer to prepare for economic shifts and emerging markets. Normally economic development is characterised by the increase in the national production that result in an increase in the average per capita gross domestic product (GDP). Other than an increase in the average per capita GDP most interpretations of the concept also imply a widespread distribution of the increased income. Economic development, as it is defined today, tends to mean a rapid economic growth and increased consumer demand – improvements achieved in decades rather than in centuries.

Levels of Economic Development

The best-known model for classifying countries by degree of economic development is the five-stage model presented by Walt Rostov. Each stage is a function of cost of labour, the technical capability of the buyers, the scale of operations, interest rates, and the level of product sophistication. Growth is the movement from one stage to another and countries in the first three stages are considered to be economically underdeveloped. The stages are described briefly as follows:

Level 1 – The Traditional Society

Countries in this level lack the capability of significantly increasing the level of productivity. There is a marked absence of systematic application of methods of modern science and technology. Literacy is low, as are other types of social overhead.

Level 2 – The Preconditions for Take-off

This second level includes societies in the process of transition to the take-off stage. During this period, the advances of modern science are beginning to be applied in agriculture and production. The development of transportation communications, power, education, health, and other public undertakings has begun in a small but important way.

Level 3 – The Take-off

At this level, countries achieve a growth pattern that becomes normal condition Human resources and social overheads have been developed to sustain steady development and agricultural and industrial modernization lead to rapid expansion.

Level 4 – The Drive to Maturity

After take-off, sustained progress is maintained and the economy seeks to extend modern technology to all economic activity. The economy takes on international involvement. In this level, an economy demonstrates that it has the technological and entrepreneurial skills to produce not everything but rather anything it chooses to produce.

Level 5 – The Age of High Mass Consumption

The age of high mass consumption leads to shifts in the leading economic sectors towards durable consumer goods and services. Real income per capita rises to the point where a very large number of people have significant amounts of discretionary income.

Although Rostow's classification has met with some criticism because of the difficulty of distinguishing among the five stages, it provides the marketer with some indication of the relationship between economic development and the types of products a country needs and of the sophistication of its industrial infrastructure.

2.3 RELEVANCE OF MARKETING IN DEVELOPING ECONOMY

Marketing and trade plays an important role in the economic development and overall development of a nation. These roles can be classified in terms of, (1) specialisation in activities of comparative advantages, (2) enhanced resource-use efficiency and trade and (3) advances in marketing with economic growth. A comparative advantage exists when an individual or region can produce a good, relative to the price of other goods, more cheaply than another individual or region. Through specialisation and trade, a community is better able to utilise its limited resources. Specialisation and the resulting efficiency of resource-use is the basis for economic growth and development.

As markets and economies develop, surpluses occur more frequently in profitable activities, creating new wealth, while products are moves greater distances than before. Thus, trade is a necessary ingredient for economic growth. Marketing is simply the means by which trade occurs. With economic development, the activities and tasks of marketing increase. Activities such as storage, processing, packaging and retail distribution becomes more important. Greater activity moves away from the site of production and towards marketing. This, in turns, creates employment opportunities and further specialisation. With development more economic agents may enter trade, helping to improve marketing services and in some cases allowing the market to capture external economies of scale.

Marketing for economic development is often routinely treated as a series of special cases addressing specific market segments or community attributes in general. Marketing ensures a planned economic growth in developing economy where the scarcity of goods, services, ideas and excessive unemployment, thereby marketing efforts are needed for mobilisation of economic resources for additional production of goods, services and ideas resulting in greater employment. Marketing therefore, is an economy's arbiter between productive capacity and consumer demand. In addition, marketing process is a critical element in the effective utilisation of the production resulting from economic growth and balance between higher production and higher consumption.

Effective marketing not only improves the life-style and well-being of the people in a specific economy, but upgrades world markets; after all, a developed country's best customer is another developed country. Although marketing cannot create purchasing power, it can uncover and direct that which already exists. Increased economic activity leads to enlarged markets which set the stage for economies of scale in distribution and production that may not have existed before.

General Role of Marketing

The first and foremost role of marketing is that it stimulates potential aggregate demand and thus enlarges the size of the market. Now the question is, how it helps in the economic growth of a country. The answer is that through stimulation of demand people are motivated to work harder and earn additional money to buy the various goods, services and ideas being marketed. An additional advantage is that it accelerates the process of magnetizing the economy, which in turn facilitates the transfer of investible resources.

An important role which marketing plays is that it helps in the discovery of entrepreneurial talent. Peter Drucker makes this point very succinctly when he observes that marketing is a multiplier of managers and entrepreneurs. Still another important contribution which marketing makes is that it helps in sustaining and improving the existing levels of employment. When a country advances economically it takes more and more people to distribute goods and proportionately a lesser number to make them. That is from the employment point of view production becomes relatively less significant than marketing and the related services of transportation, finance, communication, insurance, etc. which spring around it.

2.4 AREAS OF RELEVANCE

Peter Drucker emphasized the grandness of marketing in developing countries because it is capable of answering the critical need. It is a common knowledge that in most developing countries the government and its confederative enterprises own a major portion of the productive sector of the economy. Often government makes all policies which prove counterproductive to the marketing efforts of individual firms. It is, therefore, essential that the government understand marketing and its implications to further their aim at national development. The role of marketing is incomplete without giving adequate importance to the overall field of management. Implementation of good ideas requires good management. The following conditions should be met before any government embarks on a marketing approach: (a) Recognising that marketing and management are professional disciplines and (b) Recognising that in organising different governmental operations, deliberate screening of candidates for their competence in the field of management is essential. Marketing function is relevant equally to all business firms in various sectors of a developing economy. Considering the typical characteristics of a developing economy and its growth needs, it appears that certain sectors of the economy need relatively greater level of marketing effort than others. Some of the fundamental problems where marketing can become useful is as follows :

Marketing for Agricultural development and Farm Productivity

In some of the developing economies inefficient methods of irrigation, lack of mechanization in farming, inadequate supplies of fertilizers and natural disaster leads to low farm productivity. But one fundamental problem which is not recognized is lack of marketing system. If all farmers can be provided with production inputs, the financial system, the market and the agricultural knowledge they can improve the agriculture. Development of rural market system is of fundamental urgency in bringing about the necessary agricultural revolution.

Proper incentives should exist for a subsistence farmer to produce more. The most basic incentive is his access to the national markets. Marketing technology can pay a major role in enabling this phase of institutional development. The marketing system could be a part of community centre which offers a variety of services social, economic and educational to its community. The concept of community centre is not new. Its design and development needs a variety of interdisciplinary skills, of which marketing is one of critical contributors. Marketing technology can help define the economic, financial services and management components of the community centre.

Industrial and Entrepreneurial Growth

For the purpose of industrial growth many of the countries have imported sophisticated technology from western countries. This can put an extra burden on the nation's scarce foreign exchange. In the process of technological and capital upgradation needs of small industries have been largely neglected. Industrial development has to be tied to the local community. In developing countries where high technology investments are prominent, the operations of these enterprises has suffered from managerial problems. The marketing effort required is at a medium level and calls for careful product planning informative advertising and personal selling in addition to essential packaging, storing and physical distribution. The pricing is either competitive or Government regulated. The level of marketing effort required is high in the case of semi-industrial products, pharmaceuticals and fertilizers, appliances for business and house-hold use, consumer non-durables and certain categories of engineering goods and machine tools.

Education and Manpower Planning

Developing nations need a variety of human skills to bring about economic and social development. Marketing concepts and techniques may have profound impact on meeting the nation's manpower needs. Much of educational thrust in developing nations is restricted geographically to urban areas. Very little focus is placed on non-farming training programs to increase the productivity of rural labourers, farmers and the like. The employment practices are partly responsible for this. Very often employers do not insist on hiring personnel with appropriate educational skills. This vicious circle has to be broken to influence public attitude towards job-oriented education. The techniques of marketing research and product development can contribute in many ways to the needed educational revolution.

2.5 RELEVANCE OF SOCIAL MARKETING

Social marketing can be defined as the conception, implementation and control of programmers calculated to influence the acceptableness of social ideas and involving consideration of product planning, pricing, communication, distribution and marketing research. Social marketing follows a consumer centric approach. People must perceive their real needs and identify their real problems, which is only possible through proper participation and communication. The key areas where Social marketing approach is applied are:

a) Needs Assessment of Consumer

Needs Assessment - Gaps Analysis is very important i.e.

- What the audience should know/would like to know?
- What the audience actually does know?
- What is the GAP?

Social Marketing mainly deals with the motive of understanding the consumer and to develop products in order to satisfy their wants and needs. Whosoever is applying social marketing methods needs to know about the people whose behaviour they want to change – their aspirations and values, their beliefs and attitudes, and their current behavioural patterns. They are also required to look upon the broader social and cultural factors that influence consumer behaviour, recognizing that behavioural change is influenced by a combination of environmental as well as personal and interpersonal factors.

Unfortunately, still a lot of people incorrectly equate marketing with sales and advertising. Marketing's consumer orientation is actually the opposite of sales orientation. In contrast to the belief that sales- energizing devices are needed to bring results, a consumer orientation requires program planners to understand the consumers' desires and needs, and therefore respond as required. Social marketers believe that the behaviours being promoted should contribute to the consumers' and society's well-being.

b) Consumer Research

Any consumer orientation requires an examination of consumer perceptions of product benefits, product price, the competition's benefits and costs, and other factors that influence consumer behaviour. Program planners use consumer research findings to identify the factors to address in promoting behaviour change to the people they hope to reach.

c) **Audience Segmentation**

Another distinguishing feature of social marketing is audience segmentation. Audience segmentation is the process of dividing a population into distinct groups based on characteristics that influence their responsiveness to interventions. Segmentation may be used to identify subgroups. They can realistically be reached with available resources or to determine the best way to reach particular groups. Segments may differ in terms of the benefits they find most attractive, the price they are willing to pay, the best place to communicate with them or to locate services, or their differential responsiveness to promotional tactics.

d) **Social Marketing (Marketing & Communication) Mix**

The Four P's of marketing i.e. Product, Price, Place, and Promotion are very much relevant in case of Social marketing. Besides, four more P's can be added i.e. Partnership, Policy, Politics and Participation by audience (communication). Besides, it is also important to gauge the Competition. Goals can be reached effectively and behavioural change is bound to occur if this marketing and communication mix is followed with a positive approach.

i) Product:

product can assume a number of forms. It can be the knowledge, attitudes or behaviour that the target audience is expected to adopt. It can also be an idea, such as not using tobacco, alcohol, or other drugs. And last but not the least, the product can also be an actual related commodity such as seeds for a substitute cash crop such as wheat or corn, or a nicotine substitute to help smokers quit. The exchange for such program benefits is "costs" which may be intangible (e.g., changes in beliefs or habits) or tangible (e.g., money, time, or travel).

Product Must Be: Congruent with the recipient's values, beliefs, practices & needs. (It is important to make the participants understand the importance of message or service being talked about so that they realize its need.)

Solution to a problem

- ➢ Benefits
- ➢ Unique
- ➢ Competitive

ii) Price

Price is that part which is offered in order to avail certain benefits (service or product). It can be either cash or kind.

The key is to determine the appropriate price by participating with the target audience. The cost of adopting a product could be

- Money
- Time
- Pleasure
- Loss of self esteem
- Embarrassment
- Physic hassle
- Physical trauma
- Others

ii) Place or Channels

Channels describe the process or path through which a product reaches a consumer and the place is where the consumer can avail the product. The place could be tangible in terms of a retail outlet or intangible in terms of information delivered through a communication channel. Research is conducted to identify the places that consumer's frequent so that products and information can be placed there. Social marketing also identifies when and where a target audience will be most receptive to promotional messages i.e.

- Where is the behaviour practiced?
- Where are the decisions made?
- Where people will act?

Important Considerations for Place:

Some of the important considerations for place include:

- Will the product be available at the place where people have been instructed to go/call? Will there be enough to meet the demand?
- Is the place easy to use/access?
- Is the channel chosen for the message appropriate for that audience?
- Was the right time chosen for the message to be delivered?

iii) Promotion

The process of persuading the target audience that the product is worth its price is termed as promotion. It may include a publicity campaign through the mass media but it can also involve teaching life skills or community activities. Promotional strategies should be effectively co-ordinated with the other components of marketing mix. Promotional efforts cannot succeed if the product's benefits, price, and placement are not also in the line with the people's wants and needs. Promotion creates and sustains demand and may use a collection of advertising, public relations, promotions, media support, personal selling, etc.

v) Partnership

The social marketing organization can enhance its programme effectiveness by teaming up with other organizations pursuing similar goals. E.g. AIDS awareness programme can be jointly worked by WHO, NACO, UNAIDS and various non-government organization.

vi) Policy

Certain policy changes are essential to ensure an environment conducive for sustaining social change in the long run. E.g. Tax exemptions allowed for donations to voluntary organizations, providing special increments for undergoing critical surgeries.

vii) Politics

The social marketer often has to deal with groups other than the target audience, mobilize support and prevent resistance. Religious leaders and organizations, village heads or community leaders may be permission granting groups whose approval is necessary. Further, their participation enhances the pace with which the required critical mass is influenced in order to trigger social change faster.

viii) Participation

Participation is an important factor as only that message works which is aligned with consumers' needs & wants. Their participation is required from deciding of product, price, place & promotion.

ix) Competition

i What competes with the product?

ii How can the position of the product be more competitive?

iii What image does it have among consumers?

iv Can benefits be enhanced?

v Can costs be lowered?

e) Developing and Pre-testing the Material

A message can appeal to a variety of emotions and perceptions such as logic and reason, self-esteem, fear, and patriotism. Hence such a message has to be designed that can appeal to a variety of emotions and perceptions. The message statements and concepts should be so developed that its vocabulary, tone and appeal makes the target audience feel that this message is meant for them.

Pre-testing assesses the audience's response to the campaign. It measures recall, comprehension, and reaction - Is the message believable? It is relevant? Acceptable? What are the strong points? Pre-testing methods include:

- Focus groups—Small groups of 8 to 12 people who meet with a moderator to discuss ideas and materials. Focus groups are especially helpful in the early stages of materials development to test themes, images, and general issues.
- Interviews—In-depth interviews can be used to gauge an individual's reactions to a sensitive issue and/or specific materials.
- Central-location-intercept interviews—These interviews are held in public areas where members of the target population congregate. These areas include shopping malls, movie theatres, schools, and churches. Questions are designed for quick answers that are easily tabulated.
- Theatre testing—Many people in the same location view messages (such as public service announcements) embedded in other programming.
- Self-administered questionnaires—(mailed or delivered) This method provides access to people in rural areas or those who are not likely to attend focus groups or to be in areas for central-location-intercept interviews.
- Readability testing—Used to gauge the reading levels of materials. One widely used formula uses both sentence length and syllable counts to estimate reading levels.

f) Implementation

Promote and distribute the idea through all chosen channels.

g) Continuous Monitoring and Revision

Continuous program monitoring is highly required by social marketing to assess program efficacy in encouraging desired behaviour changes. Monitoring also aids in identifying activities that are effective and those that are not, and in making midcourse corrections in program interventions.

h) Evaluation

The on-going process that enables planners to discover strengths and weaknesses and to refine the product is known as evaluation. It is done to determine what has worked well based on the goals and objectives established at the beginning of the program. It also assesses how the program affected the beliefs, attitudes, and behaviours of the target population.

There are four main kinds of evaluation-

- Formative evaluation
- Process evaluation
- Outcome evaluation
- Impact evaluation

i) Feedback/Re-consideration

If the feedback turns out to be positive then, the idea/service may be replicated to separate target audience or separate locale may be chosen. In case any faults are pointed out then they may be rectified.

Role of Marketing in Economic Growth

Marketing plays a vital role in economic growth in the present world. It ensures the planned economic growth in the developing economy where the inadequacy of goods, services, ideas and excessive unemployment, therefore marketing efforts are needed for mobilization of economic resources for additional production of ideas, goods and services resulting in greater employment.

- Marketing accelerates the aggregate demand thereby enlarges the size of market.
- Marketing in basic industries, agriculture, and mining and plantation industries helps in distribution of output without which there is no possibility of mobilization of goods and services which is the key point for economic growth. These industries are the back bone of economic growth.
- It also accelerates the process of monetizing the economy which in turn facilitates the transfer of investible resources.
- It helps in discovery of entrepreneurial talent. Intermediate industrial goods and Semi-industrial products etc. basically marketed for industrial purpose in order to develop the industrial sector with a view to economic growth.

- In Export trade and services like tourism and baking marketing plays superior role in order to grow the economy.

Now days economic and social changes are necessary for bring about the development of a nation. Social changes are brought about in a planned manner through social marketing technology. With the speedy growing marketing business, technology is playing a more important role in the demands of analysing and utilizing the large scale information gathered from customers. To predict the accompanying business strategy by using technology, it is required to evaluate the customer performance, discover the trends or patterns in customer behaviour. For this purpose, the modern world is using the technology at a maximum level by e-commerce, Internet marketing and services etc. Even though in many developing countries, Government demands in marketing efforts in order to provide equitable distribution at minimum social costs by setting ceiling and floor prices of food grains and industrial raw materials, setting maximum whole sale and retail prices of scarce consumer products etc. which ensures the smooth flow of essential goods and even influencing the decisions pertaining to distribution and advertising. Even though the economic recession affects the market at a larger level, it plays major role in economic growth.

2.6 PHILOSOPHIES OF MARKETING

There are different concepts that guide sellers to conduct their marketing activities. For example, sellers can only focus on production and try to reduce their cost of production, or focus on improving the quality of the product. Similarly, they can pay more attention to selling and promotion. Before 1950s, marketing was basically a means of making production more efficient. In this way, different concepts have evolved to help the organizations in managing their marketing activities. These concepts are production, product, selling, marketing, societal and new-era marketing. Following are the explanations of the concepts:

a) Production Concept :

Production concept refers to the philosophy that supply creates its own demand. It means that the sale will increase automatically with the increase in production and distribution facilities. This is one of the oldest concepts and works only in few situations. It is based on the idea that the more we make, the more profitable we become. It works best in a seller's market when demand is greater than supply because it focuses on the most efficient ways to produce and distribute products. For e.g. if the management is trying to reduce the cost of production then it can do so by increasing the production. With the increase in production, economies of scale take place and the cost of production reduces, which helps to reduce prices. Similarly, the concept of production is helpful in situation when there is imbalance between demand and supply i.e. demand exceeds supply. Due to higher demand, prices start to increase therefore management can earn higher profits by increasing the production. Firms that focus on a production concept tend to view the market as a homogenous group that will be satisfied with the basic function of a product. Application of this concept leads to poor quality of service and higher level of impersonalization in business.

b) Product Concept :

Product concept states that the sellers should focus on improving the quality of their products, improve the performance, add more innovative features, etc. So basically this concept is about to attract customers by improving the quality and performance on one hand and offer attractive prices on the other. Similarly, the design, packaging and effective distribution channels of product are some of the important tactics to attract the customers. The important drawback of product concept is that it can lead to marketing myopia in which the organization overlooks the importance of other substitutes available in the industry. Another major problem with this concept is that managers forget to read the customer's mid and launch products based on their own technological research and scientific innovations.

c) Selling Concept :

The concept of selling focuses on the large scale selling and promotion activities in order to attract more customers. When product availability exceeds demand in a buyer's market, businesses may engage in the "hard sell" in which salespeople aggressively push their wares. The selling concept means that management views marketing as a sales function, or a way to move products out of warehouses so that inventories don't pile up. There are various industries which sell products which buyers do not normally think of buying. Therefore, in order to attract such buyers, these organizations should practice the selling concept. There is high risk in such marketing because the organizations try to sell the product whether the buyer likes it or not. Thus, if the buyers do not like the product then it can really spoil the reputation of the organization. Companies that still follow a selling concept tend to be more successful at making one-time sales rather than building repeat business. This approach is applicable in the case of companies that sell unsought goods like life insurance, firefighting equipment and vacuum cleaners etc.

d) Marketing Concept :

According to marketing concept, organizations should focus to analyse the needs and wants of target market and provide the desired satisfaction more effectively than competitors do. It proposes that the reason for success lies in the company's ability to create, deliver and communicate a better value proposition through its marketing offer. According to Theodore Levitt "Selling focuses on the needs of the seller and marketing focuses on the buyer. Most people mix marketing concept with selling concept but there is difference between the two. Selling concept starts with the production of the goods, focuses on promotion and sales and ends at getting profits. In contrast the marketing concept starts with a well-defined market, focuses on customer needs and wants and ends at creating long term customer relationship by effectively satisfying the needs and wants of customers. Thus with the help of marketing concept, an organization could be benefitted in the long run. Success of the marketing concept depends on enterprise-wide adaptation of marketing culture. If every department thinks about the customers and keeps them in the forefront of their decision making, then the organization can achieve a complete market oriented culture.

e) Societal Marketing Concept :

Societal marketing concept focuses to improve the well-being of the customers and society as a whole. Therefore, these organizations which are practicing this concept try to analyse the needs, wants and demands of the target market and deliver superior value to customers which results in overall well-being of the customers and society as well. It combines the best elements of marketing to bring social change in an integrated planning and action framework with the utilisation of communication technology and marketing techniques. Marketing is not a business activity alone but must take into account the social needs. Societal marketing concept is relatively new as compared to other marketing management philosophies.

2.7 SUMMARY

It is true that marketing in a developmental sense produces profit, but the profit is in the kind of human resource development and ultimately national development. Marketing is relevant to economic growth at all stages of development and also at micro and macro-marketing levels. The degree of relevance, however, will vary from sector to sector. The concept of marketing and its tools and techniques are equally applicable in the design, implementation and control of social programmes. For effective contribution to economic development marketing must deal with issues concerning socio-economic aspects of the nation’s environment. To highlight most social causes to be effectively promoted, whether it be family planning or environmental pollution, one needs as vigorous a marketing approach as new product or service. Finally, the discussion on role of marketing in relation to some selected sectors like agriculture development and farm productivity, industrial and entrepreneurial growth highlights the importance of viewing marketing in a development sense and shows how the knowledge and technology of marketing could solve the problems of national development.

2.8 KEY WORDS

- **Economy:** The wealth and resources of a country or region, esp. in terms of the production and consumption of goods and services.
- **Product concept:** Management philosophy that emphasises the most efficient ways to produce and distribute products.
- **Selling Concept:** A managerial view of marketing as a sales function or a way to move products out of warehouses to reduce inventory.
- **Economic development:** The quantitative and qualitative changes in the economy.
- **Developing Economy:** A nonindustrialized poor country that is seeking to develop its resources by industrialization.

2.9 SELF ASSESSMENT TEST

1. Give two examples of firms that you feel reflect the philosophies of the following era. Defend your answer.
    a. Production era
    b. Sales era
    c. Marketing era
2. Explain how organizations reflect CSR and make a short conclusion to indicate the relationship between social marketing and CSR?
3. Explain how the shift in the standard of living in developing economy correlated to marketing?

2.10 FURTHER READING

Marwin E. Goldberg, Martin Fishbein and Susan E. Middlestadt: Social Marketing: Theoritical and Practical Perspectives (Lawrence Erlbaum , 1997)

R Crag Lefebvre: Social Marketing and Social Change (Jossey-Bass, 2015).

UNIT-3 MARKETING FOR SERVICES

Objectives

After reading this unit, you should be able to:

- Understand the characteristics of services and the distinctive marketing challenges they pose
- Identify the four broad "processing" categories of services
- Know the framework for developing effective service marketing strategies
- Understand the components of the expanded services marketing mix

Structure

3.1 INTRODUCTION

Today we live in a service economy. The size of the service sector is increasing in virtually all countries around the world. Just as there was a shift from the farm to the factory, the shift has now been from manufacturing to service. As a national economy develops, the relative share of employment between agriculture, industry (including manufacturing and mining) and services changes dramatically. As per the statistics of developed countries, services account for around 75 percent of jobs and 70 percent of the GNP capital is from service sector. Even in emerging economies, the service output is growing rapidly and often represents at least half of the gross domestic product (GDP). Service is no longer an industrial by-product, but has become a powerful economic engine in its own right. In developed economies, knowledge-based services-defined as those that is intensive users of high technology and have relatively skilled workforce-have been proving the most dynamic component.

An economy is called service economy when the contribution of the service sector to the GDP of the nation is more than 50 percent. USA was the first economy to be declared as a service economy way back in 1948 with about 53 percent contribution of the service sector to the GDP of the nation. Services are becoming a critical source of wealth in many ways to the economies. Economies experienced increase in employment with the growth in service sector. While the rate of employment in manufacturing sector is reducing every year, employment in the service sector is rising. In the service business we have public sector, private sector and agencies providing specialized services. Even in the manufacturing sector we have service providers such as computer operators, management experts, legal experts and financial experts etc.

3.2 THE CONCEPT OF SERVICES

The basic question that confronts everyone is what exactly a service is and why should there be a separate learning on service marketing? A different marketing approach is necessary for service marketing, because services differ from goods in many respects. One of the basic differences is that goods were objects of value over which ownership rights could be established and exchanged. Ownership implied tangible possession of an object that had been acquired through purchase, barter or gift from the producer or a previous owner and was legally identifiable as the property of the current owner, but in the sale of services, transfer of ownership will not take place.

Defining Services

According to the American Marketing Association services are “activities, benefits or satisfactions which are offered for sale or provided in connection with the sale of goods.” This definition provides a limited view of services. However, this was the first major attempt to identify services differently in valuing the output of a society.

Services cover a vast array of different and often very complex activities, making them difficult to define. The word service originally was associated with the work servants did for their masters. In time, a broader association emerged, captured in the dictionary definition of “the action of serving, helping or benefitting; conduct tending to the welfare or advantage of another. Sometimes services are also defined as economic activities offered by one party to another. Often time-based, performances bring about desired results to recipients, objects or other assets for which purchasers have responsibility. In exchange for money, time and effort, service customers expect value from access to goods, labour, professional skills, facilities, networks and systems; but they do not normally take ownership of any of the physical elements involves.

One common method of defining a service is to distinguish between the 'core' and 'peripheral' elements of the service. The 'core' service offering is the 'necessary output of an organization which are intended to provide the intangible benefits customers are looking for'. Peripheral services are those which are either 'indispensable' for the execution of the core service or available only to improve the overall quality of the service bundle.

According to Christopher Lovelock there are five broad categories within the non-ownership framework:

1. **Rented goods services.** These services enable customers to obtain the temporary right to use a physical good that they prefer not to own. Example includes Fancy dress costumes.

2. **Defined space and place rentals.** Here, customers obtain use of a defined portion of a larger space in a building, vehicle or other area. Example includes a seat in an aircraft.

3. **Labour and expertise rentals.** Customers hire other people to perform work that they either choose not to do for themselves or are unable to do because they lack the necessary expertise, tools or skills. Example includes car repair.

4. **Access to shared physical environment.** These environments may be located indoors or outdoors or a combination of both. Like museums and theme parks. In return for a fee, customers rent the right to share use of the environment with other customers.

5. **Access to and usage of systems and networks.** Here, customers rent the right to participate in a specified network such as telecommunications, utilities, and banking or specialized information services. Service providers often create a veritable menu of terms for access and use in response to varying customer needs and differing abilities to pay.

In many instances, two or more of these categories may be combined. When you take a taxi, you're hiring both a driver and a vehicle.

Exercise 1

Identify a firm engaged in marketing of services:

a) Describe the nature of service which the firm is providing.

b) Describe how the firm is differentiating its service as compared to that provided by the competing firms.

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3.3 REASONS FOR GROWTH OF THE SERVICE SECTOR

What is driving the rapid growth of the service sector? Government policies, social changes, business trends, advances in information technology and globalization are among the powerful forces transforming the service markets. Collectively, these forces are reshaping demand, supply, the competitive landscape and even customer's style of decision making. The growth of service sector is a worldwide trend. As mentioned already, many economies became service economies and the others are following in their steps. Growth proportions are so significant that the service accounts for 12.5 percent in 2007, almost one-eighth of the GDP. More than 75 percent of the workforce in the US is employed in the service sector. The majority of the workforce in all developed countries in the world including UK, France, Germany, Japan, Canada and so on are engaged in service organizations. Quinn and Gangnon identified the contribution of service sector to any economy in the following respects:

1. The value added produced by service firms is very well comparable to, and even higher than the value added produced by manufacturers of goods.

2. Service industries increases productivity that is big enough to support continuing real growth in per capita income.

3. People value services at least as highly as manufactured goods. Services are not something one looks at after the goods needs have been met.

4. The service sector is at least as capital intensive as the goods sector and many service industries have a high technology impact.

The reason for the growth of the service sector can be broadly categorized into two. They are :

1. Growth in intermediate demand from firms.

With the growth of competition and the pace of change in consumer exposure and expectations forced organizations to look for specialized services. Companies started bundling the organizations and taking the services from outside, where highly professional and specialized services are available at a relatively low price. As a result, a number of service organizations have come up in the world. Manufacturing firms realized the importance of staff function when line managers sub optimal performance in decision making relating to operational activities as well as the growth of the business was identified. The concept of self-reliance by way of minimizing or avoiding dependence on other was used by the firms to reduce uncertainties.

2. **Growth in final demand from customers.**

A majority of the population in developed economies and significant groups in developing economies are becoming more affluent year by year. There is a growth in direct demand from customers for a variety of services. The marginal utility from goods has diminished at least in a relative sense and services have grown in importance. Millions of strong middle income households in India with their desire for a variety of products and services attract many multinational companies to the country. The demand for personal services, travel, tourism, entertainment and the like depends upon the affluence of the society. Affluence reduces the scope of self-service and creates opportunities for many service people and organizations. Moreover, the tendency of the people throughout the world is to gain more leisure time so as to attend to their personal and family activities, which is an important factor in the growth of service industry.

Service Sector in the Indian Economy

A key measurement of growth of the service sector is its contribution to the Gross Domestic Product (GDP) of the country. While considering services for this purpose, there are two important dimensions that need special attention. They are the hidden services and the services in the unorganized sector. Hidden services are those that are used internally by the manufacturing organizations. The output value of such services become part of the output of the tangible goods. There are large numbers of services that are not accounted for output assessment for the purpose of GDP calculation. Personal services, maid services and a host of professional such as barber, carpenter, washer man and the like, in semi-urban and rural India have their roots going back several centuries. These services are predominant in almost all parts of the country,

Exercise 2

Identify the services which a firm uses on a regular basis in the areas of marketing, finance and government dealing in your area?

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3.4 CHARACTERISTICS OF SERVICES

Services have basically five characteristics that greatly affect the design of marketing programs. They are:

1. **Intangibility:** They cannot be seen, tasted, heard or smelt before they are bought unlike physical products. Services often include important tangible elements, such as hotel beds, restaurant meals and bank cards. However, as the non-ownership perspective implies, it is intangible element-including the labour and expertise of service employees-that dominate the creation of value in service performance.

   Implications

   Intangibility presents problems that consumers may experience difficulty in knowing and understanding what is on offer before, and even after, receipt of the service. The challenge for the service provider is to determine the extent of intangibility and the management action required to make the service more tangible.

2. **Inseparability:** Services cannot be separated from the service provider. In fact, the production, delivery and consumption of a service take place simultaneously in the buyer-seller interaction. Hence, due to inseparability, direct sale of many services is the only channel of distribution. The market for offering personal services is bound to be limited.

   Implications

   The involvement of the customer in the production and delivery of the service means that the service provider must exercise care in what is being produced and how it is produced. The latter task will be of particular significance. Therefore, proper selection and training of customer contact personnel are necessary to ensure the delivery of quality. Production and consumption are said to be separable. On the other hand, the consumption of services is said to inseparable from its means of production.

3. **Variability:** The quality of services provided by the competing firm cannot be standardized. Even the quality of the output of services sold by one seller cannot be uniform or standardized. No two customers can have exactly similar service even though they experience it simultaneously.

   Implications

   Reducing variability involves determining the causes. It may be due to unsuitable personality traits in an employee which are very difficult to detect at the selection stage. For services, variability impacts upon customers in terms not just of outcomes but also of process of production. It is the latter point that causes variability to pose a much greater problem for services, compared to goods. It can also pose problems in brand building as compared to tangible goods – for the latter it is usually relatively easy to incorporate monitoring and a quality control procedure into production processes in order to ensure that a brand stands for a consistency of output.

4. **Perishability:** Service perishes. They cannot be stored. Time element assumes unique importance. If a service is not used today, it is lost forever. It cannot be carried forward. Unutilized services are economic losses to the organization. The major challenge of these firms is to balance the supply and demand position. Thus demand management is one of the crucial tasks for the service firms.

   Implications

   Fluctuations in demand characterize service organizations and may pose problems where these fluctuations are unpredictable. Strategies need to be developed for producing a better match between supply and demand. Service differs from goods in that they cannot be stored.

   The producer of a service which cannot sell all its output produced in the current period has no chance to carry it forward for sale in a subsequent one. The Perishability of services results in greater attention having to be paid to the management of demand by evening out peaks and troughs and in scheduling service production to follow this pattern as far as possible. Pricing and promotion are two of the tools commonly adopted to tackle this problem.

5. **No Ownership :** Consumers will have experience of the service but not ownership. Since the services are intangible and perishable the question of ownership doesn't arise. Convincing the customer with tangible goods on which he will have ownership through transfer of title is much easier than selling an experience where nothing remains after consumption, except the memory of it. Customer dissonance would be higher in the case of services than of goods. A service is purchased for the benefits it provides. If we closely examine the reasons why products are purchased, we find that they are bought not because of their physical, tangible features but because they provide certain intangible benefits and satisfactions. Bathing soap provides the primary benefit of cleanliness, air-conditioner provides the benefit of a cool and fresh air, comfortable environment, a mixer-cum-grinder provides convenience. The only difference between products and services is that in the latter the intangible component is greater than in the former. Thus, services can be treated as a special kind of product.

Exercise 3

Describe and distinguish the tangible and intangible aspects of the service provided by the following:

i) Bank

ii) Hair Dresser

iii) Airlines

iv) Beauty Parlour

v) Hotel

3.5 ELEMENTS OF MARKETING MIX IN SERVICE MARKETING

The nature of services poses distinct marketing challenges; hence, the 4 Ps of goods marketing are not adequate to deal with the issue arising from marketing services and have to be adapted and extended. Further, the traditional marketing mix does not cover managing the customer interface. Marketer therefore needs to extend the marketing mix by adding three Ps associated with service delivery – process, physical environment and people. Collectively, these seven elements – the "7 Ps" of service marketing – represents the ingredients required to create viable strategies for meeting customer needs profitably in a competitive marketplace.

The Traditional Marketing Mix

Product : The Service product requires consideration of the range of services provided, the quality of services provided and the level of services provided. Service product lie at the heart of a firm's marketing strategy. If a product is poorly designed it won't create meaningful value for customers, even if the rest of the 7 Ps are well executed. Attention will also need to be given to matters like the use of branding, warranties and after-sale service. Service product consists of (1) a core product that responds to the customer's primary need and (2) an array of supplementary service elements that are mutually reinforcing value added enhancements that help customers to use the core product more effectively.

Price : Customers, by contrast, see price as a key part of the costs they must incur to obtain desired benefits. Price may also play a part in differentiating one service from another and therefore the customers' perceptions of value obtained from a service and the interaction of price and quality are important consideration in many service price sub mixes. To calculate whether a particular service is "worth it," they may go beyond just money and assess the outlays of their time and effort. Service marketers, therefore, must not only set prices that target customers are willing and able to pay, but also understand – seek to minimize, where possible – other burdensome outlays that customers incur in using the service. These outlays may include additional monetary costs, time expenditures, unwanted mental and physical effort and exposure to negative sensory experiences.

Promotion : Promotion includes the various methods of communicating with markets whether through advertising, personal selling activities, sales promotion activities and other direct forms of publicity or direct forms like public relations. The communication component plays three vital roles: providing needed information and advice, persuading target customers of the merits of a specific brand or service product and encouraging them to take action at specific times. Communication, in service marketing is educational in nature, especially for new customers. Communication may be delivered by individuals such as salespeople and frontline staff, at websites, on display screens in self-service equipment and through a wide array of advertising media. An important role of a service firm's communication is to create confidence in its capabilities by emphasizing the firm's experience, credentials and expertise of its capabilities.

Place : The location of the service providers and their accessibility are important factors in service marketing. It may involve physical distribution or electronic channels, depending on the nature of the service. Many information-based services can be delivered almost instantaneously to any location in the world that has internet access. Firm's may deliver service directly to end-users or through intermediary organizations – such as retail outlets that receive a fee or commission – to perform certain tasks associated with sales, service and customer contact. Speed and convenience of place and time have become important determinants of effective distribution and delivery of services. Nowadays, a growing number of services are available 24/7, and via more and more distribution channels, including retail branches, self-service machines like ATMs, call centers and internets.

The Extended Service Marketing Mix

Since services are usually produced and consumed simultaneously, customers are often present in the firm's factory, interact directly with the firm's personnel and are actually part of the service producing process. Also, because services are intangible customers will often be looking for any tangible cue to help them understand the nature of the service experience.

3.6 CASE OF SERVICE MARKETING

Process : Some services are very complex, requiring the customer to follow a complicated and extensive series of actions to complete the process. Smart managers know that where services are concerned, how a firm does things – the underlying processes – often are as important as what it does. So, creating and delivering product elements requires design and implementation of effective processes. Manufactured products can be produced at a separate factory, under controlled conditions and checked for conformance with quality standards long before they reach the customer. For, services however, operational inputs and outputs tend to vary more widely and make customer service process management a challenge.

The extended marketing mix elements are included in the marketing mix as separate elements because they are within the control of the firm and any or all of them may influence the customer's initial decision to purchase a service as well as the customer's level of satisfaction and repurchase decisions.

People : Many services will always require direct interaction between customers and service employee despite the technological advances. All of the human resources participating in the delivery of a service provide cues to the customer regarding the nature of the service itself. How these people are dressed, their personal appearance, their attitude and behavior all influences the customer's perception of the service. Service firms need to work closely with their human resource department and devote special care in selecting, training and motivation their service employees. In addition to possessing the technical skills required by the job, these individuals also need good interpersonal skills and positive attitudes. HR managers who make strategies recognize that loyal, skilled, motivated employees who can work well independently or together in terms represent a key competitive advantage.

Physical environment : The physical environment of service includes all of the tangible representations of the services such as brochures, letterheads, business cards, report format, and equipment. In some cases, it includes the physical facility where the service is offered. The service firms need to manage "services caps" carefully, since they can have a profound impact on customer satisfaction and service productivity. Physical environment cues provide excellent opportunities for the firm to send consistent and strong message regarding the organizations purpose, the intended market segments and the nature of the service.

Golden Chariots

With Indian luxury trains being ranked among the best in the world, the romance of the Raj and the rail is a winning combination and a good example of quality service marketing. Luxury trains have become a runway success and appeals to a growing and affluent customer segment, mostly foreign tourists. The demand is so great that there are no bookings available on the Wheels for next two years, while another luxury train, Deccan Odyssey, will be as difficult to board. The society of International Railway Travelers has rater them both among the top 10 trains of the world. The other train to make it to the list is the charming Raj-era narrow gauge toy train – the Darjeeling Himalayan Railway.

According to the President of the U.S. based Society of International Railway Travelers, Eleanor Hardy, "The list of world's top 10 trains is based on our own experience and that of our writers, editors, members and staff. The trains need to meet stringent standards for service, accommodation, scenery, itinerary, off-train experience and passenger enjoyment." Considering the steep rates of tickets on these trains, compared to the average tariff of a hotel room, the success of India's state-run royal trains is even more remarkable.

When the Palace on Wheels was launched in 1984, most critics had dismissed it as a niche product with limited appeal. But it has seen a surge not only among the foreign tourists but also among domestic travelers, provoking various State Governments to join the chorus for running such trains in view of its tourist attraction value.

The service concept of Palace on Wheels ensures that the tourist travels like a maharaja and experiences the exotic romance of the land of fairy tales and royal heritage. It is a week-long trip in the comfort of modern luxury. The train covers Jaipur, Jaisalmer, Jodhpur, Sawarimadhopur, Chittorgarh, Udaipur, Bharatpur and Agra.

The Golden Chariot is a 19-coach luxury extravagance, which was launched in March 2008. A joint venture of the Karnataka State Tourism Development Corporation, the Union Ministry and the Railway Ministry, the train's interiors are inspired by the royal palaces of Karnataka. Like its predecessors, the Golden Chariot will be handled worldwide by the luxury trains, with offices strategically located around the world, is the largest consolidator for the Palace on Wheels, Heritage on Wheels and Deccan Odyssey. Like them, the USP of the new train, the first in South India, will be combining the Indian Maharaja experience with modern comforts and an itinerary that covers major tourist spots. Starting from Bangalore, it will cover Mysore, Kabini wildlife sanctuary, the world heritage site of Hampi and other popular tourist sites before reaching Goa. At Rs. 1.33 lakhs for the entire trip, inclusive of food and drink, it's hardly a bargain but has generated a great deal of interest from prospective clients in overseas markets.

Like the Palace, the Deccan Odyssey's weeklong journey starts from a strategically located city, Mumbai and covers places of major tourist's interest in the regions including Goa, Ajanta and Ellora and other World Heritage sites. The Heritage on Wheels, collaboration between Rajasthan Tourism Development Corporation and the Indian Railways, is a shorter journey restricted to Rajasthan and includes lesser known Heritage sites, while India in Wheels has the longest trip, a 17-day itinerary that combines the best of the Palace on Wheels and Deccan Odyssey. The Great Indian Royal Express has lesser stops but a more elaborate and expensive experience, which also includes the Taj Mahal, while The Royal Orient combines sites in Gujarat and Rajasthan.

What has clearly appealed to a foreign audience is the majestic setting, high-class amenities and the convenience of travelling by night and stopping by day for group tours conducted by trained guides and in premium modes of transport. The centrally air-conditioned coaches have lounges, elaborate suites and bedrooms, running hot and cold water, satellite television, modern communication and chefs, who dish out regal fare. The interconnected passenger cars make the experience akin to a travelling five-star hotel.

With a valet to cater to your every whim and fancy in the lap of opulence and luxury as you travel through some of the most breathtaking scenic landscapes in the world, it is not surprising why one would choose the railway tracks over rushed check-in counters at any of the country's airports.

(Source: India Today, March 02 2008)

3.7 SUMMARY

Service sector is one of the key contributing factors for growth of our economy and civilization. Though marketing literature is dominated by manufacturing and product-centric business practices, service marketing constitutes a strategic area, which has propelled growth and success for many organizations. Pure services and pure products are hypothetical extremes as every product today is associated with some level of service and alternatively, physical evidences are created for augmenting services and reducing customer's perception of risk. Service is defined as any activity or benefit that one party can offer to another which is essentially intangible and does not result in ownership of anything. Its production may or may not be tied to a physical product. Pure services have distinct characteristics of intangibility, inseparability, Perishability, variability and a lack of ownership.

However, goods and services are converging in terms of these characteristics. The marketing mix for manufactured products is insufficient to explain the special nature of services and hence the 4Ps concept developed in product marketing is extended in service marketing by addition of people, process and physical evidence. Service can be classified on the basis of degree of intangibility, producer versus consumer services, the status of service in the total product offer, on the extent of inseparability, on the pattern of service delivery, extent of people orientation, on the significance of the service to the purchaser, on the basis of marketable versus non marketable services and also on the basis of multiple classifications.

Service quality is an important issue in marketing of services due to the fact that both production and consumption of services occur at the same time. The quality of service will delight a customer when it exceeds the service expectations of the customers. There are five types of service quality gaps that a service marketer should try to bridge through an effective service-marketing program. The first arises between customer expectations and management perception of consumer expectation. The second gap exists between management perception and service quality perception. The third gap exists between service quality perception and service delivery. The fourth gap explains the gap between service delivery and external communications and the last gap is between perceived service and expected service by the consumer. An effective quality management program should try to develop strategies to fill the gap and create customer delight.

3.8 KEY WORDS

- **Service:** A service is defined as any activity or benefit that one player offers to another in an exchange process, which is essentially intangible and does not result in ownership of anything.
- **Intangibility:** A pure service is difficult to assess through any of the physical senses. It is a bundle of abstraction, which cannot be assessed before it is owned. This explains intangibility of services.
- **Consumer Services:** These are aimed at individual consumers and are consumed for personal reasons.
- **Tangibility:** It means physical facilities and equipment and the appearance of the personnel.
- **Responsiveness:** It means the willingness to help customers and provide prompt service.
- **Competence:** It means possession of required skills and knowledge to deliver the support services.
- **Courtesy:** Politeness, respect or friendliness in delivering the services.

3.9 SELF-ASSESSMENT TEST

1. Service Marketing is more challenging than manufactured product marketing. Explain what differences exist between product marketing and service marketing with examples from Indian markets?
2. What are service quality gaps? What strategies should you follow to fill up service quality gap?
3. Service quality dimensions are important in marketing of services. How do these dimensions affect the marketing of the following services?
   a) Banking Services
   b) Health services
   c) Education
   d) Consultancy

UNIT-4 NEW CONCEPT OF MARKETING

Objectives

After reading this unit, you should be able to:

- Narrate the importance, various categories of product, price, promotion and service mix and strategies respectively.
- Describe the concept of E-marketing, Green marketing and Relationship marketing
- Narrate the concept and component of Retail marketing and Rural Marketing
- Explain the meaning, importance, meaning, elements and benefits of Ethical Marketing

Structure

4.1 INTRODUCTION

Marketing process basically consists of four steps: (analyzing the marketing opportunities, (2) selecting the target market, (3) developing the marketing mix and (4) implementing and controlling. However, as a marketing executive you may come across certain terminology and issues which are not discussed in the previous units. For instance, you may come across the concept of Green marketing, which is about implementing the marketing concepts and strategies in rural areas. How Internet technology is used for marketing? How different it is to market products or services in the rural markets? Some of such issues are discussed in this unit. In specific, this unit is intended to introduce you to a variety of emerging concepts such as CRM, Green Marketing, Internet Marketing and Rural Marketing.

4.2 GUERRILLA MARKETING

Guerrilla Marketing is an advertising strategy that focuses on low-cost unconventional marketing tactics that yield maximum results. The term Guerilla Marketing was coined by Jay Conrad Levinson in his book 'Guerrilla Advertising' in 1984. It was inspired by guerrilla warfare which is an irregular warfare and relates to the small tactic strategies used by armed civilians. Many of them include ambushes, sabotage, raids and elements of surprise. Guerrilla marketing is about taking the consumer by surprise, make an unreadable impression and create ample amount of social buzz. Guerrilla marketing is said to make a far more valuable impression with consumers in comparison to more traditional forms of advertising and marketing. This is due to the fact that most Guerrilla marketing campaigns aim to strike the consumer at a more personal and memorable level. Guerrilla marketing is often ideal for small businesses that need to reach a large audience without breaking the bank. It is also used by big companies in grassroots campaigns to compliment on-going mass media campaigns.

Instead of asking that you invest money, Guerrilla marketing suggests you invest time, energy, imagination and knowledge instead. It puts profits, not sales, as the main yardstick. It urges that you grow geometrically by enlarging the size of each transaction, having more transactions per year with each customer and tapping the enormous referral power of current customers. Guerrilla marketing advocates fervid follow-up, cooperation instead of competition, "you" marketing rather than "me" marketing, dialogues instead of monologues, counting relationships instead of counting sales and aiming at individuals instead of groups. The Guerrillas realize that the process of marketing is very much akin to the process of agriculture. Their marketing plans are the seeds they plant. Their marketing activities are the nourishment they give to each plant. Their profits are the harvest they reap. They know that profits don't come in a short time.

Basic Principles of Guerrilla Marketing:

Pursuing the analogy with Mao-Tse Tung's Guerrilla warfare tactics seven rules can be identified which illustrate the principles on which Guerrilla marketing relies. These are:

1. Concentrate your resources (time, place, and topic) to achieve temporary superiority.
2. Sell the ideology along with the product, not the product alone.
3. Identify established patterns, analyze them and overcome these patterns.
4. Search for synergies.
5. Try to outsmart any perception filters established in your target group.
6. Do not go the direct way; try to find the detours offering alternatives.
7. Be flexible and agile instead of building strongholds.

Looking at these rules, one can find several aspects that are not far from the "standard" marketing strategies. Some aspects, however, have completely different approaches. Guerrilla marketing is based on marketing the implicit attributes of products or services rather than their explicit, functional aspects. Rather than introducing the product itself, by introducing the idea that comes with it, it addresses the emotional ideology bound up with the product. This is done with the superiority of attention obtained at least in the very moment of communicating. Thus, Guerrilla marketing tries to target the emotional aspects of a buying decision by differentiating a product on an ideological level rather than a functional level. There are a number of key principles that characterize Guerrilla marketing. These can be remembered by the acronym NEAPS.

Networks : business should constantly look to make contacts and build relationships.

Energy : remember that every contact and every day is an opportunity to market your company. This is called 360-degree marketing.

Activity: be aware that there are always opportunities to make your product known and find ways of doing this when the opportunity arises.

Presence : find ways to make your business known to the market. This could be through chat rooms, emails, forums, discussion boards, radio, magazines, street posters, and so on.

Smart : make sure that you do not offend customers.

Differentiating Guerrilla Marketing from Traditional Marketing

Guerrilla marketing is marketing that is unconventional, non-traditional, not by-the-book and extremely flexible. Some of the factors that make it different from traditional marketing are:

1. The usage of time, money and energy instead of only money.
2. Use of the science of psychology, actual laws of human behavior not guesswork.

3. Instead of being oriented to companies with limitless bank accounts, Guerrilla marketing is geared to small business.

4. Guerrillas grow profitably and then maintain their focus instead of growing large and diversifying.

5. Instead of encouraging you to advertise, Guerrilla marketing provides you with 100 different marketing weapons; advertising is only one of them. Instead of growing linearly by adding new customers, Guerrilla grow geometrically by enlarging the size of each transaction, generating more repeat sales, leaning upon the enormous referral power of customers and adding new customers.

Methods for Guerrilla Marketing:

There is a list of some methods for Guerrilla marketing that can be used. These methods are:

- Product give-away, including free demonstration and consultation.
- Intrigue – generating mystery to engage customers.
- Peer marketing – bringing people with similar interests or ages together to build up interest in the product.
- SMS text and video messaging.
- Roach baiting and buzz marketing – using actors to behave as normal customers to create interest, controversy or curiosity in a product or service.
- Live commercials – using people to do live commercials in key places such as clubs and pubs.
- Bill stickers – an approach used to promote DJs and club events.

Guerrilla marketing encompasses marketing approaches such as buzz marketing, viral marketing and grass root marketing. Guerrilla marketing employs give-away and contests, special events and "happenings", and street teams and other highly visible marketing teams. The Guerrilla marketing approach is a low-cost, high impact form of marketing that stresses creativity and capitalizes on the immediacy of needs. It is an approach that is flexible and responsive to changing conditions and relies on a willingness to try many different approaches. Above all it is fun and attention catching. Also called extreme marketing or feet-on-the-street marketing, a Guerrilla campaign has no preset rules or boundaries. Guerrilla marketing uses a combination of engaging vehicles including elements of public relations, advertising and marketing into an offensive promotion strategy to reach consumers through a variety of means. The element of surprise may be Guerrilla marketing's greatest attribute.

Reasons to use Guerrilla Marketing

Guerrilla marketing techniques have been used by a number of brands both large and small, in different situations. A common reason to use

Guerrilla marketing techniques is to find new way to communicate with consumers. Nike sought to communicate with consumers through instant messaging. In a competition titled Speed Mob, pairs of participants were sent questions about new Nike products via instant messages; the first participant to answer the questions correctly progressed to the final round. Another reason to use Guerrilla marketing is to interact with an audience. In 2005, Burger King implemented a Guerrilla marketing campaign to increase sales by 25'K in Asian countries. The campaign designed by Ogilvy Red Card, aimed to attract more consumers into Burger King's restaurants. Some of the steps included "putting IBK on T-shirts and placing them on statues of Ronald McDonald, placing large footprints from McDonald's to Burger King, and putting signs on empty benches that said 'gone to BK – Ronald'.

4.3 E-MARKETING

E-marketing or online marketing is the fastest growing form of direct marketing. Recent technological advances have created a digital age. Widespread use of the internet and the other powerful new technologies are having a dramatic impact on both buyers and the marketers who serve them. Internet advertising comprises not only advertising that is shown on websites, but also other kinds of online activities like email and social networking. Every aspect of internet marketing is digital, meaning that it is electronic information that is transmitted on a computer or similar device, though naturally it can tie in with traditional offline advertising and sales too.

E-marketing has three cornerstone principles:

1. **Immediacy :** The web changes at a blistering pace and online audiences, whose attention spans are short, expect on-the-minute update and information. To keep the favour and attention of this group, you must respond to online messages and internet with communities as quickly as possible.
2. **Personalization :** Customers online are no longer faceless members of a broad target audience-they are individuals who want to be addressed personally. Use the wealth of personal information available online to your benefit by targeting the relevant people precisely and personally.
3. **Relevance :** Communication online must be interesting and relevant to the reader, otherwise it will simply be ignored. With all the information that is competing for your audience's attention, you must find a way to stand out and engage readers. The best way to do this is by giving them exactly what they want, when they want it.

Internet marketing today

Throughout its history, the internet has reinvented itself many times – and the changes are far from over. The current web is dominated by socializing, cooperation, sharing and personal entertainment. It is a space both for work and play – an essential tool for virtually every business and the go-to repository for all forms of media culture products. People of all ages are spending more and more time online, and are turning to the internet for better services, convenience and life-enhancing tools: just consider how people use online shopping, online banking, web communities that cross all boundaries, instant news and updates, social networks and chat, self-expression and any of the dozens of other things that the web makes possible. 2010 was the first year where online advertising spends overtook the amount of money spent on newspaper advertising in the USA. It was the same year that online readership overtook traditional newspaper readership, which illustrates just how large an impact the internet has had on the marketing and advertising industry.

Why you need to be online

- Your market and competitors are already there. If you market and sell products or services to a middle-class clientele, you need to extend your strategy to include the internet.
- Web users expect the highest convenience and information at their fingertips. All companies need a website as their central point of contact. If your details don't come up in a web search, you will be ignored.
- Customers are fickle. They will not expend a lot of energy to find you online. Even worse, if your competitor is easy to find online, your potential customers will happily turn to them.
- Since South Africans are using, socialising and buying on the web – and especially because current advertising spend is still very low – now is an excellent time to move your marketing into the online sphere and capitalize on a new and connected audience.
- Audiences want to interact with and converse about your brand and products. Give them the opportunity to do it in a mediated space, and become part of the discussion.
- Online marketing is almost always cheaper and more targeted than traditional. You can reach the best customers at the lowest price. When done smartly, your online marketing plan will integrate seamlessly with your traditional tactics, won't cost a fortune and will expose you to a market that you had previously been invisible to.

Marketing and the Internet

Much of the world's business today is carried out over digital networks that connect people and companies. The Internet, a vast public web of computer networks, connects users of all types all around the world to each other and to an amazingly large information repository. Internet usage continues to grow steadily. Last year, internet household penetration in the USA reached 64 percent, with more than 205 million people now using the internet at home or at work. The internet has given marketers a whole new way to create value for customers and build customer relationships. The web has fundamentally changed customer's notion of convenience, speed, price, product information and service. E-marketing encompasses a number of activities and these are increasingly changing as digital resources develop and evolve in both functionality and marketing applicability.

Global trends

The internet marketing field hasn't stood still. Here are some of the current trends:

Social media marketing: Whether it is a fad or here to stay, social media has made an indelible mark on the web landscape and, concurrently, on marketing tactics. Social media marketing involves using peer recommendations, sharing, building brand personality and addressing the market as a heterogeneous group of individuals. It also uniquely encourages customers to create content and buzz around a product themselves.

- **Viral marketing :** This form of marketing involves the exponential spread of a marketing message by online word of mouth (sometimes referred to a "word of mouse"). A major component of viral communication is the meme – a message that spreads virally and embeds itself in the collective consciousness ("Don't touch me on my studio" is a recent South African example). Viral marketing is closely tied to social media, since social media platforms and their sharing functionality are the main way that a message is able to "go viral" online. Keep in mind, however, that viral marketing does not make a holistic online marketing campaign and should be just one of many tools used to create awareness and encourage interaction.

- **Brand as product :** More than ever before, brands are creating personas and identities around themselves rather than the products they sell. The online space allows customers to interact and converse with the brand personally and directly.

- **Ad fatigue :** Web users have become very familiar with online advertising and have learned to tune it out – or have even installed programs like Ad Block Plus to block it altogether. Marketers today have to think of very innovative and eye-catching strategies to entice wary viewers.

- **Targeting :** Virtually all online advertising is targeted to reach specific readers. Unlike the broad-strokes targeting done in traditional marketing (placing an advert in a relevant magazine, for example), web targeting can be extremely precise. With the immense amount of personal and usage data currently available, targeting can be done automatically and extremely successfully.

- **Golden oldies :** Despite all the exciting new strategies, email and website marketing remain among the most useful and effective techniques. These strategies do, of course, use new tools and tactics (like advanced tracking, integration with social networks and customer-generated content), but their essence stays the same.

The future of internet marketing

Naturally, it is impossible to predict what the future of internet marketing will hold, but two things are certain :

1. The field is growing and will become the largest and most important marketing sector in coming years.

2. The growth will be driven by new innovations in technology.

On top of that, web users are becoming more aware and marketing savvy, and their attention spans are shortening as desirable content becomes ever more quickly available. This market is more likely to challenge debate and denigrate a brand – but it is also more likely to share good content and products with an exponentially growing social circle.

Technology and convergence

Convergence is the process by which many technologies meld into one. Consider your cell phone: it makes calls, has a small camera, functions as a web browser and calendar and probably does a range of other software-based tasks. This is a good example of a basic convergence device: many functions are compressed into one piece of technology. Many devices are far more complex. Apple's new iPad tablet computer performs thousands of possible function and can be used as a portable computer, document reader, web browser, media platform and so on.

4.4 GREEN MARKETING

Convergence also happens between seemingly unrelated devices. For example, some advanced refrigerators include a small computer and internet connection: the appliance monitors what food is in stock and automatically orders the necessary replacements at an online grocery shopping site when you run low. Child-protection devices monitor a child's location over GPS and its vital signs with a range of sophisticated equipment. Content can now move seamlessly between desktop and mobile devices. In an always-connected, converging world, marketing will have to adapt constantly and spread along these new technological lines.

Consumer control

The internet has already affected a radical shift in the way that media and consumers interact. Traditional media have a one-to-many approach: the media outlet beams its message down to a host of passive consumers. The web, however, relies on many-to-many interaction: anybody can post content or comment on what they see, and media outlets no longer have complete power over their broadcast message. In the world where everything is social and shared, the consumer has a lot of power – and it is likely to grow. Marketing agencies foresee that they will need to hand even more control over to customers, who want to engage on deeper and more significant levels with content. The trend may go so far as letting customers create and mediate marketing content, with agencies keeping oversight and steering from the sidelines.

A majority of people believe that green refers solely to the promotion or advertising of products with environmental characteristics. Terms like Phosphate Free, Recyclable, Refillable, Ozone Friendly and Environmental Friendly are some of the things consumers most often associate with green marketing. While these terms are green marketing claims, in general green marketing is a much broader concept, one that can be applied to consumer goods, industrial goods and even services. For example, around the world there are resorts that are beginning to promote themselves as "Eco tourist" facilities, i.e., facilities that "specialize" in experiencing nature or operating in a fashion that minimize their environmental impact.

Thus, green marketing incorporates a broad range of activities, including product modification, changes to the production process, packaging changes as well as modifying advertising. Yet defining green marketing is not a simple task. Indeed, the terminology used in this area has varied, it includes: Green marketing, Environmental Marketing and Ecological Marketing. While green marketing came into prominence in the late 1980s and early 1990s, it was first discussed much earlier. The American Marketing Association (AMA) held the first workshop on "Ecological Marketing" in 1975. At this workshop, ecological marketing was defined as: the study of the positive and negative aspects of marketing activities on pollution, energy depletion and non-energy resource depletion. This early definition has three key components,

- It is a subset of the overall marketing activity
- It examines both the positive and negative activities
- A narrow range of environmental issues are examined.

A broader definition of Green marketing is, it consists of all activities designed to generate and facilitate any exchange intended to satisfy human needs or wants, such that the satisfaction of these needs and wants occurs with minimal detrimental impact on the natural environment.

Importance of Green Marketing

The question of why green marketing has increased in importance is quite simple and relies on the basic definition of economics: Economics is the study of how people use their limited resources to try to satisfy unlimited wants. Thus mankind has limited resources on earth, with which he/she must attempt to provide for the world's unlimited wants. In market societies where there is "freedom of choice", it has generally been accepted that individuals and organizations have the right to attempt to have their wants satisfied. As firms face limited natural resources, they must develop new or alternative ways of satisfying these unlimited wants. Ultimately green marketing looks at how marketing activities utilize these limited resources, while satisfying consumers wants individual and industry, as well as achieving the selling organizations objectives.

Reasons for Using Green Marketing

There are several reasons for firms increased use of green marketing. Five possible reasons cited are:

1. Organizations perceive environmental marketing to be an opportunity that can be used to achieve its objectives.
2. Organizations believe they have a moral obligation to be more socially responsible.
3. Governmental bodies are forcing firms to become more responsible.
4. Competitor's environmental activities pressure firms to change their environmental marketing activities.
5. Cost factors associated with waste disposal or reduction in material usage forces firms to modify their behavior.

Opportunities

It appears that all types of consumers, both individual and industrial are becoming more concerned and aware about the natural environment. In a 1992 study of 16 countries, more than 50% of consumers in each country, other than Singapore, indicated they were concerned about the environment. There are numerous examples of firms who have strived to become more environmentally responsible, in an attempt to better satisfy their consumer needs.

McDonald's replaced its clam shell packaging with waxed paper because of the increased consumer concern relating to polystyrene production and ozone depletion. In a similar case Xerox introduced a "high quality" recycled photocopier paper in an attempt to satisfy the demand of firms for less environmentally harmful products. This is not imply that all firms who have undertaken environmental marketing activities improve their behavior. In some cases firms have misled consumers in an attempt to gain market share. In other cases firms have jumped on the green bandwagon without considering the accuracy of their behavior, their claims or the effectiveness of their products. This lack of consideration of the true "greenness" of activities may result in firms making false or misleading green marketing claims.

Social Responsibility

Many firms are beginning to realize that they are members of the wider community and therefore must behave in an environmentally responsible fashion. This translates into firms that believe they must achieve environmental objectives as well as profit related objectives. This results in environmental issue being integrated into the firm's corporate culture. Firms in this situation can take two perspectives; (1) they can use the fact that they are environmentally responsible as a marketing tool; (2) they can become responsible without promoting this fact. There are examples of firms adopting both strategies. Organizations like the Body Shop heavily promote the fact that they are environmentally responsible. While this behavior is a competitive advantage, the firm was established specifically to offer consumers environmentally responsible alternatives to conventional cosmetic products. This philosophy is directly tied to the overall corporate culture, rather than simply being a competitive tool. An example of a firm that does not promote its environmental initiative is Coca-Cola. They have invested large sum of money in various recycling activities, as well as having modified their packaging to minimize its environmental pressure. While being concerned about the environment, Coke has not used this concern as a marketing tool. Thus many consumers may not realize that Coke is a very environmentally committed organization.

Governmental Pressure

As with all marketing related activities, governments want to "protect" consumers and society; this protection has significant green marketing implications. Governmental regulations relating to environmental marketing are designed to protect consumers in several ways, (1) reduce production of harmful goods or by-products; (2) modify consumer and industry's use and/or consumption of harmful goods; (3) ensure that all types of consumers have the ability to evaluate the environmental composition of goods.

Governments establish regulations designed to control the amount of hazardous wastes produced by firms. Many by-products of production are controlled through the issuing of various environmental licenses, thus modifying organizational behavior. In some cases, governments try to "induce" final consumers to become more responsible. Thus government's attempts to protect consumers from false or misleading claims should theoretically provide consumers with the ability to make more informed decisions.

Competitive Pressure

Another major force in the environmental marketing area has been firm's desire to maintain their competitive position. In many cases firms observe competitors promoting their environmental behavior and attempt to emulate this behavior. In some instances, this competitive pressure has caused an entire industry to modify and thus reduce its detrimental environmental behavior. For example, it could be argued that Xerox's "Revive 100% Recycled paper" was introduced a few years ago in an attempt to address the introduction of recycled photocopier paper by the manufacturers.

Cost or Profit Issue

Firms may also use green marketing in an attempt to address cost or profit related issue. Disposing of environmentally harmful by-products, such as polychlorinated biphenyl (PCB) contaminated oil are becoming increasingly costly and in some cases difficult. Therefore, firms that can reduce harmful waste may incur substantial cost saving. In these cases, they often develop more effective production processes that not only reduce waste, but reduce the need for some raw material.

Some Issue/Problems with going Green

No matter why a firm uses green marketing there are a number of potential problems that they must overcome. One of the main problem is that using green marketing must ensure that their activities are not misleading to consumers or industry and do not breach any of the regulations or laws dealing with environmental marketing. Green marketing claims must: Clearly state environmental benefits;

- Explain environmental characteristics;
- Explain how benefits are achieved;
- Ensure comparative differences are justified;
- Ensure negative factors are taken into consideration;
- Only use meaningful terms and pictures.

4.5 RETAIL MARKETING

Another problem firm's face is that those who modify their products due to increased consumer concern must contend with the fact that consumer's perceptions are sometimes not correct. Take for example the McDonald's case where it has replaced its clam shells with plastic coated paper. There is ongoing scientific debate which is more environmentally friendly. Since scientific evidence suggests that when taking a cradle-to-grave approach, polystyrene is less harmful. If this is the case McDonald's bowed to consumer pressure, yet has chosen the more environmentally harmful option.

Retailing is the set of business activities that adds value to the products and services sold to consumers for their personal or family use. It is responsible for matching supplies of manufacturers with the demand of consumers. The retailer performs many activities like anticipating and forecasting consumer requirements, developing an ideal assortment of products, acquiring and processing marketing information, bulk breaking to suit individual customer requirements and sometimes performs the financing function. Many institutions including manufacturers, wholesalers also do retailing. Although most retailing is done in retail stores, in recent years' non-store retailing has been growing much faster than on-store retailing. Non-store retailing includes selling to final consumers through direct mail, catalogue, telephone, Internet, TV home shopping shows, door-to-door contact and vending machines etc.

Retailing differs from marketing in the sense that it refers to only those activities, which are related to marketing goods and/or services to final consumers for personal, family or household use. Marketing however is an integrative process of planning and executing the conception, pricing, presentation and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational objectives. Retailing is an intrinsic part of our daily lives. A successful retailer has to satisfy the customers through a high level of customer service and wide assortments of goods and services of customer's choice.

Functions of Retailing

Retailers are crucial players in the emerging market scenario. Large brands are running first to get into the desired retail formats to cater to the growing middle class of India. Retailers perform various functions like providing assortments, sorting, breaking the bulk, rendering services, bearing risk, channel of communication and transport and holding inventory. They significantly contribute towards increasing the product value and satisfying the consumers.

Providing Assortments : Offering an assortment enables customers to choose from a wide selection of brands, design, sizes, colors and prices in one location. Manufacturers specialize in producing specific types of products, for example, Kellogg's makes breakfast cereals and Campbell makes soups. If each of these manufacturers had its own stores that only sold its own products, consumers would have to go to many different stores to buy groceries to prepare a single meal. Retailers offer assortment of multiple products and brand for consumer convenience.

Sorting : Manufacturers make one single line or multiple product lines and will always prefer to sell their entire output to few buyers to reduce their costs. Final consumers will prefer to buy from a large variety of goods and services to choose from and usually buy in smaller quantities. Retailers have to balance between demands of both the sides, by collecting a combination of goods from different producers, buying them in large quantities and selling them to individual consumers in smaller quantities. The process is called sorting and under this process, the retailer undertakes activities and performs functions that add value to the products and services while selling them to consumers.

Breaking Bulk : Retailers offer the products in smaller quantities tailored to individual consumers and household consumption pattern. This reduces transportation costs, warehouse costs and inventory cost. This is called breaking bulk. The word 'retailing' is drawn from French, which means 'cutting a piece off', which shows the true function of a retailer.

Rendering Services : Retailers provides credits facilities to the customers. They display products, which attract the customers. Retailers keep ready information on hand to answer queries of the customers. They provide services by which the ownership can be transferred from manufacturer to the end consumers with convenience. They also provide product guarantee from owner's side, after sale services and dealing with consumer complaints.

Risk Bearing : The retailer bears a different kind of risk to the manufacturers and wholesalers. Even the customers can come back to the retail point and return the product. In that case the risk of product ownership many times rests with the retailers. Many companies have buy back schemes and return schemes whereby the retailers can return the unsold items.

Holding Inventory : A major function of retailers is to keep inventory so that products will be available for consumers. Thus, consumers can keep a much smaller inventory of products at home because they can easily access from the nearby retailers. Retailers inventory allows customers instant availability of the products and services.

Transport and Advertising Function : Retailers also help in transport and advertising function. The larger assortments are transported from wholesaler's point by retailers own arrangements and many times, the retailers deliver the goods at final consumer's point. So, retailers provide assistance in storage, transportation and advertising and pre-payment merchandise. The percentage that a retailer gets from the sale price depends on the number of function that the retailer does for the manufacturer.

Importance of Retailing

Retailing is the last stage in the channel of distribution, which comprises all the business and people involved in the physical movement and transfer of ownership of goods and services from producer to customers. Retailers collect an assortment of goods and services from various sources, buy them in large quantities and offer to sell them in small quantities to consumers. As s result, each manufacturer becomes more efficient and the final consumers are pleased with the available selection.

Wide retail assortments let consumers do one-stop shopping and they can choose and buy the product version and at the amount desired. Retailers communicate both with customers and with manufacturers and wholesalers. From ads, sales people and displays, shoppers learn about the availability and characteristics of goods and services, store hours, sales and so on. Manufacturers, wholesalers and others are informed about sales forecast delivery delays, customer complaints, defective items and more. Many goods and services have been modified due to feedback received by suppliers.

Basic Tasks of Retailing

The most fundamental task that retailing does is getting consumers into the store, converting them into customers and operating as efficiently as possible. It is not easy to successfully complete these three basic tasks. After all, inducing a person to part with his/her hard earned cash is not an easy job. Hence, retailing is not only the last step but also a decisive one that determines whether the efforts made were fruitful or wasted. Retailing strategy is carefully planned after identifying the target market and finalizing the target market. Retail segmentation is a method used to break down heterogeneous consumer populations into smaller more homogeneous groups, based on their characteristics. Because any single retailer cannot serve all potential customers, it is important that it segments the market and selects a target market. A target market is that segment of the market that the retailer decides to pursue through his marketing efforts. Retailers in the same line of trade pursue different target markets.

When the target is clearly identified then the retail can plan factors like location, assortment of merchandise, pricing and ambience. Targeting enables the retailers to efficiently utilize his/her scarce financial resources and efforts to position their products in a favorable light in the minds of the customers. A retailer device his positioning strategy in such a way that he is able to project a better and different image relative ti his retail category and its competitors and elicits consumer response to that image. The image perceived in the minds of customers induces the buyers to transact and repeat the same purchase behaviour over a period of time leading to store loyalty. So, segmentation, marketing and positioning helps the retailers to develop his retail strategy.

A retail strategy is the overall plan or framework of action that guides a retailer to use his scarce resources to achieve his objectives. It has the ability to influence activities of the retail organization and its responses to competitive forces. There are six steps involved in the development of a retail strategy. The manager defines the business of a firm in terms of orientation towards a particular sector. He should set short-term and long-term objectives, with regards to image and profitability. He should identify the target market towards which all efforts should be directed on the basis of customer characteristics and needs. There should be a decision regarding the broad direction of the company must take in future of retailing like pricing, location and channel member decision. Finally, he should receive the plan depending on the nature of the internal and external environment. A retail strategy combines both controllable and uncontrollable variables. The following table explains the set of controllable and uncontrollable variables:

Controllable Variables	Uncontrollable Variables
Store location Managing a business Merchandise management and pricing Communicating with customer	Consumers Competition Technology Economic conditions Legal restrictions

The retail concept has guidelines, which must be followed by the retailers, irrespective of their size, structure, channel design and medium of selling. The retail concept is deployed to reach its target market and achieve the firm's objective. The retailing mix brings the firm's objectives in final and practical form.

Retail Mix

It describes how major factors like price and merchandise are traded off against other retail factors like service, location, marketing communication, quality and store's ambience to form an overall store image, create value for customers and produce profit for the retailer. While developing a retail marketing strategy, the marketing manager can use these elements to design final retail management program.

Service: In retailing, the word 'service' describes the personal attention and amenities a store provides to its customers. Most stores offer at least some services. The help of a trained sales staff, for example adds value for customers. Other types of services provided by retailers include credit facilities, extended financing, gift-wrapping, and installation and customizing to suit individual customer requirements.

Location: This is the most important factor in a retailing decision. People will always look for location choice before going to a store. Even though today's consumer is highly mobile, the convenience of location is still one of the top criteria people use in choosing where to shop. This is especially true for fast moving consumer goods and durables business.

Ambience: Most successful stores have distinct images called store personalities. This is the result of many factors besides price and quality. Retailers often talk about atmosphere of ambience, when describing their image. Atmosphere reflects the environment both outside and inside the store; it includes window display, signage, décor, furniture, store layout, lightning, sound such as music and even scents.

Marketing Communication: A store's image as well as other information about the merchandise for sale is communicated largely through advertising and in-store promotional materials. The store front and display windows, store layouts and merchandise display help gain consumer enthusiasm, present a fresh look, introduce new product categories and reflect changing seasons and themes. Marketing communication is a key issue for Pantaloon stores as they put banners, posters and other point of purchase displays in the store before every new launch or beginning of a sales promotion program.

Pricing: Pricing refers to retailer's comparative strategy with respect to competitors. Many discount stores achieve greater success due to this pricing variation. Various pricing methods include prestige pricing, competitive pricing and penetration pricing to attract target consumers.

Retail Formats

The growth in retail power and influence has originated from the concentration of trade into the hands of fewer larger enterprises. The change in retail industry is due to various factors like liberalization, changes in regulation, globalization and consumer preferences. While international chains are looking for newer markets and manufacturers; the producers are also looking for different kinds of retail formats to cater to their target markets.

Mom and Pop Stores and Kirana Stores

Mom and Pop stores are the traditional independent stores, which are spread across the country and cater to a large chunk of population. The real growth in Indian retailing is happening in these kinds of stores. Though the emergence of organized formats have brought more competition to the Pop and Mom stores and Kirana stores, but the level of proximity these store enjoy has given them a comparative advantage over others. Such kinds of stores are found everywhere in India and mostly in small towns in India.

Department Stores

These kinds of stores are found in USA. Example of such kinds of stores includes JC Penney, Sears and Montgomery ward. A department store must have at least 2500 square meters of space. It must offer a product range that is both wide and deep in several product categories. These kinds of stores are slowly becoming non-profitable. These players are not going out of market but they are turning out to be variety stores to cater to large markets.

Discount Stores

These are big stores like Wal-Mart, which is the biggest retailer in the world. These along with category killers have changed the landscape of the retails industry. The discount stores are likely to dominate the future retailing in India. These big stores achieve economy of scale and hold substantial power in the market. Their capacity and technology usage are so high that they control more of the marketing network than the manufacturer.

Category Killers

These retailers dominate one area of merchandise like sports goods, office depot's etc. These category killers buy such a huge quantity that they can offer prices at abysmally low levels, even manufacturers cannot match. The future of this category of stores is brighter than many of the general discounters.

Specialty Stores

These stores include Body Shop, Crate and Barrel and Victoria Secrets. These stores concentrate on one type of merchandise and offer in a manner that makes it special. Some of these stores are high-end stores like Tiffany's. Many of these stores also cater to prices conscious customers. Many of these stores are so successful that departmental stores have started following such models. There is likely to be a growth in home furnishing and home Improvement category of specialty stores.

Superstores and Hyper Markets

The super markets and hyper markets are becoming more popular in the face of declining of departmental stores. These stores are situated outside traditional shopping centers and enjoy greater accessibility by car, greater economies of scale and the benefits of being built for a special purpose. While a super store is around 25000 square feet of selling space, a hypermarket has around 50000 square feet of selling space. These are large stores selling primarily groceries in some countries. In many countries the term implies large stores and special formats, offering a strong depth of assortments.

E-tailers

Many of the popular store formats have their online storefronts but there is a growing class or e- tailers or virtual retailers in the Internet space. One of the successful models is www.amazon.in. Another popular discount e-tailer is www.flipkart.com, which uses reverse auction pricing model to cater to the online shoppers. Few more are www.ebay.in, www.snapdeal.com, www.myntra.com, www.jabong.com, www.shopclues.com, www.homeshop18.com, www.aliexpress.com, www.lenskart.com, www.reliancedigital.in, etc. Since e-commerce and online shopping are on a rise, we are likely to see successful e-tailers in the coming period of time.

4.6 RURAL MARKETING

A few years ago, the rural market in India was an unknown territory and many companies were not interested in entering the rural markets of India, as the demand pattern was fragile, seasonal, purchasing power was scantly distributed among a few wealthy landlords. Communication, transportation and infrastructure were the main blocks for growth of rural market and penetration of urban products in rural markets. But these things are the story of the past and now everyone is looking at rural markets as the next growth driver in Indian market.

Today, rural markets are in the focus of Indian marketers for various reasons that include the current and future potential of the market. The size of the market covers two thirds of the country's population and half of the national income comes from the rural population. The country is classified into more than 400 districts and around 63,00,000 villages, which can be classified on the basis of literacy level, fragmented income level, different degree of penetration and geographic distance from urban markets. These classifications help in arriving at a market size that offers opportunities and challenges to urban marketers. For the purpose of convenience, we would take the definition adopted by the Government of India that "whatever is not urban is rural". The government of India defines urban as one that follows any of the following three sets of criteria:

- Presence of a Municipal Council, Cantonment, etc. or a minimum population density of 5000 persons;
- A population density of 400 persons per sq. km;
- At least 75% of the male population is engaged in non-agricultural activities.

While the rural market certainly offers a big attraction to marketers, it is one of the most difficult markets, requiring from the marketers a considerable amount of investment. It should be mentioned here that more than investments, what is required is an understanding the psyche of the rural consumer and this is indeed the most daunting tasks as reflected from the failure of many major brands in the rural markets.

Opportunities In Rural Markets

Rural marketing provides challenges and opportunities for marketers. If these challenges are taken care of through careful market planning and strategy building, it is possible to get success in rural markets in India.

Untapped Potential

It offers a great chance for different branded goods as well as services for larger number of customers. This market is largely unexploited by marketers. It is estimated by Unilever that out of five lakh villages in India, only one lakh has been tapped so far, which goes on to indicate the market potential of the rural market.

Market Size and Potential

The size of India's rural market is stated as 12.2 percent of the total world population. This means 12.2 percent of the world's consumers live in rural India. In India, rural households from about 72 percent of the total households and this constitute a huge market by any standard.

Current Consumption

The purchase and consumption of certain durables and non-durables by consumers in rural areas is more than in urban areas. Some of the durables for which the demand in rural areas is more than of urban areas are sewing machine, radios, wristwatches, bicycles etc. It is estimated that for washing machine and durables, the annualized growth has been at a rate of 37% and 25% respectively, which is outstanding by any standards.

Increasing Income

Different programs undertaken by the government have helped to improve the economic situation of the rural areas. The increase in income is seen in both absolute values as well as in the increase in average number of days of occupation in a year.

Accessibility of Markets

Though the road network hasn't developed to the best possible extent but a fiar amount of development has been made in many regions, making these regions accessible from the urban region and making it easier for supplying products to these regions.

Competition in Urban Areas

The urban market is getting saturated and thus is unable to provide the much needed market to many companies and in search of greener pastures, many of these companies are now targeting the rural market.

Challenges In Indian Rural Markets

Mismatch of Urban Focused Strategy to Rural Markets

Many companies have tried to push their urban produce to the rural heartland and have often failed in their initiatives. There are various reasons for which the urban marketing strategy does not fit into rural marketing structure and it needs a reorientation by looking at the competitive landscape and challenges of the rural market.

Lack of Retail Infrastructure

According to the Indian Market Research Bureau (IMRB) study, 60, 000 of the approx. 0.6 million villages in India did not have a retail outlet of any kind. Further, the outlet density in rural India is lower than that in urban India. Thus, it is more difficult to make a product available to a rural consumer than to an urban one. Moreover, the availability of retail infrastructure is directly linked to the village size. Thus, many small villages may not even have a shop from which the product can be made available to the rural consumers. Augmenting infrastructure at the retail level is a difficult task because it involves motivating someone to discard an alternative occupation, such as farming and start a shop. Further, even if there is willingness to open a retail shop the person may not possess the necessary capital to buy stocks.

Vast and Unevenly Distributed Purchasing Power

Although rural India accounts for a significant share of the total consumption in a number of categories, the consumption tends to be geographically dispersed because of the sparse distribution of population and unevenness of purchasing power.

Lack of Storage, Handling and Communication Infrastructure

For a tiered distribution channel to function, adequate storage, handling and transport and communication infrastructure is required. Pucca roads connect only 33% of the total villages in India. Further, the connected villages are not equally distributed across regions. While pucca road connects 57% of villages in the South zone, the same in the East zone connects only 20 %. Similarly, only 1.2% of villages in India have railway stations.

Seasonal Demand Pattern

Agriculture is the primary source of income in rural India. With agriculture being a seasonal activity, the demand pattern also tends to be seasonal. The demand is typically high during the peak crop harvesting and marketing season. The seasonality of demand implies low sales in the lull months, which again affects the viability of operations of the members of the distribution channel.

Importance of Rural Market

Though the rural markets are fragmented and consumer's purchasing power is not comparable to urban consumers, that does not in any way lessen the importance of rural markets in the Indian marketing environment as the following factors will indicate:

Size of Rural Market

An analysis of National Sample Survey data shows that of the total expenditure on manufactured consumer's goods, 75% is spent in rural India. The percentage has remained almost unchanged since 1960-61. Though per capita consumption and expenditure on manufactured consumer items is low in rural areas, the market is approximately three times larger. On the assumption that all persons or families above the poverty line from the market for some branded consumer goods, this market has a size of 62 million households.

Rural Market in Value Terms

For non-food consumption items, the size of the market in current prices was Rs. 5500 crores in 1970-71 and Rs. 27000 crores in 1999-2000. Assuming the rural population above the poverty line mainly consumes these items, it represents annual expenses of Rs. 15.6 per head per annum. In real terms, however, the growth has been very modest at 3.5 per cent per annum due to a number of factors such as:

- Lack of concerted effort by the organized sector to penetrate the rural market.
- Averages are misleading in this type of analysis, as peak opportunities, which occur in certain pockets, may not be fully realized.

Rural Target Population

Wealth distribution in rural India is uneven and the top 13 percent of the farmers land holdings account for 37 percent of cultivated areas. Further, NSS data show that the top 10 percent of the rural population accounts for about 37 percent of the expenditure on consumer goods. However, with the increase spread of the rural income, consumer goods are expected to make substantial penetration into the lower income strata by the normal percolation effect.

There is an increasing cross flow of population between urban and project town centers which act as conduits for cross flow of products and ideas, thus supplementing the demand for such products and ideas supplementing the demand for such products.

Sources of Rural Purchasing Capacity

There are various sources, which contribute to purchasing capacity in rural areas. A few of them are listed below:

Marketable Agricultural Surplus and Rural/urban Terms of Trade: So far as manufactured consumer goods are concerned; regression analysis reveals that there is a 0.7 percent rise in consumption for every 1 percent increase in marketable surplus of food grains. As the surplus is increasing every year, there will be increasing purchase capacity with farmers.

Remittances: The traditional remittances from within the country are now being supplemented in several states by remittances from overseas. In 1998 total inward remittances in the state of Kerala were estimated at Rs. 1400 crores. This creates new consumption and purchasing patterns among the rural population.

Government Expenditure: Investments in flood control and irrigation facilities, for rural development and associated programs is increasing day by day. Benefits from these programs will generate additional income leading to increasing in purchasing power for rural customers, which can be expected to support consumption of manufactured items. Further, these investments are expected to augment the income generation process from land in future years, which in turn, will accelerate the growth of rural markets.

Dispersal of Industry: The investment in the development of backward areas will greatly speed up the income generation process in rural areas. Government is giving tax holidays and other incentives for industries to move towards rural areas, so that urban congestion can be avoided and there would be parity in rural development.

Developing Rural Marketing Strategy

Developing marketing strategy for rural markets is a difficult task and one cannot replicate an urban marketing strategy for rural markets. If rural markets have to be developed, each of the marketing elements like product, price, distribution and promotion should be performed in a different manner that in urban market. Segmenting rural markets is a difficult task due to wide variety in the consumption pattern and scarce distribution of potential customers among the rural population. Demographic characteristics like age, gender, occupation and social status can be used for market segmentation. Socioeconomic characteristics can also be used for the same. Other than the conventional methods of segmentation, we can also use few more variables like land holding pattern, irrigation facilities, progressiveness of the farmers, cropping pattern, and education level and occupation categories.

Segmentation on the basis of land holding pattern classifies customers into marginal farmers, small farmers, semi medium farmers, medium farmers and large farmers. The other segments include landless laborers, people working in non-farm sectors including rural craftsmen, agricultural labors and artisans. Rural markets can also be segmented from sociological perspective. This perspective classifies rural customers into following categories:

- Rich farmers who belong to the dominant caste of the areas
- Small peasants or marginal farmers owning uneconomic land holding
- Proprietors of land
- Tenant farmers operating on rented lands belonging to large landholders and working on small uneconomic land holding
- Agricultural laborers who work on the fields of rich farmers and landlords.
- Artisans and others, including the unemployed.

Segmentation on the basis of land holding is appropriate for agricultural product marketing. Segmentation on the basis of sociological perspective holds good for consumables and durables. Rural marketers use appropriate methods of segmentation for their products and services by taking a combination of segmentation bases for developing a successful marketing strategy.

4.7 NICHE – MARKETING

Niche markets are an attractive opportunity available to small businesses forced to compete against the scale economies that larger competitors are able to achieve. Niche markets consist of groups of consumers (market segments) within the larger marketplace who have similar demographic, buying behavior, and/or lifestyle characteristics. Examples include food buyers who prioritize quality assurances and source of production, and consumers who seek an easy preparation entrée available in convenient form. Even consumers with the same buying behavior may have differing motivations (which are essential elements to know for marketing and promotion). For example, organic consumers used to be identified by their concern for their environment, but now there are entirely different segments of consumers who buy organics because they perceive those foods as having higher nutritional benefits. Understanding target consumer segments is a crucial factor in determining whether an operation has the resources, interests, and business elements necessary to meet the needs of prospective customers.

Once the like-minded consumers have been identified, it may be helpful to name or label them (called "clustering"), as a way of facilitating targeted marketing activities and "branding" of the venture's offerings. Clustering of consumers also allows a business to plan more targeted and effective marketing activities, especially if the venture understands the consumers' motivations for buying products or visiting specific shopping or tourism venues. In addition, consumer clustering may also help with estimating potential visitor numbers and appropriate price points for different customer groups. For example, consider a venture that wishes to market to a customer group that prioritizes convenience. If it takes more marketing resources to get the venture's product in ready-to-eat form or to nearby markets (farmers' markets or direct deliveries), then the prices charged can be higher for this customer group to offset the additional resources. In comparison, this method of marketing would not work for a customer group that prioritizes price and is willing to go out of the way to locate lower-cost items

After the niche is identified, the next step is to find this buying public and grab their attention. This takes thoughtful promotional planning and development of messages to connect with potential buyers. Marketing materials, such as websites, brochures, personal communications, packaging, public image, etc., need to integrate credible claims, motivational messages, and consistent images to connect to (and build loyalty with) niche market consumers.

Essential elements of a niche marketing strategy to consider include:

- Know the customers: Segmenting the overall market allows the business manager to target what the business venture can offer.

- Set clear goals and objectives for what the business hopes to achieve by following a niche marketing approach: Reach new customer segments? Lower marketing costs? Secure premium pricing?
- Does niche marketing match up with the resources, capabilities and preferences of the venture?

Five Stages to Fully Address the Niche Opportunity

There are five stages to consider when attempting to address niche marketing opportunities. These stages are strategic planning, defining the mission and objectives, strategies and action, monitoring key projects and objectives, and organizational realignment.

1. **Strategic Planning**

   Strategic planning encompasses many of the issues discussed above, including the assessment of market opportunities, as well as an inventory of internal resources, values, potential strengths/capabilities (addressed in more depth below), and any weaknesses/shortfalls of the current operation. In short, the overall strategy provides a "road map" to attaining the objectives of the operation and its owners, while staying true to their vision and mission.

2. **Define Mission and Objectives**

   The mission is the operation's statement about why it exists, and sets the tone of what the company and its products' image should be at the very highest level of the operation. There should be a broad-based buy-in to this mission from owners, employees, other important stakeholders, and maybe even targeted customers. In essence, the mission explains the culture of the business to both internal players and external consumers.

   The goals/objectives start narrowing the mission into workable pieces and set a direction for where different elements of the business should or could be to effectively deliver on the mission of the operation. Although these goals should continue to be forward thinking and broad-based, stakeholders should be able to see directed resources, market-driven actions, and business activity changes that may emerge to support the strategic direction chosen by the operation's management.

3. **Strategies and Action**

   To begin taking specific actions, with timelines and measurable outcomes that will support the broader mission, strategies, and goals of the business, it may be most effective to develop a work plan. That plan should include a key personnel list, timeline for the activity, a list of resources or budget needed to execute the plans, and any other relevant information (partners, pertinent legal or regulatory issues, and connections to other pieces of the work plan). Although a sufficient level of detail on all the actions to be taken may seem overwhelming, it will provide a realistic inventory of what needs to be accomplished and divide the actions into small enough units to facilitate timely action (rather than inaction due to being overwhelmed by the scale of larger goals of the company). Remember that actions are both effective and realistic steps to achieving the operation's strategy. In short, this step requires the operation to build a plan of execution.

4. Monitoring Key Projects/Objectives

Monitoring a firm's progress towards its goals is one of the most crucial actions during the first years of a new (or significantly changed) enterprise. Determine key projects and areas of potential success within the work plan established above, and then decide on specific measurable elements that will allow the operation to monitor success. These elements should not all be financial indicators, as too many businesses focus on financial goals before they can realistically be met. In addition to monitoring sales growth, visitor numbers, and profits, the operation might also monitor full deployment of resources (land, buildings, employees, etc.), customer satisfaction and return visits, or employee feedback on their participation in the enterprise.

As part of monitoring, the operation should report on key strategies and objectives, following up on any deadlines or specific measurable elements that were set. There should be clear accountability to a person in the organization (or key partner), while being cognizant of guarding against overly loose or tight management (since both will stymie leadership development). Each step in monitoring and redirecting should be used to maintain forward motion towards attaining the change or growth goals of the operation.

What signals will trigger changes or growth for the enterprise? This is an important question since the early years of a new niche marketing plan will require great flexibility and adaptive management responses. The frequency of monitoring will also affect how much time is given for marketing efforts to prove themselves, and how quickly the operation can respond to consumer wishes.

5. Organizational Realignment

In order to clearly link the objectives and strategies of any new niche venture, it is likely that the management will have to consider an organizational realignment of resources, human capital and marketing efforts. To be successful in niche marketing, it is important to align the structure and culture of the business and the personal lives of the owners in ways that are compatible with the niche the business hopes to operate within. This may include a change in the levels of family involvement, the privacy or solitude available on the farm or ranch, the choice to “brand” the owners’ family heritage and approach to farming, or even relinquishing control of some business activities to marketing or community partners.

The Decision to Market in a Niche

Even after developing a plan to enter a niche market, it is important to pick one point in the planning process to finally decide whether the new niche venture is feasible, and if so, fully commit to the plan. There are a number of elements that should enter into that final decision:

- **A**cknowledge the present
- **B**e aware of intent/vision
- **C**ontrol dreams:
- Manage within means
- **D**etermine the risks

Note that the first two are deliberate visioning and the second two are bringing realism.

In the end, the management and stakeholders of a farm or ranch must consider how to answer the question of whether their operation needs growth, change, or exit from the market. Niche marketing is only one of the potential enterprise diversification strategies that may affect this “big picture” thinking.

4.8 OTHER RELEVANT ‘P’s IN MARKETING MIX

PERFORMANCE:

Performance refers to the delivery of superior experience of a luxury brand at two levels – first, at a product level and second, at an experiential level.

At a product level, fundamentally it must satisfy the functional and utilitarian characteristic as well as deliver on its practical physical attributes – a recipe of quality or design excellence ingredients like craftsmanship, precision, materials, high quality, unique design, extraordinary product capabilities, technology & innovation. For example: On their 70th anniversary, Patek Philippe unveiled a new complicated wristwatch. Along with a unique column wheel chronograph movement, the day and month appear in a double window at 12 o’clock, with a hand indicating the date around the moon phase. The leap year is displayed in a small round window at 4:30 opposite a matching window for the day/night display at 7:30. Like all the brand's grand complications, it has two interchangeable backs - one in sapphire crystal that reveals the movement complexity and the elegance of its finishing, the other, a white gold solid back that can be personalized with a dedication or an engraving.

Omega Speedmaster Chronograph – the moon watch: Selection by NASA, a walk in space in 1965 and since 1969 six mission to the moon is what makes this series with extraordinary capabilities. After it became a life-saving instrument during the Apollo 13 mission, the Speedmaster went on to become a symbol of peace, as both American & Soviet astronauts wore it in the first joint space-mission during the cold war. It never left the Space Program as it still the only watch certified by NASA for all EVAs (Extra-Vehicular Activities). A luxury brand must perform at an experiential level as well, i.e. the emotional value of the brand the consumers buy into – beyond what the product is to what it represents. For example: Rolex stands of symbol of heroic achievement & Tiffany is a symbol of love and beauty.

PEDIGREE:

Many luxury brands have a rich pedigree and extraordinary history that turn in to an inseparable part of the brand's mystique. This mystique is generally built around the exceptional legendary founder character of the past, making up an integral part of the brand story and brand personality. So, when consumers buy say a Cartier or a Chanel product - it is not only because of the product performance factor, but subconsciously they are also influenced by the brand's rich lineage, heritage and the years of mastery. Coco Chanel started her business in 1913 and within a few decades, became a revolutionary couturier. With Chanel Coco Mademoiselle campaigns in 1981, 2008, 2009 & the recent 2011, Chanel has continuously leveraged its pedigree / brand mystique. Similarly, Rolls-Royce celebrated the 100th anniversary of its iconic emblem, the Spirit of Ecstasy with '100 cars for 100 years' and featured a collection of Rolls-Royce models, supplied by members of the Rolls-Royce Enthusiasts' Club, dating back to 1911.

PAUCITY:

Over-revelation-and-distribution of luxury brand can cause dilution of luxury character, hence many brands try to maintain the perception that the goods are scarce. Case in point - Burberry diluted its brand image in the UK in the early 2000s by over-licensing its brand, thus reducing its image as a brand whose products were consumed only by the elite. Gucci, now largely sold in directly-owned stores, following a nearly crippling attempt to widely license their brand in the 1970s and 1980s.

Broadly, there's natural paucity (the actual scarcity), the technology-led paucity and the tactical- driven paucity.

Natural paucity is triggered by scarce ingredients like platinum, diamonds, etc. and/or those goods that require exceptional human expertise, for example handcrafted quality that constraints the mass production.

Technology-driven paucity is as a result of conception-time involved in continuous innovation and research-&-development process.

Tactical- driven paucity are more promotional in nature such as the limited editions or the special series to generate artificial desire and demand. Another deviation within this is the customization of luxury good, e.g. Garson USA custom made a diamond-encrusted Mercedes SL600 for Prince Al-Waleed bin Talal of Saudi Arabia in 2007.

PERSONA:

The persona of a luxury brand is largely a result of – first, its distinctive projection plus coherence of its applications across consumer touch-points and second, the brand communication through its advertising.

The visual brand identity captures the brand's personality, mystique & emotional values in a nutshell. The distinct and consistent orchestration of the identity is central to establishing the visibility, familiarity & common identifiable brand imagery. The visual brand orchestration can manifest by way of its coherent application of its identity, the brand color(s), the other design elements like icons, the uniquely identifiable design, branded environment and even the tone-of-voice. While the luxury brand's visual identity is a fairly stable factor, luxury brand advertising is a more dynamic and versatile marketing vehicle. While the pedigree of the brand has its role, keeping-up the contemporary-appeal and the newness-factor is crucial for enduring brand relevance. Therefore, luxury advertising not only needs to generate the desire for the seasonal collection, but at the same time it must also enhance the brand's cool-quotient, thereby making it continuously desirable and aspirational. At an overall level, luxury advertising messages can be observed:

- As more emotional and sensual to distance it from mass-premium brands
- Create a world and an aura that is truly exceptional to their brand signature
- Generate major differentiation in its production and execution

One of the relatively new trends within luxury brand communication is the use of the long-form- commercials or the short-film-videos to generate interest with the online audience. It is clearly a pursuit where luxury brands are looking to bridge the gap between the familiar world of print and the fast-evolving world of online. It has also proved impactful as in a matter of few minutes, the viewer can have a clear understanding of the brand image or the story the brand is trying to convey or simply promotion of the new collection. Apart from these, with the intent of enhancing the 'emotional connections' with discerning mindsets, luxury brands have been exploring the digital space by engaging them in their activation programs. The objective is to generate a genuine affinity with the brand that transcends beyond the product, to an extent where, the consumers feel that they have found a soul mate. Some of the luxury brands have also utilized the social media. The objective may not necessarily be, as deep as, engaging the audience in their storytelling, but it has been done largely to generate the desire or the lust for the brand or the product. It is also an effective tool to keep-up the contemporary-appeal and the newness-factor by having a continuous dialogue.

PUBLIC FIGURES:

Public-figure or celebrities have been traditionally employed as one of the marketing mix in luxury brand advertising and they still continue to garner attention, credibility and impact. Public figures can span from film-stars to music personalities, from sports personalities to royal families and even the designer themselves. But because celebrity endorsements are no longer exclusive to luxury space and extensively used (and abused) across mass categories, it takes a different meaning when it comes to luxury brand endorsement.

Not only does the public figure's associated values and personality have to resonate with that of the luxury brand's aura, but there's a distinct difference in the way celebrity role is crafted, executed and strategically utilized. Beyond traditional advertising (largely print in selected media), less in-your-face advertising tools are employed like accessorizing or dressing celebrities for their walk down the red carpet, product placements within movies and television programs, invites to special events. This strategy attempts to remove the appearance of "selling" while still promoting the product by making it seem as a part of the celebrity's lives, thereby positively affecting consumer's attitudes, brand value & purchase intention. Long-form-commercials / short-films have also utilized the celebrity-factor. Chanel for instance recently created 3-minute short film with actress Keira Knightley who replaced Kate Moss in its ads for its Coco Mademoiselle fragrance. Other previous faces of Chanel have included French star Catherine Deneuve and Nicole Kidman, who represented Chanel No. 5.

Similarly, as a part of their 'core values' campaign, Louis Vuitton used their website as the online medium to showcase their celebrity endorser's journey, their story to bring to life how the brand has been promoting the art of travel and inspiring legendary journeys.

PLACEMENT:

The retail branded environment in luxury branding is all about heightening the consumer's brand experience and amplifying the brand aura. Hence, the branded environment, the movement of truth, is where it must "live" the brand by orchestrating immaculate detailing that engages all senses of the discerning audience.

Starting from the choice of store location, the chain of touch-points consumer interacts, the salesperson's presentation and the impact of each touch-point is critical in creating a unique indulging experience. That said, today's evolving luxury consumers are increasingly seeking beyond the typical sophisticated, over-the-top, cosmetically elegant presentation or even the exclusive invites, privileged previews. With the increasing democratization of luxury brands and the rapid emergence of massive brands – the luxury consumers have become more discriminating and demanding. They are seeking a more knowledgeable and professional assistance, a trusted and reliable collaboration helping them to manage their stature and lifestyle. Not only has this led to the new business offerings like Quintessentially (more below), but also luxury brands are increasingly investing in training and empowering their sales staff. Another important point to note within the placement factor is that it is not limited to the physical environment where the brand retails, but it extends to all the environments or consumer touch- points that the brand associates itself with. This spans from the extremely selective niche media where it advertises to the sports, the events, art, conversations that it places itself with.

PR (PUBLIC RELATIONS):

PR in luxury branding plays an enormous role in image proliferation of the brand, thereby subtly influencing public opinion. It is also employed to convey other supporting messages and attributes of the brand which cannot be explicitly captured in advertising, but by no means are less important to create brand's personality, mystique and emotional values – whether it's via the pedigree factor or via public-figure any of the previous 7 P's mentioned.

It is also a sophisticated branding machine for maintaining ongoing relevance and dialogue with the luxury consumer, especially so in fashion, technology and seasonal trends driven categories. At a tactical level, PR is utilized to generate buzz & convey the brand news, point of views of inspirers and influencers (celebrity talk or the designer speak), a crucial support for brand activation (like the fashion weeks, sport-events, themed previews, etc.).

4.9 EMERGING CONCEPTS & PRACTICES IN MRKETING

a. CUSTOMER RELATIONSHIP MANAGEMENT (CRM)

Customer Relationship Management (CRM) is about the corporate values and systems (IT and Non IT) which help an organization manage its relationships with its customers. CRM is supported by technology but technology alone will not result in long term fruitful relationships with your customers. A successful CRM strategy involves effectively targeting customers for your products and providing the products in a manner that customers want; technology alone will not do this. Click here to find out more about how to build long term relationships with customers.

CRM Using Databases

One aspect of CRM is the use of databases or detailed records about your customers. Ideally customer information should be more than a list of names and addresses as you will use it to help you manage your relationships with customers. The customer information held by each business will differ for example insurance companies will record when a customer's insurance should be renewed whilst a supermarket will record what each customer buys so that they can analyse shopping habits. Whilst other businesses will record date of birth so that they can target the relevant age group and carry out relationship building activities such as sending customers birthday greetings.

CRM Information Analysis through Software

After information about each customer has been collected, it needs to be collated and analysed. A sole trader may decide to do this manually by looking through customer records but for large companies with millions of customers this is impractical. Instead large businesses have IT software to collate and analyze customer information. Once collated, software will analyze the information and automatically carry out relationship management and marketing activities. For example, software will automatically send customer's renewal letters at the relevant time. Collated customer information may also be used to run reports which help the business to write business plans and design corporate strategy.

CRM System Benefits

CRM systems can help an organization build customer relationships in a number of different ways:

- CRM databases can help the organization to segment their most profitable customers so that they know who to direct their marketing activities at.
- Help the organization to identify which products are likely to appeal to customers based on their purchase history/patterns.
- Help identify light and medium users of the business with the potential to grow into heavy users.

- CRM can help businesses personalize their customer service for each customer

There are many benefits to CRM but these will need to be balanced against the costs of collating, maintaining and analyzing CRM data. For large corporations who know how to yield profits through CRM, the benefits will outweigh the costs but small businesses may need to proceed with caution.

b. RELATIONSHIP MARKETING

Relationship marketing involves developing long term relationship with customers so that they provide you with ongoing business. An organization must exceed customer satisfaction expectations to retain and develop long term relationships with customers. Traditional transactional marketing used to focus on attracting customers for "one off sale" rather than repeat business. It takes a lot of work to persuade customers to make their first purchase with you, but if you can persuade customers to give you repeat business it will cost you less money and time. So it makes sense to keep existing customers happy!

Attracting and Retaining Customers

Relationship marketing involves the organization implementing strategy to attract and retain customers over the long term. Methods used to attract customers include lots of marketing campaigns promoting the firm, its products, its brands and its special (pricing) offers. Methods used to retain customers include good quality products, competitive prices, loyalty cards, a focus on customer satisfaction, excellent customer service and even individual account managers for larger or premium clients.

Customer Satisfaction Monitoring

Long term customer relationships require customer satisfaction even when things do not go to plan. So firms will continuously monitor how their customers are feeling about the service they have provided. For example, Travelodge email customers, a feedback form after they have spent the night in one of their hotels. Methods used to monitor customer satisfaction include:

- Focus Groups
- Personal Interviews
- Questionnaires
- Mystery Shoppers
- Customer Complaints
- Employee Feedback

- Suggestion Boxes
- Online surveys and
- General customer comments.

After each monitoring session a firm will review the results and plan how they can rectify areas causing dissatisfaction. They will also look at how they can build on areas/things that are making customers happy.

Benefits of relationship marketing

Retaining customers for the long-term offers many benefits. The aim is for the company to obtain life time custom. Some of the benefits of relationship marketing include:

- Loyal customers will recommend your business to others, thus expanding your business for you.
- Loyal customers are willing to try some of your new products, because they trust you.
- Customers will be willing to pay more for your services/products if there are adjustments in pricing because they are loyal to you and trust your services/products.
- Loyal customers will tell you about problems with your products/services enabling to improve your products/services.
- The ultimate benefit will be an increase sale, market share and dominance.

c. INTERNAL MARKETING

Internal marketing is all about the relationship an employer forms with its employees. It is said that staff should be seen as internal customers and their needs should be met, as well as external customers. But why care about internal customers? This is quite simple to answer. Motivated staff will work harder and give your external customers a better service. This will help improve the firm's reputation, sales and market share over the long term.

Communication

Part of internal marketing is all about communication and making sure the staff share the overall vision and goals of the firm, systems like the intranet and staff newsletters aid in sharing these common values.

Empower and Train Employees

Empowerment and giving staff responsibility is an important part of the internal marketing role. Staffs that are given responsibility usually perform better for the firm as they try their best to help the firm reach their goals. If staff need to be trained to take on responsibility, then the firm should be able to offer this to show that they are interested in their skills development.

Motivate Employees

Understanding staff and what motivates them is also very important. Many motivation theories such as Maslow and Herzberg have tried to pinpoint how staff can reach their full potential

Reward and Recognize Employee Achievement

Rewards and recognition by the firm is also very important, staff that are praised feel a sense of satisfaction that encourages them to work harder. Culture is also an important part of the internal marketing process. Staff across departments and levels should share the same values, these values could simply be about putting the customer first and responding to customer needs as fast as possible.

d. ETHICAL MARKETING

Ethical marketing is about making marketing decisions that are morally right. The morality of the marketing decision can encompass any part of marketing including sourcing of raw materials, staff employment and product advertising and pricing. Each person's view of morality is different; it is based on personal values and experiences. This creates a challenge for companies who want to pursue ethical marketing in a manner that will appeal to customers.

Examples of marketing decisions that involve ethics

Does the firm exaggerate the benefits of its products on its packaging? Are claims overstated? Many firms make bold claims to help sell their products. Are such claims morally wrong or merely "advertising puff”?

Is it morally wrong to adopt high pressurized selling techniques or focus on customer groups that are vulnerable e.g. pensioners? Vulnerable customer groups have needs? Can you get customers to buy without pressurized selling?

Firms need to make profits, a reduction in production costs increases profit margins. Is it morally wrong to negotiate tough contracts with suppliers to reduce production costs when it will reduce the supplier's profit margin?

Why do businesses want to adopt ethical marketing?

Some businesses are set up because the founders feel strongly about an issue and they would like to deal with issue through the business. Whilst other businesses pursue ethical marketing because they feel that is what customers expect from them. Some consumers buying products and services because they feel that the products, services (or organizations responsible for them) are ethical. In response to this consumer demand organization have increased their focus on ethical marketing. The UK Co-operative bank is good example of an organization that tries to follow an ethical principal, based on what their customers feel strongly about.

How do companies begin the ethical marketing process?

After a company has decided to implement ethical marketing it will need to make the following decisions:

- Define what is ethical.
- Decide which branch of ethics it will subscribe to.
- How will the ethical approach to marketing be implemented?
- In which areas of the firm's operations will ethical marketing be implemented e.g. employees, suppliers, consumers/clients, production techniques, distribution or the whole value chain.
- Complete an analysis of how much ethical marketing will cost and compare this against the likely benefits of ethical marketing. This will help them decide whether they would like to pursue ethical marketing.

Challenges of Ethical Marketing

Ethical marketing requires marketing strategies that are ethical and reflect consumer and market expectations. It is not easy to define the term ethical or identify which ethical decisions cater to market expectations. An individual's view of ethics and morality is influenced by a variety of things including their culture, background, experience, upbringing/family, peers, community, religion and country. Balancing ethics and remaining competitive can be difficult. If ethical marketing involves considering the needs and welfare of suppliers, employees and customers it could add to business costs. For example, Fair trade products provide producers with a minimum price. When business costs increase profit margins reduce or the costs are passed onto customers through price increases. However, if firms can adopt ethical marketing which reflect market expectations, it may make them more appealing to customers and therefore create a competitive edge.

4.10 CASES IN MARKETING

Singapore Airlines

Being first has always been the strategic marketing mantra of Singapore Airlines (SIA). Today it is recognized as one of the world's leading international airlines having started from its humble beginnings in 1972. But being small was not an obstacle since it relied on the soft-ware of airline marketing – its service differentiation. This all began with a positioning statement which read as follows: "To present Singapore Airlines as a competent, modern, international airline of Asian origin, offering the best in-flight service in the world." The iconic Singapore Girl helped SIA to establish itself as a symbol of excellence in customer service, both in the air and on the ground, and over the past 30 plus years, SIA has garnered numerous awards and accolades for being an outstanding airline. But being number one means things don't remain constant. SIA has to constantly jockey for market share from the likes of major Asian players such as Cathay Pacific and Thai International Airways, along with global players such as British Airways and Qantas.

Innovation is the key to differentiating an airline from its competitors. Apart from new aircraft acquisition, airlines like SIA are always on the cutting edge of introducing new products to enhance the flying experience, whether it is the latest technology in in-flight entertainment or the widest seats in first and business classes. In January 2004, the airline launched the world's longest nonstop commercial flight from Singapore to Los Angeles and New York. The momentum to be first has never stopped.

SIA's next move was to acquire the world's largest commercial jet – the Airbus A380. After a two-year delay, SIA was finally able to take delivery of the aircraft and be the first airline to fly the A380. The A380's maiden flight took place on October 26th 2007 to Sydney, Australia. The challenge for SIA will now be to sustain its leadership position in the highly competitive passenger air travel market now that several of its main rivals have already ordered the Airbus A380. (Emirates Airlines from the Middle East has already placed firm orders for 58 airplanes of this model). The fight for passenger share in the intensively-fought battle in the sky will become more pronounced in the next two years.

1. Briefly discuss the approaches that SIA has used to stay competitive in the global airline industry.

2. Discuss how service differentiation enables an airline such as SIA stay ahead in the fight for market share.

3. Does being first always translate into a successful marketing strategy? Give examples of companies that have tried to be first through product and service innovations and yet not achieved comparable success as market leaders.

Asia Haier Group

From its humble beginnings more than 18 years ago, Haier's sales rose by 11,600 times while its product offering grew from a single refrigerator model to nearly 70 products in almost 11,000 designs. More significantly, its brand value rose by some eight times between 1995 and 2000. Haier is now China's leading maker of washing machines and ranks second in refrigerator sales worldwide.

The Haier Group is stepping up its efforts to build a global brand on the scale of Samsung or Sony. Haier already has a global manufacturing presence. Products such as washing machines and refrigerators are sold across the U.S. in chains such as Wal-Mart, as well as in Europe. Haier has also created some popular products, such as a mini-fridge sized to fit a six-pack of beer and a pizza box that has become a hit with college students.

Those popular products and an international distribution network have helped Haier become a top contender in the race among Chinese companies to build global brands.

One example of a successful foray into global markets was its approach to getting into the Indian market. Shortly after India began dropping its import barriers in the late 1990s, low-priced Chinese toys, batteries, and other consumer goods flooded the market at a steep discount from local offerings. However, stories began to circulate of defective Chinese products, such as batteries losing their charge after a single use. Companies such as TCL tried to sell their products cheaply as well, reinforcing the reputation that Chinese brands are sub-standard. Many Indian consumers believed that China was a technologically backward country. Haier was determined not to repeat these early mistakes of its predecessors. Rather than stressing affordability, Haier positioned its TV sets, refrigerators, and air-conditioners as premium quality with prices on par or in some cases higher than those of its competitors. This approach has been used successfully in India by LG and Samsung.

While it doesn't have the strongest brand name, the company has continued to expand its product range. In addition to household appliances, it produces high-end products such as flat-screen TVs, computers and mobile phones. Now that its product range is starting to look more like Samsung's showroom, Haier wants to re-create its Korean rival's successful image transformation from cheap Sony knockoff to high-tech powerhouse.

1. What are the challenges faced by Asian brands when venturing into global markets?

2. How can Haier learn from the success of a number of Asian brands such as LG and Samsung in ensuring that it meets with similar success in global markets? Discuss this topic from the point of view of each of the elements of the marketing mix.

3. Can Haier develop global products that suit all markets? What are some of the limitations faced in using a standardized product or promotions strategy?

4.11 SUMMARY

The Internet is a worldwide means of exchanging information and communicating through a series of interconnected computers. Started as a U.S Defense Department project, the Internet, or information superhighway is now accessible to anyone with a computer and a modem. While the Internet offers a variety of services to users, the most powerful and popular is the World Wide Web (WWW), commonly referred to as the Web. In fact, many use the terms Internet and World Wide Web synonymously. For marketers, a number of Internet features offer potential, but it is the Web that has developed as the commercial component.

Green Marketing or Environmental Marketing or Ecological Marketing consists of all. Activities designed to generate and facilitate any exchanges intended to satisfy human needs or wants, such that the satisfaction of these needs and wants occurs, with minimal detrimental impact on the natural environment. As firms face limited natural resources, they must develop new or alternative ways of satisfying these unlimited wants. That is where green marketing looks at how marketing activities utilize these limited resources, while satisfying consumers wants. There are several reasons for the popularity of green marketing such as better market opportunities, social responsibility, government pressure, competitive pressure, cost or profit issues, etc. Social marketing is the application of marketing technologies developed in the commercials sector to the solution of social problems where the bottom line is behavior change. It involves the analysis, planning, execution and evaluation of programmes designed to influence the voluntary behaviour of target audiences to improve their personal welfare and that of society. Along with the traditional 4 Ps of marketing (i.e., Product, Price, Promotion and Physical distribution), marketing mix for social marketing comprises of additional 3 Ps viz., Publics, Partnership and Policy. In India, 70% of population lives in rural areas. There is a huge rural market in India, which is distinctively different from urban markets. For marketing of goods and services to rural markets, differential marketing efforts are required. Most of the FMCGs and large number of consumer durable companies realized the potential demand in rural markets, and designing specific marketing efforts to tap the rural demand.

Relationship marketing builds strong economic, technical and social ties among the stakeholders. It cuts down on transaction costs and time. In most successful cases, transactions move from being negotiated each time to being a matter of routine. The ultimate outcome of relationship marketing is the building of a unique company asset called a ***marketing network,*** which consists of the company and its supporting stakeholders (customers, employees, suppliers, distributors, retailers, ad agencies, and others) with whom it has built mutually profitable business relationships. Increasing the competition is not between companies but between marketing networks. The cardinal principle is simple: Build an effective network of relationships with key stakeholders, and profits will follow.

4.12 KEY WORDS

- **Guerrilla Marketing:** Guerrilla Marketing is an advertising strategy that focuses on low- cost unconventional marketing tactics that yield maximum results.
- **Green Marketing:** This is also referred to as Environmental Marketing or Ecological Marketing. Green Marketing consists of all activities designed to generate and facilitate any exchange intended to satisfy human needs or wants, such that the satisfaction of those needs and wants occur with minimal detrimental impact on the natural environment.
- **Relationship Marketing:** The process of creating, maintaining and enhancing strong value laden relationships with customers and other stakeholders.
- **Services:** Intangible and separately identifiable activities which provide satisfaction, and which are not necessarily tied to the sale of a product or another service.
- **Social Marketing:** Designing, implementing and controlling of programmes seeking to increase the acceptability of a social idea, cause or practice among a target group.

4.13 SELF-ASSESSMENT TEST

1. What do you mean by Green Marketing?
2. What are the challenges faced by marketers in rural marketing in India?
3. Explain the concept of relationship marketing. Explain the main elements of relationship marketing.
4. How marketing on Internet is different? State the advantages and limitations of marketing on Internet.
5. Explain Green marketing? Explain various problems associated with green marketing?

Uttar Pradesh Rajarshi Tandon Open University

Master of Business Administration

MBA-2.4

Marketing Management

BLOCK

2

MARKETING DIMENSION

परिशिष्ट–4

आन्तरिक कवर–दो का प्ररूप

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विशेषज्ञ समिति

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परिमापक

अनुवाद की स्थिति में

मूल लेखक	अनुवाद
मूल सम्पादक	भाषा सम्पादक
मूल परिमापक	परिमापक

सहयोगी टीम

संयोजक Dr. Gaurav Sankalp, SoMS, UPRTOU, Allahabd.

प्रूफ रीडर

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UNIT-5 PLANNING MARKETING MIX

Objectives

After reading this unit, you should be able to:

- Understand significance of various elements of the marketing mix activities,
- Understand the importance of marketing mix in marketing planning
- Explain the relationship between marketing mix and marketing strategy
- What is optimum marketing mix

Structure

5.1 INTRODUCTION

Neil Borden in the year 1953 introduced the term Marketing mix, an extension of the work done by one of his associates James Culliton in 1948. Marketing Mix is a combination of several ideas and plans followed by a marketing representative to promote a particular product or brand is called marketing mix. Several concepts and ideas combined together to develop final strategies helpful in making a brand popular amongst the masses form marketing mix.

Marketing Mix is one of the most significant concepts in marketing management. For attracting consumers and for sales promotion, every manufacturer has to concentrate on four basic elements/components. These are: product, pricing, distributive channels (place) and sales promotion techniques. An equitable combination of these marketing elements is called Marketing Mix. It is the blending of four inputs (4 Ps) which form the core of marketing system. This marketing mix is marketing manager's tool for achieving marketing objectives/targets. He has to use the four elements of marketing mix in a rational manner to achieve his marketing objectives in terms of volume of sales and consumer support.

Product : Goods manufactured by organizations for the end-users are called products.

Price : The money which a buyer pays for a product is called as price of the product.

Place : Place refers to the location where the products are available and can be sold or purchased.

Promotion: Promotion refers to the various strategies and ideas implemented by the marketers to make the end - users aware of their brand.

Many of the times marketing research-the systematic gathering of information to solve marketing problems, is also included in marketing mix.

Activity A

Explain some marketing activities which are grouped under each one of the 4Ps.

Product	**Price**	**Promotion**	**Place**
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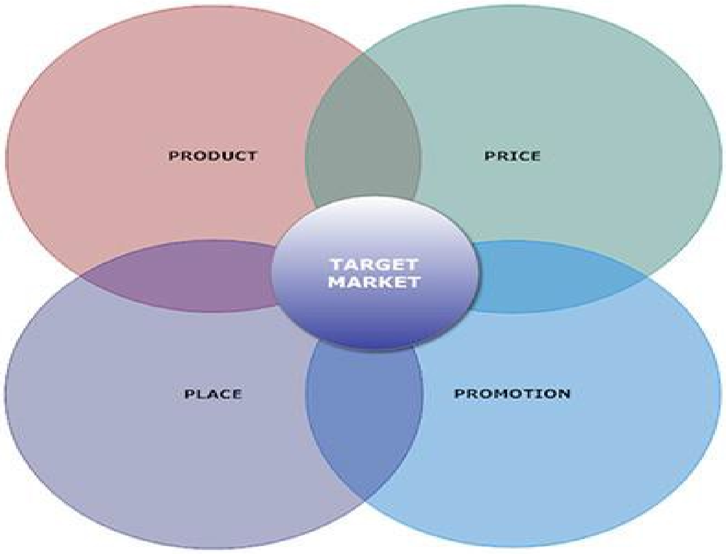
5.2 THE ELEMENTS OF MARKETING MIX

This section describes each of the four P’s given by E. Jerome McCarthy in greater detail. Marketing mix is made up of four elements namely PRODUCT, PRICE, PROMOTION and PLACE that constitute the heart of marketing decisions from the angle of marketer. The marketing mix is predominately associated with the 4P’s of marketing, the 7P’s of service marketing, and the 4 Cs theories developed in the 1990s.

Marketing Mix 4 Ps



Product Activities

1. A product is the central idea behind any marketing planning and decides the business success or failure of the organization. It is a set of complex tangible and intangible attributes, including:

   a. Packaging,

   b. Colour, Price

   c. Labeling of a product,

   d. Branding and trade mark given to a product.

   e. Product servicing and channel of distribution.

   f. Product pricing.

   g. Guarantees and warranties of the product.

   h. Product innovation.

   i. Special features of the product from the marketing point of view.

Managing product component involves product planning and development. Here, the decisions are required to be taken regarding product range, branding, packaging, labeling and other features of the product. The product manufactured for market should be as per the needs and expectations of consumers.

The objective of the marketer while planning for the marketing offering is to maximize the value proposition. The simplest definition of value is the difference between benefit and cost. A customer will always evaluate the benefits that he will get from the ownership of the product for the cost he has to bear for the ownership.

Activity B

List the product attributes that a customer would want in the case of the following products:

a) Air Conditioner

b) Laptop

c) Luxury car

d) Soft drink

e) Camera

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Pricing Activities

Price is the exchange value of goods and services in terms of money. Price plays a crucial role in both commodity as well as branded product market. Generally, marketers consider the following factors in setting prices:

Objectives of business: Objectives relates to rate of growth, market share, maintenance of control or ownership and finally profit. A pricing policy should never be established without full consideration as to its impact on the other policies and practices of the firm.

Competitive environment: Pricing policy has practical significance only where there is a considerable degree of imperfection in competitive structures and where there is some room for managerial discretion. Severe competition may indicate a lower price than when there is monopoly or little competition.

Nature of price sensitivity: The factors like variation in the effectiveness of marketing efforts, nature of the product, importance of after sales service etc., may generate insensitivity to price.

Cost: What it costs to produce and market the product, i.e., both production cost and the distribution cost.

Social responsibility: Price affects a number of parties, such as employees, shareholders and the public at large. These should be considered in pricing.

Besides the above listed factors there are other governing prices which may be divided into external and internal factors. The external factors include elasticity of supply and demand, goodwill of the company, trend in the market, purchasing power of the buyer, and the government policy towards prices. The internal factors include the management policy towards gross margin and sales turnover. For example, how much can be produced within a certain period of time.

Promotional Activities

The marketing manager needs to communicates and promote the final product to consumer through various channels of communication. Promotional activities consist of these various means of communicating persuasively with the target audience. The most important promotional methods include:

Advertising: Advertising is a public announcement, formerly by town criers, now usually by newspapers, posters, television or radio. Advertising is a paid, non-personal communication with an identified sponsor, with two distinct goals of informing people and increasing sales.

Personal Selling: It is one of the oldest professions in the world. The people who do the selling go by many names; salespeople, sales representatives, district managers, account executives, agents to name just a few. Modern salespeople are well-educated, well-trained professionals who work to build and maintain long-term customer relationships.

Sales Promotion: These are short term programs aimed at maximizing sales in a period of time. The marketer utilizes displays, demonstrations, premiums, contest to supplement advertising and personal selling.

Publicity and Public relation: It is the broadest of the marketing communication disciplines, involving a wide range of activities and specializations and is used to deliver corporate and brand messages. Public relation usually addresses itself to a wider public than the firm's customers. Successful strategies tend to be long-term and plan for all eventualities.

Each category involves specific promotional tools used to communicate with consumers. For example, advertising includes broadcast, print, internet, outdoor and other forms. Sales promotion includes discounts, coupons, displays and demonstrations. Personal selling includes sales presentations, trade shows, and incentive programs. Public relations includes press releases, sponsorships, special, special events, and Web pages. And direct marketing includes catalogs, telephone marketing, kiosks, the internet, and more.

At the same time, marketing communication goes beyond these specific promotion tools. The product's design, its price, the shape and color of its packages, and the stores that sell it- all communicate something to buyers. Thus, although the promotion mix is the company's primary communicate activity, the entire marketing mix- promotion and product, price, and place-must be coordinated for greatest communication impact.

Place or Distribution related Activities

Basically, place or distribution activities are used to transfer ownership to consumers and to place products, services and ideas at the right time and place.

Distribution may be the final “frontier” for marketing success. After years of hype many consumers no longer believe that “new and improved” products really are new and improved. Nearly everyone, even upscale manufacturers and retailers, tries to gain market share through aggressive pricing strategies. Advertising and other forms of promotion are so commonplace they have lost some of their impact. Marketers know that place may be the only one of the four Ps offering an opportunity for competitive advantage. Distribution is made up of two components:

1. Physical Distribution
2. Channels of distribution

Physical distribution refers to the activities used to move finished goods from manufacturers to final customers. Physical distribution activities include order processing, warehousing, material handling, transportation and inventory control. This process impacts how marketers physically get products where they need to be, when they need to be there and at the lowest possible cost.

1. **Inward transport**: It moves materials from suppliers to an organisation’s receiving area. For this, managers have to choose the type of transport (road, rail, air, etc.), find the best transport operator, design a route, make sure that all safety and legal requirements are met, ensure deliveries on time, and keep costs low, and so on. Receiving makes sure that materials delivered match an order, acknowledges receipt, unloads delivery vehicles, inspects materials for damage, and sorts them.

2. **Warehousing**: It stores or moves materials from the receiving area into storage and makes sure that they are available when needed. Warehousing also looks after stored materials, giving the right conditions, treatment and packaging to keep them in good condition. This is particularly important with, say, frozen food, drugs, alcohol in bond, chemicals, animals, and dangerous goods.

3. **Stock control** sets the policies for inventory. It considers the materials to store, overall investment, customer service, stock levels, order sizes, order timing, and so on.

4. **Material handling:** Is the general term for moving materials within an organisation. Every time that materials are moved around operations, it uses materials handling, whose aim is to give efficient movements, with short journeys, using appropriate

equipment, with little damage, and using special packaging and handling where needed.

5. **Order picking**: It finds and removes materials from stores. Typically, materials needed for a customer order are located, identified, checked, removed from racks, consolidated into a single load and moved to a departure area for loading onto delivery vehicles. Packaging wraps materials to make sure that they are properly protected during movements so that damage is kept to a minimum. Outward transport takes materials from the departure area and delivers them to customers (with concerns that are similar to inward transport).

6. **Physical distribution:** It is a general term for the activities that deliver finished goods to customer's Physical distribution is a general term for the activities that deliver finished goods to customers, including outward transport. It is often aligned with marketing and forms an important link with downstream activities.

Marketing Mix 7P's

The 7Ps model is a marketing model that modifies the 4Ps model. The 7Ps is generally used in the service industries.

Here is the expansion from the 4Ps to the 7Ps marketing model:

Let is describe the 3 P's important for service marketing in addition to 4 P's mentioned above.

People

Of course, both target market and people are directly related to the business. Thorough research is important to discover whether there are enough people in your target market that is in demand for certain types of products and services. The company's employees are important in marketing because they are the ones who deliver the service. It is important to hire and train the right people to deliver superior service to the clients, whether they run a support desk, customer service, copywriters, programmers…etc.

When a business finds people who genuinely believe in the products or services that the particular business creates, it's is highly likely that the employees will perform the best they can. Additionally, they'll be more open to honest feedback about the business and input their own thoughts and passions which can scale and grow the business.

This is a secret, "internal" competitive advantage a business can have over other competitors which can inherently affect a business's position in the marketplace.

Process

The systems and processes of the organization affect the execution of the service. So, you have to make sure that you have a well-tailored process in place to minimize costs. It could be your entire sales funnel, a pay system, distribution system and other systematic procedures and steps to ensure a working business that is running effectively.

Tweaking and enhancements can come later to "tighten up" a business to minimize costs and maximize profits.

Physical Evidences

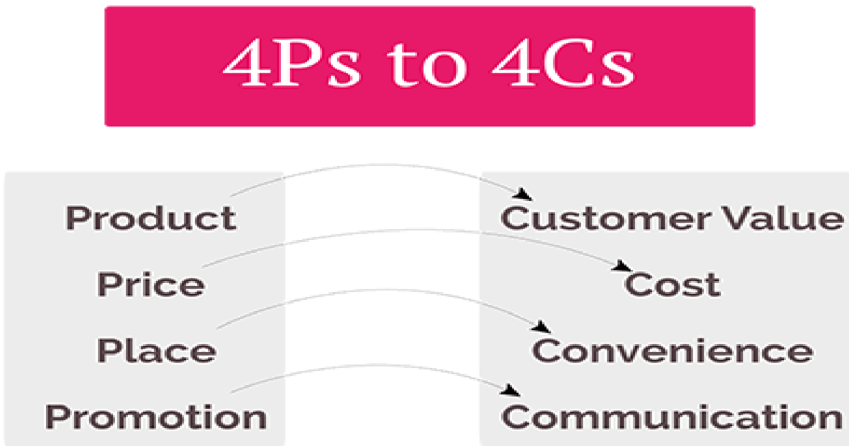
In the service industries, there should be physical evidence that the service was delivered. Additionally, physical evidence pertains also to how a business and its products are perceived in the marketplace. It is the physical evidence of a business' presence and establishment. A concept of this is branding. For example, when you think of "fast food", you think of McDonalds. When you think of sports, the names Nike and Adidas come to mind. You immediately know exactly what their presence is in the marketplace, as they are generally market leaders and have established a physical evidence as well as psychological evidence in their marketing.

They have manipulated their consumer perception so well to the point where their brands appear first in line when an individual is asked to broadly "name a brand" in their niche or industry.

5.3 AN ALTERNATE MARKETING MIX

Traditionally, the marketing mix is a combination of 4P's and is more business oriented. These 4P's are product, price, place, and promotion. Another version of this marketing mix is the 4C's model. The

4Cs marketing model was developed by Robert F. Lauterborn in 1990. It is a modification of the 4Ps model. It is not a basic part of the marketing mix definition, but rather an extension. Here are the components of this marketing model:



This model is more consumer oriented and this focus has led to a primary use in niche marketing. This does not exclude it for use in products serving a mass market however. This alternate marketing mix is made up of four key variables:

- Consumer/Customer Value
- Cost
- Communication
- Convenience

The 4P's and 4C's can be taken as two sides of the same coin, with one being a buyer's perspective and the other, a seller's. But considering the marketing mix from a 4C perspective is not just an exercise in semantics. Instead, it reflects a change in mindset to encourage marketers and executives to view their entire process and value chain from the customer's point of view.

Development of the 4C Model

According to Annmarie Hanlon of Smart Insights, there are two 4C models within the marketing domain which should not be confused with each other. One is the 4C model for marketing communications. This was put forward by Jobber and Fahy in 2009, and is a combination of four factors: clarity, credibility, consistency and competitiveness.

The other model relates to the marketing mix and was proposed by Lauterborn in 1990. The Lauterborn model is what we are focusing on for entrepreneurs in this article.

The idea or this model stems from an article written by Bob Lauterborn in 1990. This article was featured in Advertising Age, and in it Lauterborn stated that the 4P's were no longer relevant and did not help today's marketer address any real issues. He listed the variables he felt were necessary instead. He began with 'consumer wants and needs' as the key focus for product-led companies who tend to make products that the customer does not want. His second variable was the 'cost to satisfy' based on the irrelevance of price among many other factors. The third factor is the 'convenience to buy', an interesting concept in today's world of 24/7 availability. The last variable was 'communication', with a proposal that instead of a more manipulative promotion, communication should be a two-way dialogue between the customer and the company.

THE 4C's EXPLAINED

The Goal of the 4C's

Through its focus on the customer, the 4C's marketing mix is a step away from the traditional mass marketing concept. In mass marketing, the company selling a product has a tendency to view the audience as just that – a large featureless mass – with no in depth understanding of what the customer truly wants from a product. The 4C's divert action towards niche marketing instead, where the conversation is often closer to one-to-one and there is more of an effort to understand who the customer is and what their actual needs are.

For niche marketing, it is necessary to access detailed market research to identify those markets which are not rife with competition but may prove to be lucrative. Once this kind of market is identified and understood, the 4C's can be brought into effect.

What Are the 4C's?

In studying the 4C's, it makes sense to view them in comparison to the incumbent 4P's for a more detailed view of both marketing mixes. It may be in the best interests of a marketer to consider both the consumer's point of view and the organization's.

1) **Consumer (and Product)**

   Here, instead of beginning the story with a product itself, the focus is on selling only what the customer specifically wants to buy. This means that it becomes an absolutely vital activity for the marketer to spend time studying these consumer wants and needs in-depth. Only this detailed understanding will allow a company to sell with accuracy what the customer will buy.

   At the core of any marketing effort is the product itself. This however, is just one piece of the puzzle. The product must be something that the customer finds desirable and there must be something unique about it that sets it apart from all the rest of the competition. The most effective way to achieve this is to first find the right untapped market, and then develop the product instead of trying to fit a ready-made product into a market. Product testing, therefore, becomes a key element of both the product variable and the customer variable. The understanding should be of what the product can give the customer both in the eyes of the manufacturer and in the eyes of the consumer.

2) Cost (and Price)

When understood correctly, the cost variable gives more detailed information about the customer than the price variable does. A good way to understand the difference in price and cost is given here. Price is the amount of money that a consumer will be willing to pay to acquire a good or service. On the other hand, cost is the amount that goes into the production of a good or service. This is the sum of the value of all inputs to production such as land, labor, capital and enterprise.

Within the total cost to satisfy a customer need, price becomes one of the many factors. Other factors may include the cost of time to acquire the product, the cost of conscience when it comes to consuming the product, the total cost of ownership, the cost to change to a new product and the cost of not selecting an alternative.

There is a common misconception among marketing professionals that the main motivation for a product purchase is the price. Though price based positioning may provide some initial success, in the long term, this turns out to be a less successful move. If the product is given a price that undercuts cost to gain the market, then the company will be at a disadvantage. If the product is priced at a premium without understanding its value to a customer, it will never be purchased.

Instead, a focus on cost to satisfaction will mean that there is more important information being taken into account than just the purchase price. A focus on this C will help find ways to actually increase the price of the item while decreasing the cost to satisfaction through measures that have a minimal influence on the company's bottom line.

3) Communication (and Promotion)

Lauterborn considers promotion to be a manipulative factor driven only by the seller. Instead, he viewed communication as a more cooperative activity and driven more by the consumer of a product.

A traditional marketing mix uses promotion as a tool to put information about the product in front of the customer. Promotion and its methods continue to evolve with new avenues and means to reach the consumer. Though these methods of promotion remain effective, a niche marketing focus needs a bit more.

Communication will work toward creating a meaningful relationship with the customer with a focus on what they need and what their lifestyle is. The focus is wider and more inclusive of the different forms communication can take. There is more of a give and take between buyer and seller. Looking at advertising as this form of communication can help a marketer understand their market better and increase sales and customer loyalty.

4) Convenience (and Place)

The proliferation of online marketplaces, credit cards, catalogues and cell phones has made the provision of products to the customer a whole new ball game. A customer is not bound to actually go to a physical location to meet a need and there is an endless variety of places online to do so. This means that a marketer needs to be aware of how a particular customer group likes to make their purchases in order to make it convenient for them to buy. While place from the 4P model took into account the traditional value chain involved in getting a product into a customer's hand, the convenience variable considers much more.

USING THE 4C MODEL

For a small business owner, the 4C's can provide a much-needed edge over the customers if understood and used in the best possible way. This model can also help a small business take on bigger and more established competitors. The key point, repeated often, is to remember to identify and understand target consumers as well as their needs and wants. The next step is to offer tailored products and services that are meaningful to the customer and can lead to increased sales.

A very easy way to use the model for an entrepreneur is given below. There is a simple template that can be used as well as a few key questions to ask.

Quite simply, the company can list the current situation for each of the 4C's in the first column. In the next column, a benchmark organization can be used to compare. This can be a top competitor for the organization and one it aspires to beat. The last column can be used to highlight actions that can be taken to reach the desired position in the market.

Some questions to ask regarding each of the 4C's include:

Customer

- What is the competitive advantage?
- Who is/are the most appropriate target customer(s)?
- What are their needs and wants?
- What is the product or service worth to the consumer?
- Is the customer driving all decision making?

Cost

- What is the price you mean to charge the customer?
- Has there been adequate research to determine this amount?
- Is this figure reasonable and affordable?
- Is the figure profitable for the company?
- What is the total cost that a customer will incur when acquiring the product?
- What considerations apart from price will encourage a customer to buy?
- Is the value of the product to the customer enough to support all the costs?

Communication

- Is there a communication plan in place to ensure meaningful customer dialogue?
- Is the link between this communication and resulting customer confidence and sales understood?
- Does the communication answer questions the customer may have such as, 'What's in it for me?'
- Is there a social media strategy planned to both promote a product and gather customer insights?
- Is there a plan to adapt communications to each of the target markets?

Convenience

- What are potential barriers a customer may face in locating and purchasing a service?
- How do you plan to remove these barriers?
- Do you have an informative and easy-to-navigate website in place?
- Is the website optimized for mobile use?
- If you sell online, are the purchase, payment and fulfillment processes secure and intuitive?
- Is your product available to buy through multiple channels?
- Is there adequate customer support in place?

EXAMPLE OF USING THE 4C's IN CONTENT MARKETING

The 4C's of marketing can be very valuable for marketers looking to generate consumer oriented and relevant content and product messages.

The 4C thinking will help these marketers connect with their audience and turn the consumer into an advocate of the brand.

- **Consumer –** The content should be focused on the customer and not on you, the company. This means the content needs to be full of useful insights, tips, best practices and news for the audience to use in order to meet their needs. From a practical perspective, the audience is more likely to keep coming back for content that relates to them directly instead of to the company. As an example, a fashion retailer should give tips on how to dress for a particular season or event, insight into trends and how-to guides, among others. This approach helps build lasting relationships with consumers, keeps bringing them back, and turns them into advocates for the brand.

- **Cost –** This includes not only the monetary cost of the product, but also the cost of using it. In content marketing, this means that an article needs to be easy to read, have a practical yet attractive layout and the right language. Cost-effective content will mean a well written and well-presented website which is easy to navigate and is optimized for different screens and people.

- **Communication –** The internet has offered the savvy marketer a variety of options for forming communication links with their target audience. From Instagram for photos, to Twitter for promotions, YouTube for detailed videos and Facebook for networking, there is an ever-increasing pool of options to choose from based on what the audience requires. The right channel for the right audience is what helps ensure successful dissemination of the message.

- **Convenience –** In a content marketing situation, convenience will translate into how often the consumer reads the content. Any number of factors will reduce this convenience, such as too many pop-ups or adverts or lack of optimization for a mobile device. Even with good search engine optimization, it may not be enough to assume that the consumer will find you. Instead the content needs to be easy to access through multiple channels such as email, newsletters, blog features and social media posts and reposts.

5.4 THE PLACE OF MARKETING MIX IN MARKETING PLANNING

All these elements of marketing mix are arrived upon and implemented in the broad framework of a marketing plan. Therefore, to appreciate the relationship between the marketing planning process and the elements of the marketing mix, let us describe various components of a marketing plan.

A Typical marketing plan consists of the following components:

- Description of the current marketing situation;
- Identification of the problems and opportunities;
- Definition of the objectives of the marketing plan;
- Designing the marketing strategy;
- Developing a marketing plan;
- Estimating the necessary appropriations.

In other words, what is needed is constant monitoring, redefinition, adaptation and re-evaluation of objectives and strategy, its implementation and control in an effort to obtain maximum payoff from ever-changing market situation.

The irony is that many of the expensive marketing plans end up on a shelf and rarely get implemented. The simple plans, if researched and implemented effectively, have the greatest impact. Regardless of the scope, it should be a fluid document, based on solid research, with an understanding of where you fit in the competitive landscape, and MUST include attainable and measurable outcomes.

Market Research

Collect, organizes, and record information pertinent to the market you want to target, and include both the controllable and uncontrollable variables that influence this market. You need to consider:

- What market dynamics influence your market?
- Which customers have the most need and who should you target?
- Which potential partners can help you reach your customers?
- What are the buying behaviour characteristics?
- What product or service already satisfies this market and which competitors offer similar services?
- What are current sales in this industry and who seems to have the lion's share?
- What benchmarks in the industry should you measure yourself against?
- What channels or suppliers will you need to rely on? Are there any barriers preventing you from reaching your market?

Target Market

Understand where your product / service fits in the market and describe who you want to reach, why this is important and how you're going to do it. The best approach is to find a gap where there is customer demand, and where your competitors are not satisfying this demand as well as you could do it.

Product / Service

Describe your product. How does your product relate to the market? What does your market need, what do they currently use, what do they need above and beyond current use? What added value can you offer that can over meet customer expectations?

Competition Describe your competition. Develop your “unique selling proposition.”, which should be articulated as a “unique customer value” What makes you stand apart from your competition? What is your competition doing better, the same or worse than you and where is the gap?

Your overall business strategy and statement of intent

Write a few sentences that state who you’re selling to, what you’re selling and what makes you distinct. Challenge your business concept across all the areas of your business to ensure it holds up under scrutiny.

Market Strategies

Write down the marketing and promotion strategies that you want to use or at least consider using to include:

- Partnering & Networking
- External communication – Advertising, publicity, promotions, sales collateral, online media
- Internal communication – staff and partners
- Training programmes

Pricing, Positioning and Branding

From the information you’ve collected, establish strategies for determining the price of your product, where your product will be positioned in the market and how you will achieve brand awareness.

Budget Match strategies to budgets. What strategies can you afford? What can you do in house, what do you need to outsource?

Marketing Goals Establish quantifiable marketing goals. This means goals that you can turn into numbers. For instance, your goals might be to gain at least 30 new clients or to sell 10 products per week, or to increase your income by 30% this year. Your goals should include sales, profits and customer satisfaction criteria.

Monitor Your Results

Test and analyze. Identify the strategies that are working through customer feedback:

- Surveys
- Online polls

- Blogs
- Database management tools

By researching your markets, your competition, and determining your unique positioning, you are in a much better position to promote and sell your product or service. By establishing goals for your marketing campaign, you can better understand whether or not your efforts are generating successful results.

Be sure to use your plan as a living document. Successful businesses review the status of their campaigns against set objectives. This ensures ongoing improvements to your marketing initiatives and helps with future planning.

Developing the marketing program

After designing the 'game plan' or the broad marketing results, the marketer will try to develop or elaborate each element of the marketing strategy. The questions like this following will need to be answered in developing each element.

- What will be done?
- When it will be done?
- Who will do it?
- How much it will cost?

5.5 THE RELATIONSHIP BETWEEN MARKETING MIX AND MARKETING STRATEGY

If you refer to the definition of marketing strategy offered earlier in this unit, you will find that marketing mix is one of the broad decision areas of the marketing strategy. Its other decision areas relate to target markets, market positioning and marketing expenditure levels.

That is, marketing strategy is a broad concept of how resources are to be deployed to achieve market success. If you examine the content of a marketing strategy you will find that it shows how the proposed key features of the firm's offering (product, price, promotion and distribution) are intended to achieve the firm's objectives.

Marketing strategy is composed of a set of sub-strategies concerned with competition, segmentation (market positioning or market niche and target markets), pricing, promotion and distribution. How these sub-strategies are related defines the structure of the strategy and determines whether or not they form an effective plan of action. Structural criteria cover the following:

Coherence: do all the sub-strategies fit together in focusing on the market?

Consistency: are there any inconsistencies among the individual elements?

Contribution: does each sub-strategy or element of the strategy make a distinct contribution?

Relative significance: has the relative significance of each of the various strategies been determined?

Product, price, promotion and place or distributions are the factors that, within limits, are capable of being influenced or controlled. Marketing strategy can be viewed as reflecting a marketing mix of these four elements.

Therefore, marketing mix is the mixture of controllable marketing elements (activities, tools or instruments) that the firm uses to pursue the desired level of sales in the target market. In other words, in taking marketing mix decisions or in planning the specific combination of marketing tools, the marketer should find out:

- which of the various marketing elements are most effective in the target market environment,
- in which combination.

The Marketing Mix and Strategy Matrix

Since marketing mix decisions are part of the marketing strategy aspects, i.e., they are interdependent, the two have been combined together in the form of a matrix. This matrix shows the strategic aspects in the overall marketing plant and their inter-relatedness. It also emphasizes the way in which the marketing mix decisions should be approached i.e., by combining the marketing strategy decisions with the marketing mix decisions. To help you to further understand the relationship between marketing mix and marketing strategy we are listing below some of the appropriate and matching marketing mix variables that may be decided upon in the context of marketing strategy decisions.

Product : options, models to be marketed, modifications for specific target market, if any, product simplification, invention, service and warranty system, spare parts.

Price : skimming vs. penetration, price relative to current and potential competition.

Promotion : budget, theme, media, timing. If major resources are to be committed, include plan for measurement of promotional effectiveness. Feedback from the market place, marketing research.

Distribution channels : mode of market entry. Functions to be performed by channel members. Margins, promotional allowances (if any). Short-terms vs. long-term commitments.

Key Element in the Marketing Mix

Another point you should understand is that every market has its own logic. Its understanding in terms of the emphasis that need be placed on a particular element of the marketing mix is often a necessary condition for success. That means the key element in a particular marketing situation has to be identified. A number of factors would determine the key element and these are:

- the product,
- the type of market (for example, whether industrial or consumer),
- stage in evolution (emerging, transition and decline stages), and
- Competitive conditions.

Key elements might be advertising (promotion) in the case of analgesics, distribution in the case of petrol, pricing in the case of basic commodities and product performance in the case of machine tools.

To know the key factor in the marketing mix is crucial in drawing up a marketing strategy since it means knowing what to emphasize.

5.6 THE CONCEPT OF OPTIMUM MARKETING MIX

The concept of optimum marketing mix relates to the issue of dividing the marketing budget optimally over the elements of the marketing mix. But in so doing you should remember that the components of the mix are partially substitutable for each other. The challenge, however, that a marketer faces is to find the optimal marketing mix. Assume that a marketer has identified sales promotion and advertising as the two major components of the marketing mix on which marketing budget is to be allocated. In principle, the marketing budget can be divided in a number of ways on these two elements. Associated, with every possible marketing mix would be a resulting sales level. In theory, for a given marketing budget, the money should be divided among the various marketing tools in a way that gives the same marginal profit on the marginal rupee spent on each tool. This would result in an optimum allocation of a given marketing budget over different elements of the marketing. Such an allocation would prove to be a sales-maximising or profit-maximising marketing mix.

In devising optimum marketing mix it is important to know how various marketing-mix variables interact in their impact on sales/profits. Here are some examples of the assumptions made by marketing managers:

- Higher advertising expenditure results in reducing buyers' price sensitivity. The resulting inference is that a firm wishing to charge a higher price should spend more on advertising.

- Advertising expenditure has a greater sales impact on low price products than high price products.
- Higher advertising expenditures reduce the total cost of selling. The logic is that the advertising expenditures presell the customer and sales representatives can spend their time answering objections and closing the sale.
- Higher prices lead buyers to attribute higher product quality.
- Tighter credit terms require much greater selling and advertising effort to move the same volume of goods.

The question that arises is: Can we accept these relationships without any further inquiry? The answer is 'no' because while these relationships may hold true for many products, managers of other products should be cautious. That is, a clear direction for such interactions could not be predicted a priori. That is, other factors like the nature of the advertising appeal, the structure of the market, etc., would also have to be taken into consideration. Another important point that needs to be highlighted in predicting the results of such interactions is that marketing-mix variables not only interact with each other but also with non-marketing variables in the firm.

5.7 SUMMARY

The objective of a marketer is to combine the various elements of the marketing mix viz., Product, Promotion, Price and Place (Distribution) in such a way that he will achieve the necessary volume of sales at a cost that will permit him to make a desired profit. The way these elements are to be combined will basically depend on the target market to be served. Which means that the needs and wants of the target consumers have to be studied and interpreted and then a unique blend of various elements of the marketing mix has to be designed to reach a specific group of consumers. The planning of the marketing mix, however, is a part of the overall marketing planning. The elements of a marketing plan are current marketing situation analysis, problems and opportunities analysis, objectives, marketing, strategy and programme, marketing budgets and sales volume, cost/profit estimate. The marketing mix decisions form the basis of the overall marketing strategy.

The other decision areas of marketing strategy relate to target markets, market positioning and marketing expenditure levels. The interdependence of these decision areas defines the structure of the marketing strategy and determines whether or not they form an effective plan of action. In combining different components, it is important to identify the key element in the marketing mix. A number of factors affect the key element and these are the product, the type of market, stage in evolution and competitive conditions. These factors are not static factors but keep on changing. Further, components of the marketing mix are partially substitutable for each other. This further complicates the situation.

Notwithstanding all this each firm must try to find the best combination or optimum marketing mix for its particular situation at a particular time. The decisions, however, are not easily made. In many instances it is difficult to obtain information upon which to base a decision. There are so many alternative mixes available that it is difficult to run elaborate experiments that will measure the results of various combinations. Furthermore, costs change, competition changes, and consumer tastes change, which make it necessary to vary the mix from time to time.

Nevertheless, decisions are made with respect to the marketing mix. For instance, new products are developed and modifications are made in existing products. Packages are redesigned from time to time. Price and channel policies are established. Decisions are made with respect to the allocation of marketing budget over different elements of the promotional mix, viz., advertising, personal selling and sales promotion. Remember these are largely Planning Marketing Mix decisions made by the individual firm for its own situation. They do not necessarily have general applicability, although we do know for example, that industrial goods manufacturers tend to spend proportionately less for advertising than do consumer goods manufacturers. But these relationships should not be accepted without further inquiry as marketing mix variables interact not only with each other but also with non-marketing variables in the firm.

5.8 KEY WORDS

- **Marketing Mix:** A strategic toolbox of the marketing manager or a combination of 4 Ps.
- **Product:** Goods manufactured by organizations for the end-users are called products.
- **Optimum Marketing Mix:** Relates to the issue of dividing the marketing budget optimally over the elements of the marketing mix.
- **Price:** The money which a buyer pays for a product is called as price of the product.
- **Marketing Strategy:** A broad concept of how resources are to be deployed to achieve market success.
- **Place:** Place refers to the location where the products are available and can be sold or purchased.
- **Promotion:** Promotion refers to the various strategies and ideas implemented by the marketers to make the end - users aware of their brand.

5.9 SELF-ASSESSMENT TEST

1. Why marketing mix is an important determinant of a firm's success? What problems a marketer faces in determining a suitable marketing mix?

2. "The marketing mix of a firm ... is the product of the evolution that comes from day-to-day marketing". Discuss this with your friends in industry and summarize the outcome of the discussion.

5.10 FURTHER READINGS

Kotler, Philip, 2002, llth Edition, Marketing Management, PHI-New Delhi

Michael. R. Masaaki ,Marketing Management ,2nd edition, Vikas publications New Delhi

UNIT-6 MARKET SEGMENTATION

Objectives

After reading this unit, you should be able to understand:

- The concept of market segmentation, targeting and positioning
- Difference between product differentiation and market segmentation
- Types of target marketing strategy
- Positioning methods and strategies

Structure

6.1 INTRODUCTION

In traditional marketing method, the marketer develops a product and then searches for customers. Whosoever has the purchasing power, is contacted for making a sale. However, modern marketing is based on the opposite process, in which first the customer's needs and wants are identified and looking at the feasibility of an entry in the relevant market, the marketer develops a product and the marketing program. The marketing program of a firm depends on how the marketer identifies the potential customers, profiles them and positions his offering in the minds of the customers.

In this unit, we consider how organizations decide on which segments of a market to concentrate their commercial efforts. This process is referred to as market segmentation and is an integral part of marketing strategy. We also consider techniques and issues concerning market segmentation within consumer markets. The method by which whole markets are sub-divided into different segments is referred to as the STP process. STP refers to the three activities that should be undertaken, usually sequentially, if segmentation is to be successful.

6.2 THE CONCEPT OF MARKET

What is a market? Almost all marketing and advertising executives could answer the question, and yet many would give different answers to the same question. Their answer might differ because their particular jobs require only the use of limited definitions of a market. For example, a media planner in an advertising agency might define a market either in terms of geographical places where purchasers live or with respect to number of demographic characteristics of purchasers. On the other hand, a marketing manager might think of a market in more comprehensive terms. He might include geographical places, demographic characteristics and also socio-psychological description of purchasers; identification of heavy-user groups; total number of units sold per year or his brand's share of total sales of a given product class. But it makes sense for all users of the term "market" to have a fairly comprehensive understanding of its meaning if they are going to communicate with each other on the same semantic levels. To the extent that there is consistency of meaning by various users of the term, there is also some possibility for effective communication.

A market usually is identified with a generic class of products. One hears of the beer market, the cake-mix market, or the cigarette market. These are product markets, referring to individuals who in the past have purchased a given class of products. For the sake of convenience, these are product markets, referring to individuals who in the past have purchased a given class of products. For the sake of convenience, these individuals are classified into groups, all of whom have similar characteristics. The use of a product identification of a market carries with it an assumption that may or may not be valid. The assumption usually is made that those persons who will buy a product in the future will be very much like those who have purchased it in the past. This assumption is usually valid, because purchasers are likely to repurchase the same product in the future if their wants or needs have been satisfied.

But occasionally new purchasers are found to have different characteristics than past users. Sometimes through special promotional efforts an advertiser may attract new users to his brand. The new user, then, may be quite different from past users. So it might be better to use the term "prospects" rather than "market". A more precise definition of a market, however, would not be limited to a generic class of products, but to a specific sub-class of that product. For that reason, the cigarette market often is identified by the particular kind of cigarettes under consideration. One hears of the menthol-cigarette market, or the filter-tip market, or some other sub classification. The more precisely that subclass product users are identified, the better is the possibility for understanding markets.

Activity A

Write out the generic need in the case of the following products.

Product **Generic Need**

Cell Phones ……………………………………………………………

Cameras ……………………………………………………………….

Televisions ……………………………………………………………

Toothpastes ……………………………………………………………

Pen ……………………………………………………………………

Finally, a sub-class may be identified further by brand name. At this point the user of the term "market" has moved in his thinking from a general to a specific group of potential purchasers. There are times, of course, where any one of the product definitions may be more appropriate than any other one; but in general it is sensible to identify as precisely as possible which product market is under consideration. Once the market has been identified by generic product class, subclass or brand, purchaser may be described by a number of means:

a) Size of the market

b) Geographical locations of the purchasers

c) Demographic descriptions of the purchasers

d) Social-psychological characteristics

e) Reasons why products are purchased

f) Who makes the actual purchases and who influences the purchasers

g) When purchases are made

h) How purchasing is done

Size of the market : One way to understand a market is to appreciate its size, that is, the number of purchaser, size may be discussed in terms of the number of units sold, or in total dollar sales. Sometimes size of market may be discussed in terms of total number of purchasers or purchasing units, such as households. One of the most frequently discussed aspects of a product market not so much with its total size but with each brand's share of the total market.

Geographic locations of purchasers : Where do purchasers live? Many years ago the answer to this question might have been: "everywhere". The implication was that there were purchasers in every community in the country. Today most marketers believe that a truly national market is a myth. Products are not sold in every community in the country, but in areas where sales potentials are good. So the locational description becomes important. The distribution of sales for a given product is identified by region, country and city.

Demographic description of purchasers : Who is the purchaser of a product or a brand? Here one finds groups of purchasers classified by age, sex, income, occupation, education, marital status, number of persons in the family, race and religion. At times some special classification is necessary to describe product users because the above mentioned data do not differentiate the purchasers from non-purchasers.

Social-psychological characteristics : If a market consists of purchasers, then it should be possible to show how purchasers differ from non-purchasers through one or more demographic variables. Social-psychological classifications have been used at times for such purpose. Purchasers may be classified on the basis of social class, human values, degree of introversion-extroversion, degree of submissiveness-aggressiveness, degree of venture-someness-cautiousness, or other ways beyond the normal demographic classification. No matter which classifications are used, social-psychological differentiation of purchasers may be important to the marketers for decision-making purpose. It may be especially important in advertising communication, where special copy appeals may have more meaning for one social-psychological class than for another.

Reasons why products are purchased : Why people buy a generic product class or a special brand is of great interest. Involved in such an analysis might be a simple investigation of the major and minor uses of the product. Purchasers might be asked to provide reasons why they buy. Both direct and indirect questioning techniques are used to find answers to the question. Then it may be possible to describe the market on the basis of such reasons.

Who makes the actual purchase and who influences the purchasers : One of the most important market descriptions concerns who buys the products, and who influences buying? This becomes important in devising advertising creativeness and media strategy. Should major emphasis be placed on communication to buyers, to influencers, or both?

When purchases are made : Often, it is important to know at what times of the week, month or year that the largest number of purchases are made. Such data help the market planner to direct his promotional activities to the best times of the year.

How purchasing is done: A description of the market also covers a number of important aspects:

a) Whether buying is by impulse or by requests for specific brands

b) Most frequently purchased package size

c) Number of units purchased at one time

d) Frequency of purchase

Activity B

How will you define the market in the case of the following services?

a) Health ……………………………………………………

b) Banking …………………………………………………………

c) Tourism ………………………………………………………

d) Education ……………………………………………………

6.3 THE CONCEPT OF SEGMENT

Market segmentation long has been considered one of the most fundamental concept of modern marketing. Segmentation has become a dominant concept in marketing literature and practice. Besides being one of the major ways of operationalizing the marketing concept, segmentation provides guidelines for a firm's marketing strategy and resource allocation among markets and products. Faced with heterogeneous markets, a firm following a market segmentation strategy usually can increase the expected profitability. Market segments refers to the sub-classes of the market reflecting sub-classes of wants and the process of conceptually distinguishing segments is known as the process of market segmentation.

Market segmentation allows a marketer to take a heterogeneous market, a market consisting of customers with diverse characteristics, needs, wants and behaviour and carve it up into one or more homogenous markets which are made up of individuals or organizations with similar needs, wants, and behavioral tendencies.

6.4 MARKET SEGMENTATION VERSUS PRODUCT DIFFERENTIATION

Market segmentation is a process of dividing a market into groups of segments having similar wants. However wants must be interpreted very broadly, in terms far broader than product characteristics. Segments may differ also in their needs for information, reassurance, technical assistance, service, promotion, distribution and a host of other 'non-product' benefits that are part of consumer purchase. They may also differ in their capacity to pay for these differences. A marketer's view of a product is different from others and is based on the customer's preference to similarly-priced rival brands on the grounds of certain differences arising out of the physical aspects of the product, the kind of image projected by the marketer, the kind of services offered and convenience in using or buying the product.

The marketer can create product differentiation by bringing a difference in the physical product itself. If you aim at different market segments, you might adapt different variations of your offering to satisfy those segments. Equally, if you adapt different versions of your offerings, this may appeal to different market segments. For example, in fashion retailing, if you use lighter fabrics and have a very short hemline, this styling is more likely to appeal more to younger women. Alternatively, if you decide to target older women, then you might need to change the styling of your skirts to suit them by using darker, heavier fabric with long hemline. We see such examples in soft drinks and cola marketing in India. Thums Up as a brand created a 'user imagery' of the buyer asserting that those who are macho and adventurous, drinks Thums Up.

So we can say that in product differentiation the marketer produces two or more products that are different in terms of features, styles, quality, sizes and so on. The objective here is to offer variety to buyers rather than to appeal to different market segments.

6.5 BENEFITS OF SEGMENTATION

Market segmentation ***benefits the marketer*** in several ways:

Facilitates right choice of target market: It does this by enabling him to distinguish one customer group from another within the market and by showing him, which segments of the market match his situation and should hence form his target market.

Facilitates effective tapping of the chosen market: Segmentation enables the marketer to crystallize the needs of each of the chosen segments and make offers that matches them. When buyers are handled after segmentation, the responses from each segment will be more homogenous. This, in turn, will help the marketer develop marketing offering that are most suited to each segment.

Makes the marketing effort more efficient and economic: Segmentation also makes the marketing effort more efficient and economic. It ensures that the marketing effort is concentrated on selected and well-defined segments. After all, for most firms, the resources would be limited and they cannot afford to attack and tap the entire market.

Segmentation ***benefits the consumers***, as well. Segment-oriented offers and communication invariably helps the consumer to come to his buying decision without wasted efforts. He does not have to look elsewhere. It saves him the search time. When segmentation attains the highest levels of sophistication and perfection, customers and companies can conveniently settle down with each other, as at such a stage, they can safely rely on each other's discrimination; the firm can anticipate the wants of the customers and the customers can know the capabilities of the firm. They can happily keep patronizing each other.

6.6 FORMING SEGMENTS

One of the problems involved in segmentation is to know what exactly is being grouped to form segments. As far as consumers are concerned they are not mutually exclusive categories, for people may buy cigarettes today and pipe tobacco tomorrow. But since classes should be mutually exclusive by and large, what precisely is that what we are grouping into segments? The answer to this is that we are grouping buyer's probability of purchasing different types of offering but for effectiveness of the segmentation strategy it is necessary that a marketer must describe its segments both in terms of what is wanted and who is likely to buy it. In other words, we must define the configuration of benefits sought and also draw up a profile of those in the segment that distinguishes them from the members of other segments. A good, practical approach for gathering comprehensive knowledge about what is wanted and who is likely to buy it is to ask yourself questions such as:

What

- Benefits does the customer seek?
- Factors influence demand?
- Functions does the product perform for the customer?
- Are the important buying criteria?
- Is the basis of comparison with other products?

How

- Do customers buy?
- Do customers use the product?
- Does the product fit into their life style or operation?
- Much are they willing to pay?
- Much do they buy?

Where

- Is the decision made to buy?
- Do customers buy the product?
- Do customers seek information about the product?

When

- Is the first decision to buy made?

- Is the product repurchased?

Who

- Buys our product and why?
- Are the occupations of segments identified by previous questions?
- Buys our competitors products and why?
- Will have to collect the necessary data to supply the answers?

Why

- Do customers buy?
- Do customers choose one brand as opposed to another?

6.7 BASES FOR SEGMENTATION

After gathering comprehensive knowledge about what they want and who is in the market, another important criterion to be tackled by you is grouping the buyers into segments. Marketers use more than one base to segment the market and identify target market. The method of segmentation will vary in a business-to-business market than in individual consumer markets. The common bases of marketing segmentation are mentioned in the following section.

Demographic Segmentation

In demographic segmentation there may be a large variation in the demographic characteristics. Demographic variables includes factors like age, gender, family size, family life cycle, income, occupation, education, marital status, religion, race, generation, nationality, language and social class. Since consumer needs, wants and demand pattern are directly linked with demographic variables, this method of segmentation is popular among marketers. These variables are easier to measure and one needs the help of demographic statistics to estimate the size of the market which serves as a key indicator for distinctive market segments.

Age is an important factor while segmenting the market as demand and brand choice of people changes with age. Life cycle is another important variable in segmenting the market. People pass through different stages of life cycle like childhood, bachelorhood, young and married couples without children, couple with grown up kids, couples with children living away from parents and finally a loner where one of the partner is dead. Customer tends to develop different consumption pattern at different stages of the life cycle.

Segmenting the market on the basis of gender helps the marketer to categorize products specifically targeted for males and females. Marketers use gender differences for marketing garments, personal care products, bikes, cosmetics and magazines. For example, Lakme is a popular Indian brand, which sells beauty care products to women only. Brands like Bajaj Pulsar, Fair and Handsome are exclusively targeted at the male segment.

Income based segmentation has a direct bearing on the brand choice behavior and lifestyle pattern of consumers. People in similar income brackets are more prone to buy similar products and services. The customer's social status level is also linked to his source of income. Automobile majors, fashion garments manufacturers, hospitality and financial services industry players segment the market on the basis of income of consumers.

Activity C

Suggest product that you would segment on the basis of demographic variables.

Demographic Variables Product segmented on demographic basis

a) Religion …………………………………………………

b) Race ……………………………………………………

c) Generation ………………………………………………

d) Nationality ………………………………………………

e) Language ………………………………………………

Geographic Segmentation

This is the simplest form of segmenting the market. Here, the marketer divides the market into different geographical units such as nations, states and regions. He may decide to operate in one or more than one geographical areas. Identifying the geographical location of the customers i.e. their place of residence helps in defining the segments. For example a particular brand may be popular only in South India, then the South Indian market can be divided on the bases of zones, villages, cities and climates etc. A classic example is MTR initially targeted the South Indian market for its products and then moved into the other territories. In a country like India, when we move across from one part of the country to another part, we find a number of local yet powerful brands sold in each geographic market.

Benefit Segmentation

In the benefit segmentation you may segment the market on the basis of what people expect out of the product. Benefit segmentation involves classifying buyers according to the benefits they expect (get) from the product. Let us look at the following list of benefits derived from toothpaste.

- Flavour and product appearance
- Brightness of teeth
- Decay prevention

- Low price

Benefit segmentation require the marketer to conduct exploratory research to develop a complete listing of benefits of possible value in segmenting the relevant market. Then the marketer develops a sensitive and reliable scale to measure major attitude dimensions. Finally, the marketer develops quantitative measurements of the market, usually involving a national sample, resulting in clustering of respondents by their attitudes.

Psychographic Segmentation

Psychographic is the study of lifestyle of individuals. It involves developing sub-group identification on the basis of psychographic characteristics. Lifestyle is a person's entire way of living. It reflects the person's living as a combination of his actions, interests and opinions. One of the popular methods of psychographic study is AIO Framework, which explains the individual's lifestyle pattern as a combination of his activities, interests and opinions with demographic explanations. Consider the following example:

Activities	Interests	Opinions	Demographics
Work	Family	Themselves	Age
Hobbies	Home	Social issues	Education
Social events	Job	Politics	Income
Vacation	Community	Business	Occupation
Entertainment	Recreation	Economics	Family size
Clubs	Fashion	Education	Dwelling
Community	Food	Products	Geography
Shopping	Media	Future	City size

In using the above approach the researcher must have consumers respond to a number of AIO statements and then use statistical techniques to group the AIO statements into similar categories. The grouping permits the marketing analyst to produce a more relevant profile of those who are in the market say of users and non-users.

Marketers also have used personality variables to segment markets. For example, marketing for Honda motor scooters appears to target hip and trendy 22-year-olds. But it is actually aimed at a much broader personality group. One old ad, for example, showed a delighted child bouncing up and down on his bed while the announcer says, "you've been trying to get there all your life." Thus, Honda is appealing to the rebellious, independent kid in all of us. In fact, 22 percent of scooter riders are retirees. Competitor Vespa sells more than a quarter of its scooters to the over-50 set. "The older buyers are buying them for kids," says one senior. "They never had the opportunity to do this as kids."

Some important personality variables that may be used in psychographic segmentation are: impulsiveness, sociability, achievement orientation, Masculinity, self-confidence, prestige consciousness, alertness to change, thriftiness and sentimentalism.

Another basis is brand-loyalty, with companies making direct appeal to the loyal user. Some important examples are the toothpaste market, the beer market and the cigarette market. Companies selling in a brand-loyal market have a hard time gaining more market share. Similarly, companies that enter a brand-loyal market have a hard time getting in.

Segmentation in Industrial Markets

An industrial market is vastly different from a consumer goods market. Industrial markets can also be segmented on the basis of similar bases like geographical area, benefit sought by the marketers and the usage rate. Business markets can also be segmented on the basis of product-related factors, size of the customer and type of buying situation. The segmentation variables includes demographic, operating variables such as technology, user-status and customer capabilities, purchasing approaches, situational factors such as urgency, specific application and size of order and personal characteristics like buyer-seller similarity, attitude towards risk and loyalty.

6.8 SELECTION OF SEGMENTS

Before selecting a basis, you must have adequate knowledge about the buyer. You can follow two approaches for identifying market segments. They are called build up and break down approach. While the former approach is more appropriate for business-to-business markets or industrial buyers, the latter is used in the context of business-to-consumer or individual market segments. By looking at the similar demand pattern across a number of buyers in business-to-business markets, the marketing manager can build segments. As individual customers demand in a business market does not justify each one of them to be called a segment, so by looking at similar demand pattern one can build up segments with worthwhile demand. The breakdown approach looks at large heterogeneous markets and breaks them into homogeneous segments with similar demand pattern to be called as market segments

When analyzing a market that contains millions of people, buildup may not be practical. It is particularly appropriate, however, in markets that contain a relatively small number of potential buyers such as industrial markets. After the segments have been formed, you can analyse the segments to develop a sound understanding of what the typical customer in each segment looks like. A profile is built for each segment by searching for relationships among segmentation basis variables and descriptive characteristics variables. Profiling helps to characterize large, identifiable groups within a market. You can segment and profile markets on the basis of consumer characteristics and consumer response pattern.

Once profiled you can evaluate the profit contribution expected from each segment. Several kinds of information are needed, starting with the demand potential within each segment. The marketing manager measures the demand of each customer and the number of customer in each segment. The segment potential is calculated.

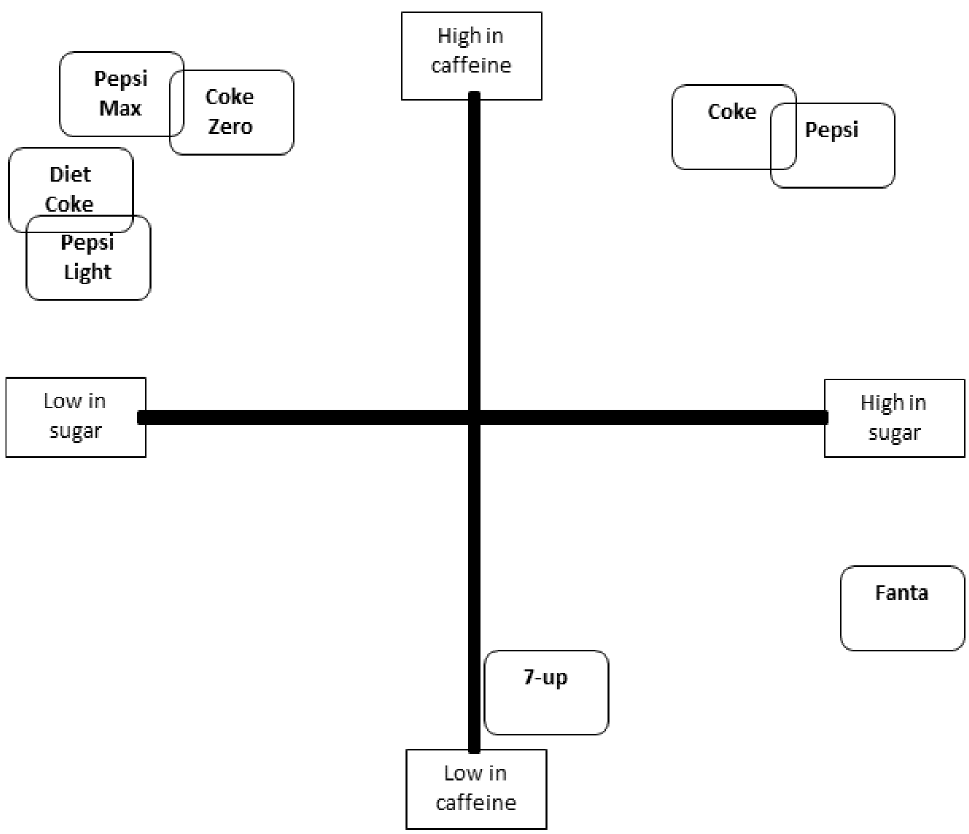
SP1 = Σ sn

Perceptual mapping technique

It is a visual technique designed to show how the average target market consumer understands the positioning of the competing products in the marketplace. In other words, it is a tool that attempts to map the consumer's perceptions and understanding in a diagram. There are three main formats for presenting a perceptual map.

Using two determinant attributes: This format uses two determinant attributes on the graph. The main advantage of this format is that it is very simple to construct and interpret.

In the case given below only two attributes have been considered, they are 'to what extent does the consumer consider the product to be high/low in sugar' and 'to what extent is a product considered high/low in caffeine'. For example on this map the 7-up product offering is perceived as having a moderate level of sugar and being relatively low in caffeine.



In examining the above perceptual map remember the following assumptions:

- The closer the positioning of two brands on the map, the more likely they are to compete with each other.
- The closer a brand is to a consumer's ideal point the more likely it is to be preferred by them
- Gaps on the map can be identified as potential market niches or segment possibilities or other ideal points

Using many product attributes: The second approach to perceptual mapping used to use a statistical technique called correspondence analysis. Using a computer, a statistical program has the capacity to map multiple product attribute at the same time. This type of map is a little bit more confusing and difficult to interpret, but it does provide a good overview of how the targe market views and connects the various attributes.

Joint perceptual maps: Occasionally you will see a perceptual map that also maps the preferred needs of different market segments, based on the same attributes. These types of maps are sometimes referred to as joint perceptual maps, as the perceived product positioning is jointly presented with the needs of the segment. The addition market segment needs being placed on the perceptual map allows the firm to identify how well they are positioned to relative to their particular target market.

Considerations in using perceptual maps

The following points have to be borne in mind while using perceptual maps:

- Two brands may be similar that is near each other in relation to the two dimensions of the map, but it may be so only for buying occasion A and not for buying occasion B.
- Two consumers may have the same location on a map but arrive at that position by very different perceptual or attitudinal routes i.e. preference point may be the same but it may be the result of different attitudinal frameworks.

6.9 TARGETING

Target marketing helps to learn how to take a decision on which market to enter from out of the available markets. Depending on the available resources, experience and competency of the marketer and time available, the marketer will decide which market to target. While segmentation explains whom to target, targeting explains how to target these markets. After evaluating different segments, the company must now decide which and how many segments it will target. A target market consists of a set of buyers who share common needs or characteristics that the company decides to serve.

Because buyers have unique needs and wants, a seller could potentially view each buyer as a separate target market. Ideally, then, a seller might design a separate marketing program for each buyer. However, although some companies do attempt to serve buyers individually, most face larger numbers of smaller buyers and do not find individual targeting worthwhile. Instead, they look for broader segments of buyers. More generally, market targeting can be carried out at several different levels.

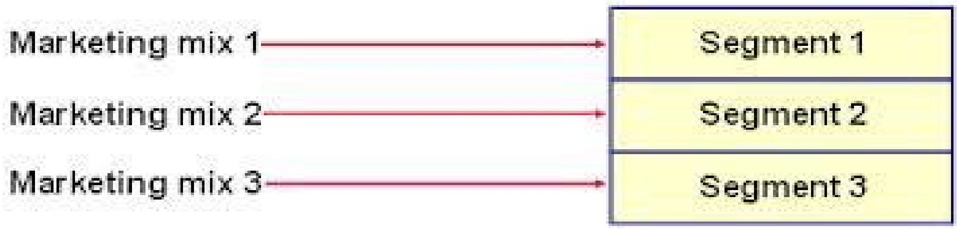
Undifferentiated Marketing Strategy or Mass Marketing Strategy

In the absence of a proper mechanism to classify the market into number of market segments and analyze their potential, many firms decide on the mass marketing strategy. In this case the marketer goes against the idea of a differentiated market and instead decides to sell the product to the whole market. Here the marketing manager ignores the idea of segment characteristics and differences and develops a unified marketing program for the entire market. This strategy keeps the overall marketing costs low and makes it easier to manage and track the market forces uniformly.

Most modern marketers have strong doubts about this strategy. Difficulties arise in developing a product or brand that will satisfy all consumers. Moreover, mass marketers often have trouble competing with more-focused firms that do a better job of satisfying the needs of specific segments and niches.

Differentiated Marketing Strategy

Using a differentiated marketing strategy, a firm decides to target several market segments nd designs separate offers for each. For example, General motors tries to produce a car for every "purse, purpose and personality." Maruti is the leading automobile company, which has the distinction of having products for different market segments. Maruti Alto is sold to upcoming middle class. Swift is targeted for the upper rich class people and Maruti Omni is targeted for large families and taxi operators. The main objective of offering differentiated marketing offer is to cater to different segments and get higher sales with a dominant position in each of the segment.



The risk involved in this kind of a marketing strategy is in the form of extra cost in marketing research, product development, different forecasting models, varied sales analysis, promotion planning and channel management. And trying to reach different market segments with different advertising increases promotion costs. Thus the company must weigh increased sales against increased costs when deciding on a differentiated marketing strategy.

Concentrated Marketing Strategy

When resource as well as market access is limited and the company has to face intense competition, the marketing manager has to stretch the budget for market coverage. In this case the company is likely to follow the concentrated marketing strategy. The marketing manager decides to cover a large niche rather than fighting for a small share in a large market. It is an excellent strategy for small manufactures that can serve the segments closely and cater to the emerging needs of closed loop customers. For example, Oshkosh Truck is the world's largest producer of airport rescue trucks and front loading concrete mixers. Tetra sells 80 percent of the world's tropical fish food and Steiner Optical captures 80 percent of the world's military binoculars market.

Through concentrated marketing, the firm achieves a strong market position because of its greater knowledge of consumer needs in the niches it serves and the special reputation it acquires. It can market more effectively by fine tuning its products, prices and programs to the needs of carefully defined segments.

Choosing a Targeting Strategy

Companies need to consider many factors when choosing a market targeting strategy. Which strategy is best depends on company resources. When the firm's resources are limited, concentrated marketing strategy makes the most sense. The best strategy also depends on the degree of product variability. Undifferentiated marketing is more suited for uniform products such as steel. Products that can vary in design, such as cameras and automobiles are more suited to differentiated or concentrated. The product's life-cycle stage also must be considered. When a firm introduces a new product, it may be practical to launch only one version and undifferentiated or concentrated marketing may make the most sense. In the mature stage of the product life cycle, however, differentiated marketing begins to make more sense.

6.10 POSITIONING

A product positioning is the way the product is defined by consumers on important attributes-the place the product occupies in consumers' minds relative to competing products. "Products are created in the factory, but brands are created in the minds," says a positioning expert. For example Tide is positioned as a powerful, all purpose family detergent; Ivory Snow is positioned as the gentle detergent for fine washables and baby clothes. Volvo positions powerfully on safety. Consumers are overloaded with information about products and services. They cannot reevaluate products every time they make a buying decision. To simplify the buying process, consumers organize products, services and companies into categories and "position" them in their minds. A product position is the complex set of perceptions, impressions and feelings that consumers have for the product compared with competing products.

Consumers position products with or without the help of marketers, but marketers do not want to leave their products positions to chance. They must plan positions that will give their products the greatest advantage n selected target markets and they must design marketing mixes to create these planned positions.

Choosing a Positioning Strategy

Choosing the right positioning strategy consists of three steps:

1. Identifying a set of possible customer value difference that provide competitive advantages upon which to build a position
2. Choosing the right competitive advantages
3. Selecting an overall positioning strategy

The company must then effectively communicate and deliver the chosen position to the market.

Identifying possible value differences and competitive advantages: To find points of differentiation, marketers must think through the customer's entire experience with the company's product or service. An alert company can find ways to differentiate itself at every customer contact point. In what ways can a company differentiate itself or its market offer? It can differentiate along the lines of product, services, channels, peoples or image. Product differentiation takes place along a continuum. At one extreme we find physical products that allow little variation: chicken, steel, aspirin. Yet even hare some meaningful differentiation is possible. For example, Perdue claims that its branded chickens are better, fresher and tenderer and gets a 10 percent price premium based on this differentiation. Beyond differentiating its physical product, a firm can also differentiate the services that accompany the product. Some companies gain service differentiation through speedy, convenient or careful delivery. For example, Commerce Bank has positioned itself as "the most convenient bank in America" – it remains open seven days a week, including evening and you can get a debit card while you wait.

Firms that practice channel differentiation gain competitive advantage through the way they design their channel's coverage, expertise and performance. Amazon.com and Dell set themselves apart with their smooth-functioning direct channels. Companies can gain a strong competitive advantage through people differentiation-hiring and training better people than their competitors do. Disney people are known to be friendly and upbeat. And Singapore Airlines enjoys an excellent reputation, largely because of the grace of its flight attendants. Buyers may perceive a difference based on company or brand image differentiation. A company or brand should convey the product's distinctive benefits and positioning which requires creativity and hard work.

How many differences to promote : You must be thinking that companies should aggressively promote only one benefit to the target market. Ad man Rosser Reeves, for example, said a company should develop a unique selling proposition (USP) for each brand and stick to it. Some of the marketers think that companies should position themselves on more than one differentiator. This may be necessary if two or more firms are claiming to be best on the same attribute.

Which difference to promote : Not all brand differences are meaningful or worthwhile; not every difference makes a good differentiator. Each difference has the potential to create company costs as well as customer benefits. A difference is worth establishing to the extent that it satisfies the following criteria:

- **Important:** The difference delivers a highly valued benefit to target buyers.
- **Distinctive:** Competitors do not offer the difference or the company can offer it in a more distinctive way.
- **Superior:** The difference is superior to other ways that customers might obtain the same benefit.
- **Communicable:** The difference is communicable and visible to buyers.
- **Preemptive:** Competitors cannot easily copy the difference.
- **Affordable:** Buyers can afford to pay for the difference.
- **Profitable:** The Company can introduce the difference profitably.

6.11 BRAND REPOSITIONING

Brand repositioning is all about changing the status of your brand by modifying its appeal to customers. However, determining when your brand needs to be repositioned is not always crystal clear. In fact, oftentimes the way companies determine when to reposition is akin to how different people approach shopping. When it comes to deciding when to reposition a brand, many businesses vacillate in a state of flux between extremes like the shoppers because they are uncertain about what constitutes a reason to reposition. Some change their brand positioning too often in reaction to changing market trends. This leaves buyers confused about who the company really is. Still others don't update their look, feel or messaging for 10 or more years, falling out of step with buyer wants and needs. Clearly, neither extreme is right. So how can a business decide when it's time to reposition its brand?

Six Reasons to Reposition

Even though repositioning done well takes some time and effort, it's critical to realign your brand position when your business is facing any of these situations:

1. **Competitors have usurped your value proposition:** This dilutes the effectiveness of your positioning causing market reaction to your primary brand benefit to shift. When competitors start delivering a similar message to yours the positioning benefit morphs into a cost-of-entry benefit, instead of one that is uniquely your own.

2. **Your brand position has become confusing:** This can happen overtime to a brand, especially as new messages are added onto the company story. Alternatively, perhaps your brand position was never clear. Regardless of the reason, when buyers are confused about your primary brand benefit it's time to reposition.

3. **Your company has a new, highly proprietary competitive advantage:** These are exciting times and often include new patent-pending technology or a unique offering that competitors can't easily duplicate. If the brand isn't repositioned to capitalize on the new competitive advantage your marketing won't be able to leverage the benefits.

4. **There is a change in the company's strategic direction:** Any tectonic shift such as a new line of business, an acquisition or expansion into a new market will render current positioning out of date. Strategic changes require a revisit of brand positioning so that your customers can clearly understand what this change means to them.

5. **A new competitor arrives and changes the game:** Change is inevitable and competitors keep every business on their toes. When a new one enters your industry and steals buyers with a superior value proposition it's time to rethink your brand position to ensure that it's still relevant to your market.

6. **There is a significant change in corporate culture:** When a new CEO joins, oftentimes the personality of company shifts. With

events that influence the culture, it's worthwhile to revisit your brand personality, at minimum, to make sure that it still matches the culture.

Brand repositioning doesn't start with a new design, logo or name. It starts by drawing on deep customer insights. Repositioning requires an intensely disciplined focus to realign the brand promise with unmet customer needs, in a way that is better than the competition is doing. When done well the payoff can be great. Repositioning done at the right time and in the right way is often the impetus that spurs a turnaround that leads to a company's continued success.

6.12 SUMMARY

Market segmentation seeks to carve out a homogeneous market out of a large, heterogeneous market. There are a few common bases, which are used in segmentation e.g. demographic, geographical, benefit etc. Although the use of demographic variables is appealing and widely available to marketers, but these variables are not able to profile segments on their own. Segmentation is advantageous to marketers in many ways. Instead of spending all marketing resources on a heterogeneous market where customers have varied characteristics and response pattern, segmentation guides marketing managers to identify who are the likely buyers and to spend the resources on these buyers to achieve a time based result.

Marketers use three strategic options in target marketing. They are undifferentiated marketing, differentiated marketing and concentrated marketing. In undifferentiated marketing strategy, the same marketing program is offered to everyone regardless of their differences. In differentiated marketing, two or more segments are targeted using different marketing programs for each of the segments. In concentrated marketing, the marketing manager focuses on one segment out of many possible segments. A decision on target marketing largely depends on the profit potential of each segment, resources available with the firm and the strategic intent of the firm.

Once the segment is defined and target market decision is made, the marketer needs to position the offer in the market. Positioning is an act of designing the company's product offering and image in the minds of customers. Positioning is not something to do with the product you make in the shop floor; it deals with what you make the customers believe about the product through communication.

6.13 KEY WORDS

- **Segmentation :** The process of segregating a heterogeneous market into a set of homogeneous groups of customers.

- **Market Targeting :** The process of segmenting, targeting and positioning an offer in the market.
- **Psychographic :** It is the science of using psychology and demographic to study the lifestyle patterns of consumers.
- **Demography :** The statistical study of human population and its distribution.
- **Target Market :** A group of customers for whom a seller designs a particular marketing mix.
- **Positioning :** The act of developing a product offer and selecting an image to occupy a distinctive place in the minds of the target market.

6.14 SELF-ASSESSMENT TEST

1. What methods of segmentation will be followed for following products?
   a) Motorcycle
   b) Wrist Watch
   c) Mobile
   d) Life Insurance
   e) Banks
2. What is brand repositioning? How are the following brands positioned in the Indian market?
   a) Trucks
   b) Men's Fairness Creams
   c) Health Drinks

6.15 FURTHER READINGS

Kotler, Philip, 2002, llth Edition, Marketing Management, PHI-New Delhi

Boone, Louis E. and Kurtz David L., VIIth Edition, Contemporary Marketing, Dryden Press, New York

UNIT-7 MARKET ORGANIZATIONS

Objectives

After reading this unit, you should be able to:

- Understand what organization is
- Understand designing of marketing organizations
- Understand Sales and Marketing Organization structures

Structure

7.1 INTRODUCTION

A marketing organization is both an orienting point for cooperative endeavor and a structure of human relationship. It is a group of individual striving jointly to reach qualitative and quantitative objectives and bearing formal and informal relations to one another. A successful marketing organization is one in which functions of each department are carefully planned and coordinated and the efforts of the individuals supervised. A successful marketing organization also organizes scarce resources towards the goal of delivering products and services in the hands of customers for profit. In this we shall discuss in detail the various ways in which the marketing function can be organized and the considerations involved in designing the marketing organization.

7.2 PRINCIPLES OF DESIGNING AN ORGANIZATION

Marketing organization refers to any system, body or group of people, comprising various sub-systems or parts, which are interrelated and interdependent on each other for achieving organization's marketing goals. A marketing organization may be formal or informal. A formal marketing organization has specific marketing objectives to achieve and this is the very reason for the organization's existence. An informal marketing organization has no specific objective to achieve and is an association of marketing individuals by chance or event. Objectives may relate to making profit or market share or mind share. When we refer to a marketing organization, it can mean a firm or company involved in business or a non-business agency and which has a set of marketing goals. Irrespective of the nature of an organization, the principles involved in its design are the same. These are:

Departmentalisation : It involves integration of differentiated (or specialized) activities and grouping of individual into departments and divisions.

Standardization : It refers to the existence of procedures and systems, which helps integrate the entire organization.

Specialization : The division of labour on the basis of which a particular type of activity is differentiated from another. Jobs are assigned to individuals on the basis of their specialization.

Centralization : It refers to the level at which authority for decision-making is concentrated. It involves designing formal reporting relationship and information systems, leading to hierarchical levels and spans of control.

Formalization : It refers to the extent to which all procedures, systems and policies are written, so that the organization becomes independent of the person who founded it and acquires a life span substantially longer than any one individual.

Structure : It refers to the total configuration or arrangement of individuals, departments, reporting relationships, information flows, span of control all of which give the organization its specific shape.

Evaluation : It refers to providing systems for appraisal and compensation.

Given these basic principles, one can have many kinds of organization structures to choose from. In making the choice the marketing manager should evaluate the alternative structures on the basis of facilitating the achievement of objectives and accomplishment of tasks, managerial control and management of cost.

7.3 CHANGING ROLE OF MARKETING ORGANIZATIONS

The role of an organization can be compared to the skeleton of the human body. It provides a framework within which functions takes place. Whereas the skeletal function is the same for all human beings, it varies between firms. This is because all enterprises have their own objectives, resources and corporate plans to achieve those objectives. Role of the marketing function and its place in the overall organization has been changing over time. From a situation where marketing was treated as a selling arm of the factory, it has come a full circle where marketing 'dictates' what is to be produced. With the passage of time, not only has the organization of the marketing activity undergone many changes but also its growing importance has influenced the entire concept of viewing business. More and more firms are now adopting the 'marketing orientation,' i.e. the customer and his needs from the nucleus of all the activities of the firm. All the activities and tasks are organized around the customer. The firm with marketing orientation has come into being after passing through many distinct phases. These are described below:

Simple Sales Department : The three most basic functions needed for every business are those of production, finance and marketing. Towards the end of the nineteenth century and during the early twentieth, production was considered to be of prime importance and was given all attention. Most firms had only a sales staff headed by a sales manager and no marketing activity. The sales function was treated as an adjunct to the production whose responsibility was only to sell whatever the factory produced.

Sales Department with some Marketing Function : As the firm expanded its operations, it found that merely selling what the factory produced was not enough to sustain the growth momentum. A firm aspiring for growth and leadership must match its production to customer needs. Hence there was a need for some marketing research and new product development. At this stage, the selling department began to take on these responsibilities of marketing and apart from marketing research and new product development; it also undertook some promotional and advertising activity.

Separate Marketing Department : This is a stage when the need for the complete range of marketing function is felt and a full-fledged marketing department is established. The sales activity will continue to dominate but as compared to other activities, its importance is reduced. Sales and marketing may continue to be organized as two separate departments and there may be frequent clashes between the two. The sales department may feel that its existence is being threatened by the marketing department and could apprehend a grand design for its takeover. The marketing department, in its place may feel that the sales people are unnecessarily putting obstacles in the way of integrating all the marketing activities, including sales. The root cause of all such conflicts is the lack of understanding that sales is a part and parcel of marketing and needs the support of other departments to be truly effective.

Integrated Marketing Department : This is a stage where sales and marketing are integrated and organized into a single department. The marketing director heads the department with the sales manager reporting to him. The other activities such as marketing research, promotion and advertising, marketing information, customer service and new product development are also organized in this department under the marketing director. The following figure depicts an integrated marketing organization.

Marketing Oriented Organization : A marketing oriented organization is one, which is guided by customer needs. Such an organization obviously needs to be flexible to accommodate customers changing tastes and habits and accordingly modify its products or develop new products. The distinctive characteristics of a marketing oriented organization starts by identifying customer needs and products that satisfy these needs. Marketing research is conducted on a continuous basis to monitor technological innovation regarding the product; customer's changing preferences and giving feedback to the research and development cell and production department to work on new ideas.

Marketing shows the way and the production department follows. The general pattern of evolution of a marketing-oriented organization usually accompanies the process of economic development. In industrially developed economies, as compared to less developed and developing economies, customers are relatively more knowledgeable and sophisticated the pace of technological change is very fast and the market is characterized by a high mortality rate of products and product ideas. All these factors work to exert great pressure on the firms to be marketing oriented, since what sells like hot cakes today may be a total flop tomorrow. As compared to the less developed economies, one will find more marketing-oriented firms in the developed economies. But there are always exceptions to this general pattern and even in developed economies, one can find firms in which the marketing organization is at an early stage of evolution. One may also find that some divisions have fully integrated marketing organizations, but the firm as a whole is not marketing oriented.

The objective of tracing the evolution of the marketing organization is to highlight the importance of marketing to every firm. As we have seen, with increased economic development, the importance of marketing has also been growing. No firm can afford to be without marketing orientation. No matter what the nature of the product, the ultimate success of every business firm is determined not in the laboratory, but in the market place and to succeed in the market place, it is most critical that one has a marketing organization which facilitates the process of marketing and support the achievement of objectives.

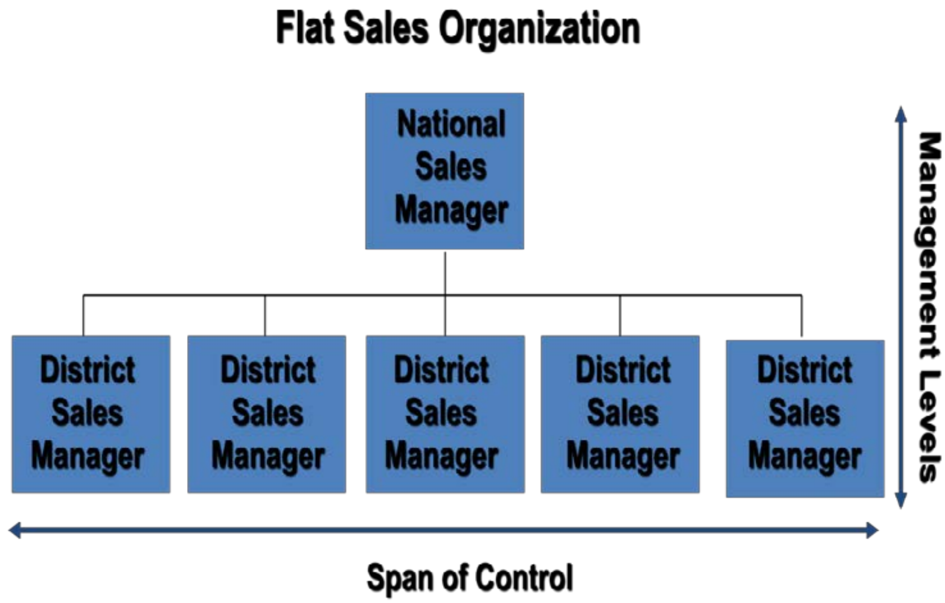


Figure 1 : Flat Organization

7.4 CONSIDERATIONS INVOLVED IN DESIGNING THE MARKETING ORGANIZATIONS

A number of factors influence the design of a marketing organization such as the objectives and goals of the firm, nature of the product and line of activity of the firm, area of operation, nature of industry and level of government etc. A marketing manager should always take these factors into consideration while designing the marketing organization.

1. Objectives and Goals of the firm

The first consideration in designing the marketing organization is the firm's marketing objectives and goals. These objectives may pertain to desired market share, expected sales and profit levels, desired position in the industry and/or market, desired customer image and competitive posture. Depending upon the stated objectives a suitable organization would have to be designed which would facilitate achievement of the objectives. For instance, a firm which strives to have the largest market share would need a different type of organization than one whose objective is to have the highest quality products.

2. Nature of the Product and the Line Authority

The nature of the product with which the firm is dealing will be the second consideration in organizing the marketing set-up. To sell the fast moving consumer goods no special skill or training pertaining to the nature of the product is required. These are products, which are well understood and comprehended by everyone. The firm dealing in such products need not look for sales people with specialized knowledge when organizing its marketing set-up. On the other hand, products such as air-conditioners, refrigerators, industrial machines and computers require that the marketing people have at least a functional knowledge about the equipment before attempting to market them. One requires not only trained people but also need to organize a supporting set-up wherein he can train his customers about the proper usage of the equipment and also form an after sales service department to take care of product complaints.

In case of products such as computers, one may need to provide technical guidance to the customer about which software package to purchase and how to constantly upgrade the computer with compatible accessories. There is a category of specialty products such as ethical drugs and medicines, medical and scientific equipment. In the case of such products one needs thorough knowledge about the product and sometimes even a formal educational degree before he can market them. Drug stores and chemists cannot be licensed to sell before they have at least one qualified chemist in their employment. Ethical drugs are directly promoted to doctors through salesman who are known as medical representatives. Reputed pharmaceutical firms usually employ only science graduates for this job, since it requires a basic understanding of the composition of the medicine, its possible reactions and side effects and an ability to tackle queries on the product from knowledgeable doctors. Depending on the kind of product, which one is marketing one need to induct suitably educated and trained salesman. If finding the right people is difficult, one can provide in-house training to help people acquire the knowledge and skill necessary for marketing the product. Most airlines and hospital provide in-house training to their people before they actually go on to the job. Besides training facilities, the marketing organization may need a separate cell for customer servicing, customer education and handling customer complaints.

The number of product assortments of the firm will influence the type of marketing organization that one chooses. A firm marketing ready-made children's garments may choose to segregate its range of exclusive premium price wear from the medium-priced range and organize two separate marketing teams as the two ranges are marketed to different sets of retail outlets. But since the basic products in both the price-range are the same, the firm can have a common marketing organization catering to both categories of retail outlets. Firms with highly diversified range of products need separate marketing organization to effectively market each of them. In deciding whether one needs separate marketing organization or a common one, one should consider not only the similarities in the nature of product, but also similarities in the type of customer need and customer served and similarity in the marketing channels.

Area of Operation

The number of markets that a firm caters to and the location of these markets is another factor which influences the decision regarding the type of marketing organization that a firm should adopt. If there are many markets, which are located at great distance from one another, a firm may have no choice but to have separate marketing organization for different geographical markets. The greater the difference in individual markets in terms of customer tastes and habits, the greater is the need for a separate, flexible, autonomous marketing organization at the local market level. This kind of autonomy in marketing organization can be observed in the local operation of multi-national companies, which have subsidiaries in many countries of the world. The corporate headquarter may provide only the basic operating guidelines and specify the expected results, allowing the remaining operations to be organized according to the requirements of each market. These requirements may include modifying the products to suit local climate and taste, designing relevant promotional strategy, employing local people and adopting local personal selling techniques.

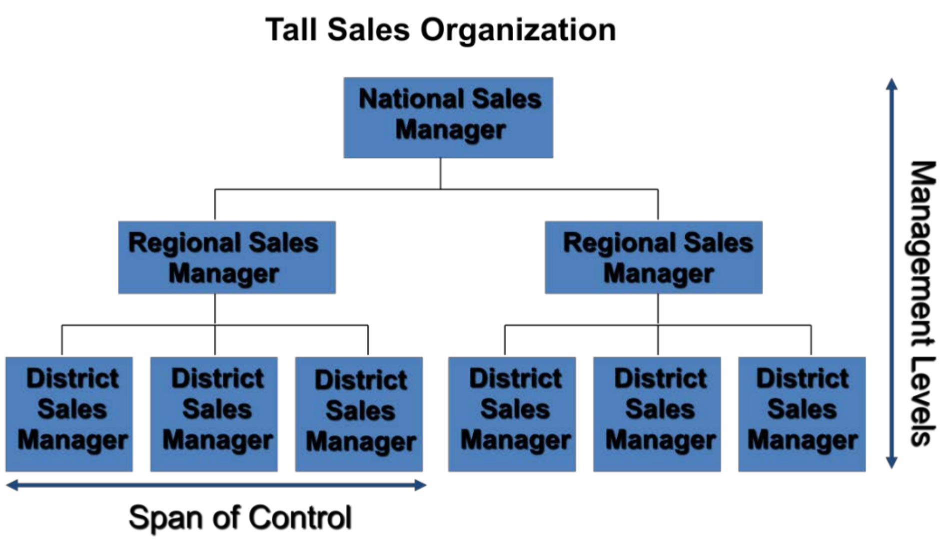


Figure 2 : Tall Organization

Nature of the Industry

The design and structure of a marketing organisation would vary depending on the nature of industry to which a firm belongs. A firm characterized by fast changing customer preferences or rapid technological improvements needs a marketing organisation, which should be flexible to adapt to changing situations. Moreover, the marketing organisation must be so designed that it facilitates active interaction within the related sub-functions, which are critical to the marketing success such as sales and marketing research in case of hi-fashioned garments and sales and research and development in electronics. The more the interface with other functions in the firm and sub-functions within the marketing function itself, the more the need for a structure which is flexible, properly organized and permits easy flow of information.

Computerization and Upgradation of Information System

The type of information system and communication technology also affects organizational design. The advent of computers has led to replacement of human by machines for information processing; replacement of supervisory and managerial cadres, which were performing the roles of supervising and controlling and can now be done more efficiently by computers and there is greater decentralization of decision making. The result is the progressive removal of many intermediate levels of managements and the evolution towards a flatter structure.

External Environment and Governmental Intervention

The composition and character of the marketing organisation is influenced by the environment in which it operates. At the level of the firm, the environment consists of social, economic, political, legal and cultural factors. These factors impinge on all operations of the firm including marketing. In addition, specific rules and regulations governing the product category and its marketing affect the marketing organisation. Explicit media advertising which involves describing the product and its contents for alcohol and alcohol based drinks, is not permitted in India. Given this restriction, liquor companies necessarily need strong sales organisation, which can develop and retain dealers and command prominent shelf display at these outlets. Drugs, cement, fertilizers and certain categories of steel are subject to price control. In such a situation, some firms are able to afford a marketing organisation, while others cannot, due to low margins and constraints on capacity and cost structure.

7.5 TYPES AND METHODS OF ORGANIZING THE MARKETING ORGANISATION

Organisational design refers to the formal and coordinated task of assigning territories and establishing flows of communication and responsibilities for marketing department and individuals serving customers effectively. The developed structure helps the marketing people to identify their roles, responsibilities and command the organisation. A proper organizational design helps in enhancing productivity, reducing conflicts and improving individual's quality of work. This helps in identifying the content of a job, the qualifications and experience required to undertake the job and rewards associated with the performance of the job.

The marketing organisation is designed on the basis of the nature and size of the overall organisation, market coverage strategy, complexity of the products offered and external conditions of the market depicting the level of prevalent competition. Organisations adopt different kinds of structures from the simple line organisation to special designs like functional organization, product management organisation, market centered organisation and matrix organisation. Methods other than these four are either their derivatives or combinations.

Line Organisation

In a pure line organisation, the chief executive does the decision-making and decisions flows down the line of execution. The chief executive has all the authority over the marketing function. Many small marketing firms have such designs. In these kinds of organisations, decisions are made faster, overhead costs are low and marketing people need to follow command. These kinds of organisations are called ‘one man show’ organisations. Such organisations suffer from the daily fire fighting operations of the executives as they do not have time to do marketing planning and are busy in achieving marketing goals in the short run. As organisations grow in size some degree of specialization occurs and then they are designed in a different base than on line functions.

Functional Organisation

In the functional organisation, various functions performed as part of the overall marketing function are the basis for organizing the marketing set-up. Each function is assigned to a specialist who reports to the marketing manager. The most common functions in marketing are sales, distribution, advertising, sales promotion, marketing research, marketing information system, dealer development, customer service, new product development and marketing planning. It is possible that one may be using terms different from these to describe various functions. One will be able to identify the functions according to the terms used here once he has gone through the description of each function. In a small firm, all these functions may not be individually identified and differentiated, even though they are actually performed.

All the functions may be handled by just one or two individuals, who are jack of all trades rather than specialists in any particular function. But as the firm grows in size, it becomes imperative to differentiate and delegate the functions to separate individuals. One man can no longer perform all the functions and even if he can, he would not have the necessary skill or knowledge for it. All the functional specialists report to the marketing manager who has overall responsibility for marketing. Depending on the relative importance of each marketing function to the overall effectiveness of the marketing organisation, a function may either be organized separately or clubbed with another function. Further the organisation of each marketing function within the overall marketing organisations may vary from firm to firm.

Sales

A team of sales people perform sales function, as they are responsible for actually selling the product or service. The product may be sold directly to the actual customers. This is known as direct sales. The product may be sold to distributors, wholesalers, retailers or other middleman, who in turn sell to the actual customers. This is known as indirect selling. A firm may sell either directly or indirectly or use a combination. There are three basic methods in which the sales force may be organized: geographic division, product division and customer or marketing channel division.

Sometimes it is wise to have the sales force organized on a geographical basis when the area of sales coverage is very large and there is marked difference in the market and buyer characteristics in each area. The entire market is divided into regions or zones and each region has its own sales force. Such an organisation implies geographic division of authority and decision-making. This type of sales force organisation is very widely used and is effective when there is a single product or a range of similar products to be marketed to many scattered markets.

When a firm has a wide range of products, each significantly different from the other in terms of its physical and/or technical characteristics, the sales force is usually organized around each distinct product or product group. The basis for differentiating the products may be the technical process involved or the customer characteristics so that the salesman's specialized knowledge of technology can be efficient used. Thus there is a separate sales force for each product.

Figure 3 : Geographic Organization

Another method of organizing the sales force is on the basis of different customer groups served or the marketing channel used to reach the customers. A company marketing television sets has two distinct sales teams. One team serves the distribution and wholesalers while the other team is engaged in selling to institutions such as hotels, schools and universities which buy in large numbers. The company finds it useful to have this distinction because the methods and channels used for selling to these two customer groups are totally different. Many companies also find it useful to have separate sales team to sell to the private sector and to the public sector and government bodies.

A company manufacturing computer peripherals, printers, disks and consumable items such as magnetic tape, has one sales team selling to original equipment manufacturers (OEM) who use these items in assembling their own branded computers and another sales team selling to computer retail outlets such as Computer point, I-next and e-zone which retail these individual items on per piece basis. Many companies use a combination of above bases for organizing the sales force. At the head office level, the sales team may be divided on a product basis, but if the market is very large the team may be further sub-divided on a geographic basis. Thus there is sales specialization at the product level as well as the market level.

Distribution

Distribution refers to physical movement of goods from the factory to the customers. In organizing the distribution function, the objective must be to find the least-cost physical distribution method, which allows the manager to service his customers in the most efficient manner. There are three types of physical distribution organisations as explained below:

The first is where the company has one plant and delivers to a single market. In ths case the plant is usually located close to the market or the godown/warehouse is next to the plant and the cost of distribution is relatively low. Examples of this kind can be found in case of perishable foods and confectionaries, such as bread. The company may use its own sales force or distribution who in turn use wholesalers and retailers to reach the actual customers or a combination of both distribution and its own sales force.

In the second type, there are many geographically far-flung markets, which are served from one plant. The manufacturer can choose to ship directly to customers in each market, appoint regional or town level distributor, set up own go-downs and branches in each important center or use a combination of any these.

The third case is where there are multiple plants catering to multiple markets. The two problems in this situation are of minimizing the transportation and the stock carrying costs at the current level of facilities and of deciding whether the combination of existing go-downs and distribution centers is the most cost effective one.

At the manager's end he has to take decisions regarding the number and location of godowns, type of transportation to be used, and strength and role of sales force. The decision regarding sales force has to be taken in relation to the type of intermediaries available. There are wholesalers, stockists, distributors, commission and freight (C&F) agents, who can act as middlemen for moving products from go-down to the final customer. The combination of intermediaries varies from company to company, and may also vary within the same company, for each product and each market.

Product Management Organization

The functional organization works well when there is a single product. But when there are multiple products and/or the products are very different from one another, the functional marketing organization is no longer effective. The functional organization cannot possibly coordinate all aspects of the marketing mix of each of the diverse products, with the result that some products are neglected and eventually become money losers.

product or product group is assigned to a manager who is known as the product manager. The product manager is responsible for managing all aspects of the marketing mix pertaining to a specific product. Thus in a multi-product firm you would have as many product mangers as the number of products. If there are many brands within the same products, as in the case of soaps, each brand may be assigned to an individual manager who is known as brand manager. Table 1 describes the typical responsibilities of a product manager.

Responsibility	**Area Task/Roles**
Advertising	Major responsibility for advertising strategy, getting advertising campaigns prepared, media selection.
Sales Promotion	Major responsibility for budget determination, setting strategy, measuring/evaluating results.
Sales	Product manager acts as information center and coordinator.
Market Research	Major responsibility
New Product R & D	Major responsibilities for product modifications, launches and test marketing.
Distribution	Little responsibility
Production	Role of coordinating and communicating
Accounting & Finance	Limited involvement

Table: 1

The product manager plays various roles, which include developing product design strategies, making plans and monitoring progress .His role also involves providing information related to the product and being an interface with other departments within the organization and outside with customers, distributors and advertising agencies. The first three roles are self-Explanatory but the last two need some elaboration. In today's competitive world, a manager's power is based on information or the access to the information he has. This is especially true in case of product manager who is a man placed in a conceptual and informational hub of the organisation. To maintain competitive position and profit for his producers and with his performance starkly exposed to higher management, he must strive to be the best-informed man about any aspect substantially affecting the future of his products. He must arrange and nurture a number of information interfaces.

As described in table 1, the product manager has a number of diverse responsibilities. To discharge the responsibilities ha has to interact with other departments in the firm. Though on paper the product manager is assigned all the responsibilities, but in practical terms he is rarely given the requisite authority to effectively discharge them. At best, he may be given direct authority over one or two areas like advertising and marketing research. For getting co-operation from the other departments he has to use all his persuasive charms and skills, which may not work all the time, resulting in conflicts and tensions. It is this interfacing aspect of the product manager's role which has potential for all types' conflicts and leads to erosion of his power. Responsibility without authority over resources could reduce the role of a product manager from that of a product 'mini-president' to a bureaucratic clerk. Instead of being a decision maker responsible for profits the product manager is reduced to a low level coordinator.

These problems can be solved by clearly defining the limits of the product managers role, giving him authority over the resources which affect his product's profitability, taking into account areas of potential conflicts between product manager and other functional specialists and establishing a system for their amicable settlement. Despite this role ambiguity and potential for conflict, the product manager concept is gaining acceptance. In many multi product firms, each product team includes junior and middle level managers representing marketing, manufacturing, research and development and purchase functions. The organisation on product team basis has led to greater decentralization of responsibility and decision-making within the company and the result is vastly improved performance.

The product manager concept introduces a number of advantages into the marketing organization. Firstly, given the increased complexity of the marketing mix and diversity of products and brand, the product manager concept offers a way of coping with these complex marketing inputs in a balanced manner. It ensures that all products and brands get proper attention and no product is allowed to languish. Secondly, it introduces flexibility into the system as the product manager can ect quickly to a changed market condition since he has the overall responsibility for managing the products profitability and does not have to waste time over long consultations. Quick reaction and timely action sometimes prove to be the winning factors in a fast changing market situation. Thirdly, the product manager concept provides a focal point for integrating and co-coordinating all efforts and resources for planning for future managers, as they are exposed to all the operational aspects of management viz. marketing, finance and production.

There are some disadvantages of product management organisation. The anomaly of responsibility without control over resources and lack of direct line of authority lead to a situation in which conflict is always simmering under the surface, ready to explode at the slightest provocation. A product manager is in a situation which can be aptly described as ‘jack of all trade but master of none’. A product manager has a general and cursory knowledge of all functions but no specialized skill in any one function. This lack of expertise often puts him at a disadvantage when dealing with a functional specialist, who is able to browbeat him on technical points. The product manager has usually too many interfaces to manage which consume a great deal of his time, with the result that important strategic decisions may be delayed or even ignored.

The product manager concept may turn out to be costly, as even minor products with a small sales turnover are assigned to full managers. In recent times, the product managed organisations has been undergoing a number of changes. In many firms the product managers has given way to product team. The product team is arranged vertically or in a triangular form. Some other companies have introduced the concept of horizontal product teams. A leader who is supported by functional specialists heads each team. This horizontal product team organisation considerably reduces the potential of developing conflict with other departments, since the product manager has his own independent resource pool of functional specialists. Finally, some companies are combining two or three brands/products under one product manager. This is done when the products are individually not important enough to require full time attention or they serve similar customer needs, so that clubbing them together is meaningful and can help serve the customers better. If the marketing manager wishes to adopt product management approach, he must define the role in precise terms, clearly specifying the limits of his authority. Moreover, he should bear in mind that the contribution of the product to the company’s total turnover justifies the expenses of a full time product manager.

Market-Centered Organization

Some of the companies as we know that with a product management organization have started to group together products, which serve similar needs. Thus the basis for differentiation is shifting from products to customers. A group of customers with similar needs and a common link between them constitute marketing roles, the organization is known as market-centered organization is known-centered organization.

Let us take an example of a company marketing building hardware such as doors and window handles, window frames and locks. It has two distinct sets of customers. They are hardware retailers who sell to individual's household customer's construction companies. These two distinct customer segments represent separate markets, each requiring a different marketing mix of advertising, distribution channel, and pricing. Airlines, railways, each requiring a different marketing mix of advertising, distribution channel, and pricing provide transportation for people (passengers) and goods (cargo). Each market (passengers vs. cargo) has its distinct characteristics and needs a suitable marketing strategy and a matching organization with relevant skill to formulate and implement the strategy.

A market –centered firm seeks its growth by serving new needs in markets where it is already well established. Since knowledge and access to the market is the basis for organizing the market set-up, the question to be asked is "what other needs of the markets that we know well can we serve profitably?" For instance, an airlines company, within the passenger markets can further identify markets such as group travel, and charter flights. This constitutes an instance of growth through intensively serving a well established need (transportation) in a well-established market. However, a market-centered organization also has the flexibility to grow extensively by searching out closely related needs and entering new businesses around these. The airlines may enter a new business by providing a courier service. The need is still that of transportation, but the market is not people, or cargo but important documents and parcels. Through the extensive and intensive approach, a market-centered firm seeks to grow by meeting the greatest number of inter-related needs of every market it serves.

In terms of organization structure, a market-centered organization can be organized in the same way as a product management organization. Instead of product managers with detailed knowledge of the product, you would have market managers each having thorough knowledge of his market. However, we have seen that there are problems of control and authority associated with the products manger organization. To overcome these, a market-center should be treated as a profit center and its manager be assigned the role of a business manager with full accountability for generating profits. The business manager is the chief 'line' officer, with full authority over all the other functions supporting and reporting to him.

At this stage, the marketing manager may like to ask the question "why should I recognize my marketing organization to being a market-centered organization?" There are two specific situations in which a market-centered organization can be more effective than any other kind of organization. If one faces any one of these problems, then he should change to a market- centered marketing organization. The first is when competitors have developed the same level of product sophistication and quality as the market leader and the leader's supremacy based on price advantage is seriously threatened. In such a situation, designing market-centered organization can help the leader revive its competitive advantages; detailed knowledge of customer and retailers helps frame creative marketing strategies. The second is when a firm wants to diversify or expand the profit base, or gain a total hold on existing customers. The first objective can be served by adding on higher margin products and services to the existing product line. The second objective is served by marketing a package or system of correlated products and services, enabling the firm to act as a one-stop supplier for each market.

Figure 4 : Hybrid Organization

Matrix Organization

Many companies that are large in size and complex in product offering prefer a complex design that is a combination of different types of organization types at different levels across the hierarchy and geographic locations. The combination can be made on the basis of the products, function, geography of the customer, range and serving extensive markets use the combined type of structure.

So far we have discussed companies marketing different products to the same market or the same products to different markets. In the first case, organizing around the product management concept provides an effective solution. In the second case, the marketing organization can effectively be organized around each market. But what if a company has a number of products and a number of markets to which these products are sold? The manager has to formulate and implement strategies suitable for each individual market and also keep in mind the different characteristics of each product. For example, so many products and so many markets, the manager has to cope with an immense amount of information. The sheer quantity of information and the range of its diversity usually make it impossible for a single person to manage. Further, each product may be so different from the other that each product needs a separate manager. Similarly, the unique buyer profile and the characteristics of a market merit the full attention of an individual manager. Thus, a multi-product and multi-market firm needs both product and market managers. But how should the product manager and market manager be integrated to form a workable organisation structure?

The solution lies in matrix organisation where tasks may be differentiated on the basis of functions and products; functions and markets; or functions, products and markets and integrated by means of coordinating functions. In the functional, product and market-centered organisations discussed earlier, each manager has only one point of focus: function or product or market. However, in the matrix organisation the points of focus are more than one. These focal points may be functions and products; or functions or markets; or functions, markets and products. As is obvious from these figures, the matrix may have two or more bases for differentiating the functions.

The origin of the formal matrix organisation can be traced to the aerospace industry in USA. The different manufacturers in the aerospace industry were organized functionally, but the US Government wanted each project to have specialized attention and imposed a project management type of organisation on the industry. The horizontal project groups were superimposed over the vertical functional organizations and the result was a matrix organisation. But informally, the matrix organization has been in existence much before its introduction in USA. In an advertising agency, each client is assigned to a specific accounts executive who is responsible for understanding the client’s objectives and needs and getting them translated into advertising campaigns. For translating client’s objectives into specific advertisements or campaigns, the accounts executive draws on the agency’s functional specialists: artists, copywriters, photographers and visualizers. Thus, on the one side, one has the functional specialists while on the other one has the accounts executive who can be thought of as a market manager and only a few clients are assigned to each accounts executive.

There are distinguishing characteristics of a matrix organisation. These include:

- Members are allotted to two or three groups with each group having it own boss,

- The groups are work-related, though each on different base.
- The groups are formally arranged rather than evolving informally or on an ad-hoc basis.

Information management is central to the concept and management of matrix organisation.

Thus the matrix organisation is a blend of grouping by functions and/or markets and/or products, with the objective of retaining the advantages of specialization and gaining the advantage of a sharper focus on a task or project. The specific advantages and disadvantages associated with the matrix organisation are described in the following box.

Advantages of a Matrix Organization
• Permits task/project focus without losing benefits of specialization. • Provide for increased information-processing capability, catering to information needs of each group. • Permits greater decentralization of decision-making since there are specialists in each area equipped with the necessary knowledge. • Provide a means of coping with increased information processing needs and coordinating when the tasks are highly uncertain, complex and interdependent.

Disadvantages of a Matrix Organization
• Tendency to conflict exist because the different groups are organized on different bases and each group may try to superimpose its own objectives. • There is ambiguity in role because each person reports to two bosses and this undermines the effectiveness of organization. • Prove costly because of larger volume of information processing and the additional need of coordinating and supporting roles. • May be prone to power struggles and politic as each group tries to dominate. • Problems of designing a suitable information system, which now needs to cater to different requirements.

7.6 ORGANIZATIONS OF CORPORATE MARKETING

As a company expands, it becomes necessary to decentralize at least some of the activities and establish separate divisions and branch offices. Necessarily, some of the marketing operations are also handed over to the divisions and branch offices. What type of support should the corporate marketing office provide to the marketing organisation at the branch / division level? There are four different organisation structures for the corporate marketing office to choose from:

1. **No corporate marketing support:** All marketing activities are handled at the branch or divisional level. The state trading Corporation has organized itself on these lines. Its offices in various countries operate with lot of independence.

2. **Minimal corporate marketing support:** The major bulk of the marketing function is handled in the individual divisions. Only a few marketing activities are organized at the corporate marketing level. These are:

   - Scanning for new market/new product opportunities and evaluating them.

   - Providing marketing support on specific request from a division.

   - Helping divisions that have no marketing set-up of their own or which have a weak marketing organisation.

3. **Moderate corporate marketing:** Apart from the functions spelt out in the minimal corporate marketing organisation, here the corporate marketing provides centralized service for advertising, marketing research, sales promotion and recruitment and training of personnel.

4. **Strong corporate marketing:** All major marketing activities are performed or controlled by the corporate marketing organisation and the divisions simply carry out the instructions given to them. This approach is followed by Indian Tourism Development Corporation (ITDC) for promoting its hotels in various towns.

7.7 SUMMARY

An organization's design is a function of the objectives, which it has to accomplish, the diversity and complexity of the task to be performed and the environment in which the organization's operates. Similarly, a marketing organization's design is a function of the diversity of products, markets and product/market combinations that it is involved with and its environment comprising competition, technology, socioeconomics and legal factors, and the marketing objectives. Depending on the combination of these factors and the relative importance of each of them in achieving the marketing objectives you can design an organisation, which is suited to your specific requirements. The four commonly used organisation design in marketing are based on functions, product, market and a combination of these three factors. Each type of organisation is useful under specific

conditions and has its own advantages and disadvantages. While choosing amongst different types of organisations you must evaluate each on the basis of its effectiveness in accomplishing the specified objectives, its amenability to managerial control and the cost involved.

A successful marketing organisation helps the management to achieve its corporate goal without any managerial dysfunction. The organisation should be based on certain principles like the scalar principle of unity in direction and command. The centralized and decentralized designs of organisations have their own advantages and disadvantages. As a marketing manager one has to consider various aspects including technology preparedness of the firm, scope of business and market coverage strategy before arriving at the final design. Careful attention to organizational design and costs in serving the customers helps in designing an efficient marketing organisation.

7.8 KEY WORDS

- **Organizational Design :** It is the formal, coordinated process of communication, authority and responsibility for sales groups and individuals. It develops a framework that enables the organisation to serve its customers efficiently.
- **Line Authority :** The authority of people in management positions with formal authority to direct and control immediate subordinates.
- **Line Organisation :** This is an organisation where the chief executive does all the decision- making for the firm and has complete authority to make all the decisions.
- **Product Organisation :** This is a company designed by product. In this case, the company has more than two products or product lines and each one of them have separate sales, marketing and service set-up.
- **Market Centered Organisation :** When tasks and jobs are differentiated on the basis of the different markets served, the organisation is known as market organisation.
- **Matrix Organisation:** A combination of the functional and product management organisation or the functional and market centered organisation, in which the distinguishing characteristics is that there are two or more bases for differentiating tasks.

7.9 SELF-ASSESSMENT TEST

1. Explain how the application of technology helps in the process of tracing customers and how order processing can guide the design of marketing organisation.

2. What do you mean by a combinatorial marketing organisation? How relevant are these organisations for multinational firms operating in different countries and in different segments?

3. How does the decision to link selling-marketing-servicing help organisation selling to industrial houses (B2B sellers) design their organizational structures and processes?

7.10 FURTHER READINGS

Kotler, Phillip, 2002, 11th Edition, Marketing Management, PHI-NEW Delhi

Bovee,CL and Thill John V., Marketing, McGraw Hill, New York

UNIT-8 MARKETING RESEARCH AND ITS APPLICATIONS

Objectives

After reading this unit, you should be able to:

- Understand what is marketing research,
- Understand the relevance of marketing research in the context of marketing decisions,
- Know the procedure of conducting marketing research and
- Develop various possible uses and applications of marketing research

Structure

8.1 INTRODUCTION

It's been said that information is power. This simple cliché underscores the market control and business success that information yields. Marketing research is about collecting information. While it applies to a wide range of situations, marketing research gives decision-makers the information they need to find solutions to business problems, such as the following

- How satisfied are customers with your product and service offering?

- How will customers react to a decision to change a price or product?
- What are service representatives hearing from customers?
- What responses to competition will bring you success in a given market?

Simply put, the solution to most business problems can be found through marketing research. While the foundations of research have existed for thousands of years, technological advances during the last century have made a wider range of studies possible. Increased Internet access in the last 15 years has made research available at a much lower cost and, therefore, more accessible to organizations of all sizes. As a result, the research field has exploded with new opportunities and methodologies, and organizations have more information at their disposal than ever before.

8.2 THE CONTEXT OF MARKETING DECISIONS

In the area of marketing, much of the information required for decision-making exists outside the firm e.g., information on why people buy only certain products and not Other products; information about the competitor's next move; information about new government rules and regulations which can affect your working , etc. The marketing manager faces a challenging task in attempting to improve his decision-making. The variables involved in the marketing decisions being external to the firm make collection of information cumbersome and expensive. Since the variables are often qualitative and dynamic in nature their measurement is also difficult, and the results not always accurate. Moreover, many of the variables interact with each other in a very complex fashion which makes it difficult to isolate and measure specific variables. Thus the pressure on the marketing manager is very strong to correctly choose the most critical decision variables and seek relevant information about them. The, wrong choice of (information) variables will not only result in unnecessary expenditure but can also lead the decision-making process astray. The correct identification of variables requires at least a basic understanding of why people behave in the manner in which they do. The manager also needs to monitor what is happening in the market place and in the general environment of the firm. The only way the manager can monitor all these is through regular market research.

8.3 DEFINITION OF MARKETING RESEARCH

The American marketing Association defines Marketing research as, the function that links the consumer, customer and public to the marketer through information – information used to identify and define marketing opportunities and problems; generate, refine, and evaluate marketing actions; monitor marketing performance; and improve understanding of marketing as a process. Marketing research specifies the information required to address these issues; designs the method for collecting information; manages and implements the data-collection process; analyzes the results; and communicates the findings and their implications.

This definition may be meaningful to a marketing professional but equally may be difficult for someone studying marketing to understand. The definition is easier to comprehend if the four ways research can be used are explained individually:

- ‘Identify and define marketing opportunities and problems’ means using research to explore the external environment.
- ‘Generate refine and evaluate marketing actions’ means using research to determine whether the company is meeting consumer needs.
- ‘Monitor marketing performance’ means using research to confirm whether the company is meeting the goals it has set.
- ‘Understanding marketing as a process’ means using research to learn to market more effectively.

Although the AMA definition is a useful summary of all that marketing research can accomplish, a simpler definition can be constructed. According to the dictionary, the word ‘research’ means to search or investigate exhaustively or in detail. The thesaurus gives as a synonym for ‘research’ the word ‘inquiry’, which means the act of seeking truth, information or knowledge. So market research can be defined as a detailed search for the truth. Marketing has always had the function of connecting the internal structure of the organization with the external world. Marketing research is a formalization of this role.

Research that is conducted can be divided into two types. Basic, or pure research, is conducted to discover new knowledge. When the research is planned and conducted, its application or how the knowledge might be used is not of major importance. What is important is that new information is discovered. After the research has been conducted, how the information can be used is then considered. Universities or very large corporations conduct most basic marketing research.

In applied research, the research is planned so that the findings can be used to solve a specific problem. This is the type of research conducted by marketing professionals working either within an organization or for an external marketing research provider. After all, if a business is paying for research to be conducted, it needs results that will show how to solve a problem. Most businesses do not have the time or money to pay for basic research. The box below provides additional information on the differences between basic and applied research.

8.4 PURPOSE AND SCOPE OF MARKETING RESEARCH

Marketing research focuses on understanding the customer, the company, and the competition. These relationships are at the core of marketing research. Companies must understand and respond to what customers want from their products. However, this relationship is always influenced by competitors and how their products are received by your market. Thus, you must clearly identify the customer, company, and competition before developing a research project.

There are several important factors you must consider before you begin, including:

- Your customers and competition
- Awareness and image of your product
- Product usage
- Undiagnosed problems with your product
- Customer desires and needs for new product development

Organisations are dynamic entities existing within a continuous, changing state of flux and trying to adapt to the requirements of rapidly changing environments. This very much applies to marketing research organisations, whether they are in-house departments or agencies. The last twenty-five years has witnessed vast changes in the way in which information is handled in organisations of all types and sizes. Alongside this revolution in information management, the role of marketing research has undergone substantial change.

The change is not complete and it is impossible to say that the role of marketing research is now a fixed, static entity: its role is certain to change further in the future. Adapting to the changing conditions of the business environment means dealing with new problems and decisions that may not previously have arisen. This accentuates the need for creativity in marketing research to enable new ways of researching new problem situations. with their research clients. It is likely that much of the day-to-day work formerly carried out by in-house market research departments will be out-sourced to specialist research agencies. This will entail agencies having to have a much better understanding of their clients' problems and the manner in which research survey data can contribute towards the solution of such problems. Researchers are not primarily data gatherers though data gathering is essential and the work must be properly organised and controlled.

Marketing Research plays a very significant role in identifying the needs of customers and meeting them in best possible way. The main task of Marketing Research is systematic gathering and analysis of information. Before we proceed further, it is essential to clarify the relationship and difference between Marketing Research and Marketing Information System (MIS). Whatever information are generated by Marketing Research from internal sources, external sources, marketing intelligence agencies-consist the part of MIS. MIS is a set of formalized procedures for generating, analyzing, storing and distributing information to marketing decision makers on an ongoing basis.

- While Marketing Research is done with a specific purpose in mind with information being generated when it is conducted, MIS information is generated continuously.
- MIS is continuous entity while Marketing Research is a ad-hoc system.
- While in Marketing Research information is for specific purpose, so it is not rigid; in MIS information is more rigid and structured.

Marketing Research is essential for strategic market planning and decision making. It helps a firm in identifying what are the market opportunities and constraints, in developing and implementing market strategies, and in evaluating the effectiveness of marketing plans. Marketing Research is a growing and widely used business activity as the sellers need to know more about their final consumers but are generally widely separated from those consumers. Marketing Research is a necessary link between marketing decision makers and the markets in which they operate. Marketing Research includes various important principles for generating information which is useful to managers. These principles relate to the timeliness and importance of data, the significance of defining objectives cautiously and clearly, and the need to avoid conducting research to support decisions already made.

Marketing Research is of use to the following:-

Producers

- To know about his product potential in the market vis-à-vis the total product;
- New Products;
- Various brands;
- Pricing;
- Market Structures and selection of product strategy, etc.

Business and Government

Marketing Research helps businesses and government in focusing attention on the complex nature of problems faced by them. For example:

- Determination of Gross National Product; Price indices, and per capita income;
- Expenditure levels and budgeting;

- Agricultural Pricing;
- The economic policies of Government; and
- Operational and planning problems of business and industry.

Market Research Agencies

Marketing Research is being used extensively by professionals to help conducting various studies in Marketing Research. Most prominent agencies being:-

- Linta India Ltd;
- British Market Research Bureau (BMRB);
- Hindustan Thompson Associate Ltd;
- eSurveysPro.com;
- MARG

8.5 MARKETING RESEARCH PROCEDURE

Marketing research is undertaken in order to improve the understanding about a marketing situation or problem and consequently improve the quality of decision-making related to it. The usefulness of the marketing research output will depend upon the way the research has been designed and implemented at each stage of the process. There are five steps in every marketing research process:

- problem definition
- research design
- field work
- data analysis
- report presentation and implementation

1. **Problem Definition :** A problem is any situation which requires further investigations. However, not all marketing problems need formal investigation or research. Many problems are of a routine and trivial nature which can be solved immediately after ascertaining all the facts of the case. Your distributor wants 90 days credit against the usual 60 days because he is facing certain financial problems. You can immediately check the distributor's past record in honouring his outstandings and ascertain the genuineness of his problem and make a, decision.

   Some problems faced by marketing managers are such that they can be handled on the basis of past experience and intuition. Such decisions can only be made if the manager has been in the line for at least a couple of years. Decisions made on judgement may not always turn out to be correct, but the problem may not be important enough to justify substantial time, money and effort to be spent on solving it. But when the problem is critical, spending resources to initiate formal marketing research is warranted. Also when the problem is such that the manager has no past experience to guide him (as in case of a new product launch) or the decision will have a critical impact on the future of the company (diversification into new markets, new products) it is worthwhile to undertake research and make decisions on the basis of concrete results rather than mere hunch or judgment.

It is very important that you define the problem for research properly. It is correctly said that `a problem well defined is half-solved.' Clear, precise, to the point statement of the problem itself provides clues for the solution. On the other hand, a vague, general, or inaccurate statement of the problem only confuses the researcher and can lead to wrong problems being researched and useless results generated.

Since problem definition is the first stage, useful information generated is likely to be unstructured, qualitative, tentative and exploratory. Depending on the results generated at this stage you would decide whether to extend the scope of research or stop it here.

Research Design : If you have stated your problem correctly and precisely, you should b able to spell out the precise objectives for research. Now you are in a position to prepare your research design. The research design spells out how you are going to achieve the stated research objectives. The data collection methods, the specific research, instrument and the sampling plan that you will use for collecting data and the corresponding cost are the elements that constitute the research design.

2. **Data Collection Methods :** A great deal of data is regularly collected and disseminated by international bodies, International Labour Organisation, World Bank, International Monetary Fund, Government and its many agencies including Planning Commission, Central Statistical Organisation, Reserve bank of India, Census Commission, private research organisations, and trade associations. This kind of data which has already been collected by another organisation and not by you is known as **secondary data.** This secondary data already exists in an accessible form; it only has to be located. You must first check whether any secondary data is available on the subject matter into which you are researching and make use of it, since it will save considerable time and money. But the data must be scrutinised properly since it was originally collected perhaps for another purpose. The data must also be checked for reliability, relevance and accuracy.

When secondary data is not available or it is not reliable, you would need to collect original. data to suit your objectives. Original data collected specifically for a current research are known as **primary** data. Primary data can be collected from customers, retailers, distributors, manufacturers or other information sources. Primary data may be collected through any of the three methods: observation, survey and experimentation.

In the observation method, the researcher gathers information by observing. This method is generally used to observe buyer behaviour in a shop or to assess the impact of shelf placement and point of purchase promotional material. For instance you may like to observe the movement of shopping traffic through a department store, the number of shoppers who stopped before a particular display etc.

The obvious limitation of the **observation method** is that it allows observation of only overt behaviour. It provides no clues why a customer behaved in a particular manner, what product attributes appealed most to him, whether he would like to buy the product again etc. Such data can be generated by using the **survey method.** The survey method can also yield information about the socio-economic profile of your customers. The survey may either be conducted in a small group of customers through the focus group interview or may cover a large number of customers with the help of a questionnaire. In the focus group interview five to fifteen customers are invited for a discussion on a specific product or .a specific aspect of the product. The customers' comments provide valuable insight into their thinking which can help the manager to fine tune his marketing strategy to suit different customer segments. Surveys conducted with the help of questionnaire often take off from the focus group interview which yields excellent clues for designing the questionnaire. The questionnaire- based surveys yield not only qualitative but also quantitative data which have statistical validity.

The third method of collecting data is through experimentation. This is basically a simulation of the real-life situation, but in a controlled environment in which you systematically introduce certain elements to study their impact. This method is used for finding the best sales-training technique, the best price level, the most effective advertisement campaign. However, its use requires an extremely skilled researcher to ensure useful results. Also, this method is expensive.

Research Instrument : In the observation method, the researcher may use a camera, tape recorder or tally sheet (a sheet in which the number of times an event occurs is recorded). Whatever the instrument used, the researcher must ensure that the instrument is appropriate to the occasion and is reliable.

In the survey method the most commonly used instrument is the questionnaire. This is a written and organized format containing all the questions relevant to soliciting the required information. The construction of a questionnaire requires great skill. To check that the questionnaire serves the necessary purpose, it should be tested on a limited scale and this is technically known as a **pilot survey.** The objective of a pilot survey is to weed out unnecessary questions, questions which are difficult to answer, and improve the phrasing of certain questions which are difficult to comprehend.

In constructing a questionnaire the important points to be considered are the type of questions to be asked, wording of questions and sequencing of questions. Each question should be checked to evaluate its necessity in terms of fulfilling the research objectives. Furthermore, the questions should be such that the respondent can answer them easily. Questions which require the respondent to answer questions about events which occurred a long time ago or about which he does not have direct knowledge should be avoided since you are not likely to get very accurate response. The questions should have direct relevance to the problem being researched. Too many irrelevant questions will only increase the length of the questionnaire (which would only put off the respondent) and also add to the burden of analysis without yielding any useful result.

The wording of the questions is a very important input in ensuring the correct response. Clearly worded, precise questions are not only easy to understand but they also facilitate the proper response. The wording of the question should be neutral and not attempt to influence or bias the response. This is especially relevant when information is being sought on non physical issues such as motivation, attitudes, and personal values of the respondent.

When including questions about qualitative aspects it is better to ask open ended questions rather than close ended questions, and unstructured rather than structured questions.

Open-ended question

"How would you describe the taste of this toothpaste?"

Close-ended question

"Would you describe the taste of this toothpaste as tingling?" Yes/No

Unstructured

Word association: For assessing toothpaste taste you may ask the respondent to give his immediate reaction to the following phrases in context of your specific brand:

- Fresh Tingling Foamy

- Mild Pleasant Sharp

In the **structured** questions you may like to give the respondents a number of answer choices to choose from. This is known as multiple-choice questions.

"Which one of the following words or phrases, in your opinion, best describes the taste of this toothpaste?"

- Fresh
- Tingling
- Spicy
- Minty
- Cool
- Antiseptic
- Medicinal

A technique which combines both the structured and unstructured type of questions is the **question scaling.** The respondent is asked to rank his perception of a particular brand, product attribute, company image or any such factor on a scale ranging from extremely good to extremely poor. The advantage with unstructured and open ended questions is that they give the respondent freedom to answer in his own words. And this often provides information and insight about the product which the researcher had not even thought about. The only problem with unstructured questions is that of interpreting the results. The same results may lead to different analysis by different researchers. Unstructured questions also make statistical summaries difficult.

Close-ended and structured questions are easy to summarize and there is no scope for misinterpretation. But the scope of the research gets limited. The respondents have to choose from already given alternative answers, even though none may exactly match the respondent's perception.

The sequencing of the questions in the questionnaire should be such that the opening questions create interest in the respondent and are easy to answer. You would not like your respondent to be put off by posing difficult questions right in the beginning. The questionnaire should gradually move from relatively simple to difficult questions. The questions should be arranged in a logical manner to facilitate the respondent's answers and not confuse him. Personal questions about income, education, profession should be asked in the end since many people may view them as a violation of their privacy. **Sampling Plan:** After preparing your questionnaire or your equipment for observation, you have to identify the source of your information, the source is also called the `population' or `universe'. For conducting marketing research you would rarely gather information from the entire population, rather you would select a small group known as sample which has all the characteristics of the population, and conduct research among the sample group. The reasons for not using the population for research are: the number of units in the population may not be known, the population units may be too many in number and/or widely dispersed thus making research an extremely time consuming process, it may be too expensive to include each population item.

When the number of population items is small and known, (say, the number of cinema halls, colleges, government hospitals in a city) you may use the population as your source of information. But in most cases, a representative group which has all the characteristics of the population and is known as sample is drawn from the population and this is used for conducting research.

Having decided to use a sample, your next step is to draw up the sampling plan. There are four aspects to the sampling plan:

- who is to be surveyed **(sampling unit)**
- how many are to be surveyed **(sample size)**
- how are they to be selected **(sampling procedure)**
- how are they to be reached **(sampling media).**

The choice of **sampling unit** will depend on the product with which you are dealing and the kind of information you need. In case of a product such as lipstick if you need information on the reasons which motivate a customer to buy your brand, your sampling unit would obviously be the actual user, i.e., a woman. But would the population comprise all the women? Obviously not, because all women do not use lipsticks. You then need to collect information about women who use lipsticks in terms of their socio-economic background, education, occupational profile (student, housewife, professional), age and marital status. The sample which you choose must be representative of the universe in terms of all these characteristics. If you want to find out the monthly sale of all brands of lipsticks in a particular market, your 'sampling unit would be the distributors or retail outlets which deal in cosmetics. Suppose the product being researched into is toys for the under 7-years age category. Who would constitute your sampling unit: the child who actually plays with the toys or the parents who exert a strong influence in the final decision to purchase a particular toy? Here you would have to consider not only the kind of information that you need, but also who is most likely to have it and his ability to communicate, and choose your unit accordingly.

In deciding on the **sampling size,** you have to make a trade-off between the desired accuracy of the results and your budget. The larger the sample, the more accurate are the results likely to be, but the cost would also be correspondingly high. Another factor affecting the sample size is the kind of research which is being conducted. In exploratory research even a small sample may be sufficient. In focus-group interviews and motivation-research studies, very small sample sizes are sufficient because here the emphasis is on qualitative aspects rather than accuracy of numbers.

The choice of sampling procedure is between two kinds : **probability sampling and non-probability sampling.** In the former, each item of the universe has an equal chance of being selected as a sample unit. In non-probability sampling, the researcher selects the units to be included in the sample. Non-probability sampling is mostly used in exploratory research where a true representation of the universe is not important. But where true representation is important, probability or random sampling is used. Random sampling enables the researcher to make an accurate estimate of the population characteristic but it is more expensive than non-random sampling. The cost that you can bear and the degree of accuracy which you require have to he weighed to arrive at a decision.

The fourth element in the sampling plan is the **sampling procedure.** How should you reach your sample units: personally, by mail or by telephone. Personal interviewing is most suited when there are many questions to be asked and it is important to ensure that the questions are understood properly. Thus, wherever the questions are little complex, personal interviewing should be used. This is also the best method to ensure that correct answers are given which can be corroborated by the interviewer through observation. But this technique requires a skilled interviewer and a great deal of administration and supervision. Also, it is the most expensive of the three methods.

The **mail questionnaire** is extremely appropriate when your sampling units are distributed over a wide geographical area and the cost of reaching them personally is very high. However, the return rate of mail questionnaires is usually very low, ranging between three to seven per cent. On an average, you would have to mail 1000 questionnaires to get back thirty filled up questionnaires. Another drawback is that you have no way of checking the authenticity and accuracy of the response. The respondent may fill totally wrong information and you may never be able to detect it.

The **telephone interviews** combine advantages of both personal and mail interviews. It allows you to clarify questions which may not be clearly understood by the respondent and to reach a widely scattered sample at a relatively low cost. But the obvious disadvantage is that your sample is restricted to the people who have telephones. Also, you, cannot conduct very long interviews over the telephone. **Research objectives, research design and the questionnaires used in an actual survey are presented in Appendix.**

Cost : No information can be collected without incurring cost. Before undertaking a research project its cost should be calculated and assessed against the benefits it would yield in improving the quality of decision-making. If the benefits outweigh the cost, it is certainly worthwhile initiating the research. There are four kinds of costs involved in marketing research.

Cost of data collection : The actual cost incurred for collecting the data, which may comprise the research organisation's fee, staff time, printing and postage of questionnaire, computer time, etc.

Cost of time delays : The more time it takes to provide the research results, the longer the dependent decision (s) is delayed. In the meanwhile, the opportunity may be lost or it may become less attractive.

Risk of adverse environment change : While the decision is pending unfavourable conditions may set in (entry of competition) and consequently the returns may be lower.

Cost of error : Sometimes, by chance or because of some bias or wrong choice of sampling units, there could be an error in the results leading to expensive consequences for the company concerned.

Field work : This is the stage where the research design has to be converted from the planning stage to that of implementation. To achieve the stated research objectives data has to be collected. This data collection is known as field work. The two stages in field work are planning and supervision.

Planning : It has to be planned how many people will be assigned to the field, what will be their geographical areas of coverage; how many days will be required for the entire operation and what is the pattern to be used for choosing sample units (every fourth household in a lane, all flats with an even number in an apartment `block' etc.). All this planning has to be done in accordance with the details spelt out in the sampling plan.

Supervision : Supervision is an extremely important input to ensure that the data collected is genuine and accurate. Most field work is carried out by a team of field surveyors, and each team is assigned to a supervisor. The team members would plan their daily area of field work in consultation with the supervisor. The supervisor may accompany different team members on different days. In the evening the team would meet the supervisor, hand over the data which they have collected and sort out any problems they may have faced.

Apart from actually accompanying team members on data collection missions, the supervisor would also make random checks to ensure that the data collected is genuine. The check can be conducted either over the telephone (wherever possible) or by again visiting the sampling unit. The supervisor may either ask the respondent whether he or she was visited by the field interviewer and cross check the accuracy of the data. Random checking is carried out to ensure that the field workers do actually collect data from the genuine source of information and not just fill in the data using their own imagination and ingenuity.

The collected data has also to be checked for its objectivity and accuracy. The data has to be carefully checked to ensure that there is no distortion because of the field worker's bias or the respondent's bias. Respondent bias arises because people generally like to project an image (about themselves and their life-style) which is more flattering than the reality. This bias would operate more in questions relating to income; possession of certain items (VCR, air-conditioner), and habits relating to life-style (travelling abroad frequently, visiting clubs, restaurants). Interviewer bias arises because of the interviewer's own pre-conceived notions and ideas. A female interviewer may prefer male respondents because she may feel that it is easy for. to gather information from men rather than women.

In conducting field work, it may happen that the relevant source of information is not at home or does not wish to be interviewed. The supervisor must give guidelines for tackling such situations. The particular sampling units may be substituted by the next one or the field worker visits the same unit again hoping to be more successful.

3. **Data analysis:** After you have collected the data, you need to process, organize and arrange it in a format that makes it easy to understand and directly helps the decision-making process. Raw data has to be processed and analysed to obtain information. There are three phases for analyzing the data:

    - Classifying the raw data in a more orderly manner;
    - Summarizing the data;
    - Applying analytical methods to manipulate the data to highlight their inter-relationship and quantitative significance.

Classifying the raw data : The most commonly used classification in marketing research are quantitative, qualitative, chronological and geographical.

Quantitative : In this classification, data is classified by a numerical measure such as number of respondents in each market segment, number of years employed, number of family members, number of units consumed, number of brands stocked or some such numerical characteristic.

Qualitative : In this classification, the data is classified by some non-numerical attribute such as type of occupation, type of family structure (nucleus, or joint family), type of retail outlet (specialty, general merchant, department store etc.).

Chronological classification is that in which data is classified according to the time when the event occurred.

In the **geographical** classification the data is classified by location which may either be a country, state, region, city, village, etc.

Summarizing the data : The first step in summarizing the data is the tabulation. Individual observations or data are placed in a suitable classification in which they occur and then counted. Thus we know the number of times or the frequency with which a particular data occurs.

The **frequency distribution** may involve a single variable or it may involve two or more variables which is known as cross-classification or cross-tabulation.

The frequency distribution presented **per se** may not yield any specific result or inference. What we want is a single, condensed representative figure which will help us to make useful inferences about the data and also provide yardstick for comparing different sets of data. Measures of average or central tendency provide one such yardstick. The three types of averages are the mode, median and mean.

Mode : The mode is the central value or item that occurs most frequently. When the data is organized as a frequency distribution the mode is that category which has the maximum number of observations. A shopkeeper ordering fresh stock of shoes for the season would make use of the mode to determine the size which is most frequently sold. The advantage of mode is that it is easy to compute, is not affected by extreme values in the frequency distribution and is representative if the observations are clustered at one particular value or class.

Median : The median is that item which lies exactly half-way between the lowest and highest value when the data is arranged in an ascending or descending order. It is not affected by the value of the observation but by the number of observations. Suppose you have the data on monthly income of households in a particular area. The median value would give you that monthly income which divides the number of households into two equal parts. Fifty per cent of all households have a monthly income above the median value and fifty per cent of household have a monthly income below the median income.

Mean : The mean is the common arithmetic average. It is computed by dividing the sum of the values of the observations by the number of items observed. A firm wants to introduce a new packing of sliced bread aimed at the customer segment of small nucleus families of four members. It wishes to introduce the concept of a `single-day pack', i.e., a pack which contains only that number of bread slices that is usually eaten in a single day. This strategy would help to keep the price of the pack well within the family's limited budget. The firm has many opinions on the ideal number of slices that the pack should contain - ranging from three to as high as twelve. The firm decides to hire a professional marketing agency to conduct market research and recommend the number or bread slices it should pack. The mean, mode and median are measures of central tendency or average. They measure the most typical value around which most values in the distribution tend to converge. However, there are always extreme values in each distribution. These extreme values indicate the **spread** or the **dispersion** of the distribution. To make a valid marketing decision you need not only the measures of central tendency but also relevant measures of dispersion. Measures of dispersion would tell you the number of values which are substantially different from the mean, median or mode. If the number of observations at the extreme values is large enough to form a substantial number, it indicates an opportunity for market segmentation. In the earlier example or bread if in a larger sample, you find that the number of households who consume three slices per day is also substantially large, the firm may find it worthwhile to introduce a 3-slice pack for light bread consumers. Such variations from the central tendency can be found by using measures of dispersion. The two commonly used measures of dispersion are range and standard deviation.

Range : The range is the difference between the largest and smallest observed value.

Variance and standard deviation: These two measures of dispersion are based on the deviations from the mean. The variance is the average of the squared deviations of the observations values from the mean of the distribution. Standard deviation is the square root of the variance. The standard deviation is used to compare two samples which have the same mean. The distribution with the smaller standard deviation is more homogenous.

Selecting analytical methods : Besides having a summary of the data, the marketing manager also would like information on inter-relationships between variables and the qualitative aspects of the variables.

Correlation : Correlation coefficient measures the degree to which the change in one variable (the dependent variable) is associated with change in the other variable (independent one). As a marketing manager, you would like to know if there is any relation between the amount of money you spend on advertising and the sales you achieve. Sales are the dependent variable and advertising budget is the independent variable. Correlation coefficient, in this case, would tell you the extent of relationship between these two variables, whether the relationship is directly proportional (increase or decrease in advertising is associated with increase or decrease in advertising) or it as an inverse relationship (increase in advertising is associated with decrease in sales and vice versa) or there is no relationship between the two variables. However, it is important to note that correlation coefficient does not indicate a causal relationship. Sales is not a direct result of advertising alone, there are many other factors which affect sale. Correlation only indicates that there is some kind of association - whether it is casual or casual can be determined only after further investigation. You may find a correlation between the height of your salesmen and the sales, but obviously it is of no significance. In 1970, NCAER (National Council of Applied and Economic Research) predicted the annual stock of scooters using a regression model in which real personal disposable income and relative weighted price index of scooters were used as independent variables.

Regression Analysis : For determining casual relationship between two variables you may use regression analysis. Using this technique you can predict the dependent variables on the basis of the independent variables.

So far we have considered relationship only between two variables for which correlation and regression analysis are suitable techniques. But in reality you would rarely find a one-to-one casual relationship, rather you would find that the dependent variables are affected by a number of independent variables. Sales is affected by the advertising budget, the media plan, the content of the advertisements, number of salesmen, price of the product, efficiency of the distribution network and a host of other variables. For determining casual relationship involving two or more variables, multi-variate statistical techniques are applicable. The most important of these are the multiple regression analysis, discriminant analysis and factor analysis.

Multiple regression analysis is a variation of the regression analysis technique discussed above. The difference is that instead of considering one you may have two or more than two independent variables. **Discriminant analysis :** In our discussion of dependent and independent variables, we have so far taken sale as the dependent variable. Sale is expressed in a numerical form. But not all dependent marketing variables can be expressed in numbers. Suppose you want to find out the reasons for customers brand preference for Thums Up vs. coca cola In this case, the dependent variable, the brand, is not numerical in nature. A company is planning to introduce a new brand of detergent bar in the market and wants to find out the consumer traits associated with detergent bar as compared to detergent powder. This information would help the company focus its advertising strategy to exploit such associated traits. Several studies, aiming to discriminate between users and non-users of a particular brand of a product have been carried out. In one such study for a popular brand of Shirt, it was found that significant differences in the personality traits could determine between users and non-users.

Factor analysis : The multiple regression technique is based on the idea that you use truly independent variables. These variables are neither influenced by the dependent variable nor are they influenced by other independent variables. But in real life situations, there are many independent variables which are influenced by other independent variables, i.e. these independent variables have a high inter-correlation. You may find such an inter-correlation between the dealer discount structure and the `push' which the dealer provides to your product. Factor analysis is a statistical procedure which tries to determine a few basic factors that may underline and explain the inter-correlation among a large number of variables.

Statistical inference: These procedures involve the use of sample data to make inferences about the population. The three approaches used here are: estimates of population values, hypotheses about population values and tests of association between values in the population. Statistical inference as an analytical tool for marketing decisions is gaining wide acceptance. Report presentation and implementation: The final step is the preparation, presentation and implementation of a report giving the major findings and recommendations. A typical format of the report may comprise of the following sections:

a) **Objectives and methodology** in which the research objectives are stated and details of the sampling plan are described.

b) **Summary of conclusions and recommendations** in which the main findings of the research are highlighted. On the basis of the findings, some recommendations may be made.

c) **Sample and its characteristics** which contains descriptions of the sampling units in terms of their geographical location, socio-economic profile and other relevant details.

d) **Detailed findings and observations** in which the data which has collected is presented in a form which is easily comprehensible to the user. The data may be presented in tabular form or graphically in a bar chart, pictogram or pie diagram; or in a combination of all these.

e) **Questionnaire** and supporting research instruments are presented in the last section.

The research agency may or may not be involved in the implementation of the recommendation made in the report.

8.6 APPLICATIONS OF MARKETING RESEARCH

Marketing is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organization objectives. The marketing concept requires that customer satisfaction rather than profit maximization be the goal of an organization. In other words, the organization should be consumer oriented and should try to understand consumers' requirements and satisfy them quickly and efficiently, in ways that are beneficial to both the consumer and the organization. This means that any research organization should try to obtain information on consumer needs and gather marketing intelligence to help satisfy these needs efficiently.

Marketing research is a critical part of such a marketing intelligence system; it helps to improve management decision making by providing relevant, accurate, and timely (RAT) information. Every decision poses unique needs for information, and relevant strategies can be developed based on the information gathered through marketing research in action. Too often, marketing research is considered narrowly as the gathering and analyzing of data for someone else to use. Firms can achieve and sustain a competitive advantage through the creative use of market information. Hence, marketing research is defined as information input to decisions, not simply the evaluation of decisions that have been made. Market research alone, however, does not guarantee success; the intelligent use of market research is the key to business achievement. A competitive edge is more the result of how information is used than of who does or does not have the information.

Marketing decisions involve issues that range from fundamental shifts in the positioning of a business or the decision to enter a new market to narrow tactical questions of how best to stock a grocery shelf. The context for these decisions is the market planning process, which proceeds sequentially through four stages; situation analysis, strategy development, marketing program development, and implementation. This is a never-ending process, so the evaluation of past strategic decisions serves as an input to the situation assessment. During each stage, marketing research makes a major contribution to a clarifying and resolving issues and then choosing among decision alternatives.

Marketing research is not an immediate or an obvious path to finding solutions to all managerial problems. A manager who is faced with a particular problem should not instinctively resort to conducting a marketing research to find a solution to the problem. A manager should consider several factors before ordering marketing research. Sometimes it is best not to conduct marketing research. Hence, the primary decision to be made is whether or not market research is called for in a particular situation. Factors that influence this initial decision include the following.

- Relevance
- Type and Nature of Information Sought
- Timing
- Availability of Resources
- Cost-Benefit Analysis

Although research is conducted to generate information, managers do not readily use the information to solve their problems. The factors that influence a manager's decision to use research information are (1) research quality, (2) conformity to prior expectations, (3) clarity of presentation, (4) political acceptability within the firm, and (5) challenge to the status quo. Researchers and managers agree that the technical quality of research is the primary determination of research use. Also, managers are less inclined to utilize research that does not conform to prior notions or is not politically acceptable. Some researchers argue that the use of information is a function of the direct and indirect effects of environmental, organizational, informational, and individual factors. However, a researcher should not alter the findings to match a manager's prior notions. Further, managers in consumer organizations are less likely to use research findings than their counterparts in industrial firms. This is due to a greater exploratory objective in information collection, a greater degree of formalization of organizational structure, and a lesser degree of surprise in the information collection.

Traditional Applications of Marketing Research: Product, Price, Distribution and Promotion

New products development is critical to the life of most organizations as they adapt to their changing environment. Since, by definition, new products contain unfamiliar aspects for the organization, there will be uncertainty associated with them. Thus, it is not surprising that a large proportion of marketing research is for the purpose of reducing the uncertainty associated with new products. New-product research can be divided into four stages. The first stage is generating new-product concepts; the second is evaluating and developing those concepts; the third is evaluating and developing the actual products; finally, the product is tested in a marketing program.

There are two types of concept generation research. The first might be termed need identification research. The emphasis in need research is on identifying unfilled needs in the market. The second is termed concept identification. Here, an effort is made to determine concepts that might fill an identified need. Product evaluation and development, or product testing, is very similar to concept testing, in terms of both the objectives and the techniques. The aim is still to predict market response to determine whether or not the product should be carried forward. Test marketing has two primary functions. The first is to gain information and experience with the marketing program before making a total commitment to it. The second is to predict the program's outcome when it is applied to the total market.

There are really two types of test markets: the sell-in test market and the controlled-distribution scanner market. Sell-in test markets are cities in which the product is sold just as it would be in a national launch. In particular, the product has to gain distribution space. Controlled-distribution scanner markets are cities for which distribution is prearranged and the purchase of a panel of customers are monitored using scanner data.

Research may be used to evaluate alternative price approaches for new products before launch or for proposed changes in products already on the market. As in the case of test marketing, the question of "reality" applies, and it has been found that the sales response to products at different prices in actual stores produces far more discriminating results than the sales response in an artificial store. Decisions regarding price ranges for new products have to be made early in the development stage. A product concept cannot be tested fully, for example, without indicating its price, so when the product is ready to be introduced, a decision must be made about its specific price. Decisions on price changes—should we change the price, and, if so, in which way and by how much?—will then need to be made over the product's life cycle. Either of two general pricing strategies can be followed. The first is a skimming strategy, in which the objective is to generate as much profit as possible in the present period. The other is a share-penetration strategy, whose objective is to capture an increasingly larger market share by offering a lower price. Pricing research for the two different approaches differs substantially in terms of the information sought.

Traditionally, the distribution decisions in marketing strategy involve the number and location of salespersons, retail outlets, warehouses, and the size of discounts to be offered. The discount to be offered to the members in the channel of distribution usually is determined by what is being offered by existing or similar products, and also whether the firm wants to follow a "push" or a "pull" strategy. Marketing research, however, plays an important role in the number and location in decisions about numbers and locations. The decisions for the promotion part of a marketing strategy can be divided into (1) advertising and (2) sales promotion. Sales promotion affects the company in the short term, whereas advertising decisions have long term effects. Companies spend more time and resources on advertising research than on sales promotion research because of the greater risk and uncertainty in advertising research.

Most promotion research companies concentrate on advertising because advertising decisions are more costly and risky than sales promotion decisions. Advertising research typically involves generating information for making decisions in the awareness, recognition, preference, and purchasing stages. Most often, advertising research decisions are about advertising copy. Marketing research helps to determine how effective the advertisement will be. There are three major types of sales promotion: consumer promotions, retailer promotions, and trade promotions In general, the consumer, or end user, is the ultimate target of all sales promotion activities. In consumer promotion, manufacturers offer promotions directly to consumers, whereas retail promotions involve promotions by retailers to consumers. Trade promotions involve manufacturers offering promotions to retailers or other trade entities. Trade entities can also promote to each other. For example, a distributor can offer a steep temporary price cut to retailers in order to sell excess inventory. We call these trade promotions, since the recipient of the promotion is a marketing intermediary.

The most commonly researched sales promotions are coupons, trade allowances, and retailer promotions. Even among retailer promotions, only recently have researchers begun to distinguish among price cuts, displays, and features, and even now, those are often subsumed under one "promotion" or "deal offer" variable. Unfortunately, much of the research on sales promotion has concentrated on only a few types or has considered promotion only more generically. For example, couponing by far is the most researched form of consumer promotion. In one sense this is appropriate, since coupons are clearly the most important consumer promotion for packaged-goods marketers. With scanner data so easily and widely available, most of the information requirements for decisions on sales promotions can be readily acquired. Both Nielsen and IRI have installed scanner-based information-collecting systems (both store and panel) in the major markets of the country, so researchers will have a wealth of information to rely on. They also have a number of ready-to-use expert systems which provide information such as sales and market share in that store in the week there was a promotion, so managers can easily find out whether the promotion was effective.

Contemporary Applications of Marketing Research

There has been a shift of focus in marketing, from delivering goods and services to consumers (satisfying their needs) to achieving a competitive advantage. Companies are embracing new tools, techniques, and strategies in order to remain competitive. This has resulted in a new agenda for marketing research in the nineties. Assessing competitive advantage can be done in a number of ways. The methods can be broadly classified as market-based assessment and process-based assessment. Market-based assessment is direct comparison with a few target competitors, whereas process-based assessment is a comparison of the methods employed by the competitors in achieving their distinctive advantage.

Brand equity is defined as a set of assets and liabilities linked to a brand that add to or subtract from the value of a product or service to a company and/or its customers. The assets or liabilities that underlie brand equity must be linked to the name and/or symbol of the brand. The assets and liabilities on which brand equity is based will differ from context to context. However, they can be usefully grouped into five categories:

- Brand loyalty
- Name awareness
- Perceived quality
- Brand associations in addition to perceived quality
- Other proprietary brand assets: patents, trademarks, channel relationships, etc.

An appraisal of the brand based on the five dimensions involves addressing and obtaining answers to the questions that follow. Marketing research can help to provide answers to these questions. It is important to develop approaches that place a value on a brand, for several reasons. First, since brands are bought and sold, a value must be assessed by both buyers and sellers. Which approach makes the most sense? Second, investments to enhance brand equity need to be justified, as there always are competing uses for funds. A bottom-line justification is that the investment will enhance the value of the brand. Thus, some "feel" for how a brand should be valued may help managers address such decisions. Third, the valuation question provides additional insight into the brand-equity concept. At least four general approaches have been proposed to assess the value of brand equity. One is based on the excess price that the name can command in the marketplace. The second looks at how much it would cost to replace the brand with a new one.

The third is based on the stock price. The fourth focuses on a brand's earning power. In recent years American business has become increasingly committed to the idea of customer satisfaction and product/service quality. The measurement of customer satisfaction and its link to product/service attributes is the vehicle for developing a market-driven quality approach. Customer satisfaction research has been around for a long time, but it has become a fixture at most large corporation only in recent years. The growth in the popularity of customer satisfaction research is, of course, a corollary to the quality movement in American business. The idea that the customer defines quality should not be new to marketers. However, its recognition in the Baldridge criteria has given this idea a credibility that was previously lacking.

Satisfaction research, like advertising tracking research, should be conducted at planned intervals so as to track satisfaction over time. Thus, satisfaction research can be put in the context of an interrupted, time-series, quasi-experimental design. Over time, management will do various things to improve customer satisfaction, take measurements following these changes, and evaluate the results to see if the changes that were implemented had a positive effect on customer satisfaction. This approach requires a sequential research design that uses the results from each research phase to build and enhance the value of subsequent efforts. During this process, it is imperative to study customers who were lost, to determine why they left. This issue must be addressed early in the system design. A useful step is to provide management with a framework for understanding, analyzing, and evaluating the status of customer satisfaction in the firm. A sequential design provides some level of comfort, because it allows for the luxury of making critical decisions after you have sufficient data to reduce the risk of error inherent in establishing customer satisfaction system.

With foreign competition steadily eating away the profitability and the market shares of American companies, more and more of them are adopting total quality management (TQM)to become more competitive.

TQM is a process of managing complex changes in the organization with the aim of improving quality. The first things on which a TQM company should decide are the guiding principles behind its data choices. Why these data, and not those data? As usual, the best rationale usually refers back to the bedrock of customer satisfaction. There should be a clear link between the kinds of data collected and maintained and the quality values of the company. If short-term financial measurements drive the company, measures such as market value to book value and price-to-earnings multiples will dominate management reports and meetings. If, on the other, quality lies at the center of business strategy and planning, a larger share of the measurement and reporting will focus on quality issues. When companies are truly committed to quality values, many data issues resolve themselves. The power of measurements is clearly visible in applications of quality function deployment (QFD), a Japanese import used to make product designs better reflect customer requirements. In QFD, a multifunctional team measures and analyzes in great detail both customer attitudes and product attributes. Marketing research plays a crucial role at this stage of the process. Then the team creates a visual matrix in order to find ways to modify product attributes (engineering characteristics) so as to improve the product on the customer-based measures of product performance. Along the way, the team must develop a series of measures of several different types. Marketing research is an invaluable part of QFD. Customer attributes are obtained through conjoint analysis or through other forms of survey research. Customer evaluations of competing products are also obtained through survey research. Hence, a thorough knowledge of marketing research is required.

8.7 PROBLEMS OF CONDUCTING MARKETING RESEARCH IN INDIA

The biggest problem confronting anyone who sets out to conduct research in India is the meager secondary data. The census which contains a wealth for data takes many years to be compiled and released for public usage. Data contained in journals and handbooks is usually two to three years old. Thus whatever data is available is usually obsolete and this greatly reduces its utility.

In collecting primary data the problems are those of widely scattered sampling units, location or some sampling units in remote and inaccessible areas, and poor communication facilities which compounds the problem of inaccessibility. If the sampling units are the industrial units in the unorganised sector, there is no guide for locating these units. The other kind of problem encountered in collecting primary data is the uncooperative attitude of respondents arising out of sheer lack of knowledge about the nature of MR and its utility. Respondents often view interviewers with suspicion and may refuse to give any information.

Most of the market research organisations are located in the cities and have an urban-bias to the extent that they have neither a penetration/base in the rural areas and nor can they communicate properly with the rural people. Most market research is conducted in the cities for products used by city, dwellers. The state-of-art in marketing research has not reached the sophisticated levels as in America or Europe. The marketing research techniques used in India are still relatively unsophisticated and 'simplistic.

8.8 SUMMARY

Marketing Research as a tool for decision-making is gaining wide acceptance. Marketing decisions involve variables which are often external to the firm, dynamic in nature, uncontrollable by the firm and interact with each other in a Complex manner. Because of their dynamic and uncontrollable nature the uncertainty associated with them is very high, which in turn leads to the situation that in most marketing decisions the associated risk factor is also very high. The marketing manager is always on the lookout for ways and means to reduce this risk. One way that the risk can be reduced is through the use of MR which by providing information reduces uncertainty and converts the unknown risk factor into a know calculated risk.

MR can be used for gathering information about market structure, Competitors' activities, consumer behaviour, testing the efficacy of various elements of the marketing strategy and making forecasts. MR can be used for pre-testing a strategy before actually implementing it, monitor it during implementation, and after implementation monitor the results to access its impact. Apart from its usefulness in the area of marketing, MR is also used for monitoring socio-economic projects. Every MR project involves five steps. These are; problem definition, research design, field work, data analysis and report presentation and analysis. The manager must make the decision regarding the utility of MR on the basis of the cost involved in conducting the research and the benefits expected to accrue from it.

8.9 KEY WORDS

- **Applied research:** research conducted to solve an immediate problem.
- **Code of conduct**: official list of standards of what is acceptable and unacceptable behavior.
- **Ethics**: set of beliefs used to distinguish what is right and good from wrong and bad and that result in a duty or obligation to act in a certain way.
- **Marketing concept:** philosophy that states the purpose of marketing is to provide consumers with products they either need or desire.
- **Marketing plan**: description of how a company plans to meet consumer needs by targeting a specific market segment with a

needed product at the right price, sold at the correct place and promoted effectively.

- **Marketing research:** ongoing process of gathering accurate information from the external environment and consumers to assist the company in implementing the marketing concept.
- **Observational research:** methodology where information is gathered by watching participants and recording their actions.
- **Qualitative research:** research based on social science principles used when the problem is still vague or when information is sought on feelings, beliefs and attitudes.
- **Quantitative research:** research based on scientific principles used when proof of a fact is needed or when the research question deals in descriptive facts such as who or how many.

8.10 SELF-ASSESSMENT TEST

1. What is marketing research?
2. What are the major weaknesses of marketing research?
3. Suggest some possible areas of application of marketing research.
4. List the steps involved in marketing research process.

8.11 FURTHER READINGS

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Uttar Pradesh Rajarshi Tandon Open University

Master of Business Administration

MBA-2.4

Marketing Management

BLOCK

3

CONSUMER BEHAVIOUR

परिशिष्ट–4
आन्तरिक कवर–दो का प्ररूप
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विशेषज्ञ समिति

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परिमापक

अनुवाद की स्थिति में

मूल लेखक	**अनुवाद**
मूल सम्पादक	**भाषा सम्पादक**
मूल परिमापक	**परिमापक**

सहयोगी टीम

संयोजक Dr. Gaurav Sankalp, SoMS, UPRTOU, Allahabd.

प्रूफ रीडर

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UNIT-9 ANALYSIS OF CONSUMER BEHAVIOUR

Objectives

After studying this unit, you should be able to understand

- Define consumer and consumer behavior
- What are the types of consumer
- What factors influences the behavior of consumer

Structure

9.1 INTRODUCTION

The business firm is being there due to the existence of consumer. The firm must understand the buyers' purchasing behavior. It must understand how the buyer decides in favour of one brand or product, what motivates him or her to select an alternative, which influences him or her to buy the brand or product. The marketer needs to focus on "how" and "why" of the total experiences consumers have with products and services. Hence the strategy was on developing outputs, enhancing dealer productivity and loyalty.

What is needed is a deep understanding of consumer behavior. Without such understanding, marketers cannot accurately anticipate consumer responses to product designs, features and marketing ideas.

9.2 CONSUMER

Any individual who purchases goods and services from the market for his/her end-use is called a consumer. In simpler words a consumer is one who consumes goods and services available in the market. Any individual who purchases products or services for his personal use and not for manufacturing or resale is called a consumer. A consumer is one who is the decision maker or someone who is influenced by the advertisement and marketing. Every time someone goes to a store and buy a toy, clothes, drinks or anything else, they make a decision as a consumer.

9.3 CONSUMER BEHAVIOUR

Consumer Behaviour is a branch which deals with the various stages a consumer goes through before purchasing products or services for his end use.

In a layman's language consumer behaviour deals with the buying behaviour of individuals.

The main catalyst which triggers the buying decision of an individual is need for a particular product/service. **Consumers purchase products and services as and when need arises**.

According to Belch and Belch, whenever need arises; a consumer searches for several information which would help him in his purchase.

Following are the sources of information:

- Personal Sources
- Commercial Sources
- Public Sources
- Personal Experience

Perception also plays an important role in influencing the buying decision of consumers. Buying decisions of consumers also depend on the following factors:

- Messages, advertisements, promotional materials, a consumer goes through also called **selective exposure**.
- Not all promotional materials and advertisements excite a consumer. A consumer does not pay attention to everything he sees. He is interested in only what he wants to see. Such behaviour is called **selective attention**.
- **Consumer interpretation** refers to how an individual perceives a particular message.

- A consumer would certainly buy something which appeals him the most. He would remember the most relevant and meaningful message also called as **selective retention**. He would obviously not remember something which has nothing to do with his need.

9.4 IMPORTANCE OF CONSUMER BEHAVIOUR

The modern marketing management tries to solve the basic problems of consumers in the area of consumption. To survive in the market, a firm has to be constantly innovating and understand the latest consumer needs and tastes. it is important for the marketers to understand the consumer behavior due to the following reasons:

- The study of consumer behavior for any product is a vital importance to marketers in shaping the fortunes of their organizations.
- It is significant for regulating consumption of goods and thereby maintains the economic stability.
- It is useful in developing ways for more efficient utilization of resources of marketing. It also helps in solving marketing management problems.
- Consumers taste is ever changing. Study of consumer behavior helps in formulating of production policy.
- Today consumer gives more importance on environment friendly products. They are concerned about health, hygiene and fitness. They prefer natural products. Hence detail study on upcoming groups of consumers is essential for any firm.
- For the growth of consumer protection movement has created an urgent need to understand how consumers make their consumption and buying decision.
- For effective market segmentation and target marketing, it is essential to have an understanding of consumers and their behavior.

9.5 TYPES OF CONSUMERS

Just like there are different types of goods, services and products, there are different types of consumers. They have different motivations for purchasing, different modes of engaging and different mindsets. In order to market successfully, a business needs to understand the different consumer types. The different types of consumers are:

- **Seasonal Consumers**: Many consumers purchase and consume products on a seasonal basis. They shop at certain times when the need for them arises. Examples of products that they rely on seasonal consumers:

  a. Umbrellas during the rainy season

  b. Cold drinks during hot seasons

  c. Christmas trees and decorations in December

  d. Beach wears in summer

- **Personal consumers :** These types of consumers are individual consumers who purchase goods for the sole purpose, family or household use. For example:

  a. Purchasing car that you intend to use personally

  b. Purchasing clothes for personal use

  c. Purchasing a mobile phone for personal communication

  d. Going to supermarket and shopping for goods which are to be used in the house

  Manufacturers selling products to personal consumers are constantly looking for ideas for upgrades and add-ons to enhance the appeal of their goods to individuals.

- **Organizational consumer :** Organizational consumers purchase products for organization, governments or businesses. They often buy the products in bulk and may place long term recurring orders. For this reason, an organizational consumer is generally highly prized and sought after. Products and services sold to organizational consumers are often required to meet very strict standards. They may need to be adapted to meet the specific requirements of the buyer, and specific prices are negotiated. Manufacturers and service providers who target organizational consumers are expected to be flexible in their approach to negotiating a sale, but rigid in maintaining quality. Goods may be offered for resale at a profit to the organizational consumers. Or an organization may buy raw materials that are aimed at producing other goods which will later be offered for sale to other consumers.

- **Impulse buyers :** Impulse buyers are consumers who make unplanned buying decisions. Impulse buyers make swift buying decisions and immediately purchase when they connect with the product and its features. There is often some kind of emotional appeal. Products placement is very important for impulse consumers as they are not initially in their plans. Manufacturers who target impulse buyers need their goods to be featured prominently in a store. For example:

a. Bright, eye catching novelty items where children can spot them

b. Cookies at eye level on shelf

c. Chocolates near the check-out counter

d. Service providers offering significant discounts or immediate service.

- **Need Based Consumers:** Need based consumers are those types of consumers who buy goods and services when they need them and not any other time. They purchase the products because it is needed immediately for a certain purpose. The challenge for marketers is to create a sense of need to promote the sale of products and services. For example:

  a. Paints, when required to protect the home from weather

  b. Light bulbs when need to see at night

  c. Heaters or air conditioning if we need to be comfortable in our homes

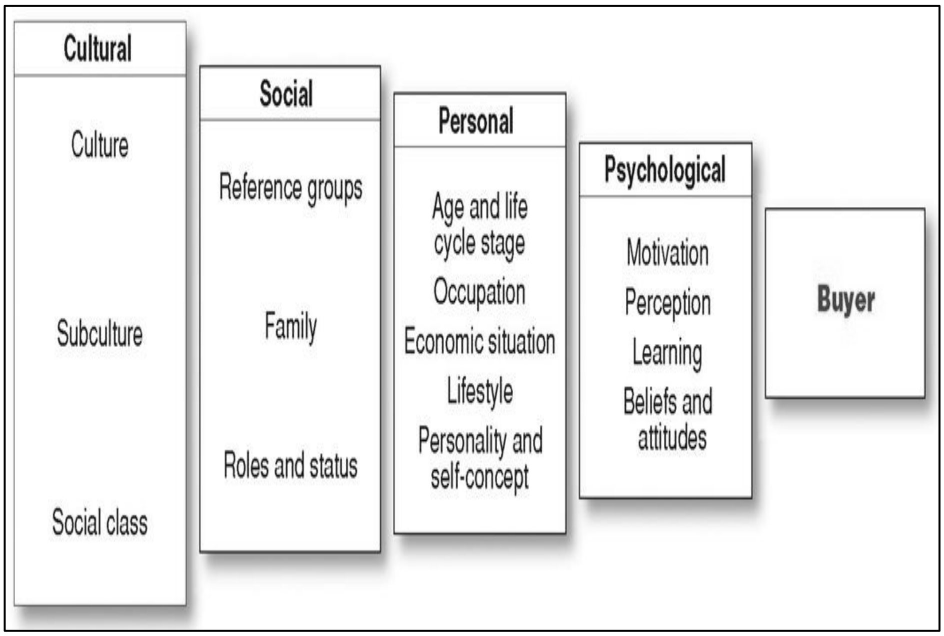
  d. Life insurance sales increase if we are convinced we need to be sure our families are taken care of if we die.

- **Discount Driven Consumers:** Discount driven consumers are the type of consumers who purchase goods and services primarily for the discounts on offer. They may not engage in any buying activity until they hear or see large discounts being offered on products they like. These consumers are price sensitive and would rather wait to purchase products when they come with discounts as opposed to when they are sold for full price. Coupons and stock-take sales attract this type of consumer. An increasing number of manufactures, retailers and services providers offer discounts during recession or harsh economic climates.

- **Habitual Consumers :** Habitual consumers are those consumers who feel compelled to use certain brands or types of goods. Marketers work hard to create brand loyalty among this type of consumers. It may be simple as always choosing the same brand of perfumes, the same brand of drinks or shopping in the same store for groceries or clothes. Cigarettes and alcohol are classic examples of products that target habitual consumers. A beer drinker can be expected to always buy the same type of beer, and smokers go for same brand as well. Advertising often encourages a persona associated with a specific product to appeal to habitual consumers.

9.6 FACTOR INFLUENCING CONSUMER BEHAVIOUR

Consumer behaviour refers to the selection, purchase and consumption of goods and services for the satisfaction of their wants. Initially the consumer tries to find what commodities he would like to consume, then he selects only those commodities those promise greater utility. After selecting the commodities, the consumer makes an estimate of the available money which he can spend. Lastly, the consumer analyzes the prevailing prices of commodities and takes the decision about the commodities he should consume. Meanwhile, there are various other factors influencing the purchases of consumer such as social, cultural, personal and psychological.



1. **Cultural factors :** Cultural factors comprise of set of values and ideologies of a particular community or group of individuals. It is the culture of an individual which decides the way he/she behaves. In simpler words, culture is nothing but values of an individual. What an individual learns from his parents and relatives as a child becomes his culture.

   Cultural factors have a significant effect on an individual’s buying decision. Every individual has different sets of habits, beliefs and principles which he/she develops from his family status and background. What they see from their childhood becomes their culture. Basically culture is the part of every society and is the important cause of person wants and behavior.

The influence of culture on buying behavior varies from country to country therefore marketers have to be very careful in analyzing the culture of different groups, religion or even countries.

Subcultures: Each culture further comprises of various subcultures such as religion, age, geographical location, gender (male/female), status etc.

Religion (Christianity, Hindu, Muslim, Sikhism, Jainism etc)

A Hindu bride wears red, maroon or a bright colour lehanga or saree whereas a Christian bride wears a white gown on her wedding day. Muslims on the other hand prefer to wear green on important occasions.

A sixty-year-old individual would not like something which is too bright and colorful. He would prefer something which is more sophisticated and simple. On the other hand a teenager would prefer funky dresses and loud colours.

Status (Upper Class, Middle class and Lower Class)

People from upper class generally have a tendency to spend on luxurious items such as expensive gadgets, cars, dresses etc. You would hardly find an individual from a lower class spending money on high-end products. A person who finds it difficult to make ends meet would rather prefer spending on items necessary for survival. Individuals from middle class segment generally are more interested in buying products which would make their future secure.

Gender (Male/Female)

People generally make fun of males buying fairness creams as in our culture only females are expected to buy and use beauty products. Males are perceived to be strong and tough who look good just the way they are.

2. **Social Factors :** Consumer Behaviour is an effort to study and understand the buying tendencies of consumers for their end use. Social factors play an essential role in influencing the buying decision of consumers.Social factors influencing consumer buying decision can be classified as under:

- Reference groups
- Immediate family members
- Relatives
- Role in the society
- Status in the society

Reference groups : Every individual has some people around who influence them in any way. Reference groups comprises of people that individuals compare themselves with. Every individual knows some people in the society who become their idols in due course of time.

Reference groups are generally of two types: Primary group and secondary group

a) *Primary group:* It consists of individuals one interacts with on a regular basis. This group includes friends, family members, relatives, co-workers. All of these influence the buying decisions of consumers due to following reasons:

They have used the product or brand earlier; they know what the product is all about. They have complete knowledge about the features and specifications of the products.

b) *Secondary Groups*: Secondary groups share indirect relationship with the consumer. These groups are more formal and individuals do not interact with them on a regular basis. Example- Religious Associations, Political Parties, Clubs etc.

Family: Consumer behavior is strongly influenced by the member of a family. Therefore the marketers are trying to find the roles and influence of husband, wife and children. If the buying decision of a particular product is influenced by the wife then the marketers will try to target the women in their advertisement. Here we should note that buying roles changes with change in consumer lifestyles.

Role in the society: Each individual plays a dual role in the society depending on the group he belongs to. An individual working as chief executive officer with a reputed fir is also someone's husband or father at home. The buying tendency of individuals depends on the role he plays in the society.

Status in the society: An individual from an upper middle class would spend on luxurious items whereas an individual from middle to lower income group would buy items required for their survival.

3. Personal Factors: Personal factors can also affect the consumer behavior. Some of the important personal factors that influence the buying behavior are: lifestyle, economic situation, occupation, age and personality.

- **Lifestyle :** Lifestyle of customers is an important factor affecting the consumer buying behavior. Lifestyle refers to the way a person lives in a society and is expressed by the things in their surroundings. It determined by customer interests, opinions, activities etc. and shapes his whole pattern of acting and interacting in the world.

- **Economic situation :** Consumer economic situation has great influence on his buying behavior. If the income and saving of a customer is high then he will purchase more expensive products. On the other hand, a person with a low income and saving will purchase inexpensive products.

- **Occupation :** The occupation of a person has significant impact on his buying behavior. For example a marketing manager of an organization will try to purchase business suits, whereas low level workers in the same organization will purchase rugged work clothes. An individual's designation and his nature of work influence his buying decisions. You would never find a low level worker purchasing business suits, ties for him. An individual working on the shop floor cannot afford to wear premium brands every day to work.

- **Age :** Age and human life cycle have potential impact on the consumer buying behavior. It is obvious that the consumers change the purchase of goods and services with the passage of time. Family life cycle consists of different stages such young singles, married couples, unmarried couples etc which help marketers to develop appropriate products for each stage. Teenagers would be more interested in buying bright and loud colours as compared to a middle aged or elderly individual who prefer decent and subtle designs. A bachelor would prefer spending lavishly on items like beer, bikes, music, clothes, parties, clubs and so on. A young single would hardly be interested in buying a house, property, insurance policies, gold etc. an individual who has a family, on the other hand would be more interested in buying something which would benefit his family and make their future secure.

- **Personality :** Personality changes from person to person, time to time and place to place. Therefore it can greatly influence the buying behavior of customers. Actually, personality is not what one wears; rather it is the totality of behavior of a man in different circumstances. It has different characteristics such as dominance, aggressiveness, self-confidence which can be useful to determine the consumer behavior for particular product or service. Every individual has their own personality traits which reflect in their buying behavior. A fitness freak would always look for fitness equipment whereas a music lover would happily spend on musical instruments, CD's, concerts, musical shows etc.

4. **Psychological factors :** There are four important psychological factors affecting the consumer buying behavior. These are perception, motivation, learning, beliefs and attitudes.

- **Motivation :** The level of motivation also affects the buying behavior of customers. Every person has different needs such as psychological needs, biological needs, social needs etc. the nature of the needs is that, some of them are most pressing while others are least pressing. Therefore a need becomes a motive when it is more pressing to direct the person to seek satisfaction. There are several factors which motivate the individuals to purchase products and services. An individual who is thirsty would definitely not mind spending on soft drinks, packaged water, and juice and so on. Recognition and self-esteem also influence the buying decision of individuals. Individuals prefer to spend on premium brands and unique merchandise for others to look up to them. Certain products become their status symbol and people know them by their choice of picking up products that re exclusive.

- **Perceptions :** Selecting, organizing and interpreting information in a way to produce a meaningful experience of the world is called perception. There are three different perceptual processes which are selective attention, selective distortion and selective retention.

1. **Selective Attention :** Selective attention refers to the process where individuals pay attention to information that is of use to them or their immediate family members. An individual in a single day is exposed to numerous advertisements, billboards, hoarding etc but he is interested in only those which would benefits him in any way. He would not be interested in information which is not relevant at the moment.

2. **Selective Distortion :** Customers try to interpret the information in a way that will support what the customers already believe.

3. **Selective Retention :** Marketers try to retain information that supports their beliefs.

- **Learning :** Learning comes only through experience. An individual comes to know about a product and service only after their uses the same. An individual who is satisfied with a particular product and service will a strong inclination towards buying the same product again.

- **Beliefs and Attitudes :** Customer possesses specific belief and attitude towards various products. Since such beliefs and attitudes make up brand image and affect consumer buying behavior therefore marketers are interested in them. Marketers can change the beliefs and attitudes of customers by launching special campaigns in this regards. Consumers purchase products and services based on their opinions which they form towards a particular product or service. A product might be really good but if the consumer feels it is useless, he would never buy it.

9.7 SUMMARY

Consumer behaviour consists of the acts of individuals in obtaining, using and disposing of economic goods and services, including the decision processes that precede and determine these acts. Consumer buying behavior is the study of human responses to products or services and the marketing of products/services. The study of consumer behavior focuses on how individuals make their decisions to spend their available resources (time, money, effort) on consumption related aspects (what they buy? When they buy? How they buy?). Buyer behaviour is deeply rooted in psychology with dashes of sociology thrown in just to make things more interesting. Since every person in the world is different, it is impossible to have simple rules that explain how buying decisions are made. The growth of consumerism and consumer legislation emphasizes the importance that is given to the consumer. Some consumers are characterized as being more involved in products and shopping than others. A consumer who is highly involved with a product would be interested in knowing a lot it before purchasing. Hence he read brouchers thoroughly, compares brands and models available any different outlets, ask questions and look for recommendation. Thus, consumer buying behavior can be defined as heightened state of awareness that motivates consumer's to seek out, attend to, and think about information prior to purchase.

9.8 KEY WORDS

consumer behavior The totality of consumers' decisions with respect to the acquisition, consumption, and disposition of goods, services, time, and ideas by human decision-making units.

consumerism Activities of government, business, independent organizations, and consumers designed to protect the rights of consumers.

Innovation An offering that is perceived as new by consumers within a market segment and that has an effect on existing consumption patterns.

perception The process by which incoming stimuli activate our sensory receptors eyes, ears, taste buds, skin, and so on.

9.9 SELF ASSESSMENT QUESTION

1. Who is a consumer? Also mention various types of consumer?
2. What is consumer behavior?
3. What are the importance of consumer behavior?
4. Describe the various factors influencing the consumer behavior?

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UNIT-10 MODELS OF CONSUMER BEHAVIOUR

Objectives

After reading this unit you should be able to learn:

- What is decision making process?
- Explain the needs of decision making process
- Different stages of decision making process
- Various models of consumer behavior

Structure

10.1 Introduction

10.2 Consumer decision making process

10.3 Models of buyer behavior

10.4 Levels or Stages of decision making process

10.5 Summary

10.6 Key words

10.7 Self-assessment questions

10.8 Bibliography

10.1 INTRODUCTION

It includes organizational buyer behavior, decision making processes and various models of consumer behaviour. Marketing to organizational buyers is also known as business-to-business marketing. Consumer involvement influence how consumers collect, understand and convey information, make buying decisions and make post-purchase evaluation. As the level of consumer participation increases, the consumer has better motivation together, comprehend, elaborate, justify and understand the information. Thus, a marketer needs to understand the process in a proper manner and design his marketing mix in a manner that can trigger the involvement process in his favor.

10.2 CONSUMER DECISION MAKING PROCESS

Decision making is a daily activity for any human being. Decision making process used by consumers regarding market transaction before, during and after the purchase of a goods or services. Generally the decision making is the cognitive process of selecting a course of action from multiple alternatives. The consumer decision making process consists of five steps that consumers move through when buying a goods or service. A marketer has to understand these steps in order to properly move the consumer to the product and close the sale.

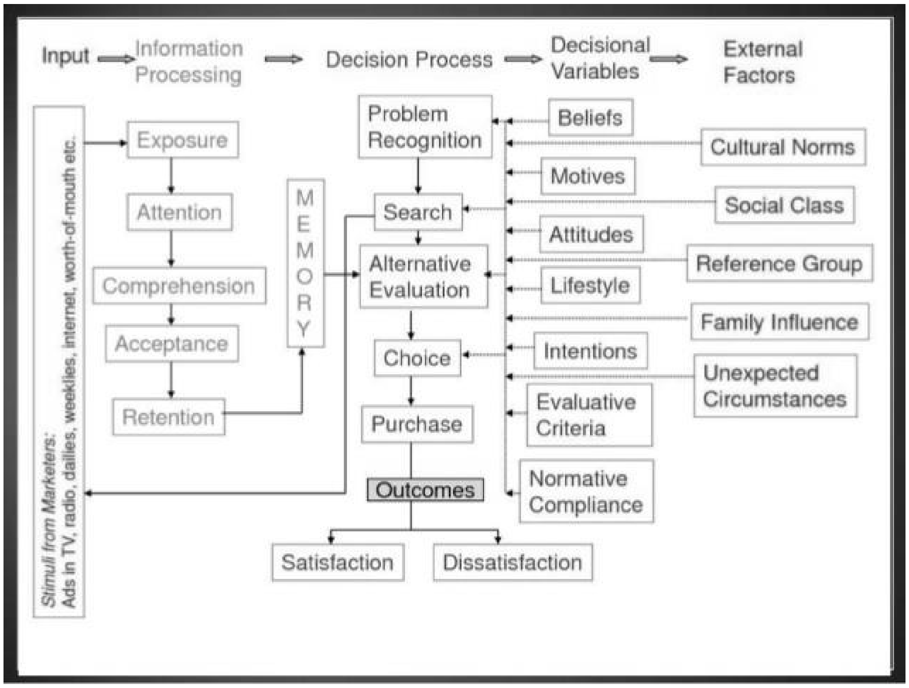
All these steps can be guide for marketers to understand and communicate effectively to consumers. Although, consumers do not always move in the exact order through the process; it can depend on the type of product, the buying stage of the consumer and even financial status. Engel, Blackwell and Kollet have developed in 1968 a model of consumer buying decision in five steps: Need recognition/problem recognition, information search, evaluation of alternatives to meet the need, purchase decision and post purchase behavior.

1. **Need recognition/problem recognition :** Need recognition is the first and most important step in the buying process. If there is no need, there is no purchase. Marketer wants to create an imbalance in consumers between their present status and their preferred status. This recognition happens when there is a lag between the consumer's actual situation and ideal and desired one. The gap between the actual situation and the ideal situation may be due to three cases. However, not all the needs end up as a buying behavior. It requires that the lag between the two situations is quite important. But the "way" (product price, ease of acquisition etc.) to obtain this ideal situation has to perceived as "acceptable" by the consumer based on the level of importance he attributes to the need.

   For example, you have a pool and you would like someone to take care of regularly cleaning it instead of you (ideal situation) because you don't like to do it yourself (actual situation)**.** But you don't judge the "way" to reach this ideal situation (pay $250 per month by a specialized company) as "acceptable" because its price to obtain it seems too high.

   In addition to a need resulting from a new element, the gap between the actual situation and the ideal situation may be due to three cases. The current situation has not changed, but the ideal situation has (a neighbor told you about the possibility that you didn't know-to clean the pool by a specialized company). or, ideal situation is still same but it's the actual situation that has changed (you are tired of cleaning the pool by yourself). Or finally, the two situations have changed. The recognition of a need by a consumer can be caused in different ways. Different classifications are used:

Internal stimuli (Physiological need felt by the individual as hunger) which opposes the *external stimuli* such as exposure to an advertisement, the sight of a pretty dress in a shop window or the mouth-watering smell of a chocolate when passing by a bakery.



Classification by type of needs:

Functional need: It is the need which is related to a feature or specific functions of the product or happens to be the answer to a functional problem. Like a washing machine that responds to the need to have clean clothes while avoiding having to do it by hands or go to laundry.

Social need: It is the need that comes from a desire for integration and belongingness in the social environment or for social recognition. Like buying a new fashionable bag to look good at school or choose a luxury car to show that you are successful in life.

Need of change: It is the need that has its origin in a desire from the consumer to change. This may result in the purchase of a new coat or new furniture to change the decoration of your apartment.

The Maslow's hierarchy of needs: This is one of the best known and widely used classifications and representations of hierarchy of need developed by the eponymous psychologist. It specifies that an individual is guided by certain needs that he wants to achieve before seeking to focus on the following ones:

a. Physiological needs

b. Safety needs

c. Social need i.e. Need of love and belonging

d. Esteem need i.e. Need of esteem for oneself and from the others

e. Self-actualization need

2. **Information search:** Once the need is identified, it is the time for the consumer to seek information about possible solution to the problem. The consumer will search more or less information depending on the complexity of the choices to be made but also the level of involvement. Then the consumer will seek to make his opinion to guide his choice and his decision making process with:

Internal information: This information is already present in the consumer's mind. It comes from the previous experiences they had with the product or brand. The internal information is sufficient for the purchasing of everyday products that the consumer knows- including Fast- moving consumer goods (FMCG) or consumer packaged goods (CPG). But when it comes to a major purchase with a level of uncertainty or involvement and consumer does not much information, they must turn to another source.

External information: This information on a [product or brand received from and obtained by friends or family, by reviews from other consumers or from the press or media or by official business sources such as an advertising or seller's speech.

During his decision making process and his consumer buying decision process, the consumer will pay more attention to his internal information and the information form friends, family or other consumers. It will be judged more objective than these from advertising, a seller's speech or a commercial brochure of the product.

3. **Alternative evaluation :** Once the information collected, the consumer will be able to evaluate the different alternatives that offer to them. They evaluate the most suitable to their needs and choose the one they think it is the best for them. In order to do so, they will evaluate their attributes on two aspects. The objective characteristics and subjective characteristics.

Objective characteristics such as the features and functions of the product; Subjective characteristics includes perception and perceived value of the brand by the consumer or its reputation.

Each consumer does not attribute the same importance to each attribute for his decision and his consumer buying decision process which varies form one shopper to another. The consumer will then use the information previously collected and his perception or image of a brand to establish a set of evaluation criteria, desirable features, classify the different products available and evaluate which alternative has the most chance to satisfy him. The process will then lead to what is called "evoked set". The "evoked set" is the set of brands or products with a probability of being purchased by the consumer because he has a good image of it or the information collected is positive. On the other hand, "inept set" is the set of brands pr products that have no chance of being purchased by the shopper because he has a negative perception or has had a negative buying experience with the product in the past. While "inert set" is the set of brands or products for which the consumer has no specific opinion.

The higher level of involvement of the consumer and the importance of the purchase are stronger, the higher the number of solutions the consumer will consider will be important. On the opposite, the number of considered solutions will be much smaller for an everyday product or a regular purchase.

4. **Purchase decision :** Now the consumer has evaluated the different solutions and products available for respond to his need, he will be able to choose the product or brand that seems most appropriate to his needs. Then proceed to the actual purchase itself. His decision will depend on the information and the selection made in the previous step based on the perceived value, product's features and capabilities that are important to him. But the consumer buying decision process and his decision process may also depend or be affected by such things as the quality of his shopping experience or online website, the availability of a promotion, a return policy or good terms and conditions for the sale.

5. **Post-Purchase behavior :** Once the product is purchased and used, the consumer will evaluate the adequacy with his original needs. Whether he has made the right choice in buying this product or not. He will feel either a sense of satisfaction for the product. Or, on the contrary, a disappointment if the product has fallen far short of expectations. An opinion that will influence his future decisions and buying behavior. If the product has brought satisfaction to the consumer, he will then minimize stages of information search and alternative evaluation for his next purchases in order to buy the same brand which will produce customer loyalty.

On the other hand, if the experience with the product was average or disappointing, the consumer is going to repeat the 5 stages of the consumer buying decision process during his next purchase but by excluding the brand from the “evoked set”.

The post-purchase evaluation may have important consequences for the brand. A satisfied customer is very likely to become a loyal and regular customer. Especially for everyday purchases with low level of involvement- such as Fast-moving consumer goods (FMCG) or consumer packaged goods (CPG). A loyalty which is a major source of revenue for the brand when combine all purchase made by customer throughout his entire life called lifetime customer value that all brands in the industry are trying to achieve.

It is important for companies to have awareness of that matter. In addition to optimizing the customer experience, a guarantee, an efficient customer services and a specific call centre are some of the assets that can be developed to improve post-purchase behavior if there is any trouble with the product.

10.3 MODELS OF BUYER BEHAVIOR

Understanding buyer behavior plays an important part in marketing. Considerable research on buyer behavior both at conceptual level and empirical level has been accumulated. There are two types of buyers-

- Organizational buyer
- Individual consumer

In order to understand the organizational buying behavior, we first consider who will be involved in the buying process and what their expectations are. At least, purchasing agents, engineers and final consumers will participate in the buying process. The potential of different decision maker are different in different situations. The individuals’ background, information source, vigorous search, the selective bend of the information based on their previous information and expectations, satisfaction with previous purchase. The independent decision which means that the decision is delegated to one department, joint decision processes. The product specific factors (the perceived risk, the type of purchase, and time pressure) and the company-specific factors (company orientation, company size, and degree of centralization) will determine the type of factor. The greater the apparent risk, the more preferred to joint decisions. If it is a life time capital buy, the more likely the joint decision will take place. If the decision has to make at an emergency, it is likely to entrust to one party. A small and privately owned company with product or technology will lean towards independent decisions. While a large public company with decentralization will tend to have joint decision process.

Individual and industrial models are of following types:

1. The Economic Model
2. Learning Model
3. Psychological Model
4. The Sociological Model
5. The Howard Sheth Model of buying behavior
6. The Nicosia Model
7. The Engel-Kollat-Blackwell model
8. Engel, Blackwell and Miniard (EBM) Model
9. Webstar and Wind Model of organizational buying behaviour
10. The Sheth Model of Industrial buying

Traditional Model	**Contemporary Model**
• The Economic Model • Learning Model • Psychological Model • The Sociological Model	• The Howard Sheth Model of buying behavior • The Nicosia Model • The Engle-Kollat-Blackwell (EKB) model • Engle, Blackwell and Miniard (EBM) Model • Webstar and Wind Model of organizational buying behaviour • The Sheth Model of Industrial buying

1. **Economic Model :** In this model, consumers follow the principle of maximum utility based on the law of diminishing marginal utility. Economic man model is based on the following effects-

   - Price effect- Lower the price of the product more will be the quantity purchase.

- Substitution effect- Lower the price of the substitute product, lower will be the utility of the original product purchase.

- Income effect-When more income is earned or more money is available, quantity purchased will be more. The economic theory of buyer's decision making was based on following assumption:

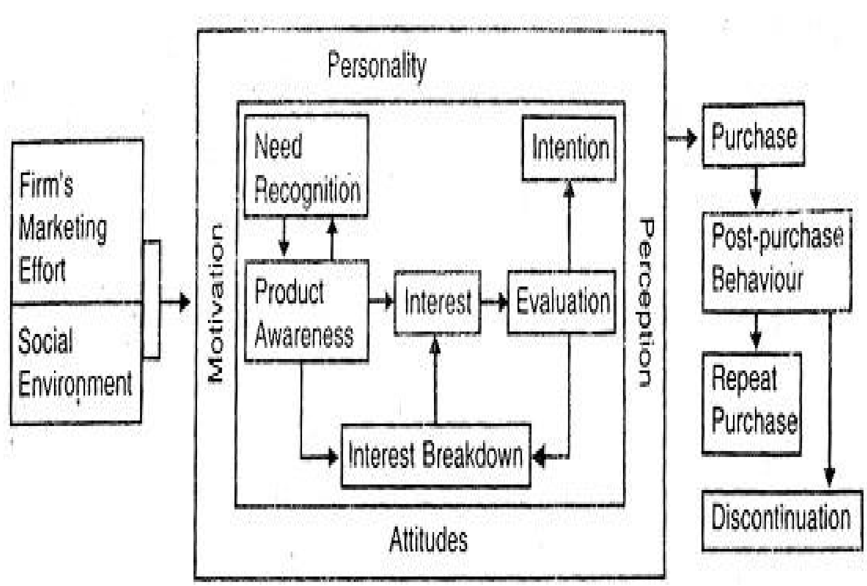
  As consumer resources are limited, he would allocate the available money which will maximize the satisfaction of his needs and wants. Consumers have complete knowledge about the utility of each product and service, i.e., they are capable of completing the accurate satisfaction that each item is likely to produce. As more units of the same item are purchase the marginal utility or satisfaction provided by the next unit of the item will keep on decreasing according to the law of diminishing marginal utility. Price is used as a measure of sacrifice in obtaining the goods and services. The overall objective of the buyer is to maximize his satisfaction out of the act of purchase.

  Criticism: 1. Fail to explain how the consumer actually behaves.

  2. Incompleteness in the model.

  3. Lack of broader perspective.

2. **Learning model:** This model suggests that human behavior is based on some core concepts- the drives, stimuli, cues responses and reinforcements which determine the human needs and wants and needs satisfying behavior.



- Drive: A strong internal stimulus which compels action.

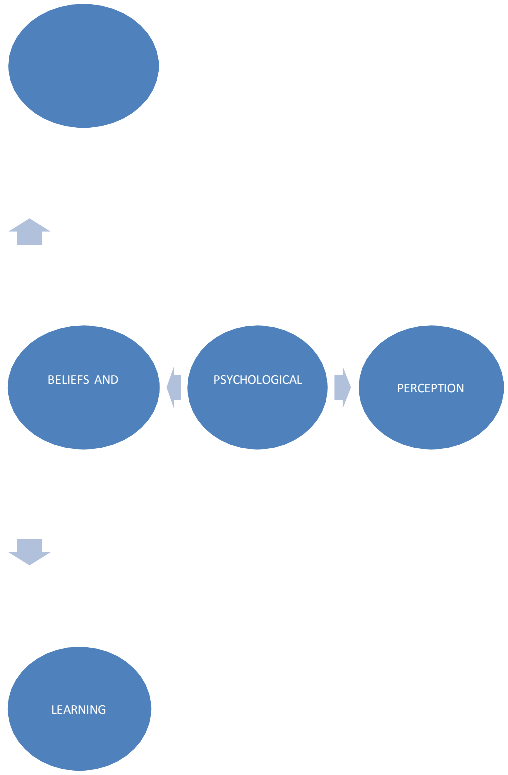
- Stimuli: These are inputs which are capable of arousing drives or motives.

- Cues: It is a sign or signal which acts as a stimulus to a particular drive.

- Response: The way or mode in which an individual reacts to the stimuli.

- If the response to a given stimulus is “rewarding”, it reinforce the possibility of similar response when faced with the same stimulus or cues. Applied to marketing if an informational cue like advertising, the buyer purchase the product (response); the favourable experience with the product increases the probability that the response would be repeated the next time the need stimulus arises (reinforcement).

3. **Psychological model :** This is also called learning model or the Pavlovian learning model, was proposed by classical psychologist led by Pavlov. According to this model, consumption behavior and decision making is a function of interactions between human needs and drives, stimuli and cues, responses and reinforcements. People have needs and wants; they are driven towards products and services (stimuli and cues), which they purchase (response), and they expect a satisfying experience (rewards and reinforcements); Repeats behavior would depend on reinforcement received. The model believes that behavior is deeply affected by the learning experiences of the buyer and the learning is a product of information search, information processing, reasoning and perception. Reinforcement leads to a habit formation and decision process for an individual becomes routinized, leading to brand loyalty. Consumers also learn through trial and error and resultant experiences that get stored in our memory. The limitation of consumer behavior with this approach is that the model seems incomplete. Learning is not the only determinant in the buying process and the decision making. The model totally ignores the role played by other individual determinants like perception, personality, attitudes as well as interpersonal and group influences.



Factor Affecting Consumer Behaviour : Psychological

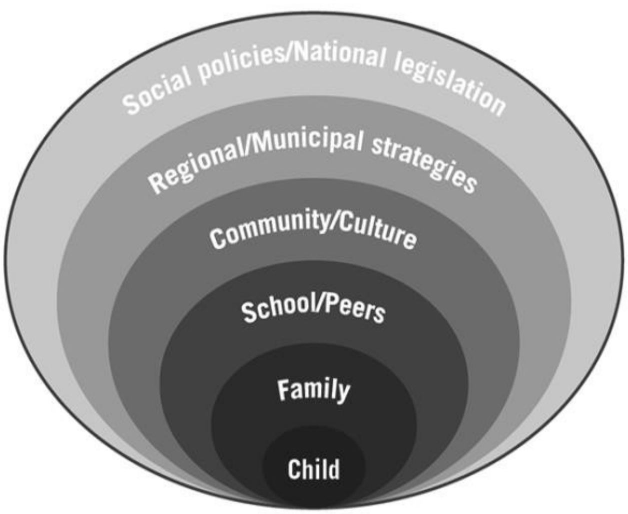
4. Psychoanalytic model : The psychoanalytic model was proposed by Sigmund Freud. The model tries to explain consumer behavior as a resultant of forces that operate at subconscious level. The individual consumer has a set of deep seated motives which drive him towards certain buying decisions. According to the model, buyer needs and desires operate at several levels of consciousness. Not all of the behavior is understandable and explained by the person. Also not all of human behavior is visible and explainable. Sometimes, the behavior may not be realized and understood by the person himself. Such causes can be understood by drawing inferences from observation and causal probing. There have been two more contributions that have been made to the psychoanalytic approach.

These are (a) Gestalt model (b) Cognitive theory

(a) ***Gestalt model*** : The model based on Gestalt principles (meaning "pattern and configuration") lays emphasis on the perceptual processes that impact buying behavior. According to this model, consumption behavior and decision making is based on how a consumer perceives a stimuli (the product and the service offering and the external environment and his own prior experiences.

(b) ***Cognitive theory***: The model proposed by Leon Festinger, views the consumer as one who faces of anxiety, while he is making a purchase. This is because he is faced with many alternatives, all of which seem desirable. Post-purchase, this anxiety increases even further. There is an imbalance in the cognitive structure and the consumer tries to get out of this state as soon as he can. So a buyer gathers information that supports his choice and avoids information that goes against it.

5. **Sociological model :** This is concerned with the society. A consumer is an element of the society and he may be a member of many groups and institution in a society. His buying behavior is influenced by these groups. Primary groups of family friends' relatives and close associates extract a lot of influence on his buying. A consumer may be a member of political party where his dress norms are different form different member. As a member of an elite organization, his dress norms are different, thus he has to buy things that confirm to his lifestyle in different groups.

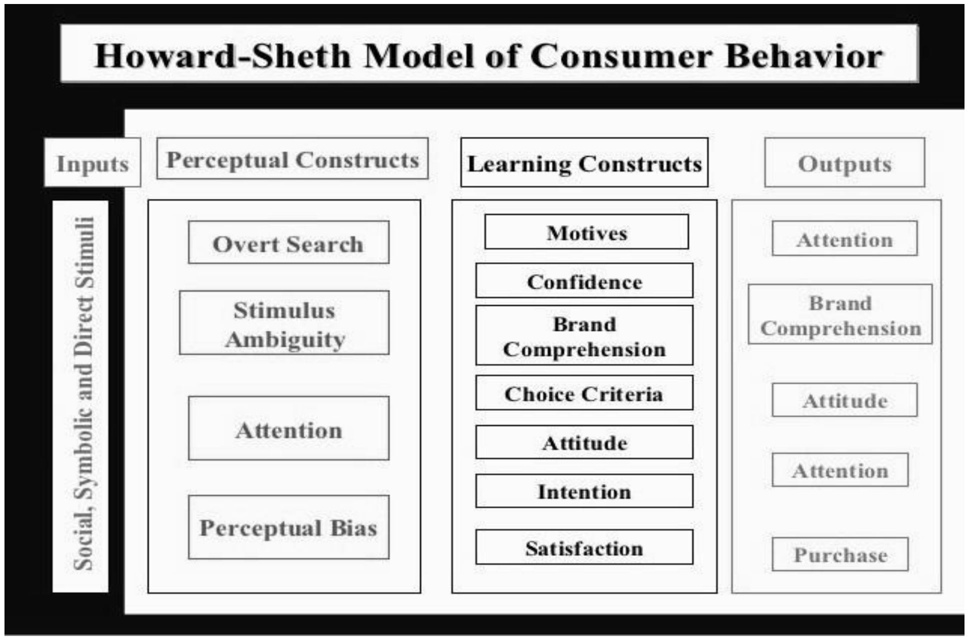


6. **Howard Sheth Model of buying behavior :** It attempt to throw light on the rational brand behavior shown by the buyers. The rational brand behavior arises when the buyer has incomplete information and limited abilities. The model refers to three levels of decision making:

a) Extensive problem solving

b) Limited problem solving

c) Routinized response behavior



The model has borrowed the learning theory concept to explain brand choice behavior when learning takes place as the buyer moves from extensive to routinized problem solving behavior. The model makes significant contribution to understand consumer behavior by identifying the variables which influence consumer. There are four components involved in the model:

1. Input variables
2. Output variables
3. Hypothetic constructs
4. Exogenous variables

1. Input variables: These variables act as stimuli in the environment. Stimuli can be of Significate, Symbolic and Social. **Significate stimuli**, are those actual elements of brands which the buyer confronts, whereas **Symbolic stimuli** are those which are used by the marketers to represent their products in a symbolic form. **Social stimuli** are generated by the social environment like family, friends, groups etc.

2. Output variables: These are which buyer's observable responses to stimulus inputs. They appear in the sequence-

   - Attention: It is based on the importance of the buyer's information intake.
   - Comprehension: It is the store of information that the buyer has about the brand.

- Attitude: It is the buyer's evaluation of the particular brand's potential to satisfy their motives.

- Intention: It is the brand which the buyer intends to buy.

- Purchase behavior: It is the act of purchasing which reflects the buyer's predisposition to buy as modified by any of the inhibitors.

The consumer first is attentive towards the various stumuli which help him in comprehensive about various brands. He is then develop attitude for the product due to which he has same intention regarding the purchase decision.

3. Hypothetical Constructs: The model has many intervening variables which have been categorized into two groups- Perceptual and Learning constructs.

   - Perceptual Constructs: It includes **Sensitivity to information,** means the degree to which the buyer regulates the stimulus information flow. **Perceptual bias,** refers to distorting or altering information. **Search for information,** means actively seeking information on the brands or their characteristics.

   - Learning Construct: It involves the formation of concepts regarding various brands. This consist of various factors like motive, brand potential of evoke set, decision mediators, pre-dispositions, inhibitors satisfaction.

4. Exogenous variables: These are the external factors which influence the decision making process. This could include the importance of purchase, personality, social class, culture, organization, financial status.

   Therefore, this model gives an overall view regarding consumer purchases keeping in view all factors influencing the organization as well as end consumer.

6. The Nicosia Model : It is a structural model of the purchase decision making process by an individual consumer or a whole family. This model shows the interactive relationship between the company and the consumer. They arise between them for mutual communication. Company communicates with the consumers through promotional activities while consumers by making purchases. The author of model F.M. Nicosia identified three stages that gradually moves the consumer in process:

- Preference

- Attitudes

- Motivations

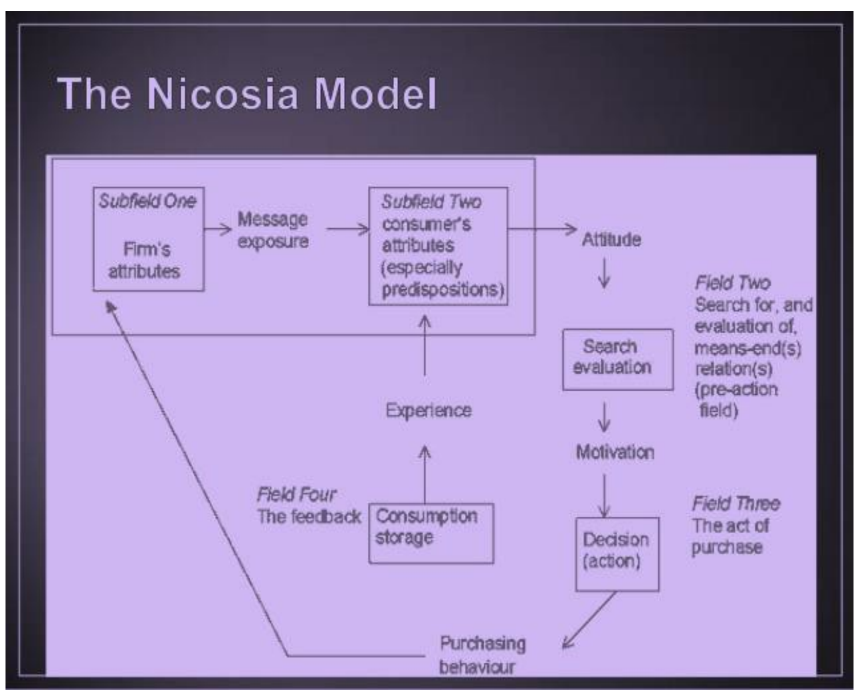
  In this model, the decision-making process is divided into four areas:

  a) Area 1- It includes consumer attitudes shaped by information from the market. In this area information flows from the source of their creation to the recipient.

  b) Area 2- Consumer is looking for information about specific products and gives them value. During the evaluation the consumer allocates appropriate weight to each information piece. When the result of the evaluation of a given product from the consumer's point of view is satisfactory, consumer is motivated to buy.

  c) Area 3- It is the act of purchase. Motivation established in advance by consumer prompts him to acquire the product.

  d) Area 4- It is the feedback, as result of the consumption of the product, the consumer acquire a new experience and based on it his new preference (predisposition). This last step is not only the consumption of a product but also a very important factor for the future decision of the consumer. Feedback is also a very important factor for the company which acquires new information that could be used in preparing future product policy, its advertising and communications targeted to the consumer.



7. **The Engel Kollet-Blackwell model :** This model is essentially a conscious solving and learning model of consumer behavior. This model has a good description of active information seeking and evaluation processes of consumer. The EKB model is a comprehensive and shows the components of decision making and the relationship and interaction among them. The five distinctive parts of consumer decision making are input, information processing, decision process, decision process variables and external influences.

   - **Input :** The input stage is generally the data collection stage of the consumer decision making process. The consumer is constantly exposed to various stimuli and information about various products. These stimuli include marketing ads in newspapers, TV, magazines, people around us and feedback on website; social media etc. and are all part of the data that a consumer receives. The input may be actively sought by the consumer if they already willing to buy a product or passively when they are involuntarily exposed to marketing stimuli and information created by the marketers or by the environment and people around. This information forms the "awareness set" of the products for the individual.

   - **Information processing :** This stage involves the assimilation and processing of data captured in the input stage and aides in rational decision making. The consumer gets exposed to various stimuli, some of which grab his attention. The stimuli information and information which the consumer already has in their memory from experience and past interactions forms the complete dataset which the consumer uses to further processing. The information is filtered, understood and classified by the consumer which leads to their acceptance or rejection of certain data and stimuli which do not caters to his needs and perception of the product which he seeks. The data accepted leads to the consumer forming an opinion about the product. This processed form of opinion is retained by the consumer in his memory for further usage.

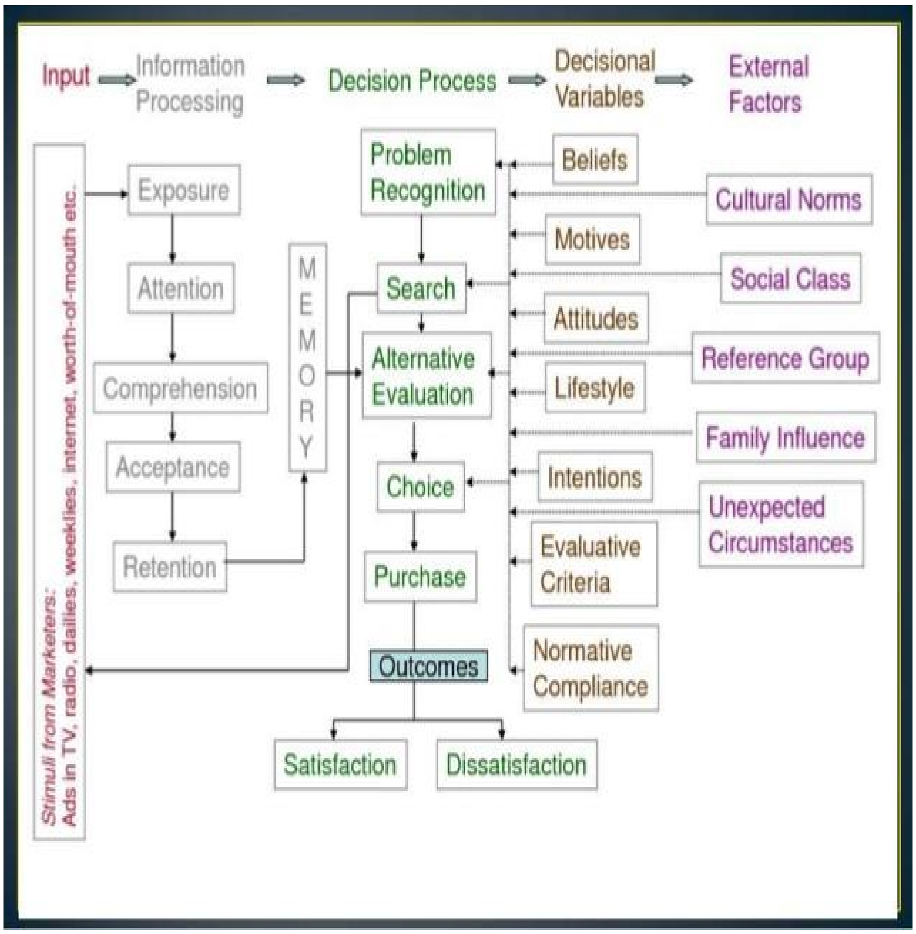
   - **Decision process:** As soon as the customer feels a need due to some problem he is facing and has the ability to buy. He starts external search for information regarding then various options available in the market to satisfy his need. The information collected externally externally along with processed information stored in the memory leads to the consumer evaluating products according to his evaluative criterion. Some products in the consideration set are rejected and the remaining form the 'choice set' of the consumer from which to choose from finally.

Consumer’s beliefs, attitudes and intention guide his evaluation. From this choice set the consumer finally chooses a product which is bought. This acquiring of the product and its usage subsequently may lead to satisfaction for the customer in which case the customer is not sure whether he bought the right product and hence they go back to gather information to reassure himself of his purchase decision. The final choice of product may not only be the result of person’s beliefs, attitude and intention but may well be guided by some ‘unanticipated circumstance’ which forces the customer to buy a particular product.

- **Decision process variables :** There are various decision process variable which influence the customers’ decision making process. The normative compliance and informational influence is one of them. The person goes by what peer group and people around him think. The societal and peer group opinion is important to the person and influences his choice. This variable also impacts the purchase intent of the person, ultimately impacting product choice. The person also follows a certain lifestyle which earns their status in the society and his evaluative criteria are guided by his sense and understanding of the image and image he would want to portray in the society. The evaluative criteria impact the person’s beliefs which in turns influence his choice and search. The person’s motive of purchase is influenced by all the above variables and ultimately results in the person’s understanding and recognition of the problem he is facing. All these factors make the decision process more complex and result in the person to choose a certain type of product which satisfies his want.

- **External influences :** The model gives three external influences which affect buying behavior of a person. The cultural norms and values along with reference group or family impact a person’s normative compliance and lifestyle. The person has to abide by the rules laid down by them and has to project a certain image to be received the respect and certain status that he enjoys in the society. New products are bought with a view t increase one’s respect in the society and enhance one’s self image. Hence these factors are critical in person’s choice of the product to be bought. Another important factor may be ‘unanticipated circumstances’ which may totally alter one’s purchasing decision. The impact of all these factors are critical to the decision making process.

Hence the person is not only influenced by the product attributes but is also guided by the external factors to make a choice of the product to be bought. The stimuli and constant information received along with that stored in the memory is assimilated and processed to arrive at the possible options from which to choose. Thus, all five aspects holistically define the consumer's decision making process.



8. **The Engel, Blackwell and Miniard (EBM) model :** The EKB model (1968) was revised and together with a new author, Miniard, the model became known as Engle, Balckwell and Miniard model. It shares certain things with the Howard-Sheth model. Both have similar scope and have the same level of complexity. Primarily the core of the EBM model is a decision process, which is augmented with inputs from information processing and other influencing factors also. The model have distinctive four sections, namely: Input, information Processing, Decision Process and Variable influencing decision process.

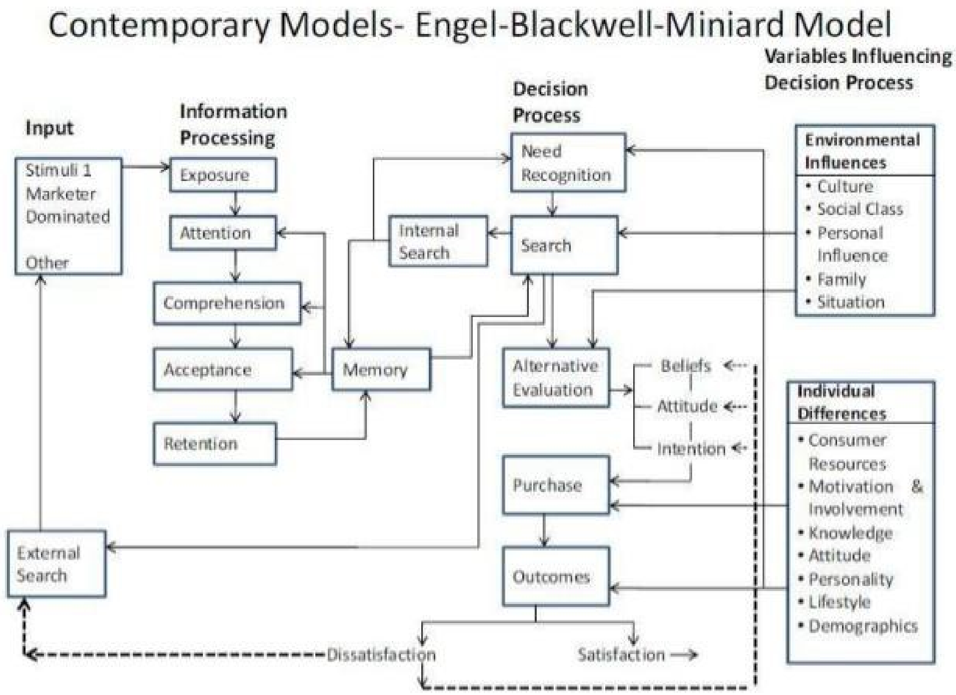
- **Information Input :** Information from marketing and non-marketing sources are fed into the information processing section of the model. The model also suggests additional information to be collected as a part of external search especially when not enough information available from memory or when post- purchase dissonance occur.

- **Information Processing:** Before information can be used in the rest of the model, the consumer will first be exposed to be the information processing. That is consumer must get exposed to the information, attend ti it, comprehend or understand it, accept it and finally retain it in memory. Any selective attention or exposure mechanism which may occur in the post purchase dissonance would operate at this stage.

- **Decision Process:** This process consist of five basic stages: (1) Need recognition, this acknowledges the fact that there exist a problem. That is, the individual is aware that there is a need to be satisfied. (2) Search: When enough information is available in memory to take a decision, then only internal search will be required. If information is scarce, an external search for information is undertaken. (3) Alternative evaluation: Now an evaluation of the alternatives found during the search is undertaken. We can see from the model, that this takes into account our attitudes and beliefs also. (4) Purchase: A purchase is made based on the chosen alternative. (5) Outcomes: The outcome can be either positive or negative depending on whether the purchase satisfies the original perceived need. Dissatisfaction can lead to post-purchase dissonance.

- **Variable Influencing Decision Process:** This section will consider the individual, social and situational factors which influence the decision processes.

The EBM model is very flexible and more coherent than the Howard Sheth model of consumer behavior. It also includes human processes like memory, information processing and considers both the positive and negative outcomes. **Fig.**



9. **Webster and Wind Model of Organizational Buying Behaviour:** This is complex model developed by F.E. Webster and Y. Wind, as an attempt to explain the multifaceted nature of organizational buying behavior. This model refers to the environmental, organizational, interpersonal and individual buying determinants which influences the organizational buyers. These determinants influence both the individual and group decision making processes and consequently the final buying decisions. The organizational determinant is based on Harold Leavitt's four elements of organization buying that is, people, technology, structure and task. An individual engaged in buying for organizations may be involved in one or more of the following buying roles:

Users: The ultimate users who often initiate the buying process and help in defining specifications.

Influencers: They may or may not be directly connected with the decision. But their views or judgments' of a product or a supplier carry a lot of weightage.

Buyers: Those people who negotiate the purchase.

Deciders: The people who take the actual decision they may be formal or informal decision makers.

Gate Keepers: The persons who regulate the flow of information.

This model is a valuable contribution and help in revealing the whole range of direct and indirect influences which affect the organizational buying behavior. However, the limitation is that this model provides a static representation of a dynamic situation.

10.4 LEVELS OR STAGES OF DECISION MAKING PROCESS

According to the famous model developed by John Howard and Jagdish Sheth, two famous Professors of marketing, in their "Theory of Buyer Behaviour", the decision- making process of consumers are divided into three stages:

1. **Extensive problem solving (EPS) :** It is when the consumer discovers a new product category or wants to buy a product he does not well or is particularly expensive or which present a significant risk regarding his economical or psychological point of view. His lack of "experience" in the matter leads to his lack of decision criteria to make his choice. He has no preference for a brand or a specific product. The level of consumer involvement is high. He will invest a lot of time looking for information and benchmarks to make his choice. The level of uncertainty and confusion about the choice of product can be high. The purchase process is usually quite long. This is the case for example for buying a car or a new computer.

2. **Limited problem solving (LPS) :** The consumer has a clear vision of its expectations and decision criteria. He already had an experience with the product and knows it. However, he is still undecided about the brand or a particular model to choose and which one will best meet his needs. The level of consumer involvement is moderate and information seeking is more limited. He will compare available products and especially want to determine which brand is best for him. The purchasing process will be shorter. This is the kind of behavior found for occasional purchases such as clothing, video, games and cosmetics.

3. **Routinized response behavior (RRB):** This is about the everyday purchases with a low level of involvement from the consumer. These are common products, typically Fast-Moving Consumer Goods (FMCG) or Consumer Packaged Goods (CPG) that the consumer well knows. He knows very well about the brand and which product suits him. He does not need any specific information to make his choice. The purchase decision is simple and is quickly taken. Usually, the more a product has become a "routine buying behavior" for a consumer, the less he will be responsive to stimuli or initiatives

like advertising, discounts etc. from the other brands.

Although it is not included in the original Howard & sheth model, a fourth purchase situation could also be added:

The Impulse buying: Impulsive buying is a purchase made while the consumer did not initially have a particular intention to purchase the product. For example, the pack of chocolate bought while passing in front of a bakery smelling particularly good.

The impulse buying opposes to the rational purchase to which the buying process of the consumer corresponds to the three situation of decision making process.

10.5 SUMMARY

Decision-making is regarded as the cognitive process resulting in the selection of a belief or a course of action among several alternative possibilities. Every decision-making process produces a final choice; it may or may not prompt action. Decision-making is the process of identifying and choosing alternatives based on the values and preferences of the decision-maker. Understanding buyer behaviors plays an important part in marketing. Considerable research on buyer behavior both at conceptual level and empirical level has been accumulated. The model makes significant contribution to understand consumer behavior by identifying the variables which influence consumer.

10.6 KEY WORDS

Decision making : Making a selection between options or courses of action.

Contextual effects : The influence of the decision situation on the decision-making process.

Impulse purchase : An unexpected purchase based on a strong feeling.

Attitude : It is persons enduring favorable or unfavorable cognitive evaluations emotional feelings and action tendencies towards some object or ideas.

10.7 SELF ASSESSMENT QUESTIONS

1. What is consumer decision making process?
2. Describe various model of buying behavior of consumer?
3. What needs are required in decision making process?
4. Explain the stages of decision making process?
5. What are impulse buyer?

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UNIT-11 INDIAN CONSUMER ENVIRONMENT

Objectives

After studying this unit you should be able to understand:

- Target Market and market segmentation
- The need of segmentation in marketing
- The meaning and process of segmenting the market
- Targeting strategies
- The analyzing of market potential
- Family life cycle

Structure

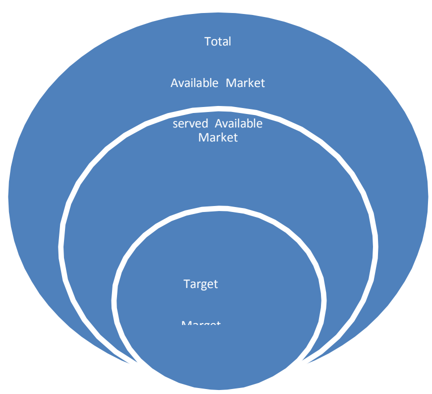
11.1 INTRODUCTION

There are number of factors that give rise to consumer demand, desire and wants. In this unit the discussion is further extended to the social and environmental factors that influence the decision –making process namely, reference group's opinion leadership and social class. Consumer behavior is influenced not only by the consumer personalities and motivations but also by the relationship within families.

From the marketing point of view, the family differs from larger reference group in that the members must satisfy their individual and shared needs by drawing on a common fixed supply of sources. And for the individual, the family is the strongest, most immediate and most pervasive influence on decision making.

11.2 TARGET MARKET

A target market is the market a company wants to sell its products and services to, and it includes a targeted set of customers for whom it directs its marketing efforts. Product, price, promotion and place are the four elements of a marketing mix strategy that determine the success of a product or services in the marketplace. A target market is a group of people likely to buy the product or service. A target market consists of customers that shares similar characteristics such as age, location, income and lifestyle to which a business directs its marketing efforts and sell its products. It is important for the business to identify and select a target market so it can direct its marketing efforts to that group of customers and better satisfy their needs and wants. This enables the business to use its marketing resources more efficiently, resulting in more cost and time efficient marketing efforts. It allows for better understanding of customers and therefore enables the creation of promotional materials that are more relevant to customer needs. Also targeting makes it possible to collect more precise data about customer needs and behaviours and then analyze that information over time in order to refine market strategies effectively.



Target markets or also known as target consumers are certain clusters of consumers with similar or the same needs that most businesses target their marketing efforts in order to sell their products and services.

11.3 MARKET SEGMENTATION

It divides the market into four main subcategories:

1. Demographic
2. Geographic 3.Psychographic 4.Behavioural

Through market segmentation, the enterprises will be able to notice every subdivision market purchasing potential, satisfying degree, competition and comparative analysis, to better meet market needs. Enterprises can focus more on human, financial and material resources to fight for the advantages of local market, and then occupy their own target market. Segmentation has been an essential since industrial development induced mass production, particularly in manufacturing. This caused the focus to shift from customer satisfaction to reduction of production costs.

1. **Demographic characteristics :** Characteristics of consumer market based on demographics include differences in gender, age, ethnic background, income, occupation, education, household size, religion, generation, nationality and social class. Age and gender are two of the most commonly used demographic variables used to segment markets. Demographic are useful and widely used but should be coupled with other segmentation variables to effectively define a target market. **Gender:** Due to the physiological differences, male and female have very different product demand and preferences for example, in clothing, hair and other necessities of life. Some companies target couples or men and women in relationship as opposed to a specific gender. Carnival Cruises Lines often promotes adventure trips to retired couples. **Age:** Consumers of different ages have different demands characteristics for example young people need to dress and the elderly needs are different, young needs bright, fashionable clothing whereas the elderly need dignified and simple but elegant dress. Consumers of different ages may buy your products or services; it is very helpful in marketing to know the primary ages of your most common customers. Trendy, specialty fashion retail shop often target a younger female audience. For example, an age range like 21 to 34 is often used to depict the likely consumer. Some companies carry this trait a step further and identify the average or median age of their customers. **Education and income background:** Lower income and higher income consumers will be quite different in product selection, leisure time arrangement, social communication and communication and so on. Education, income and occupation are often distinct attributes in the consumer profile. The general idea with these qualities is to identify how educated your customer is, where he works

and how much he makes. High-end providers often have to target upper-income consumers that can afford and want their goods. Low-cost providers usually target a low-to- middle-class income earner with messages to low price, affordability or great value. **Occupation:** Consumers of different occupation will lead to different desired products. For example, farmer prefers to buy load-carrying bicycle while teachers love light, beautiful style bikes. **Race and ethnic origin:** Race and ethnicity are common. But not universally used. Sports clips target men**,** but not necessarily a particular race or ethnicity, in its target marketing. Some ethnic oriented specialty supermarkets target customers with specific ethnic origins. A Hispanic grocer would naturally target a customer of Hispanic ethnicity who has a desire for certain types of foods and products familiar to his native culture.

2. **Psychographic characteristics :** Psychographic segmentation is based on personality characteristics mainly includes the customer's personality, the life style, the social class, the motive, the value orientation. Businesses can do this by researching consumer's preferences likes and dislikes, habits, interests, hobbies, values and socioeconomic group. These variables are concerned with why people behave the way they do and are often used effectively in conjunction with other segmentation variables. Psychographics also relates to attitudes towards certain activities like fitness, willingness to take risks, concern for the environment, political opinion, concern with fashion and innovativeness. Value and culture are strongly linked to how people think and behave and are important aspects of segmentation variables, especially in global campaigns. Personality traits such as self esteem, intelligence and introversion or extroversion also affect the processing and persuasiveness of communication. **Lifestyle:** Lifestyle is a particular habit of individuals or groups in the consumption, work and entertainment. Different lifestyles tend to produce different consumer demand and purchase behavior, even on the same kind of goods. There will be different needs in the quality, appearance, style and specifications. Many consumers does not only buy the product or goods to met the material needs, it is more important to show the performance of their lifestyle, to meet the psychological needs such as identity, status and the pursuit of fashion. **Social class:** Due to the different social class have a different social environment, different backgrounds and different characteristics of different consumer preferences, demand for goods or services are quite different. Social class are divided into six classes: Upper upper (Inheritance property, family background has famous celebrities), Lower class (The extraordinary vitality in the occupation or business and get higher income or wealth), Upper

middles (they are extremely concerned about their careers, they are doing special occupations, independent entrepreneurs and managers), Upper lower (low wages, life is just at the poverty line, the pursuit of wealth but no skills, Lower lower (the poor, often rely on long term unemployment or life public charity relief to the people). People in different social classes, the demand for cars, clothing, furniture, entertainment, reading, there is a big difference. **<u>Personality:</u>** Personality refers to the individual's unique psychological characteristics, these psychological characteristics of individuals and their environment to maintain a relatively consistent and lasting response. Everyone has a unique personality affecting their buying behavior. To distinguish between different personalities, there is a strong correlation between the premise and specific personality with the product or brand choice, so personality can become the market segments of the psychological variables.

3. **Geographical characteristics:** A Geographic target market can be consumers in a city, state or country. The Geographic characteristics are often based on market size, region, population density and even climate. Geographic segmentation is when a business divides its market on the basis of geography. There are several ways that a market can be geographically segmented. Market can be divided by geographical areas, such as city, county, state, region, country or international region. It can also divide into rural, suburban and urban market segments. And we can also segment a market by climate or total population in each area. Geographic segmentation is important because: (a) It is an effective approach for the companies with large national or international markets because different consumers in different regions have different needs, wants and culture characteristics that can be specifically targeted. (b) It can also be an effective approach for small businesses with limited budgets. They can focus on their defined area and not expend needless marketing dollars on approaches ill-suited for their target geographic segment. (c) It works well in different areas of population density. Consumers in an urban environment often have different needs and wants than people in suburban and rural environments. There are even cultural differences between these three areas. **(**d) It is relatively easy to break market down to geographic segments.

   A small retailer may find opportunities in a small market in which larger competitors have no interest. Companies that sell beachwear will likely sell more products in warmer climates. Consumers in different regions of the country also have different tastes in food and style. For example, an ice cream shop would be more likely to start up in hot location than a cold climate.

Identifying regional preferences and attitudes can help campaigns to be better targeted for particular geographic areas.

4. **Behavioural characteristics:** It relates to consumers knowledge, attitude, and use of product and purchase occasion, such as special one-off or regular loyal buying. Identifying what the customers want from products and the benefits they seek are important to behavioural segmentation to allow marketers to better design and select products that satisfy these needs. Many marketers believe that behavioral variables are the best starting point for market segmentation. It relates to a consumer's brand loyalty, usage rate and usage situation, to name a few. Consumer's purchase products primarily for their value or benefits and this is the basic element of this segmentation. This is understandable as this segment deals an individual's reaction to the product exclusively. Businesses can use an individual's reaction to price drops, technology changes and product status to determine how to market their product or service effectively.

   (1) **Benefits :** It is a kind of classification method based on the different interests of consumers from the brand products. Using the benefit segmentation method, it is determined that what the benefit people are seeking for, who are seeking these benefits, how important to them these benefits are, what brand can offer these benefits etc.

   (2) **Opportunity :** It is the time the consumer buy and use the product. These opportunities include marriage, divorce, purchase, moving, demolition, admission, study, retirement, travel, tourism, holidays and so on. It will help improve brand usage and marketing targeted. Such as travelling agencies can provides specialized travel services at different occasion.

   (3) **User status :** According to the state of use, consumers can be divided into once user, nonusers, potential users, occasionally users and often user type, for different types of consumers the brand should use different marketing strategies and method. The brand who has a high market share can focus more on the potential users to change them to the actual user like leading brands, small businesses can only be used as an user services.

   (4) **Brand loyalty:** Consumer loyalty is the most valuable wealth of enterprises. Consumers can be divided into four types according to their brand loyalty. These are true friends, butterflies, barnacles and strangers.

11.4 INCOME AND CONSUMPTION CHARACTERISTICS

Marketers or companies study the consumer spending to project trends and see how consumers affect the national and world economies. Consumers divide income between consumption and saving and even if the household income goes to zero, consumption doesn't. Consumers draw on future income or saving to support the household when there is no income. This is autonomous consumption, not dependent on the income level. If consumers have extra income they spend part of that income as well.

1. **Consumption schedule:** The relationship between income and expenditure is the consumption schedule or consumption function in economics. When disposable income rises, consumption increases. The fraction of each rupee spent is the marginal propensity to consume. Consumption may exceed disposable income for low income individuals. As the disposable income increases, the average propensity to consume falls. In other words, the consumer spends a smaller percentage of extra money. Consumption increases with increased income but short term increases affect consumption less than long term increases. For an income increase of a year or less duration, consumers tend to change spending habits less than for permanent increases in income.

2. **Changes affect Expenditure :** Global or national affect personal and small business expenditures. The rise and fall of the stock market is an example of how change affects income and expenditures. When stock falls, consumers and businesses have less money or less confidence and decrease expenditures. When stocks rise, an increase in confidence and income increases expenditures. Changes in the tax code that increase taxes give the consumer less disposable income with the effect of decreasing consumption. Changes affect the small business and the consumer but the trends show most with the national economy.

3. **Consumer confidence :** Perception of the economy and expectations for the future affect expenditures. When consumers lose confidence in the economy, economists see a downward shift in consumption and economic growth. Increased income can create optimism but so can expectations of increased income. Consumer confidence affects outlook and purchases for a small business as well as individuals. The small-business owner handles income and expenditures the same as if he were handling a household. As the small-business owner profits and gains confidence in the economy, expansion and more expenditure follow.

4. **Business Inventory :** Supply and demand affect income and expenditures on a business level. Inventory builds as consumers lose confidence in the economy or have less income to spend. When confidence is high and income increases, business inventory decreases as items sell. Sales can't exceed goods available, so the small business steps up production. As the small business earns more money, it spends more, keeping with the consumption schedule or the relationship between income and expenditures.

11.5 CONCEPT OF ORGANIZATIONAL CONSUMERS

Buying behavior can be divided into two types as consumer buyer behavior and organizational buyer behavior. Ultimately consumers buy goods and services for consumption and different organizations buy goods and services for different purposes. Organizational buying means the activity of buying goods and services by organizations.

An organization may be any industry, which buys raw materials necessary for production of finished goods, machines, machine parts, other supplies etc. similarly government organizations such as ministry, departments, division etc buy goods and services for their use. Hospitals, schools, campuses, financial institution etc need to buy necessary materials, fuel, various supplies, construction materials and other goods and services. Wholesalers, retailers, distributors, resellers etc buy goods or services to produce finished goods, resale, ultimate use etc, this is called organizational buying and the buying behavior of organization is called organizational buying behavior.

10.6 CHARACTERISTICS OF ORGANIZATIONAL CONSUMERS

1. **Derived Demand :** Organizational buying is based on derived demand. Demand made by ultimate consumers creates demand for industrial goods or services. For instance, demand of electricity generator is determined according to the demand made by the consumers. Demand of organizational buyer changes in keeping with the changes in consumers' demand.

2. **Geographical concentration :** Organizational consumers remain concentrated in certain geographical area whereas consumers' market remains scattered all around. Producers want to establish industry near by supply source. Mostly, industrial market is determined considering transport facilities and cost. Along with this, raw materials, labour supply,

climate condition etc. are also considered.

3. **Few buyer and large volume :** The number of organizational buyers remains small but volume of sale is large. So, organizational marketers focus on their efforts on very small number of main buyers who buy goods and services in large volume paying bug amount of price.

4. **More Direct Channel of Distribution :** High quantity of consumer goods and services is sold out through complex structure of wholesalers and retailers. This structure keeps producers and consumers separate or it works as the bridge between them. But in organizational selling, direct contact is established between buyer and sellers. The organization, which buys in large volume, buys necessary goods directly goods from producers.

5. **Rational Buying :** Organizational buyer use rational in buying goods or services compared to ultimate consumers. They want to take more information about the features, quality, technical use, utility etc of products. Organizational buyers become aware of quality, services, delivery, price etc. of any products.

6. **Professional Buying :** Compared to consumer buyer, Organizational buyers become systematic, rational and professional. Buying agents become skilled professional. They should take frequent training on buying process, contract, material management and legal aspects of buying. Professional buyers develop formal methods of buying.

7. **Complexity :** Under organizational buying process, different persons participate in buying decision. So it becomes difficult to take buying decision. While taking decision on buying, it becomes necessary to know the role of users, motivators, decision maker and buyer whose effect goes on buying process.

11.7 MARKET POTENTIAL

Market potential is the entire size of the market for a product at a specific time. It represents the upper limits of the market for a product. Market potential is usually measured either by sales value or sales volume. Market potential is just a snapshot in time. It is a fluid number that changes with the economic environment. For example rising and falling interest rates will affect the demand for products that are typically financed like cars and houses.

Analysis of Market Potential

Determining the market potential of a product is part of successful marketing process and requires marketing research. There is need to examine at least three factors that will determine whether the market potential of the product is worth the investment.

1. **<u>Analyzing potential customer base</u> :** There is need to determine the size and demographic characteristics of one's potential consumers. Important information to obtain includes the population size of target market, their product preferences and their median annual household income. This will tell the number of potential customers and whether they can actually afford the product. One can assess their product's potential customer base analyzing secondary data or data that already exists such as demographic data collected by Census Bureau on household demographics in each state. You can also decide to collect primary data, which is a data you collect specifically to analyzing the market potential of a product. Typical means of collecting primary data includes telephone surveys using a random sample of households drawn that you believe match your target market.

2. **<u>Analyzing Competition</u> :** Bringing an entirely new type of product to the market like an iPod, you will almost certainly have competition. It is important to assess the number of your competitors, their respective share of the current market and how your product can be differentiated from their. This research can be undertaken using both primary and secondary research. Secondary data sources may include industry surveys, membership directories of industry organizations, data collected by local chambers of commerce and data collected by local agencies. Primary data can be collected by simply shopping around and examining your competition from the perspective of not only a competitor but as a consumer.

3. **<u>Analyzing the Current Environment</u> :** Market Potential is not a static concept. It changes with the general economic and political environment. For example, if interest rate goes up, people may not be willing to use credit to purchase big-ticket items like cars. This will lower the demand for those products and decrease the product's overall market potential. A change in tax rates may also suppress spending as less money is available on discretionary purchases, thereby reducing a product's overall market potential. Market potential can increase if wages increases, taxes are lowered or interest rates decline because product demand may increase.

Once you have established that an opportunity matches your business's vision, goals and financial indicators, you are ready to assess its market potential by examining specific key factors.

<u>Ability to compete :</u> The potential for you to compete most effectively in the marketplace based on price advantages or market differentiators. If you will not be able to compete effectively, be wary of such an

endeavor. Build on your strengths to increase the chances of future successes.

Duration of the opportunity: The opportunity last long enough for you to seize it and reap it reward. Duration is critical to determining attractiveness. For example, a new product or service based on long term trend, such as changing demographic, has an enduring window of opportunity. One based on a fad, such as the latest fashion trend, has a limited life. Another consideration is how long you have before competition might flood the marketplace.

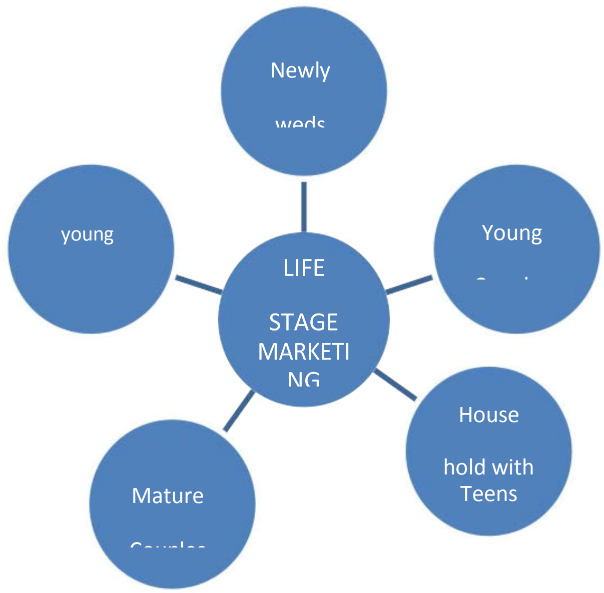
Growth potential: Long-term growth rather than immediate rewards make one opportunity more attractive than another. An entrepreneur may decide to offer a new product in a growth areas rather than pursuing sales of existing products that have minimum growth potential.

Risks and Rewards: A certain amount of risk is involved in all entrepreneurial ventures and growth is no different. How much will the opportunity cost to pursue in terms of time, money and physical resources? What is your potential return on your investment? Are the risks acceptable to you and your business? Do the rewards compensate for the risks? Keep in mind that typically the risks associated with the growth opportunities increase as you move away from the products and markets that are new products and researching and penetrating new markets will also increase.

11.8 FAMILY LIFE CYCLE

In 1960's, based on their research Wells and Gruber came up with a new concept of segmentation called Family life cycle. Families pass through a series of stages that changes them over time. This process historically has been called the family life cycle (FLC). While household and family composition has changed it is still important to consider the consumption changes that may occur as individuals move from living with parents to creating their own household either alone or with others, over the course of their lives. What kind of product are purchased and consumed by what types of families and household. As individual consumers and their buying habits differ from person to person from situation to situation, each family or household has similar variations. Several factors influences the ways in which they spend. The most important among them are Family life cycle (FLC) position, reference group, social class, subculture and culture. As people find themselves in various positions in the life cycle such as single, married, married with children or widowed, their needs change. Hence different mixes or types of products or services are required to allow them to properly function.

Different Stages of Family Life Cycle



One approach divides the family life into five clear stages: young singles, newlyweds, young couples, household with teens and mature couples. Other approaches to life cycle divisions include additional grouping such as retired couples and solitary survivors. The basis for the various life cycle categorization includes such demographic factors as age of the household head, marital status of household head, presence of children, ages of children, presence of children in college, employment status of household head (working, receiving government financial assistance or retired), employment status of spouse, number of other adults, household size, and survivours status of the household head (retired, widowed or single). In its early incarnations, the FLC would often assume that marketers should think of FLC categories in a "progressive manner"-that everyone move through from single to married to empty nest categories. The family has undergoes significant changes in the past in regard to remaining single, single parents, couples without children and unmarried same sex couples. Still it is important to remember that categories of the product mixes would probably shift based on the needs of members of each category. Marketers can position their offering to help facilitate easier transitions from one stage to another.

1. **Young singles :** Young single between 18-24, lives majority with their parents, a minority, one in four live with roommates. These consumers are much likely than other adult to buy snacks foods, cookies and ice-creams. They share, to some degree, grocery-shopping chores. They tend to buy more staples such as bread, butter, canned soup, spaghetti suace, laundry

detergent and facial tissues than does the average adult. They also consume more beer, wine and spirit coolers. Discretionary income is spent mostly on entertainment, movies, compact disc, sports and recreation equipment, and shoes. Ownership of motorcycle by this group is 15% above average. Young singles tend to be heavy magazine readers, newspaper, television viewers, computer/internet users and cell phone users. The programming they prefer is late night talk/variety, weekend professional basketball, situation comedy and prime time. The focus of these individuals is primarily on themselves.

2. **Newlyweds :** The newlyweds market is made up of 5.16 millions people who have married one year or less. The largest segment ie 43% is 25-34 years old. Newlyweds own their own homes and tend to buy such household furnishing as sofas, wall units, wall to wall carpeting, dinning room furniture, kitchen and cooking appliances and table setting, including fine china. Younger and older newlyweds buy basic furnishing, linens and cooking appliances at much higher rates than the general adult population. Newlyweds are cognizant of the needs of each other and often work together to select goods and services that reflect this. Joint decision making on goods and services is common. Oder newlyweds may bring children into marriage and this will affect consumption patterns of the family depending on the ages and genders of the kids.

3. **Young couples without children :** Young couples, aged 30-39 married without children, number 3.80 million. These consumers are highly educated professionals earning people, who live mostly in cities. Young couples without children whether professional or other jobs, spend more time and money entertaining friends or relatives at home, going to bars or nightclubs, dancing and dinning out than do such couples with children. They consume above-average quantities of distilled spirits and bottled water. This group is more likely to travel overseas, purchase fine china and crystal, invest in collections of antiques and art and remodel their homes. Not big investors, they prefer to spend rather than save. The professional young couples frequently read magazines and watch less television.

4. **Married couples with children :** Married couples with children are divided into two groups with very different lifestyles-dual earner couples and other married couples (typically a working member and a homemaker member). Dual earner couples make more money than other married couples. They have less free time, and their home life is often more hectic. The age of the children directly affect the consumption patterns of the family. Having preschool children brings the need for day care, baby foods, and early child development learning materials and so on.

When the children enter grade school, there are needs such as school clothes, sports equipments, skill lesion (dance, music, sports etc), youth group activity support and peer influenced clothing and music. Having preteens in the family also affects product and services needs.

5. **Household with teenagers :** In the majority of household both spouse are employed. Households with teen agers tend to buy more than average quantities of brownie and cookie mixes, ice creams, ice milk, snack cakes, salty snacks, frozen pizza, pizza mixes. They are typically own cars, motorcycle, recreational vehicles, audio equipments and compact discs. Television viewing includes late night movies, early morning news and weekend sports.

11.9 SUMMARY

Market segmentation is important as it help the firm to get customer focused. There are different bases that can be used to segment the consumer market. In fact, each customer characteristic is used successively to arrive at the target market. Thus market segmentation is a customer strategy. The market segmentation approach is now also being used by industrial marketers who use size, buying motives, end user characteristics, and geography as the bases to segment their markets.

Every human society has some type of social class structure which divides its member into hierarchical groups. Within these social classes, social groups tend to form and it is this group that is responsible for transmitting the behavior patterns. Several factors distinguish these groups including occupation, wealth, education, possessions and values.

The family has an institutional position in larger society and provides the primary setting for consumer socialization, whereby children learn consumer tastes, preferences and shopping styles. Family influence is an important factor in developing marketing strategy.

The family also has a life cycle that determines its needs and expenditure patterns at different points in its development.

11.10 KEY WORDS

Market Potential : Market potential is the entire size of the market for a product at a specific time.

Social Class : The division of members of a society into a hierarchy of distinct status classes so that, member of each class have the same status and members of all other classes have either higher or lower status.

Social class hierarchy : The grouping of members of society according to status high to low.

Family Life Cycle : The idea that families move through a series of stages in a developmental fashion.

consumer socialization : The process by which we learn to become consumers. Or the process by which the young people acquire skills, knowledge and attitudes relevant to their functioning as consumer.

Extended family : The nuclear family plus relatives such as grandparents, aunts, uncles, and cousins.

Hierarchy of effects : Sequential steps used in decision making involving thinking, feeling, then behavior.

Social relevance : The extent to which an innovation can be observed or the extent to which having others observe it has social cachet.

Social risk : Potential harm to one's social standing that may arise from buying, using or disposing of an offering.

Total market potential : The total possible sales of the product by all competitors.

11.11 SELF ASSESSMENT QUESTIONS

1. What is target market?
2. How market segmentation divide the market?
3. Explain Psychographic characteristic in market segmentation?
4. What is market potential and how it is analyze?
5. Define family life cycle? Describe various stages of family life cycle?

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UNIT-12 PRODUCT DECISION AND STRATEGIES FOR CONSUMERS

Objectives

After reading this unit, you should be able to understand:

- The product, types of product and its dimensions
- The marketing strategy for different types of product
- The product line decision and its importance in the overall business strategy
- Diversification of product line decision

Structure

12.1 INTRODUCTION

To study the various elements marketing mix, it is essential to appreciate that the most crucial element in it is the product. Most of the time product fails not because of quality but because they fail to live up to the customers' expectations. The product is much more than just a bundle of physical attributes. It is the total concept that the customer buys. Product includes both good and service. Marketer should consider product benefits and services, instead of product itself.

Marketing is a strategy used by companies to communicate with the consumer and make him knowledgeable about the various features of their products and services.

12.2 PRODUCT AND ITS TYPES

Product is one of the important elements of marketing mix. A marketer can satisfy consumer needs and wants through product. A product consists of both good and service. Decisions on all other elements of marketing mix depend on product. For example, price is set for the product; promotional efforts are directed to sell the product; and distribution network is prepared for the product. Product is in the center of marketing programme. Therefore, product has a major role in determining overall success of marketing efforts.

A marketer tries to produce and sell such products that satisfy needs and wants of the target market. Other words used for product are good, commodity, service, article, or object. In marketing literature, product has comprehensive meaning.

According to Philip Kotler "Product is anything that can be offered to someone to satisfy a need or a want."

According to William Stanton "Product is complex of tangible and intangible attributes, including packaging, colour, price, prestige, and services, that satisfy needs and wants of people."

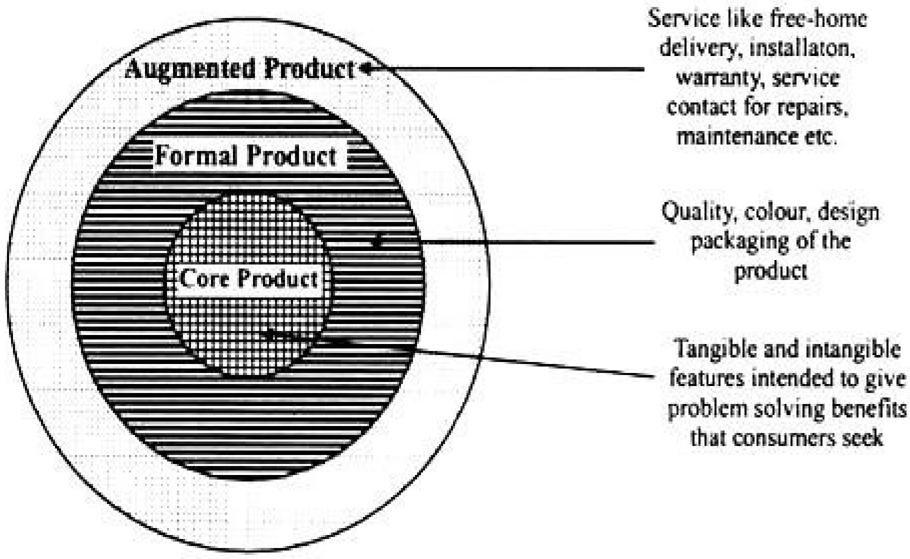
According to W. Alderson "Product is a bundle of utilities, consisting of various product features and accompanying services."

Thus, Product is a vehicle or medium that delivers service to customers. Further it can be said that Product is a bundle of benefits- physical and psychological- that marketer wants to offer, or a bundle of expectations that consumers want to fulfill. Marketer can satisfy needs and wants of target consumers by products. Product includes both good and service. Normally, product is taken as a tangible object, such as a pen, television set, bread, book, vehicle, table, etc. But, tangible product is a package of services or benefits.

Marketer should consider product benefits and services, instead of product itself. Importance lies in the services rendered by the product, and not tangible object itself. People are not interested just possessing products, but the services rendered by the products.

For examples, we do not buy a pen, but writing service. Similarly, we do not buy a car, but transportation service. Just owning product is not enough. It must serve our need and want. Thus, physical product is just a vehicle or medium that offer services, benefits, and satisfaction to us.

Product can also be referred as a bundle of satisfaction, physical and psychological both. On the basis of the above description of the term product, we can identify three dimensions of products viz. core product, formal product and augmented product:



(i) Core Product :

It is a bundle of tangible and intangible features of the product; which impart it a problem solving capacity to fulfill that need of consumer, for which he/she buys the product. Core product includes basic contents, benefits, qualities, or utilities.

(ii) Formal Product:

It means the formal form, in which the product is presented in the market and by which consumer recognizes it. It includes things, like colour, design, style, quality, brand name and packaging of the product; which give it a formal shape for recognition and buying.

(iii) Augmented Product:

This dimension of the product is very important in today's highly competitive market. It includes services provided/ promised by the dealer along with the product e.g. free-home delivery, instructions for use of the product, installation facility, warranty/guarantee, service contact for repairs, maintenance, after-sales service etc. As per the definition, anything which can satisfy need and want of consumers is a product. Thus, product may be in form of physical object, person, idea, activity, or organisation that can provide any kind of services that satisfy some customer needs or wants.

12.3 PRODUCT DIMENSIONS

Different people view product differently. Similarly, their expectations are different. The different views or ways to see or perceive the product can be said as product dimensions.

1. **Managerial Dimension :** According to management, a product is viewed as the total product. It includes all those tangible and non-tangible aspects that management wants to offer. Managerial dimension of product covers mainly core products, product-related features, and product-related services.
2. **Consumer Dimension:** To consumers, a product is a bundle of expectations. They view product as a source of expectations or satisfaction. Thus, for consumer, total benefits received from product are important. This view is very important for a marketer.
3. **Social Dimension:** Society considers the product as a source of long-term welfare of people. Society expects high standard of living, safety, protection of environment, and peace in society.

12.4 CHARACTERISTICS OF PRODUCT

Product has following features:

1. Product is one of the elements of marketing mix or programme.
2. Different people perceive it differently. Management, society, and consumers have different expectations.
3. Product includes both good and service.
4. Marketer can actualize its goals by producing, selling, improving, and modifying the product.
5. Product is a base for entire marketing programme.
6. In marketing terminology, product means a complete product that can be sold to consumers. That means branding, labeling, colour, services, etc., constitute the product.
7. Product includes total offers, including main qualities, features, and services.
8. It includes tangible and non-tangible features or benefits.
9. It is a vehicle or medium to offer benefits and satisfaction to consumers.
10. Important lies in services rendered by the product, and not ownership of product. People buy services, and not the physical object.

12.5 TYPES OF PRODUCT

A company sells different products (goods and services) to its target market.

They can be classified into two groups:

1. Consumer Product, and
2. Industrial Products

1. Consumer Products :

Consumer products are those items which are used by ultimate consumers or households and they can be used without further commercial and engineering processes.

Consumer products can be divided into four types:

i. Convenient Products :

Such products improve or enhance users' convenience. They are used in a day-to-day life. They are frequently required and can be easily purchased. For example, soaps, biscuits, toothpaste, razors and shaving creams, newspapers, etc. They are purchased spontaneously, without much consideration, from nearby shops or retail malls.

ii. Shopping Products :

These products require special time and shopping efforts. They are purchased purposefully from special shops or markets. Quality, price, brand, fashion, style, getup, colour, etc., are important criteria to be considered. They are to be chosen among various alternatives or varieties. Gold and jewelleries, footwear, clothes, and other durables (including refrigerator, television, wrist washes, etc.).

iii. Durable Products :

Durable products can last for a longer period and can be repeatedly used by one or more persons. Television, computer, refrigerator, fans, electric irons, vehicles, etc., are examples of durable products. Brand, company image, price, qualities (including safety, ease, economy, convenience, durability, etc.), features (including size, colour, shape, weight, etc.), and after-sales services (including free installation, home delivery, repairing, guarantee and warrantee, etc.) are important aspects the customers consider while buying these products.

iv. Non-durable Products :

As against durable products, the non-durable products have short life. They must be consumed within short time after they are manufactured. Fruits, vegetables, flowers, cheese, milk, and other provisions are non-durable in nature. They are used for once. They are also known as consumables. Mostly, many of them are non-branded. They are frequently purchased products and can be easily bought from nearby outlets. Freshness, packing, purity, and price are important criteria to purchase these products.

v. Services :

Services are different than tangible objects. Intangibility, variability, inseparability, perishability, etc., are main features of services. Services make our life safe and comfortable. Trust, reliability, costs, regularity, and timing are important issues.

The police, the post office, the hospital, the banks and insurance companies, the cinema, the utility services by local body, the transportation facilities, and other helpers (like barber, cobbler, doctor, mechanic, etc.,) can be included in services. All marketing fundamental are equally applicable to services. 'Marketing of services' is the emerging facet of modern marketing.

2. Industrial Products :

Industrial products are used as the inputs by manufacturing firms for further processes on the products, or manufacturing other products. Some products are both industrial as well as consumer products. Machinery, components, certain chemicals, supplies and services, etc., are some industrial products.

Again, strict classification in term of industrial consumer and consumer products is also not possible, For example, electricity, petroleum products, sugar, cloth, wheat, computer, vehicles, etc., are used by industry as the inputs while the same products are used by consumers for their daily use as well.

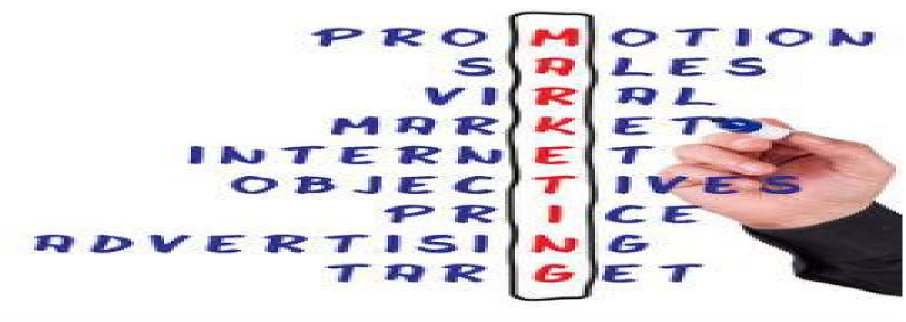
Some companies, for example, electricity, cements, petrol and coals, etc., sell their products to industrial units as well as to consumers. As against consumer products, the marketing of industrial products differs in many ways.

Industrial products include:

1. Machines and components
2. Raw-materials and supplies
3. Services and consultancies
4. Electricity and Fuels, etc.

12.6 MARKETING STRATEGY

Marketing is a strategy used by companies to communicate with the consumer and make him knowledgeable about the various features of their products and services. It is an essential part of attracting the target buyers to a particular product, and companies use various innovative or tried-and-tested techniques to stay ahead of their competitors and make their place in the market. Here are some of the most popular and effective types of marketing :



Affinity Marketing – Also known as Partnership Marketing, this technique links complementary brands, thereby creating strategic partnerships that benefit both companies. While one adds value to existing customers by generating more income, the other builds new customer relationships.

Alliance Marketing – Here two or more entities come together to pool in their resources to promote and sell a product or service, which will not only benefit their stakeholders, but also have a greater impact on the market.

Ambush Marketing – This strategy is used by advertisers to capitalize on and associate themselves with a specific event without the payment of any sponsorship fee, thereby bringing down the value of sponsorship. It has sub-categories like direct or predatory ambushing or indirect ambushing by association, to name a few.

Call to Action (CTA) Marketing – CTA is a part of inbound marketing used on websites in the form of a banner, text or graphic, where it is meant to prompt a person to click it and move into the conversion funnel, that is, from searching to navigating an online store to converting to a sale.

Cause Marketing : Finding a cause both your customers and your company cares about can create magic for your business. This requires internal knowledge about what your organization cares about and who they want to help in the world. A good example of this is Toms Shoes. Instead of doing the traditional "buy one get one free" promotion, Toms built a strong customer following and reputation for giving back by giving away a free pair of shoes to someone in need for every shoe purchase made by their customers.

Close Range Marketing (CRM) – Also known as Proximity Marketing, CRM uses Bluetooth technology or Wi-Fi to promote their products and services to their customers at close proximity.

Cloud Marketing – This refers to the type of marketing that takes place on the internet, where all the marketing resources and assets are transferred online so that the respective parties can develop, modify, utilize and share them.

Community Marketing – This technique caters to the needs and requirements of the existing customers, as opposed to using resources to gather new consumers. This promotes loyalty and product satisfaction and also gives rise to word of mouth marketing among the community.

Content Marketing – In this case, content is created and published on various platforms to give information about a certain product or service to potential customers and to influence them, without making a direct sales pitch.

Cross-media Marketing – As the name suggests, multiple channels like emails, letters, web pages etc are used to give information about products and services to customers in the form of cross promotion.

Database Marketing – This utilizes and information from database of customers or potential consumers to create customised communication strategies through any media in order to promote products and services.

Digital Marketing – This strategy uses various digital devices like smartphones, computers, tablets or digital billboards to inform customers and business partners about its products. Internet Marketing is a key element in Digital Marketing.

Direct Marketing – This is a wide term which refers to the technique where organizations communicate directly with the consumer through mail, email, texts, fliers and various promotional materials.

Diversity Marketing – The aim of this strategy is to take into account the different diversities in a culture in terms of beliefs, expectations, tastes and needs and then create a customized marketing plan to target those consumers effectively.

Evangelism Marketing – It is similar to word-of-mouth marketing, where a company develops customers who become voluntary advocates of a product and who promote its features and benefits on behalf of the company.

Email Marketing : As soon as customers migrated into the online world, Internet marketers have attempted to collect and organize emails for potential prospects. Many business-to-business marketers depend on email marketing as a primary way to connect with customers. At industry tradeshows, IBM consultants can often be seen exchanging email information with their prospects.

Freebie Marketing – Here a particular item is sold at low rates, or is given away free, to boost the sales of another complimentary item or service.

Free Sample Marketing – Unlike Freebie Marketing, this is not dependent on complimentary marketing, but rather consists of giving away a free sample of the product to influence the consumer to make the purchase.

Guerrilla Marketing – Unconventional and inexpensive techniques with imagination, big crowds and a surprise element are used for marketing something, a popular example being flash mobs.

By keeping in mind the distinctive features of the product, the demographics of the target consumer and their spending power, and the current strategies of existing companies, an effective marketing strategy may be successfully created.

Mass Marketing : Major corporations need to drive large numbers of purchasing of their products in order to survive and grow. While mass marketing may seem like a shotgun approach to marketing this is far from the truth. Big businesses spend big money in understanding big data–thats a lot of bigs!) This gives them an insight to where to place media for their potential national customers who buy their products and services. Walmart is an example of an effective mass market retailer. As the number one retailer in the world, they are very smart about their mass marketing efforts, often giving their customers a feeling of locality and warmth.

Newsletter Marketing : A fun way to promote a business is to write a newsletter that highlights some of the newsworthy things that have happened for the organization. The Motley Fool have been sharing their investment insights with their community for many years. These newsletters create a sense of inclusion and participation with their members and has provided a key driver for their incredible growth.

Online Marketing : As commerce has propagated to the Internet, a new form of marketing has emerged. From online banners to those annoying pop ups, online marketers have attempted to get their customers attention any way they can. Most online strategic marketing efforts today are a mix of growth hacking strategies (A/B testing taken to the max) and a variety of awareness tactics that drive attention. A very effective online marketer is the insurance company who simply asks their users to enter their zip code for an instant quote on a better savings.

Offline Marketing : With mass adoption of the Internet, many companies are finding new ways of integrating offline marketing with new technologies to create more engaging customer experiences. The Coca-Cola company has create vending machines that invite customers to hug them. This continues to tie the Coca-Cola brand to the core emotion of happiness, but also invite customers to experience the real product offline.

Outbound Marketing : Sometimes it's important for companies to let their potential customers know they exist. By developing a list of prospects a company can begin to reach out to their individual target groups in order to find new customers. When Microsoft was selling their accounting software they often used outbound marketing to identify potential targets before trying to call the companies for an in-person meeting.

PR Marketing : One of the most important marketing strategies is public relations. Many effective marketers work with the media to bring awareness to their products and the benefits their products offer. Also, in many cases where things go wrong, a good PR marketing strategy is vital. When Apple's founder Steve Jobs was alive, Apple held a major press conference to announce every new product. This tradition is now continued by their new Apple CEO and CMO.

Relationship Marketing : Many companies focus on building relationships with their customers instead of always exclusive trying to sell them something (transactional marketing). Customers who love your brand more will also spend more money with your brand. Many traditional retailers have found this to be true. Walgreens has seen that customers who buy from all of their purchasing channels (store, web, mobile, etc) buy up to six times more than the average customer that only buys in their store.

Scarcity Marketing : In some markets it's important to control how much product is available at one time. In many cases this is done because of the difficulty of acquiring raw materials or higher quality of the product. A company may choose to make their products accessible to only a few customers. Rolls-Royce's release of their Chinese edition car called Phantom sold quickly. While the cost of the car was higher than most cars the scarcity drove the desire and the price.

Transactional Marketing : Driving sales can be challenging, especially for retailers that have to consistently sell products in high volume to consumers. In order to stay with the demands of investors, retailers have to encourage consumers to buy using coupons, discounts, liquidations, and sales events. High volume big-box retailers like Target are constantly running promotional events in order to get interested consumers into their stores.

Article Marketing : In industries where expertise is highly valued, articles can offer a powerful tool to showcase your knowledge and expertise. Some innovations are shared in the form of articles or white papers where technical information needs to be convey to specialized buyers. Amazon.com has dedicated part of their site for white papers on technical know-how on cloud computing. This is a very sophisticated form of marketing for specialized buyers.

Content Marketing : Write and publish content to educate potential customers about your products and services. For the appropriate businesses, this can be an effective means of influencing them without using direct selling methods.

Social Media Marketing : Social media sites like Facebook and Twitter offer a unique opportunity for savvy businesses willing to invest in customer engagement. Social media marketing is still in its infancy but is growing up rather quickly. Companies like Southwest Airlines have departments of over 30 people whose primary responsibility is to actively engage with customers on social media.

Cross-Media Marketing : Provide customers information through multiple channels like email, physical mail, websites, and print and online advertisements to cross promote your products and services.

B2B Marketing : Business-to-business marketing is a marketing practice of individuals or organizations (including commercial businesses, governments, and other institutions). It allows businesses to sell products or services to other companies or organizations that in turn resell the same products or services, use them to augment their own products or services, or use them to support their internal operations. International Business Machines is a well known B2B marketer. IBM's business has grown because taking a very intelligent approach at marketing their products to other business and governments around the world.

Promotional Marketing : Promotional marketing is a business marketing strategy designed to stimulate a customer to take action towards a buying decision. Promotional marketing is a technique that includes various incentives to buy, such as:

- Contests : We all enjoy winning something for free. Contests offer an attractive marketing vehicle for small business to acquire new clients and create awareness.
- Coupons: According to CMS, a leading coupon processing agent, marketers issued 302 billion coupons in 2007, a 6% increase over the previous year. Over 76% of the population use coupons, according to the Promotion Marketing Association (PMA) Coupon Council. Coupons still work and provide an affordable marketing strategy for small business.
- Sampling: Try before you buy. Giving away product might appear profit-limiting, but consider how giving your customers a small taste can lead to a big purchase. Retail genius Publix supermarkets share samples of their award-winning key lime pie

not because people question the goodness of the pie but to get their customers to buy more.

B2C Marketing : The ultimate goal of B2C marketing (business-to-consumer marketing) is to convert shoppers into buyers as aggressively and consistently as possible. B2C marketers employ merchandising activities like coupons, displays, store fronts (both real and online) and special offers to entice the target market to buy. B2C marketing campaigns are focused on a transaction, are shorter in duration, and need to capture the customer's interest immediately. These campaigns often offer special deals, discounts, or vouchers that can be used both online and in the store.

Reverse Marketing: In reverse marketing, the idea is to get the customer to seek out the business rather than marketers seeking the customer. Usually, this is done through traditional means of advertising, such as television advertisements, print magazine advertisements, and online media. While traditional marketing mainly deals with the seller finding the right set of customers and targeting them, reverse marketing focuses on the customer approaching potential sellers who may be able to offer the desired product.

In 2004, Dove launched the Dove Campaign for Real Beauty focusing on the natural beauty of women rather than advertising their product. This campaign caused their sales to soar above $1 Billion and caused Dove to re-create their brand around this strategy. Although successful, this campaign caused a lot of controversy and discussion due to what people saw as an advertisement with a contradictory message.

Telemarketing: Telemarketing can play an important part of selling your products to consumers and it must not be overlooked as many companies rely on it to connect with customers. Telemarketing (sometimes known as inside sales, or telesales in the UK and Ireland) is a method of direct marketing in which a salesperson solicits prospective customers to buy products or services, either over the phone or through a subsequent face to face or Web conferencing appointment scheduled during the call. Telemarketing can also include recorded sales pitches programmed to be played over the phone via automatic dialing. Telemarketing has come under fire in recent years, being viewed as an annoyance by many.

Free Sample Marketing: Unlike Freebie Marketing, this is not dependent on complementary marketing, but rather consists of giving away a free sample of the product to influence the consumer to make the purchase.

Direct Mail Marketing: A channel-agnostic form of advertising that allows businesses and nonprofits organizations to communicate directly with the customer, with advertising techniques that can include text messaging, email, interactive consumer websites, online display ads, fliers, catalog distribution, promotional letters, and outdoor advertising. Direct marketing messages emphasize a focus on the customer, data, and accountability.

Characteristics that distinguish direct marketing are:

- Marketing messages are addressed directly to the customer(s). Direct marketing relies on being able to address the members of a target market. Addressability comes in a variety of forms including email addresses, mobile phone numbers, Web browser cookies, fax numbers, and postal addresses.

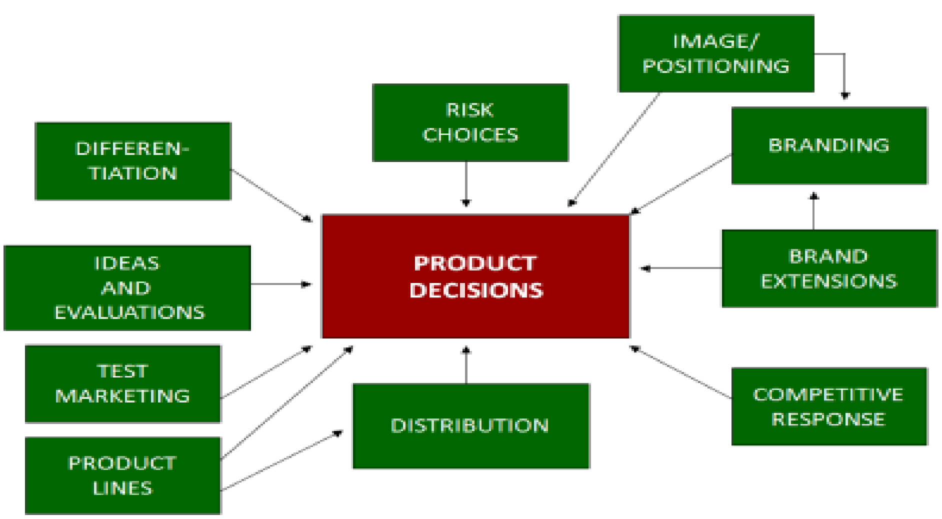
- Direct marketing seeks to drive a specific "call to action." For example, an advertisement may ask the prospect to call a free phone number or click on a link to a website.

- Direct marketing emphasizes trackable, measurable responses from customers regardless of medium.

- Direct marketing is practiced by businesses of all sizes—from the smallest start-up to the leaders in the Fortune 500. A well-executed direct advertising campaign can prove a positive return on investment by showing how many potential customers responded to a clear call-to- action. General advertising eschews calls-for-action in favor of messages that try to build prospects' emotional awareness or engagement with a brand. Even well-designed general advertisements rarely can prove their impact on the organization's bottom line.

12.7 PRODUCT LINE DECISIONS – BUILDING A PRODUCT LINE

A product line is a group of products that are closely related because they function in a similar manner, are sold to the same customer groups, are marketed through the same types of outlets, or fall within given price ranges (Philip Kotler and Ronald E. Turner).



Each product line consists of product items, which should be evaluated. First, product-line managers must know the sales and profits of each item in the line. Second, they must know how their product line compares with competitors' product lines in the same markets. This provides information needed for making several product-line decisions.

One of the major issues facing product line managers is the optimal length of the product line. The issue of product-line length is influenced by company objectives. A manufacture can systematically enlarge the length of its product line in two ways: by stretching its line and by filling its line. Line stretching involves the question of whether a particular line should be extended downward, upward, or both ways. Line filling raises the question of whether additional items should be added within the present range of the line.

In some case, product length is adequate, but the line needs to be modernized. Line featuring raises the question of which items to feature in promoting the line. Line pruning raises the question of how to detect and remove weaker product items from the line.

Individual Product Decisions: Individual product decisions include the following product decisions: product attributes (quality, features, and design), branding, and packing and labelling. Brand decisions can add great value to a product and is therefore an intrinsic aspect of product strategy. The key brand decisions are:

Branding Decisions

The first decision is whether the company should put a brand name on its product.

Brand-sponsor Decisions

The product may be launched as a manufacturer-owned brand, or it may be launched as a licensed name brand.

Family-brand Decisions

At least four brand-name strategies can be distinguished: individual brand names, a blanket family name for all products, company trade name combined with individual product names.

Brand-extension Decisions

A brand-extension strategy is any effort to extend a successful brand name to launch new or modified products or lines.

Multibrand Decisions:

In a multibrand strategy, the seller develops two or more brands in the same product category.

Brand-repositioning Decisions

The company sometimes must decide whether to reposition any of the brands.

12.8 PRODUCT LINE DIVERSIFICATION STRATEGY

The growth objectives of a firm are quite restricted when the established product lines crosses its growth limit. These objectives are further depressed when the company faces problems in maintaining its market share or is on the verge of dying. In such circumstances, its future can be safeguarded, if adequate and timely decisions are taken on the **diversification** of the product line. The product line diversification takes place when the company seeks to enter new market segments with a completely different product or products. Generally speaking, **product line diversification** policies aim at exploring new avenues of growth opportunities, sales stability and higher profitability. However, the firm's object in this context varies considerably. Some firms give due importance for diversification in order to survive while others diversify to grow and prosper; and yet others to reduce their costs. In the present case, when competition is very intense, "diversify or die" becomes the need of the hour for the marketers. There are three types of diversification: concentric, horizontal, and conglomerate.

Concentric diversification

This means that there is a technological similarity between the industries, which means that the firm is able to leverage its technical know-how to gain some advantage. For example, a company that manufactures industrial adhesives might decide to diversify into adhesives to be sold via retailers. The technology would be the same but the marketing effort would need to change.

It also seems to increase its market share to launch a new product that helps the particular company to earn profit. For instance, the addition of tomato ketchup and sauce to the existingc"Maggi" brand processed items of Food Specialties Ltd. is an example of technological-related concentric diversification.

The company could seek new products that have technological or marketing synergies with existing product lines appealing to a new group of customers. This also helps the company to tap that part of the market which remains untapped, and which presents an opportunity to earn profits.

Horizontal diversification

The company adds new products or services that are often technologically or commercially unrelated to current products but that may appeal to current customers. This strategy tends to increase the firm's dependence on certain market segments. For example, a company that was making notebooks earlier may also enter the pen market with its new product.

Horizontal diversification is desirable if the present customers are loyal to the current products and if the new products have a good quality and are well promoted and priced. Moreover, the new products are marketed to the same economic environment as the existing products, which may lead to rigidity or instability.

Horizontal integration occurs when a firm enters a new business (either related or unrelated) at the same stage of production as its current operations. For example, Avon's move to market jewellery through its door-to-door sales force involved marketing new products through existing channels of distribution. An alternative form of that Avon has also undertaken is selling its products by mail order (e.g., clothing, plastic products) and through retail stores (e.g. Tiffany's). In both cases, Avon is still at the retail stage of the production process.

Conglomerate diversification (or lateral diversification):

Conglomerate diversification is designed to take advantage of growth opportunities without bothering about any synergistic effect. Under such a diversification programme, although financial considerations are dominant, product consideration does play a vital role.

Marketers have identified five ways of diversification. These are:

1. **Synergistic Diversification**

   In synergistic diversification**,** new products are marketed. When the resources for manufacturing and marketing are highly compatible with the existing resources of the firm, the synergies sport from commonalities in the production process R & D facilities, sales-force competence, and distribution network. The Bush Company, by resorting to synergistic diversification, has profitably expanded its market for a wide variety of its products, such as radios, transistors, two- in-one, three-in-one recorders, TV (colored and black and white) and videos.

2. **Conglomerate Diversification**

   Conglomerate diversification is designed to take advantage of growth opportunities without bothering about any synergistic effect. Under such a diversification programme, although financial considerations are dominant, product consideration does play a vital role.

3. **Product Line Extension**

   Product line extension is another form of diversification that aim at reaching those market segments which the firm has not yet penetrated. **Product line extension** may be valid if it is an area in which the consumers enjoy a wide variety of brands to choose from and are accustomed to switch over from one to another, or if the competitors lack a comparable product or if they have themselves expanded into these areas. The Bakeman, the well-known biscuit producers, have extended their product line by adding bread, cake and confectionery to their existing line. Similarly, VIP, a leading producer of vests and briefs, has added socks and panties to its product line. Extension in the present product mix may be done by increasing the number of lines and / or the depth within a line. Such new lines may be related or unrelated to the present products. For example, a large provision stores may add drugs, cosmetics and housewares (width), while at the same time, increasing its assortments of dry fruits, baby foods, detergents (depth), etc.

4. Product Proliferation

Proliferation is a limited form of diversification. It involves the development of new varieties of an initial product or of take-offs that are similar to that product (not being a new product). When the manufacturer of biscuits adds a new flavor, such as orange or pineapple, there is a product proliferation, for there is nothing new to be mastered or risked.

5. New-Field Entry

It involves the entry of a firm in those categories of products which are new to it. In this type of diversification, the firm starts producing those goods which are quite unrelated to its product line. For instance, a confectionery firm may diversify its product line by producing frozen foods or soaps, etc. The Bakemans, well-known biscuit manufacturers, have profitably expanded their export market by diversifying into soap and detergents. Similarly, the Reliance Group, besides producing textiles, caters to the needs of the chemicals market.

A firm may resort to more than one **type of diversification** at a time. For instance, a paint manufacturer may, for a long-range product, think of entering the market for Sunmica; for an intermediate range, it can go in for paints that are pollution-resistant. On a short-term basis, it may diversify into the production of bright and sophisticated looking paints which bear more a bright and pleasing look.

Occasionally, there are some specific reasons for resorting to diversification. For instance, textile industries producing sarees may find it desirable to bring out sarees of different types to cater to the needs of different classes of buyers. Lakme, by diversifying, has profitably extended its export cosmetic market.

12.9 SUMMARY

Product is the heart or core of any successful marketing strategy. It is an important element that provides competitive advantage to a firm. As the environment becomes more complex and technology is easily accessible to all firms, products become undifferentiated. All firms offer the same level of quality features; warranties etc. and are identical in respect of the core product. It is in this sense that the formal or expected product is identical among competing firms.

Tomorrow's competitive advantage will accrue from augmented and potential product. The range of products a firm markets is called its product mix. The marketer has to take the strategic decisions that affect breadth and depth of his product mix. He should also be able to use the product line decision concept to effectively plan the strategy and customize it to local market.

12.10 KEY WORDS

Marketing : A social and managerial process whereby individuals and groups obtain what they need and want through creating and exchanging products and value with others.

Product : Anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or need. It includes physical objects, services, persons, places, organizations, and ideas.

Product line : The collection of products in a company that are closely related to some way to one other.

Customer value : The difference between the values the customer gains from owning and using a product and the costs of obtaining the product.

Customer satisfaction : The extent to which a product's perceived performance matches a buyer's expectations. If the product's performance falls short of expectations, the buyer is dissatisfied. If performance matches or exceeds expectations, the buyer is satisfied or delighted.

Diversification : A strategy for company growth by starting up or acquiring businesses outside the company's current products and markets.

12.11 SELF ASSESSMENT QUESTIONS

1. Define product and gives various types of product?
2. What are durable and non-durable products?
3. What are marketing strategies for the different types of product?
4. What is product line decision? Give its diversification strategies?

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PRODUCT AND BRANDING DECISIONS

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UNIT-13 PRODUCT LIFE CYCLE AND NEW PRODUCT DEVELOPMENT

Objectives

After reading this chapter, you should be able to understand:

- The product life cycle
- Elements of marketing mix
- The importance of new product in market strategy
- The process of new product development
- Marketing strategies at various stages of product life cycle

Structure

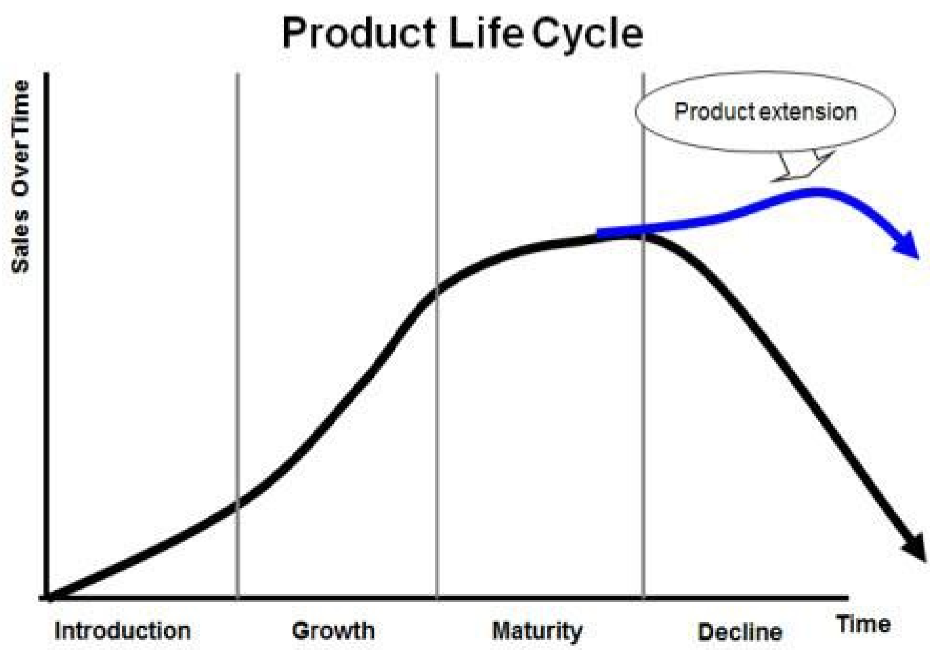
13.1 INTRODUCTION

The product life cycle reflects the sales and profit of a product over a period of time. Generally, most products follow an established path and the product life cycle curve in their case is S- shaped**.** PLC of any product consists of mainly of four phases: introduction, growth, maturity and decline. A new product is any product that is perceived by the customer as being new. The newness may perceived when the product has been either offered at a lower price or some modification has been made on it, or even offered in a new packaging. Factors contributing to new product development are primarily changes in a firm's marketing environment as also the organization mission and long term goals.

13.2 PRODUCT LIFE CYCLE

The **product life cycle** is an important concept in marketing. It describes the stages a **product** goes through from when it was first thought of until it finally is removed from the market. Not all **products** reach this final stage. Some continue to grow and others rise and fall.

The theory of a product life cycle was first introduced in the 1950s to explain the expected life cycle of a typical product from design to obsolescence, a period divided into the phases of product introduction, product growth, maturity, and decline. The goal of managing a product's life cycle is to maximize its value and profitability at each stage. Life cycle is primarily associated with marketing theory.



As consumers, we buy millions of products every year. And just like us, these products have a life cycle. Older, long-established products eventually become less popular, while in contrast, the demand for new, more modern goods usually increases quite rapidly after they are launched.

Because most companies understand the different product life cycle stages, and that the products they sell all have a limited lifespan, the majority of them will invest heavily in new product development in order to make sure that their businesses continue to grow.

Product Life Cycle Stages Explained

The product life cycle has 4 very clearly defined stages, each with its own characteristics that mean different things for business that are trying to manage the life cycle of their particular products.

Introduction Stage – This stage of the cycle could be the most expensive for a company launching a new product. The size of the market for the product is small, which means sales are low, although they will be increasing. On the other hand, the cost of things like research and development, consumer testing, and the marketing needed to launch the product can be very high, especially if it's a competitive sector.

Growth Stage – The growth stage is typically characterized by a strong growth in sales and profits, and because the company can start to benefit from economies of scale in production, the profit margins, as well as the overall amount of profit, will increase. This makes it possible for businesses to invest more money in the promotional activity to maximize the potential of this growth stage.

Maturity Stage – During the maturity stage, the product is established and the aim for the manufacturer is now to maintain the market share they have built up. This is probably the most competitive time for most products and businesses need to invest wisely in any marketing they undertake. They also need to consider any product modifications or improvements to the production process which might give them a competitive advantage.

Decline Stage – Eventually, the market for a product will start to shrink, and this is what's known as the decline stage. This shrinkage could be due to the market becoming saturated (i.e. all the customers who will buy the product have already purchased it), or because the consumers are switching to a different type of product. While this decline may be inevitable, it may still be possible for companies to make some profit by switching to less-expensive production methods and cheaper markets.

Product Life Cycle Examples

It's possible to provide examples of various products to illustrate the different stages of the product life cycle more clearly. Here is the example of watching recorded television and the various stages of each method:

1. Introduction – 3D TVs
2. Growth – Blueray discs/DVR
3. Maturity – DVD
4. Decline – Video cassette

The idea of the product life cycle has been around for some time, and it is an important principle manufacturers need to understand in order to make a profit and stay in business.

However, the key to successful manufacturing does not just understand this life cycle, but also proactively managing products throughout their lifetime, applying the appropriate resources and sales and marketing strategies, depending on what stage products are at in the cycle.

13.3 PROBLEMS WITH THE PRODUCT LIFE CYCLE THEORY

While the product life cycle theory is widely accepted, it does have critics who say that the theory has so many exceptions and so few rules that it is meaningless. Among the holes in the theory that these critics highlight:

- There is no set amount of time that a product must stay in any stage; each product is different and moves through the stages at different times. Also, the four stages are not the same time period in length, which is often overlooked.
- There is no real proof that all products must die. Some products have been seen to go from maturity back to a period of rapid growth thanks to some improvement or redesign. Some argue that by saying in advance that a product must reach the end of life stage, it becomes a self-fulfilling prophecy that companies subscribe to. Critics say that some businesses interpret the first downturn in sales to mean that a product has reached decline and should be killed, thus terminating some still-viable products prematurely.
- The theory can lead to an over-emphasis on new product releases at the expense of mature products, when in fact the greater profits could possibly be derived from the mature product if a little work was done on revamping the product.
- The theory emphasizes individual products instead of taking larger brands into account.
- The theory does not adequately account for product redesign and/or reinvention.

13.4 NEW PRODUCT DEVELOPMENT

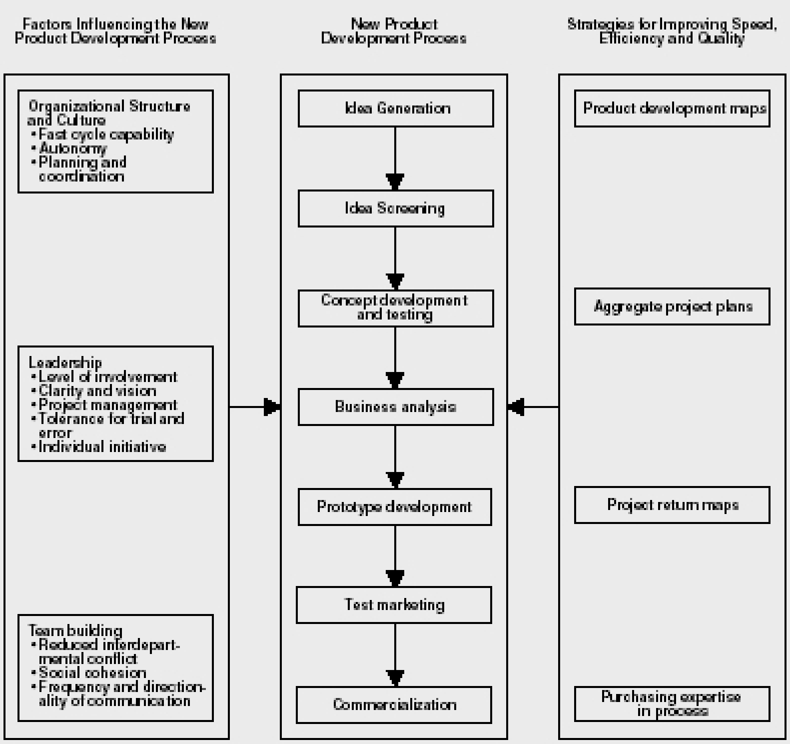
New product development is a task taken by the company to introduce newer products in the market. Regularly there will arise a need in the business for new product development. Your existing products may be technologically outdated, you have different segments to target or you want to cannibalize an existing product. In such cases, New product development is the answer for the company. There are 7 stages of new product development and they are as follows.

- **Idea generation** – in this you are basically involved in the systematic search for new product Ideas. A company has to generate many ideas in order to find one that is worth pursuing. The Major sources of new product ideas include internal sources, customers, competitors, distributors and suppliers. Almost 55% of all new product ideas come from internal sources according to one study. Companies like 3M and Toyota have put in special incentive programs or their employees to come up with workable ideas.

  Almost 28% of new product ideas come from watching and listening to customers. Customers: even create new products on their own, and companies can benefit by finding these products and putting them on the market like Pillsbury gets promising new products from its annual Bake-off. One of Pillsbury's four cake mix lines and several variations of another came directly from Bake-Off winners' recipes.

Figure 1

New Product Development Process, Factors and Strategies



- **Idea Screening :**The second step in New product development is Idea screening. The purpose of idea generation is to create a large pool of ideas. The purpose of this stage is to pare these down to those that are genuinely worth pursuing. Companies have different methods for doing this from product review committees to formal market research. It is helpful at this stage to have a checklist that can be used to rate each idea based on the factors required for successfully launching the product in the marketplace and their relative importance. Against these, management can assess how well the idea fits with the company's marketing skills and experience and other capabilities. Finally, the management can obtain an overall rating of the company's ability to launch the product successfully.

- **Concept Development and Testing –** The third step in New product development is Concept Development and Testing**.** An attractive idea has to be developed into a Product concept. As opposed to a product idea that is an idea for a product that the company can see itself marketing to customers, a product concept is a detailed version of the idea stated in meaningful consumer terms. This is different again from a product image, which is the consumers' perception of an actual or potential product. Once the concepts are developed, these need to be tested with consumers either symbolically or physically. For some concept tests, a word or a picture may be sufficient, however, a physical presentation will increase the reliability of the concept test. After being exposed to the concept, consumers are asked to respond to it by answering a set of questions designed to help the company decide which concept has the strongest appeal. The company can then project these findings to the full market to estimate sales volume.

- **Marketing Strategy Development –** This is the next step in new product development. The strategy statement consists of three parts: the first part describes the target market, the planned product positioning and the sales, market share and profit goals for the first few years. The second part outlines the product's planned price, distribution, and marketing budget for the first year. The third part of the marketing strategy statement describes the planned long-run sales, profit goals,
sales, costs and profits to find out whether they satisfy a company's objectives. If they do, the product can move to the product development stage.

- **Product Development –** Here, R&D or engineering develops the product concept into a physical product. This step calls for a large investment. It will show whether the product idea can be developed into a full- fledged workable product. First, R&D will develop prototypes that will satisfy and excite customers and that can be produced quickly and at budgeted costs. When the prototypes are ready, they must be tested. Functional tests are then conducted under laboratory and field conditions to ascertain whether the product performs safely and effectively.

- **Test Marketing –** If the product passes the functional tests, the next step is test marketing: the stage at which the product and the marketing program are introduced to a more realistic market settings. Test marketing gives the marketer an opportunity to tweak the marketing mix before the going into the expense of a product launch. The amount of test marketing varies with the type of product. Costs of test marketing can be enormous and it can also allow competitors to launch a "me-too" product or even sabotage the testing so that the marketer gets skewed results. Hence, at times, management may decide to do away with this stage and proceed straight to the next one:

- **Commercialization** – The final step in new product development is Commercialization. Introducing the product to the market-it will face high costs for manufacturing and advertising and promotion. The company will have to decide on the timing of the launch (seasonality) and the location (whether regional, national or international). This depends a lot on the ability of the company to bear risk and the reach of its distribution network.

Today, in order to increase speed to market, many companies are dropping this sequential approach to development and are adopting the faster, more flexible, simultaneous development approach. Under this approach, many company departments work closely together, overlapping the steps in the product development process to save time and increase effectiveness.

13.5 MARKETING STRATEGIES AT VARIOUS STAGES OF PRODUCT LIFE CYCLE

Product passes through four stages of its life cycle- introduction, growth, maturity and decline. Every stage poses different opportunities and challenges to the marketer. Each of stages demands the unique or distinguished set of marketing strategies. A marketer should watch on its sales and Product and Branding Decisions market situations to identify the stage in which the product is passing through, and accordingly, he should design appropriate marketing strategies. Here, strategy basically involves four elements – product, price, promotion, and distribution.

By appropriate combination of these four elements, the strategy can be formulated for each stage of the PLC. Every stage gives varying importance to these elements of marketing mix. Let us analyze basic strategies used in each of the stages of the PLC, as described by Philip Kotler.

Marketing Strategies for Introduction Stage:

Introduction stage is marked with slow growth in sales and a very little or no profit. Note that product has been newly introduced, and a sales volume is limited; product and distribution are not given more emphasis. Basic constituents of marketing strategies for the stage include price and promotion. Price, promotion or both may be kept high or low depending upon market situation and management approach. Observe fig.

Following are the possible strategies during the first stage:

promotion

		High	**Low**
Price	**High**	**Rapid Skimming Strategy**	**Slow Skimming Strategy**
	Low	**Rapid Penetration strategy**	**Slow Penetration strategy**

Fig. Marketing Strategies for Introduction Stage

1. **Rapid Skimming Strategy:**

   This strategy consists of introducing a new product at high price and high promotional expenses. The purpose of high price is to recover profit per unit as much as possible. The high promotional expenses are aimed at convincing the market the product merits even at a high price. High promotion accelerates the rate of market penetration, in all; the strategy is preferred to skim the cream (high profits) from market.

   This strategy makes a sense in following assumptions:

   - Major part of market is not aware of the product.
   - Customers are ready to pay the asking price.
   - There possibility of competition and the firm wants to build up the brand preference.
   - Market is limited in size.

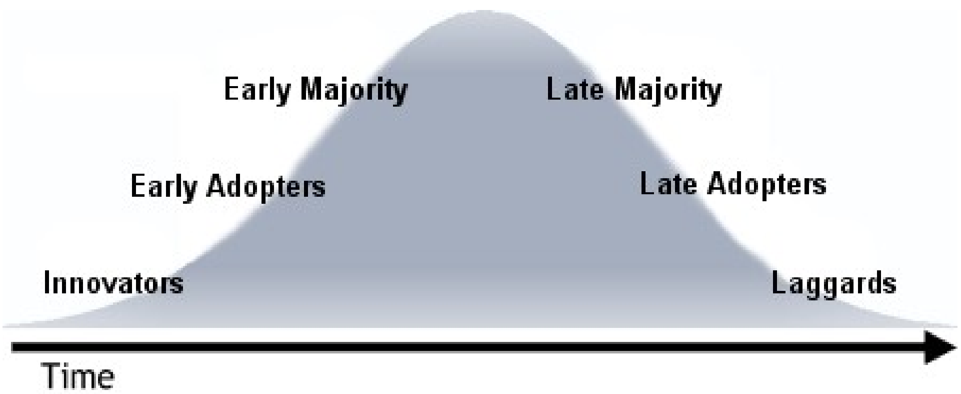
2. **Slow Skimming Strategy :**

   This strategy involves launching a product at a high price and low promotion. The purpose of high price is to recover as much as gross profit as possible. And, low promotion keeps marketing expenses low. This combination enables to skim the maximum profit from the market.

   This strategy can be used under following assumptions:

doctors adopt a new treatment technique, how farmers accept a new farming idea, and many other examples of the process of groups of people absorbing innovation.

Most of these studies show a common pattern in adoption of new ideas. They are accepted first by the innovators, who seldom make up more than 2-3 percent of the larger group. The innovators prove the idea works, but they have relatively little influence on the group as a whole. The idea takes off when it is taken up by the early adopters (who tend to be the opinion leaders) who are a second group of roughly 13 percent of the larger group. These are people smart enough to see what those innovators are doing, and influential enough to spread that idea into the next group, the early majority, which comprises approximately 24 percent of the larger group. This pattern continues through the remaining groups, as the bell chart shows below, with the percentages in reverse as the number of people reached increases.



When you're forecasting your market, particularly if you are looking at a new product and a new idea, the idea adoption model can help you improve your educated guessing. It's not magic, not even strictly mathematical, but it can help.

Adoption Model-Examples

Calculate what percent penetration your market has at present, how long the market has taken to get there, and extrapolate based on the adoption model to calculate the rest of the curve.

Example: If the Internet took six months to spread to three percent of the market (Innovators), you might expect it to reach 16 percent of the market in another six months (Innovators and Early Adopters), and 50 percent of the market in another six months (Innovators, Early Adopters, and Early Majority). That would be an extremely fast ramp-up, but it still might be valuable to help you estimate.

Another example : Look at another technology that took a long time to spread. If only three percent of the potential market is using it after 10 years, then it might take another 10 years to reach 16 percent of the market.

You have to be careful how you apply the basic idea to your market. If you define your potential market as 12 million people and after five years only 200,000 own this new type of product, then the product doesn't appeal to nearly as many people as you imagined, and you may have overestimated the potential market.

The Diffusion Model

You can model the spread of a product or idea on the spread of a disease, passed from one person to another. This is called diffusion. It can help you forecast a market.

Diffusion models were first used by health organizations to understand and predict the spread of contagious diseases. Market forecasters use them to simulate the spread of ideas, products, and techniques through groups of people.

Diffusion Model-Examples

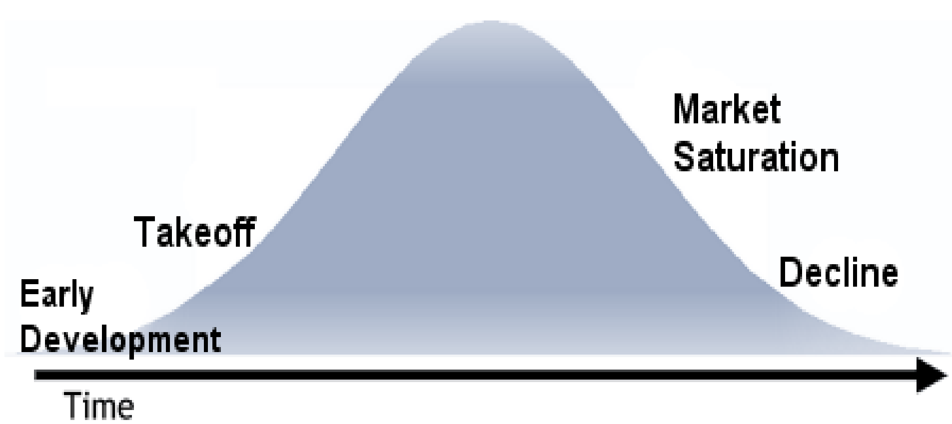
In the early 1980s I headed a consulting group asked by Apple Computer to analyze the spread of personal computers into the Latin American market. We used a diffusion model to do it. This is a good example of practical use of diffusion calculations.

Our analysis started with estimates of the U.S. population of knowledge workers. Apple had contracted an earlier study on this and had given us the estimate of 50 million. Using standard idea adoption research, as outlined earlier, we redefined our total population into the classifications of 1) Innovators, 2) Early Adopters, 3) Early Majority, and 4) Late Majority.

Product Life Cycle

Most products go through different stages of development, and those stages are reflected in the different growth rates expected at different stages. The important points are the takeoff point and the market saturation point.

The normal model of the product life cycle looks a lot like the same curve we use for tracking idea adoption, or the S-curve produced by the diffusion model.



In the early development stage, growth rates may be high, but very few units are involved. This is a new market just beginning to reach its potential consumers' minds and is even further from their pocketbooks. At this point, a few magazine articles begin to address this new technology. As Innovators begin to look for the product, the channels of distribution are set up.

Takeoff is when the market turns upward. Pioneer buyers have spread the word and the general public begins to buy. This is what happened when, for example, mall merchandisers began to sell a lot of home computers in 1982, or when color television sets took off in the 1960s. This is the stage all those people who invested in the early market are waiting for. Growth rates are still attractive, and volume has skyrocketed.

Growth rates decline when the market approaches saturation. At this point, most of the buyers who want the product have it. The market turns into a low-growth and replacement market, just as the markets for stoves and refrigerators did.

Using the Life Cycle in Forecasts

There are three keys to remember in using the product life cycle in your market forecasts:

1. Takeoff resembles a snowball, as it rolls down the hill gaining momentum, and the situation changes enormously.
2. Once markets get going, saturation will occur.
3. Each product has a different life cycle, some fast, some slow, and some unlike the normal pattern.

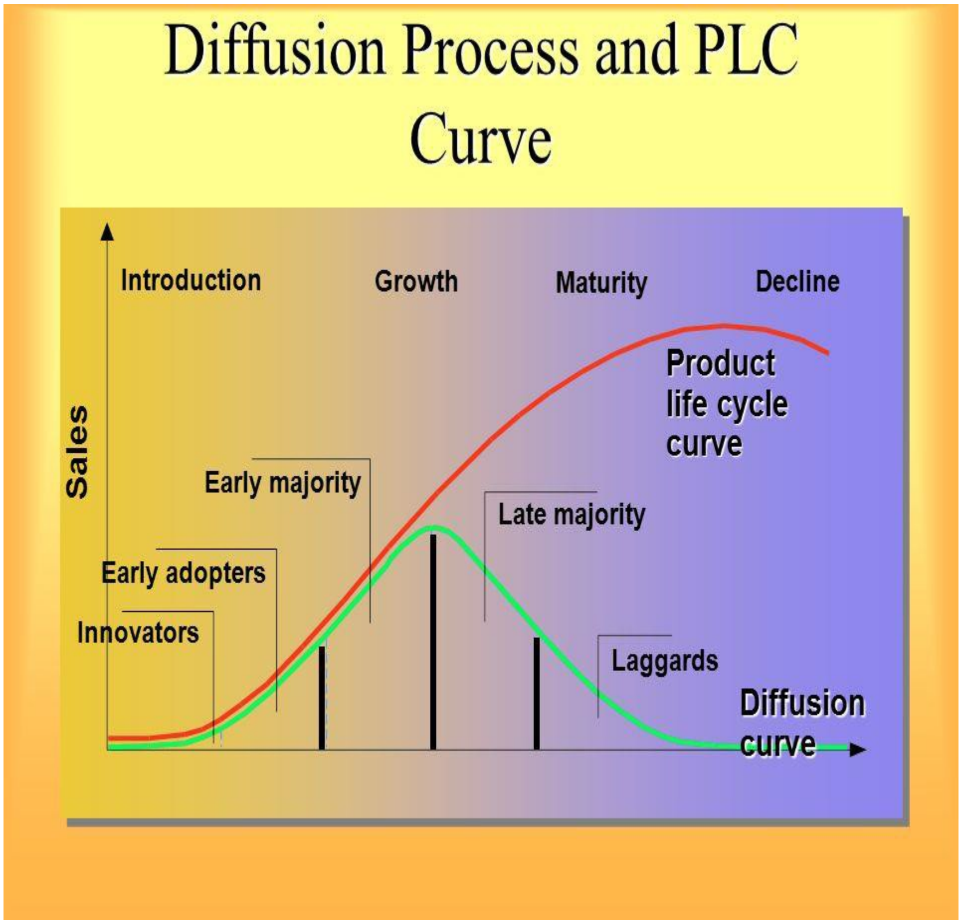
Takeoff is the trickiest stage. There are markets that never take off at all. Some companies spend years waiting for the snowballing affect to get started, and it never does. There are also markets that take off at odd moments, at times you would not normally expect, or after long periods of apparent smoldering. For example, the home computer boom was predicted as early as 1978, but didn't happen until 1982. Some companies went broke waiting for it. Others left this market and were not participating when the boom finally happened.

After takeoff, it's too easy to forget that market growth rates will eventually approach saturation and decline. Some of the color television people projected increasing growth through the 1970s and were caught off guard when the market moved up to about 10-15 million units per year and then stopped. The video market drew a crowd of new entrants in 1982 and then virtually stopped growing.

The speed of a life cycle is also hard to predict. The video game industry boomed and faded like a typical fad. The home computer industry will probably last longer before saturating its market; then it will become a replacement market. Much depends on what the product does for its buyers and on who those buyers are. Sometimes the standard idea adaptation research will help.

Product and Branding Decisions

Mature markets are by far the easiest to forecast. These have slow growth rates and little change from year to year. In these markets, the old-fashioned forecasting methods – such as taking the average growth rate of the last five years and projecting it into the next five years – work reasonably well.



13.7 SUMMARY

New product does not necessarily mean technological breakthroughs only. A product is new as long as customer perceives it to be so. In highly competitive market, new product strategy is one of the internal growth strategies. To make new product successful, the marketer should understand the process of new product development and also that of diffusion of new product, ideas or innovation in a given market. Cultural and social background, costs, risks, and perceived benefits go a long way in determining whether a new product will succeed. To communicate differentiation of a new product from competitors, a firm has to be competitively position them. Most products go through different stages of development, and those stages are reflected in the different growth rates expected at different stages. The important points are the takeoff point and the market saturation point. Most companies understand the different product life cycle stages, and that the products they sell all have a limited lifespan, the majority of them will invest heavily in new product development in order to make sure that their businesses continue to grow.

13.8 KEY WORDS

Product development : A strategy for company growth by offering modified or new prodcuts to current market segments. Developing the product concept into a physical product in order to ensure that the product idea can be turned into a workable product.

Product life cycle : The product 's stages of development, which consist of introductory, growth, maturity and decline stage.

Demand curve : A curve that specifies the quantities demanded at various prices at a given time.

Experience curve : A curve reflecting the fact that the costs of doing something tend to decrease as the organisation gains experience doing it.

Life cycle extension : The process of finding new uses for the same product by the same users.

Decline stage : A stage in which total demand decreases, leading to a further dropout of competitors until only a few remain.

13.9 SELF ASSESSMENT QUESTIONS

1. What factors contributes to the success or failure of a new product?
2. What is new product? Outline various stages of new product development?
3. Describe product life cycle?
4. Explain elements of marketing mix?
5. How diffusion method differ from the product life cycle?

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UNIT-14 BRANDING AND PACKAGING DECISION

Objective

After reading this unit, you should be able to understand:

- The meaning of brand name and trade mark
- Advantages and disadvantages of branding
- Branding strategies
- The concept of packaging and its functions

Structure

14.1 INTRODUCTION

Branding is one of the most effective and competitive tools in market. Therefore, it is important for the marketer to nurture it, to avoid any disasters. There has been a growing interest in the area of branding because brand represents the goodwill of the firm. Brand is a powerful differentiator in a highly competitive market place. It provides the company the power to deflect competitive moves. For example, Colgate the world's most valued brands; a strong brand rings trust, confidence, comfort, and reliability in the customer's mind. Brand, therefore, is an integral part of consumer life. To the company, a strong brand provides credibility and respect among its peers. A strong brand means higher market share, and hence higher shareholder value. Its even creates a positive motivational climate in the organization as employees take pride in remaining associated with it. Companies with strong brands attract the best talent among industry professionals.

14.2 BRAND NAME AND TRADE MARK

Brand names and trademarks are valuable assets to a business. Often a brand or trademark becomes synonymous with the product. For example, Xerox (R) is often used to mean copy. Because of this, many companies want to protect their brands from others who may try to copy or misrepresent the name.

A brand name identifies a specific product or name of a company. When a brand name is doing its job, it evokes positive images or emotions in consumers, which is why brand can be so valuable. And in some cases, the brand name becomes part of the everyday vernacular such as Kleenex (R) to mean tissue. Because of a brand name's importance, many companies want to protect it through trademark. A trademark is a registered brand or trade name. It can include any combination of a name, slogan, logo, sounds or colors that identify the company or its products or services. For example, the Nike Swoosh is a registered trademark.

The terms trade name and trademark sometimes confuse business owners and consumers because they sound similar, and a company may use its trade name in its trademark. Coca-Cola, for example, is famous for using its trade name in its trademark. Business owners or someone looking to start a business should know the difference between trade name and trademark because the law draws a distinction between them, and you could face a lawsuit if your trade name is sufficiently close to an already registered trademark.

Purpose

The goal of a brand name is to provide an easy to recognize and remember name that evokes a positive response in consumers. For example, many shoppers prefer to buy "brand name" products as opposed to the generic kind because of their perceived value. A trademark provides legal protection of the brand name. Through registration, the company is able to seek legal action against others who copy or use the brand without permission.

Function

Companies use trademarks to differentiate their goods from the products of their competitors, so consumers can instantly recognize the brand and develop brand loyalty. Trade names have a mostly administrative function, such as for filing a corporate tax return or for billing. You can, however, use a trade name in your trademark, according to the U.S. Small Business Administration.

<u>Difference between brand name and trade mark</u>

The process of branding includes the functions of giving brand name and trademark to any product. However, there are some differences between brand name and trademark. The difference between brand name and trademark can be mentioned as follows:

1. **Registration**

   Any name, word, letter, symbol, design or any sign composed by combining them is called brand. If the same sign is legally registered in the concerned government office, it called trademark.

2. **Legal Protection**

   Trademark is provided legal protection, No other company or firm can use this trademark except the producer or seller, which has got it registered. But brand or any symbol, sign can be used by other firms or competing companies. No legal action can be taken even if any company imitated a brand used by other company.

3. **Scope**

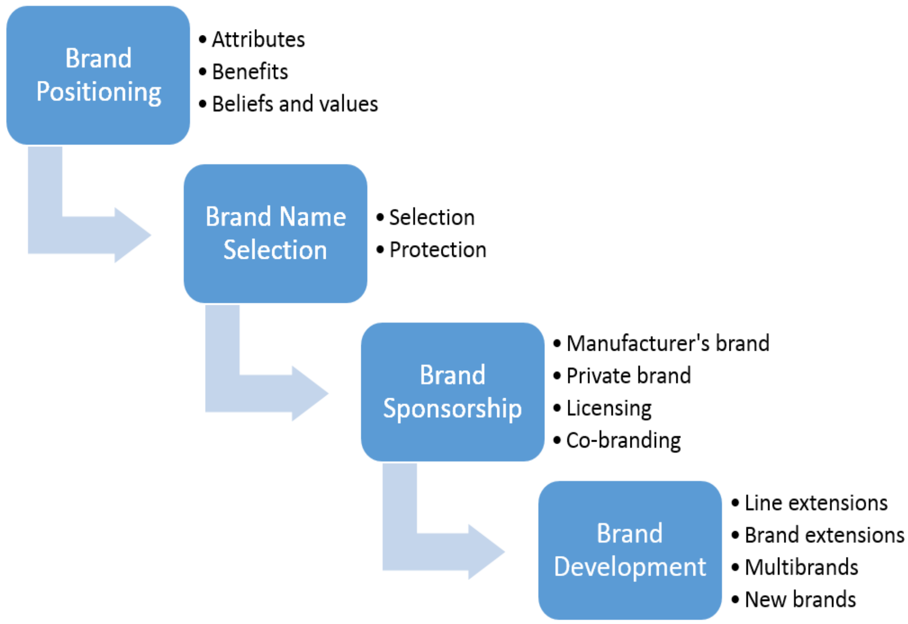
   All trademark includes in brand but all brands may not be trademarks. So, all trademarks are brands, but all brands are not trademarks.

   In this way, there is basic difference between trademark and brand. Both of them involve in branding, both of them give identity of products and differentiate from same type products of other companies. But legal protection can be acquired only from registered trademark.

14.3 BRANDING DECISION

Branding consists of a set of complex branding decisions. Major brand strategy decisions involve brand positioning, brand name selection, brand sponsorship and brand development.

Before going into the four branding decisions, also called brand strategy decisions, we should clarify what a brand actually is. A brand is a company's promise to deliver a specific set of features, benefits, services and experiences consistently to buyers. However, a brand should rather be understood as a set of perceptions a consumer has about the products of a particular firm. Therefore, all branding decisions focus on the consumer. There are four types of branding decisions:



Brand Positioning

A brand must be positioned clearly in target customers' minds. Brand positioning can be done at any of three levels:

- ➢ on product attributes
- ➢ on benefits
- ➢ on beliefs and values.

At the lowest level, marketers can position a brand on *product attributes*. Marketing for a car brand may focus on attributes such as large engines, fancy colours and sportive design. However, attributes are generally the least desirable level for brand positioning. The reason is that competitors can easily copy these attributes, taking away the uniqueness of the brand. Also, customers are not interested in attributes as such. Rather, they are interested in what these attributes will do for them. That leads us to the next level: *Benefits*.

A brand can be better positioned on basis of a desirable *benefit*. The car brand could go beyond the technical product attributes and promote the resulting benefits for the customer: quick transportation, lifestyle and so further.

Yet, the strongest brands go beyond product attributes and benefits. They are positioned on *beliefs and values*. Successful brands engage customers on a deep, emotional level. Examples include brands such as Mini and Aston Martin. These brands rely less on products' tangible attributes, but more on creating passion, surprise and excitement surrounding the brand. They have become "cool" brands.

Brand positioning lays the foundation for the three other branding decisions. Therefore, brand positioning should also involve establishing a mission for the brand and a vision of what the brand should be and do. The brand's promise must be simple and honest.

Brand Name Selection

When talking about branding decisions, the brand name decision may be the most obvious one. The name of the brand is maybe what you think of first when imagining a brand – it is the base of the brand. Therefore, the brand name selection belongs to the most important branding decisions. However, it is also quite a difficult task.

We have to start with a careful review of the product and its benefits, the target market and proposed marketing strategies. Having that in mind, we have to find a brand name matching these things. Naming a brand is part science, part art, and certainly a measure of instinct.

Although finding the right name for a brand can be a challenging task, there are some guidelines to make it easier. Desirable qualities for a brand name include:

- It should **suggest something about a product's benefits and qualities**. Think of the wadding polish "Never Dull". The brand name indicates the benefit of using this product: the treated metal will never be dull.

- It should be **easy to pronounce, recognize, and remember**. iPod and Nike are certainly better than "Troglodyte Homunculus" – a clothing brand.

- The brand name should be **distinctive**, so that consumers don't confuse it with other brands. Rolex and Bugatti are good examples.

- It should also be **extendable**. Think of Amazon.com, which began as an online bookseller but chose a name that would allow expansion into other categories. If Amazon.com had chosen a different name, such as books.com, it could not have extended its business that easily.

- The brand name should **translate easily** into foreign languages. The Ford Pinto line had some struggles in Brazil, seeing as it translated into "tiny male genitals". Or the Mitsubishi Pajero, which means in Spanish "man who plays with himself and enjoys it a bit too much". More famous: Coca-Cola reads in Chinese as "female horse stuffed with wax".

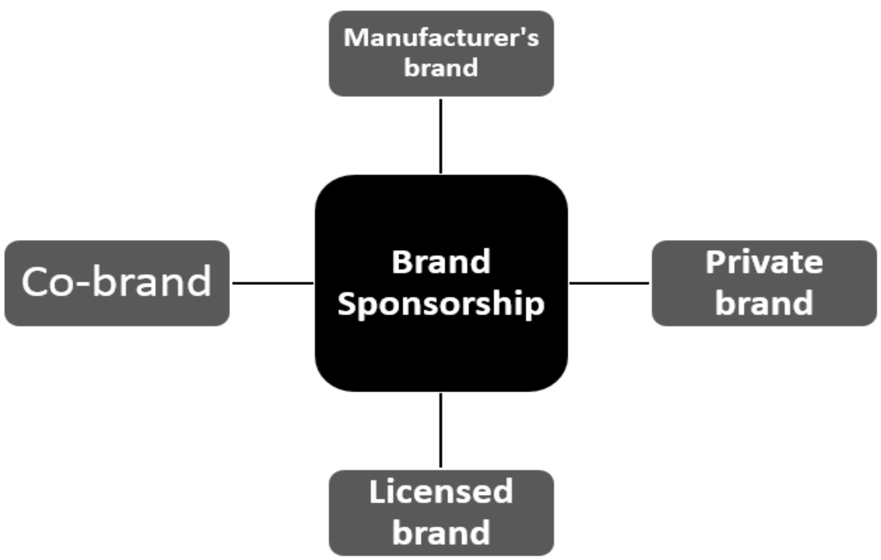
- It should be capable of **registration and legal protection**. In other words, it must not infringe on existing brand names.

Worthy of note is the fact that brand name preferences are changing continuously. After a decade of choosing quirky names (such as Yahoo!, Google) or fictional names, today's style is to build brands around names that carry real meaning. For instance, names such as Blackboard, a school software, make sense. However, with more and more brand names and trademark applications, available new names can be hard to find.

Choosing a brand name is not enough. It also needs to be protected. Many firms attempt to build a brand name that will eventually become identified with a product category. Examples for these names include Kleenex, Tip-ex and Jeep. However, their success can also quickly threaten the company's rights to the name. Once a trademark becomes part of the normal language (called "genericization"), it is not protected anymore. For that reason many originally protected brand names, such as aspirin, Walkman (by Sony) and many other names are not protected anymore.

Brand Sponsorship

Branding decisions go beyond deciding upon brand positioning and brand name. The third of our four branding decisions is the brand sponsorship. A manufacturer has four brand sponsorship options.



Brand Sponsorship Options

A product may be launched as a **manufacturer's brand**. This is also called national brand. Examples include Kellogg selling its output under the own brand name (Kellog's Frosties, for instance) or Sony (Sony Bravia HDTV).

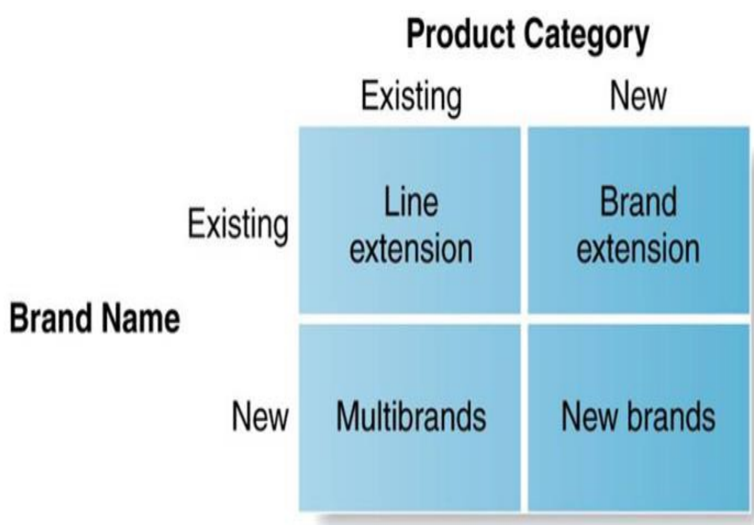
The manufacturer could also sell to resellers who give the product a **private brand**. This is also called a store brand, a distributor brand or an own-label. Recent tougher economic times have created a real store-brand boom. As consumers become more price-conscious, they also become less brand-conscious, and are willing to choose private brands instead of established and often more expensive manufacturer's brands.

Also, manufacturers can choose **licensed brands**. Instead of spending millions to create own brand names, some companies license names or symbols previously created by other manufacturers. This can also involve names of well-known celebrities or characters from popular movies and books. For a fee, they can provide an instant and proven brand name. For example, sellers of children's products often attach character names to clothing, toys and so on. These licensed character names include Disney, Star Wars, Hello Kitty and many more.

Finally, two companies can join forces and **co-brand** a product. Co-branding is the practice of using the established brand names of two different companies on the same product. This can offer many advantages, such as the fact that the combined brands create broader consumer appeal and larger brand equity. For instance, Nestlé uses co-branding for its Nespresso coffee machines, which carry the brand names of well-known kitchen equipment manufacturers such as Krups, DeLonghi and Siemens.

Brand Development – Branding Decisions

Branding decisions finally include brand development. For developing brands, a company has four choices: line extensions, brand extensions, multi-brands or new brands.



Brand Development Options

Line extension refers to extending an existing brand name to new forms, sizes, colours, ingredients or flavours of an existing product category. This is a low-cost, low-risk way to introduce new products. However, there are the risks that the brand name becomes overextended and loses its specific meaning. This may confuse consumers. An example for line extension is when Coca-Cola introduces a new flavour, such as diet cola with vanilla, under the existing brand name.

Brand extension also assumes an existing brand name, but combines it with a new product category. Thus, an existing brand name is extended to a new product category. This gives the new product instant recognition and faster acceptance and can save substantial advertising costs for establishing a new brand. However, the risk that the extension may confuse the image of the main brand should be kept in mind. Also, if the extension fails, it may harm consumer attitudes toward other products carrying the same brand name. For this reason, a brand extension such as Heinz pet food cannot survive. But other brand extensions work well. For instance, Kellogg's has extended its Special K healthy breakfast cereal brand into a complete line of cereals plus a line of biscuits, snacks and nutrition bars.

Multi-brands mean marketing many different brands in a given product category. P&G (Procter

& Gamble) and Unilever are the best examples for this. In the USA, P&G sells six brands of laundry detergent, five brands of shampoo and four brands of dishwashing detergent. Why? Multi-branding offers a way to establish distinct features that appeal to different customer segments. Thereby, the company can capture a larger market share. However, each brand might obtain only a very small market share and none may be very profitable.

New brands are needed when the power of existing brand names is waning. Also, a new brand name is appropriate when the company enters a new product category for which none of its current brand names are appropriate.

These four branding decisions are all interrelated. In order to build strong brands, brand positioning, brand name, brand sponsorship and brand development have to be in line with each other.

14.4 ADVANTAGES AND DISADVANTAGES OF BRANDING

Perhaps the most distinctive skill of professional marketers in their ability to create, maintains, produce and enhance brands of its products and service. A brand is a name, term, sign, symbol or design, or a combination of these that identifies the maker or seller of a product or service. Consumers view a brand as on important part of a product and branding can add value to a product. For example, most consumers would perceive a bottle for white linen perfume is a high- quality, expensive product. But the same perfume in an unmarked bottle would likely be viewed as lower in quality, even if the fragrance were identical.

Branding becomes so strong that today hardly anything goes unbranded. Salt is packed in branded container; common nuts and bolts are packed with a distributor's label, and automobile parts-spark plugs, tires, filters-bear brand names that differ from those of the auto markers. Even fruits and vegetables are branded- Sunkist orange, potato, apples, etc.

Branding helps buyers in many ways. Brand names help consumers identify product that might benefit them. Brands also tell the buyer something about product quality. Buyers who always by the same brand know that they will get the same features, benefits, and quality each time they buy. Branding also gives the seller several advantages. The brand name becomes the basis on which a whole story can be built about a product's special qualities. The seller's brand name and trademark provide legal protection for unique products feature that otherwise might be copied by competitors.

Disadvantages of Branding:

1. **Cost :** If you wish to create and maintain a strong brand presence, it can involve a lot of design and marketing costs. A strong brand is memorable, but people still need to be exposed to it, this often requires a lot of advertising and PR over a long period of time, which can be very costly.

   There are also costs involved with the creating of a brand image or logo (Paying for a designer, printing new letterheads/business cards etc.), and although most of these are only one off costs, they are still relatively large for most small businesses.

   The exposure of your brand can be left to word of mouth, this will save you money, but will also greatly slow down the exposure your brand receives.

2. **Impersonal :** One of the main problems with many branded businesses is that they lose their personal image. The ability to deal on a personal basis with customers is one of the biggest advantages small business have, and poorly designed branding could give customers the impression that your business is losing its personal touch.

3. **Fixed Image :** Every brand has a certain image to potential customers, and part of that image is about what products or services you sell. If you are known for selling just one product, and you want to sell another product, will you be able to do so effectively?

   If you sell computers, would your brand name be suitable for selling vacuum cleaners? If your brand is focused too strongly on one product, it can limit your ability to sell other products.

4. **Timescale :** The process of creating a brand will usually take a long period of time. As well as creating a brand and updating your signs and equipment (E.g.: Stationary, vehicles etc…), you need to expose it to your potential customers.

It is commonly shown that people need to see an advert at least three times before they absorb it, which means you will need to advertise and promote the brand for a considerable amount of time before it will become well known.

Advantages of Branding:

Branding is very important for a company to distinct its products and services from others. Branding is not only important to the owner but also important to consumers and retailers.

According to Brassington & Pettitt (2006) the benefits of branding are following,

To the consumers;

- Consumer can easily identify the products as they are distinctive. For example, a G Star Jeans is easily distinguishable from H&M, Next or Zara's Jeans because G Star puts their sign or name (96, G Star) on the pocket.
- It gives some feelings to the consumers when they shop branded products. For example, if someone buys an Armani watch he/she feels prestige.
- It reduces risk in purchasing because consumer knows the quality, features and other benefits of products without using it.
- Helps to have quick buying decision because brand attracts consumers.

To the owners;

- Companies can charge premium price. For example, Next plc, Armani, Lactose, Harrods etc charges premium price because they have strong brand name.
- It gives opportunity to the company for line extension through building on the consumer's perception of the values and character represented by the brand name.
- It helps owners to create consumer loyalty as it gives value to the consumers what they pay for.

To the intermediaries;

- Branded items make easier for the suppliers to process the orders and track down problems.
- Retailers are happy to sell branded products because they are good seller. In terms of Jobber and Fahy (2006) branding helps to enhance,
- Company's value.
- Consumer preference and loyalty.

- Barrier to competition.

Company's value

Jobber & Fahy (2006) said that strong brands can enhance the financial value of companies. For example, Nestle paid £2.5bn for Rowntree (a UK confectionary manufacturer). As a result, the acquisition gave Nestle access to Rowntree's stable of brands including Kit Kat, Quality Street they added.

Solid brand name increases company's value because it differentiates the products or services from competitors.

Consumer preference and loyalty

It's very hard to have customer loyalty in such competitive market where everyone is trying to lock in customers by giving loyalty cards. When consumers get satisfied with products or services what they pay for, they become brand loyal and stick to the same brand. For example, Tesco recorded a 5.9% rise in sales to £21.8bn in the UK and 5% profit increase to £1.2bn for the six months ending 28th August 2010 (Baker 2010). It clearly shows that Tesco has been able to create the customer loyalty with their strong brand name.

Barrier to competition

Company can create barriers for competitors by its brand if the brand is powerful. For example, Apple has been able to set bars over its competitors Nokia, Samsung, Motorola etc by its innovative technology and brand strength. When Apple launched ipad2, Britain's most popular magazine Fortune said that Apple is the world's most admired company and the company's blistering pace of new product releases has continued to set the bar high for tech companies across the board (Fortune 2011). It has been so easy for Apple to be the world's most admired company for its great innovations and established brand.

14.5 PACKAGING

Packaging is the technology of enclosing or protecting products for distribution, storage, sale, and use. Packaging also refers to the process of designing, evaluating, and producing packages. Packaging can be described as a coordinated system of preparing goods for transport, warehousing, logistics, sale, and end use. Packaging contains, protects, preserves, transports, informs, and sells. In many countries it is fully integrated into government, business, institutional, industrial, and personal use.

Package labeling (American English) or **labelling** (British English) is any written, electronic, or graphic communication on the package or on a separate but associated label.

Purpose of Packaging: Packaging and package labeling have several objectives

- ***Physical protection*** **–** The objects enclosed in the package may require protection from, among other things, mechanical shock, vibration, electrostatic discharge, compression, temperature, etc.

- ***Barrier protection*** **–** A barrier to oxygen, water vapor, dust, etc., is often required. Permeation is a critical factor in design. Some packages contain desiccantsor oxygen absorbers to help extend shelf life. Modified atmospheres or controlled atmospheres are also maintained in some food packages. Keeping the contents clean, fresh, sterile and safe for the duration of the intended shelf life is a primary function. A barrier is also implemented in cases where segregation of two materials prior to end use is required, as in the case of special paints, glues, medical fluids, etc. At the consumer end, the packaging barrier is broken or measured amounts of material are removed for mixing and subsequent end use.

- ***Containment or agglomeration*** **–** Small objects are typically grouped together in one package for reasons of storage and selling efficiency. For example, a single box of 1000 pencils requires less physical handling than 1000 single pencils. Liquids, powders, and granular materials need containment.

- ***Information transmission*** **–** Packages and labels communicate how to use, transport, recycle, or dispose of the package or product. With pharmaceuticals, food, medical, and chemical products, some types of information are required by government legislation. Some packages and labels also are used for track and trace purposes. Most items include their serial and lot numbers on the packaging, and in the case of food products, medicine, and some chemicals the packaging often contains an expiry/best-before date, usually in a shorthand form. Packages may indicate their construction material with a symbol.

- ***Marketing*** **–** Packaging and labels can be used by marketers to encourage potential buyers to purchase a product. Package graphic design and physical design have been important and constantly evolving phenomena for several decades. Marketing communications and graphic design are applied to the surface of the package and often to the point of sale display. Most packaging is designed to reflect the brand's message and identity.

- ***Security*** **–** Packaging can play an important role in reducing the security risks of shipment. Packages can be made with improved tamper resistance to deter manipulation and they can also have tamper-evident features indicating that tampering has taken place. Packages can be engineered to help reduce the risks of package pilferage or the theft and resale of products: Some package constructions are more resistant to pilferage than other types, and some have pilfer- indicating seals. Counterfeit consumer goods, unauthorized sales (diversion), material substitution and tampering can all be minimized or prevented with such anti-counterfeiting technologies. Packages may include authentication seals and use security printing to help indicate that the package and contents are not counterfeit. Packages also can include anti-theft devices such as dye-packs, RFID tags, or electronic article surveillance tags that can be activated or detected by devices at exit points and require specialized tools to deactivate. Using packaging in this way is a means of retail loss prevention.

- ***Convenience*** **–** Packages can have features that add convenience in distribution, handling, stacking, display, sale, opening, reclosing, using, dispensing, reusing, recycling, and ease of disposal

- ***Portion control*** **–** Single serving or single dosage packaging has a precise amount of contents to control usage. Bulk commodities (such as salt) can be divided into packages that are a more suitable size for individual households. It also aids the control of inventory: selling sealed one- liter bottles of milk, rather than having people bring their own bottles to fill themselves.

Packaging types

Packaging may be of several different types. For example, a **transport package** or **distribution package** can be the shipping container used to ship, store, and handle the product or inner packages. Some identify a **consumer package** as one which is directed toward a consumer or household.

Packaging may be described in relation to the type of product being packaged: medical device packaging, bulk chemical packaging, over-the-counter drug packaging, retail food packaging, military material packaging, pharmaceutical packaging, etc.

It is sometimes convenient to categorize packages by layer or function: "primary", "secondary", etc.

- Primary packaging is the material that first envelops the product and holds it. This usually is the smallest unit of distribution or use and is the package which is in direct contact with the contents.

- Secondary packaging is outside the primary packaging, and may be used to prevent pilferage or to group primary packages together.

- Tertiary packaging is used for bulk handling, warehouse storage and transport shipping. The most common form is a palletized unit load that packs tightly into containers.

These broad categories can be somewhat arbitrary. For example, depending on the use, a shrink wrap can be primary packaging when applied directly to the product, secondary packaging when used to combine smaller packages, or tertiary packaging when used to facilitate some types of distribution, such as to affix a number of cartons on a pallet.

Technical Consideration

Characteristics of a good package from a technical viewpoint include:

- Compatibility with the product, processing and storage conditions, product protection from chemical, physical and biological sources of deterioration suitability for the intended final use of the product (eg. microwavable) ability to withstand the stresses of distribution (eg. won't degrade or break). In choosing packaging materials you must first consider what product protection is needed, (eg. light, crushing, dehydration, oxygen). The protection offered by a package is determined by the nature of the packaging material and the package construction. Packages may be flexible (paper, foil, plastics) and rigid or semi-rigid (eg. cans, glass, some plastic containers).

Packaging for Consumer Appeal

Characteristics of a package which make its use consumer friendly include:

1. environmentally friendly (reusable, recyclable, minimal packaging)
2. tamper evident or tamper proof
3. easy to open
4. convenient (sizes, resalable, etc)

Check with local, provincial and federal departments of environment to identify any packaging restrictions which may pertain to your product.

The following table compares the advantages and disadvantages of several packaging materials.

	Advantages	**Disadvantages**
Paper	-generally low cost and readily available -can be coated or laminated to improve impermeability to liquids, gases and vapors -can provide rigid outer wraps or boxes -opaque and excludes light -printable	-not resistant to water, oil, grease
Glass	-does not react with food -can be transparent or colored to protect from light -strong -can be heat processed	-brittle -transparent -heavy -printing not common (expensive), requires labels to be applied -safety of product (due to breakage)
Plastic	-range of materials with a variety of properties (eg. oxygen transmission, moisture barrier, opaque or transparent)	-when laminated, or co-extruded to give special properties may not be recyclable -printability depends on material used -heat seal ability depends on material used
Metal	**tin, steel or aluminum cans** -can be coated to prevent reactions with the food -can be heat processed -can be hermetically sealed -can be lithographed **flexible foils** -can be plastic coated for strength and heat sealing ability -good gas and moisture barrier in the absence of pinholes -may be printable	**tin steel or aluminum cans** -expensive and require expensive sealing equipment -lithograph printing expensive, usually need additional label **flexible foils** -may have microscopic pinholes allowing gas exchange with environment

14.6 PACKAGING INDUSTRY

Apart from the huge value addition and employment involved in these activities, packaging has served the Indian economy by helping preservation of the quality and lengthening the shelf life of innumerable products - ranging from milk and biscuits, to drugs and medicines, processed and semi-processed foods, fruits and vegetables, edible oils, electronic goods etc., besides domestic appliances and industrial machinery and other hardware needing transportation. With water becoming a consumer product, polymer material-based bottles are becoming a universal presence. Heightened competition in all product sectors within the country as also the increasing need to look for export markets have contributed to the rising demand for appropriate, and at the same time cost-effective, packaging material and technologies.

The packaging industry's growth has led to greater specialization and sophistication from the point of view of health (in the case of packaged foods and medicines) and environment friendliness of packing material. The demands on the packaging industry are challenging, given the increasing environmental awareness among communities.

I. Classifications ~ Packing Industry in India:

a. Functions of Packages:

Protective Function Shock, Drop, Pressure, Vibration Heat, Water or Moisture	**Convenient Function** Transportation, Stocking (User, Ware House), Image, Design, Size Protection, After Re-Use Productivity
Graphic Design Design Colour Size	**Psychological Function** Attraction

b. Classification of Packaging:

1. By Shape (Form or Size)

Heavy Packaging (Large)
Container

Wooden Packs

Medium Packaging (Middle) Carton Box Woven Bag Can, Barrel, Tub	Light Packaging (Small) Flexible Packaging Bottles, Can (Small) Paper Container

2. By Methods (Way of Packing)

Vacuum Packaging Aseptic Packaging Retort able Packaging Shrink Packaging Strip Packaging	Gas Flush Packaging Moisture – Proof Packaging Blister Packaging Skin Packaging
Others	

3. By Contents

Food Packaging Cosmetics Packaging Powder Packaging Toiletry Packaging	Drug Packaging Liquid Packaging Clothing Packaging Dangerous Packaging
Others	

4. By Materials

Rigid Packaging
Bottle, Metal Can
Wooden Box
Metal Box, etc

Semi Rigid Packaging Carton Box Plastic Bottle	Flexible Packaging Paper, Plastic Film, Alu- Foil Cellophane

II. Indian Packaging Industry Market:

- The Indian packaging industry itself is growing at 14-15% annually. This growth rate is expected to double in the next two years.
- According to the Indian Packaging Institute, Indian Packaging industry is USD 14 billion and growing at more than 15% p.a. These figures indicate towards a change in the industrial and consumer set up.

The growth in the packaging industry in India is mainly driven by the food and the pharmaceutical packaging sectors. The large and growing Indian middle class, along with the growth in organized retailing in the country are fueling growth in the packaging industry. Another factor, which has provided substantial stimulus to the packaging machinery industry, is the rapid growth of exports, which requires superior packaging standards for the international market. With this the need for adopting better packaging methods, materials and machinery to ensure quality has become very important for Indian businesses.

Product and Branding Decisions

The Indian packaging industry is dominated by plastic flexible packaging. The traditional rigid packaging users have also been seen to shift to flexible packaging in recent times. According to industry sources, the main reasons for this are that flexible packages are found aesthetically attractive, cost-effective and sturdy. Consumer preference for the use of convenient packaging and packaged products in affordable quantities in laminates is also one of the main reasons that have contributed to the growth of flexible packaging in India. The food-processing sector is the largest user of flexible packaging, accounting for more than 50 percent of the total demand. The flexible packaging segment is estimated to be growing at over 35 percent annually. Major players in the flexible packaging sector are Paper Products Ltd. and Flex Industries.

The packaging industry in India is a mix of both organized medium to large players as well as very small players with a localized presence. The industry is comprised of a large number of manufacturers of basic materials, converted packages, machinery and ancillary materials. Domestic demand for packaging has been anticipated to grow rapidly within the next five years. Recognizing this trend, the industry is gearing itself to adopt scientific and functional packaging.

Three specific segments can be identified for opportunities in packaging equipment in the Indian market. The unorganized sector represents the larger opportunity, given the increasing quality- consciousness of end customers. The cost of equipment and upgrades hold the key to success in this segment. Large companies, primarily the multinational corporations (MNCs), which comprise another segment, would be guided for the choice of such equipment by the global policies and standardization of their parent company. The organized segment, which caters to the major food and pharma companies are conscious about quality and the ability to produce various packaging products, thereby enabling them to address a larger market.

Some important Packaging sub-sectors:

I. Corrugated Packaging & Situation in India:

- A flourishing organised retail have raised the expectations that consumption of corrugated packaging will begin to expand again as the number and volume of goods packaged in corrugated increases. MNCs are demanding corrugated boxes of international standards and the pattern of buying the packaging is changing.
- Prices of corrugated sheet and converted boxes have remained low due to the over-capacity, manual operations and low productivity. Besides, transport constraints and high freight costs have meant that small to medium sized corrugated box plants are located near the customers.
- The over 4,000 corrugated board and sheet plants are highly labour-intensive, employing over half a million people – both directly and indirectly. The industry is converting about 2 million tons of Kraft paper into corrugated boxes. Factories are spread out in all parts of India, even in the remote industrially backward areas.
- This present scenario is already being challenged by the sweeping changes that are beginning to take shape. More and more in-line automatic plants are being set up, as corrugated box makers gear up to meet the new demands for high precision boxes with attractive graphics and large integrated production capacities.
- Inline Automatic Board and Box making plants will ease out the present semi automatic production processes.
- Deployment of Folder Gluers, Rotary Die cutters will be on the increase.
- Use of corrugated for display/promotional packs, POPs and dispensers.
- Advances in multicolour, flexo printing will facilitate in-house flexo printing and do away with screen printing, contract printing on offset presses.

II. Pharmaceutical Packaging & Situation in India

Pharmaceutical packaging occupies a considerable portion of the overall drugs and pharmaceutical market in India and is growing steadily with the same pace of the industry. Pharmaceutical packaging consists of various types of glass, pet bottles, strip and blister packs, injectibles, ampoules, bulk packs, etc.

The Indian pharmaceutical packaging industry is witnessing a spurt in growth. Today, the packaging industry in India is considered a sunrise industry and its linkages are extensive and highly employment creating. On one side, it involves manufacture (and sometimes import) of a wide range of packing material - paper, paperboard, cardboard, a range of polymer products including rigid and flexible packaging material, aluminium foil, tin and good old wood and steel. Other backward linkages of packaging including printing, labeling and binding/adhesive tapes etc. Of course, machinery for making/processing these products and for packing/packaging is another segment closely linked to this industry.

Growth will follow upward trends in global medication consumption, which will expand at a strong pace as aging demographic patterns lead to an increasing number of diseases and disorders. Pharmaceuticals will assume an expanding role in worldwide health care delivery based on new product introductions and economical advantages over other forms of patient treatment.

Besides upward trends in medication consumption, the adoption of stricter regulations and standards governing the production, storage, distribution and labelling of pharmaceuticals will boost global growth opportunities for packaging products and accessories. Historically, pharmaceutical packaging requirements focused exclusively on preserving the quality of enclosed medication. These requirements are now being extended to cover such criteria as the prevention of product tampering and counterfeiting, the assurance of product dispensing accuracy and the promotion of patient compliance with product dosage schedules.

III. Factors Affecting Growth of Packaging Industry in India

1. Urbanization

Modern technology is now an integral part of nation's society today with high-end package usage increasing rapidly. As consumerism is rising, rural India is also slowly changing into more of an urban society. The liberalization of the Indian economy, coupled with globalisation and the influx of the multi-nationals, has improved the quality of all types of primary and secondary packaging. Also industrialization and expected emergence of the organized retail industry is fuelling the growth of packaging industry.

2. Increasing Health Consciousness

As people are becoming more health conscious, there is a growing trend towards wellpacked, branded products rather than the loose and unpackaged formats. Today even a common man is conscious about the food intake he consumes in day-to-day life.

3. Low Purchasing Power resulting in Purchase of Small Packets

India being a growing country, purchasing power capacity of Indian consumers is lower; the consumer goods come in small, affordable packages. Apart from the normal products packed in flexible packaging, the use of flexible in India includes some novel applications not usually seen in the developed world. Products like toothpaste, toothpowder, and fairness creams in laminated pouches are highly innovative and are not used elsewhere. Another typical example of such applications is tobacco and betel nut-based intoxicants and mouth fresheners catering to unique Indian taste.

4. Indian Economy Experiencing Good Growth Prospects

The Indian economy is growing at a promising rate, with growth of outputs in agriculture, industry and tertiary sectors. Overall economic growth has proved to be beneficial for the consumer goods market, with more and more products becoming affordable to a larger section of the population.

5. Changing Food Habits amongst Indians

Changing lifestyles and lesser time to spend in kitchens are resulting in more incidence of eating away from homes resulting in explosive growth of restaurants and fast food outlets all over the country. Indians are trying out newer cuisines and also purchasing similar food items for their homes. Therefore, the review period has seen new products like pasta, soups, and noodles being launched in India, fuelling the growth of packaging industry in India.

6. Personal health consciousness amongst Indians:

With growing awareness towards contagious diseases like AIDS and other STDs, awareness towards usage of contraceptives and disposables syringes have increased the demand for packaging required for the same.

7. **Rural Marketing Pushing Demand for Sachets**

India comprises of a big rural market and there has been growing focus on rural marketing, whereby manufacturers are introducing low-priced goods in smaller pack sizes. Low priced sachets have proved to be extremely popular in smaller towns and villages, where people do not prefer to buy larger packs due to financial constraints.

8. **Other Prospects**

Packaging machines such as automatic form-filling and sealing machines, tetra pack aseptic packaging machines for sterilized filling and packing of liquids, and testing instruments offer considerable business opportunities. The Indian packaging machinery manufacturers in the unorganized sector mostly fabricate general-purpose equipment to serve the basic needs of the industry.

One area that has been identified as having good market potential is equipment for manufacturing aluminum beverage cans. Machinery for cleaning and drying containers; automatic high speed labeling machines and capping machines; sealing machines for cans, boxes, and other containers; machinery for filling, and closing bottles and cans; packing/wrapping machines; and moulding machines also offer good prospects.

14.7 BRANDING STRATEGIES

A branding strategy helps establish a product within the market and to build a brand that will grow and mature in a saturated marketplace. Making smart branding decisions up front is crucial since a company may have to live with the decision for a long time. The following are commonly used branding strategies:

1. **Company Name**

In this case a strong brand name (or company name) is made the vehicle for a range of products

(for example, Mercedes Benz or Black & Decker) or a range of subsidiary brands (such as Cadbury Dairy Milk or Cadbury Fingers in the United States).

2. **Individual Branding**

Each brand has a separate name, putting it into a de facto competition against other brands from the same company (for example, Kool-Aid and Tang are both owned by Kraft Foods). Individual brand names naturally allow greater flexibility by permitting a variety of different products, of differing quality, to be sold without confusing the consumer's perception of what business the company is in or diluting higher quality products.

3. Attitude Branding and Iconic Brands

This is the choice to represent a larger feeling, which is not necessarily connected with the product or consumption of the product at all. Companies that use attitude branding include: Nike, Starbucks, The Body Shop, and Apple, Inc. Iconic brands are defined as having aspects that contribute to the consumer's self-expression and personal identity.

Brands whose value to consumers comes primarily from having identity value are said to be "identity brands. " Some brands have such a strong identity that they become "iconic brands" such as Apple, Nike, and Harley Davidson.

4. "No-brand" Branding

Recently a number of companies have successfully pursued "no-brand" strategies by creating packaging that imitates generic brand simplicity. "No brand" branding may be construed as a type of branding as the product is made conspicuous through the absence of a brand name. "Tapa Amarillo" or "Yellow Cap" in Venezuela during the 1980s is a prime example of no-brand strategy. It was simply recognized by the color of the cap of this cleaning products company.

5. Derived Brands

Some suppliers of key components may wish to guarantee its own position by promoting that component as a brand in its own right. For example, Intel, positions itself in the PC market with the slogan (and sticker) "Intel Inside. "

6. Brand Extension and Brand Dilution

The existing strong brand name can be used as a vehicle for new or modified products. For example, many fashion and designer companies extended brands into fragrances, shoes and accessories, furniture, and hotels. Frequently, the product is no different than what is already on the market, except it has a brand name marking. The risk of over-extension is brand dilution, which is when the brand loses its brand associations with a market segment, product area, or quality, price, or cachet.

7. Multi-brands Strategy

Alternatively, in a very saturated market, a supplier can deliberately launch totally new brands in apparent competition with its own existing strong brand (and often with identical product characteristics) to soak up some of the share of the market. The rationale is that having 3 out of 12 brands in such a market will give a greater overall share than having 1 out of 10. Procter & Gamble is a leading exponent of this philosophy, running as many as ten detergent brands in the US market. In the hotel business, Marriott uses the name Fairfield Inns for its budget chain.

Cannibalization is a particular problem of a multi-brands strategy approach, in which the new brand takes business away from an established one which the organization also owns. This may be acceptable (indeed to be expected) if there is a net gain overall.

8. Private Labels

Also, called own brands, or store brands, these have become increasingly popular. Where the retailer has a particularly strong identity this "own brand" may be able to compete against even the strongest brand leaders, and may outperform those products that are not otherwise strongly branded.

9. Individual and Organizational Brands

These are types of branding that treat individuals and organizations as the products to be branded. Personal branding treats persons and their careers as brands. Faith branding treats religious figures and organizations as brands.

10. Crowd sourcing Branding

These are brands that are created by the people for the business, which is opposite to the traditional method where the business creates a brand. This type of method minimizes the risk of brand failure, since the people that might reject the brand in the traditional method are the ones who are participating in the branding process.

11. Nation Branding

This is a field of theory and practice which aims to measure, build, and manage the reputation of countries (closely related to place branding). Some approaches applied, such as an increasing importance on the symbolic value of products, have led countries to emphasise their distinctive characteristics. The branding and image of a nation-state "and the successful transference of this image to its exports – is just as important as what they actually produce and sell."

12. Destination branding

Destination branding is the work of cities, states, and other localities to promote to themselves. This work is designed to promote the location to tourists and drive additional revenues into a tax base. These activities are often undertaken by governments, but can also result from the work of community associations. The Destination Marketing Association International is the industry leading organization.

13. Personalized branding

Many businesses have started to use elements of personalization in their branding strategies, offering the client or consumer the ability to choose from various brand options or have direct control over the brand. Examples of this include the share a Coke campaign by Coca-Cola which printed people's names and place names on their bottles encouraging people.

14.8 SUMMARY

Brand is the most important asset of the firm. Branding is very important for a company to distinct its products and services from others. Branding is not only important to the owner but also important to consumers and retailers. The brand assets can be categorized in five groups as band loyalty, brand name, brand awareness; brand's perceived quality and brand association and other proprietary brand assets like, patents, trade-marks, and channel relationships and so on.

A branding strategy helps establish a product within the market and to build a brand that will grow and mature in a saturated marketplace.

Packaging and labels can be used by marketers to encourage potential buyers to purchase a product. Package graphic design and physical design have been important and constantly evolving phenomena for several decades.

14.9 KEY WORDS

Brand : A name, term, symbol, or design or a combination of them that is intended to identify the goods or services of one seller or group of sellers and to differentiate them from products of competitors.

Brand loyalty: Preferences by a consumer for a particular brand that results in continual purchase of it

Brand equity: The value of a brand, based on the extent to which it has high brand loyalty, name awareness, perceived quality, strong brand associations, and other assets such as patents, trademarks, and channel relationships.

Trademark : A brand or part of a brand that is given legal protection because it is capable of exclusive appropriation.

Packaging: The activities of designing and producing the container or wrapper for a product.

14.10 SELF-ASSESSMENT QUESTIONS

1. Differentiate between brand name and trade mark?
2. What are the advantages and disadvantages of branding?
3. Why packaging is required? Give various types of packaging?
4. Describe branding strategy?

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UNIT-15 PRICING POLICY AND PRACTICES

Objective

After reading this unit, you should be able to understand:

- The meaning and significance of price in marketing decisions
- How to determine the price
- The pricing objectives of different firms
- The pricing methods and procedures
- The pricing strategies and policies used across different products and product life cycles
- Price and non-price competition

Structure

15.1 INTRODUCTION

Pricing is one of the most important elements of marketing mix. Price represents the quantity of money or goods and services in a barter system received by the firm or seller for its products. To a customer price always represents the product's value. For a marketer, it is important that products are priced correctly. The major challenge to the marketer is to assess the customer's perception of the future value of his other product. This can be again met by taking correct pricing decisions at the right time. To arrive at a good price strategy, the marketer should be able to decide on the price objectives. Thus, price decision and management of the price variable is a crucial task that confronts a marketer. In order to take correct decisions, it is important that he understands the concept and influences on pricing decisions.

15.2 DETERMINANTS OF PRICING

Most Commonly Pursued Price Determinants in Industrial Market are:

1. Survival 2. Return on Investment 3. Market Stabilization 4. Maintenance and Improvement of Market Position 5. Meeting or Following Competition 6. Pricing to Reflect Product Differentiation 7. Preventing New Entry.

1. **Survival:**

   Survival is arguably the most fundamental pricing determinant and comes into play when the conditions facing the organization are proving to be extremely difficult. Thus, prices are reduced often to levels far below cost simply to maintain a sufficient flow of cash for working capital.

   Also, if the factory production capacity is underutilized to a large extent or unsold finished products have piled up due to intense competition, a firm is unable to sell its products. To keep the factory going and to convert the inventory to sales, an industrial firm reduces prices.

2. **Return on Investment:**

   Prices are set partly to satisfy the needs of the customers, but more importantly to achieve a predetermined level of return on the capital investment involved.

3. **Market Stabilisation:**

   Having identified the leader in each market, the firm determines its prices in such a way that the likelihood of the leader relating is minimised. In this way, the status quo is maintained and market stability ensured.

4. **Maintenance and Improvement of Market Position:**

   Recognizing that price is often an effective way of improving market share. The firm uses price partly as a means of defending its current position and partly as a basis for gradually increasing its share in those parts of the market where gains are most likely to be made and least likely to result in competitive action.

5. **Meeting or Following Competition:**

   Having entered a market in which competitors are finally entrenched, the firm may decide quite simply to take its lead in pricing from others until it has built up sufficient experience and established a firm's reputation on which it can subsequently build.

6. **Pricing to Reflect Product Differentiation:**

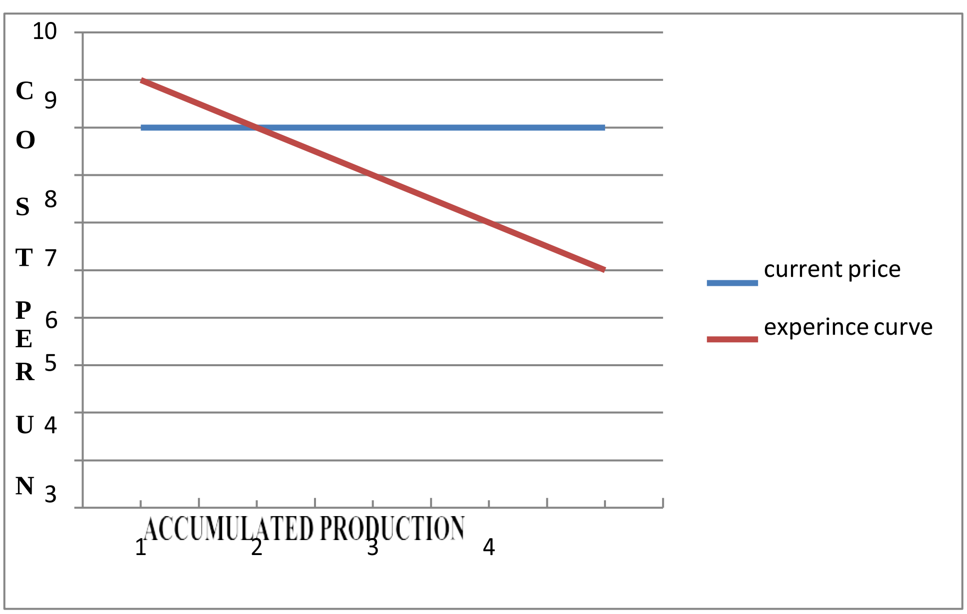
   For a firm with a broad product range, differences between the products can often be made most apparent by means of price variations related to each market segment. The differences in price are not necessarily linked to the costs of the product, but are instead designed to create the different perceptions of their product's value and indirectly increase profits.

7. **Preventing New Entry:**

   Because of the potentially powerful role that price can play, a low price may have the effect of preventing others from entering the market as they recognize the low returns available and the dangers of becoming involved in a price war.

In this way, the firm may be able to minimize the amount of competition, while recognizing that the returns may be relatively unattractive procurement costs are cut and so on. The result in fig. shows is that average cost tends to fall with accumulated production experience.

The decline in the average cost with accumulated production experience is called the experience curve or learning curve.



Pricing Curve

The experience curve or the learning curve has a greater strategic significance. In the 1960s, evidence emerged to suggest that phenomenon was limited not just to labour costs, but applied also to all total value-added costs including administration, sales, marketing, and distribution and so on.

A series of studies by BCG (Boston Consultancy Group) then found evidence of the learning curve effect which is applicable to a wide variety of industries ranging from high-technology to low technology products, service to manufacturing, new to mature products and process to assembly plants.

Each time cumulative volume of a product doubled, total value added costs fell by a constant and predictable percentage. In addition, the cost of purchased items usually fell as supplies reduced prices and their costs fell, also due to the experience effect. The relationship between costs and experience was called the learning curve.

The strategic implications of the experience curve are potentially significant, since by pursuing a strategy to gain experience faster than competitors, an organization lowers its cost base and has a greater scope of adopting an aggressive and offensive pricing strategy.

The learning curve is of potentially enormous strategic value and has considerable implications for the development of a long-term pricing strategy.

15.3 ROLE OF COST IN PRICING

Costs should never determine price, but costs do play a critical role in formulating a pricing strategy. Pricing decisions are inexorably tied to decisions about sales levels, and sales involve costs of production, marketing, and administration. It is true that how much buyers will pay is unrelated to the seller's cost, but it is also true that a seller's decisions about which products to produce and in what quantities depend critically on their cost of production.

The mistake that cost-plus pricers make is not that they consider costs in their pricing, but that they select the quantities they will sell and the buyers they will serve before identifying the prices they can charge. They then try to impose cost-based prices that may be either more or less than what buyers will pay. In contrast, effective pricers make their decisions in exactly the opposite order. They first evaluate what buyers can be convinced to pay and only then choose quantities to produce and markets to serve.

Firms that price effectively decide what to produce and to whom to sell it by comparing the prices they can charge with the costs they must incur. Consequently, costs do affect the prices they charge. A low-cost producer can charge lower prices and sell more because it can profitably use low prices to attract more price-sensitive buyers. A higher-cost producer, on the other hand, cannot afford to underbid low-cost producers for the patronage of more price-sensitive buyers; it must target those buyers willing to pay a premium price. Similarly, changes in costs should cause producers to change their prices, not because that changes what buyers will pay, but because it changes the quantities that the firm can profitably supply and the buyers it can profitably serve. When the cost of jet fuel rises, most airlines are not naive enough to try passing on the fuel cost through a cost-plus formula while maintaining their previous schedules. But some airlines do raise their average revenue per mile. They do so by reducing the number of flights they offer in order to fill the remaining planes with more full-fare passengers. To make room for those passengers, they eliminate or reduce discount fares. Thus, the cost increase for jet fuel affects the mix of prices offered, increasing the average price charged. However, that is the result of a strategic decision to reduce the number of flights and change the mix of passengers served, not the result of an attempt to charge higher prices for the same service to the same people.

Such decisions about quantities to sell and buyers to serve are an important part of pricing strategy for all firms and the most important part for many. In this chapter, we discuss how a proper understanding of costs enables one to make those decisions correctly. First, however, a word of encouragement: understanding costs is probably the most challenging aspect of pricing. You will probably not master these concepts on first reading this chapter. Your goal should be simply to understand the issues involved and the techniques for dealing with them. Mastery of the techniques will come with practice.

A pricing policy is a standing answer to recurring question. A systematic approach to pricing requires the decision that an individual pricing situation be generalized and codified into policy coverage of all the principal pricing problems. Policies can and should be tailored to various competitive situations. A policy approach which is becoming normal for sales activities is comparatively rare in pricing.

Most well managed manufacturing enterprises have a clear-cut advertising policy, product customer policy and distribution-channel policy. But pricing decision remains a patchwork of ad hoc decisions. In many, otherwise well managed firms, price policy have been dealt with on a crisis basis. This kind of price management by catastrophe discourages the kind of systematic analysis needed for clear cut pricing policies.

15.4 PRICING POLICIES

1. Considerations Involved in Formulating the Pricing Policy:

The following considerations involve in formulating the pricing policy:

(i) Competitive Situation:

Pricing policy is to be set in the light of competitive situation in the market. We have to know whether the firm is facing perfect competition or imperfect competition. In perfect competition, the producers have no control over the price. Pricing policy has special significance only under imperfect competition.

(ii) Goal of Profit and Sales:

The businessmen use the pricing device for the purpose of maximizing profits. They should also stimulate profitable combination sales. In any case, the sales should bring more profit to the firm.

(iii) Long Range Welfare of the Firm:

Generally, businessmen are reluctant to charge a high price for the product because this might result in bringing more producers into the industry. In real life, firms want to prevent the entry of rivals. Pricing should take care of the long run welfare of the company.

(iv) Flexibility:

Pricing policies should be flexible enough to meet changes in economic conditions of various customer industries. If a firm is selling its product in a highly competitive market, it will have little scope for pricing discretion. Prices should also be flexible to take care of cyclical variations.

(v) Government Policy:

The government may prevent the firms in forming combinations to set a high price. Often the government prefers to control the prices of essential commodities with a view to prevent the exploitation of the consumers. The entry of the government into the pricing process tends to inject politics into price fixation.

(vi) Overall Goals of Business:

Pricing is not an end in itself but a means to an end. The fundamental guides to pricing, therefore, are the firm's overall goals. The broadest of them is survival. On a more specific level, objectives relate to rate of growth, market share, maintenance of control and finally profit. The various objectives may not always be compatible. A pricing policy should never be established without consideration as to its impact on the other policies and practices.

(vii) Price Sensitivity:

The various factors which may generate insensitivity to price changes are variability in consumer behaviour, variation in the effectiveness of marketing effort, nature of the product. Importance of service after sales, etc. Businessmen often tend to exaggerate the importance of price sensitivity and ignore many identifiable factors which tend to minimize it.

(viii) Routinisation of Pricing:

A firm may have to take many pricing decisions. If the data on demand and cost are highly conjectural, the firm has to rely on some mechanical formula. If a firm is selling its product in a highly competitive market, it will have little scope for price discretion. This will have the way for routinized pricing.

2. Objectives of Pricing Policy:

The pricing policy of the firm may vary from firm to firm depending on its objective. In practice, we find many prices for a product of a firm such as wholesale price, retail price, published price, quoted price, actual price and so on. Special discounts, special offers, methods of payment, amounts bought and transportation charges, trade-in values, etc., are some sources of variations in the price of the product.

For pricing decision, one has to define the price of the product very carefully. Pricing decision of a firm in general will have considerable repercussions on its marketing strategies. This implies that when the firm makes a decision about the price, it has to consider its entire marketing efforts. Pricing decisions are usually considered a part of the general strategy for achieving a broadly defined goal.

While setting the price, the firm may aim at the following objectives:

(i) Price-Profit Satisfaction:

The firms are interested in keeping their prices stable within certain period of time irrespective of changes in demand and costs, so that they may get the expected profit.

(ii) Sales Maximisation and Growth :

A firm has to set a price which assures maximum sales of the product. Firms set a price which would enhance the sale of the entire product line. It is only then, it can achieve growth.

(iii) Making Money :

Some firms want to use their special position in the industry by selling product at a premium and make quick profit as much as possible.

(iv) Preventing Competition :

Unrestricted competition and lack of planning can result in wasteful duplication of resources. The price system in a competitive economy might not reflect society's real needs. By adopting a suitable price policy the firm can restrict the entry of rivals.

(v) Market Share :

The firm wants to secure a large share in the market by following a suitable price policy. It wants to acquire a dominating leadership position in the market. Many managers believe that revenue maximisation will lead to long run profit maximisation and market share growth.

(vi) Survival :

In these days of severe competition and business uncertainties, the firm must set a price which would safeguard the welfare of the firm. A firm is always in its survival stage. For the sake of its continued existence, it must tolerate all kinds of obstacles and challenges from the rivals.

(vii) Market Penetration :

Some companies want to maximise unit sales. They believe that a higher sales volume will lead to lower unit costs and higher long run profit. They set the lowest price, assuming the market is price sensitive. This is called market penetration pricing.

(viii) Marketing Skimming :

Many companies favour setting high prices to 'skim' the market. DuPont is a prime practitioner of market skimming pricing. With each innovation, it estimates the highest price it can charge given the comparative benefits of its new product versus the available substitutes.

(ix) Early Cash Recovery :

Some firms set a price which will create a mad rush for the product and recover cash early. They may also set a low price as a caution against uncertainty of the future.

(x) Satisfactory Rate of Return:

Many companies try to set the price that will maximise current profits. To estimate the demand and costs associated with alternative prices, they choose the price that produces maximum current profit, cash flow or rate of return on investment.

3. Factors involved in pricing Policy:

The pricing of the product involves consideration of the following factors:

(i) Cost Data

(ii) Demand Factor

(iii) Consumer Psychology

(iv) Competition

(v) Profit

(vi) Government Policy

(i) Cost Data in Pricing:

Cost data occupy an important place in the price setting processes. There are different types of costs incurred in the production and marketing of the product. There are production costs, promotional expenses like advertising or personal selling as well as taxation, etc. They may necessitate an upward fixing of price. For example, the prices of petrol and gas are rising due to rise in the cost of raw materials, such as crude transportation, refining, etc.

If costs go up, price rise can be quite justified. However, their relevance to the pricing decision must neither be underestimated nor exaggerated. For setting prices apart from costs, a number of other factors have to be taken into consideration. They are demand and competition.

Costs are of two types: fixed costs and variable costs. In the short period, that is, the period in which a firm wants to establish itself, the firm may not cover the fixed costs but it must cover the variable cost. But in the long run, all costs must be covered. If the entire costs are not covered the producer stops production. Subsequently, the supply is reduced which, in turn, may lead to higher prices.

If costs are not covered, the producer stops production. Subsequently, the supply is reduced which in turn, may lead to higher prices. If costs were to determine prices why do so many companies report losses. There are marked differences in costs as between one producer and another. Yet the fact remains that the prices are very close for a somewhat similar product. This is the very best evidence of the fact that costs are not the determining factors in pricing.

In fact, pricing is like a tripod. It has three legs. In addition to costs, there are two other legs of market demand and competition. It is no more possible to say that one or another of these factors determines price than it is to assert that one leg rather than either of the other two supports a tripod.

Price decisions cannot be based merely on cost accounting data which only contribute to history while prices have to work in the future. Again it is very difficult to measure costs accurately. Costs are affected by volume, and volume is affected by price.

The management has to assume some desired price-volume relationship for determining costs. That is why costs play even a less important role in connection with new products than with the older ones. Until the market is decided and some idea is obtained about volume, it is not possible to determine costs.

Regarding the role of costs in pricing, Nickerson observes that the cost may be regarded only as an indicator of demand and price. He further says that the cost at any given time represents a resistance point to the lowering of price. Again, costs determine profit margins at various levels of output.

Cost calculation may also help in determining whether the product whose price is determined by its demand, is to be included in the product line or not. What costs determine is not the price, but whether the production can be profitably produced or not is very important.

Relevant Costs:

The question naturally arises: "What then are the relevant costs for pricing decision'? Though in the long run, all costs have to be covered, for managerial decisions in the short run, direct costs are relevant. In a single product firm, the management would try to cover all the costs.

In a multi-product firm, problems are more complex. For pricing decision, relevant costs are those costs that are directly traceable to an individual product. Ordinarily, the selling price must cover a direct cost that are attributable to a product. In addition, it must contribute to the common cost and to the realization of profit. If the price, in the short run, is lower than the cost, the question arises, whether this price covers the variable cost. If it covers the variable cost, the low price can be accepted.

But in the long run, the firm cannot sell at a price lower than the cost. Product pricing decision should be lower than the cost. Product pricing decision should, therefore, be made with a view to maximise company's profits in the long run.

(ii) Demand Factor in Pricing:

In pricing of a product, demand occupies a very important place. In fact, demand is more impor- tant for effective sales. The elasticity of demand is to be recognised in determining the price of the product. If the demand for the product is inelastic, the firm can fix a high price. On the other hand, it the demand is elastic, it has to fix a lower price.

In the very short term, the chief influence on price is normally demand. Manufacturers of durable goods always set a high price, even though sales are affected. If the price is too high, it may also affect the demand for the product. They wait for arrival of a rival product with competitive price. Therefore, demand for product is very' sensitive to price changes.

(iii) Consumer Psychology in Pricing:

Demand for the product depends upon the psychology of the consumers. Sensitivity to price change will vary from consumer to consumer. In a particular situation, the behaviour of one individual may not be the same as that of the other. In fact, the pricing decision ought to rest on a more incisive rationale than simple elasticity.

There are consumers who buy a product provided its quality is high. Generally, product quality, product image, customer service and promotion activity influence many consumers more than the price. These factors are qualitative and ambiguous. From the point of view of consumers, prices are quantitative and unambiguous.

Price constitutes a barrier to demand when is too low, just as much as where it is too high. Above a particular price, the product is regarded as too expensive and below another price, as constituting a risk of not giving adequate value. If the price is too low, consumers will tend to think that a product of inferior quality is being offered.

With an improvement in incomes, the average consumer becomes quality conscious. This may lead to an increase in the demand for durable goods. People of high incomes buy products even though their prices are high. In the affluent societies, price is the indicator of quality.

Advertisement and sales promotion also contribute very much in increasing the demand for advertised products. Because he consumer thinks that the advertised products are of good quality. The income of the consumer, the standard of living and the price factor influence the demand for various products in the society.

(iv) Competition Factor in Pricing:

Market situation plays an effective role in pricing. Pricing policy has some managerial discretion where there is a considerable degree of imperfection in competition. In perfect competition, the individual producers have no discretion in pricing. They have to accept the price fixed by demand and supply.

In monopoly, the producer fixes a high price for his product. In other market situations like oligopoly and monopolistic competition, the individual producers take the prices of the rival products in determining their price. If the primary determinant of price changes in the competitive condition is the market place, the pricing policy can least be categorised as competition based pricing.

(v) Profit Factor in Pricing:

In fixing the price for products, the producers consider mainly the profit aspect. Each producer has his aim of profit maximisation. If the objective is profit maximisation, the critical rule is to select the price at which MR = MC. Generally, the pricing policy is based on the goal of obtaining a reasonable profit. Most of the businessmen want to hold the price at constant level. They do not desire frequent price fluctuation.

The profit maximisation approach to price setting is logical because it forces decision makers to focus their attention on the changes in production, cost, revenue and profit associated with any contemplated change in price. The price rigidity is the practice of many producers. Rigidity does not mean inflexibility. It means that prices are stable over a given period.

(vi) Government Policy in Pricing:

In market economy, the government generally does not interfere in the economic decisions of the economy. It is only in planned economies, the government’s interference is very much. According to conventional economic theory, the buyers and sellers only determine the price. In reality, certain other parties are also involved in the pricing process. They are the competition and the government. The government s practical regulatory price techniques are ceiling on prices, minimum prices and dual pricing.

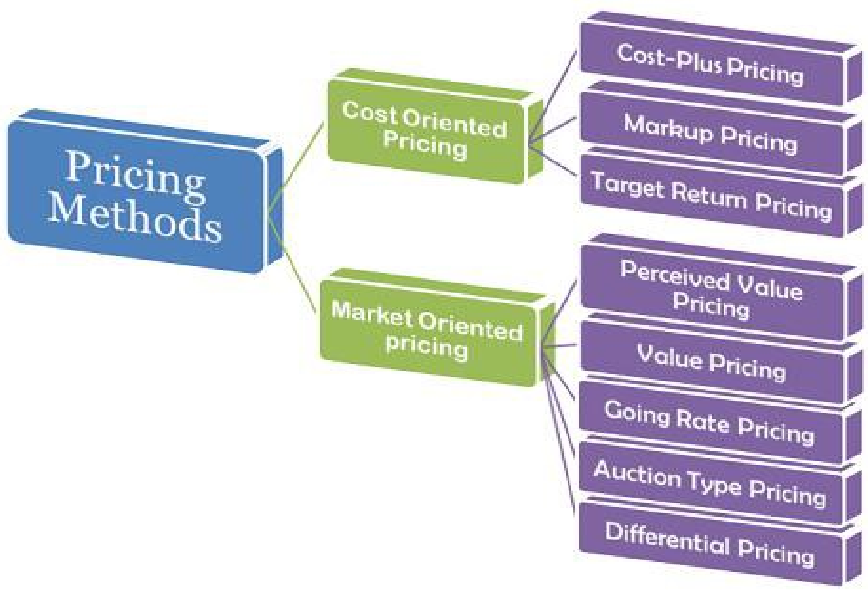
In a mixed economy like India, the government resorts to price control. The business establish- ments have to adopt the government’s price policies to control relative prices to achieve certain targets, to prevent inflationary price rise and to prevent abnormal increase in prices.

15.5 PRICING METHODS

The Pricing Methods are the ways in which the price of goods and services can be calculated by considering all the factors such as the product/service, competition, target audience, product's life cycle, firm's vision of expansion, etc. influencing the pricing strategy as a whole.

The pricing methods can be broadly classified into two parts:

1. Cost Oriented Pricing Method
2. Market Oriented Pricing Method



1. **Cost-Oriented Pricing Method**: Many firms consider the **Cost of Production** as a base for calculating the price of the finished goods. Cost-oriented pricing method covers the following ways of pricing :

   - **A. Cost-Plus Pricing:** It is one of the simplest pricing method wherein the manufacturer calculates the cost of production incurred and add a certain percentage of markup to it to realize the selling price. The markup is the percentage of profit calculated on total cost i.e. fixed and variable cost.

     E.g. If the Cost of Production of product-A is Rs 500 with a markup of 25% on total cost, the selling price will be calculated as

Selling Price= cost of production + Cost of Production x Markup Percentage/100 SellingPrice=500+500 x 0.25= 625

Thus, a firm earns a profit of Rs 125 (Profit=Selling price-Cost price)

- **B. Markup pricing-** This pricing method is the variation of cost plus pricing wherein the percentage of markup is calculated on the selling price.
- **E.g.** If the unit cost of a chocolate is Rs 16 and producer wants to earn the markup of 20% on sales then mark up price will be:

  Markup Price= Unit Cost/ 1-desired return on sales Markup Price= 16/1-0.20 = 20

  Thus, the producer will charge Rs 20 for one chocolate and will earn a profit of Rs 4 per unit.

- **C. Target-Return pricing–** In this kind of pricing method the firm set the price to yield a required Rate of Return on Investment (ROI) from the sale of goods and services.
- **E.g.** If soap manufacturer invested Rs 1,00,000 in the business and expects 20% ROI i.e. Rs 20,000, the target return price is given by:

  Target return price= Unit Cost + (Desired Return x capital invested)/ unit sales Target Return Price=16 + (0.20 x 100000)/5000Target Return Price= Rs 20

  Thus, Manufacturer will earn 20% ROI provided that unit cost and sale unit is accurate. In case the sales do not reach 50,000 units then the manufacturer should prepare the break-even chart wherein different ROI's can be calculated at different sales unit.

2. **Market-Oriented Pricing Method:** Under this method price is calculated on the basis of market conditions. Following are the methods under this group:

- **A. Perceived-Value Pricing:** In this pricing method, the manufacturer decides the price on the basis of customer's perception of the goods and services taking into consideration all the elements such as advertising, promotional tools, additional benefits, product quality, the channel of distribution, etc. that influence the customer's perception.

E.g. Customer buy Sony products despite less price products available in the market, this is because Sony company follows the perceived pricing policy wherein the customer is willing to pay extra for better quality and durability of the product.

- **B. Value Pricing**: Under this pricing method companies design the low priced products and maintain the high-quality offering. Here the prices are not kept low, but the product is re- engineered to reduce the cost of production and maintain the quality simultaneously.

  E.g. Tata Nano is the best example of value pricing, despite several Tata cars, the company designed a car with necessary features at a low price and lived up to its quality.

- **C. Going-Rate Pricing-** In this pricing method, the firms consider the competitor's price as a base in determining the price of its own offerings. Generally, the prices are more or less same as that of the competitor and the price war gets over among the firms.

  E.g. In Oligopolistic Industry such as steel, paper, fertilizer, etc. the price charged is same.

- **D. Auction Type pricing**: This type of pricing method is growing popular with the more usage of internet. Several online sites such as eBay, Quikr, OLX, etc. provides a platform to customers where they buy or sell the commodities. *There are three types of auctions:*

1. ***English Auctions***-There is one seller and many buyers. The seller puts the item on sites such as Yahoo and bidders raise the price until the top best price is reached.

2. ***Dutch Auctions***– There may be one seller and many buyers or one buyer and many sellers. In the first case, the top best price is announced and then slowly it comes down that suit the bidder whereas in the second kind buyer announces the product he wants to buy then potential sellers competes by offering the lowest price.

3. ***Sealed-Bid Auctions***: This kind of method is very common in the case of Government or industrial purchases, wherein tenders are floated in the market, and potential suppliers submit their bids in a closed envelope, not disclosing the bid to anyone.

- **E. Differential Pricing**: This pricing method is adopted when different prices have to be charged from the different group of customers. The prices can also vary with respect to time, area, and product form.

E.g. The best example of differential pricing is Mineral Water. The price of Mineral Water varies in hotels, railway stations, retail stores.

Thus, the companies can adopt either of these pricing methods depending on the type of a product it is offering and the ultimate objective for which the pricing is being do.

15.6 PRICING INDUSTRIAL GOODS

Pricing strategies that an industrial organization are as follows:

1. Market Skimming Strategy 2. Market Penetration Strategy 3. Pricing across Product Life- Cycle.

The pricing strategies must be in tandem with the organisational objectives as well as the marketing objectives.

The industrial organisation also needs to balance the long-run strategies and the short run objectives of profit and survival. Maintaining profitability is essential for a long-term survival of the firm, since it is those profits that finance the growth and improvement of the organisation.

There are many strategies available for an organisation to achieve profitability.

For example, the suppliers of thermocol to Mire Electronics (the owners of television brand Onida) were located in Pune whereas Mire is based in Mumbai. This transport cost was added to the price.

They moved from Pune to Wada and thus reducing the delivery time from 6 hours to 15 minutes. This cost cutting not only improved the profit margins but also satisfied the customers. It translated into lower inventory cost for Misc and helped meet the sudden rise in market demand.

There are no hard and fast rules for a strategy. It needs to be adapted according to the internal as well as external environment. A diversified firm with multiple product lines can have several pricing strategies in operation at one time. The only condition is that all these strategies must be consistent with the company's overall objectives.

The following are some pricing strategies that an industrial organisation can follow:

1. **Market Skimming Strategy:**

   When a new product is introduced into a market this strategy can be used. A lot of effort would have been put into developing any technological superior product or a new application. In India, today, any technology can soon be caught up and hence it becomes necessary to take advantage of the fact that the firm is a pioneer.

The price is high so as to skim the market. If a genuine need exists and the company has adopted the right promotional methods and tools so as to make the customers aware, then the customers would certainly be willing to pay for the benefit the product provides.

At this point, the profit margins will be high and soon the learning curve principle will be applied and the cost of producing/ manufacturing will also decline, hence providing an advantage to the market leader.

Due to high profit margins, more competitors will be attracted and soon other pricing strategies have to be adopted and the prices have to be gradually reduced over time.

2. Market Penetration Strategy:

This strategy can be adopted by the industrial organisation when the market is price sensitive. As the term indicates the organisation deliberately prices its product very low. This strategy makes sense when the market is large and there is strong potential competition. The organisation's unit manufacturing cost must fall with the company's scale of production and accumulated manufacturing experience i.e., the firm depends on the economies of scale.

The low price will encourage rapid product acceptance and hence the firm aspires for a large market share. But on the other hand, at the beginning of the operations costs are high but the margins low. Only in the long run the economies of scale and learning curve play a vital role to increase the margins. Hence, short-term profits must be sacrificed to gain market share and long- run profits.

The company therefore works with this strategy assuming that the firm's primary goal is significant market share; the product has hidden benefits that will become obvious only after use and potential competitors exist.

3. Pricing across Product Life-Cycle:

As we have previously discussed, one of the key price determinants is the stage of product life cycle in which the product is presently in. Depending on the stage, the pricing strategies need to be developed.

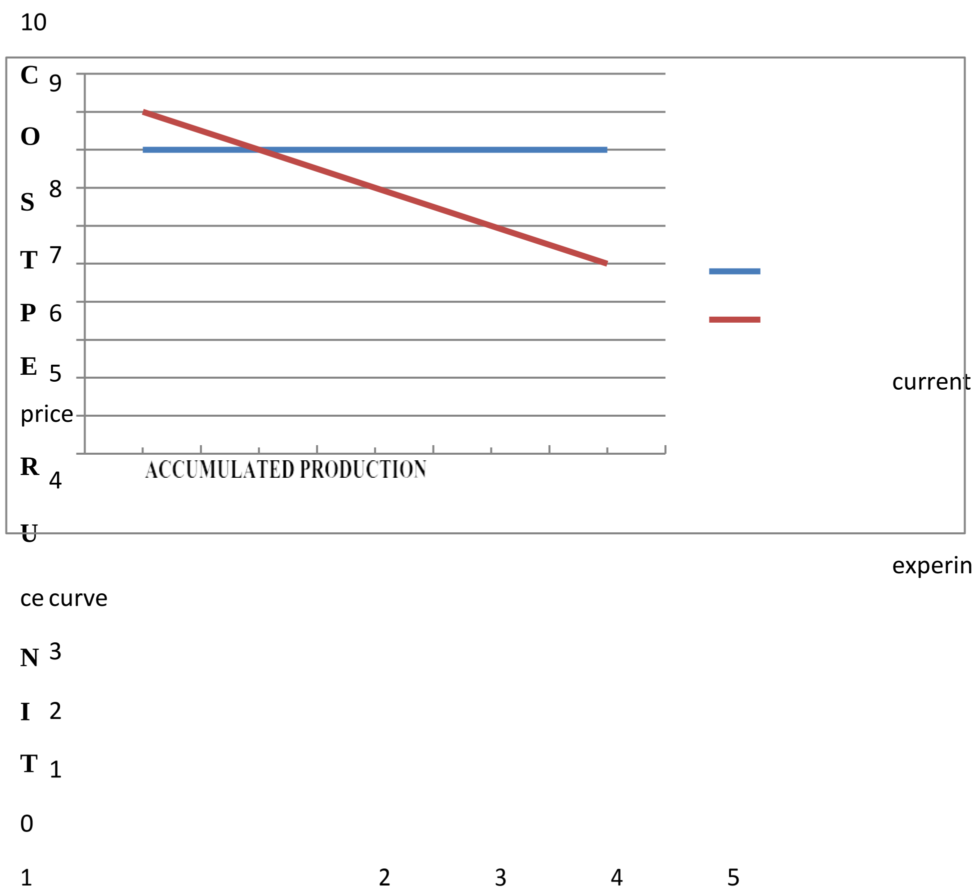
In the introduction stage, there can basically be two types of strategies. They are (i) skimming strategy and (ii) penetration strategy.

In the growth stage, more than one supplier enters the market and hence the prices need to be cut to remain competitive.

In the maturity stage, the market is aggressive and due to large number of suppliers existing, each one has to cut into the competitor's market share. Hence, matching the competitor's price is the challenge in this stage.

There are numerous strategies available for the industrial organisation in the decline phase. Cost cutting becomes a major exercise. As regards the price, if the firm has a reputation of one that adheres to quality, then it is not necessary to cut prices. Or else, prices can be decreased to certain segments and the rest left untouched.

The specific implications of the PLC for pricing are spelled out in Figure i.e. it provides service and maintenance. If there is a need even technological up gradation is performed.



Pricing Curve

15.7 PRICING OVER PRODUCT LIFE CYCLE

All products go through five stages of the product life cycle: Development, introduction, growth, maturity and decline. The consumer is only aware of four of these stages, because the product has not been introduced during the development stage. Some PLC diagrams even include a sixth stage called the withdrawal stage, when the product is removed from the market. However, price strategies only affect four stages of the product life cycle.

Significance

When the product is introduced, a company will use a price skimming or market penetration strategy, according to the article titled "The Product Life Cycle" at netmba.com, a reputable online business reference site. If the company is the bellwether or first entrant in the market, it may use price skimming to recapture product development and advertising costs. Price skimming entails introducing the product at a high price. Some customers will likely buy the product at the high price because no one else offers it. Contrarily, a company may want to capture a large share of the market early on, before competitors have a chance to introduce their products. Consequently, company marketing managers may decide to start with an extremely low price to get a lot of initial orders.

Identification

If the product is successful, it will enter into a period of exceptional growth. Sales will be extremely high, plus more consumers will become aware of the product through advertising and promotions. The lead company, often still relatively small in size if introducing their first product, will usually continue with the same price strategy. If the company started out with a high price, it will probably continue selling their product at that price to increase their profit margin. Moreover, a company that is attempting to build market share will likely keep its price low.

Function

There will come a time when product sales will continue to increase, but grow at a slower pace. This product life cycle stage is called the maturity stage. Profits will likely be higher during the maturity stage than any other stage, but competition will make it difficult to acquire many new users. As a result, the lead company may need to lower its prices in line with the competition. Increasing market share becomes the priority during the maturity stage, which normally requires discounting.

Effects

At some point, sales for a particular product will start declining, after reaching a saturation point. A company has several choices during this stage: Maintain the product, harvest or stop marketing it, or discontinue the product. A lead company will likely continue selling the product, but at a reduced price. The customer will not likely pay top dollar anymore. Some customers may be purchasing a product with new technology. Companies will also start eliminating unprofitable channels of distribution during the decline stage, according to netmba.com.

Considerations

Weaker competitors may decide to withdrawal from the market during the decline stage. This may help the lead company extend its product life cycle, particularly if the technology or product is not outmoded. A company can also extend the product life cycle by finding new uses or markets for their products. For example, a small consumer products soap manufacturer may discover that its unique formula is highly effective among automotive workers.

15.8 PRICING DISCOUNT

Discounts, loyalty offers and bulk buy pricing is common business practice and can help you to move stock, attract new customers, or reach sales targets during a slow sales period.

Before you start cutting your sales price in half in the hope of drumming up sales, it's good to do some planning to make sure you're still making a profit for the extra orders coming in.

It is important to:

- ➢ know your current profit margin, markup and breakeven point
- ➢ calculate the best discount price to still make a profit
- ➢ prepare a marketing plan to encourage new customers and bring inactive customers back
- ➢ find out what your competitors are offering and their current pricing
- ➢ review other options for promoting sales offers without reducing the price
- ➢ decide how long the sales price will be offered
- ➢ review your accounts for any regular times of the week, month or year your business has a sales dip.

Special offers and pricing deals

If discounting isn't working to drive sales in your business, there are other options you can offer your customers.

Example: if a five percent sales discount did not encourage more orders, offering free gift wrapping or shipping might be a more successful promotion. It is important to understand your customers and what offers they will be attracted to.

1. Package or bundle stock

This type of upsell opportunity encourages customers to order more stock or services and are rewarded with a bundled pricing. Bundling works when the customer can see the benefit of complimentary products or services and buying them together at the discounted price.

Example: within a beauty salon bundled offers could include a discount for buying shampoo and conditioner at the same time, or having a manicure and a pedicure.

2. Quantity discounts

   Offer a percentage discount or 'get one free' when customers buy a set number of items. This increases the size and value of customer orders and helps to move stock which may be needed for clearance items. It is also a good idea when your supplier offers discounts for larger order volumes and you can purchase stock at a reduced price.

   Example: grocery shops and clothing retailers regularly encourage shoppers to buy one get- one-free, buy five get-one-free, or buy one and get the second item at a reduced price.

3. Value added offers

   Without discounting the price you can offer your customers an added value to their purchases. Most value add offers are a priceless item that is of benefit to the customer. It is important to remember that although some of these offers are free of cost it may require your time to provide the service. These offers are a good way to identify any services you offer which your competitor doesn't.

   Example: a computer hardware supplier could provide an installation guide, or free installation support with purchase. A hairdresser can offer a free treatment or blow wave with haircut.

4. Seasonal or periodic discounts

   There are times of the year, month week or day when some goods and services have less demand than at other times. This is true for seasonal clothing, festive merchandise, travel bookings and restaurants.

   By analysing your sales cycles and highlighting these periods you can offer discounts for customers who buy merchandise or services out-of-season.

   Example: mid-week specials for restaurants, surf shops offering sales of last season's stock over winter, and ski shops offering the same discounts over summer.

Benefits of discounting

Along with increased order numbers and more money, discounting benefits include:

- attracting new customers without a large marketing campaign. You can also take the opportunity to sign new customers up to your newsletter
- encouraging undecided customers to purchase goods, especially if the discount has a limited time offer
- clearing last season's stock, or outdated models
- free advertising on sales websites
- new sales from inactive customers.

15.9 PRODUCT POSITIONING

The goal of product positioning is to keep your product on top of your customers' mind when they're considering a purchase. Product positioning is an important element of a marketing plan. Product positioning is the process marketers use to determine how to best communicate their products' attributes to their target customers based on customer needs, competitive pressures, available communication channels and carefully crafted key messages. Effective product positioning ensures that marketing messages resonate with target consumers and compel them to take action.

The word "positioning" took on a new meaning for business in 1972. The concept was first popularized by Al Ries and Jack Trout in their bestseller book Positioning - a battle for your mind. According to them, positioning is a game people play in todays me-too market place. The key to positioning, Trout says, is owning one word in your customer's mind.

Product positioning principles

According to Daniel Levis there are four different methods of product positioning

1. Unique Selling Proposition

2. Risk Reversal

3. Inordinate Value

4. Clear, Complete, & Concise Customer Education

Positioning concepts

More generally, there are three types of positioning concepts:

1) Functional positions

a) Solve problems

b) Provide benefits to customers

c) Get favorable perception by investors and lenders

2) Symbolic positions

a) Self-image enhancement

b) Ego identification

c) Belongingness and social meaningfulness

d) Affective fulfillment

3) Experiential positions

a) Provide sensory stimulation

b) Provide cognitive stimulation

Effective product positioning is a key to success and even more when you are marketing a new product.

Steps to product Positioning

Marketers with the positioning process try to create a unique identity of a product amongst the customers. There are five steps to smoothen product positioning process:

1. **Know your target audience well**

   It is essential for the marketers to first identify the target audience and then understand their needs and preferences. Every individual has varied interests, needs and preferences. No two individuals can think on the same lines. You should know about your audience, but if you don't know what they need to hear, you would be squandering your time and would be barking up the wrong tree with your right message. Knowing your target audience involves knowing the specific needs of the audience as well. Know what your customers expect out of you.

   The products must fulfill the demands of the individuals.

2. **Identify the product features**

   The marketers themselves must be well aware of the features and benefits of the products. It is rightly said you can't sell something unless and until you yourself are convinced of it.

   It is very important for the marketers that they themselves are aware of the features and benefits of the products. It is well said that you really can't sell something unless and until you yourself are convinced of it. A marketer selling a smart phone should himself also use the same smart phone handset for the customers to believe him.

A marketer selling Nokia phones should himself also use a Nokia handset for the customers to believe him.

3. **Unique Selling Propositions**

Every product should have USPs; at least some features which are unique. The organizations must create USPs of their brands and effectively communicate the same to the target audience.

The marketers must themselves know what best their product can do. Find out how the products can be useful to the end-users ?

Why do people use “Anti Dandruff Shampoo?”

Anti Dandruff Shampoos are meant to get rid of dandruff. This is how the product is positioned in the minds of the individuals.

Individuals purchase “Dabur Chyawanprash “to strengthen their body’s internal defense mechanism and fight against germs, infections and stress. That’s the image of Dabur Chyawanprash in the minds of consumers.

USP of a Nokia Handset - Better battery backup. USP of Horlicks Foodles - Healthy snack

Communicate the USPs to the target audience through effective ways of advertising. Use banners, slogans, inserts and hoardings.

Let individuals know what your brand offers for them to decide what is best for them.

4. **Know your competitors**

- A marketer must be aware of the competitor’s offerings. Let the individuals know how your product is better than the competitors?
- Never underestimate your competitors.
- Let the target audience know how your product is better than others.
- The marketers must always strive hard to have an edge over their competitors.

5. **Ways to promote brands**

- Choose the right theme for the advertisement.
- Use catchy taglines.
- The advertisement must not confuse people.
- The marketer must highlight the benefits of the products.

6. **Maintain the position of the brand**

- For an effective positioning it is essential for the marketers to continue to live up to the expectations of the end - users.
- Never compromise on quality.
- Don't drastically reduce the price of your products.
- A Mercedes car would not be the same if its price is reduced below a certain level.
- A Rado watch would lose its charm if its price is equal to a Sonata or a Maxima Watch.

15.10 PRICE COMPETITION & NON-PRICE COMPETITION

A) Price Competition

Exists when marketers complete on the basis of price. In price competition, the marketers develop different price strategies to beat the competition. They generally set a same or low price of a product than that of the competitors to gain the market share.

Generally, the prices are changed to cover the costs or increase the demand. For instance, Coca- Cola and Pepsi are close competitors, thus, they often engage in price wars. The major disadvantage of price competition is that the competitors have flexibility to change the prices of products.

B) Non-price Competition

Focuses on the factors other than the price of the product. In non-price competition, customers cannot be easily lured by lower prices as their preferences are focused on various factors, such as features, quality, service, and promotion.

Thus, the marketers focus on these factors to increase the sale of products. For instance, customers prefer buying expensive luxury products for gaining status in the society. The demand for these products does not shift even if their prices increase. Thus, in case of non-price competition, the marketers try to promote the product by exhibiting its distinguishing features. However, a marketer who is competing on non-price basis cannot ignore the prices set by the competitors as price remains a significant marketing element.

Price Competition	Non- price competition
Majorly Uses a penetration price strategy	Uses a differentiated marketing strategy
Mostly uses "Me too" types and late entrants in the market	Mostly have the first mover advantage
Price is the most competitive advantage for such firms	Technology and design is the best competitive ad such firms
Sales volumes are high but margins are low. Bottom line might be high, but per product margin is low.	Sales volume is low but margins are high. Tota might be low because it is not a mass product. B too.
A large product portfolio is common	A small product portfolio is sufficient but differentiated for
Always in a fighting stage and plotted as Stars in BCG matrix. Because of the penetrative strategy competition keeps	Many a times the differentiated and non price co are cash cows. The competition is less and hence their market.
Quality of product may or may not be low to achieve price advantage	Quality of product is always high because of the matrix.
Would have various similar brands in the market with which they compete	Would have very few competitors and a higher ma
Focus is on distribution – The more the volumes, the more the bottom line	Distribution is niche and prestigious, determined b policy of the brand.
Market communication focuses on the price tag of the product.	Market communication focuses on the features o how it is different.
Entry barrier is low because everyone tries to enter the market with price advantage (Example – the rise of China)	Entry barrier is high because differentiation an created over a period of time and not easily beate Apple)
Price competition commonly uses the demographic and geographic segmentation because it targets the complete market	Non- price competition uses the psychographic, segmentation to make a difference in the market.

15.11 SUMMARY

Price is the most important variables in the marketing mix. Its importance has increased substantially over the years because of the environmental factors like recession, intensity of inter-firm rivalry, and the customer becoming more aware of alternatives. Firms also have to educate customers on what to look for in the product and many buyers today use sophisticated methods of collecting information on suppliers, who also do the same. In order to arrive at the most acceptable level, the marketer needs to have information on the three C's- Customers, competition and the firm's Cost structure. It should be able to use this information to achieve its goals.

15.12 KEY WORDS

Price: Both the value that buyers place on what is exchanged and the marketers' estimates of that value

Experience curve (learning curve): The drop in the average per-unit production cost that comes with accumulated production experience

Demand curve : A curve that shows the number of units the market will buy in a given time period at different prices that might be charged

Discounts: The reduction from the list price to be paid by consumers which represents the revenue source for intermediaries.

15.13 SELF ASSESSMENT QUESTIONS

1. What is price and what is the role of cost in pricing?
2. Describe various considerations and factors involved in making pricing policies?
3. Explain different pricing methods?
4. Explain Product Life Cycle for pricing with the help of pricing curve?
5. What is discount? Give its Uses?

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UNIT-16 SALES FORECASTING

Objectives

After reading this unit, you should able to understand:

- The meaning, approaches, status and method of sales forecasting
- What is sales budget and how it is prepared?
- The concept of profit planning

Structure

16.1 INTROCUDTION

At the most basic level, sales forecasting is the process of estimating future revenue generated by your sales team for your business. Sales forecasting are becoming most important to businesses. Objectivity is a key ingredient. Understanding forecasting techniques is a necessity to ensure that s proper base is established for planning. In most organizations, it is the responsibility of the sales manager or sales VP to project and monitor the sales forecast for each selling period. They are responsible for understanding how sales will perform in future and informing business leaders. While most sales leaders understand the crucial aspects of sales forecasting, very few of them achieve reliable forecasts. In fact, recent industry survey suggests that only 40% of all forecasted opportunities ever turn into deals. As a sales leader, one want precise and meaningful sales forecast for better visibility, planning, budgeting and risk management.

16.2 SALES FORECAST

Sales forecasting is the process of estimating future sales. Accurate sales forecasts enable companies to make informed business decisions and predict short-term and long-term performance. Companies can base their forecasts on past sales data, industry-wide comparisons, and economic trends.

It is easier for established companies to predict future sales based on years of past business data. Newly founded companies have to base their forecasts on less-verified information, such as market research and competitive intelligence to forecast their future business.

Sales forecasting gives insight into how a company should manage its workforce, cash flow, and resources. In addition to helping a company allocate its internal resources effectively, predictive sales data is important for businesses when looking to acquire investment capital.

Forecasting is one of the important aspects of administration. The comer-stone of successful marketing planning is the measurement and forecasting to market demand. According to American Marketing Association, "Sales forecast is an estimate of Sales, in monetary or physical units, for a specified future period under a proposed business plan or programme and under an assumed set of economic and other forces outside the unit for which the forecast is made."

A sales forecast is an estimation of sales volume that a company can expect to attain within the plan period. A sales forecast is not just a sales predicting. It is the act of matching opportunities with the marketing efforts. Sales forecasting is the determination of a firm's share in the market under a specified future. Thus, sales forecasting shows the probable volume of sales.

"Sales forecast is an estimate of sales during a specified future period, whose estimate is tied to a proposed marketing plan and which assumes a particular state of uncontrollable and competitive forces." — Cundiff and Still

Factors influencing a Sales Forecasting:

A sales manager should consider all the factors affecting the sales, while predicting the firm's sales in the market.

An accurate sales forecast can be made, if the following factors are considered carefully:

1. **General Economic Condition :**

   It is essential to consider all economic conditions relating to the firm and the consumers. The forecaster must see the general economic trend-inflation or deflation, which affect the business favourably or adversely. A thorough knowledge of the economic, political and the general trend of the business facilitate to build a forecast more accurately. Past behaviour of market, national income, disposable personal income, consuming habits of the customers etc., affect the estimation to a great extent.

2. **Consumers :**

   Products like, wearing apparel, luxurious goods, furniture, vehicles; the size of population by its composition-customers by age, sex, type, economic condition etc., have an important role. And trend of fashions, religious habits, social group influences etc., also carry weights.

3. **Industrial Behaviours :**

   Markets are full of similar products manufactured by different firms, which compete among themselves to increase the sales. As such, the pricing policy, design, advanced technological improvements, promotional activities etc., of similar industries must be carefully observed. A new firm may come up with products to the markets and naturally affect the market share of the existing firms. Unstable conditions—industrial unrest, government control through rules and regulations, improper availability of raw materials etc., directly affect the production, sales and profits.

4. **Changes within Firm:**

   Future sales are greatly affected by the changes in pricing, advertising policy, quality of products etc. A careful study in relation to the changes on the sales volume may be studied carefully. Sales can be increased by price cut, enhancing advertising policies, increased sales promotions, concessions to customers etc.

5. **Period :**

   The required information must be collected on the basis of period—short run, medium run or long run forecasts.

Importance of Sales Forecasting:

1. Supply and demand for the products can easily be adjusted, by overcoming temporary demand, in the light of the anticipated estimate; and regular supply is facilitated.

2. A good inventory control is advantageously benefited by avoiding the weakness of under stocking and overstocking.

3. Allocation and reallocation of sales territories are facilitated.

4. It is a forward planner as all other requirements of raw materials, labour, plant layout, financial needs, warehousing, transport facility etc., depend in accordance with the sales volume expected in advance.

5. Sales opportunities are searched out on the basis of forecast; mid thus discovery of selling success is made.

6. It is a gear, by which all other activities are controlled as a basis of forecasting.

7. Advertisement programmes are beneficially adjusted with full advantage to the firm.

8. It is an indicator to the department of finance as to how much and when finance is needed; and it helps to overcome difficult situations.

9. It is a measuring rod by which the efficiency of the sales personnel or the sales department, as a whole, can be measured.

10. Sales personnel and sales quotas are also regularized-increasing or decreasing-by knowing the sales volume, in advance.

11. It regularizes productions through the vision of sales forecast and avoids overtime at high premium rates. It also reduces idle time in manufacturing.

12. As is the sales forecast, so is the progress of the firm. The master plan or budget of a firm is based on forecasts. "The act of forecasting is of great benefit to all who take part in the process, and is the best means of ensuring adaptability to changing circumstances. The collaboration of all concerned leads to a unified front, an understanding of the reasons for decisions, and a broadened outlook."

16.3 TYPES OF SALES FORECASTING

The Economic Forecast:

This type of forecast is important to understand the general economic trend through a careful study of Five Year Plans, Gross national products. National income, Government expenditure, Unemployment, Consumer spending habits etc. This is in order to have an accurate forecast. Big companies, in India, adopt this method.

The Industry Forecast:

The future market demand is calculated through industrial forecast or market forecast. The expected sales forecasts of all the industries, in the same line of business are combined. Market demand may be affected by controllable-price, distribution, promotion, etc., and uncontrollable- demographic, economic, political, technological development, cultural activities etc. The executive must take into account all these conditions while forecasting.

The Company Forecast:

The third step goes to the firm concerned to look into the market share, for which forecast is to be made. By considering both controllable and uncontrollable, based on chosen marketing plans within the firm, with that of other industries, steps are taken in formulating forecasts.

There are three classes of sales forecasts:

1. **Short-run Forecast:**

   It is also known as operating forecast, covering a maximum of one year or it may be half-yearly, quarterly, monthly and even weekly. This type of forecasting can be advantageously utilized for estimating stock requirements, providing working capital, establishing sales quotas, fast moving factors. It facilitates the management to improve and co-ordinate the policies and practice of marketing-production, inventory, purchasing, financing etc. Short-run forecast is preferred to all types and brings more benefits than other types.

2. **Medium-run Forecast:**

   This type of forecast may cover from more than one year to two or four years. This helps the management to estimate probable profit and control over budgets, expenditure, production etc. Factors-price trend, tax policies, institutional credit etc., are specially considered for a good forecast.

3. **Long-run Forecast:**

   This type of forecast may cover one year to five years, depending on the nature of the firm. Seasonal changes are not considered. The forecaster takes into account the population changes, competition changes, economic depression or boom, inventions etc. This type is good for adding new products and dropping old ones.

16.4 LIMITATIONS OF SALES FORECAST

In certain cases, forecast may become inaccurate. The failure may be due to the following factors:

1. **Fashion:**

   Changes are throughout. Present style may change any time. It is difficult to say as to when a new fashion will be adopted by the consumers and how long it will be accepted by the buyers. If our product is similar to the fashion and is popular, we are able to have the best result; and if our products are not in accordance with the fashion, then sales will be affected.

2. **Lack of Sales History:**

   A sales history or past records are essential for a sound forecast plan. If the past data are not available, then forecast is made on guess-work, without a base. Mainly a new product has no sales history and forecast made on guess may be a failure.

3. **Psychological Factors:**

   Consumers' attitude may change at any time. The forecaster may not be able to predict exactly the behaviour of consumers. Certain market environments are quick in action. Even rumors can affect market variables. For instance, when we use a particular brand of soap, it may generate itching feeling on a few people and if the news spread among the public, sales will be seriously affected.

4. **Other Reasons:**

   It is possible that the growth may not remain uniform. It may decline or be stationary. The economic condition of a country may not be favourable to the business activities-policies of the government, imposition of controls etc. It may affect the sales.

The methods of forecasting discussed above have respective merits and demerits. No single method may be suitable. Therefore, a combination method is suitable and may give a good result. The forecaster must be cautious while drawing decisions on sales forecast. Periodical review and revision of sales forecast may be done, in the light of performance. A method which is quick, less costly and more accurate may be adopted.

16.5 METHOD OF SALES FORECASTING

The following are the various methods of sales forecasting:

1. Jury of Executive Opinion.
2. Sales Force Opinion.

3. Test Marketing Result.

4. Consumer's Buying Plan.

5. Market Factor Analysis.

6. Expert Opinion.

7. Econometric Model Building.

8. Past Sales (Historical Method).

9. Statistical Methods.

1. Jury of Executive Opinion:

This method of sales forecasting is the oldest. One or more of the executives, who are experienced and have good knowledge of the market factors make out the expected sales. The executives are responsible while forecasting sales figures through estimates and experiences. All the factors-internal and external—are taken into account. This is a type of committee approach. This method is simple as experiences and judgement are pooled together in taking a sales forecast figure. If there are many executives, their estimates are averaged in drawing the sales forecast.

Merits:

(a) This method is simple and quick.

(b) Detailed data are not needed.

(c) There is economy.

Demerits:

(a) It is not based on factual data.

(b) It is difficult to draw a final decision.

Product and Branding Decisions

(c) More or less, the method rests on guess-work, and may lead to wrong forecasts.

(d) It is difficult to break down the forecasts into products, markets, etc.

2. Sales Force Opinion:

Under this method, salesmen, or intermediaries are required to make out an estimate sales in their respective territories for a given period. Salesmen are in close touch with the consumers and possess good knowledge about the future demand trend. Thus all the sales force estimates are processed, integrated, modified, and a sales volume estimate formed for the whole market, for the given period.

Merits:

(a) Specialized knowledge is utilized.

(b) Salesmen are confident and responsible to meet the quota fixed.

(c) This method facilitates to break down in terms of products, territories, customers, salesmen etc.

Demerits:

(a) Success depends upon the competency of salesmen.

(b) A broad outlook is absent.

(c) The estimation may be unattainable or may to too low for the forecasts as the salesmen may be optimistic or pessimistic.

3. Test Marketing Result:

Under the market test method, products are introduced in a limited geographical area and the result is studied. Taking this result as a base, sales forecast is made. This test is conducted as a sample on pre-test basis in order to understand the market response.

Merits:

(a) The system is reliable as forecast is based on actual result.

(b) Management can understand the defects and take steps to rectify.

(c) It is good for introducing new products, in a new territory etc.

Demerits:

(a) All the markets are not homogeneous. But study is made on the basis of a part of a market.

(b) It is a time-consuming process.

(c) It is costly.

4. Consumers' Buying Plan :

Consumers, as a source of information, are approached to know their likely purchases during the period under a given set of conditions. This method is suitable when there are few customers. This type of forecasting is generally adopted for industrial goods. It is suitable for industries, which produce costly goods to a limited number of buyers- wholesalers, retailers, potential consumers etc. A survey is conducted on face to face basis or survey method. It is because changes are constant while buyer behaviour and buying decisions change frequently.

Merits:

(a) First-hand information is possible.

(b) User's intention is known.

Demerits:

(a) Customer's expectation cannot be measured exactly.

(b) It is difficult to identify actual buyers.

(c) It is good when users are few, but not practicable when consumers are many.

(d) Long run forecasting is not possible.

(e) The system is costly.

(f) Buyers may change their buying decisions.

5. Market Factor Analysis:

A company's sales may depend on the behaviour of certain market factors. The principal factors which affect the sales may be determined. By studying the behaviours of the factors, forecasting should be made. Correlation is the statistical analysis which analyses the degree of extent to which two variables fluctuate with reference to each other.

The word 'relationship' is of importance and indicates that there is some connection between the variables under observation. In the same way, regression analysis is a statistical device, which helps us to estimate or predict the unknown values of one variable from the known values of another variable.

For instance, you publish a text book on "Banking", affiliated to different universities. The permitted intake capacity of each and the medium through which the students are taught are known. Is it a compulsory or an optional subject? By getting all these details and also by considering the sales activities of promotional work, you may be able to declare the probable copies to be printed.

The key to the successful use of this method lies in the selection of the appropriate market factors. Minimizing the number of market factors is also important. Thus the demand decision makers have to consider price, competitions, advertising, disposal income, buying habits, consumption habits, consumer price index, change in population etc.

Merits:

(a) It is a sound method.

(b) Market factor is analysed in detail.

Demerits:

(a) It is costly.

(b) It is time-consuming.

(c) It is a short run process.

6. Expert Opinion :

Many types of consultancy agencies have entered into the field of sales. The consultancy agency has specialized experts in the respective field. This includes dealers, trade associations etc. They may conduct market researches and possess ready-made statistical data. Firms may make use of the opinions of such experts. These opinions may be carefully analysed by the company and a sound forecasting is made.

Merits:

(a) Forecasting is quick and inexpensive.

(b) It will be more accurate.

(c) Specialized knowledge is utilized.

Demerits:

(a) It may not be reliable.

(b) The success of forecasting depends upon the competency of experts.

(c) A broad outlook may be lacking.

7. Econometric Model Building:

This is a mathematical approach of study and is an ideal way to forecast sales. This method is more useful for marketing durable goods. It is in the form of equations, which represent a set of relationships among different demand determining market factors. By analyzing the market factors (independent variable) and sales (dependent variable), sales are forecast. This system does not entirely depend upon correlation analysis. It has great scope, but adoption of this method depends upon availability of complete information. The market factors which are more accurate, quick and less costly may be selected for a sound forecasting.

8. Past Sales (Historical method):

Personal judgement of sales forecasting can be beneficially supplemented by the use of statistical and quantitative methods.

Past sales are a good basis and on this basis future sales can be formulated and forecast. According to Kirkpatrick, today's sales activity flows into tomorrow's sales activities; that is last year's sales extend into this year's sales. This approach is adding or deducting a set of percentage to the sales of previous year(s). For new industries and for new products, this method is not suitable.

(a) Simple Sales Percentage:

Under this method, sales forecast is made by adding simply a flat percentage of sales so as to forecast sales as given below:

Next year sales = Present year sales + This year sales/Last year sales or = Present year sales + 10 or 5% of present sale

(b) Time Series Analysis:

A time series analysis is a statistical method of studying historical data. It involves the isolation of long time trend, cyclical changes, seasonal variations and irregular fluctuations. Past sales figures are taken as a base, analysed and adjusted to future trends. The past records and reports enable us to interpret the information and forecast future trends and trade cycle too.

Merits:

(a) No guess-work creeps in.

(b) The method is simple and inexpensive.

(c) This is an objective method.

Demerits:

(a) 'Market is dynamic' is not considered.

(b) No provision is made for upswings and downswings in sales activities.

9. Statistical Methods:

Statistical methods are considered to be superior techniques of sales forecasting, because their reliability is higher than that of other techniques.

They are:

(i) Trend Method

(ii) Graphical Method

(iii) Time-series Method:

(a) Freehand method

(b) Semi-average method

(c) Moving average method

(d) Method of least square

(iv) Correlation method

(v) Regression method.

Apart from the above, the following factors may also be considered:

1. Availability of raw materials
2. Plant capacity
3. Government policies
4. Buying habits of consumers
5. Fashion changes
6. Distribution system
7. Financial capacity
8. Market competition
9. National income movement
10. Sales promotions.

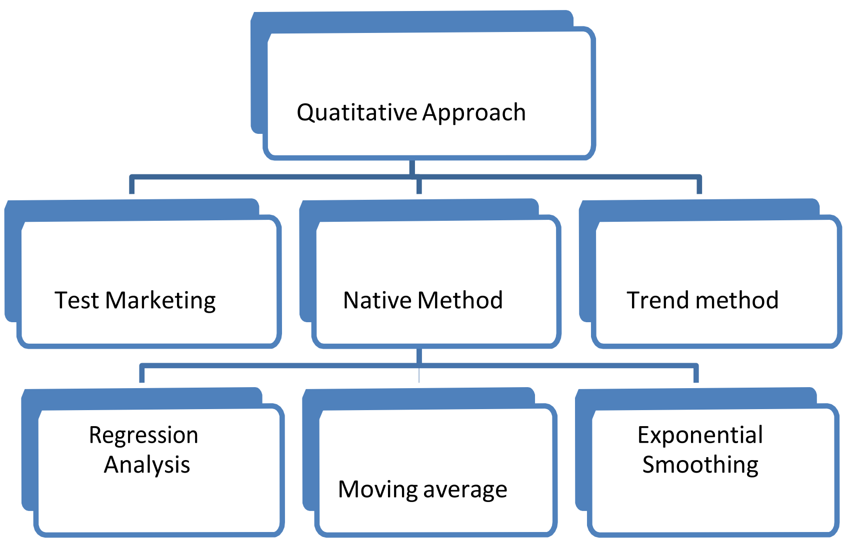
16.6 SALES FORECASTING :APPROACHES AND FORECASTING PROCESS

The success of a retail store largely depends on how accurately the sales forecasts has been done because the retail supply chain as well as the value chain management depends on the demand patterns for the category as well as for the demand in the market. A retailer is always interested to know the demands for the categories he is offerings so that merchandise procurement can be channelized as per the market demand and budget available/issued for purchase.

Sales forecasting helps a retailer to estimate its expected future revenues for sales made in a particular period of time. These forecasts may be at departmental level, company level and for individual merchandise classifications. As sales forecasting has always been a critical step for retailers. With the advancement of information technology and technological advancement, large retailers have started using statistical techniques (like Index numbers, time series and multiple regression analysis) or software packages for the purpose of sales forecasting.

The forecasting technique or the software package to be implied, depends upon the store's size, employees' skills, availability of funds and retailers own experience.

Widely used Forecasting approaches SALES FORECASTING METHOD



The Sales Forecasting Process:

The sales forecasting process is defined as the series of actions taken by a retailer to estimate the future revenues for a particular time period by considering the past information and current forecasting objectives into account. Sales forecasting for merchandise classifications within the departments usually depends on more qualitative techniques, even for large stores.

The easiest way of forecasting sales for narrower categories is to first forecast store's sales on a firm wide basis and by department and then to breakdown these projections into various merchandise classifications. Different firms apply different methods of forecasting, but whatever method is chosen it must carefully predict and take into account external and internal factors.

List of commonly considered and most widely encountered factors are as follows: 1.Internal Factors:

(a) Credit policies

(b) Working hours

(c) New store open policy

(d) Promotion policy

(e) Additions and deletion of merchandise category

(f) Remodeling existing stores seasonal variations

2. External Factors:

(a) Socio-cultural changes

(b) Competitors' moves

(c) Economic policies

(d) Political system

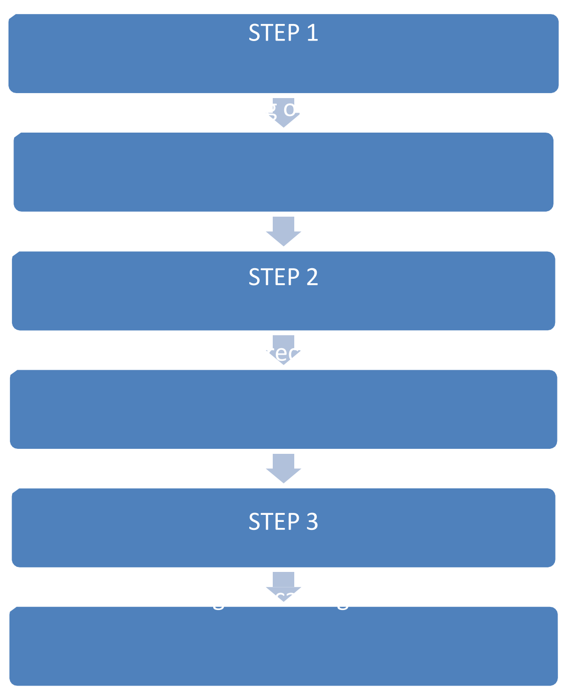
(e) Technological advancements

(f) Climate conditions

(g) New entries

The different methods are being employed by different retailers to develop sales forecasts but most of the retailers follow this process where a series of steps are used

Sales Forecasting process



Value Added Aspect of sales forecasting

16.7 PRODUCT SALES DETERMINANTS

Product sales, generally speaking, depend upon the **market need, price of the product, demand-supply situation, purchasing power available with the customers and their willingness to spend** that on the purchase of the product. The importance of these factors varies according to the type of product sold i.e., consumer non-durable goods, consumer durable goods, and industrial goods. Let us now identify the major determinants of product sales relating to different types of goods.

Consumer Non-Durable Goods

Three, basic factors determine the sales of relatively low priced, short shelf life and frequently purchased consumer goods. These are: **disposable personal income** (personal income minus direct taxes and other deductions) of the customer; **demographic characteristics** (age, sex, occupation, urban/rural location, etc.) of the population, and **the price level** including competitive structure of the market.

The growth in the disposable income level as well as per capita availability of products provide continuity in the sales of food products, textiles, household articles and similar products.

Price of a product relative to the disposable income of the customer influences the customer choice criteria regarding purchase of complimentaries as well as substitutes. It also affects the quality level (high, average, low) of the products purchased.

Changes in demographic characteristics of the population such as its size, literacy, number of children in a family, etc. help in the selection of preferred market segments and their cultivation with the appropriate marketing mix.

Consumer Durable Goods

These goods have a durable (long) life and are generally bought out of savings. Their purchase frequency is thus limited to once or twice in the life of a household. The purchase of such products is influenced by:

a) **Discretionary Income** (disposable income minus essential expenditures on basic necessities and other fixed obligations like debt payments, insurance premiums, etc.) level of the population.

b) **Availability of infrastructural and support** facilities for the product usage in the country such as pucca roads for the usage of scooters and other vehicles; broadcasting stations and transmission centres in the case of radios, transistors and television; and electricity n the case of various electrical appliances including refrigerators and air-conditioners. Availability of repair, spares and maintenance facilities in proximity to the households' location help increase the sale of consumer durable further.

c) Price, credit or hire-purchase facilities available, and

d) Life-style of the households and the role of ego, status and prestige in it.

   The improvements recorded in the levels of discretionary income, extension in infrastructural and support facilities, easy availability of consumer loans and hire-purchase/ instalment schemes as well as changes in urban life-style has opened up the Indian consumer durable market in a big way. The rising sales of transistors, two-in-ones, televisions, scooters and motor-cycles, mixers and cookers, foam mattresses and furniture items, etc. are just a few indications of the same.

Industrial Goods

These goods help in the production of other goods which are closer to consumer usage. Their demand, therefore, is linked with the off-take by the ultimate users and so is, popularly called **'derived' demand.** In other words, industrial goods are mainly basic or mother goods, such as machine tools, power equipment, steel, industrial machinery, components, control instruments, lubricants, etc. And, to repeat, the sales of industrial goods is linked with the demand in the user industries e.g., demand of mobile making machinery and components in India is determined by the sale and demand of mobiles in India.

Industrial goods forming part of the industrial infrastructure are greatly influenced by the Government of India's industrial and technology policy, budgetary outlays, developmental plans and the availability of industrial finance through national and international sources. Any policy or allocation change, therefore, affects the working of Industrial goods, firms and often makes them face either a recession or a recovery position in the market.

In short, an industrial products sales forecast is influenced by **(a) company forecast, (b) industry forecast, (c) national economic forecast, and (d) world economic forecast.**

16.8 RETAIL SALE FORECASTING

Business owners and managers make use of modern data-gathering techniques to optimize retail delivery of products to the customer base. Forecasting in retail involves utilizing existing data to predict future events and, more specifically, consumer behavior. Existing data and market research varies by the types of products a retailer sells, but the basic means of forecasting in retail follows similar patterns, even across different product lines.

Identification

Retail forecasting methods anticipate the future purchasing actions of consumers by evaluating past revenue and consumer behavior over the previous months or year to discern patterns and develop forecasts for the upcoming months. Data is adjusted for seasonal trends, and then a plan for ordering and stocking products may follow the analysis. After fulfillment of current and forthcoming customer purchases and orders, an assessment of the results is compared with previous forecasts, and the entire procedure is repeated.

Function

In retail management, forecasting serves to predict and meet the demands of consumers in retail establishments while controlling pricing and inventory. Holding excess inventory adds to overhead costs for a business. When forecasting helps the retailer to meet the demands of the customer by understanding consumer purchase patterns better, more efficient use of shelf and display space within the retail establishment is the result, in addition to optimal use of inventory space.

Methods

In creating retail forecasts, analysts consider product price, marketing and promotions to develop and plan for projected consumer reactions at the point of sale. Methods of identifying and understanding past trends in retail sales involve incorporating economic indicators into the data. Unemployment rates, the rate of inflation, levels of household debt, available disposable income, and growth of the national gross domestic product -- the total value of all goods and services produced in the country -- are all part of the information used in forecasting. In addition, current, recent and projected near-future activity in the stock market is taken into consideration to gauge consumer confidence in the economy.

Benefits

Accurate forecasts that meet the forthcoming consumption demands of customers help retail business owners and management to maximize and extend profits over the long term. Forecasting permits price adjustments to correspond with the current level of consumer spending patterns. Maintaining and controlling a sufficient but moderate inventory that meets the need without being excessive also adds to long-term profits in the retail industry.

16.9 SALES BUDGET

A **sales budget** is a detailed schedule showing the expected sales for the budget period; typically, it is expressed in both dollars and units of production. An accurate sales budget is the key to the entire budgeting in some way. The sales budget will help determine how many units will have to be produced. Thus, the production budget is prepared after the sales budget. The production budget in turn is used to determine the budgets for manufacturing costs including the direct material budget, the direct labor budget and the manufacturing overhead budget. These budgets are then combined with data from the sales budget and the selling and administrative expenses budget to determine the cash budget. In essence, the sales budget triggers a chain reaction that leads to the development of the other budgets. The selling and administrative expenses budget is both dependent on and a determinant of the sales budget. This reciprocal relationship arises because sales will in part be determined by the funds committed for advertising and sales promotion.

The sales budget is the starting point in preparing the master budget. All other items in the master budget including production, purchase, inventories, and expenses, depend on it in some way. The sales budget is constructed by multiplying the budgeted sales in units by the selling price.

IMPORTANCES OF SALES BUDGETING

A sales budget is a financial plan depicting how resources should best be allocated to achieve the forecasted sales. The purpose of sales budgeting is to plan for and control the expenditure of resources (money, material, people and facilities) necessary to achieve the desired sales objectives. Sales forecast and sales budget are therefore 1 intimately related as much as that if the sales budget is inadequate, the sales forecast 'I will not be achieved, or if the sales forecast is increased the sales budget must be increased accordingly. Sales budget by relating sales obtained and resources deployed also acts as a means for evaluating sales planning and sales effort. It aims at attaining maximum profits by directing the emphasis on most profitable segments, customers and products.

PURPOSE OF SALES BUDGETING

1) **A Planning Tool**: In order to achieve goals and objective of the sales department, sales manager must outline essential tasks to be performed and compute the estimated costs required for their performance. Sales budgeting therefore, help in profit planning and provide a guide for action towards achieving the organizational objectives.

2) **An Instrument of Coordination:** As we all know selling is only one of the important functions of marketing. To be effective it needs support from other elements of the marketing mix. The process of developing realistic sales budget draws upon backward and forward linkages of selling with marketing and in turn brings about necessary integration within the various selling and marketing functions, and co- ordination between sales, finance, production and purchase function.

3) **A Tool or Control:** The sales budget on adoption becomes the mark against which actual results are compared. For example, look at the following figure:

Budget Variance

				Variance
	Budget	Actual	Favorable	Unfavorable
Sales	Rs. 7000	Rs. 8900	Rs. 1900	
Expenses				
Direct Selling	2500	2375	125	
Sales promotion	1500		Rs. 150	
Advertising	997	1075		78
Administrative	875	775	100	
Total expenses	Rs. 5872	Rs. 5875		03
Profit (before tax)	Rs. 1128	Rs. 3025	1897	

The above figure is self-explanatory and points out to both the favourable and unfavourable variance. The analysis of the factors causing variance enables the sales manager to quickly spot potential problem areas or better plan for unexpected outcomes such as higher than budget sales. The budget variance analysis approach thus helps in improving insights of sales manager and enables him to refine and develop realistic sales budgets in future with minimal variance.

16.10 METHOD OF SALES BUDGETING

A variety of methods ranging from the sales manager's gut feeling to application of management science models are used for determining the sales budgets. The popular methods are as under:

- **What is affordable:** This method is generally used by firms dealing in capital industrial goods. Also, companies giving low emphasis to sales and marketing function or having small size of operation make use of this judgemental method.

- **Rules of Thumb:** Such as a given percentage of sales. Mass selling goods and companies dominated by finance function are major users of this method.

- **Competitive parity:** Large sized companies whose products face tough competitions and need effective marketing to maintain profits make use of this method. The use of this method presumes knowledge of the competitors' activities and resource allocation.

- **Objective and Task Method:** systematic method help in determination of the sales budget by identifying the objective of sales function, and then ascertaining the selling and related tasks required to achieve each objective. Later, the cost of each task/activity is calculated to arrive: It the total budget. The finalization of the budget may require adjustment both in the objectives as well as in the way the task. may be performed

- **Zero based budgeting**: It is relatively a new approach to budgeting. It involves a process in which the sales budget for each year is initiated from Zero base thus justifying all expenditure and discarding the continuation of conventions and rules of thumb. The method suffers from practical limitations which relate to a very elaborate and time consuming process required by it

In practice, companies make use of a combination of the above methods and depending upon the experience gained sales budgeting approach stands refined. The status of the sales and marketing function within the organization determines the extent of sophistication used in the approach to sales budgeting.

16.11 PREPARATION OF SALES BUDGET

Preparation of sales budget is one of the most important elements, of the sales planning process. Generally, three basic budgets are developed, the sales budget, the selling expense budget and the sales department administrative budget Mostly sales organisations have their own specified procedures, formats and timetables for developing the sales budget While all sales budgets relate to the sales forecast, the steps taken in systematic preparation of budget can be identified in the following sequence.

Review and Analysis of Marketing Environment: Generally, companies prepare, sales budget on the principle of bottom up planning. To prepare a tentative budget of revenue and expenses, depending on the organisational structure of the sales department, each departmental head is asked to predict their sales volume and expenses for the coming period and their contribution of overhead. For example, in a leading tyre company each District sales manager prepares his/her district budget and submits to the Regional or Divisional office, where they are added together and included with divisional / regional budget. In turn these divisional budgets are submitted to the sales manager for the particular product or market groups. At the end of this chain of subordinates' budgets, the top executives in the sales department scan and prepare a final sales budget for the company. Now the marketing budget is combined with the budgets of the sales department and the staff marketing departments, to give a total of sales revenues and of selling and other marketing expenses for the company. Some of the common items in each sales budget include the following:

- Salaries, sales persons, administrative support etc.
- Direct selling expenses -travel, lodging, food, and entertainment.
- Commissions on sales, Bonus.
- Benefits packages covering medical insurance, gratuity and retirement contribution
- Office expenses mailing, telephone, office supplies and other miscellaneous costs.
- -Advertising and promotional materials. Selling aids, contest awards, product samples catalogues, price-lists etc.

This review of past budget performance helps the sales manager to minimize variances in the coming period.

Communicating Overall Objectives: Sales executives at the top level must communicate their sales goals and objectives to the marketing department and argue effectively for an equitable share of funds. The chief sales executive of the firm should encourage participation of all superiors and managers in the budgets process so that, as a part of its development, they will accept responsibility for it and later enthusiastically implement it

Setting a Preliminary Plan for Allocation of Resources and Selling Efforts to Different Activities : Particularly products, customers and territories so that revisions can be made in this initial sales budget. The sales manager must emphasize that the budgets should be as realistic as possible at each stages of its development, so that it can maximise its favourable impact on the firm. When budget goals are achieved through a co-operative team effort, a strong feeling of organisational confidence is created. In case of failure to stay within budgets, sales manager should stress on rewards and public commendations to encourage positive attitudes towards budget goals and pride in their achievement

Selling the Sales Budget to Top Management: The top sales and marketing executive must visualize that every budget proposal they are presenting to the top management must remain in competition with proposal submitted by the heads of other divisions. Each and every division usually demands for an increased allocation of funds. Unless sales managers rationally justify each item in their budgets on the basis of profit contribution, the item may not get due consideration by the top management.

16.12 FLEXIBILITY IN BUDGETING

Flexible sales budget is an alternative to overcome the rigidity of the traditional sales budget, which makes the sales manager merely an analyzer of the financial performance of the company. Flexible budgets make use of standard costs (based on past records or managerial judgment) for different revenue forecasts. It allows the sales manager to continuously monitor financial performance in terms of standard cost ratios. For example, the standard cost for promotion materials (brochure, display samples etc. might be Rs.5 for every Rs.100 sales or a ratio of 0.05. After nine months Rs. 400 has been spent on promotional materials while Rs. 2400 worth of revenue has been generated. The sales manager observed that the ratio has risen to 0.166. In this case expenditure on promotional materials need to cut back reasonably. In the past use of flexible budgeting was limited to large sized companies, but now small companies also are adopting flexible budgeting technique.

There is one more dimension of flexibility in sales budget and this arises out of the very nature of sales budget As we all know that a sales budget is an estimation relating to the future period under assumed market conditions. In the event of change in market conditions necessitating a change in the firm's expenditure of efforts the sales budget should carry flexibility of inter-item reallocation of expenses and other resources e.g. sales allowance to additional sales persons to display contest to fast cargo movement to cash discount etc.

HOW TO PREPARE BUDGET

A sales budget is an important first step in structuring an overall budget for your small business. With an accurate projection of future sales, a small business owner makes well-informed decisions, keeps expenses in line and protects his company from failing. Use a sales budget to structure your company in a way that maximizes profit. If you have been in business for a few years, you can usually make an accurate sales budget. If you are just starting a business, you may have to turn to outside sources to generate a reasonable sales budget.

Step 1

Select a period for your sales budget. While it is common to use an annual sales budget, some companies have quarterly or even monthly sales budgets.

Step 2

Collect historical sales data for your company. If you run an existing business, you should be able to consult past sales records. If you are making a sales budget for anything but an annual period, use sales data for the same period as the current budget you are preparing. For example, if you are working on a budget for your upcoming spring quarter, use data from a previous spring quarter to minimize the effect of seasonal factors on your sales.

Step 3

Locate sales and industry information from outside sources if you are a new company. Search for information on companies similar to yours. You can get actual sales data from the annual and quarterly reports of public companies, but that information is typically only available for large companies. The U.S. Bureau of Labor Statistics can provide you with industry growth estimates and other important financial data about your industry. Your local chamber of commerce can provide information on local companies and put you in touch with colleagues in your industry.

Step 4

Count the number of salespeople working for your company and compare it with past sales periods. If the number of salespeople in your company has risen or fallen, increase or decrease your estimated sales figures accordingly. Ask your salespeople for their own personal projections for the upcoming sales period, as their first-hand knowledge and experience can help you make accurate projections.

Step 5

Research current market trends. While past sales provide a good starting point for your budget, past performance does not always predict future results. If market trends are changing, they will most likely affect your company's fortunes as well. For example, if you make plastic cases for CDs and CD sales are falling, you may have to revise your sales estimates downward as well.

Step 6

Speak with your customers. Their intentions to buy your products are solid indicators of future sales. If your customers tend to buy at certain times during the year, factor this typical buying trend into your sales forecast.

Step 7

Create the forecast. Based on a combination of previous sales, the current state of the market, the strength of your sales force and customer intentions, make your best estimate as to sales during the next budget period.

Step 8

Compare actual results with the sales forecast. After the projected sales period concludes, see how close your projection was to your actual sales. Any variance you uncover can help you prepare future budgets more accurately.

16.13 PROFIT PLANNING

Profit planning can be defined as the set of steps that are taken by firms to achieve the desired level of profit. Planning is accomplished through the preparation of a number of budgets, which, when brought through, from an integrated business plan known as master budget. The master budget is an essential management tool that communicates management’s plan throughout the organization, allocates resources, and coordinates activities.

BUDGETING:

A budget is a detailed plan for acquiring and using financial and other resources over a specified period of time. It represents a plan for the future expressed in formal quantitative terms. The act of preparing a budget is called **budgeting**. The use of budgeting to control a firm’s activities is called **budgetary control**. Master budget is a summary of a company’s plan that sets specific targets for sales, production, distribution, and financing activities. It generally culminates in cash budget, a budgeted income statements, and a budgeted balance sheet. In short, it represents a comprehensive expression of management’s plans for the future and how these plans are to be accomplished.

DIFFERENCE BETWEEN PLANNING AND CONTROL:

The term **planning and control** are often confused, and occasionally these terms are used in such a way as to suggest that they mean the same thing. Actually, planning and control are two quite different concepts. **Planning** involves developing objects and preparing various budgets to achieve those budgets. Control involves the steps taken by management to increase the likelihood that the objectives set down at the planning stage are attained and that all parts of the organization are working together toward that goal. To be completely effective, a good budgeting system must provide for both planning a control. Good planning without control is time wasting.

ADVANTAGES AND DISADVANTAGES OF BUDGETING:

Companies realize many advantages / Benefits from a budgeting program. Among these benefits are the following:

1. Budgets provide a means of communicating management's plans through the organization.

2. Budgets force managers to think about and plan for the future. In the absence of the necessity to prepare a budget, many mangers would spend all of their time dealing with daily emergencies.

3. The **budgeting process** provides a means of allocating resources to those parts of the organization where they can be used most effectively

4. The budgeting process can uncover many potential bottlenecks before they occur .

5. Budgets coordinates the activities of the entire organization by integrating the plans of the various parts of the organization. Budgeting helps to ensure that everyone in the organization is pulling in the same direction.

6. Budgets provide goals and objectives that can serve as benchmark for evaluating subsequent performance.

Disadvantages / Limitations of Budgeting: Whilst budgets may be an essential part of any marketing activity they do have a number of disadvantages, particularly in perception terms.

Budgets can be seen as pressure devices imposed by management, thus resulting in:

(a) bad labor relations

(b) inaccurate record-keeping.

Departmental conflict arises due to:

(a) disputes over resource allocation

(b) departments blaming each other if targets are not attained.

It is difficult to reconcile personal/individual and corporate goals. Waste may arise as managers adopt the view, “we had better spend it or we will lose it”. This is often coupled with “empire building” in order to enhance the prestige of a department. Responsibility versus controlling, i.e. some costs are under the influence of more than one person, e.g. power costs. Managers may overestimate costs so that they will not be blamed in the future should they overspend.

RESPONSIBILITY ACCOUNTING:

The concept of responsibility accounting is very important in profit planning. The basic idea behind responsibility accounting is that a manager should be responsible for those items that the managers can actually control to a significant extent. Each line item (i.e., revenue or cost) in the budget is made the responsibility of a manager, and that manager is held responsible for subsequent deviations between budgeted goals and actual results. Someone must be held responsible for each cost or else no one will be responsible, and the cost will inevitably grow out of control. Being held responsible for costs does not mean that the manager is penalized if the actual results do not measure up to the budgeted goals. However, the manager should take the initiative to correct any unfavorable discrepancies, should understand the source of significant favorable or unfavorable discrepancies, and should be prepared to explain the reasons for discrepancies to higher management. The point of an effective responsibility system is to make sure that nothing “falls through the cracks” that the organization reacts quickly and appropriately to deviations from its plans, and that the organization learns from the feedback it gets by comparing budgeted goals to actual results. The point is not to penalize individuals for missing targets.

BASICS OF PROFIT PLANNING

Profit planning is a vital part of any business plan structure for a small or medium business. The goals of small business owners include ensuring that the business makes profits year-on-year, and that it is sustained over a period of time for growth. The business plan includes a forecast that tries to anticipate the business growth and determine the revenue that could be generated in that particular year. Here’s a look at the basics of profit planning for your business:

1. **Evaluate your business operations:** Profit planning and forecasting enables a comparison between projected costs and spends, and the actual costs that your business is incurring. This can help your team decide on improving cost efficiency and

closing up the gaps. It also enables better decision-making like which resources to invest in or cut costs from. Proper profit planning will ensure that the business does not spend more than is necessary or end up not investing enough in resources that are required.

2. **Forecast marketing strategies:** Marketing is one of the highest areas of expense for small businesses because marketing efforts are directly related to getting leads for the business. The company's marketing efforts are categorized into various areas, and each of these need to be evaluated for the employees and resources required to fulfill them. If the marketing costs are not estimated properly it could affect profits, and the company will unnecessarily spend more on marketing. Profit planning helps avoid this scenario.

3. **Anticipate financial planning:** Planning funds to allocate across departments and procedures needs to begin well in advance. Profit planning anticipates the company's financial ability to make the maximum use of resources, with efficiency in costs and finally high profit-making potential.

4. **Carve out hiring requirements:** After the entire financial projection is made and the business plan structure is ready, the company needs to evaluate if they have enough staff to carry out all the operations. Profit planning also estimates the number of personnel required, vis-à-vis the work they generate which has a bearing on the company's revenue and profits. Planning costs for hiring requirements is also an important part of this.

Profit planning is a crucial business activity that prepares the company for the coming year, helps spread out company resources efficiently and motivates the major stakeholders of the company to strive towards year-on-year growth. Profit planning needs to be an activity that is carried out every year. After the end of the year, there also needs to be an audit that compares the projection to the actual profits. This can guarantee that the company is prepared and has a well thought-out strategy to improve every time and maximize profits and performance.

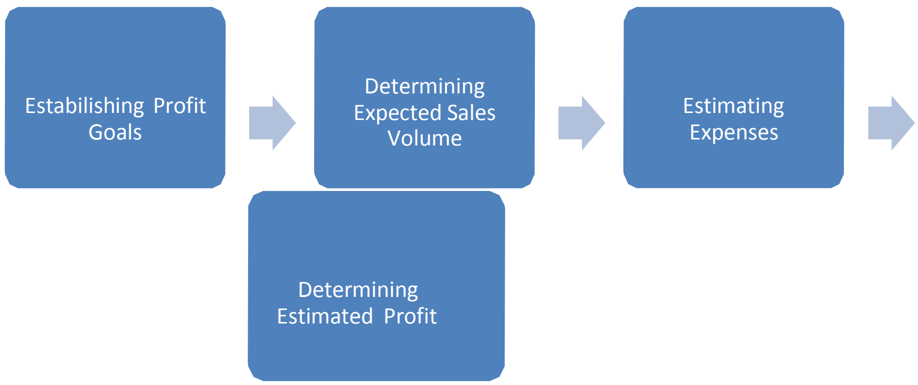
PROCESS OF PROFIT PLANNING AND CONTROL

Profit is considered as a significant element of a business activity. According to Peter Drucker, "profit is a condition of survival.

It is the cost of the future, the cost of staying in a business." Thus, profit should be planned and managed properly.

An organization should plan profits by taking into consideration its capabilities and resources. Profit planning lays foundation for the future income statement of the organization. The profit planning process begins with the forecasting of Les and estimating the desired level of profit taking in view the market conditions.

Process of Profit Planning



The steps involved in profit planning process (as shown in Figure-6) are explained as follows:

1. **Establishing profit goals:**

   Implies that profit goals should be set in alignment with the strategic plans of the organization. Moreover, the profit goals of an organization should be realistic in nature based on the capabilities and resources of the organization.

2. **Determining expected sales volume:**

   Constitutes the most important step of the profit planning process. An organization needs to forecast its sales volume so that it can achieve its profit goals. The sales volume can be anticipated by taking into account the market and industry trends and performing competitive analysis.

3. **Estimating expenses:**

   Requires that an organization needs to estimate its expenses for the planned sales volume. Expenses can be determined from the past data. If an organization is new, then the data of similar organization in same industry can be taken. The expense forecasts should be adjusted to the economic conditions of the country.

4. **Determining profit:**

   Helps in estimating the exact value of sales.

It is calculated as:

Estimated Profit = Projected Sales Income – Expected Expenses

After planning profit successfully, an organization needs to control profit. Profit control involves measuring the gap between the estimated level and actual level of profit achieved by an organization. If there is any deviation, the necessary actions are taken by the organization.

Profit control involves two steps, which are as follows:

1. **Comparing estimates with the goal:**

   Involves comparing the estimated profit with the expected profit. If there is a large gap between the estimated profits and the expected profits, the measures should be taken.

2. **Using alternatives to achieve the desired profit: Includes the following:**

   a. Making changes in planned sales volume by increasing sales promotion, improving product quality, providing better service, and providing after sales support to customers.

   b. Reducing planned expenses by minimizing losses, implementing better control systems, improving product quality, and increasing the productivity of human resource and machines.

16.14 SUMMARY

Sales forecasting is the process of estimating what your business's sales are going to be in the future. A sales forecast period can be monthly, quarterly, half-yearly or annually. Sales forecasting is an integral part of the business management. Without a solid idea of what your future sales are going to be, you can't manage your inventory or cash flow or plan for growth. The purpose of sales forecasting is to provide information that you can use to make intelligent business decisions.

16.15 KEY WORDS

Forecasting : The prediction of what buyers in a target market are likely to do under a given set of conditions, such as the prediction of how much of a product will be purchased by a particular market segment given a particular price of the product.

Retailing : All activities involved in selling goods or services directly to final consumers for their personal, nonbusiness use.

16.16 SELF ASSESSMENT QUESTIONS

1. **1.** Describe meaning and limitations of sales forecasting?
2. **2.** What are the qualitative and quantitative approaches of sale forecasting?
3. **3.** What is sales budget? How budget is prepared?
4. **4.** What is budgeting? Give its advantages and disadvantages?

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Master of Business Administration

MBA-2.4

Marketing Management

BLOCK

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MARKETING PROMOTION AND COMMUNICATION

परिशिष्ट–4
आन्तरिक कवर–दो का प्ररूप
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परिमापक

अनुवाद की स्थिति में

मूल लेखक अनुवाद

मूल सम्पादक भाषा सम्पादक

मूल परिमापक परिमापक

सहयोगी टीम

संयोजक Dr. Gaurav Sankalp, SoMS, UPRTOU, Allahabd.

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UNIT-17 MARKETING COMMUNICATION AND ADVERTISING

17.1 INTRODUCTION

The aim of this chapter is to demonstrate recent transformations affecting marketing, particularly in the area of marketing communication, as well as suggesting possible approaches that suitably lend themselves for the implementation of marketing under the postmodern condition. Some of which had revolutionary effects on the field; most significantly the advances in information and communication technology, which has influenced every aspect of contemporary society. This includes contributing to the increasing power of the customer and giving rise to new and alternative methods of marketing communication. Organizations must adapt their marketing strategies to remain relevant and competitive in today's continuously evolving landscape.

Defining Marketing

Marketing definitions have adjusted over time, as a result of different influences that have affected the discipline through its history. It is a broad discipline and as such has numerous definitions.

"Marketing can be described as all activities designed to generate and facilitate any exchange intended to satisfy human needs or wants".

"Marketing is a total system of business activities designed to plan, price, promote, and distribute want-satisfying products to target markets to achieve organisational objectives".

In the words of **'Philip Kotler';**

"Marketing is a societal process by which individuals and groups obtain what they need and want through creating, offering, and freely exchanging products and services of value with others".

These definitions share some commonalities. They focus on customers; the provision of suitable offerings to meet customers' needs; appropriate benefits to the organization; and the relationship between the customer and the organization on the basis of value exchange.

17.1.1 PROCESS OF MARKETING COMMUNICATION

Marketing communications are the means by which firms attempt to inform, persuade, and remind customers directly or indirectly about the products and brands that they sell.

Marketing communications is essentially a part of the marketing mix. The marketing mix defines the 4Ps of marketing and Promotion is what marketing communications is all about. It is the message your organization is going to convey to your market. You need to be very particular about different messages you are going to convey through different mediums.

Traditionally printed marketing was the whole sole method of conveying the messages to the consumers. However, in recent times, emails, sms, blogs, television and company websites have become the trendy way of conveying the organization's message to the consumers. It is important though that the message you give in one medium should tally with the message provided in other medium. For example, you should use the same logo in on your website as the one you use in your email messages. Similarly, your television messages should convey the same message as your blogs and websites.

For the above reason, people controlling the marketing communication process are very important for the company. These executives make it an integrated marketing communication process. You would now understand why it has to be 'integrated'. The reason is that the messages to be conveyed through different mediums should be the same.

Let us now look at the marketing communication process. It is very important to have a process in place because then your advertising will reap proper benefits. There is an old advertising joke ***"I know my advertising works, I don't know which half."*** That's why if the marketing communication process puts a tab on advertising because companies cannot bear to lose dollars on wrong type of advertising. Things have to be well-defined and integrated to get maximum revenues. Your marketing communication process would look like:

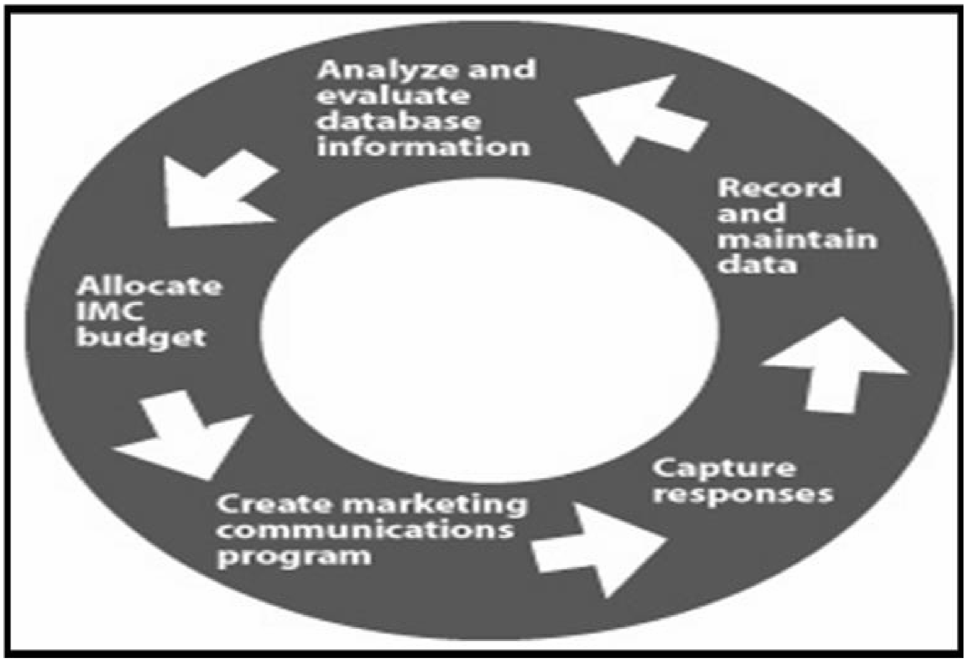

Figure 1.1.1

The marketing communication process identifies where the investments are being done and what is bringing more return on investment. Therefore, you can alter the advertising campaign to reap maximum benefits.

The process begins at the strategic development stage. You start by creating a marketing communications program. At this point, you decide what all will fall in your advertising bracket. At the next stage, you capture responses of your consumers. These responses are then recorded and maintained as advertising data. The executives then analyze and evaluate the collected data. They generate the all-important reports which will help to allocate the integrated marketing and communications budget.

Selecting the most important communications elements is crucial for the success of company's business. The advertising campaign should be effective across all platforms. Once the integrated marketing process is set, the company can reap rich dividends from it.

It is equally important to understand communication process parallel to the marketing communication process;

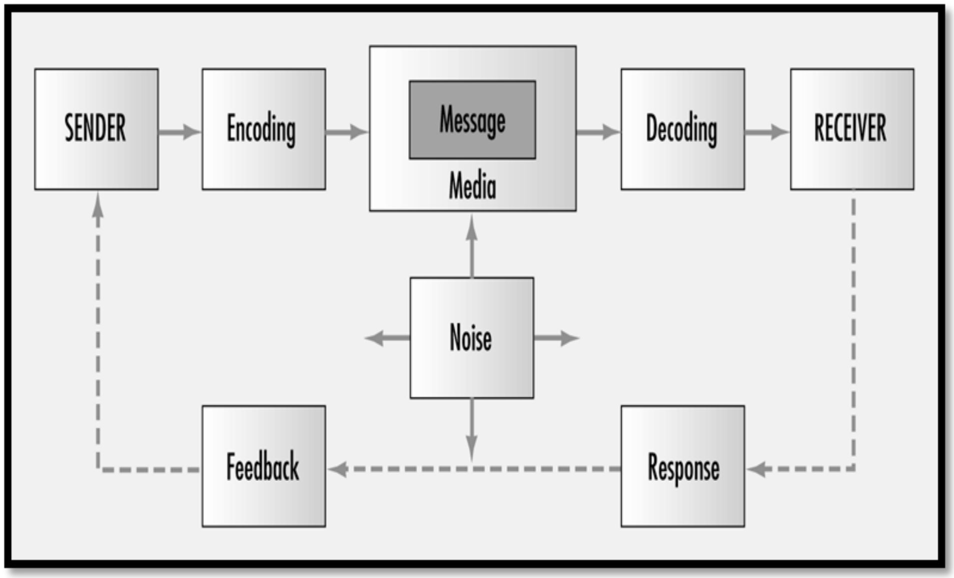

Figure 1.1.1.2

The communication process is sender-encoding-transmission device-decoding-receiver, which is part of any advertising or marketing program. Encoding the message is the second step in communication process, which takes a creative idea and transforms it into attention-getting advertisements designed for various media (television, radio, magazines, and others). Messages travel to audiences through various transmissions. The third stage of the marketing communication process occurs when a channel or medium delivers the message. Decoding occurs when the message reaches one or more of the receiver's senses. Consumers both hear and see television ads. Others consumers handle (touch) and read (see) a coupon offer.

One obstacle that prevents marketing messages from being efficient and effective is called barrier. Barrier is anything that distorts or disrupts a message. It can occur at any stage in the communication process. The most common form of noise affecting marketing communication is clutter

17.1.2 FACTORS INFLUENCE MARKETING COMMUNICATION

Persuasion

Persuasion is the top pick of the five factors of marketing communications. Persuasion is the main reason companies engage in marketing: to persuade their target audience to take action, as in, buy their product or subscribe to their services, make a phone call, or donate money. When Coca-Cola airs its television commercials, or runs its print ads, it has one goal in mind and that is to persuade the target audience that coke is the refreshing cola and that it brings the world together, so drink Coke!

It is important to note here that while the term persuasion may have a negative connotation to some marketers, and especially, the target audience, marketers tend to prefer the term influence over persuade. In either case, the ultimate goal is to get your target audience to take action.

Goal Directed

All marketing communication is goal oriented. You need an objective when you set out to create your marketing communication strategy. Can you imagine trying to take a trip across country and have no clear plan or objective on where to go or what to do? It's the same thing with your marketing communications strategy, you need to know what it is you are trying to accomplish.

Typically, your objective is to sell your product, deliver information, or build brand awareness. One question you should ask yourself before you begin your strategy is, "*What is the outcome I expect from my marketing communication*?" By asking this question, and answering it, you will begin to formulate your objective.

Contact Points

Every successful marketing communications plan requires the management of the marketing message at every contact point. Contact points are any marketing messages that are received by the target audience. In other words, they are the vehicles that distribute your marketing message.

Contact points can be planned or unplanned points. Planned contact points include advertisement, brochures, business cards, websites, or packaging. Unplanned contact points can include store layouts, the cleanliness of a store, and employee attitudes.

Stakeholders (Opinion Leaders / Opinion Influencers)

Stakeholders also referred to as Opinion Leaders and Influencers, in marketing communications are those individuals or groups that can influence the purchase of products and services as well as the success of a company. Stakeholders can include employees, government regulators, distributors, and the media. Most companies find the group topping the stakeholders list are their own employees; the reason is that if you take care of your employees, then they will yield better customer service and a better in-store experience for the target audience. While stakeholders are not necessarily part of your planned message, they are significant enough as an unplanned conveyor of your marketing message.

Message

The marketing communications message is either planned or unplanned. Messages are the basis of your marketing communications strategy and a variety of tools are used in order to deliver your marketing message. Some planned marketing message tools include:

- Printed or online advertising

- Marketing Collateral such as brochures or annual reports
- Websites
- Sales promotions
- Public relations
- Direct marketing
- Personal selling
- P.O.P. (Point of purchase) displays
- Packaging
- Specialty items, such as printed t-shirts and tote bags
- Sponsorships
- Customer service

Samples of unplanned messages would include all other communications: store cleanliness (mentioned above in the section, contact points), distributors, employee attitudes, and even the exterior surroundings of your business.

The five important factors of marketing communications must be followed if you are striving for success in your marketing communications plan and strategy.. The marketing message not only includes planned messages such as advertising or direct mail campaigns, but also unplanned messages which can include employees or the physical appearance of your businesses exterior; Any potential message whether planned or unplanned, directly affects your business and should be carefully planned to ensure success. Finally, the main objective and the most important of the five factors of marketing communications is persuasion or influence. Your main objective is to get your target audience to take action.

17.2 COMPONENTS OF PROMOTIONAL MIX

What it is?

The ’promotional mix’ is a term used to describe the set of tools that a business can use to communicate effectively the benefits of its products or services to its customers.

The promotional mix includes the following tools;

- Advertising
- Public relations
- Sales promotion
- Direct marketing

- Personal selling

The promotional mix is part of the wider marketing mix.

Why it is important?

If customers don't know what products and services you provide, then your business will not survive in today's competitive marketplace. Effective communication with your customers is vital to ensure that your business generates sales and profits.

By taking the time to develop and implement an appropriate promotional mix, you will stimulate your target audience to buy your products or services - and manage this within a budget you can afford.

To use the promotional mix effectively, you need to understand a little bit more about each of the five tools and how you could use them to achieve your objectives.

Advertising; There are three main reasons for advertising.

- To provide your target audience with information (creating awareness)
- To persuade them to buy from you (by promoting product and company benefits)
- To reinforce your existence (by consistently repeating key messages).

Research shows that people need to see an advertisement at least seven times before it starts to mean anything to them. So, to be effective, advertising needs to be conducted regularly in a consistent and 'recognisable' manner.

It can therefore be quite costly. Typical advertising media include Yellow Pages, local newspapers, radio, trade journals, exhibitions and websites. It is also difficult to assess how much business is achieved through 'paid-for' advertising unless you include some form of monitoring scheme (such as a discount voucher) within the advertisement.

17.2.1 BUDGETING : PROMOTIONAL MIX

Public relations; Publicity is something that 'happens' to a company and the result may be good or bad. Public relations (or PR) involve a sustained attempt to develop your reputation as a business by using the media to help create the image you desire. It is a way of keeping the business in your customer's eyes.

If you feel confident dealing with the media yourself, then public relations can be a very cost effective method of promoting your business.

Sales Promotion; This activity is best described as a specific, usually short term, promotion that is ’over and above’ what you would normally provide to the customer **(e.g. buy one, get one free)**.

When used effectively, sales promotions can help to move old stock, counteract competitor activity, merchandise new products, encourage repeat buying and motivate your staff. They can also be monitored, so the success of a particular sales promotion can be measured over time.

Sales promotions are a good way of attracting new customers. However, on their own they are unlikely to build customer loyalty or change their longer term buying habits. The type of promotion selected also has to be relevant to your target customers as well as to your own marketing objectives.

Direct Marketing; Direct marketing is an increasingly popular technique as it enables you to target specific customer groups very accurately. It is a flexible way to deliver your message and, because each letter can be personalised, the chances of a response are greatly improved. The overall success of a campaign can also be directly measured in terms of the number of responses received.

You can collect information on customers and use this to build up your own ’in-house’ database. Although this can be time-consuming, the information gathered will be accurate and relevant to you, and can be relatively easily kept up to date.

Personal selling; This is the most effective form of promotion because it allows your approach to be tailored to the needs of an individual customer. Getting a sale is ultimately extremely important, but the process involves a lot more than this. It is about having a constructive dialogue with customers to listen to their needs, promote product & company benefits on an individual basis, answer any questions, resolve any problems and get their feedback before clinching a sale.

Face-to-face, a sales person can build a relationship with the customer-understanding their needs and feeding back this knowledge to the business to improve products, customer service standards, competitor knowledge etc. Employing a sales person is a costly exercise in the first instance, but it is one that will provide a pay back, usually within 1-2 years.

One of the most difficult marketing decisions is determining how much to spend on promotion. John Wanamaker, the department store magnate, once said, “I know that half of my advertising is wasted, but I don’t know which half.”

Industries and companies vary considerably in how much they spend on promotion. Expenditures might be 30 to 50 percent of sales in the cosmetics industry and 5 to 10 percent in the industrial-equipment industry. Within the industry there are low and high spending companies.

How do companies decide on the promotion budget? We will describe in the following methods;

1. Percentage of sales method
2. Unit of sales method
3. Task and objective method
4. The competitive parity method
5. Brand history method
6. All you can afford method
7. The break- even method

1. *PERCENTAGE OF SALES METHOD*

The percentage of sales method is the most widely used method of setting the appropriation. The percentage is based on the past years' sales or on estimated sales for the coming year or on some combination of these two. This is simplest method, as it requires little decision making. Many companies in India use this method to arrive at a tentative budget appropriation. But this method suffers from a basic drawback in that it does not take into account any specific need of the market situation. Moreover, when past sales are used to arrive at the current year's budget, the figure may have more historical value rather than current utility. Advertising leads to sales and the amount of advertising expenditure depends upon the sales target and therefore, when the percentage of future sales is used the estimates are more realistic.

In conclusion one can say that this method is not appropriate as market situations change rapidly and past sales alone are not an effective indicator of the company's communication needs.

2. *UNIT OF SALES METHOD;*

The unit sales method also relates the advertising expenditure of sales. In this approach, a percentage of the price of each unit of the item sold is allocated to advertising. Thus, a soap manufacturer might budget that a cake of soap costing Rs.6/- will have Rs.1.50 as the advertising expenditure. Thus, if the manufacturer sells one lac units, his expenditure on that brand will be Rs1.5 lac.

This approach is useful as it links the price of a brand with its advertising expenditure. This approach is simple to plan and execute. However, it does not lead to efficient marketing since past sales determine how much a firm should spend on advertising, when in fact advertising is a tool to create sales and expand markets. This also assumes that the advertiser is satisfied with the current rate of growth in sales. This is rarely so, as every advertiser aims at improving the rate of growth.

3. ***TASK OBJECTIVE METHOD;***

This method is gaining more popularity because it provides a more logical basis for deciding advertising appropriation. The objective task method concentrates on the marketing objectives that are pre-decided and must solve these questions;

1. What is the role of advertising in obtaining these objectives?
2. How much should we spend to achieve these objectives?

There is one problem involved in the use of this method of setting the appropriation and that is: how does one determine just how much advertising and what type of advertising will achieve the stated objectives.

4. ***THE COMPETITIVE PARITY METHOD;***

This is the most controversial method and few executives admit that they use it while preparing the budget. In this approach an advertiser bases his budget decision primarily on the expenditures of competitors. That is why they try to keep pace with their competitor's advertising budgets. This method could be useful in deciding individual brand ad-expenditures. It has the advantage of recognizing the importance of competitors and ensures that the competitors do not increase their ad expenditure to a level that affects the advertiser's sales. But the approach has disadvantages. Firstly, your objective may be different from that of your competitors.

And secondly it assumes that your competitors are spending optimally. It also maintains the present market position rather than bringing any positive change for the company. If you want to overtake your competitors, you may have to spend more than them and spend this money more efficiently.

5. ***BRAND HISTORY METHOD;***

Under this method the brand's product life cycle is considered while setting the budget. Thus a brand at the introductory or pioneering stage will use more advertising appropriation than an established brand. Brands that are facing a decline may also use more advertising to add new life into it.

For example, Close Up, the toothpaste manufactures by Unilever had a stagnating market share. In 1990 it's spent Rs. 3.45 crore on television advertising with its new theme close up: "a mouth wash in tingling red and blue colors'". The result was that close up has over taken Promise and is now number two in the toothpaste market behind Colgate.

6. ***ALL YOU CAN AFFORD METHOD;***

This approach means that the advertising budget will be decided on the basis of whatever money is left after all other fixed and unavoidable expenses have been allocated. This method seems to be illogical and lack of objectivity, but conservative management use this method as it is safe and ensure that there is no overspending. New businesses have no other option but to follow this method.

7. ***THE BREAK- EVEN METHOD;***

The break- even or the marginal analysis method attempts to quantify the advertising spending level that will offer an organization the highest additional gross profits. That is the firm continues to spend on the advertising as long as the incremental expenditure are exceeded by the marginal revenue they generate, thus maximizing the gross profits of the firm.

This method has an advantage because it helps in diagnosing any problem, that is when the company is overspending or under spending. But it suffers from the disadvantage of limited research techniques that cannot isolate the effect of advertising on marginal revenues and gross profits. Other activities such as personal selling and sales promotions also influence the revenue earned by the company. Moreover, it assumes that there is an immediate effect of advertising budget. In most of the promotional tools there is a carryover effect that is a potential customer may be influenced by the ad in the month of June but may make a purchase in December.

17.3 INTEGRATED MARKETING COMMUNICATION

"Integrated marketing communications is a way of looking at the whole marketing process from the viewpoint of the customer."

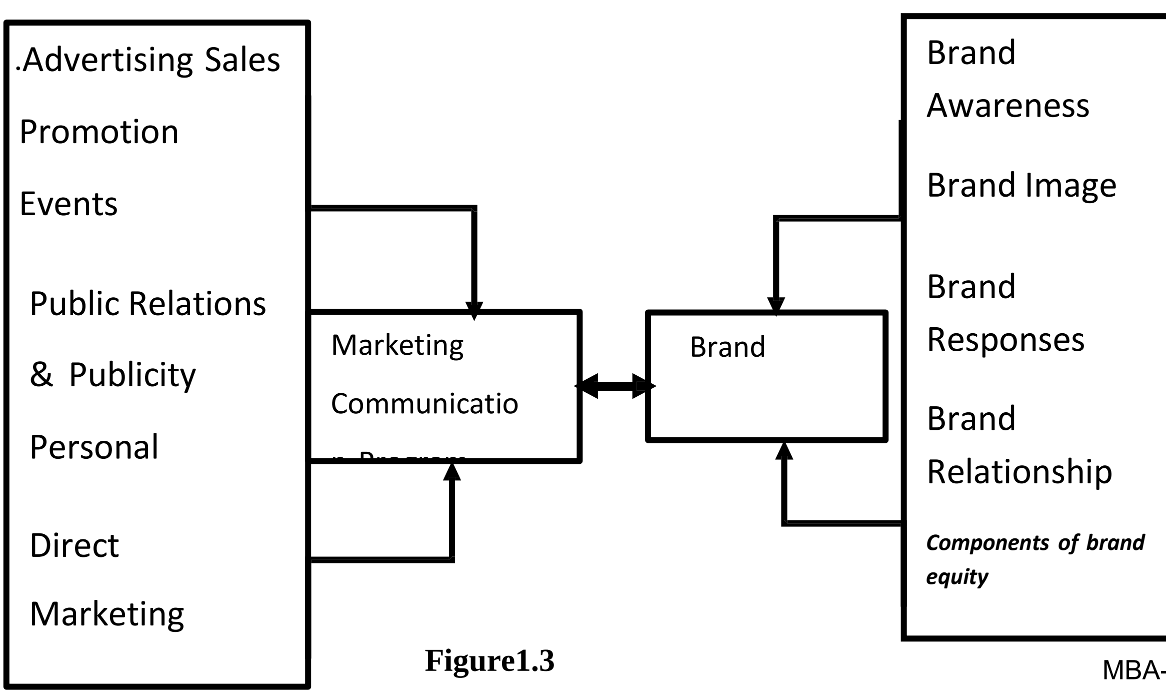

Figure1.3

The shift from mass marketing to targeted marketing, with its corresponding use of a richer mixture of communication channels and promotion tools, poses a problem for marketers. Consumers are being exposed to a greater variety of marketing communications from and about the company from an array of sources. However, customers don't distinguish between message sources the way marketers do. In the consumer's mind, advertising messages from different media—such as television, magazines, or online sources—blur into one. Messages delivered via different promotional approaches—such as advertising, personal selling, sales promotion, public relations, or direct marketing—all become part of a single message about the company. Conflicting messages from these different sources can result in confused company images and brand positions All too often, companies fail to integrate their various communications channels. The result is a hodgepodge of communications to consumers. Mass advertisements say one thing, a price promotion sends a different signal, a product label creates still another message, company sales literature says something altogether different, and the company's Web site seems out of sync with everything else.

The problem is that these communications often come from different company sources. The advertising department or advertising agency plans and implements advertising messages. Sales management develops personal selling communications. Other functional specialists are responsible for public relations, sales promotion, direct marketing, online sites, and other forms of marketing communications. Such functional separation has recently become a major problem for many companies and their Internet communications activities, which are often split off into separate organizational units.

Today, however, many companies are adopting the concept of integrated marketing communications (IMC). Under this concept the company carefully integrates and coordinates its many communications channels to deliver a clear, consistent, and compelling message about the organization. "IMC builds a strong brand identity in the marketplace by tying together and reinforcing all your images and messages. IMC means that all your corporate messages, positioning and images, and identity are coordinated across all [marketing communications] venues. It means that your PR materials say the same thing as your direct mail campaign, and your advertising has the same 'look and feel' as your Web site."

17.4 ADVERTISING

Any paid form of non-personal presentation and promotion of ideas, goods, or services by an identified sponsor. *Advertising Goal* is a specific communication task & achievement level to be accomplished with a specific audience in a specific period of time.

The five M's of advertising;

- Mission

- Money
- Message
- Media
- Measurement

17.4.1 ADVERTISING IN INDIAN SCENARIO

Advertising carries several responsibilities. Advertising informs the public so that they can be aware of products and make informed choices among different products or brands. Advertising also benefits businesses in assisting them to sell their products. But while dispensing its role as a dream merchant, advertising has also been in the vortex of controversy of the many ills that it brings to society. It is accused of encouraging materialism and consumption, of stereotyping, of causing us to purchase items for which we have no need, of taking advantage of children, of manipulating our behaviour, using sex to sell, and generally contributing to the downfall of our social system. Advertising does not function in a vacuum but in a market environment where several forces like consumer needs, business interests and government regulations are at work. It is a powerful force in terms of its persuasiveness and functions a critical social role. Moreover, the high visibility and pervasiveness, it generates criticism and controversy. Much of this controversy springs from the fact that advertising is used more as a persuasive communication tool thereby creating serious impact on the tastes, values and lifestyles of society

Advertising through outdoor media or in other words presenting any brand or business message through an out of home channel has become one of the common practices amongst brand and business owners. A big leap has been seen in the outdoor advertising in India and its various avenues. Outdoor Advertising in Delhi, Mumbai, Bangalore, Ahmadabad etc. are growing at a fast pace. Delhi is one of the major hubs of advertising in India. Delhi Advertising avenues such as Billboard Advertising, Airport Advertising, Mall Advertising, and Metro Advertising- all these provide promotion solutions for various local, national and international brands. In the following paragraphs, let us have a brief look at the current scenario of outdoor advertising in India.

More Brands are adopting OOH media;

Of late, it has been observed that more brand owners have adopted outdoor advertising means to promote and position their brands in the market. OOH domain is growing fast at various avenues such as airports, metro stations, shopping malls, outdoors etc. The rising number of brands in the market, the increase in spending capacity of customers, the mushrooming market- are three main factors that have so far provided a boom in OOH sector in India.

Rich means, affluent techniques of brand promotion;

Another much observed feature about outdoor advertising practices in India is the implementation of rich tools and techniques to promote brands. Contemporary outdoor campaigns are also enriched by the introduction of digitalized media. Conventional OOH practices such as ordinary billboard advertising campaigns, wall paintings or poster ads are replaced by digitalized billboards and hoardings. Providing rich interactivity between customers and brands, modern OOH campaigns speak volume about the advertised brands all through rich and influential channels of brand communication.

Seamless brand communication

Today seamless brand communication is possible to OOH media. Advertisers can keep talking with target customers relentlessly through the various OOH channels. Be it at cinema theatres, shopping malls, eating outlets, entertainment houses and highways or simply at the community gate, outdoor advertising practices ensure that customers are continuously encouraged to try out their products by providing repeated and seamless brand messages.

Outdoor advertising industry is yet to undergo many remarkable changes in the near future. And it is also expected that its importance is going to rise further. For established as well as emerging brands, outdoor media is the right means of communicating their ad messages to customers. Evaluating the manifold utilities, every brand owner should adopt OOH techniques and tools of promoting their brands in the market. Be it a billboard ad or a kiosk ad, any OOH ad display influences the passing attention of those customers who are on the go.

Advertising is a growing business in India more so after the opening up of the economy. With more players, intense competition and expanding market in both urban and rural areas it is only natural that the marketers and manufacturers would like to reach the vast multitude of customers. The customer purchasing power, life style, and attitudes are all changing rapidly. Rising income and young and growing population would need to be tapped so that the manufacturers and retailers can retain if not increase their market share. Retailers try to attract the attention of target consumers to their goods and services by providing attractive promotional schemes. To attract consumers, retailers offer inducements such as credit facilities, after sales service, extended warranty, free home delivery, free samples, discounts, gift offers, etc.

Retailers adopt a mix of marketing and promotional strategies to withstand competition. Consumers however make informed purchase decisions by sifting through various advertisements and promotional offers. Indian consumers are maturing and therefore the retailers find it increasingly difficult to influence the purchase decisions of customers merely with promotional offers. Innovations in sales promotion techniques are required to acquire new customers and to retain existing customers, especially the youth, who have no qualms switching brands and or shops.

17.4.2 ADVERTISING MANAGEMENT

Advertising management is the process of overseeing campaigns that seek to inform and attract consumers regarding a particular good or service. This process begins with the first stages of the market research that helps to create the advertising strategy, moves on to the development of the general outline for the campaign, the creation of a specific plan of action and the launching of the completed project. Without effective advertising management, ad campaigns and public relations efforts tend to founder and produce little or no results.

Effective advertising always begins by engaging in competent advertising research. The research helps to identify the sectors of the consumer market that are most likely to positively respond to a given product. In order to identify these niche markets within the larger group of consumers, researchers will not only seek to understand what appeals to these buyers but why those goods and services have that inherent appeal. The data collected from the research can then be used to enhance the marketability of products, addressing everything from function to packaging.

17.4.3 DEVELOPING ADVERTISING

Advertising does not come cheaply, so it is important your group's hard earned funds are spent on the most effective campaign possible. To ensure this you have the best chance of success should take time to prepare and outline an advertising campaign. Working through a relatively short creative brief can help your group define your advertising aims and detail how your campaign will achieve them.

Developing an advertising campaign might sound daunting - particularly for a smaller group or not-for-profit - but it needn't be. Following steps are involved in creating an effective advertising campaign.

Gathering your team

Before your group starts preparing a creative brief, it needs to gather together a group of people to do the job. When gathering your team, think about including people who are most aware of your group's advertising/promotional needs, as well as those who have awareness of your group's budgetary situation, image or "brand" and history in past advertising efforts.

Doing the brief in-house and then developing an advertising campaign from it can save your group paying for an ad agency or advertising consultant.

- To publicise an upcoming event - Fundraiser, function or campaign
- To promote an appeal or fundraiser

- To promote your group in general.

Compiling your brief

Putting together a creative brief to guide your advertising campaign is a relatively easy process and is a vital step towards making that campaign a success. A brief is like a set of plans for a building project - if they aren't well thought out, or aren't followed, there's a high probability that the building will fall apart. Creativity is subjective, so if you're unclear about what you want from your campaign you risk having a muddled advertising effort that does nothing for your group.

The structure of a creative brief can vary slightly; following is a sample brief which could be used to clarify and provide a focus to an advertising campaign.

What is the promotion or advertising about?

Why are you advertising it?

- Linked to the first question, this looks at the action you want people to take - to donate to your appeal, attend a function, advocate on your behalf, join your group or support its causes.

Who are you advertising to?

- Who is your target audience - a certain age group, demographic, geographic area; existing members, non-members, etc.

Background

- Has this been advertised in the past, if so can you draw on that experience? For example, if your last annual appeal didn't draw in as much support as you wanted, a review may have decided to advertise it in a different way this year.

- Be aware of any relevant background to aid your group in moving forward.

Forms of advertising

- Knowing the purpose of your campaign and the target audience you are aiming at with your advertising, will shape the media you use.

- Depending on your target audience some of the options can be TV, newspapers, radio, direct mail, hand-outs, newsletters or a stall at an upcoming event.

- A combination of media can be used if a wide-ranging, integrated advertising campaign is called for and is within budget constraints.

Information to include

- The single theme or message you decided on as part of the first section of the brief can be expanded to include information and messages you want to integrate as part of your advertising campaign.

- Also decide on other details you need to include - contact details, RSVPs for functions, raffle tickets for fundraisers, etc.

Information to avoid

- Be aware of any information, statements or items to avoid in your campaign.

- Do not include information that is incorrect of may mislead those you are advertising to.

How is your group going to "sell" its message through the campaign?

- Warm and friendly?
- Funny?
- Formal?
- More authoritative?
- The tone of voice you choose will influence the delivery of your campaign.

Budget

1. Your group needs to know its financial limitations.
2. You need to determine a budget for your campaign and do your best to stick to it.
3. Your budget may well decide the type of advertising media your campaign uses.
4. Your budget needs to have "margins" built in, and should be subject to review if situations change.

Timing / deadlines

- Everyone involved in the campaign needs to be aware of deadlines or timing targets for the completion of each component of the campaign

When your group has completed its creative brief it needs to be signed off by your group's chair, president or head of advertising / marketing / promotions.

Then your brief needs to be **"actioned".** The group member responsible needs to either take on the task, or work with a team, to develop the campaign and get it up and running.

17.4.4 SELECTING AND SCHEDULING OF MEDIA

Advertising media selection is the process of choosing the most cost-effective media for advertising, to achieve the required coverage and number of exposures in a target audience.

This is typically measured on two dimensions: ***frequency and spread***.

Frequency

To maximize overall awareness, the advertising must reach the maximum number of the target audience. There is a limit for the last few percent of the general population who don't see the main media advertisers use. These are more expensive to reach. The 'cumulative' coverage cost typically follows an exponential curve. Reaching 90 percent can cost double what it costs to reach 70 percent, and reaching 95 percent can double the cost yet again. In practice, the coverage decision rests on a balance between desired coverage and cost. A large budget achieves high coverage—a smaller budget limits the ambitions of the advertiser.

The life of advertising campaigns can often extend beyond the relatively short life usually expected. Indeed, as indicated above, some research shows that advertisements require significant exposure to consumers before they even register. As **David Ogilvy** long ago recommended, "If you are lucky enough to write a good advertisement, repeat it until it stops selling. Scores of good advertisements have been discarded before they lost their potency."

Spread

More sophisticated media planners also look at the 'spread' of frequencies. Ideally all of the audience should receive the average number of OTS. Those who receive fewer are insufficiently motivated, and extra advertising is wasted on those who receive more. It is, of course, impossible to achieve this ideal. As with coverage, the pattern is weighted towards a smaller number—of heavy viewers, for example—who receive significantly more OTS, and away from the difficult last few percent. However, a good media buyer manages the resulting spread of frequencies to weigh it close to the average, with as few audience members as possible below the average.

Selection of Medium

In terms of overall advertising expenditures, media advertising is still dominated by Press and television, which are of comparable size (by value of 'sales'). Posters and radio follow some way behind, with cinema representing a very specialist medium. Some of the important mediums are discussed below:

Print Out

In the United Kingdom, spending is dominated by the national & regional newspapers, the latter taking almost all the classified advertising revenue. The magazines and trade or technical journal markets are about the same size as each other, but are less than half that of the newspaper sectors.

Television

This is normally the most expensive medium, and as such is generally only open to the major advertisers, although some regional contractors offer more affordable packages to their local advertisers. It offers by far the widest coverage, particularly at peak hours (roughly 7.00–10.30 p.m.) and especially of family audiences. Offering sight, sound, movement and color, it has the greatest impact, especially for those products or services where a 'demonstration' is essential; since it combines the virtues of both the 'story-teller' and the `demonstrator'. To be effective, these messages must be simple and able to overcome surrounding family life distractions especially the TV remote.

Radio

Radio advertising has increased greatly in recent years, with the granting of many more licenses. It typically reaches specific audiences at different times of the day—adults at breakfast, housewives during the day, and commuters during rush hours. It can be a cost-effective way of reaching these audiences—especially since production costs are much cheaper than for television, though the lack of visual elements may limit the message. In radio advertising it is important to identify the right timing to reach specific radio listeners. For instance, many people only listen to the radio when they are stuck in traffic, whereas other listeners may only listen in the evenings. The 24-hour availability of radio is helpful to reach a variety of customer sub-segments. In addition, it is a well-established medium to reach rural areas.

Cinema

Though national audience numbers are down, this may be the most effective medium for extending coverage to younger age groups, since the core audience is 15 to 35.

Internet/Web Advertising

This rapidly growing marketing force borrows much from the example of press advertising, but the most effective use—adopted by search engines—is interactive. Internet marketing is more the matter of choice. Each day passing, the internet users are increasing. First data available of internet users is from 1995 which totaled the number at approx 16 Million. Over the Period of 10 years it increased to 1018 Millions. As of March 2014, the number of internet users across the globe is 2,937 millions. The other perspective to look at these numbers is that 10 years ago, a brand or company could reach out to 1018 million people and today they have the opportunity to tap 2937 people through internet. World has truly become a

Global Village. Companies have allocated their budgets to the Internet marketing or making their brand visible on internet. The term is called **Search Engine Optimization** (SEO).

17.5 PUBLICITY

Mobile Advertising

Personal mobile phones have become an attractive advertising media to network operators, but are relatively unproven and remain in media buyers' sidelines. Marketers have realized the significance of tapping the cell phone as advertising tool due to the rapid growth of cellular industry growth. Survey shows the number of cellular users in year 2014 is touching 4.5 Billion people.

Advertising Scheduling

Scheduling refers to the pattern of advertising timing, represented as plots on a yearly flowchart. These plots indicate the pattern of scheduled times advertising must appear to coincide with favorable selling periods. The classic scheduling models are ***Continuity, Flighting and Pulsing.***

Continuous

This model is primarily for non-seasonal products, yet sometimes for seasonal products. Advertising runs steadily with little variation over the campaign period.

There may be short gaps at regular intervals and also long gaps—for instance, one ad every week for 52 weeks, and then a pause. This pattern of advertising is prevalent in service and packaged goods that require continuous reinforcement on the audience for top of mind recollection at point of purchase.

Flighting or Bursting

In media scheduling for seasonal product categories, flighting involves intermittent and irregular periods of advertising, alternating with shorter periods of no advertising at all. For instance, all of 2000 Target Rating Pioneered in a single month, "going dark" for the rest of the year. Halloween costumes are rarely purchased all year except during the months of September and October.

Pulsing

Pulsing combines flighting and continuous scheduling by using a low advertising level all year round and heavy advertising during peak selling periods. Product categories that are sold year-round but experience a surge in sales at intermittent periods are good candidates for pulsing. For instance, under-arm deodorants, sell all year, but more in summer months.

17.4.5 ADVERTISING AGENCY

An advertising or ad agency is a service based business dedicated to creating, planning and handling advertising for its clients. An ad agency is generally independent from the client and provides an outside point of view to the effort of selling the client's products or services. An agency can handle overall marketing and branding strategies and sales promotion for its clients.

Typical ad agency clients include businesses and corporations, non-profit organizations and government agencies. Agencies may be hired to produce television commercials, radio commercials, Online Advertising, out of home advertising, Mobile Advertising and AR Advertising as part of an advertising campaign.

Publicity is the movement of information with the effect of increasing public awareness of a subject. The subjects of publicity include people (for example, politicians and performing artists), goods and services, organizations of all kinds, and works of art or entertainment.

Publicity is gaining public visibility or awareness for a product, service or your company via the media. It is the publicist that carries out publicity, while PR is the strategic management function that helps an organization communicate, establish and maintain communication with the public. This can be done internally, without the use of media.

From a marketing perspective, publicity is one component of promotion which is the component of marketing.

Examples of promotional tactics include:

- Art people
- event sponsorship
- Arrange a speech or talk
- Make an analysis or prediction
- Conduct a poll or survey
- Issue a report
- Take a stand on a controversial subject
- Arrange for a testimonial
- Announce an appointment
- Invent then present an award
- Stage a debate
- Organize a tour of your business or projects
- Issue a commendation

The advantages of publicity are low cost, and credibility (particularly if the publicity is aired in between news stories like on evening TV news casts). New technologies such as weblogs, web cameras, web affiliates, and convergence (phone-camera posting of pictures and videos to websites) are changing the cost-structure.

The disadvantages are lack of control over how your releases will be used, and frustration over the low percentage of releases that are taken up by the media.

17.6 SUMMARY

Marketing communication is a fundamental and complex part of a company's marketing efforts. Marketing communication can be described as all the messages and media you deploy to communicate with the market.

Advertising is a paid form of non-personal communication, often use for mass marketing and its impact is very difficult to measure.

17.7 Exercise

1. What is Marketing Communication Process and explain its various components?
2. What is “Promotional Mix”? Explain various levels of promotional mix.
3. Explain various methods of allocating advertising budget.
4. What is “Integrated Marketing Communication” and how it plays a vital role in marketing
5. Explain the role of advertising in Indian scenario.
6. What is advertising management and what practices managers are following today?
7. What are factors responsible for effective advertising?
8. Explain the importance of ‘Message’ in advertising.
9. Explain frequency and reach in the context of media.
10. Write your views on selecting and scheduling media.
11. Explain the role of advertising agency in ‘Ad-world’.
12. Differentiate Publicity and Advertising.

UNIT 18 PERSONAL SELLING AND SALES PROMOTION

18.1 INTRODUCTION

When you want to buy something you usually go to a concerned shop and purchase it from there. But, sometimes you find people bring certain goods or products and make them available to you at your place. For example, you find person selling vegetables or rice by carrying the same in a cart and moving from door to door to sell. You must have noticed persons selling sarees, carpets, electronics items, etc. in a similar fashion. While travelling in buses or local trains you must also have seen people selling pens, toys, books, combs, etc. inside the bus or train. In cities also persons move from door to door to sell different products like water purifiers, air purifiers, detergents, etc. Don’t you think these are different methods of selling goods unlike keeping them in a shop and sell? In this lesson we will learn more about personal selling.

Personal selling refers to oral and face-to-face communication and presentation with the prospect for the purpose of making sales. There may be one prospect or a number of prospects in the personal conversation. Personal selling involves two-way communication. When it comes to convincing the prospect, closing a sale and transferring the title seller to buyer, personal selling becomes the strongest tool of promotion. During personal interview, the salesperson understands the needs and wants of prospect, highlights product benefits and convinces him to buy the product. Therefore, we can say that personal selling is highly distinctive and the only form of promotion involving face-to-face relationship between a salesperson and one or service with benefit to the user and profit to the company.

18.1.1 MEANING OF PERSONAL SELLING

Personal selling refers to the presentation of goods and services before the customers and convincing or persuading them to buy the products or services.

18.1.2 NATURE OF PERSONAL SELLING

a) It enhances customer's confidence in the seller.

b) It promotes long-term business relations through personal intimacy.

c) It provides a human touch to business transactions.

d) It helps to satisfy a customer by modifying the product as per the customer's choice and preference.

e) It is a powerful and effective tool in convincing the customer about the product.

f) It also helps to build long term relations between the business and the customer.

18.1.3 ESSENTIAL ELEMENT OF PERSONAL SELLING

Personal selling consists of the following elements

i. Face-to-Face interaction: Personal selling involves a salesman having face-to-face interaction with the perspective buyers.

ii. Persuasion: Personal selling requires persuasion on the part of the seller to the prospective customers to buy the product. So, a salesman must have the ability to convince the customers so that an interest may be created in the mind of the customers to use that product.

iii. Flexibility: The approach of personal selling is always flexible. Sometimes salesman may explain the features and benefits of the product, sometimes give demonstration of the use of product and also faces number of queries from the customers. Looking into the situation and interest of the customers, the approach of the salesman is decided instantly.

iv. Promotion of sales: The ultimate aim of personal selling is to promote sales by convincing more and more customers to use the product.

v. Mutual Benefits: It is a two-way process. Both seller and buyer derive benefit from it. While customers feel satisfied with the goods, the seller enjoys the profits.

18.1.4 ESSENTIALS OF EFFECTIVE SELLING

There are seven prerequisites of effective selling:

i. Knowledge of your company: Most products, especially costly and complicated products, are not judged on their own merits. They are judged by the name of the company that manufactures them. Hence salesman must be company oriented. A sa`1lesman is the company to most buyers: He is regarded as a representative of the whole company. Therefore, he should learn everything about his company.

ii. Knowledge of your Product: A salesman should know all about his product: (a) Materials from which it is made, (b) How it is used and how it is maintained, (c) products, (d) customer benefits and so on. Without adequate knowledge of the product, a salesman cannot convince the prospect and convert him into a customer.

iii. Knowledge of Competition: A salesman should constantly study the products offered by his competitors and determine their strength and weakness in comparison to his own product. Awareness of competition enables a salesman, if necessary to compare his product with that rival on those points in which the buyer seems most interested.

iv. Knowledge of Customers: A salesman must have adequate knowledge about both the customer's wants and desire, and the products offered by the firm to satisfy customers. The matching of supply with demand is impossible without knowledge of your customers representing the demand side of the match

v. Knowledge of Selling Process: Selling process runs closely parallel to the customer's buying process. To move the customer through the stages in the buying process the salesman undertakes the stages in the selling process, viz, Processing, preparation.

vi. Knowledge of Self: This is partly a personal quality and partly to be developed by constant self training. Every individual has certain strength and weaknesses. In order to become an effective sales person, one should seek knowledge in all relevant subjects and apply the same in day-to-day work. He has to improve skills in communication, public speaking and presentation.

18.1.5 ADVANTAGES AND DISADVANTAGES OF PERSONAL SELLING

Personal selling is the most important ingredient in the promotion mix. It is the single largest operating cost accounting for 20 percent of net sales in many enterprises. The following are the relative advantages of personal selling.

i. Convey more information: you can convey more information with personal selling than other forms of promotion, like advertising. A personal call lasts longer than with other forms.

ii. More Impact: Personal selling has a greater impact on buyers than advertising or direct mail. The customer does not have to wait to get his questions answered. He can learn what he needs to know right then and there.

iii. Interactive Nature: The interactive nature of personal selling also makes it the most effective promotional method for building relationships with customers, particularly in the business-to-business market. This is especially important for companies that either sell expensive products or sell lower cost but high volume products (i.e., buyer must purchase in large quantities) that rely heavily on customers making repeat purchases.

iv. More Practical: Personal selling is the most practical promotional option for reaching customers who are not easily reached through other methods. The best example is in selling to the business market where, compared to the consumer market, advertising, public relations and sales promotions are often not well received.

Disadvantages of Personal Selling

i. Limited Reach : One disadvantage is that your customer reach is limited through personal sales. As a result, it will require extended time period to create product awareness.

ii. Expensive : Personal selling is in addition costly, particularly when bearing in mind the sales representative's salary, bonus, commission as well as travel time. Furthermore, it requires plenty of money to prepare your sales representatives, educating them on a range of goods and sales techniques.

iii. Skilled work force : Personal selling required skills to perform this job. It requires good communication skills, presentation skills and many more

18.1.6 ROLE OF PERSONAL SELLING

Personal selling is a process in which an individual salesperson works one-on-one with a customer to try to match a product to her needs. This sales discipline is practiced by many companies in the retail industry and in business-to-business sales.

The role of personal selling are:

1. Prospecting: Trying to find new customers

2. Communicating: With existing and potential customers about the product range

3. Selling: Contact with the customer, answering questions and trying to close the sale
4. Servicing: Providing support and service to the customer in the period up to delivery and also post-sale
5. Information gathering: Obtaining information about the market to feedback into the marketing planning process
6. Allocating: In times of product shortage, the sales force may have the power to decide how available stocks are allocated

18.1.7 TYPES OF SELLING JOB

The purpose of every sales job, regardless of the industry or employer, is to close the deal by selling a product or service. The difference between selling jobs is in the sales pitch. Some positions don't engage in any selling activities other than accepting payment; other selling jobs require engaged and informative explanations or demonstrations. Generally, sales jobs fall into one of four categories –

i. **Retail sales workers:** Most retail jobs pay workers hourly or on salary, but rarely compensate them with commission or bonuses based on their sales. Retail sales workers are employed in stores that sell products such as clothes, furniture, and makeup, books, lumber or automobile parts.

ii. **Consulting positions:** Those who sell investment products or services, like securities, commodities and financial services, automobiles or phone systems, are often seen as consultants. These sellers are highly knowledgeable about what they sell. For example, real estate agents know every detail about properties and make the recommendations that best fit their clients' needs.

iii. **Cold sales:** Some jobs require workers to market themselves almost as much as the product or service they're trying to sell, like independent representatives for makeup or cooking supplies. For example, telemarketers attempt to make all sales over the phone, which demands interpersonal and cold-calling sales abilities.

iv. **Relationship agencies:** Several sales jobs require workers to establish and maintain long-term relationships with clients, such as suppliers and distributors. For example, travel agents plan accommodations for customers, fix travel problems and hope to convince customers to use their services again.

18.2 IMPORTANCE OF PERSONAL SELLING

Personal Selling is extremely important as it helps in increasing sales. But there are other features as well which make it important. Let us discuss the importance of personal selling from the point of view of manufactures as well as consumers.

From manufacturer's point of view

i. It creates demand for products both new as well as existing ones.

ii. It creates new customers and, thus helps in expanding the market for the product.

iii. It leads to product improvement. While selling personally the seller gets acquainted with the Choice and demands of customers and makes suggestions accordingly to the manufacturer.

From customer's point of view

Personal selling provides an opportunity to the consumers to know about new products Introduced in the market. Thus, it informs and educates the consumers about new products. It is because of personal selling that customers come to know about the use of new products

18.3 QUALITIES OF SALESPERSON ENGAGED IN PERSONAL SELLING

It is very difficult to enlist the qualities of people engaged in personal selling. The quality will vary from time to time and from situation to situation. It also depends upon the customers' demand and nature of the product. Again a salesman may be effective in one situation but may fail in another situation. So in real life certain qualities may be suitable for a particular line of product and may be irrelevant in any other case. However, there are certain common qualities, which every salesman should possess in order to become successful in their life. These qualities are listed below.

- Physical Quality
- Mental Quality
- Integrity of character
- Knowledge of the product and the company
- Good behaviour
- Ability to persuade

Now let us discuss the above qualities in detail.

i. **Physical quality** : A salesman should have a good appearance and an impressive personality. He should also have a sound health.

ii. **Mental quality :** A good salesman should posses certain mental qualities like imagination, initiative, self-confidence, sharp memory, alertness etc. He should be able to understand the needs and preferences of customers.

iii. **Integrity of character :** A good salesman should posses the qualities of honesty and integrity. He is to gain the confidence of the customers. He should be able to understand their needs and guide them how to satisfy those needs. His employer too should have faith in him. A salesman should be loyal both to the employer and to the customers.

iv. **Knowledge of the product and the company**: A salesman should have full knowledge of the product and the company he is representing. He should be able to explain each and every aspect of the product i.e. its qualities, how to use it, what precautions to be taken, etc. He should be able to explain the business and service record of the company. He should also have knowledge of products of rival companies. So that he can put across the superiority of his own products.

v. **Good behavior:** A salesman should be co-operative and courteous. Good behavior enables one to win the confidence of the customers. He should not feel irritated if the buyer puts up many questions even if the questions are irrelevant. It is also not necessary that the person he is trying to convince buys the product. The salesman has to remain and courteous in every case.

vi. **Ability to persuade:** A good salesman should be good in conversation so that he can engage the person he is attending in conversation. He should be able to convince him to product purchase particular.

18.4 THE SELLING PROCESS

Personal selling is a form of selling that many companies rely on heavily to promote and move their products. The personal selling process involves seven steps that a salesperson must go through with most sales. Understanding these seven steps can help improve your individual sales or the sales of your company.

i. **Prospecting** : The first step in the process involves prospecting. With this step in the process, sales representatives look for new customers that they can potentially sell their products to. This can be done by cold calling or by going out into the market and talking to people. This part of the process is a numbers game, and the sales representative has to contact many people.

ii. **Pre-Approach :** The pre-approach is the second step in the personal selling process. At this time, the sales representative prepares for the first contact with the potential customer. During this stage, the sales representative looks at any information that he may have about the customer. He may practice his sales presentation and do anything necessary to prepare for it.

iii. **Approach :** The approach is the next step in the process and it is also one of the most important. During this step, the sales representative takes a minute or two to try to get to know the prospect. This phase usually involves some small talk to warm up the prospect and help them open up.

iv. **Presentation :** During this stage of the process, the sales representative makes a presentation. This can involve demonstrating the product or service and showing the customer why they need it. The sales rep should focus on the features and benefits of the product or service during this part of the process.

v. **Overcome Objections :** In some cases, the sales representative will have to overcome objections by the customer. Many customers have questions and concerns at this point of the sales process. If the sales representative can answer the questions and overcome any objections successfully, the barriers for a successful sale will be removed.

vi. **Closing :** After the objections have been removed, the only thing left to do is close the sale. This can involve writing up an invoice and providing any final information to the customer. At this stage of the process, you may need to negotiate the final sales price and any payment terms.

vii. **Follow Up :** The follow up is the last stage in the personal sales process. After the product or service has been delivered, the sales representative follows up with the customer to find out if they are pleased. If there were any issues with the product, the sales rep can work with the customer to get them resolved. If the customer is happy, the sales rep can also try to obtain additional referrals from the customer.

18.5 INTRODUCTION- SALES PROMOTION

Promotion is a form of communication with an additional element of persuasion to accept the ideas, product, and services and hence persuasion communication becomes the heart of promotion, the third element of marketing- mix. In essence, promotion is the spark plug of our marketing-mix and an important marketing strategy.

In marketing, effective communication is absolutely necessary even though you have a superb product; best packaging and also you offer a fair price. People will not buy your product, if they have never heard of it and they are simply unaware of its existence.

The promotion- mix includes four ingredient i.e advertising, personal selling, publicity and sales promotion. All forms of promotion influence consumer’s attitude, belief, lifestyle and preference towards a company and its products, and therefore, influence his behavior.

18.5.1 MEANING OF SALES PROMOTION

Sales promotion is one level or type of marketing aimed either at the consumer or at the distribution channel (in the form of sales-incentives). It is used to introduce new product, clear out inventories, attract traffic, and to lift sales temporarily. It is more closely associated with the marketing of products than of services.

In Short, sales Promotion is a bridge or a connecting link between advertising and personal salesmanship, the two wings of promotion.

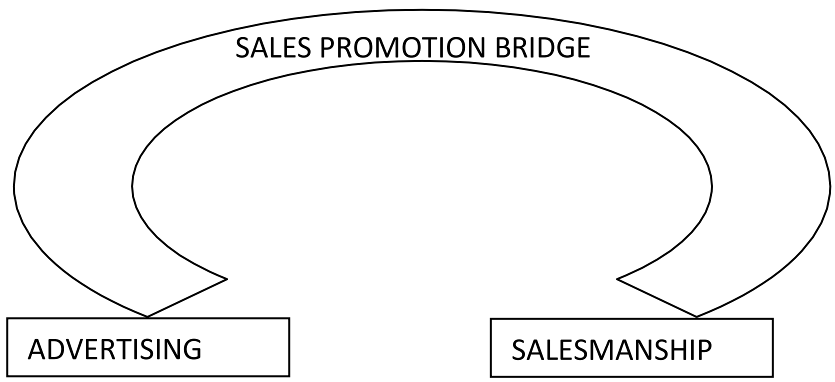

Figure 18.5.1

The manufacturer or wholesaler may have good product, reasonable price, attractive package, etc. He may have a good sales force. He has to attract prospective buyers and urge them to buy his product. Hence, sales promotion aims at stimulating the purchasing at the point of sale and dealers effectiveness at the retail channel of distribution.

18.5.2 OBJECTIVES OF SALES PROMOTION

Some of the important objectives are mentioned below:

1. Increase sales volume
2. Speed up the sales of slow-moving product
3. To check the fluctuations in sales
4. Attract consumers towards new product and increase trial.
5. Encourage repeat purchase
6. Clearance of excessive inventories
7. Motivate dealers
8. Encourage dealers to participate in display and sale contests

9. To gain advantage shelf-space
10. To increase store traffic
11. Improve relationship with dealers
12. To block competitors moves
13. Motivate sales force advertising
14. To supplement advertising and personal selling efforts
15. Deflect customers’ attention from price.

18.5.3 MAJOR DECISIONS IN SALES PROMOTION

In sales promotion, a company must establish the objectives, select the tools, develop the program me, pre-test the program me, implement and control it, and evaluate the results.

These steps are explained below:

1. **Establishing the Sales-**Promotion Objectives: Sales promotion objectives are derived from broader promotion objectives which, in turn, come from marketing objectives, The type of objectives will vary with the target market. For consumers, the objectives may be to encourage purchases, building trial, etc. For retailers, objectives include inducing retailers to take up new items, encouraging higher stock levels, etc. The company can use sales promotion to achieve many objectives.

2. **Selecting the sales-** promotion Tools: There are three kinds of sales promotion tools. They are:

   a) Consumer Promotion: Activities intended to educate or inform the consumers and those intended to stimulate the consumers.

   b) Dealer Promotion: Activities to increase the interest and enthusiasm of dealers and distributors.

   c) Business Promotion: Through exhibition, trade fairs and conventions.

3. **Developing the Sales-Promotion Programme:** The marketer must take further decisions to define the full promotion programme. The marketer has to determine the size of the incentives, or conditions for participation, duration of promotion, the distribution vehicle, timing of promotion, total sales-promotion budget and incentives cost in order to arrive at a full programme.

4. **Pre-testing the sales- promotion programme**: The programme thus selected must be pre tested in order to check the effectiveness of the programme.

5. **Implementing and controlling the Sales-Promotion Programme**: This involves planning, designing and modifying programme, etc. Each programme should have its individual implementation and control.

6. **Evaluating The Sales-Promotion Result**: The final step is to evaluate the result of sales-promotion programme in order to determine the effectiveness of the programme. The manufactures can use three methods to measure the effectiveness of sales-promotion.

    a) to examine the sales data, before, during and after a promotion.

    b) to examine the consumer panel data which would reveal the kinds of people who responded to the promotion, and

    c) to conduct experiments about incentive value, duration and distribution media

18.5.4 CONSUMER SALES PROMOTION

Consumer sales promotions are steered toward the ultimate product users—typically individual shoppers in the local market—but the same techniques can be used to promote products sold by one business to another, such as computer systems, cleaning supplies, and machinery. In contrast, trade sales promotions target resellers—wholesalers and retailers—who carry the marketer's product. Following are some of the key techniques used in consumer-oriented sales promotions.

- **Price deal:** A temporary reduction in the price, such as 50% off.

- **Loyal Reward Program:** Consumers collect points, miles, or credits for purchases and redeem them for rewards.

- **Price-pack/Bonus packs deal**: The packaging offers a consumer a certain percentage more of the product for the same price (for example, 25 percent extra). This is another type of deal “in which customers are offered more of the product for the same price”. For example, a sales company may offer their consumers a bonus pack in which they can receive two products for the price of one. In these scenarios, this bonus pack is framed as a gain because buyers believe that they are obtaining a free product. The purchase of a bonus pack, however, is not always beneficial for the consumer. Sometimes consumers will end up spending money on an item they would not normally buy had it not been in a bonus pack. As a result, items bought in a bonus pack are often wasted and is viewed as a "loss" for the consumer.

- **Coupons**: coupons have become a standard mechanism for sales promotions. Coupons are legal certificates offered by manufacturers and retailers. They grant specified savings on selected products when presented for redemption at the point of purchase

- **Free-standing insert (FSI):** A coupon booklet is inserted into the local newspaper for delivery.

- **Checkout dispensers**: On checkout the customer is given a coupon based on products purchased.

- **Mobile couponing**: Coupons are available on a mobile phone. Consumers show the offer on a mobile phone to a salesperson for redemption.

- **Online interactive promotion game:** Consumers play an interactive game associated with the promoted product.

18.5.5 DEALER PROMOTION

Sales promotion activities are conducted to stimulate consumer-purchasing and dealer effectiveness.

1. There is a provision of free display material either at the point of purchase or point of sale, depending on one's viewpoint. Display reaches consumers when they are buying and actually spending their money.

2. Retail demonstrators are supplied by manufacturers for preparing and distributing the product as retail sample. e.g Nescafe instant coffee to consumers for trying the sample on the spot or demonstration regarding the method of using the product.

3. Sellers give buying allowance of a certain amount of money for a product bought.

4. Trade deals are offered to encourage retailers to give additional selling support to the product, e.g toothpaste sold with 30 per cent to 40 percent margin.

5. Sales contests for salesmen are held.

6. Advertising and display allowance may be given.

7. Seller gives free goods, e.g, one free with 11, or 2 free with 10 are common free deals.

Dealer sales promotion provides the selling devices. Sales-promotion devices at the point of purchase inform, remind and stimulate buyers to purchase products. People who see these devices are in a buying mood and thus they can be easily persuaded to buy those products.

18.5.6 TRADE PROMOTION

A trade sales promotion is targeted at resellers—wholesalers and retailers—who distribute manufacturers' products to the ultimate consumers. The objectives of sales promotions aimed at the trade are different from those directed at consumers. In general, trade sales promotions hope to accomplish four goals:

1) Develop in-store merchandising support, as strong support at the retail store level is the key to closing the loop between the customer and the sale.

2) Control inventory by increasing or depleting inventory levels, thus helping to eliminate seasonal peaks and valleys.

3) Expand or improve distribution by opening up new sales areas (trade promotions are also sometimes used to distribute a new size of the product).

4) Generate excitement about the product among those responsible for selling it.

Some of the more common forms of trade promotions—profiled below—include point-of-purchase displays, trade shows, sales meetings, sales contests, push money, deal loaders, and promotional allowances.

Point-of-Purchase (POP) Displays

Manufacturers provide point-of-purchase (POP) display units free to retailers in order to promote a particular brand or group of products. The forms of POP displays include special racks, display cartons, banners, signs, price cards, and mechanical product dispensers. Probably the most effective way to ensure that a reseller will use a POP display is to design it so that it will generate sales for the retailer. High product visibility is the basic goal of POP displays. In industries such as the grocery field where a shopper spends about three-tenths of a second viewing a product, anything increasing product visibility is valuable. POP displays also provide or remind consumers about important decision information, such as the product's name, appearance, and sizes. The theme of the POP display should coordinate with the theme used in ads and by salespeople.

Trade Shows

Thousands of manufacturers display their wares and take orders at trade shows. In fact, companies spend over $9 billion yearly on these shows. Trade shows provide a major opportunity to write orders for products. They also provide a chance to demonstrate products, disseminate information, answer questions, and be compared directly to competitors. Related to trade shows, but on a smaller scale, are sales meetings sponsored by manufacturers or wholesalers. Whereas trade shows are open to all potential customers, sales meetings are targeted toward the company's sales force and/or independent sales agents. These meetings are usually conducted regionally and directed by sales managers. The meetings may be used to motivate sales agents, to explain the product or the promotional campaign, or simply to answer questions. For resellers and salespeople, sales contests can also be an effective motivation. Typically, a prize is awarded to the organization or person who exceeds a quota by the largest percentage.

Push Money

Similarly, push money (PM)—also known as spiffs—is an extra payment given to salespeople for meeting a specified sales goal. For example, a manufacturer of refrigerators might pay a $30 bonus for each unit of model A, and a $20 bonus for each unit of model B, sold between March 1 and September 1. At the end of that period, the salesperson would send evidence of these sales to the manufacturer and receive a check in return. Although some people see push money as akin to bribery, many manufacturers offer it.

Deal Loaders

A deal loader is a premium given by a manufacturer to a retailer for ordering a certain quantity of product. Two types of deal loaders are most typical. The first is a buying loader, which is a gift given for making a specified order size. The second is a display loader, which means the display is given to the retailer after the campaign. For instance, General Electric may have a display containing appliances as part of a special program. When the program is over, the retailer receives all the appliances on the display if a specified order size was achieved.

Trade Deals

Trade deals are special price concessions superseding, for a limited time, the normal purchasing discounts given to the trade. Trade deals include a group of tactics having a common theme—to encourage sellers to specially promote a product. The marketer might receive special displays, larger-than-usual orders, superior in-store locations, or greater advertising effort. In exchange, the retailer might receive special allowances, discounts, goods, or money. In many industries, trade deals are the primary expectation for retail support, and the marketing funds spent in this area are considerable. There are two main types of trade deals: buying allowances and advertising/display allowances.

Buying Allowances

A buying allowance is a bonus paid by a manufacturer to a reseller when a certain amount of product is purchased during a specific time period. For example, a reseller who purchases at least 15 cases of product might receive a buying allowance of $6.00 off per case, while a purchase of at least 20 cases would result in $7.00 off per case, and so forth. The payment may take the form of a check or a reduction in the face value of an invoice. In order to take advantage of a buying allowance, some retailers engage in "forward buying." In essence, they order more merchandise than is needed during the deal period, then store the extra merchandise to sell later at regular prices. This assumes that the savings gained through the buying allowance is greater than the cost of warehousing and transporting the extra merchandise. Some marketers try to discourage forward buying, since it reduces profit margins and tends to create cyclical peaks and troughs in demand for the product.

The slotting allowance is a controversial form of buying allowance. Slotting allowances are fees retailers charge manufacturers for each space or slot on the shelf or in the warehouse that new products will occupy. The controversy stems from the fact that in many instances this allowance amounts to little more than paying a bribe to the retailer to convince him or her to carry your company's products. But many marketers are willing to pay extra to bring their products to the attention of consumers who are pressed for time in the store. Slotting allowances sometimes buy marketers prime spaces on retail shelves, at eye level or near the end of aisles.

The final type of buying allowance is a free goods allowance. In this case, the manufacturer offers a certain amount of product to wholesalers or retailers at no cost if they purchase a stated amount of the same or a different product. The allowance takes the form of free merchandise rather than money.

Advertising Allowances

An advertising allowance is a dividend paid by a marketer to a reseller for advertising its product. The money can only be used to purchase advertising—for example, to print flyers or run ads in a local newspaper. But some resellers take advantage of the system, so many manufacturers require verification. A display allowance is the final form of trade promotional allowance. Some manufacturers pay retailers extra to highlight their display from the many available every week. The payment can take the form of cash or goods. Retailers must furnish written certification of compliance with the terms of the contract before they are paid. Retailers are most likely to select displays that yield high volume and are easy to assemble.

18.6 PROMOTIONAL STRATEGY

Product promotion is one of the necessities for getting your brand in front of the public and attracting new customers. There are numerous ways to promote a product or service. Some companies use more than one method, while others may use different methods for different marketing purposes. Regardless of your company's product or service, a strong set of promotional strategies can help position your company in a favorable light with not only current customers but new ones as well.

Contests

Contests are a frequently used promotional strategy. Many contests don't even require a purchase. The idea is to promote your brand and put your logo and name in front of the public rather than make money through a hard-sell campaign. People like to win prizes. Sponsoring contests can bring attention to your product without company overtness.

Social Media

Social media websites such as Facebook and Google+ offer companies a way to promote products and services in a more relaxed environment. This is direct marketing at its best. Social networks connect with a world of potential customers that can view your company from a different perspective. Rather than seeing your company as "trying to sell" something, the social network can see a company that is in touch with people on a more personal level. This can help lessen the divide between the company and the buyer, which in turn presents a more appealing and familiar image of the company.

Mail Order Marketing

Customers who come into your business are not to be overlooked. These customers have already decided to purchase your product. What can be helpful is getting personal information from these customers. Offer a free product or service in exchange for the information.

Product Giveaways

Product giveaways and allowing potential customers to sample a product are methods used often by companies to introduce new food and household products. Many of these companies sponsor in-store promotions, giving away product samples to entice the buying public into trying new products.

Point-of-Sale Promotion and End-Cap Marketing

Point-of-sale and end-cap marketing are ways of selling product and promoting items in stores. The idea behind this promotional strategy is convenience and impulse. The end cap, which sits at the end of aisles in grocery stores, features products a store wants to promote or move quickly. This product is positioned so it is easily accessible to the customer. Point-of-sale is a way to promote new products or products a store needs to move. These items are placed near the checkout in the store and are often purchased by consumers on impulse as they wait to be checked out.

Customer Referral Incentive Program

The customer referral incentive program is a way to encourage current customers to refer new customers to your store. Free products, big discounts and cash rewards are some of the incentives you can use. This is a promotional strategy that leverages your customer base as a sales force.

Causes and Charity

Promoting your products while supporting a cause can be an effective promotional strategy. Giving customers a sense of being a part of something larger simply by using products they might use anyway creates a win/win situation. You get the customers and the socially conscious image; customers get a product they can use and the sense of helping a cause. One way to do this is to give a percentage of product profit to the cause your company has committed to helping.

Branded Promotional Gifts

Giving away functional branded gifts can be a more effective promotional move than handing out simple business cards. Put your business card on a magnet, ink pen or key chain. These are gifts you can give your customers that they may use, which keep your business in plain sight rather than in the trash or in a drawer with other business cards the customer may not look at.

Customer Appreciation Events

An in-store customer appreciation event with free refreshments and door prizes will draw customers into the store. Emphasis on the appreciation part of the event, with no purchase of anything necessary, is an effective way to draw not only current customers but also potential customers through the door. Pizza, hot dogs and soda are inexpensive food items that can be used to make the event more attractive. Setting up convenient product displays before the launch of the event will ensure the products you want to promote are highly visible when the customers arrive.

After-Sale Customer Surveys

Contacting customers by telephone or through the mail after a sale is a promotional strategy that puts the importance of customer satisfaction first while leaving the door open for a promotional opportunity. Skilled salespeople make survey calls to customers to gather information that can later be used for marketing by asking questions relating to the way the customers feel about the products and services purchased. This serves the dual purpose of promoting your company as one that cares what the customer thinks and one that is always striving to provide the best service.

18.7 INTRODUCTION TO SALES MANAGEMENT

Every organization has people who are entrusted with the responsibility of dealing with prospects and customers for selling their product or services. These people form the sales force in an organization and are known as salesmen. In many organizations, the salesmen come under the category of officers and are referred to as sales executives, technical executives or even marketing executives. Regardless of the designation used, the major objective of the salesperson is to increase the sales, market share and profit of the sales territory.

18.7.1 MEANING OF SALES MANAGEMENT

Sales management is consist of two words i.e., 'sales' and 'Management'. Selling is the process of persuading a prospective customer to buy a commodity or a service or to act favorably u[on an idea that has commercial significance to the seller. Management is the process of carrying out the essential functions of planning, organizing, staffing, directing and controlling.

The term sales management has a broader meaning and it include the following:

1. Managing the sales force: includes recruitment, selection, training, motivation, remuneration and controlling the sales force.
2. Organizing the sales effort: Deals with creating appropriate organisational structure and effective coordination within the sales department and other departments such as HR, Distribution,

Production management in the company. It also include the management of external customers like dealer, distributors, direct consumers and opinion leaders.

Therefore we can say that sales management generally refers to the management of sales force. It deals with planning organizing, directing and controlling the personal selling.

It can also be a business discipline which is focused on the practical application of sales techniques and the management of a firm's sales operations. It is an important business function as net sales through the sale of products and services and resulting profit drive most commercial business. These are also typically the goals and performance indicators of sales management.

18.7.2 ROLE OF SALES MANAGEMENT IN MARKETING

Marketing stresses the importance of satisfying customer needs and wants through a process of exchange. Marketing occurs virtually every aspect of life.

Sales Management is a vital sub-system of marketing management. It will continue as an indispensable part of marketing management as long as sales people are required to interact with the customers, influence them and win them. In reality marketing plans, strategies, policies are implemented through sales management. Hence sales management acts as the dynamic force behind marketing management.

In a modern organization sales management centers round the management of Sales force and sales efforts. Modern sales manager is not only profit-oriented but also customer-oriented.

Sales management plays an important role in marketing, especially for firms in business-to-business markets. The relationship between sales and marketing strategies is shown below:

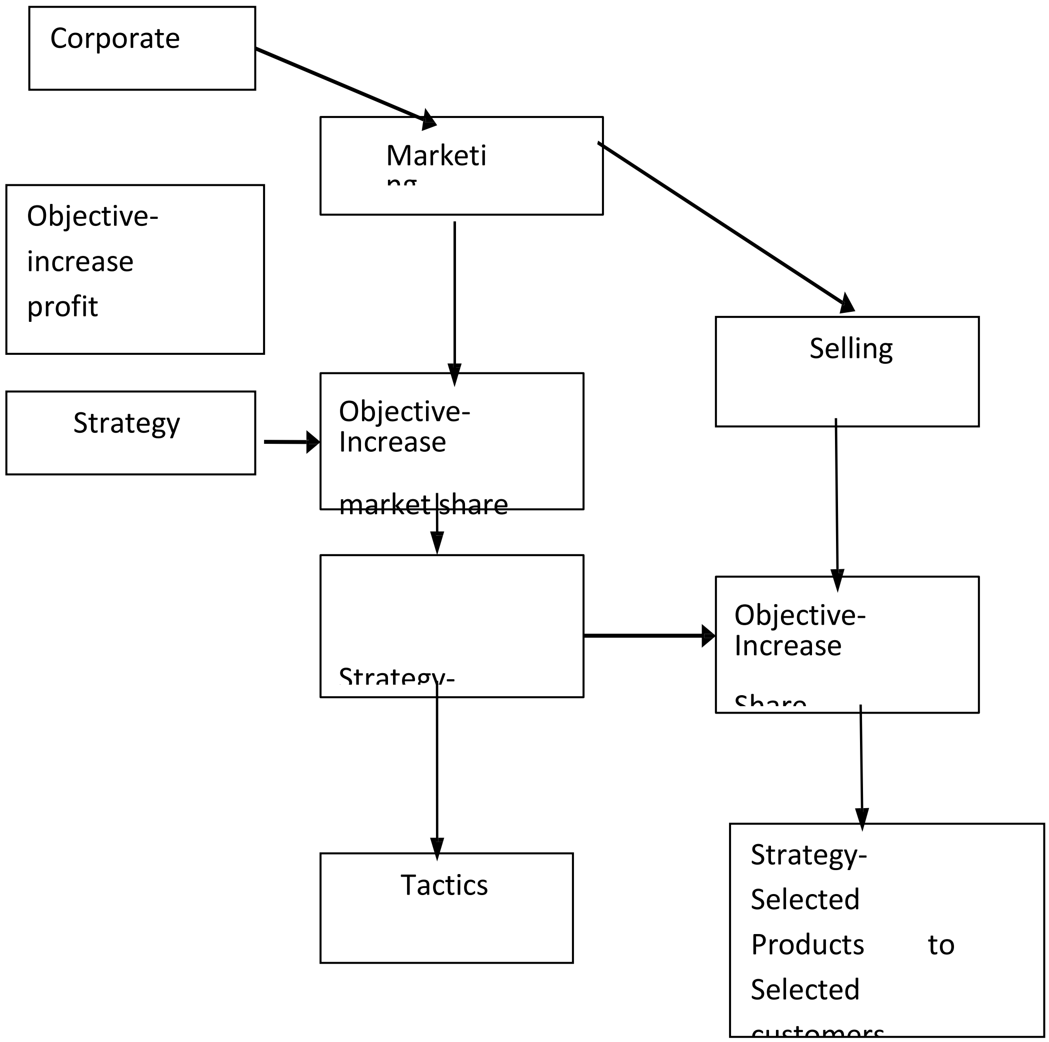

Figure 18.7.2

18.7.3 OBJECTIVES OF SALES MANAGEMENT

Normally the top management finalizes the qualitative objectives for the organization. Example: Long term growth, industry leadership, new product introduction, excellent customer service, positive image among customers and public, outstanding technical research. These objectives are translated into specific quantifiable objectives and passed on the sales department for execution.

Major objectives of Sales Management are given below.

1. Achievement of Sales Volumes/Values.
2. Contribution to profits
3. Growth in Sales
4. Growth in Market Share

The sales manager is responsible for effective execution of sales plan through the sales executives.

18.8 SALES ORGANISATION

Once the sales plan has been formulated, the next logical step is to organize a sales force to achieve the enterprise objectives. Decision must be made as to the type of sales tasks required to be performed and as to how the sales people should be grouped together to ensure effectiveness and efficiency. The scope of their sales responsibility, line authority and accountability must be defined so that the sales activities can be well coordinated.

18.8.1 NEED FOR SALES ORGANISATION

Sales organisation which bridges the gap between the market and the productive capacity of the firm. As the market changes, the sales function accommodates through adjusting its organisation and manner of operation. Shifts in size bf market operation, market trends, competitive position and other environmental factors may necessitate changes in existing sales organisations. An effective sales organisation usually provides for growth and adaptability to such changes.

You can compare the role of an organisation to that of the skeleton in the human body- provides a framework within which normal functions can take place. However while the skeletal system is uniform for all human, sales organisations vary widely over firms. This is because every enterprise has its own objectives and resources, and corporate plans to achieve those objectives. The structure of the sales organisation reflects this diversity. A part from providing a basic structure to facilitate working, sales organisation has the following basic purposes.

18.8.2 BASIC TYPES OF ORGANISATIONAL STRUCTURE

a) Line Sales Organisation

The line sales organisation is the most basic forms of sales organisation, characterised by a chain of command running from the top sales executive down to the level of the salesman. All executives have line authority over their subordinates who in turn are accountable only to their immediate superior. Since lines of authority run vertically in this structure, executives at each level are generally independent of all others al the same level. Through assignment of quotas or sales targets, responsibilities are usually, clearly delineated.

Figure 1 gives the sales organisation of liquor division of Jagatjit Industries Ltd., designed as a line sales organisation.

Figure 18.8.2

The liquor division is headed by the vice president marketing, who has two marketing managers looking after the southwest region and northeast region, reporting to him. The Marketing Manager has a line authority over a number of regional and Area managers who in turn control a field staff of sales executive, field sales officer and sales representatives, each level connected to the subordinate level by scalar lines of command.

Line organization is extensively used in similar firms are those dealing in a narrow product line, or selling in a limited geographic area.

Line organization also becomes in appropriate in case of rapidly growing organizations are those with large sales staffs, as growing departments necessitate additional layers of executives to be added. Increase in vertical levels is often accompanied by distortion directions and reduced efficiency of communication, resulting in poorer results.

b) Line and Staff Sales Organisation

Line and staff organizations usually result as the size of the operations grows. It is characteristically found in medium and large firms which sizeable sales staff selling diversified product lines. The line and staff department is differentiated by the presence to staff specialists of staff assistants to advise and assist the top sales executive. These specialists are experts in their own fields which could be sales training, service, sales analysis and planning, dealer relations, sales promotion, sales personnel development and so on. While staff executives and assistants do not have the line authority to command, they advise the line executives through recommendations and provide the benefit of specialization in the organization. The inclusion of the staff component frees the line executive from the burden of detail. By delegating problem involving in depth study or detailed analysis to staff specialists, the line executive gets more time for policy making and planning. A pool of experts becomes available for providing advice and assistance in specialized fields. The activity of planning can also be subdivided and assigned to staff specialists. More information is also made available for better decision-making. Figure 2 gives the sales organization of Prentice Hall of India Ltd. Which has both line and staff components?

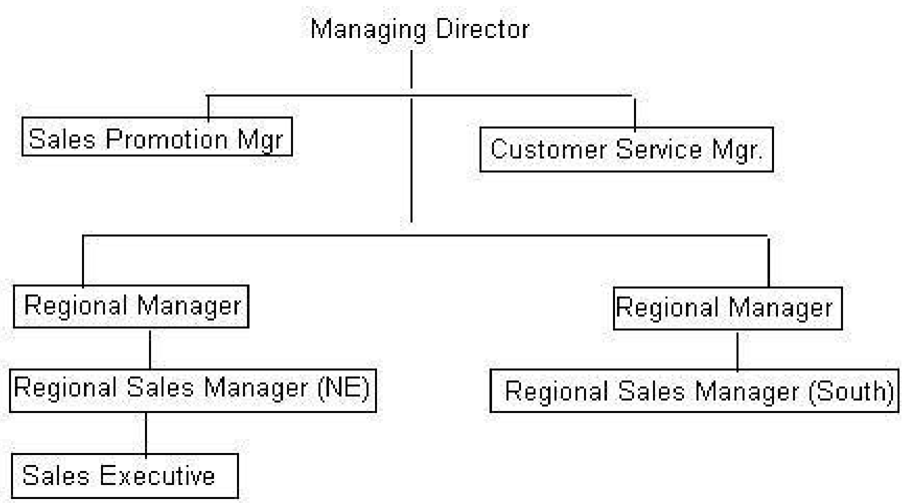

Fig 3: Line and Staff sales Organisation

The problem that arises with line and staff organization is basically one of the coordination. The work of the staff specialists needs to be actively coordinated with the operations of the line department and generally a lag develops, as reports and recommendations take time to compile.

Line and Staff organisation also sometimes generates problems of interpersonal relations. The staff executives tend to overstep their advisory authority and try to assume and sometimes succeed in assuming the authority to issue orders and directions. This presents difficulties of dual subordination and may create confusion. The fact that staff specialists do not share direct responsibility for results is also resented by some line executives. Experience has shown that to a large extent these problems can be minimised if all areas in which line and staff executives have to share authority and responsibility are specifically written down as components of the job description.

c) Functional Sales Organisation

The functional sales organization is aimed at utilizing the benefits of specialization to its fullest extent. In the functional sales organization, all sales personnel receive direction from, and are accountable to different executives, on different aspects of their work. Somewhat in contravention to the principle of unity of command, the functional organizational structure gives all executives, each a specialist in his own field, a direct authority to command and issue orders to his functional authority therefore, simply means that at any given time, a sales person could be under instruction from a number of executives, depending upon the functional specializations setup. The top sales executives has coordinating responsibilities in respect of the actions of functional heads in functional organizations have not been found to be a very appropriate structure for sales organization. Here each sales person is under direction of several executives. In larger firms where the size of the sales force is substantial, the degree of centralization necessitated by the functional organizational structure, renders the operation inefficient. Smaller the medium sized firms on the other hand find the system expensive because of the high degree of specialization. Another weakness of the structure is that burden of coordinating the activities of highly diverse specialists is placed on a single individual. In case that individual is not capable enough in this regard, the whole structure is likely to become cumbersome and ineffective.

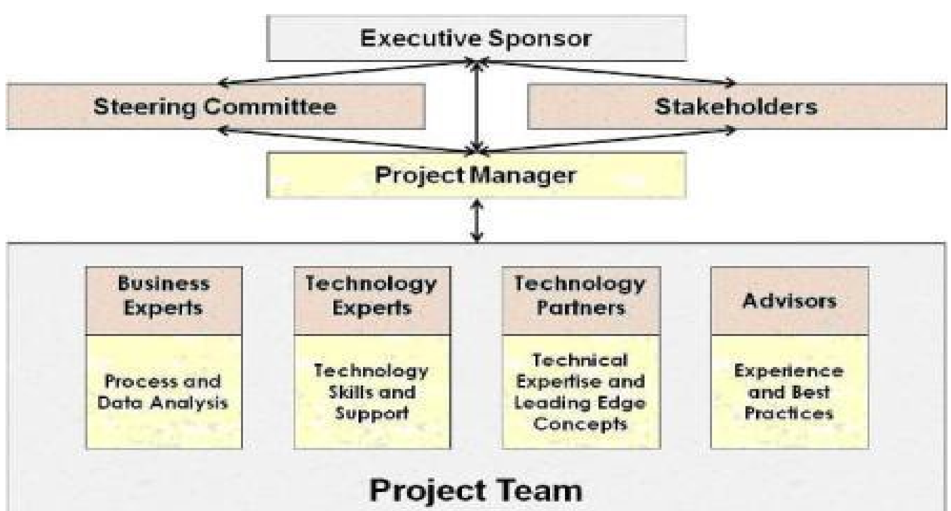

Figure 3.2.2

18.8.3 BASIC FUNCTIONS OF SALES ORGANISATION

The basic functions of sales organisation has been categorized into four categories:

1. **Administrative Functions:**
    a) Sales policies
    b) Sales Planning
    c) Sales Programme
    d) Evaluation of performance
    e) Controlling Cost
    f) Direct and motivation
    g) Dealer Relations
    h) Co-ordination and Communication
2. **Operating Functions**
    a) Recruitment
    b) Selection
    c) Training
    d) Routing
    e) Controlling
    f) Equipment and Leading
    g) Supervising
    h) Evaluating Sales Quotas
3. **Staff Functions Specialists Acting as Guides and Advisers**
    a) Marketing Research
    b) Advertising
    c) Sales Promotion
    d) Sales Analysis
    e) Dealer Relations
    f) Sales Personnel
    g) Transportation and Warehousing Problems
    h) Sales Planning Programming
    i) Counselling to Sales people

18.9 MANAGEMENT OF SALES FORCE

Sales force management is defined as “the planning, direction and control of the personal selling activities of a business unit, including recruiting, selecting, training, equipment, assigning, routing, supervising, paying and motivating as these tasks apply to the personal sales force.”

Sales management has dual responsibilities:

1. Generating sales volume
2. Developing sales manpower.

Long term success of the firm in generating sales volume hinges upon the development of sales manpower. Salespeople are invaluable human resource of the firm. they have practically unlimited potential for the growth and development.

Effective management of salesforce requires leadership plus administrative skills in planning, organizing, directing, motivating and controlling the personnel selling portion of the promotion mix. Sales manager must determine the number and types of sales people required to implement the sales plans and programmes at a given time. Then salespeople must be secured and their activities are planned, organized and directed in order to achieve the set sales objectives.

The Process of Management of Salespeople

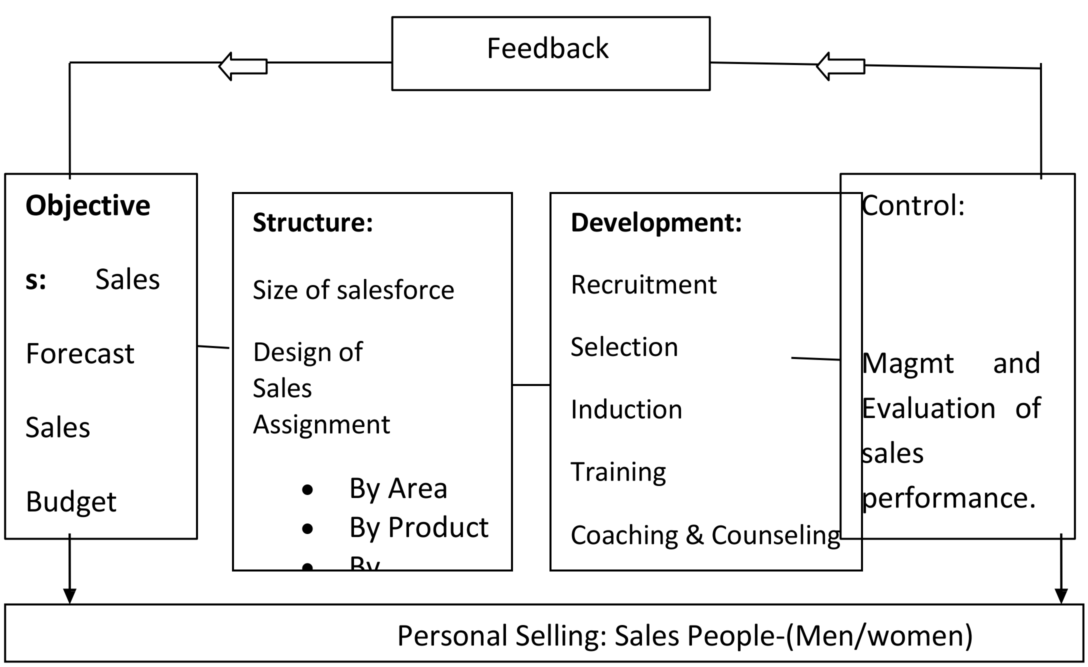

Figure 18.9

There are six areas for managerial decisions regarding the sales force:

1. Recruitment and selection
2. Training
3. Remuneration and expenses
4. Supervision and direction
5. Motivation
6. Control and Evaluation or assessment of sales performance.

18.10 RECRUITMENT AND SELECTION OF SALES-FORCE

Effective recruitment and selection of salespeople is one of the most crucial tasks of sales management. It entails finding people who match the type of sales position required by a firm. Recruitment and selection practices would differ greatly between order-taking and order-getting sales positions, given the differences in the demands of these two jobs. Therefore, recruitment and selection begin with a carefully crafted job analysis.

A sales manager must organize the sales force so that all the necessary tasks are done well. A large organization might have different salespeople specializing by different selling tasks *and by* the target markets they serve. Sales managers often divide sales force responsibilities based on the type of customer involved.

Recruitment of Salesmen involves the following Processes:

1. Deciding the quantity of Salesforce.
2. Determination of the characteristics and qualities to be possessed by the salesman
3. Tapping the various sources of recruitment
4. Careful selection of the candidates and finalising the employment.

1. **Deciding the quantity of Salesforce.:** Before the selection is undertaken, the sales manager should assess the need for salesforce in quantitative terms, e.g., how many are required, based on expansion of business and attrition due to retirement and resignation.

2. **Determination of the characteristics and qualities to be possessed by the salesman:**

    a) Job description/ Analysis: It is concerned with a nature of duties and responsibilities involved in performing effectively a particular job. It gives detail of the job to be performed and the qualities and qualifications required.

b) General qualities: Good personality, sound Health, intelligence, honesty and integrity of character and power of observation.

c) Particular qualities: Educational qualification, past experience, knowledge of the product, customers and market, language known.

d) Technical Knowledge: Knowledge about the chemical and mechanical aspect of the product to be sold and legal implication involved in the sales activities, etc.

3. Sources of Recruitment:

After job analysis and man- specification, every possible source should be tapped to select the most efficient salesman. The various sources are as follows:

a) Company's own staff

b) Employment Exchange

c) Educational Institutions

d) Situation wanted' columns of newspapers

e) 'Situation Vacant' Advertisement

f) Casual Applicant

g) Recommended Candidate

h) Placement Agencies.

4. Selection of Sales force:

From these sources, applications are received and screening of the applications is made. Application which satisfies the Job description and man- specification are only considered for selection. The selected applicants are called for psychological test. If a good report is given by references, the candidates will be called for medical examination, if he finds fit, they will be called for the Final interview and appointment letter is issued.

Figure 18.10

18.11 TRAINING OF SALES FORCE

There is an old Belief that “Salesmen are born and not made.” Once in a while, we may come across a salesman who is capable of selling a refrigerator to an Eskimo, but this is rare. The salesman has to educate the customers about products, sell the same with benefit to the customer and profit for the company. Therefore, he should have excellent knowledge about products, competition, market dynamics, buying motives, and selling skills.

18.11.1 THE NEEDS FOR TRAINING OF SALESFORCE

The need of training salesman arises from the fact that a newly appointed salesman does not have the knowledge about the product he has to sell. He may not have knowledge about customers and buying motives. He may not know how to sell the product or how to present them to the prospective buyers. Even old salesman needs training to acquaint them with the new products of the firm or those of the competitors, to explain to them the improved sales technique or simply as a refresher course.

The Extent of training will depend upon following:

1. How difficult and complicated is the selling job concern?
2. The level of education and previous training the salesman possesses.
3. Previous selling experience of the salesmen.
4. The type of buyer to be approached. In case of an expert buyer, more knowledge of the product to be sold is the absolute necessity.

In general, a good training scheme would include the following:

1. Basic principle of Salesmanship
2. Knowledge of the firm
3. Knowledge of the product
4. Knowledge about the customers
5. Knowledge of competitors
6. Matters pertaining to the day to day work
7. Knowledge of self

18.11.2 ADVANTAGES OF TRAINING THE SALES FORCE

A firm having well-designed training Schemes gain the following advantages:

1. Greater sales volume: A scientifically designed training programme helps to reduce cost of production.

2. Reduces cost of production: Increased selling helps to reduce cost of production.

3. Early Selling maturity: Training reduces the time to be spent by the salesman with each customer in convincing him about the product.

4. Lowers supervisions cost: In case of untrained salesmen, sales manager have to pay more visits than those needed in the case of trained salesmen to keep check on their work.

5. Lower turnover of sales force: Proper training makes the salesman well prepared for the field work. This results in reduced number of salesmen leaving their job.

6. Better Customer Relations: A scientifically trained salesmen know how to deal with a particular sales situation. He does not oversell, e.g., he does not sell the wrong quality or type of goods.

18.11.3 METHODS OF TRAINING

A. Individual Methods

- **a) Initial or Break-in Training:** The trainee is asked to work in different departments and study for himself. He may be guided but often left free. After a specific period, he would be asked to work in his field.

- **b) Special Assignment:** Slightly easier assignments are given and his capacity in handling problems is watched. Shortcomings, if any, are brought to his notice for future guidance e.g senior and junior lawyers.

- **c) Field Coaching:** The newly recruited salesman is asked to work along with an experienced salesman in the field. These methods create self-confidence, enthusiasm in newly recruited salesman.

B. Group Methods:

- **a) Lecture Method:** This is the easiest and quickest method of imparting information to the trainees. Most of the training methods are based on this principle, simply because of assured success.

- **b) Audio-visual Methods:** It is a telling and showing method. This method is often used as a supplementary to the lecture method. The visual aids such as filmstrips, slides, charts, posters etc. are capable of providing more exposition to the lectures and making it more interesting.

c) **Discussion and Case Method:** This method is quite good for those who have basic knowledge on the subject. A particular problem is given to the various groups and asked to discuss it and put forward its suggestions. Later on all such suggestions are analysed by all the groups together. This enables to have a correct idea of the problem and a better solution.

18.12 MOTIVATION OF SALESMEN

Ability or capacity to work is different from the will to work. Motivation is the act of stimulating someone or oneself to get desired course of action, to push the right button to get a desired action, a compliment, a pay-rise, a smile, a promise of promotion, praise, public recognition and so on.

Motivation ignites the will to work. It moves people to take a desired action. Motivation can be either financial or non-financial. Sales contests, conventions and conferences are examples of motivating salesforce.

18.13 CONTROL OF SALES FORCE

Control is the act of checking or verifying whether everything occurs in conformity with one charted in the plans. Supervision and control of salesmen is essential for a sales organization to achieve maximum success.

18.13.1 IMPORTANT WAYS FOR CONTROLLING THE SALES FORCE ARE AS FOLLOWS

(1) Recruit and select efficient salesman and lay down an adequate procedure for selection (except in large organizations where this is done by the Personnel Department and the sales manager or supervisor has the final say);

(2) Train the recruits using both the break-in training and the continuous training; impressing on the salesman that creative selling is part of his job;

(3) Make the salesman proud of his organization, his shop, his product, and then service he sells and of himself.

(4) Show an honest personal interest in his salesmen;

(5) Correct and guide salesmen constructively;

(6) Handle complaints and grievances satisfactorily;

(7) Motivate salesmen to greater effort and more sales; and

(8) Show the salesman that he himself can do a better selling job as his own example would be the most inspiring from of leadership.

18.14 SALESMANSHIP

Salesmanship is just personal selling- negotiating, emphasizing inducing and making the prospective buyer to take a decision in favour of going for the product being offered to him. The mutual satisfaction is greatly emphasized in a salesmanship.

Salesmanship is an art of influencing another person for the object of persuading him to buy specific product. It may be regarded as the process of winning the confidence of consumer. It is the ability of a person to persuade the people to people to buy the goods and services for satisfactions to the buyer and profit to the seller.

According to JOHN WANAMAKER "Salesmanship is the art of so successfully demonstrating the merits of the goods and services of a house that a permanent customer is made."

Qualities of a Good Salesperson

Sales executives as the name implies are required for the product sales. The top performing salespeople in any industry are an elite group, they directly interact with the customers.. So this mean they should have a pleasing personality and great communication skills, they should have a thorough knowledge of the product he is selling so that his able to answer any question asked by the prospective buyer about the product.

Qualities of Salesperson to become leading salesperson:

1. **Self Confidence**
2. **People Oriented**
3. **Good listener**
4. **Honesty**
5. **Motivation**
6. **Persistence**
7. **Good Communication**
8. **Self Control**
9. **Punctual**
10. **Passion**
11. **Good Planner**

18.15 SUMMARY

Personal selling is where businesses use people (the "sales force") to sell the product after meeting face-to-face with the customer. The sellers promote the product through their attitude, appearance and specialist product knowledge. They aim to inform and encourage the customer to buy, or at least trial the product.

Sales promotions are the set of marketing activities undertaken to boost sales of the product or service. Description: There are two basic types of sales promotions: trade and consumer sales promotions.

18.16 EXERCISE

1. Define “Personal Selling” and its objective.
2. How many types of selling jobs, a market can pursue?
3. Explain various stages involved in selling process.
4. Differentiate ‘Sales’ and ‘Marketing’.
5. What is sales promotion and its objectives?
6. What are different methods or tools used by companies for sales promotion?
7. In today’s competitive scenario, how companies are planning their sales promotion techniques?
8. Explain various promotional strategies used by companies.
9. Define ‘Sales Management’ and its role in growth of the organization.
10. Explain various methods of Recruitment and Selection of a salesman.
11. What are various motivating factors for a salesman and prioritise them as per the expectations of salesman?
12. Explain the importance of controlling in sales.
13. What is “Salesmanship”?

UNIT-19 DISTRIBUTION STARTEGY

19.1 IMPORTANCE OF CHANNEL OF DISTRIBUTION

Introduction

Distribution-activities that make products available to customers when and where they need them. A channel of distribution or marketing channel is a group of individuals and organizations that directs the flow of products from producers and customers. Marketing Intermediaries link producers to other intermediaries or to the ultimate users of the product. Operate between the producer and the final buyer.

Types of utility distribution offers:

- **TIME...**when the customers want to purchase the product.
- **PLACE...**where the customers want to purchase the product.
- **POSSESSION...**facilitates customer ownership of the product.
- **FORM...**sometimes, if changes have been made to the product in the distribution channel, i.e. Pepsi/Coke, concentrate to bottlers.

Each channel member has different responsibilities within the overall structure of the distribution of the system; mutual profit/success is obtained through cooperation.

The distribution system:

- Determines a product's marketing presence and the buyers' accessibility to the product

- Entails a long-term commitment, easier to change other aspects of the marketing mix.

19.2 ALTERNATIVE CHANNEL OF DISTRIBUTION

In today's scenario when markets are in intense competition, it is very much required by marketers to establish new, innovative and accessible distribution channels for customers. These channels should integrate vast potential to capture mass markets or we can say that they should be able to capture the mass markets. It is equally important to have intact bonding with traditional channels of distribution because if we talk in terms of Indian scenario where markets are diverse in nature therefore it is required to tap every segment of market else your long term sustainability is in question. In this way we find various alternative distribution channels, although mostly they are industry specific. Here we generalize these distribution channels as follow;

1. **Manufacturer Direct To Retail Store.**

   The manufacturer or supplier delivers direct from the production point to the retail store. As a general rule, this channel is only used when full vehicle loads are being delivered.

2. **Manufacturer via Manufacturer's Distribution Operation to Retail Store.**

   The manufacturer or supplier holds its products in a finished goods warehouse, a central distribution centre (CDC) or a series of regional distribution centres (RDCs). The products are trunked (line-hauled) in large vehicles to the sites, where they are stored and then broken down into individual orders that are delivered to retail stores on the supplier's retail delivery vehicles.

3. **Manufacturer via Retailer Distribution Centre to Retail Store**

   Manufacturers supplying their products to National Distribution Centres (NDCs), which are sites run by the retail organizations. The retailers then deliver full vehicle loads of all the different manufacturers' products to their own stores. Most retailers now use third parties to run these final delivery operations.

4. **Manufacturer to Wholesaler to Retail Shop**

   Wholesalers acted as the intermediaries in distribution chains, providing the link between the manufacturer and the small retailers' shops.

5. **Manufacturer to cash-and-carry wholesaler to retail shop**

   These are usually built around a wholesale organization and consist of small independent shops collecting their orders from regional wholesalers, rather than having them delivered. The increase in cash-and-carry facilities has arisen as many suppliers will not deliver direct to small shops because the order quantities are very small.

6. Manufacturer via third-party distribution service to retail shop

A number of companies have developed a particular expertise in warehousing and distribution. These companies consist of those offering general distribution services as well as those that concentrate on providing a 'specialist' service for one type of product or for one Client Company.

7. Manufacturer via small parcels carrier to retail shop

Very similar to the previous physical distribution channel, these companies provide a ‘specialist‘distribution service where the 'product' is any small parcel. The competition generated by these companies has been quite fierce.

8. Manufacturer via broker to retail shop

A broker is similar to a wholesaler in that it acts as intermediary between manufacturer and retailer. Its role is different, however, because it is often more concerned with the marketing of a series of products, and not really with their physical distribution. Thus, a broker may use third-party distributors, or it may have its own warehouse and delivery system. The broker can provide an alternative physical distribution channel.

9. Mail order

Goods are ordered by catalogue, and delivered to the home by post or parcels carrier. The physical distribution channel is thus from manufacturer to mail order house as a conventional trunking (line-haul) operation, and then to the consumer's home by post or parcels carrier, bypassing the retail store.

10. Factory direct to home

It can occur by direct selling methods, often as a result of newspaper advertising. It is also commonly used for one-off products that are specially made and do not need to be stocked in a warehouse to provide a particular level of service to the customer.

11. Internet and shopping from home

Initial physical distribution channels were similar to those used by mail order operations - by post and parcels carrier. The move to internet shopping for grocery products has led to the introduction of specialist home delivery distribution operations. These are almost all run by third-party companies. In addition, it is now possible to distribute some products, such as music, software and films, directly, computer to computer.

12. Factory to factory / business to business

The factory-to-factory or business-to-business channel is an extremely important one, as it includes all of the movement of industrial products. This may cover raw materials, components, part-assembled products, etc. Options vary according to the type and size of product and order, may range from full loads to small parcels, and may be undertaken by the manufacturers themselves or by a third party.

19.3 ROLE OF MIDDLEMEN IN INDIAN ECONOMY

In many markets in developing countries, especially in remote areas, middlemen are thought to earn excessive profits. Non-profits come in to counter what is seen as middlemen’s market power, and rich country consumers pay a “fair-trade” premium for products marketed by such non-profits.

Middlemen, trading entrepreneurs who link the backwaters of developing countries to emerging markets nationally and especially globally, seem to be universally reviled despite the economic service they provide. Without their capital and specialized knowledge, high prices in growing markets might be outside the reach of the small holder in the rural area, or of the home-based artisan in the urban slum. By bridging this gap, albeit for profit, surely they help to alleviate poverty? And yet it is this profit motive, and the claim that these middlemen make “excessive profits” because of market power, that is at the root of much of the concern.

In economics, disintermediation is the removal of intermediaries in a supply chain, or "cutting out the middlemen". Instead of going through traditional distribution channels, which had some type of intermediate (such as a distributor, wholesaler, broker, or agent), companies may now deal with every customer directly, for example via the Internet. One important factor is a drop in the cost of servicing customers directly.

This can also happen in other industries where distributors or resellers operate and the manufacturer wants to increase profit margins, therefore missing out intermediaries to increase their margins.

Disintermediation initiated by consumers is often the result of high market transparency, in that buyers are aware of supply prices direct from the manufacturer. Buyers bypass the middlemen (wholesalers and retailers) to buy directly from the manufacturer, and pay less. Buyers can alternatively elect to purchase from wholesalers. Often, a business-to-consumer electronic commerce (B2C) company functions as the bridge between buyer and manufacturer.

19.4 SELECTION OF AN APPROPRIATE CHANNEL

Many producers, including major multinational companies in the developing countries are faced with the problem of searching for reliable, effective, and efficient intermediaries capable of handling their products to their own overall satisfaction/success and the ultimate benefits of the consumers in a way that seeks to guarantee a smooth business relationship between the two parties with little or no friction in the entire marketing process. The identified selection criteria represent standard expected of the independent firms operating as marketing intermediaries and are placed under seven categories as listed below:

- Intermediaries with adequate market, product and customer knowledge.
- Intermediaries with good reputation among customers.
- Intermediaries with good financial standing.
- Intermediaries with acceptable managerial competence.
- Intermediaries with hunger for success.
- Intermediaries with the right enthusiasm for handling the producers’ lines.
- The extent to which competitive and complementary products are carried by an Intermediary.

The choice of a suitable channel of distribution is one of the most important decisions in the marketing of products because channel affects the time and costs of distribution as well as the volume of sales.

It also influences pricing and promoting efforts and dealer relations. Choice of a channel of distribution involves the selection of the best possible combination of middlemen or intermediaries.

The objective is to secure the largest possible distribution at minimum cost. The channel must be flexible and efficient. It should be consistent with the declared marketing policies and programs of the firm.

Such a channel can be selected by evaluating alternative channels in terms of their costs, sales potential and suitability. The factors affecting the choice of distribution channels may be classified as follows:

1. **Product Considerations :**

   The nature and type of the product have an important bearing on the choice of distribution channels. The main characteristics of the product in this respect are given below :

(a) **Unit Value** :

Products of low unit value and common use are generally sold through middlemen as they cannot bear the cost of direct selling. Low-priced and high turnover articles like cosmetics, hosiery goods, stationery and small accessory equipment usually flow through a long channel.

On the other hand, expensive consumer goods and industrial products are sold directly by the producers.

(b) **Perishability :**

Perishable products like vegetables, fruits, milk and eggs have relatively short channels as they cannot withstand repeated handling. Same is true about articles of seasonal nature.

Goods which are subject to frequent changes in fashion and style are generally distributed through short channels as the producer has to maintain close and continuous touch with the market. Durable and non-fashion articles are sold through agents and merchants.

(c) **Bulk and weight:**

Heavy and bulky products are distributed through shorter channels to minimize handling costs. Coal, bricks, stones, etc., are some examples.

(d) **Standardization:**

Custom-made and non-standardized products usually pass through short channels due to the need for direct contact between the producer and the consumers. Standardized and mass-made goods can be distributed through middlemen.

(e) **Technical nature:**

Products requiring demonstration, installation and after sale services are often sold directly the producer appoints sales engineers to sell and service industrial equipment and other products of technical nature.

(f) Product line:

A firm producing a wide range of products may find it economical to set up its own retail outlets. On the other hand, firms with one or two products find it profitable to distribute through wholesalers and retailers.

(g) Age of the product:

A new product needs greater promotional effort and few middlemen may like to handle it. As the product gains acceptance in the market, more middlemen may be employed for its distribution. Channels used for competitive products may also influence the choice of distribution channels.

2. Market considerations:

The nature and type of customers is an important consideration in the choice of a channel of distribution. Following factors relating to the market are particularly significant.

(a) **Consumer or industrial market:**

The purpose of buying has an important influence on channel. Goods purchased for industrial or commercial use are usually sold directly or through agents.

This is because industrial users buy in a large quantity and the producer can easily establish a direct contact with them. To ultimate consumers, goods are sold normally through middlemen.

(b) **Number and location of buyers:**

When the number of potential customers is small or the market is geographically located in a limited area, direct selling is easy and economical. In case of large number of customers and widely scattered markets, use of wholesalers and retailers becomes necessary.

(c) **Size and frequency of order:**

Direct selling is convenient and economical in case of large and infrequent orders. When articles are purchased very frequently and each purchase order is small, middlemen may have to be used.

A manufacturer may use different channels for different types of buyers. He may sell directly to departmental and chain stores and may depend upon wholesalers to sell to small retail stores.

(d) Customer's buying habits:

The amount of time and effort which customers are willing to spend in shopping is an important consideration. Customer expectations like desire for one-stop shopping, need for personal attention, preference for self-service and desire for credit also influence the choice of trade channel.

3. Company considerations:

The nature, size and objectives of the firm play an important role in channel decisions.

(a) **Market standing:**

Well-established companies with good reputation in the market are in a better position to eliminate middlemen than new and less known firms.

(b) **Financial resources:**

A large firm with sufficient funds can establish its own retail shops to sell directly to consumers. But a small or weak enterprise which cannot invest money in distribution has to depend on middlemen for the marketing of its products.

(c) **Management:**

The competence and experience of management exercises influence on channel decision. If the management of a firm has sufficient knowledge and experience of distribution it may prefer direct selling. Firms whose managements lack marketing know-how have to depend on middlemen.

(d) **Volume of production:**

A big firm with large, output may find it profitable to set up its own retail outlets throughout the country. But a manufacturer producing a small quantity can distribute his output more economically through middlemen.

(e) **Desire for control of channel:**

Firms that want to have close control over the distribution of their products use a short channel. Such firms can have more aggressive promotion and a thorough understanding of customers' requirements. A firm not desirous of control over channel can freely employ middlemen.

(f) **Services provided by manufacturers:**

A company that sells directly has itself to provide installation, credit, home delivery, after sale services and other facilities to customers. Firms which do not or cannot provide such services have to depend upon middlemen.

4. Middlemen considerations:

The cost and efficiency of distribution depend largely upon the nature and type of middlemen as reflected in the following factors:

(a) **Availability:**

When desired type of middlemen is not available, a manufacturer may have to establish its own distribution network. Non-availability of middlemen may arise when they are handling competitive products as they do not like to handle more brands.

(b) **Attitudes:**

Middlemen who do not like a firm's marketing policies may refuse to handle its products. For instance, some wholesalers and retailers demand sole selling rights or a guarantee against fall in prices.

(c) **Services:**

Use of middlemen is profitable who provide financing, storage, promotion and after sale services.

(d) **Sales potential:**

A manufacturer generally prefers a dealer who offers the greatest potential volume of sales.

(e) **Costs:**

Choice of a channel should be made after comparing the costs of distribution through alternative channels.

(f) Customs and competition:

The channels traditionally used for a product are likely to influence the choice. For instance, locks are sold usually through hardware stores and their distribution through general stores may not be preferred. Channels used by competitors are also important.

(g) Legal constraints:

Government regulations regarding certain products may influence channel decision. For instance, liquor and drugs can be distributed only through licensed shops.

As stated above, a. channel of distribution consists of some middlemen in addition to the manufacturer and the consumer. Middlemen or intermediaries are persons and institutions which serve as connecting links between the producer and ultimate consumers.

Categories of Intermediaries

They direct the flow of goods from producers to consumers and perform several marketing functions. They are known by different names. Middlemen may be classified into three broad categories.

1. Agent Middlemen 2. Merchant middlemen 3. Facilitators

Agent Middlemen

Agent middlemen or functional middlemen or merchantable agents do not take ownership and delivery of goods. They negotiate on behalf of the producer and simply assist in buying and selling of goods. They help in the transfer of ownership and delivery of goods and charge commission for their services. Agent middlemen are of the following kinds.

1. **Factor :**

   A factor is an agent employed to sell goods consigned or delivered to him by his principal. He keeps the goods of others in his possession and exercises general lien on them for his charges. A factor enjoys wide powers.

   He can sell goods in his own name, receive payment and give valid receipts of discharge. He can pledge the goods and can sell goods on credit. He receives commission at fixed percentage on sales from his principal.

2. **Broker :**

   A broker is an agent who makes bargains for others and receives brokerage for his services. He makes transactions on behalf of and in the name of his principal. ***He obtains neither the possession nor the ownership of goods.***

   He brings buyers and sellers together and negotiates terms and conditions of sales. He receives brokerage at a fixed percentage of the volume of transaction.

3. **Commission Agent :**

   He is an agent employed to sell goods on behalf of and at the risk of his principal. ***He not only negotiates the transaction but also makes arrangement for transfer of ownership.*** He gets commission on sales at a fixed rate.

4. **Del-Credere agent :**

   He is an agent employed to sell goods on credit on behalf of his principal. But he undertakes to bear the risk of loss on account of bad debts. ***He is paid extra commission called Del credere commission for bearing this risk.***

5. **Auctioneer:**

   He is an agent employed to sell goods on behalf of the principal and at a public auction. ***He makes publicity, displays goods to the intending buyers, invites bids and sells goods to the highest bidder.***

He is usually paid a commission on the sale proceeds. Sometimes a minimum price (Known as reserve price) is fixed and bids below this price are not accepted.

Merchant Middlemen

These are the intermediaries who buy, take title to the goods and services and resell them. We know them as dealers, wholesalers and retailers. These middlemen get margins and bonuses as compensation. They share the risk with the manufacturers when they take title and physical possession of the goods.

Facilitators

These are independent business units that facilitate the flow of goods and services from the producer to the customer without taking a title to them or negotiating for them on behalf of the producer. Transport companies, banks and independent warehouses are an example of these institutions. These institutions are paid for their service charges. For example, a transporter get paid in the form of freight charges, while a banker gets paid service charges in the form of bank commission and warehouses and cold storages earn rent.

19.5 CHALLENGES IN PHYSICAL DISTRIBUTION

Distribution channels are pathways along which products travel from producers and manufacturers to ultimate consumers. They are routes along which products, information, and finance flow. While some manufacturers deal directly with their customers, most manufacturers use a distribution channel to take products to consumers. Considerable thought, effort, and investment are required to create and maintain a distribution channel. Channel margins and the expense of sales efforts in managing channels can form a substantial proportion of total marketing costs. An effective channel can be a source of strategic advantage for companies. Channel design and channel management are therefore important elements in a company's competitiveness. Channels are also important from a public policy perspective since they employ a large number of people and are critical to the unhindered availability of food items and other products to customers across the socio-economic spectrum. Although channels are very important, little research exists about Indian distribution channels. This note and the accompanying round table presentations therefore attempt to focus on distribution channels in India, especially on the challenges that companies in India face in designing, constructing, and managing distribution channels. The aim is to identify important challenges, examine the relevance of research findings, and develop an agenda for future channel related research in India.

Physical transportation

Transportation refers to the movement of products from one location to another. The fuel required to transport products depends on:

- the distance between producers and purchasers or end-customers
- the quality of the transport infrastructure that connects the two parties
- the density of depots involved in supplying goods to purchasers, intermediaries or directly to customers

Most transportation infrastructure is owned and managed as a Public good throughout the world. This ensures optimal allocation of investments for maintenance and build-up of transport capacities as needed. Transportation policy aims to prevent abuse of monopoly power, promote fair competition, and balance environmental, energy, and social concerns in transportation.

Storage and warehousing

Warehousing is one of the main spheres of logistics. The very broad meaning of it is storage of finished goods or materials (raw, packing, components) for manufacturing, agricultural or commercial purposes. In fact, warehousing contains numerous functions, like acceptance of products (loading, unloading), inspection, and proper storage. It is the whole system (warehouse management system) that includes warehouse infrastructure, tracking systems and communication between product stations.

One of the most sustainable trends in storage solutions is the Just In Time (JIT) technique. It means product delivery directly from supplier to producer without warehousing.

Packaging

Rising climate change awareness started contributing to the need of considering sustainability in packaging decisions. Sustainability objectives relate to packaging life cycle in terms of material sourcing, packaging design, manufacturing, transportation and disposal. According to Sustainable Packaging Coalition, packaging can be considered sustainable if it meets the following criteria:

- Is beneficial, safe & healthy for individuals and communities throughout its life cycle
- Meets market criteria for both performance and cost;
- Is sourced, manufactured, transported, and recycled using renewable energy;
- Optimizes the use of renewable or recycled source materials;
- Is manufactured using clean production technologies and best practices;
- Is physically designed to optimize materials and energy;
- Is effectively recovered and utilized in biological and/or industrial closed loop cycles

Labeling

Labeling is an important means of communicating with consumers about sustainable consumption, and it plays a critical role in shopping for food and domestic appliances. Used as a promotional mechanism, eco-labels inform customers about social and environmental effects, the possibilities of recycling the product and its packaging, methods of production (e.g. bio farming), product's characteristics (e.g. vegan), or the producer's way of running business (e.g.Fair Trade / Marine Stewardship Council).

There is a challenge for consumers though to be able to recognize, understand and cope with sheer number of emerging labels dealing with specific aspects of the sustainability agenda.

Reverse logistics

Reverse logistics has become an important extension within the supply chain as it carries high potentials to achieve a sustainable distribution process that fulfills both environmental and social needs. It deals with reclaiming used packaging as well as unsold and end-of-life products that have to be disposed in order to make materials available for recycling or reuse.

Specific Issues Relating to Maintenance of Stock

The inventory and purchasing staff have the largest impact on maintenance productivity than any other support group. An interesting statement; but how does inventory and purchasing affect the maintenance organization.

The following lists some of the ways poor inventory control can affect maintenance productivity:

Material Related Delays

- Waiting for Materials
- Travel Time to Obtain Materials
- Time Required to Transport Materials
- Time Required to Identify Materials
- Time to Find Substitute Materials
- Time Required to Find Materials in Area Stores Locations
- Time Required to Process a Purchase Order
- Lost Time Due To:
  - Other Crafts delayed due to materials
  - Wrong Materials planned and delivered
  - Wrong Materials Ordered
  - Materials Out of Stock

Figure19.5

Maintenance work should be planned part of the job plan for maintenance is the detailing of all the materials required to perform the work, insuring they were in stock and available before the work was scheduled.

19.6 LOGISTICS CONCEPTS AND PRACTICES

Logistics is the art of managing the supply chain and science of managing and controlling the flow of goods, information and other resources like energy and people between the point of origin and the point of consumption in order to meet customers' requirements.

It involves the integration of information, transportation, inventory, warehousing, material handling, and packaging. The branch of science dealing with procuring, maintaining and transporting material, personnel and facilities.

Business Logistics involves;

- Inventory management
- Purchasing
- Transportation
- Warehousing

This can be defined as having the right item in the right quantity at the right time at the right place for the right price.

19.7 SUPPLY CHAIN MANAGEMENT

Supply chain management (SCM) is "the systemic, strategic coordination of the traditional business functions and the tactics across these business functions within a particular company and across businesses within the supply chain, for the purposes of improving the long-term performance of the individual companies and the supply chain as a whole." It has also been defined as the "design, planning, execution, control, and monitoring of supply chain activities with the objective of creating net value, building a competitive infrastructure, leveraging worldwide logistics, synchronizing supply with demand and measuring performance globally

Commonly accepted definitions of supply chain management include:

- *The management of upstream and downstream value-added flows of materials, final goods, and related information among suppliers, company, re-sellers, and final consumers*
- *The systematic, strategic coordination of traditional business functions and tactics across all business functions within a particular company and across businesses within the supply chain, for the purposes of improving the long-term performance of the individual companies and the supply chain as a whole*
- *According to the AIMS, it is a management of a global network used to deliver products and services from raw materials to end*

customers through an engineered flow of information, physical distribution, and cash.

- *Supply Chain Structure (SCS) is the management of the relationship between the supplier's supplier and the customer's customer through the supply chain participants (Distributor/Wholesaler and Retailer) between them, mainly using information flow and logistics activities to gain Competitive advantage* and customer satisfaction.

SCM is a cross-functional approach that includes managing the movement of raw materials into an organization, certain aspects of the internal processing of materials into finished goods, and the movement of finished goods out of the organization and toward the end consumer. As organizations strive to focus on core competencies and becoming more flexible, they reduce their ownership of raw materials sources and distribution channels. These functions are increasingly being outsourced to other firms that can perform the activities better or more cost effectively. The effect is to increase the number of organizations involved in satisfying customer demand, while reducing managerial control of daily logistics operations. Less control and more supply chain partners led to the creation of the concept of supply chain management. ***The purpose of supply chain management is to improve trust and collaboration among supply chain partners, thus improving inventory visibility and the velocity of inventory movement.***

Main functions of Supply Chain Management are as follows:

- Inventory Management
- Distribution Management
- Channel Management
- Payment Management
- Financial Management
- Supplier Management
- Transportation Management
- Customer Service Management

19.7.1 REVERSE SUPPLY CHAIN

Reverse logistics is the process of managing the return of goods. It is also referred to as "aftermarket customer services". Any time money is taken from a company's warranty reserve or service logistics budget, one can speak of a reverse logistics operation. Reverse logistics is also the process of managing the return of goods from store, which the returned goods are sent back to warehouse and after that either warehouse scrap the goods or send them back to supplier for replacement depending on the warranty of the merchandise.

A few authors such as Halldorsson et al, Ketchen & Hult and Lavassani et al have tried to provide theoretical foundations for different areas related to supply chain by employing organizational theories. These theories include;

- Resource-based view (RBV)
- Transaction cost analysis (TCA)
- Knowledge-based view (KBV)
- Strategic choice theory (SCT)
- Agency theory (AT)
- Channel coordination
- Institutional theory (InT)
- Systems theory (ST)
- Network perspective (NP)
- Materials logistics management (MLM)
- Just-in-time (JIT)
- Material requirements planning (MRP)
- Theory of constraints (TOC)
- Total quality management (TQM)
- Agile manufacturing
- Time-based competition (TBC)
- Quick response manufacturing (QRM)
- Customer relationship management (CRM)
- Requirements chain management (RCM)
- Available-to-promise (ATP)
- Order management system (OMS)

However, the unit of analysis of most of these theories is not the supply chain but rather another system, such as the firm or the supplier-buyer relationship. Among the few exceptions is the relational view, which outlines a theory for considering dyads and networks of firms as a key unit of analysis for explaining superior individual firm performance.

One of the recent developments about supply chain theory has been presented by supply chain manager and educator Hernan David Perez, under the name of ***"Supply Chain Roadmap"***, which is a method whereby an organization’s supply chain strategy can be reviewed in an organized and systematic approach in order to assure alignment of the supply chain with the business strategy. The method allows the characterization of the supply chain under analysis by 42 factors in a single page view called ***"The Map"*** and allows the comparison of this supply chain with 6-Supply Chain Archetypes (Fast, Efficient, Continuous Flow, Agile, Custom Configured, Flexible), in order to find gaps between supply chain under analysis and the most proper supply chain archetype

19.8 SUMMARY

Distribution is the process of making a product or service available for use or consumption by a consumer or business user, using direct means, or using indirect means with intermediaries.

19.9 EXERCISE

1. Explain various types of “Channels of Distribution” and their importance in today’s’ business environment.
2. What do you understand by “Alternative Channel of Distribution” and why it is important in supply channel?
3. Explain the importance of ‘Middlemen’ in business with special reference of Indian economy.
4. What factors you should consider, while selecting an intermediary and thereafter the channel structure.
5. What challenges are involved in execution of physical structure of supply chain.
6. What factors are involved in the selection of various locations associated with various levels of supply chain structure.
7. What do you understand by the term ‘Logistics’ and explain the role of logistics in business.
8. Why do companies have middleman?
9. Define “Supply Chain Management” and its various components.
10. Draw the supply chain structure of Dell Computers and Amazon.

UNIT-20 MARKETING AND PUBLIC POLICY

20.1 REGULATORY ROLE OF THE GOVERNMENT

Introduction

All modern societies agree we need some laws to prevent fraud and injustice in business transactions. For example, government should enforce contracts, and also impose some health and safety standards on the sale of medicines, foods, and other products. Government should enforce health and cleanliness regulations on public restaurants, and regulate weights and measures.

Most people in modern societies would also agree that it works well for government to provide certain other goods that nearly everyone uses, such as roads, traffic regulation, an army and police force and a fire department, and perhaps a postal service. Beyond that, there is a large difference of opinion. Some people favor a "free market" approach to the rest of the economy, while others favor government ownership and control of the means of production and even property

20.2 MEANING OF REGULATORY AGENCIES

A **regulatory agency** is a governmental body that is created by a legislature to implement and enforce specific laws. An agency has quasi-legislative functions, executive functions, and judicial functions.

Regulatory agencies serve two primary functions in government: they implement laws and they enforce laws. **Regulations** are the means by which a regulatory agency implements laws enacted by the legislature. You can think of regulations as formal rules based upon the laws enacted by a legislature that govern specific social or economic activities.

Regulations are required to some extent to prevent unscrupulous people from manipulating the system to gain an unfair advantage. For example, businesses are not allowed to conspire to keep prices higher than if competition were allowed to occur.

When government starts to meddle in the decisions made in the Free Market, efficiency and prosperity are reduced. There is no way for a limited number of bureaucrats to make better decisions than the millions of producers and consumers every day as part of normal supply and demand decisions

20.3 WAYS BY WHICH GOVERNMENT REGULATES MARKETING ACTIVITIES

Consumers must be protected from business owners who are eager to sell without taking into consideration the well-being of customers. Consumers must be protected from overcharging, poor quality goods and services and short measurements and weights.

Consumers are protected by legislation delegated to various government agencies. These agencies include:

1. The Consumer Affairs Commission- aids consumers with redress
2. The Fair Trading Commission- investigates cases of tied selling and misleading advertising.
3. The Bureau of standards – set standards for goods and services to be sold on the market.
4. The Ombudsman- investigates injustices suffered by citizens from dealing with a government agency or official.

20.4 ROLE OF GOVERNMENT IN MARKETING DECISION

1. Provide a legal system to make and enforce laws and to protect private property rights.
2. Provide public goods that individuals or private businesses would not provide.
3. Correct market failures such as external costs and external benefits.
4. Maintain competition by regulating competition.
5. Redistribute income by taxing those with larger incomes and helping those in need.

6. Stabilize the economy by reducing unemployment and inflation and promoting economic growth.
7. Policy on International Business prevent domestic markets from foreign firms
8. Government facilitate technology exchange between two nations
9. Government provides various security measures to companies in terms of cyber theft, patents, trademarks, etc.
10. By the means of SEZs' (Special Economic Zones) government facilitate various industries like Information Technology hub in NCR (National Capital Region), Bangaluru, etc.
11. Government facilitate inter-industrial growth to the companies.

20.5 IMPACT OF GOVERNMENT CONTROL ON 4PS' OF MARKETING

Government of any country decides how its respective economy grows in term of businesses. The growth of economy largely depends upon the orientation of government i.e. degree of liberalization in economic policies. If we go back 1990s we will understand the importance of degree of liberty in economic policies and their impact on overall economic growth. In the same way we can also understand the impact of government rules, regulation, policies, etc on the marketing environment or marketing of the organization. This is all about the orientation of government towards economic reforms but in countries like India, where political stability is always in question again becomes a matter of great concern for 'Marketing Manager'.

Marketing Strategy Decisions

Product	Price	Place	Promotion
Physical good	Objectives	Objectives	Objective
Service	Flexibility	Channels	Mix
Features	Life cycle pricing	Market exposure	Sales management
Quality level	Geographic terms	Middlemen	Advertising
Accessories	Discounts	Type/location-	Promotion
Installation	Allowances	stores	Publicity
Instructions		Logistics	
Warranty		Service levels	
Product lines			
Packaging			
Branding			

Figure 20.5

The impact of any environment on marketing cannot be studied in isolation and this impact may be multidimensional i.e. any change in one environment may lead this change in one or more environment and it may impact one or more than one Ps' of marketing. It is important to know that impact of government on marketing is uncontrollable from marketing perspective.

20.5.1 PRODUCT DECISIONS

Marketing starts with the product since it is what an organization has to offer its target market. As we've stressed many times in this tutorial, organizations attempt to provide solutions to a target market's problems. These solutions include tangible or intangible (or both) product offerings marketed by an organization.

In addition to satisfying the target market's needs, the product is important because it is how organizations generate revenue. It is the "thing" that for-profit companies sell in order to realize profits and satisfy stakeholders and what non-profit organizations use to generate funds needed to sustain itself. Without a well-developed product strategy that includes input from the target market, a marketing organization will not have long-term success

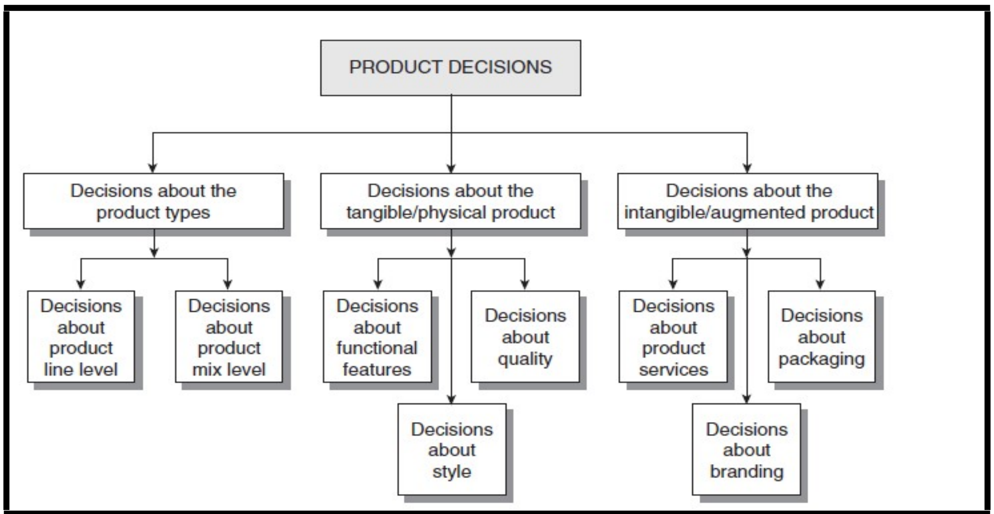

Figure 20.5.1

While taking decisions regarding products, companies are bound with policy framework of government on various areas like quality parameters, packaging guidelines, preservatives, product dimensions, ingredients, etc. Government has put several checks on these grounds. Companies are bound to follow labor laws put in forced by state or federal system of the country. From procurement of raw materials to finished products there is framework laws put in forced by the government.

20.5.2 PRICING DECISIONS

The economy also has a tremendous effect on pricing decisions. In this we noted that factors in the economic environment include interest rates and unemployment levels. When the economy is weak and many people are unemployed, companies often lower their prices. In international markets, currency exchange rates also affect pricing decisions.

Pricing decisions are affected by federal and state regulations. Regulations are designed to protect consumers, promote competition, and encourage ethical and fair behavior by businesses. For example, the Robinson-Patman Act limits a seller's ability to charge different customers different prices for the same products. The intent of the act is to protect small businesses from larger businesses that try to extract special discounts and deals for themselves in order to eliminate their competitors. However, cost differences, market conditions, and competitive pricing by other suppliers can justify price differences in some situations. In other words, the practice isn't illegal under all circumstances. You have probably noticed that restaurants offer senior citizens and children discounted menus. The movies also charge different people different prices based on their ages and charge different amounts based on the time of day, with matinees usually less expensive than evening shows. These price differences are legal.

20.5.3 PLACE DECISION

In India where approximate 65-70% population live in rural areas, it becomes quite difficult to cater these markets. These markets are having low density of people therefore it becomes costly to cater these markets. We can see following problems are associated with distribution in India;

- Infrastructure is one of the most practical problem in India
- The penetration of other services like banking & insurance is very poor
- The availability of information technology is not good
- The availability of services like electricity, telecommunication, etc is poor
- The availability of middleman for rural markets
- Fast mode of transportations are absent
- Main occupation in rural India is farming where incomes are seasonal

But when we talk about semi-urban or urban India the intensity of above problems is very mild and companies can easily reach into these markets.

Indian government too has picked up the cue and they are ready to act where the private sector has lagged. With less than 45% of Indian population having access to basic banking services, a planning commission (NITI Ayog) committee on financial inclusion has proposed rural ATMs at Post Offices. This convergence of a wide distribution outreach of 1.55 lakh post office branches with the government's financial inclusion agenda could bring a significant rural population into the formal banking domain. Game-changing initiatives, like Aadhar-Unique Identification, are expected to accelerate the inclusion mandate, while cornering implementation issues, such as pilferage in public distribution system, and make any prosperity stick at the ground level. Such measures from the government stimulate the rural economy and create favourable incentives for organised players to participate in rural India.

Apart from above the Public Distribution System (PDS) in India is having strong hold over rural markets and Government of India is planning to use this system for further and various categories goods distribution.

20.5.4 PROMOTION DECISION

Products or services will not sell unless people are told about them. It is true that few companies from developing countries are global in operation; so much of the promotion process is limited to either third party advertising.

In developing countries like India, there is not very clear & transparent laws on advertising therefore companies are able to play in a liberal and big arena and it is one of the causes of unhealthy competitive practices in India. For example ***Rin a product from Unilever family is always in intense competition with Tide a product from Procter & Gamble***. Same type of rivalry we can see in between ***Cocacola & Pepsico (two US giants in beverages).***

20.6 SUMMARY

The role of government is to create healthy competition within the market without hurting the benefits of consumers. To create healthy environment government accommodate the marketing efforts of an organization with public policy, which are designed in the interest of consumer. Government bound the marketing mix (Product, Price, Place, and Promotion) of an organization by various means or standardization associated with the product.

20.7 EXERCISE

1. How government acts as a safeguard in public interest?
2. What is “Marketing Decision Process” and elaborate the role of government in this process?
3. Who has given the concept of ‘Marketing Mix’ and explain various components of marketing mix?
4. Identify the compatibility of government in product decisions.
5. Analyze the influence of government in pricing decisions.
6. Elaborate the role of government in distribution of goods.
7. Write a note on Public Distribution Channel.
8. India is having a very vast network of post offices, being a manager how can you utilized it for the betterment of society.
9. Do you think India has immature laws on promotional activities? Explain.