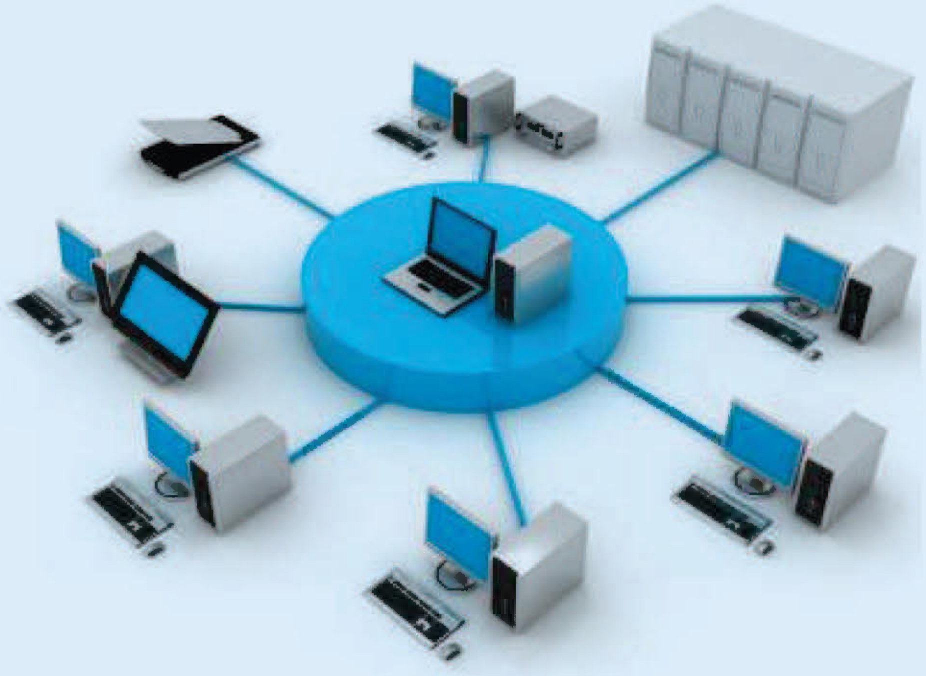

Institute of Open and Distance Education

Faculty of Management

Marketing Management

4BBA4

Marketing Management

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A STATUTORY UNIVERSITY UNDER SECTION 2(F) OF THE UGC ACT

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Marketing Management

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TABLE OF CONTENTS

1 Marketing Management

NOTES

Chapter Includes :

- INTRODUCTION
- CONCEPT OF MARKET
- TYPES OF MARKETS
- CONCEPT OF MARKETING
- CORPORATE ORIENTATION TOWARDS THE MARKETPLACE:
- DIFFERENCE BETWEEN MARKETING AND SELLING:
- THE PROCESS OF MARKETING
- MARKETING FUNCTIONS
- MARKETING MANAGEMENT
- THE MARKETING ENVIRONMENT
- PLANNING
- MEANING AND DEFINITION OF PLANNING
- NATURE / FEATURES OF PLANNING
- OBJECTIVE OF PLANNING
- IMPORTANCE OF PLANNING
- LEVELS OF PLANNING
- PLANNING PROCESS
- SIX P'S OF PLANNING
- TYPES OF PLANS
- TYPES OF PLANNING
- ADVANTAGES OF PLANNING
- LIMITATIONS OF PLANNING
- ENVIRONMENTAL SCANNING
- ROLE OF ENVIRONMENT SCANNING IN ORGANIZATIONS

Learning Objective :

After going through this chapter, you should be able to:

- Discuss the concept of Marketing.
- List different Marketing Functions.
- Understand Marketing Environment.
- Explain Marketing Information System and Marketing Research.
- Define Environmental Scanning.

NOTES

INTRODUCTION

Marketing may be termed as tying of the market with the product or service or offer. Market is a happening place and managing the market in relation to the products or services being offered to obtain a reasonable overwhelming share of the market is marketing management.

Marketing coordinates production, price and availability of products or services at points wherever the consumer, customer or user is willing to pay for it.

Marketing is an economic activity, which involves location of products or services for satisfaction of wants at reasonable cost. Marketing involves design of products or service of their production or establishment, its visibility, availability, easy access and perceived fair price.

Marketing induces sales, distribution, warehousing, and merchandising. Marketing uses communications and advertising to achieve its economic objectives. Marketing the ingredients of marketing is supposed to be marketing management.

Marketing Management is one of the key areas of management. The marketing philosophy of business assumes that an organization can best service, prosper and profit by identifying and satisfying the needs of its customers. Organisations today strongly believe that profit goals will be reached through satisfied customers. The twenty-first-century marketing professional will need to have the analytical capacity to handle increasing amounts of data, possess creative talents to define products and develop strategies to compete in global markets.

CONCEPT OF MARKET

The term 'market' is derived from the Latin word 'mercatus', which mean 'to trade' (i.e. to purchase and sell goods). The term 'market' refers to the place where goods are bought and sold against the price consideration between the buyers and sellers. A market consists of all the potential customers sharing a particular need or want who might be willing and able to engage in exchange to satisfy that need or want.

According to Philip Kotler, "A market consists of all potential customers sharing a particular need or wants that might be willing able to engage in exchange to satisfy that need or want".

Characteristics of a Good Market:

I. A Good Market should be wide enough so that large number of buyers and sellers can enter into the market.

II. There should be facilities for movement of the goods so that the supply of a commodity may reach the market easily, timely and regularly.

III. The title or ownership of goods must pass easily from the seller to the buyer with minimum formalities.

IV. There should be freedom of entering into contracts by the buyers and sellers among themselves for executing transactions of sale.

Types of Markets

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There are many bases of classification of markets. They are:

(a) **Classification on the bases of geographical area;** On the basis of the geographical area, markets can be classified into four types. They are:

1. **Local Market:** When the purchase and sale of goods involve buyers and sellers of a small local area, say, a village or a town, there is said to be a local market. Local market is common in the case of perishable commodities like vegetables, fruits, milk, fish etc., and in the case of bulky and cheap articles, such as stones, sand, bricks, etc.

2. **Regional Market:** When the purchase and sale of goods involve buyers and sellers of a region, say, a few villagers or a few towns, there is said to be a regional market. Such a market is common in foe case of food grains such as rice, wheat, etc.

3. **National Market:** When the purchase and sale of goods involve buyers and sellers of the entire nation, there is said to be a national market. This type of market is common in the case of commodities such as cotton, jute, tea, textiles, paper, cement, iron and steel goods, etc.

4. **International or World Market:** When the purchase and sale of goods involve buyers and sellers of many nations, there is said to be an international or world market. World market is common in the case of commodities such as gold, silver, precious stones, tea, spices, etc.

(b) **Classification on the basis of the position of sellers in the market:**

On the basis of the position of seller in the markets, the following classification is made:

1. **Primary Market:** Primary market is the market where the primary producers of farm products sell their products to the wholesalers or their agents.

2. **Secondary Market:** Secondary market is the market where the wholesalers sell their products to the retails for sale to the consumers.

3. **Terminal Market:** Terminal market is the market where the retailers sell the goods to the final consumers.

(c) **Classification of Markets on Time basis**

On the basis of time, markets may be classified into three types. They are:

1. **Very short period Market:** A very short period market is a market where no attention is paid to the adjustment of the supply of the product according to the demand. This type of market exists for a very short period, say, a day, and at a particular place. It is generally concerned with perishable goods like fruits, vegetables, milk, etc.

2. **Short period Market:** Where some consideration is paid for the supply to meet the demand, but sufficient time is not available for the adjustment of the supply of goods to the demand for it, there is said to be a short period market. This type of market exists for a short period, say, a week.

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3. **Long period Market:** When sufficient time is available for the adjustment of the supply of goods in accordance with the demand for the same, there is said to be a long period market. Such a market is concerned with durable goods, and so, the sellers hold the goods for long period.

(d) Classification on the basis of the volume of business transacted:

On the basis of the volume of business transacted markets may be classified into two types. They are:

1. **Wholesale Market:** Wholesale market is the market where goods are sold in bulk to dealers for resale. In this market, generally, wholesalers sell goods to retailers.

2. **Retails Markets:** Retail market is the market where goods are sold in small quantities to the ultimate consumers. In this market, generally retailers sell goods directly to the final consumers.

Markets on the basis of goods offered

(a) **Consumer Goods Market:** Consumer goods market is the market for consumer goods (i.e. goods needed for use or consumption by final consumers).

(b) **Industrial Goods Market:** Industrial goods market is the market for industrial goods (i.e. goods meant for use by producers in the process of production).

(c) **Commodities Market:** Commodities market is the market where different types of commodities. Such as raw material, semi- finished goods, capital goods and consumer goods are bought and sold.

(d) **Capital Market:** Capital market is the market where capital is bought and sold. This includes:

- **Capital market proper** - where banks and other financial agencies provide long-term capital or finance to the needy borrowers.
- **Money market** - where banks and other financial agencies provide short-term capital or finance to the needy,

(e) **Stock market** - where stocks, shares, bonds debentures and other securities are bought and sold. Foreign exchange market is the market where foreign exchanges, i.e. Currencies of different countries are bought and sold.

(f) **Service Market:** Service market is the market where services such as transport and communication, insurance etc., are marketed or provided.

(g) **Labour Market:** Labour market is the market where labour is marketed.

Markets on Nature and Mode of Business

On the basis of the nature and mode of business transactions, markets may be classified into two categories. They are:

1. **Spot Market or Cash Market:** Spot market is the market where goods are physically transferred from the sellers to the buyers and the buyers make payments to the selleis immediately after the sales are affected.

2. **Futures Market or Forward Market:** Futures market is the market where no physical delivery of goods and payment for the purchases take place, but only future contracts are entered into.

Markets on the basis of regulation

On the basis of regulation of the market, markets may be classified into two types. They are:

1. **Regulated Markets:** Regulated markets are markets that are regulated by statutory measures. Regulated markets for agricultural goods, produce exchanges, stock exchanges etc. are the examples of regulated markets.
2. **Unregulated or Free Markets:** Unregulated markets are markets which are unregulated or not controlled by the statutory measures. They mostly operate freely on the basis of market forces, viz., demand and supply.

Markets on Economic-basis: On economic basis, market may be classified into three types, they are:

1. **Perfect Market:** It refers to a market or market situation where there is perfect competition. Competition is said to be perfect when the sellers and buyers of a particular commodity are so numerous that none of the sellers or buyers have to sell or buy at-a-single uniform price. Price is determined by the market forces of supply and demand.
2. **Imperfect Market:** Imperfect market refers to a market or market situation where there is imperfect competition. Competition is said to be imperfect when any of the essentials of perfect competition is absent. In other words, competition is said to be imperfect when it has the features of both competition and monopoly.
3. **Monopoly Market:** Monopoly market refers to a market or a market situation where a single seller controls the entire supply of a commodity which has no close substitutes.

CONCEPT OF MARKETING

Marketing is the management function. It organises and direct all those activities involved in assessing and converting customer purchasing power into effective demand for a specific product or service and in moving the product or service to the final consumer or user so as to achieve the profit target or other objectives set by a company.

Paul Mazur "Marketing is the delivery of standard of living"

Malcolm MacNair "Marketing is the creation and delivery of a standard of living"

William J Starton "Marketing is total system of interactive of business activities designed to plan, price, promote and distribute want satisfying products and services to present it to any potential customers"

Philip Kotler "Marketing intender human action that directs satisfaction of necessity and demand through the exchange processes."

Arnold K. Weinstein "Marketing an organised system of behaviour that functions for the purpose of evaluating and facilitating the satisfaction of consumer need"

NOTES

Check Your Progress

1. Define Market.
2. What is Marketing Management?

Edward W. Candiff, Still and Govoni "Marketing is the managerial process by which products are marched with markets and through which transfer of ownership are offered"

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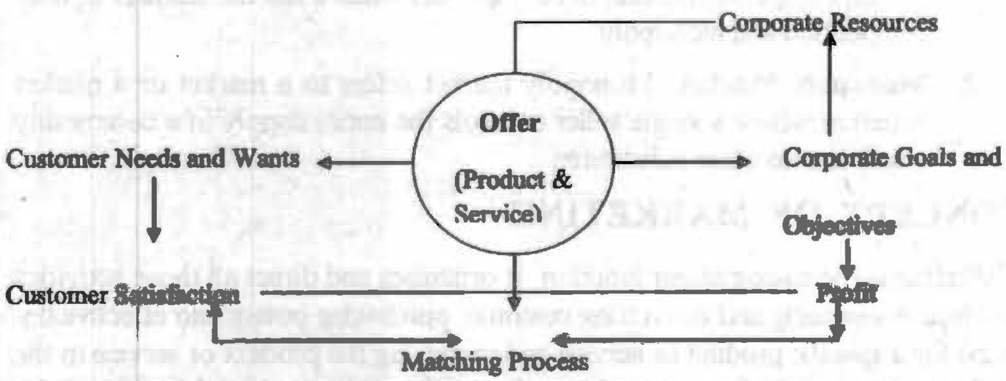
Marketing is a pervasive phenomenon in this present day world. Every day we are exposed to marketing of goods, services, and ideas. Marketing may be defined as a process by which goods and services are exchanged and the values determined in terms of money prices. The American Marketing Association has defined marketing as" The performance of business activities that direct the flow of goods and services through producers to consumers or users".

According to Philip Kotler, "Marketing is a social and managerial process by which individuals and groups obtain what they need and want through creating, offering and exchanging products of values with others."

The term marketing refers to the entire process of satisfying the needs of the consumer. It starts with the discovery of needs and wants of the consumer and it continues, till these needs and wants are satisfied. Marketing is the process of matching the resources of business with identified customer needs. The main objective of all business enterprise is to satisfy the needs and wants of the society. Marketing is a basic function of all business organization. Traditionally, small firm owners did not give as much importance to marketing as to other functions such as accountancy, production and selling. But there has been a change in the thinking of businessman from product orientation to customer orientation. Modern business organization lays emphasis on 'selling satisfaction' and not merely on selling products.



The Concept of Marketing may be divided into two parts:

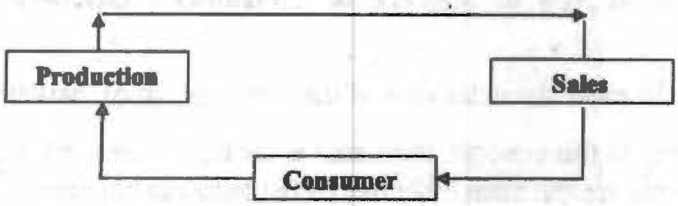
1). Old Concept of marketing or product – oriented concept, and

2). New Concept of marketing or consumer – oriented concept.

Old Concept or Product – Oriented Concept of Marketing

Meaning and Definition of Marketing:

This is the old concept of marketing. According to this concept, marketing is a part of production process. This concept is based on the assumption that the manufacturer must produce the goods and distribute these goods to the consumer. In ancient time, marketing includes three elements:



According to American Marketing Association, "Marketing is the performance of business activities that direct the flow of goods and services from the producer to consumer or user".

Characteristics of the Product – Oriented Concept of Marketing:

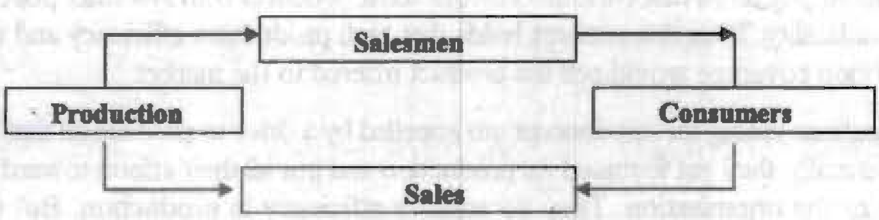
The main characteristics of this concept of marketing are as follows:

1) This concept stresses upon production.
2) This concept assumes that marketing is only the physical distribution of goods and services from producer to consumer.
3) This concept assumes that marketing starts with the production of goods and ends after the goods have been sold.
4) According to this concept, the ultimate objective of marketing is to maximise the profits of the concern by maximising the sales.

New/Modern Concept or Consumer Oriented Concept of Marketing

Meaning and Definition of Marketing:

This concept is based on the assumption that a business enterprise can achieve its objective of maximising the profits only when it considers the needs and wants of its consumers and try to satisfy these needs and wants. Therefore, according to this concept, marketing starts with the discovery of needs and wants of consumer and ends with the satisfaction of these needs and wants. Today, marketing is fully consumer oriented:



According to William J. Stanton, "Marketing is the total system of interacting business activities designed to plan, price, promote, and distribute want-satisfying products and services to the present and potential customers."

According to Prof. Paul Mazur, "Marketing is the delivery of standard of living to the society."

According to American Marketing Association, "Marketing is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods and services to create exchanges that satisfy the individual and organizational goals."

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Characteristics of New or Modern or Consumer - Oriented Concept of Marketing:

Following are the main characteristics of the new concept of marketing:

1. According to this concept, consumer is the key of the market and his needs and wants are the main objective of the business concern.
2. This concept assumes that the object of earning the profit can be achieved only when the needs of the society are satisfied.
3. According to this concept, marketing is the entire process of understanding and satisfying the needs and wants of consumers.
4. According to this concept, marketing is the creation and delivery of standard of living to the society.

Corporate orientation towards the marketplace:

There are five competing concepts of marketing activities:

1) The Production Concept
2) The Product Concept
3) The selling Concept
4) The Marketing Concept
5) The Societal Concept

1. THE PRODUCTION CONCEPT

This approach explains that consumers will prefer products that are widely available and are inexpensive. Managers of this concept concentrate on achieving high production efficiency, lower costs and mass distribution. They assume that consumers are only interested in product availability and low prices. Production concept does work for some products, but not for all kinds of products.

This philosophy holds that customers favour those products with low offer price and easy availability. Thus this concept holds that high production efficiency and wide distribution coverage would sell the product offered to the market.

Organisations voting for this concept are impelled by a drive to produce all that they can. Naturally, they get focussed on production and put all their efforts toward that aspect of the organisation. They do achieve efficiency in production. But their thinking is guided by the assumption that the steep decline in unit costs arising from the maximisation of output would automatically bring them all the customers and all the profits that they need. But, they do not get the best of customer patronage. Customers, after all, are motivated by a variety of considerations in their purchases. As a result, the production concept fails to serve as the right marketing philosophy for the enterprise.

Production concept is applicable in situations where demand exceeds supply.

2. THE PRODUCT CONCEPT

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This concept is that consumers will favor that product, which offers most quality performance and innovative features. The managers of this concept focus their attention towards making products more superior and keep improving it. They assume that consumers admire and prefer well-made products and appraise quality and performance. Automobile industry is one good example. There is always, however, a chance that managers get caught in their own outlook and ignore what customers need. Sometimes, they push certain features too far and overlook the customers' real needs. The firms following this philosophy believe that by making superior products and improving their quality overtime, they will be able to attract customers.

The product concept is somewhat different from the production concept. Whereas the production concept seeks to win markets and profits via high volume of production and low unit costs, the product concept seeks to achieve the same result via product excellence - improved products, new products and ideally designed and engineered products. It also places the emphasis on quality assurance. They spend considerable energy, time and money on research and development and bring in a variety of new products.

Organisations which follow this concept concentrate on achieving product excellence. They do not bother to study the market and the consumer in depth. They get totally engrossed with the product and almost forget the consumer for whom the product is actually made, they fail to find out what the consumers actually need and what they would gladly accept. When organisations fall in love with the product, it leads to marketing Myopia because the focus is on the product rather than on the customer needs.

3. THE SELLING CONCEPT

This philosophy holds that customer, if left alone, would not buy enough of the company's products. The organisation must, therefore undertake an aggressive selling and promotion effort.

As more and more markets became buyers markets and the entrepreneurial problem became one of solving the shortage of customers rather than that of goods, the sales concept became the dominant idea guiding marketing. Most firms practice this concept when they have overcapacity. This concept maintains that a company cannot expect its product to get picked up automatically by the customers. The company has to consciously push its products. Aggressive advertising, high-power personal selling, large scale sales promotion, heavy price discounts and strong publicity and public relations are the tools used by organizations that rely on this concept. As a result, the public often identifies marketing with hard selling and advertising.

But marketing based on hard selling carries high risks. It assumes that customers who are coaxed into buying a product will like it and if they don't, they won't badmouth about it or complain to consumer organizations, and will forget their disappointment soon and buy it again. These assumptions do not have base. One study showed that dissatisfied customers may badmouth the product to 10 or more acquaintances and bad news travels fast.

NOTES

Selling concept is practiced more aggressively with unsought goods, goods that buyers normally do not think of buying such as insurance, encyclopaedias etc. These industries have perfected various sales techniques to locate prospects and hard sell them on their product's benefits. It is also practiced in the non-profit area by fund raisers and political parties. At most times, the selling concept is practical by managers having uniqueness and overcapacity. Their aim is to sell what they can make rather that what the market needs. The customer still may not fully like the product and have what we calls *'bad-mouth'*. Bad mouth is when a customer talks not in favors of the product. Bad mouth travels fast.

4. THE MARKETING CONCEPT

The marketing concept holds that the key to achieving its organisational goals consists of the company being more effective than competitors in creating, delivering and communicating customer value to its chosen target markets.

This concept was born out of the awareness that marketing starts with the determination of consumer wants and ends with the satisfaction of those wants. The concept puts the customer both at the beginning and at the end. It says that any business should be organised around the marketing function, anticipating, stimulating and meeting customer's requirements. The customer has to be the centre of the business universe and not the organisation. A business cannot succeed by supplying products and services that are not properly designed to serve the needs of customers.

The marketing concept rests on four pillars. The starting point is the target customer; the focus is customer needs, the means being integrated marketing and the ends being profits through customer satisfaction.

The concepts rest on four (4) pillars:

- Target market
- Customer needs
- Integrated marketing
- Profitability through customer satisfaction

a) **Target market:** A marketer has to define the market to which it will direct its efforts. The specification and identification of market would enable the marketer to design specific marketing strategies. A target market is defined as a set of actual and potential buyers of a product, service or idea. A buyer, who has interest in the product, income and willingness to buy can broadly be called as potential buyer. However, it might not be possible for the marketer to target all of them. There might be geographical barriers, unsuitability of product to certain climatic conditions or inability of the marketer to reach certain hilly or remote areas. Thus, a small portion of potential market might become part of the target market. Companies do their best in choosing their target markets and then tailor their marketing programme. For Example for woolen clothes, select the colder areas.

b) **Customer needs:** A company can define its target market but fail to correctly understand the customers' needs. Understanding customer needs and wants is not always simple. Some customers have needs of which they are not fully conscious or they cannot articulate their needs or they use words that require some interpretation.

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There are five types of needs. They are stated needs, real needs, unstated needs. delight needs and secret needs. Responding only to the stated need may^hortchange the customer.

A responsive marketer finds a stated need and fills it. He is going to lose the customer in the near future. An anticipative marketer looks ahead into what needs customers may have in the near future. A creative marketer discovers and produces solutions customers did not ask for but to which they enthusiastically respond. Therefore companies must go beyond just asking consumers what they want. This is necessary because a company's sales come from two groups, new customers and repeat customers. One estimate shows that attracting a new customer can cost five times as much as pleasing an existing one and it might cost sixteen times as much to bring the new customer to the same level of profitability as the lost customer. Customer retention is thus more important than customer attraction.

c) **Integrated marketing:** When all the company's department's work together for serving the customers, the result is integrated marketing.

Integrated marketing takes place on two levels; first, the various marketing functions - sales force, advertising, customer service, product management, Marketing Research must work together. Second marketing must be embraced by the other departments, they must also think on the customer. According to David Packard of Hewlet-Packard, "Marketing is far too important to be left only to the marketing department."

To foster team-work among all departments, the company carries out internal marketing as well as external marketing. Internal marketing is the task of hiring, training and motivating able employees who want to serve customers well. External marketing is marketing directed at people outside of the company.

d) **Profitability through customer satisfaction:** The ultimate purpose of the marketing concept is to help organizations in achieving their objectives. In the case of private firms, the major objective is profit in the case of non-profit and public organizations. It is surviving and attracting enough funds to perform useful work. Private firms should not aim for profits as such but to achieve profits as a consequence of creating superior consumer value. A company makes money by satisfying customer needs better than its competitors.

5. THE SOCIETAL MARKETING CONCEPT:

This concept holds that the organisation's task is to determine the needs, wants and interests of target markets and do deliver the desired satisfactions, more effectively and efficiently than competitors in a way that preserves or enhances the consumer's and the society well-being.

The societal marketing concept calls upon marketers to build social and ethical considerations into their marketing practices. They must balance the often conflicting criteria of company profits, consumer want, satisfaction and public interest.

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This concept holds that the key to organizational goals consists of company being more effective than competitors in creating, delivering and communicating consumer value to the chosen target.

Marketing concept becomes clear in the following statements:

- **Find wants and fill them.**
- **You are the boss (Customer).**
- **Have it in your way.**

Whereas selling concept focuses on the needs of the sellers; marketing on the needs of the buyers.

Difference between Need and Want

A need is a basic requirement that an individual wishes to satisfy. People have basic needs for food, shelter, affection, esteem and self-development. Many of these needs are created from human biology and the nature of social relationships. On the other hand, a want is a desire for a specific product or service to satisfy the underlying need. Consumer wants are shaped by social and cultural forces, the media and marketing activities of businesses. Consumer demand is a want for a specific product supported by an ability and willingness to pay for it.

Consider this example:

Consumers need to eat when they are hungry. What they want to eat and in what kind of environment they want to eat. Some people want to eat in McDonalds to satisfy the need of hunger. It is not McDonalds that make people hungry. Therefore, businesses do try to influence demand by designing products and services that are

- Attractive
- Work well
- Are affordable
- Are available

Selling:

The term selling refers to the transfer of the title of the goods and services from the seller to the buyer against money consideration. The primary objective of any business organisation is to maximise the profit and this objective is attained through the activity of selling.

DIFFERENCE BETWEEN MARKETING AND SELLING:

Basis of Difference	Marketing	Selling
1. Activities	Marketing includes the entire process physical distribution of goods and services.	Selling includes only the discovering and satisfying the needs of the consumer.
2. Orientation	Marketing is customer – oriented.	Selling is product–. oriented

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3. Target	The main aim of marketing is to satisfy toeam maximum profit.	The main aim of selling is the consumer needs.
4. Cost determination	Customer determines price and price determines costs.	Cost determines price.
5. Relation with	Marketing views the customer as a king customer	Selling views the customer as a last link in the business.
6. Emphasis	It emphasis on the satisfaction Customer needs.	It emphasis only on exchange not on satisfying the needs of the customers.

Factory ⟶ Product ⟶ Selling and Promoting ⟶ Profits through sales volume

Selling Concept

Target Market ⟶ Customer Needs ⟶ Integrated Marketing ⟶ Profits through Customer Satisfaction

Marketing Concept

Objectives of Marketing:

The various objectives of marketing include the following;

I. To create new customers.

II. To raise the standard of living of the people.

III. To satisfy the needs and wants of consumer.

IV. To determine the marketing-mix.

V. To enhance the profitability of the business.

Importance of Marketing

For the sale of convenient study, the significance of marketing can be discussed under the following heads:-

1. **Importance of Marketing to the Firm:** The business itself has become on organisation of marketing. According to **Peter Drucker** - "Marketing is a particular and excellent function of the business. The dividing line of business from other human organisations is that business does the marketing of the products and services. Other organisations like Church, army, school and state cannot do this function at all. Business only is an organisation that makes itself perfect through marketing of the commodities and services. If marketing is absent in any business or it is incidental, it will not be considered as business and nor it should be conducted as business. Marketing has the following importance in a firm:

   i. It assists the planning and decision of business.

   ii. It establishes balance in the demand and supply thereby renders profits to the firm and maximum satisfaction to the consumers.

   iii. Marketing builds the consumers and stands as a base for increase in demand.

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iv. It functions as communication system between the firm and the customer thereby reduces the distance between the producer and the consumer.

v. It empowers the economy to cope with the recession by ensuring maximum production on minimum cost.

2. **Importance of Marketing to Society:** Marketing is advantageous to society on the J following angles:-

a) **To Provide Employment:** It has assisted in increasing the opportunities of employment by doing the unemployment away with society. It is notable that one third of total employed people are absorbed in marketing activities.

b) **Reduction in Distribution Cost:** An efficient marketing reduces the cost on distribution to a minimal thereby, goods available to consumers at the competitive prices.

c) **Increase in Standard of Living:** The marketing ensures production proportionate to the demand of society and thus, raises up the standard of living thereby, upliftment of social values.

d) **Increase in Purchasing Parity:** It increases the purchasing parity of customers by providing them with the products on minimum price.

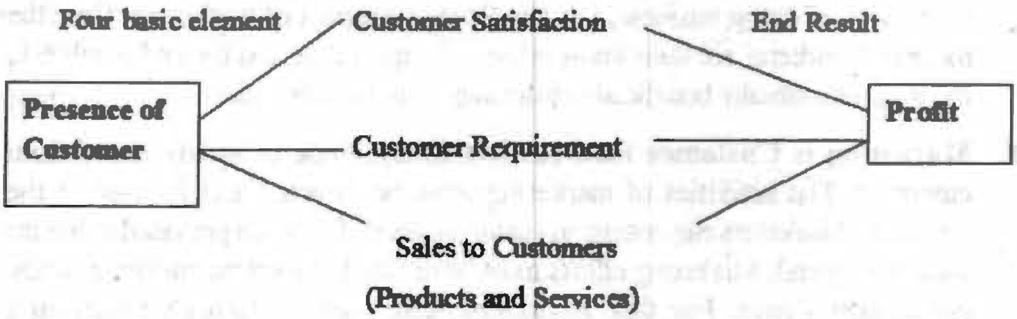
e) **Safeguards Recession:** It explores new markets so as to put a check on recession in the economy. It implements devices for efficient supply of goods from producer to the consumers and thus, fear of recession is ward-off.

3. **Importance of Marketing in the Economic Development:** Marketing has an important portfolio in the development of the country. It is participating efficiently to the development of the economies in under developed countries. The responsibility of marketing is growing day to day keeping pace with the increase in industrialization. As the population of India has already crossed the billion, marketing is assisting increasingly to cater the demand of so vast population by ensuring large scale production of the products. Development of marketing is directly annexed with the development of civilization. It is marketing which alone can render expertise in financial institutions, government undertakings and government offices too.

THE PROCESS OF MARKETING:

The term *marketing concept* implies that achieving the organizational goals, knowing the needs and wants of target market and delivering them desired satisfaction. It proposes that in order to satisfy its organizational objectives, an organization should anticipate the needs and wants of consumers and satisfy these more effectively than competitors. Marketing is the process by which companies create customer's interest in goods or services. It generates the strategy that underlies sales techniques, business communication, and business developments. It is an integrated process through which companies build strong customer relationship and creates value for their customers and for themselves.

The process of marketing has four basic elements which can be shown as under:



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Nature of Marketing:

Marketing is the management process responsible for identifying, anticipating and satisfying consumer requirements profitably.The nature of marketing management may be stated as under:

1. **Marketing is a specialized business function:** In early days, the selling function did not require any specialized skills, but in modern days the business environment has undergone drastic changes in social, economic, political and cultural aspects. The management of a firm therefore has to develop a particular organization by absorbing new ideas, new approaches and new market demands.

2. **Marketing is a social function:** Marketing requires constant interactions with the various level of society. It helps to manipulate the factors of production, distribution, promotion and price and also influence the patterns of consumption and attitude of a consumer.

3. **Marketing is an integrative function:** Marketing integrates the other function of a business like, production, finance, personnel, research and development etc in order to accomplish the objective of a business.

4. **Marketing is a universal function:** Marketing is adopted by both profit-motive and non-profit motive organizations. A profit-seeking organization is dependent upon the marketing. The institutions like, hospitals, schools etc also require marketing for popularizing the services offered by them.

5. **Marketing is a management function:** Like the other functions of management marketing is also one of the main functions of management. The business policies, strategies, and programs concerned with marketing are mostly related to the functions of management. These are needed to be planned, organized, directed, coordinated and controlled in order to achieve the objectives of marketing.

6. **Marketing as a Discipline:** The subject of marketing has emerged out of business which has derived its existence from economics. After emerging from business,\marketing has got its strength from related areas law, psychology, anthropology, sociology, statistics, mathematics because the related problems' impinge heavily on consumer behaviour, legal aspects of marketing, research or/ consumer needs, advertising media, pricing, promotion methods etc.

7. **Marketing creates mutually beneficial relationship:** The customer is the focus of all marketing activities. But during the last decade, the focus has shifted

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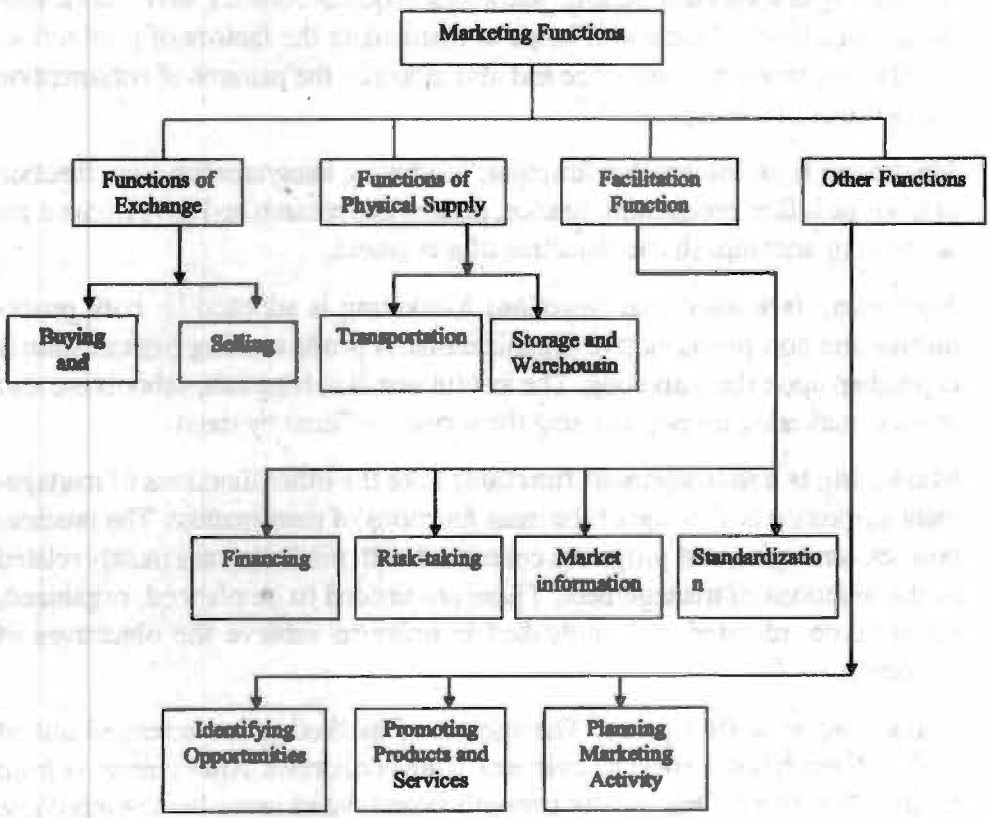
to the way of doing business, i.e. The Strategic aspect of marketing. Here the means of marketer are their knowledge and experience, and the end result is in the form of mutually beneficial relationship with the customer

8. **Marketing is Customer focused:** Marketing tends to satisfy and delight customer. The activities of marketing must be directed and focused at the customer. Marketers can remain in customer mind if they are provided value for what they spend. Marketing efforts must be directed at meeting customer needs, not market shares. For this, marketers must track customer's needs on a continuous basis.

9. **Marketing is a part of total environment:** Total environment may be defined as the combination of all the resources and Institutions which are directly related to the production and distribution of goods, services, ideas, places and persons for the satisfaction of human needs. However it is better to look at remote and immediate environment of any marketing organization.

MARKETING FUNCTIONS:

The functional approach of marketing consists of a number of activities called Marketing Function. A marketing function is, "an act or operation or service by which original product and the final consumer are linked together."



1. **Functions of Exchange:** The process of transferring goods into the hands of the customer is called functions of exchange.

   a) **Buying and Assembling:** Buying is the first step in the process of marketing. Managers have to take number of decisions regarding the type of products to be purchased, their quality, quantity, time of purchase etc. Buying

NOTES

involves transfer of ownership of goods from seller to the buyer. Assembling refers creation and maintenance of the stock of goods. Sometimes, the dealer purchases goods from more than one seller. In that case, the goods have to be collected and assembled at one place.

b) **Selling:** The profit making object of the business concern is achieved only through the sale of its product. It is the process by which goods and services finally flow to the consumers who need them and the firm performs its functions of distributing its products among consumers.

2. **Functions of Physical Supply:** This is the second group of marketing process. These functions are related with the creation of place and time utilities. The physical transfer of goods from the manufacturer to the consumer takes place by means of the following functions:

   a) **Transportation**: The marketing system requires effective and economical transportation system. A good system of transportation provides place utility to the products. Transportation involves the movement of goods from the point of production to the point of consumption. Railways, water-ways, airways etc are the important modes of transporting goods from one place to another.

   b) **Storage and Warehousing:** When production is seasonal but consumption is continuous or production is continuous but consumption is seasonal, storing becomes the most important function of management. Storage involves holding and preserving of goods between the time of their production and their consumption. Warehouses can be maintained at central places from where the distribution of goods can be made according to the needs of the consumer. Storage creates time and place utility of the product.

3. **Facilitation Function:** These functions include financing, risk-taking, market-information, standardization etc.

   a) **Financing:** Without adequate finance the marketing activities cannot be carried out effectively. Commercial Banks, Cooperative credit societies, and Government Agencies arrange short-term, medium-term and long-term finance to facilitate marketing.

   b) **Risk-Taking:** Like other business activities marketing also carries a number of risks like damages of goods, change in the economic values of the goods, mismanagement etc. These risks are more or less inherent in the marketing process. An intelligent businessman reduces the possibility of loss that may arise on account of fire, flood, deterioration etc by taking preventing measures.

   c) **Market Information:** The desired success of marketing depends upon the correct and timely decisions. These decisions are based on the market-information. The information regarding the customer's wants, habits, purchasing-power , strength and weaknesses of the competitors, trend in market etc. are must take into account. Market information includes all facts, estimates and other important information which affect the marketing of products and services.

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4. Other Functions:

a) **Identifying Market Opportunities:** Under this head needs and wants of different types of customers is to be found out. At the same time it is essential to be aware regarding the development of new technologies, new products and other development activities taking place outside the organisation.

b) **Promoting Products and Services:** Promotion of the products and services is the most important task of the management. The advertising and promotional process is aimed to communicate with the customer, encourage the customer to consider the product, encourage the customer to purchase it, and assures that he or she made the correct purchase decision.

c) **Planning the Marketing Activity:** Marketing planning involves deciding on marketing strategies that will help the company to attain its overall objectives.

Role of Marketing in Indian Economy

Marketing is an efficient instrument for the under developed economies as that of India. As much as 80% of population lives in the villages here. Marketing therefore, is important for the sale of machines and agricultural tools one side and for the sale of manual tools and implements, modern agricultural instruments in the field of agriculture on the other. In the words of former president of India late **Shri Fakharuddin AH Ahmed** - "The largest problem of Indian economy is always of existence and it is how to assist the poor man." One side, the small farmer and the entrepreneurs of the Industries on other side, feel the necessity of efficient marketing for their produce. Similarly, the export sector hankers for the efficient marketing devices so, as to ensure more export of products in the international market and earning of hard currency for India. It is marketing which has now brought a trend of producing value added goods through processing instead of the primary products as it ensures more profit to the investor's one hand and increases the employment opportunities to a large extent on the other.

A planned economy has been adopted by India today and now proceeding to the path of building a progressive nation for her citizen. What is directly needed tor accelerating fast the economic development in India, is of the method for the best use of resources available here. When this is the position, importance of efficient marketing system increases manifold.

India has done a good performance in every field during the recent past. For example, the progress in the fields of iron and steel, ships, aircraft, heavy machines, electric gadgets, agricultural tools, tractors, petrol, sugar, cement, gas, chemical, fuel, paper etc. is remarkable. These all are examples of seller market. India has also acquired tremendous progress in the buyer market which includes transistor, radio, sewing machine, pressure cooker, cycle, cosmetics, soap, detergents, backery, plastic goods, cigarette etc. Thus, the buyer and seller both markets are available in India. It has been observed during recent years in the past that a number of products have been shifted from the seller market id the buyer market.

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Seller market is meant for the market where lesser quantity than the demand exists and the buyers have to wait for a certain time. Buyer's market is meant for the market in which supply is abundant but buyers in tips viz, supply dominates the demand. One question can be asked regarding seller's market that when supply remains lesser, there may be no need for the marketing. Its solution is that the nature of market is ever-changing and the item, which we see at seller's market, may become buyer's market tomorrow. Hence, marketing is equally necessary for both markets.

Inspite of progressive steps, India has taken in each and every field, she is lingering behind when we discuss on marketing techniques, undeveloped market, and sale promotion, and consumer satisfaction, decentralization of market and diversification of product. Indian sellers should concentrate in these conditions prevailing and devise measures viable for the promotion of marketing techniques.

MARKETING MANAGEMENT:

Marketing Management is concerned with the direction of activities towards the attainment of marketing objectives i.e. satisfaction of customer's needs, increase the organization's profits. Marketing Management is the art and science of choosing target markets. Marketing Management deals with all departments of the company because it is the combination of marketing techniques and resources which the company has to manage. The most important function of marketing management is to provide the ways through which marketing research and analysis can be carried out for a product or service. It is also very important in determining the appropriate marketing strategy for a company.

According to the American Marketing Association, "Marketing Management 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 organizational objectives."

Importance of Marketing in Indian Economy:

India is a developing country. The functions of marketing are changes day by day. Now a day, it is recognized as a profession based on a systematic part of knowledge. Now marketing means the creation of demands and satisfy these demands. This all has resulted in many important achievements in India such as,

i). Increase in employment opportunities,

ii). Increase in the sale of goods,

iii). Increase in profits,

iv). Increase in the national income,

v). Increase in per capita income,

vi). Development of new media of advertisement and sales promotion,

vii).Improvement in the standard of living.

Responsibilities of Marketing Management:

Marketing activity begins with generating the idea of creating or making a product and ends with the successful launching of product in market. In this process there

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are various responsibilities are involved like:

1. Selection of product
2. Price of product,
3. Select geography for test marketing,
4. Promotional activities,
5. Packing strategies,
6. Selection of target market.

All these activities are performed by the marketing manager with the help surveys.

THE MARKETING ENVIRONMENT

The marketing environment surrounds and impacts upon the organization. There are three key perspectives on the marketing environment, namely the 'macro-environment,' the 'micro-environment' and the 'internal environment'.

The micro-environment

This environment influences the organization directly. It includes suppliers that deal directly or indirectly, consumers and customers, and other local stakeholders. Micro tends to suggest small, but this can be misleading. In this context, micro describes the relationship between firms and the driving forces that control this relationship. It is a more local relationship, and the firm may exercise a degree of influence.

The macro-environment

This includes all factors that can influence and organization, but that are out of their direct control. A company does not generally influence any laws (although it is accepted that they could lobby or be part of a trade organization). It is continuously changing, and the company needs to be flexible to adapt. There may be aggressive competition and rivalry in a market. Globalization means that there is always the threat of substitute products and new entrants. The wider environment is also ever changing, and the marketer needs to compensate for changes in culture, politics, economics and technology.

The internal environment

All factors that are internal to the organization are known as the 'internal environment'. They are generally audited by applying the 'Five Ms' which are Men, Money, Machinery, Materials and Markets. The internal environment is as important for managing change as the external. As marketers we call the process of managing internal change 'internal marketing.'

Essentially we use marketing approaches to aid communication and change management.

The Company's Microenvironment:

The forces close to the company that affect its ability to serve its customers - the company, market channel firms, customer markets, competitors and publics, which combine to make up the firm's value delivery system.

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1) **The Company:** The Company In designing marketing plans, marketing management must take other company groups, such as top management, finance, research and development (R&D), purchasing, manufacturing and accounting, into consideration.

2) **Suppliers:** Suppliers Firms and individuals that provide the resources needed by the company and its competitors to produce goods and services.

3) **Marketing Intermediaries:** Marketing Intermediaries Firms that help the company to promote, sell and distribute its goods to final buyer; they include physical distribution firms, marketing-service agencies and financial intermediaries.

4) **Resellers:** the individuals and organizations that buy goods and services to resell at a profit. Physical distribution firms: warehouse, transportation and other firms that help a company to stock and move goods from their point of origin to their destinations. Marketing-service agencies: marketing research firms, advertising agencies, marketing consulting firms and other service providers that help a company to target and promote its products to the right markets.

5) **Financial intermediaries:** banks, credit companies and other businesses that help finance transactions or insure against the risks associated with the buying and selling of goods.

6) **Customers:** The Company must study its customer markets closely and keep up to date with changing customer requirements. The company must communicate with its customers, and must listen to them closely.

7) **Competitors:** - The marketing concept states that, to be successful, a company must provide greater customer value and satisfaction than its competitors. Thus, marketers must do more than simply adapt to the needs of target consumers. They must also gain strategic advantage by positioning their offerings strongly against competitors' Offerings in the minds of consumers. They must strive to anticipate competitor activity and strategy.

8) **Publics:** Any group that has an actual or potential interest in or impact on an organization's ability to achieve its objectives. Publics include its workers, managers, volunteers and the board of directors.

The Company's Macro-environment

Macro-environment is the larger societal forces that affect the whole microenvironment - demographic, economic, natural, technological, political and cultural forces.

1) **Political and Legal Environment:** - Political and Legal Environment Laws, government agencies and pressure groups that influence and limit various organizations and individuals in a given society.

2) **Demographic Environment:** - Demographic Environment studies human population in terms of size, density, location, age, sex, race, occupation and other statistics.

3) **Economic and Competitive Environment :** Economic and Competitive Environment Factors, including the effects of general economic conditions, buying power, willingness to spend, spending patterns, types of competitive structure,

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competitive tools and competitive behaviour, that influence both marketers' and consumers' decisions and activities.

4) **Cultural Environment:** - Cultural Environment persistence of cultural values: core and secondary beliefs shifts in secondary cultural values. It includes people's view of themselves, people's views of others, people's views of organizations, people's views of society, people's views of nature and people's views of the universe.

5) **Social Environment:** - Social Environment involves living standards and quality of life Green movement. The trend arising from society's concern about pollution, water disposal, manufacturing processes and the greenhouse effect. Consumer movement is a diverse collection of independent individuals, groups and organizations seeking to protect the rights of consumers.

6) **Technological Environment:** - Technological Environment Technology is the knowledge of how to accomplish tasks and goals. It forces that create new technologies, creating new product and market opportunities.

7) **Natural Environment:**- Natural Environment is the natural resources that are needed as inputs by marketers or that are affected by marketing activities, issues Shortage of raw materials Increased cost of energy Increased pollution Government intervention in natural resource management.

According to American Marketing Association "Any paid form of non-personal presentation and promotion of ideas, goods or services by an identified sponsor"

PLANNING

Introduction:

Planning is a preparatory step in any task of the organization. It is a systematic activity which determines when, how and who is going to perform a specific job. Planning is a detailed programme regarding future courses of action. It is rightly said **"Well plan is half done"**. Therefore planning takes into consideration in available & prospective human and physical resources of the organization so as to get effective co-ordination, contribution & perfect adjustment. It is the basic management function which includes formulation of one or more detailed plans to achieve optimum balance of needs or demands with the available resources.

Planning involves selecting enterprise's objectives and departments' goals, programmes, determining ways of reaching them. Planning is deciding in advance what is to be done in future, how it is to be done when and by whom it is to be done. Planning involves selecting of a course of action from all available alternatives for accomplishing the desired goals of the enterprise.

Planning is an intellectual process; it facilitates the best utilization of all available limited resources in a systematic manner, so that the desired outcome may be attained. Planning attempts to achieve a consistent & co-ordinated structure of operations focused on desired results. Planning sketches an efficient sequence of action that transforms an organization from a given starting state to the goal state. In short, planning is the management of the organization's future in an uncertain environment.

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Differentiate between goals and plans.

Goals are desired outcomes for individuals, groups, or entire organizations. Plans are documents that outline how goals are going to be met and that typically describe resource allocations, schedules, and other necessary actions to accomplish the goals.

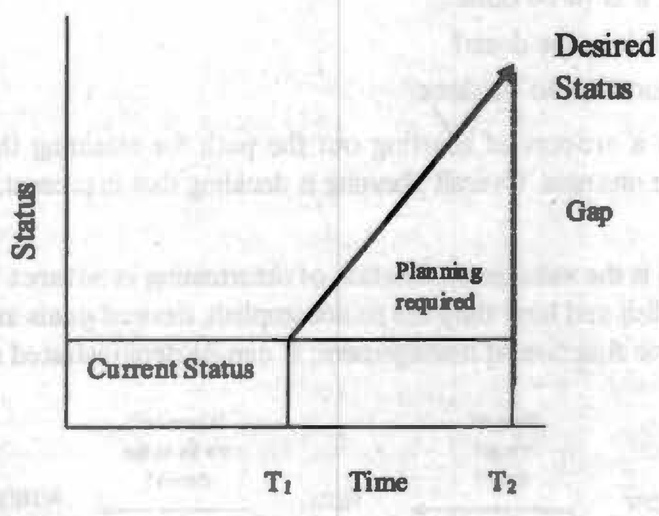
MEANING AND DEFINITION OF PLANNING:

Planning may be defined as the process of setting goals, developing strategies, and outlining tasks and schedules to accomplish the goals. Planning involves defining the organization's goals, establishing an overall strategy for achieving these goals, and developing a comprehensive set of plans to integrate and coordinate organizational work.

Planning is forecasting which decides the things to be done in future. It is a function of anticipating the future and determining the course of action to achieve the pre-determined objectives of an organization. Planning is a process which selects the best alternative from the various alternatives for the solution of a problem to make future certain and definite.

According to Koontz and O' Donnel, "Planning is deciding in advance what to do, how to do it, when to do it, and who is to do it. Planning bridge the gap from where we are to where we want to go. It makes it possible for things to occur which would not otherwise happen".

It can be defined in the fig below:



According of Henry Fayol , "Planning is deciding the best alternatives among others to perform different managerial operations in order to achieve the pre-determined goals."

According to George R. Terry, "Planning is selecting and relating of facts and making and using of assumptions regarding the future in the visualization and formulation of proposed activities believed necessary to achieve desired results."

According to James Lundy, "Planning means the determination of what is to be done, how and where it is to be done, who is to do it and how results are to be evaluated."

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According to Urwick, "Planning is a mental predisposition to do things in orderly way, to think before acting and to act in the light of facts rather than guesses". Planning is deciding best alternative among others to perform different managerial functions in order to achieve predetermined goals.

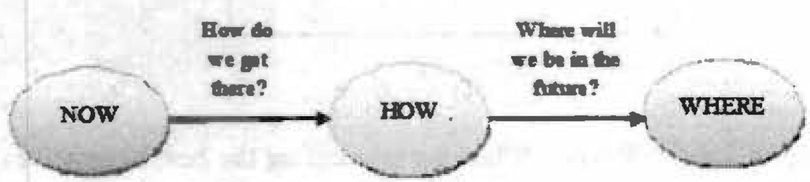
Planning is a process, which involves anticipation of future course of events and deciding the best course of action. It is a process of thinking before doing. It is deliberate attempt to influence, exploit, bring about, and controls the nature, direction, extent, speed and effects of change. It may even attempt deliberately to create change, remembering always that change (like decision) in any one sector will in the same way affect other sectors". Planning is a deliberate and conscious effort done to formulate the design and orderly sequence actions through which it is expected to reach the objectives. Planning is a systematic attempt to decide a particular course of action for the future; it leads to determination of objectives of the group activity and the steps necessary to achieve them. Thus, it can be concluded that "planning is the selecting and relating of facts and the making and using of assumptions regarding the future in the visualization and formulation of proposed activities believed necessary to achieve desired results.

In other words we can say that planning is a process of thinking before doing. It involves determinations of goals and the activities required to be performed to achieve the goals. It consists:

1. What is to be done?
2. How it is to be done?
3. Where it is to be done?
4. When it is to be done?
5. By whom it is to be done?

So planning is a process of shorting out the path for attaining the determined objective of the business. Overall planning is deciding that in present, what is to do in future.

Thus, planning is the managerial function of determining in advance what workers are to accomplish and how they are to accomplish, desired goals and projects. It is the most basic function of management. It can be demonstrated as follows -



NATURE / FEATURES OF PLANNING:

Planning is the beginning of the process of management. Planning sets all other functions into action. Planning is thinking and deciding future course of action in advance. The nature of planning can be understood with the following points–

1) **Planning is a primary function:** Planning is the base for all other function of management. It means planning is the basic function of all other managerial functions. It provides a base for other managerial functions like orga-

nizing, staffing, directing and controlling. We can say that structure of all other functions depends on planning. All other functions are performed within the framework of planning. A management process is a circular process beginning with planning ending to planning for improvement & adjustment.

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2) **Planning is a Mental Exercise:** Planning is an intellectual activity which requires a manager to think before acting. Planning requires application of mind involving intelligent imagination, sound judgment etc.

3) **Planning is pervasive:** Planning is required at all levels of management as well as in all departments of the organization. But the scope of planning differs at all levels and all departments of the organization. Planning is required in all sectors, i.e. business, industry, profession etc. whether it is of large scale or small scale and in all the department of organization like purchase, production, marketing, finance department etc. however nature of planning differs from one department to another.

4) **Planning is Flexible:** There must be flexibility in planning, because plans are always based on future, which is uncertain. So flexibility will give a chance to make changes as per future requirements. If future assumptions upon which planning are based prove wrong, then the original plan must be revised in the light of changed conditions.

5) **Planning is Continuous:** Planning is the never ending process of management. Plans are prepared for a specific period of time i.e. monthly, quarterly or yearly. At the end of that period, there is the requirement of new plans. These plans are drawn on the basis of past performance & future conditions. Thus, planning is a continuous process.

6) **Planning is futuristic:** Planning is regarded as a forward looking function based on forecasting. Planning involves looking ahead and preparing for the future. Planning is never done for past but is done for the future to achieve certain objective. Therefore, it is said that planning is thinking before doing. Planning is based on estimated future trends of social, economic and technological changes because it has to tackle the future requirements.

7) **Planning is Goal - oriented:** In setting of objectives and the process of achieving that objective, the planner goes through an intellectual process. The main purpose of plan is always to determine the goal to be achieved and the activities to be performed to achieve these goals. So planning relates to creative thinking for the solution of various problems.

8) **Involving choice (alternative):** Planning can be when there are two or more alternatives and the planner can make a choice for the best, in other words, in the absence of choice there will be no planning because then there is a single way of doing something i.e. to be adopted.

9) **Efficiency of operations:** Planning is made with the objective of raising efficiency of operations but it is not necessary that efficiency will rise, if may or may not. So the management should make continuous efforts to minimize the cost of wastage and improving the efficiency by use of latest change in

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technology.

10) **Planning is closely linked to objectives:** Each plan specifies the objectives to be attained in the future and the steps necessary to reach them. As Billy E. Goetz said, "plans forecast which actions will tend towards the ultimate objective...Managerial planning seeks to achieve a consistent, co-ordinated structure of operations focused on desired ends."

OBJECTIVE OF PLANNING:

Planning involves selecting missions and objectives and actions to achieve them, it requires decision making, and that is choosing future courses of action from among many alternatives. Planning in any organization serves to realize the following objectives -

1) Planning can bring co-ordination and co-operation among various activities of the organization.
2) Proper planning leads to the best utilization of resources and reduces the wastage. This helps in achieving the economy of the operations.
3) Planning may convert the uncertainty into certainty.
4) Planning provides a provision to meet contingencies and tackles them successfully.
5) Through effective planning, objectives of the organization can be attained in time.

IMPORTANCE OF PLANNING

Accounting to Koontz, O'Donnell and Weihrich, "Planning is an intellectually demanding process; it requires the conscious determination of courses of action and the basing of decisions on purpose, knowledge and considered estimates. Planning is one of the most important functions of management because of the following factors:

1. **Makes the objectives clear and specific:** Planning clearly specifies the objectives and the policies or activities to be performed to achieve these objectives in other words what is to be done and how it is to be done are clarified in planning.
2. **Offsetting the uncertainty and change:** Planning is necessary to look ahead towards future and to take decisions regard facing the expected changes/requirement of the future. E.g. before coming of summer session producers started production for the products to be used in summer.
3. **Plans to facilitate decision-making:** To achieve the objective predetermined under planning, business has to take various decisions by considering the available resources. If job may be completed by using various alternatives (e.g. manually or by machines) and the best alternative is decided by the management, which is more helpful in achieving the objective.

NOTES

4. **Provides basis of control:** Under controlling actual performance is compared with the planed performance (target/objective). So planning is the base of controlling process.

5. **Leads to economy and efficiency:** Planning clarifies the work and its method of doing. Resultantly it reduces confusion and wastage of resources in the form of thinking at the time of doing. So efficiency of the worker will be raised which will further result economy in production.

6. **Facilitates integration:** Under planning proper directions as per plane are provided to the subordinates. Resultantly they all make effort towards the achievement of preplanned objective. Such co-ordination of sub-ordinates and their departments will certainly help the organization in achieving its objective.

7. **Encourages innovation and creativity:** Planning is the process of thinking in advance and so plans are made to achieve a target at future date by using latest methods and technology to perform the industrial/business activities and so plans lead to innovation.

8. **Facilitates control:** Planning facilitates the managers in performing their function of control. Planning and control are inseparable in the sense that unplanned action cannot be controlled because control involves keeping activities on the predetermined course by rectifying deviations from plans. Planning facilitates control by furnishing standards of control. It lays down objectives and standards of performance, which are essential for the performance of control function.

9. **Improves motivation:** The effective planning system ensures participation of all managers, which improves their motivation. It improves the motivation of workers also because they know clearly what is expected of them. Moreover, planning also serves as a good training device for future managers.

10. **Improves competitive strength:** Effective planning gives a competitive edge to the enterprise over other enterprises that do not have planning or have ineffective planning. This is because planning may involve expansion of capacity, changes in work methods, changes in quality, anticipation of tastes and fashion of people and technological changes, etc.

11. **Achieves better coordination:** Planning secures unity of direction towards the organizational objectives. All the activities are directed towards the common goals. There is an integrated effort throughout the enterprise. It will also help in avoiding duplication of efforts. Thus, there will be better coordination in the organization.

LEVELS OF PLANNING

In management theory, it is usual to consider that there are three basic levels of planning, though in practice there may be more than three levels of management and to an extent, there will be some overlapping of planning operations. The three levels of planning are discussed below:

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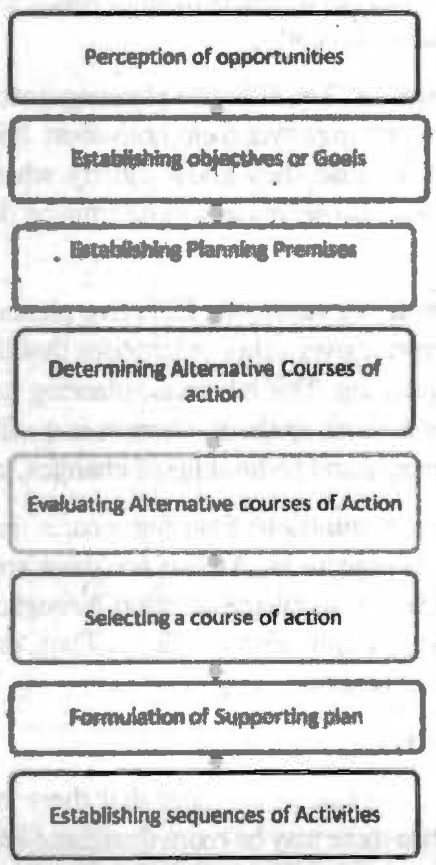
1. **Top level planning:** Also known as overall or strategic planning, top level planning is done by the top management, i.e., board of directors or governing body. It encompasses the long-range objectives and policies or organization and is concerned with corporate results rather than sectional objectives. Top level planning is entirely long-range and inextricably linked with long-term objectives. It might be called the 'what' of planning.
2. **Second level planning:** Also known as tactical planning, it is done by middle level managers or departmental heads. It is concerned with 'how' of planning. It deals with development of resources to the best advantage. It is concerned mainly, not exclusively, with long-range planning, but its nature is such that the time spans are usually shorter than those of strategic planning. This is because its attentions are usually devoted to the step-by-step attainment of the organization's main objective. It is, in fact, oriented to functions and departments rather than to the organization as a whole.
3. **Third level planning:** Also known as operational or activity planning, it is the concern of departmental managers and supervisors. It is confined to putting into effect the tactical or departmental plans. It is usually for a short-term and may be revised quite often to be in tune with the tactical planning.

PLANNING PROCESS:

Planning is the process used by managers to identify and select goals and courses of action to achieve their goals.



Planning Process

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1) **Perception of Opportunities:**

Perception of opportunities is not strictly a planning process, but awareness of opportunities is very important for planning process because it leads to formulation of plans by providing clue whether opportunities exist for taking up particular plans. Managers should know where they stand in the light of strengths and weaknesses, understand what problems they have to solve and what they expect to gain. There are a number of techniques that will help you to do SWOT Analysis & Risk Analysis.

2) **Establishing Objectives or Goals:**

The second step in planning process is to establish objectives of an organization. In other words, we can say that we should know, where do we want to be in future & what is to be accomplished by the various types of plans.

3) **Establishing Planning Premises:**

The third step in planning process is to establish planning premises that is the conditions under which planning activities will be undertaken. The planning premises are both external and internal. External premises include technological changes, population growth, political stability, sociological factor etc and internal factor may include sales forecasts, politics and programmes of the organization etc.

4) **Determining Alternative Courses of Action:**

The next step in planning process is to search alternative courses of action. The manager should find out the most fruitful possibilities among various possibilities. The concept of various possibilities or alternatives states that the particular objective can be achieved through various actions.

5) **Evaluating the Alternative Courses of Action:**

After determining the alternative courses of action, the next step is evaluating them and examining their weak and strong points. At this stage, an attempt is made to evaluate how each alternative would contribute to the organization objectives and select the best course of action with the help of operation research and mathematical techniques, so, that the pre-determined objectives may be achieved.

6) **Selecting the best course of Action:**

After the evaluation of various alternative courses of action, the best one is selected. Sometimes after evaluation, we get more than one course of action which may be equally good, in that case the planner may choose more than one alternatives. Therefore, planner must be ready with alternatives, normally known as contingency plan, which can be formulated in changed situation.

7) **Formulation of Supporting Plan:**

After formulating the basic plan, various plans are derived so as to support the main plan, these plans are known as derivative plans. In an organization there can be various derivative plans like buying raw material, buying new equipments, recruitment and developing personnel, etc. These plans are formulated for supporting the basic plan.

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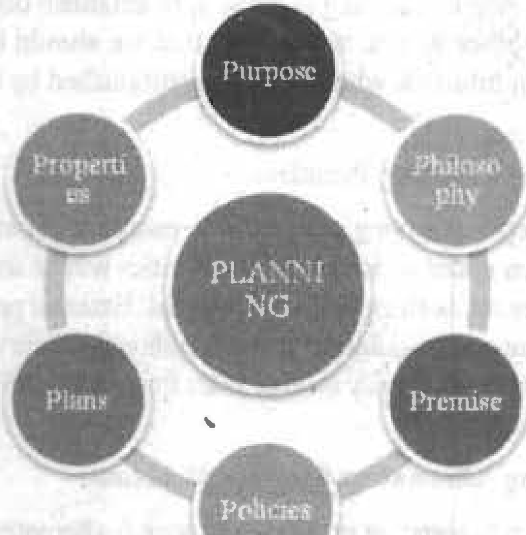
8) **Establishing Sequences of Activities:**

After formulating the basic and supporting plans, the sequence of activities is determined so that plans are put into action. Budgets can be prepared for various periods, it can be decided who will do what and at what time and so on, this type of sequencing is helpful in implementing the plans.

SIX P's of PLANNING:



This can be defined as follows:

1) **Purpose:** An effective planning system requires a clear understanding of the organization's purpose. Why this organization exists? Is it to increase profit, or to introduce more products or to increase market shares etc.? The purpose of the organization's existence must be clear.

2) **Philosophy:** Philosophy means the fundamental beliefs of the organization as to how the organization's purpose is to be achieved.

3) **Premise:** Premise involves the knowledge of strength and weaknesses of the organizations so that the organization can deal with the changing environment, effectively.

4) **Policies:** Policies are general guidelines that help in managerial thinking and action. Policies are the basis for planning. In a typical organization, there are production policies, financial policies, accounting policies and so on.

5) **Plans:** Plans represent specific objectives and it guides us step by step as to how to reach the objectives of the organization.

6) **Priorities:** Goal Priorities would determine what is relatively more important. The priorities will determine an appropriate allocation of resources. The priorities of goals would be established on the basis of philosophy and premises of the organization as well as social, political and economic measures.

TYPES OF PLANS:

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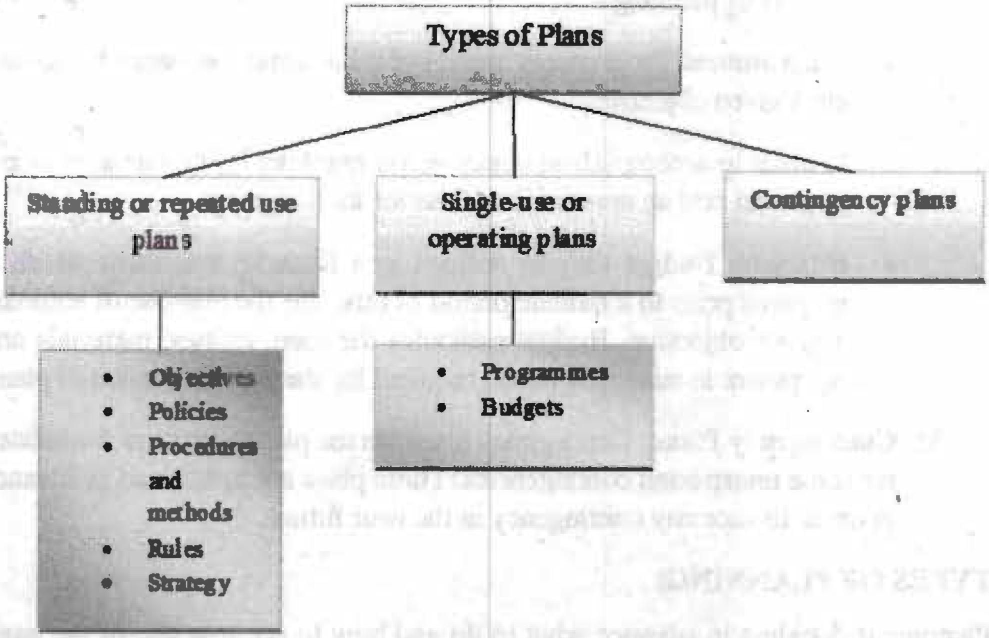

1) **Standing or Repeated use Plans:** These plans are designed to deal with recurring problems. These plans are prepared by managers at different levels. When a particular problem arises, a standing plan provides a guidance to solve this problem.

The major types of standing plans are as follows –

- **Objectives:** Objectives or goals are the ends toward which activity is aimed. In an organization all the department may also have its own objective to the attainment of organization's objectives.

- **Policies:** Policies are the general guidelines for taking action. According to George R. terry - "Policy is a verbal, written or implied overall guide, setting up boundaries that supply the general limits and direction in which managerial actions will take place". In short, policies deal with "how to do" the work.

- **Procedures and Methods:** A procedure is a standing plan that outlines a series of related actions that must be taken to accomplish a particular task. Methods are the manners of work performance, and follow the set procedure.

- **Rules:** A rule indicates what an organization should do and what it should not do. The rules prescribe a definite and rigid course of action without any scope for deviation.

- **Strategy:** Strategy may be defined as the general programs of action and deployment of resources to attain comprehensive objectives. The success of the plan requires that it should be strategy oriented.

2) **Single - Use plans:** Single use plans are used only once when the period is over, a new plan is devised for the next period. This plan focuses on unique

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or rare situations within the organization. Single use plans include the following aspects of planning -

- **Programmes:** Programmes include all the activities necessary for achieving a given objective.

  In order to accomplish an objective, programmes lay down the principal steps and sets an approximate time for its fulfillment.

- **Budgets:** Budget may be defined as a financial statement which is prepared prior to a definite period of time, for the purpose of attaining a given objective. Budget estimates the men, money, materials and equipment in numerical terms, required for the implementation of plans.

3) **Contingency Plans:** Contingency plans are the plans which are formulated for some unexpected contingencies. These plans are mentioned in advance in order to face any contingency in the near future.

TYPES OF PLANNING:

Planning is deciding in advance what to do and how to do. It is one of the basic managerial functions. Before doing something the manager must formulate an idea of how to work on a particular task. Thus planning is closely connected with creativity and innovation. There are many ways in which an organization can undertake planning process, some are as follows:

1. **Corporate Planning:** The corporate planning activities are carried out at the top level management. The top level management is responsible for the formulation of such plans and it is prepared according to the inputs received from the environment or the lower level management. These plans are usually long term in nature.

2. **Functional Planning:** Functional planning is the planning that covers some functional areas like production, finance, purchasing, and marketing. The following steps are necessary for an effective functional planning.

   - The functions should be clearly defined.
   - The activation without a function should be homogenous.
   - The scope and limit of each function should be determined.
   - The inter relation between different function and the functional goals with the organization goals should be well defined.

3. **Strategic planning:** Strategic planning deals with the basic objectives, policies and the strategies of the organization. The strategic planning may be carried out in a series of steps that includes:

   - Specifying Mission & Objective,
   - Elaborate environmental scanning,
   - Strategy formulation
   - Strategy implementation
   - Evaluation & Control

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4. **Operational Planning:** Operational planning is also known as short-term planning. Operational planning is the process of ensuring the most effective use of resources, ensuring to develop a control mechanism, and to ensure effective implementation of the action so that organizational objectives are achieved. Operational planning is done by the lower level management and it defines the detailed manner and programme as to how current operations are to be carried out.

5. **Long-term & Short term Planning:** Long-term planning sets long-term goals of the organization and then formulate specific plans/strategies for attaining these goals. Long-term planning is of strategic nature and involves more than one-year period.

   Short-term planning on the other hand is mainly concerned with the determination of short term activities to accomplish long-term objectives.

6. **Formal & Informal Planning:** Formal planning exists in the formal hierarchy of the organization. This type of planning is done at a large scale and is based on the pre-defined policies and the rules of the organization.

   Informal planning is usually carried out in very small organization where the formal organization structure may or may not exist.

ADVANTAGES OF PLANNING:

Planning determines where the organization is now and where it will be in the future. It provides a framework within which a business operates. Planning is that function which never ends and is observed in all aspects of the organization. The basic purpose of planning is to reduce risk and to initiate a co-ordinated effort for the success of the organization. Some of the advantages of planning are as follows –

1) **Planning helps in Co-ordination:** All managers are involved in setting future goals. Planning helps to resolve the differences among different departments and all efforts are aimed at achieving the common goal. The activities are co-ordinated harmoniously towards the predetermined goals.

2) **Helps in Achieving Objectives:** Planning sets the goals or objectives of an organization; it gives effective direction to the employees &, clarity in their role. Therefore, planning helps the organization to accomplish the pre-determined objectives.

3) **Effective Control:** In planning the manager of the organization sets goals and develops plans to achieve these goals. These goals and plans then become standards against which performance can be measured. The function of control is to ensure that the activities conform to the plans.

4) **Economy in operation:** With the help of proper planning unnecessary production, ineffective utilization of resources may be avoided which leads to cost reduction. This results in the economy of resources.

5) **Better Utilization of Resources:** Planning decides what to produce how to produce and how much to produce. Thus planning results in better and efficient utilization of resources.

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6) **Promote Growth and Improvement:** Planning sets standards to the control process. So, useless and unnecessary activities are avoided, it saves time and that time is used in developing new ideas. It leads to the growth and improvement of the organization.

7) **Planning secures unity of purpose & direction:** In planning, separate and distinct activities are coordinated toward one common goal, and at same time, duplication and cross purpose working are avoided throughout the organization.

LIMITATIONS OF PLANNING:

Planning is subject to certain limitation and a proper understanding of them will go a long way in improving efficiency of planning. There are several limitations of planning. Some of them are inherit in the process of planning like rigidity and other arise due to shortcoming of the techniques of planning and in the planners themselves.

Planning is an important function of management. However, the planning may fail if the following limitations.

- **Lack of accuracy:** Planning relates to future and future is always uncertain and so prediction about future is so much difficult. Moreover planning are based on data/information relating to past and as such planning based on any wrong information may not be useful to the organization.

- **Costs:** Formulation of plans involves too much cost which are in the form of time spend, money spent etc. but sometimes there is little benefit from in plan and then it becomes a burden for the institution. If the plan is not useful than the amount or time spent on its formulation is a waste.

- **Advance effect on decisions:** Some plans are rigid and a manager faces difficulty while making any changes where as there may be continuous change in environment where as the quick decision is required as per the changed environment.

- **Delay in actions:** Planning requires some time for thinking, analyzing the situation and designing the final plan and so in case emergency decision is required it will take time and business will lose its opportunity. Moreover delay in decision will further delay the action.

- **Psychological barrier:** People in organization have to work strictly according to plan where as they may be able to give better performance in a way decided by themselves. Secondly they do not think beside the plan and performs their activities like a machine without using their psychology.

- **Limited flexibility:** There may be some changes in planning only up to some extent because measure changes in plan will further attract the changes in supporting plans also and as such the whole system is disturbed moreover changes in plans time and again will prove a wastage of time and money spent on previous plan (pre-changed plan).

- **Human elements:** Planning are the results of thinking of human being. Information on the basis of which plan is formulated may not be free from bias or there may be some other errors which will further Reebok (problem) the better plan.
- **Improper plan:** Sometimes lower target will be easily achieved and we will feel false sense of security. On the other hand over planned target beyond resources cannot be achieved even all effort both are the situation of improper plan.
- **Planning is a time-consuming and costly process:** This may delay action in certain cases. But it is also true that, if sufficient time is not given to the planning process, the plans so produced may prove to be unrealistic. Similarly, planning involves costs of gathering and analyzing information and evaluation of various alternatives. If the management is not willing to spend on planning, the result may not be good.
- **Planning is a forward-looking process:** The planner must possess the required initiative. He should be an active planner and should take adequate follow up measures to see that plans are understood and implemented properly.

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ENVIRONMENTAL SCANNING

Environmental scanning is an essential part of marketing management. The gathering of large amount of information to measure and study the changes in the environment is called environmental scanning. The environment scanning is taken into business scenario. It is very important for any business to get the latest information about the environment to keep his business steady and stable. In large and small organization the environmental scanning is must. The environmental scanning as the point of business is the businesses have to look what is going around them whether the market is saturating, is there need for product innovation.

The benefits to environmental scanning for the businesses are that they can uncover many issues that have an effect on the organization's mission and goals. They might use it to increase their profits ratio. One of the motives could be for the environmental scanning is that they can know that whether the market is going as they expected it. One of the latest methods for the environmental scanning which are frequently used by the companies is the computer intelligence. By using these processes the businesses get information about their rivals. So this is very latest technological way for keeping eye on your business. Many of the third party services who provide this to other companies are doing environmental scanning.

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Meaning of Environmental Scanning

Environmental analysis (scanning or appraisal) is the process by which corporate planners monitor the economic, governmental, supplier, technological and market settings to determine the opportunities and the threats to their enterprise. In other words, environmental scanning is the monitoring, evaluating, and disseminating of information from the external and internal environments to key people within the corporation. The importance of environmental analysis lies in its usefulness for evaluating the present strategy, setting strategic objectives and formulating future strategies. The fortunes of business enterprises are known to have been determined by changes in the social, economic, business and industrial conditions. The key environmental variables are:

The **external environment** consists of variables (Opportunities and threats) that are outside the organization and not typically within the short run control of top management.

The **internal environmental** environment of a corporation consists of variables (Strengths and Weaknesses) that are within the organization itself and are not usually within the short run control of top management.

Influences of environment

1. **Opportunity:**

   An event may arrive due to changes in tax structure, natural or climatic changes, changes in the competitors' product design change in some regulation, etc.

2. **Threat:**

   Some event in an environment may create situations where the profit margin of a company may be reduced or its very existence may be threatened. Emergence of stiff competition, obsolescence due to new products and design, brain drain of technical expertise due to lucrative offers from competitors, etc are some of the examples of threats.

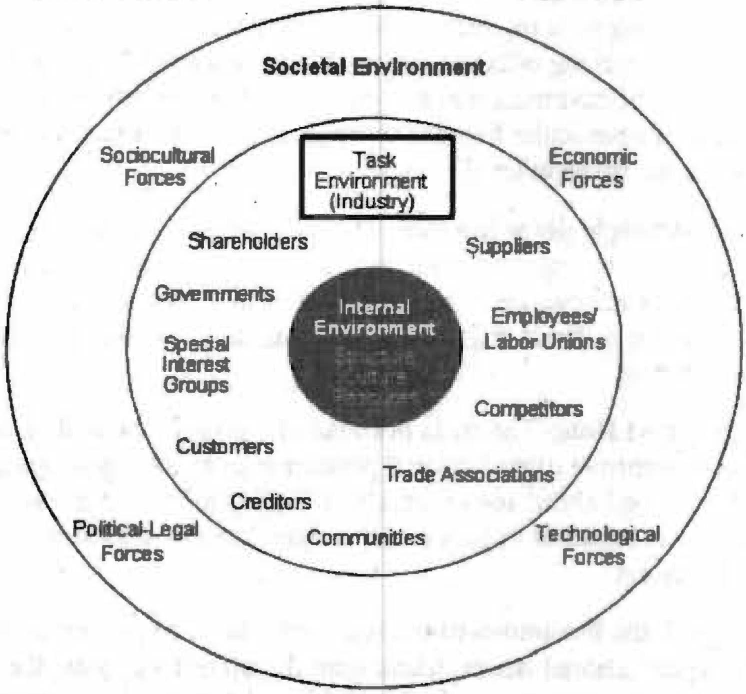
3. **Strength:**

   Certain companies have inherent strengths that they build over the year viz., research and development based information, trained manpower, distribution network, widespread infrastructure, etc which enable them to be highly competitive and to create a niche for the company in a highly competitive environment due to these core competencies.

4. **Weakness:**

   Some companies have inherent weaknesses, limitations or constraints, which prove to be strategically disadvantageous. Some companies may depend solely on a single source for raw materials or they may be doing only seasonal business and if a season is not favourable; their profits run into rough weather.

Environmental Variables



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Approaches to Environmental Scanning

1. **Systematic Approach:** In this approach, formats for various issues are developed and scanning is done systematically in a step-by-step fashion. The information related to various factors viz., regulatory, social, economic, technological, resources, etc is collected which has direct bearing on the working of the company. Data on various factors is continuously collected and updated and their effect on various pertinent to the organization is studied. The variance of various factors is analyzed and their swing is worked out to estimate the impact of the changes. A system of assessment of the environment is prepared by the strategy manager followed by all the line managers in the organization.

2. **Process Information Approach:** Information on environment and its various factors is available from trade papers, trade magazines etc. Many organizations prepare summary of relevant information to keep themselves updated. The processed data is made available to the strategy management group for processing and drawing inferences based on which corrective actions may be taken by a company.

3. **Ad Hoc Approach:** Some companies collect specific information on selected environmental factors by conducting special project. Such studies are usually conducted when a company wants to launch a special project. The impact of a project on various environmental factors is studied within the framework of a specially designed study program and results are obtained through analysis using computer software of changes and developments may be studied using pilot projects and results extrapolated for use by strategy managers.

Role of environment scanning in organizations

Properly used environmental scanning can help to ensure organizational success. The specific organizational roles or functions to ensure this success however can vary drastically from organization to organization. Three such roles are:

Check Your Progress

3. What do you mean by the term Management Information System?
4. State the meaning of Marketing Research.
5. What is Environmental Scanning?

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1. **Function-Oriented Role:** The main purpose of function-oriented environmental analysis is to improve organizational performance by providing environmental information concerning effective performance of specific organizational functions. This type of environmental analysis is normally undertaken to enhance the performance of a particular function or major organizational activity at either the corporate or the division level.

2. **Integrated strategic planning role:** The main purpose of this kind of environmental analysis is to improve organizational performance by making top managers and divisional managers aware of issues that arise in the firm's environment, by having a direct impact on planning and by linking corporate and divisional planning.

3. **Policy-Oriented Role:** The main purpose of a policy-oriented environmental analysis is to improve organizational performance by simply keeping top management informed about major trends emerging in the environment. Policy-oriented role is broadest in scope and is most loosely related to formal organizational planning.

On the other hand, the function-oriented role seems to be most specifically targeted at particular organizational issues. More than the other two roles, the integrated strategic planning role seems to emphasize a close relationship between environmental analysis and formal organizational planning.

CASE STUDY

Case Study of Euro Disney: Managing Marketing Envioronmental Challenges

Michael Eisner joined the Walt Disney company as the chairman of the board in 1984, after his successes at the ABC television network and Paramount. The same year, Tokyo Disney was completing its first year of operations after five years of planning and construction, when the Walt Disney Co. entered into an agreement with Oriental Land Company in Japan. More than 10 million people visited the park that year, spending $355 million. This was $155 million more than had been expected and was partially attributed to the average expenditure per visitor being $35, rather than the estimated $21. The timing of the Tokyo Disneyland opening coincided with a rise in income and leisure time among the Japanese. Tokyo Disneyland thus became quickly profitable. Growth continued, and by 1990 more than 14 million people visited the park, a figure slightly higher than the attendance at Disneyland in California and about half the attendance at Walt Disney World in Florida. Though, Disney was not a financial partner in the Tokyo venture, it was reaping the profit from its franchise (10% royalty from admission and 5% from merchandise and food sales).

The Tokyo park was in some ways a paradox. Tokyo Disneyland is nearly a replica of the two parks in US. Signs are in English, and most food is American style. The management of the Oriental Land Company demanded this because they wanted visitors to feel they were getting the real thing and because they had noted that such franchises as McDonald's have enormous success in Japan, as Japanese youth embraced American-style culture. Yet, a few changes were necessary, such as the addition of a Japanese restaurant. The product was readily accepted by the Japanese, an acceptance attributed by some to the enthusiastic assimilation of the Japanese to Western ways. The success of the Tokyo Disneyland led the company to consider expansion into Europe.

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In 1984, a few months after his arrival at Disney, Eisner decided to create a Disney resort in Europe. In 1985, Disney announced that it had narrowed its locational choice to two countries, Spain and France. The park was scheduled to open in 1992 at either location. Since the park was estimated to provide about 40,000 permanent jobs and would draw large numbers of tourists, the two countries openly courted Disney. If Disney opted for a Spanish location, the park would have to be like the ones in the U.S, where the visitors are outside for almost all amusements. However, Disney had learnt from the Tokyo experience that the cold weather does not necessarily impede attendance. But the colder climate in Paris area would require more indoor shows. Furthermore, France would require more focus on technology and historical themes.

After three years of discussions, the search culminated with the selection of a site at the heart of Europe: Marna-la-Vallee, France. Euro Disney was officially born. The total investment by 1992 was estimated at between $2.4 to 3 billion. Disney opted for a 49% stake. France was in full economic crisis and Disney was taking advantage of this crisis. In a real estate coup, the French Government sold Disney some very expensive land at a bargain price and. In spite of the economic benefits the park was expected to bring, many people in France feared that the Park would be one more step toward the replacement of the French culture with that of the US. Critics called EuroDisney "a cultural Chernobyl".

Disney headed off the criticism by explaining in the French press that Walt Disney was of French Huguenot descent, with an original name of D'Isigny rather than Disney. Disney also agreed to make French the first language in the park, although relying heavily on visual symbols. Disney would build an attraction, Discovery Land, based on the science fiction of France's Jules Verne; and a movie theatre featuring European history. Many concessions were made to soothe the French resistance. Disney admitted that it may have to alter its no-alcohol policy for this park, but it didn't. The park also emphasized that Pinocchio was Italian, Cinderalla was French and Peter Pan flew in London.

The marketing campaign began in October, 1991. The sales division began ambitious programs to inspire European families to mark the Euro Disney resort on their vacation agendas. The Sales division established a strong presence in all the major markets through special partnerships with leading companies in the travel industry. On April 12, 1992, Euro Disney hosted the biggest event in Disney history, the official opening of the Euro Disney resort. Looking at the future, Euro Disney had two primary objectives : to achieve profitability as quickly as possible and to better integrate Euro Disney into its European environment while reinforcing its greatest asset - Disney heritage. Disney announced plans to add a second theme park, the Disney MGM Studios-Europe and a water park. Disney was so optimistic that it was negotiating the

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possibility of creation of creating a third theme park at the beginning of the new millennium.

The Park admission fee cost US $45 for an adult and $30 for a child under 11, a price about 50% higher than the corresponding Disney World price. The US Disney park's formula in terms of inelasticity of demand did not apply and the demand fell sharply (a 15% decrease in attendance for a 10% increase in price.) Attendance figures were kept secret, but this attitude reinforced the idea that even in terms of attendance, the objectives were not reached. The financial results were not as strong as hoped and the very difficult economic environment contributed to not meeting the ambitious objectives.

As Eisner started an interview with Larry King, he quipped, "Everybody is giving us 42 reasons why we've made a mistake, because we have financial problems… We are not either responsible for the real estate crisis nor the high French interest rate, which are dreadfully penalizing us. Not a single manager, whomever he be, could manage so many uncontrollable forces."

Questions:

Describe the importance of environmental scanning for Disney in its EuroDisney venture. How does the marketing environment affect Disney's marketing? Single out each of these environmental variables and suggest ways for Disney to manage them.

SUMMARY

- Marketing may be termed as tying of the market with the product or service or offer. Market is a happening place and managing the market in relation to the products or services being offered to obtain a reasonable overwhelming share of the market is marketing management.
- The term 'market' refers to the place where goods are bought and sold against the price consideration between the buyers and sellers.
- Marketing organises and direct all those activities involved in assessing and converting customer purchasing power into effective demand for a specific product or service and in moving the product or service to the final consumer or user so as to achieve the profit target or other objectives set by a company.
- Marketing may be defined as a process by which goods and services are exchanged and the values determined in terms of money prices.
- The marketing concept rests on four pillars. The starting point is the target customer; the focus is customer needs, the means being integrated marketing and the ends being profits through customer satisfaction.

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- The term marketing concept implies that achieving the organizational goals, knowing the needs and wants of target market and delivering them desired satisfaction.
- Marketing is the management process responsible for identifying, anticipating and satisfying consumer requirements profitably.
- Marketing Management is concerned with the direction of activities towards the attainment of marketing objectives i.e. satisfaction of customer's needs, increase the organization's profits.
- Marketing activity begins with generating the idea of creating or making a product and ends with the successful launching of product in market.
- Management Information system is defined as a system that consists of people, equipment and procedures to gather, sort, analyse, evaluate and distribute needed, timely and accurate information to marketing.
- Marketing Information system includes a set of procedures and methods for the continuous analysis and presentation of information for decision making. Marketing Information System includes internal record system, marketing intelligence system, marketing decision support system, and marketing research system.
- Marketing research is the intelligence service of a business enterprise. It means the careful and objective study of product design, markets and transfer activities such as physical distribution and warehousing, advertising and sales management.
- The marketing research process includes the systematic identification, collection, analysis and distribution of information for the purpose of development and decision making.
- Environmental scanning is the monitoring, evaluating, and disseminating of information from the external and internal environments to key people within the corporation.

ANSWERS TO 'CHECK YOUR PROGRESS'

1. The term market refers to the place where goods are bought and sold against the price consideration between buyers and sellers.
2. Marketing Management 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 organizational objectives.
3. Marketing Information System is a system that consists of people, equipments and procedures to gather sort analyze, evaluate and distribute needed, timely and accurate information to marketing decision maker.
4. Marketing Research is the intelligence service of a business enterprise. It means the careful and objective study of product design, markets and transfer activities such as physical distribution and warehousing, advertising and sales management.

5. The gathering of large amount of information to measure and study the changes in the environment is called environmental scanning.

TEST YOURSELF

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1) What do you mean by the term "Market"? Discuss various types of market.
2) Explain the concept of marketing. Why marketing is important for any organization?
3) Explain the process of Marketing.
4) Discuss the nature of Marketing.
5) What are the functions of Marketing?
6) What is the role of Marketing in Indian Economy?
7) What is Marketing Environment?
8) What do you mean by the term "Marketing Information System"?
9) What is Market Research? Explain its objectives and features.
10) Discuss the scope of Marketing Research.
11) What is Environmental Scanning? Discuss various approaches to Environmental Scanning.

FURTHER READING

- *Kotler & Armstrong, Principles of Marketing Management*
- *Kotler, Keller; Marketing Management, Pearson Education*

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2 Market Segmentation, Targeting and Positioning

Chapter Includes :

- MARKETING SEGMENTATION
- LEVELS OF MARKET SEGMENTATION
- FEATURES OF NICHE MARKETING
- IMPORTANCE OF MARKET SEGMENTATION
- BASES FOR SEGMENTING THE MARKET
- BASES FOR SEGMENTATION IN INDUSTRIAL MARKETS
- USING SEGMENTATION IN CUSTOMER RETENTION
- MARKET SEGMENTATION STRATEGIES
- CHOOSING A MARKET COVERAGE STRATEGY
- REQUISITES OF EFFECTIVE SEGMENTATION
- ADVANTAGES OF MARKET SEGMENTATION
- LIMITATIONS OF MARKET SEGMENTATION:
- TARGET MARKETING:
- PROCESS OF TARGET MARKETING
- TARGETING APPROACHES
- PRODUCT POSITIONING:
- PRODUCT DIFFERENTIATION
- MARKET SEGMENTATION - CASE STUDY - OVERSEAS HOLIDAYS

Learning Objective :

After going through this chapter, you should be able to:

- Explain Marketing Segmentation.
- Describe various bases for segmenting the market.
- Discuss Target Marketing.
- Understand Product Positioning and Differentiation.

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INTRODUCTION

An organization or company can not serve all customers in such a wide market. Each customer is different and diverse in his requirements. So to serve effectively a company needs to divide the market into different market segments. Customers have different disposable income. They are, therefore, different in how sensitive they are to price. By segmenting markets, businesses can raise average prices and subsequently enhance profits.

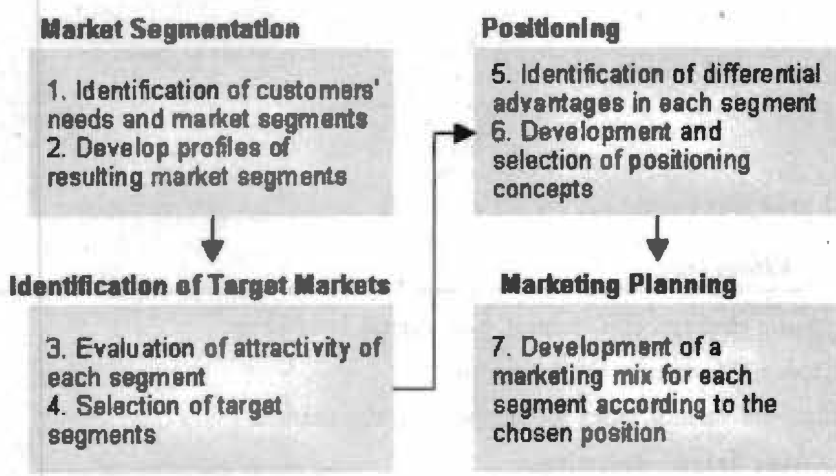
MEANING OF MARKET SEGMENTATION

Market Segmentation is based on the division of a market into different homogeneous groups of consumers. Market represents a group of consumers having common characteristics but two consumers are never common in their nature, habits, hobbies etc. A market segment is a sub-set of a market made up of people or organizations with one or more common characteristics. In simple words the process of sub-dividing the market is called as "market segmentation."The term "market segmentation" is used to sub-divide the market or customers of the product in order to capture more and more sale effectively and efficiently. Market segmentation is the process of segmenting a market into a subgroup of people that have similar needs. For example if you are marketing a chocolate bar, it will attract younger generation rather than older generation. So you have to target that particular group for better results.

According to Philip Kotler, "Market segmentation is sub-dividing a market into distinct and homogeneous sub-groups of customers, where any group can conceivably be selected as a target market to be met with distinct marketing-mix."

According to R.S. Davas, "Grouping of buyers or segmenting the market is described as market segmentation."

The main objective of the market segmentation is to prepare separate programmes for all the segments of the market in order to satisfy all consumers to the maximum possible extent.



LEVELS OF MARKET SEGMENTATION

There are four level of marketing:

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- **Segment Marketing:** Market segmentation is a process of dividing the market according to similarities that exist among the various subgroups within the market. The similarities may be common characteristics or common needs and desires. In other words, market segmentation is the process of dividing the total heterogeneous market into several markets, each of which similar wants, purchasing power, geographical location, buying attitudes. For Example: A Car could be segmented as Economy cars, Luxury Cars etc.

Benefits of Segment Marketing are:

- The company can create more fine tuned product or services offering and price it appropriately for target audience.
- Choice of distribution channel and communication channel becomes much easier.
- The company also may face fewer competitions in a particular segment.

- **Niche Marketing:** A niche is a more narrowly defined group whose needs are not well served. For Example, the segments of heavy smokers includes those who are trying to stop smoking and those who are careless.

Features of niche marketing:

Kotler and Keller broadly identified the following distinguished characteristics of niche marketing:

- The customers in the niche have a distinct set of needs.
- They will pay a premium to the firm that best satisfies their needs.
- The niche is not likely to attract other competitors.
- The niche gains certain economies through specialization.
- The niche has size, profit and growth potential.

- **Local marketing:** Local marketing refers to marketing programs are being centralized to local consumers only. Local marketing is born from the desire of the storekeeper.The storekeeper wants to distinguish himself from colleagues. Local marketing is the translation of marketing from the national level to local consumer needs.
- **Individual Marketing:** The final level of segmentation leads to "segments of one", "customized marketing", or "one to one marketing". Individual marketing is the latest trend of marketing. Individual marketing can be called as customized marketing or one-to-one marketing. Individuals can directly talk with the suppliers or the manufacturers for fulfilling their wants for the required product. Individual marketing is an extreme form of product differentiation. Whereas product differentiation tries to differentiate a product from competing ones, individualization tries to make a unique product offering for each customer.

Importance of Market Segmentation:

There are several reasons for which market segmentation is important; some of these are summarized as follows:

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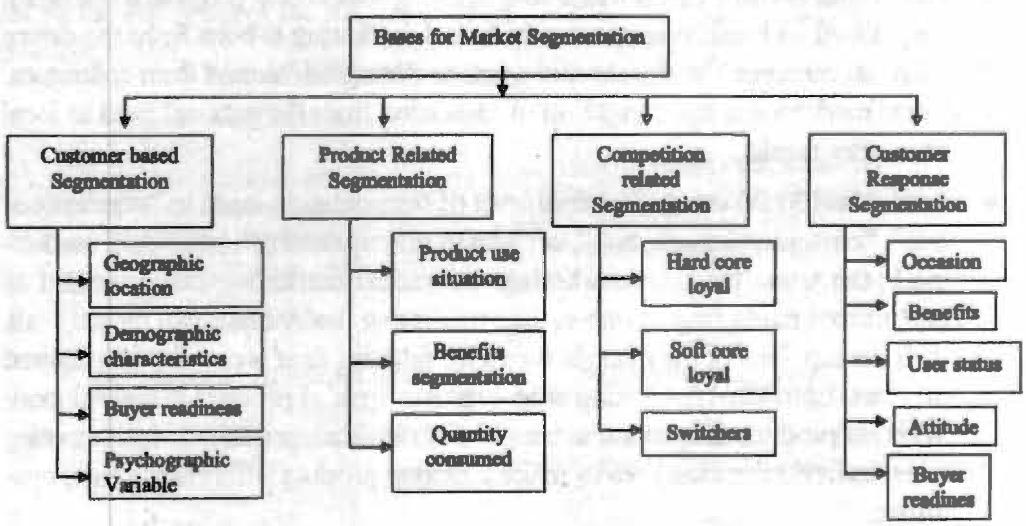
1. **Understand the nature of market:** Market Segmentation presents an opportunity to understand the nature of the market. The seller is well known about the needs of the customer and he can attract the maximum number of customers by various publicity media.
2. **Allocation of Marketing Budget:** With the help of market segmentation marketing budget is adjusted for a particular region and locality. There is no need to allocate huge budget where the sales opportunities are limited.
3. **Effective Marketing Program**: Market Segmentation helps the producer to adopt an effective marketing programme at comparatively low cost.
4. **Increase in Sales Volume**: The producers can increase the sales volume by segmenting the market.
5. **Expansion of Market**: By segmenting the market, a company is able to create new markets for their products.
6. **Evaluation of Marketing Activities**: Market segmentation helps the manufacturer to find out and compare the market position of the product.
7. **Better Utilization of Marketing Resources**: Where the possibility of selling more products, more resources can be allocated and where there is fewer possibility of selling the product, fewer resources are allocated.
8. **Benefits to the Consumer**: The segmentation benefits the consumers as the company produces and supplies products that satisfy their needs and wants.

Segmentation is the process of partitioning a market into groups of potential customers who share similar defined characteristics and who are likely to exhibit similar purchase behaviour. In other words "Grouping people according to their similarity related to a particular product category".

BASES FOR SEGMENTING THE MARKET:



Market segmentation comes about as a result of the observation that all potential users of a product are not alike, and that the same general appeal will not interest all prospects. Therefore, it becomes essential to develop different marketing tactics based on the differences among potential users in order to effectively cover the entire market for a particular product. A market can be segmented by various bases; some of these are as follows:

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1. **Customer based Market Segmentation**

- **Geographic location:** The geographic locations of customers help the firm in planning its marketing offer. It is based on regional variables such as region, climate, population density, and population growth rate. Geographic segmentation involves dividing the market on the basis of where people live. Divisions may be in terms of neighbourhoods, cities, counties, states, regions, or even countries. Considerations related to geographic grouping may include the makeup of the areas, that is, urban, suburban or rural; size of the area; climate; or population. Geographic segmentation offers some important advantages. Further, geography provides a convenient organizational framework. Products, salespeople, and distribution networks can all be organized around a central, specific location.
- **Demographic Characteristics:** In demographic segmentation the market is divided into groups on the basis of variables such as age, gender, ethnicity, education, occupation, income, and family status. Demographic segmentation involves dividing the market on the basis of statistical differences in personal characteristics, such as age, family, size, life cycle, gender, income, occupation, education level, religion, race, generation, nationality, social class. For example, Clothing manufacturers, segment on the basis of age groups such as teenagers, young adults, and mature adults. Jewelers use gender to divide markets.
- **Psychographic Variables:** Sometimes customers with the same demographic characteristics may act in an entirely different manner, they may have different attitude towards risk-taking and new-products. It is based on variables such as values, attitudes, personality, and lifestyle. In simple words, psychographic segmentation is based on traits, attitudes, interests, or lifestyles of potential customer groups. Companies marketing new products, for instance, seek to identify customer groups that are positively disposed to new ideas.
- **Buyer Readiness:** This variable is based on the buyer's preparedness to buy a product. At any given time, buyers are at different stages of readiness. Sometimes buyers are unaware; sometimes they are aware but not interested etc.

2. **Product Related Segmentation:**

- **Product Use Situations:** Different customers may use the same product in different situations. Let's take an example of cold drink; we can use cold drink in different situations like in parties, for the unexpected guest etc.
- **Benefits Segmentation:** Here, the marketer identifies benefits that a customer looks for when buying a product.
- **Quantity Consumed:** The quantity consumed at any given time has also been the basis for segmentation.

Check Your Progress

1. What is Market Segmentation?
2. Describe Target Marketing.

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3. Competition Related Segmentation:

- **Hard Core Loyal:** Hard core loyals are those customers who continue to buy the same brand over and over again.
- **Soft Core Loyal:** Those customers who are loyal to two or three brands for a product are called soft core loyals.
- **Switchers:** Those customers who are never stick to a brand are called switchers.

4. Consumer Response Segmentation:

- **Occasions:** According to the occasions buyers develop a need to purchase a product or use a product. It can help the firms to expand product usage.
- **Benefits:** Buyers can be classified according to the benefits they look for. For Example: The basic purpose of a car is transportation but people prefer different cars because they seek different benefits. The benefits can be of four types:

  I. Quality

  II. Service

  III. Economy

  IV. Specially
- **User Status:** Markets can be segmented on the basis of its user status. The category of users of a product perfume are:

  i). Non-user ii).Potential User

  iii).First Time User iv). Regular User
- **Buyer-Readiness Stage:** A market consists of people in different stages of readiness for a product. Various stages of people are as follows:

  i). Unaware ii).Aware

  iii).Informed iv).Interested
- **Attitude:** Five attitude groups can be found in a market. These can be distinguished as follows:

  i). Enthusiastic ii). Positive

  iii). Indifferent iv).Negative

  v). Hostile

Bases for Segmentation in Industrial Markets

Industrial markets might be segmented on the basis of following characteristics:

- Location
- Type of Customer
- Behavioral characteristics

Location:

In industrial market, customer's location may be important in some cases. Shipping costs may be a purchase factor for vendor selection for products having a high bulk to value ratio, so distance from the vendor may be critical. In some industries firms tend to cluster together geographically and therefore may have similar needs within a region.

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Type of customer:

The customers may be those who want to purchase for the end use or those who are looking forward to use the purchase further in production.

Behavioral Characteristics

In industrial markets, patterns of purchase behavior can be a basis for segmentation. Such behavioral characteristics may include:

- Usage rate
- Buying status: potential, first-time, regular, etc.
- Purchase procedure: sealed bids, negotiations, etc.

USING SEGMENTATION IN CUSTOMER RETENTION

Segmentation is commonly used by organizations to improve their customer retention programs and help ensure that they are:

- Focused on retaining their most profitable customers
- Employing those tactics most likely to retain these customers.

For customers who are deemed "save-worthy", it's essential for the company to know which save tactics are most likely to be successful. Tactics commonly used range from providing "special" customer discounts to sending customers communications that reinforce the value proposition of the given service.

Target marketing can be the key to a small business's success. The beauty of target marketing is that it makes the promotion, pricing and distribution of your products and/or services easier and more cost-effective. Target marketing provides a focus to all of your marketing activities.

Why segment markets?

There are several important reasons why businesses should attempt to segment their markets carefully:

- Customer needs are different. Creating separate offers for each segment provides better product to the customers.
- Market segmentation can build sales. For example, customers can be encouraged to "trade-up" after being introduced to a particular product with an introductory, lower-priced product.
- Customer circumstances change, for example they grow older, form families, change jobs or get promoted, change their buying patterns. By marketing products that appeal to customers at different stages of their life ("life-cycle"), a business can retain customers who might otherwise switch to competing products and brands.

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Market Segmentation Procedure:

STEP I		STEP II		STEP III
Survey Stage	→	Analysing Stage	→	Profiling Stage

1. **Survey Stage:** This stage is divided into two parts:
   i). Focus group discussions and in-depth interviews with a view to get an insight into consumer motivation, attitudes, and behavior.
   ii). A questionnaire is developed according to this insight, which is administered to a sample group of consumers. The objective of this questionnaire is to collect data on the attributes of the product, brand, usage pattern of the product, customer attitudes towards the product.
2. **Analysis Stage:** After collecting the data, it is analyzed using factor analysis. This is used to identify the factors that differentiate customer groups.
2. **Profiling Stage:** In this stage each group is profiled in terms of demographic, psychographic, attitudes, and behavior and consumption habits.

MARKET SEGMENTATION STRATEGIES

Depending upon the emerging patterns of market segmentation, homogeneous preference (showing no natural segments) as in case of soft drinks sale by Pepsi and Coca-Cola), diffused preference (showing clear preferences as in case of automobile market), and clustered preference (market showing natural segments as in case of occupation having impact on the types of cicthes worn), a company chooses its market segmentation strategy.

A) **Undifferentiated Marketing.** It is a market coverage strategy in which the company treats the target market as on and does not consider that there are market segments that exhibit uncommon needs. The company focuses on the centre of the target market to get maximum advantage. The feature of 'one product-all segments' calls for presenting one marketing-mix for the target market. For example, the Coca-Cola Company sells Coke, Limca, Thums-up etc., and does not distinguish the target audience.

B) **Differentiated Marketing:** It is a market coverage strategy in which the company goes for proper market segmentation as depicted by its analysis of the total market. The company, therefore, goes for several products or several segment approach which calls for preparing different marketing mixes for each of the market segment. This strategy is followed by Hindustan Lever Limited which sells different soaps (Life Buoy, Lux, Rexona, Liril, Pears etc.) and each of members has its own market. Thus, the company creates segments in the soap market and not in toiletries market (including soaps, detergents, toothpaste, etc.)

C) **Concentrated Marketing:** It is a market coverage strategy in which company follows 'one product-one segment' principle. The company tries to position its product in the middle of the segment to attract maximum clientele. For example, Ashok Leyland produces large chassis of machine which can be used for buses and trucks. The manufacturer gets maximum knowledge about the segment's needs and therefore acquires special reputation. This strategy can also help the small company to stand against a large corporation because the small company can create niches in its one-product one-segment approach by providing maximum varieties.

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Choosing a Market Coverage Strategy:

An overview of the three market coverage strategies will help to choose one for a particular company.

Comparison of Market Coverage Strategies:

Focus	Undifferentiated Marketing	Differentiating Marketing	Concentrated Marketing
Product	One/Few	Many	One/Few
Segment	All	Many	One/Few
Marketing-Mix	One	Many	One/Few

Given the comparison of different coverage strategies, it is easy to locate the relevant strategies as shown in Table.

Comparison of Market Coverage Strategies

	Undifferentiated Marketing	Differentiating Marketing	Concentrated Marketing
Constrained Firm Resources	More suitable	Least suitable	Most suitable
Common usage Product	Most suitable	More suitable	Least suitable
Different need Satisfying products	Least suitable	Most suitable	More suitable

Given the above table, the firm's resources and the product's requirement in its present form (by all or few) would decide the choice of a particular market-coverage strategy. Finally, the competitor's adaptation of a particular strategy should be considered for deciding company's own strategy. For example, Coca-Cola starts segmenting soft drinks market and targets family, Pepsi cannot ignore it because it would be suicidal for them (segmentation would provide differentiation of products more easily).

REQUISITES OF EFFECTIVE SEGMENTATION

To be useful, segmentation of market must exhibit some characteristics that are as follows:

1. **Measurable and Obtainable:** The size, profile and other relevant characteristics of the segment must be measurable and obtainable in terms of data. If the information is not obtainable, no segmentation can be carried out. For example, customers can be segmented on the basis of their life styles. Though the information is measurable through AIOD framework, it might not be obtainable because of time limits or budgetary constraints.

2. **Substantial:** The segment should be large enough to be profitable. For consumer markets, the small segment might disproportionably increase the cost and hence products might be priced too high. This might make the segment non-profitable. However, for business markets even a single customer might mean big business. For example, house construction takes

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several months. But due to advancement of Information Technology, CAD and CAM have made it possible to take op even smaller segments from consumer markets.

3. **Accessible:** The segment should be accessible through existing network of people at a cost that is affordable. For example, targeting rural population could be through Television, Radio, and by opening outlets locally. It might not be easy to access hilly terrains for actual distribution of products.

4. **Differentiate:** The basis of segmentation should be such that it leads to different segments. For example, if young and old people would not behave in almost the same way when tempted to eat chips, Ruffle's Lays would not have tried the two taryeis as one by combining the segments.

5. **Actionable:** The segments which a company wishes to pursue must bo actionable in the sense that there should be sufficient finance, personnel, and capability to take them all. Hence, depending upon the reach of the company, the segments should be selected.

6. **General Considerations:** Apart from the above requisites, the segment must have growth potential, be profitable, earn; no unusual risk, and has competitors who do not fight directly with the product or brand.

ADVANTAGES OF MARKET SEGMENTATION

Market segmentation reflects reality in marketing situation. There may be different demand curves in different market segments. There may be certain customer needs which are not met. This analysis can yield profits and prospects for growth. Segmentation ensures higher customer satisfaction and improves effectiveness of the marketing programme. It offers the following specific benefits:

1. **Understanding the needs of Consumers:** It helps the marketer to fully understand the needs, behaviour and expectations of the consumers of different segments so that precise and clear decisions can be taken.

2. **Better Position to spot marketing opportunities:** It helps the marketer in knowing the habits, tastes, nature etc. of consumers of different markets to harness marketing opportunities.

3. **Allocation of marketing budget:** On the basis of segmentation, the marketing budget is allocated for a particular region or locality. In regions where the sales opportunities are limited, a huge budget is of no use and so, budget allocation will be limited and vice versa.

4. **Meeting the competition effectively:** it helps the producer to face the competition of his rivals effectively by making a deep study of the products, policies and strategies of competitors in all the segments, which helps in adopting different policies, programmes and strategies for different markets based on rivals strategies, policies and programmes.

5. **Effective marketing programmes:** On the basis of segmentation, the manufacturer can prepare and follow different marketing programmes for different segments to ensure effectiveness.

6. **Choosing of advertising media:** Segmentation helps in choosing different media, message and timings for different segments based on the characteristics of the segments.

7. **Increasing sales volume:** Segmentation helps the producer to know the demand pattern of each segment and satisfy it by preparing desired products. This leads to an increase in overall sales volume of the product.

8. **Benefits to the customers:** It benefits the customeras producer produces and supplies goods which serve customers' interest and^ satisfy their needs and wants.

9. **Better utilisation of marketing resources:** More resources can be allocated to segments in which there are more possibilities of selling the products and fewer resources may be allocated to the segments in which there are fewer possibilities.

10. **Specialised marketing:** Marketing can be more specialised when there is segmentation as the elements of marketing mix are specially designed to suit the characteristics of particular segments.

11. **Minimises aggregation risk:** By dividing the market and designing specific marketing mix to each segment, segmentation reduces the risk of aggregation i.e. the risk of not being able to satisfy customer needs with one marketing mix to all segments.

12. **Provides opportunities to expand market:** By segmenting the market, a marketer is able to create new markets for their products.

13. **Encourages innovations:** Marketers get benefits in focussing the relevant segment more closely and look for changes in the market requirements.

LIMITATIONS OF MARKET SEGMENTATION:

While market segmentation is a useful process in allowing an organization to aggregate customer needs into distinct groups, it is not a perfect process. Market segmentation has been criticized for the following reasons:

- This process involves approximating product/service offerings to the needs of customer groups, rather than providing an individual customized offering, there is a chance that our customers' needs are not being fully met.
- There is insufficient consideration of how market segmentation is linked to competitive advantage. At the same time as the product differentiation concept is clearly linked to the need to develop competing offerings, market segmentation has not tended to stress the need to segment on the basis of differentiating the offering from competitors.
- It is unclear how valuable segmentation is to the manager. Suitable processes and models to indicate how to measure the effectiveness of market segmentation processes are not yet available.

TARGET MARKETING:

Target Marketing involves breaking a market into segments and then concentrating your marketing efforts on one or a few key segments. Target marketing can be the

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key to a small business's success. The beauty of target marketing is that it makes the promotion, pricing and distribution of your products and/or services easier and more cost-effective. Target marketing provides a focus to all of your marketing activities.

In market targeting firm has to evaluate the various segments to decide how many and which ones to target. Ultimately, managerial discretion and judgment determines which markets are selected and exploited and which others are ignored. After the most attractive segments are selected, a company should not directly start targeting all these segments — other important factors is defining a target market. Four sub activities form the basis for deciding on which segments will actually be targeted.

The four sub activities within targeting are:

1. The abilities of the company and resources needed to enter a market are defined.

2. The competitors are analyzed on the basis of their resources and skills.

3. Considering the company's abilities compared to the competitors' abilities.

4. Deciding on the actual target markets.

Obviously, targeting can only be done when segments have been defined, as these segments allow firms to analyze the competitors in this market.

Why is target market important to market segmentation?

It's important to remember that the focus of marketing is people. The term "target market" is used because that market-that group of people-is the bull's eye at which you aim all your marketing efforts. All businesses need to study and develop a thorough knowledge of the importance of target markets.

There are many ways to conduct market segmentation research, but the most common involves first determining the target market's demographic characteristics. This in turn reveals many psychographic and behavioural characteristics. Using age to reveal generation and life stage is just one example.

Target marketing conserves your small business resources for marketing to the people most likely to buy what your business sells. In this day and time, you can't afford to waste any resources. You need to get as much return from your marketing investments as possible. Targeting enables you to sell more products and services with fewer marketing resources.

For example, the market at large includes people of all ages, all income levels, all education levels, all social classes, all lifestyles, and all types of occupations.

But you can't market to all these people at once. They are just too different. So you have to pick a specific group of people from the market at large and market specifically to them.

PROCESS OF TARGET MARKETING

After the process of segmentation the next step is for the organization to decide how it is going to target these particular group(s). There are three targeting options an organization can adopt.

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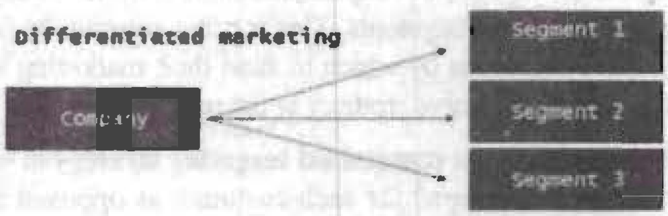
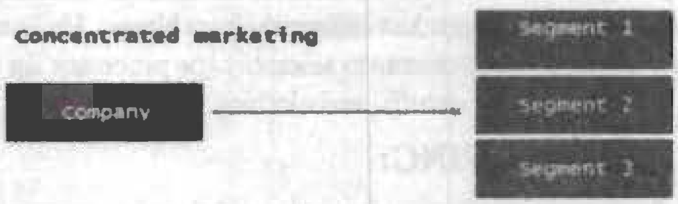
1. **Undifferentiated marketing** - Sometimes referred to as mass marketing the firm may decide to aim its resources at the entire market with one particular product. Coca Colas original marketing strategy was based on this form. One product aimed at the mass market in the hope that a sufficient amount of buyers would be attracted.

2. **Differentiated marketing strategy** - Where the firm decides to target several segments and develops distinct products/services with separate marketing mix strategies aimed at the varying groups. An example of this would be airline companies offering first, business (segment 1) or economy class tickets (segment 2), with separate marketing programmes to attract the different groups.

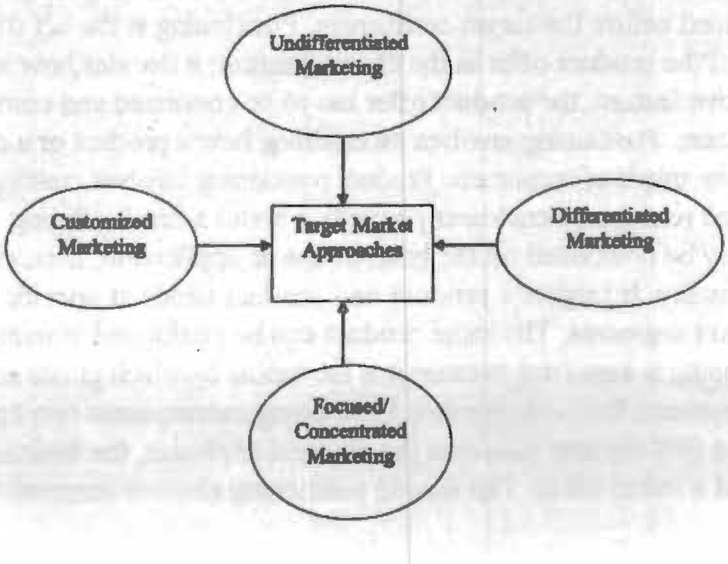


3. **Concentrated Marketing:** Where the organization concentrates its marketing effort on one particular segment. The firm will develop a product that caters for the needs of that particular group.



TARGETING APPROACHES

Four differing approaches can be considered. These include undifferentiated, differentiated, concentrated or focused, and customized target marketing approaches.



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1) In an **undifferentiated approach** there is no description between market segments, and instead the market is viewed as one mass market with one marketing strategy for the entire market. Although very expensive, this targeting approach is often selected in markets where there is limited segment differentiation.

2) A **differentiated targeting approach** recognizes that there are several market segments to target, each being attractive to the marketing organization. As such, to exploit market segments, a marketing strategy is developed for each segment. For example, the clothing brand Levi's uses multiple marketing strategies to target the trendy/casual, the price shopper, the traditionalist, the utilitarian, and the mainstream clothing shopper. A disadvantage of this approach is the loss of economies of scale due to the resources required to meet the needs of many market segments.

3) A **concentrated or niche-marketing strategy** recognizes that there are segments in the market, but implements a concentrated strategy by focusing on just a few market segments. This is often adopted by firms that either have limited resources by which to fund their marketing strategy, or are adopting a very exclusive strategy in the market.

4) The final approach is a **customized targeting strategy** in which a marketing strategy is developed for each customer as opposed to each market segment. This approach is more predominant in B2B markets (e.g. marketing research or advertising services) or consumer markets with high-value highly customized products (e.g. purchase of a custom-made car). For example, a manufacturer of industrial electronics for assembly lines might target and customize its product differently from Nissan, Unilever, and Levi's, given the differing requirements in assembly line processes for the manufacture of automobiles, foodstuffs, and clothing.

PRODUCT POSITIONING:

We know that all products do not appeal to all income groups or age groups, unless they are meant to satisfy basic necessities. A manufacturer can thus use the need-oriented segmentation.

In positioning, the firm decides how and around what parameters, the product offer has to be placed before the target consumers. Positioning is the act of fixing the exact locus of the product offer in the chosen market; it decides how and around what distinctive feature, the product offer has to be continued and communicated to the consumers. Positioning involves ascertaining how a product or a company is perceived in the minds of consumers. Product positioning involves creating a unique, consistent, and recognized customer perception about a firm's offering. A product or service may be positioned on the basis of use or application, user, class, price, or level of quality. It targets a product and product needs at specific prices for specific market segments. The same product can be positioned in many different ways. Positioning is important because it is the means by which goods and services can be differentiated from one another. Positioning encompasses two fundamental elements. The first element concerns the physical attributes, the functionality and capability that a brand offers. The second positioning element concerns the way in which a brand is communicated and how consumers perceive the brand relative to other competing brands in the marketplace.

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According to Kotler, "Positioning is the act of designing the company's offering and image to occupy a distinctive place in the target market's mind."

According to James L. Hesket, "Product positioning is the process of identifying the needs of market segments, product strength and weaknesses and the extent to which competing products are perceived to meet the consumer needs."

Positioning is the act of designing the company's offering and image to occupy the distinctive place in the minds of the target market. The goal is to locate the brands in the minds of consumers to maximize the potential benefit to the firm.

The common framework for product positioning is taken from a series of questions. You can position a product using a positioning statement that answers these important questions:

- For whom is the product designed?
- What kind of product is it?
- What is the single most important benefit it offers?
- Who is its most important competitor?
- How is your product different from that competitor?
- What is the significant customer benefit of that difference?

Positioning is the act of designing the company's offering and image to occupy a distinctive place in the target "market's mind. The end result of positioning is the successful creation of a market-focused value proposition, a cogent reason why the target market should buy the product.

Each company must decide how many differences to promote to its target customers. Many marketers advocate promoting only one central benefit and Rosser Reeves called it as "a unique selling proposition". Number one positioning includes "best quality", "best service", "Lowest price", "best value", "safest", "more advanced technology" etc. If a company hammers away at one of these positioning and delivers on it, it will probably be best known and recalled for this strengths.

Not everyone agrees that single-benefit positioning is always best. Double-benefit positioning may be necessary if two or more firms claim to be best on the same attribute. There are even cases of successful triple-benefit positioning.

As the companies increase the number of claims for their brand, they risk disbelief and a loss of clear positioning. In general, a company must avoid four major positioning errors.

1. **Under positioning:** Some companies discover that buyers have only a vague idea of the brand. The brand is seen as just another entry in a crowded marketplace.'
2. **Over-positioning:** Buyers may have too narrow image of the brand.

Check Your Progress

3. What do you mean by the term Product Positioning?
4. Define Product Differentiation.

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3. **Confused Positioning:** Buyers might have a confused image of the brand resulting from the company's making too many claims or changing tfie brand's positioning too frequently.
4. **Doubtful Positioning:** Buyers may find it hard to believe the brand claims in view of the product's features, price or manufacturer.

Solving the positioning problem enables the company to solve the marketing-mix problem. Thus seizing the "high-quality position" requires the firm to produce high quality products, charge a high price, distribute through high-class dealers and advertise in high-quality magazines.

The different positioning strategies that are available are:

1) **Attribute Positioning:** A company positions itself on an attribute such as size or number of years in existence.
2) **Benefit Positioning:** The product is positioned as the leader in a certain benefit.
3) **Use or Application Positioning:** Positioning the product as best for some use and application.
4) **User Positioning:** Positioning the product as best for some user group.
5) **Competitor Positioning:** The product claims to be better in some way than a named competitor.
6) **Product Category Positioning:** The product is positioned as the leader in a certain product category.
7) **Quality or Price Positioning:** The product is positioned as offering the best value.

Objectives of Product Positioning:

The objective of positioning is to create clear position of a product in consumer's minds, which differentiates it from its competitors and represents a clear benefit or value to the customers. Some important objectives of the Positioning are as follows:

1) It creates a distinctive place of a product or service in the minds of target customer.
2) It places an intangible service within a more tangible frame of reference.
3) It provides a competitive edge to a product i.e. an attempt to transmit attractiveness of the product to the target market.
4) It helps to develop the services and redesign the existing services.

Determinants of Successful Product Positioning:

The marketing firm that wants to achieve a great success with its product positioning should fulfill the following conditions:

1. **Design creative product proposition:** Product proposition means the offer of advantages accruing from the use of the product. In other words, it concerns itself with special product features. The proposition to be per-

ceived by the consumers is one, which is desired by the firm proposing. The outcome of positioning increases the satisfaction of users and profits of the seller through increased sales. If uniqueness is shown through creativity, the product proposal is bound to be appealing than those of competitors.

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2. **Existence of warranted competition:** The positioning strategy may be successful in case, there is competition warranting product positioning. Positioning is the strategy. Strategy is a counter plan to meet the challenges of opponents in the field or any odd situation that has emerged. Product positioning and repositioning is always done with regard to the product positioning or repositioning done by competitors.
3. **Sizeable and profitable market segment:** Market segments must be large enough to make it profitable for the manufacturer or marketer. A market segment must contain enough people to make a profitable market and must be identifiable for implementing such a strategy.
4. **Sensitive market segment:** A sensitive market segment is one that receives the communication message transmitted by the company and reacts to it.
5. **Proper consumer behaviour information:** Product positioning assumes the availability of adequate, detailed and up-to-date information, regarding the consumer behaviour.

Different Types of Product Positioning Strategies:

1. **Attribute Positioning:** A company positions itself on an attributes like size or number of years in existence.
2. **Product Features and Benefits Positioning Strategy:** Consumers buy a product when they perceive some promised benefit that would satisfy the need and that the offer is better or tempting as against other competing brands. This positioning strategy is implemented by differentiating the brand from its competitors on the basis of its features and benefits offered.
3. **Price-Quality Positioning Strategy:** Here positioning is done by focusing on the affordable/low price of the product and superior quality. Here the consumer experiences a feel good factor because they are obtaining a quality product at an economical price.
4. **Competitive Positioning Strategy:** This is a very effective strategy for the marketer who seeks to persuade the consumer that his product is better or at par with an established competitor.
5. **User Positioning Strategy:** Products can be positioned according to their user groups. For Example, beer marketers often position their products as light and strong beers.
6. **Corporate Brand Positioning Strategy:** Here the marketer uses his company name for brand extension.

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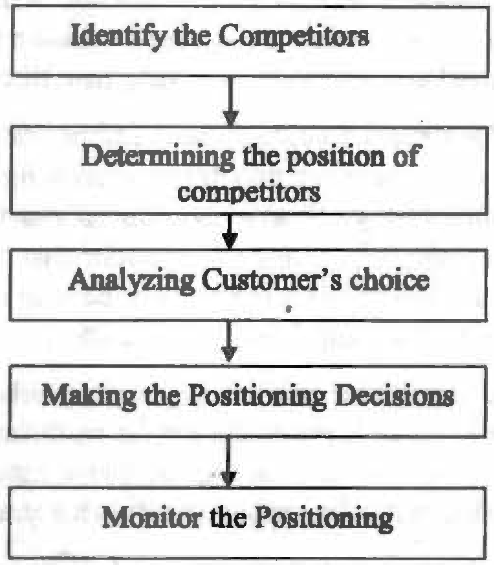
Process of Product Positioning:



Process of Product Positioning

1) **Identify the Competitors:** This is the first step for positioning. The marketer must consider all the competitors, as well as the various factors and situations that affect the consumer.

2) **Determining the position of Competitors:** Under this step, the position of competitors is determined on the basis of their attributes. After this determination, the competitors are positioned

3) **Analyzing the customer's choice:** In segmentation, consumers are subdivided according to their needs, purchase motivations and so on. At this stage, the choices of the target customers are analyzed.

4) **Making the Positioning Decisions:** In this step the marketing manager have to take some decisions. These decisions raise a number of questions like;

   I. The segmentation strategy is appropriate or not?

   II. Sufficient resources are available for communication or not?

   III. How strong is the competition?

   IV. Is the current positioning strategy working?

5) **Monitor the Positioning:** After establishing the position, it is necessary to monitor how well this position is being maintained in the market. This studies measure the image of the product over time.

PRODUCT DIFFERENTIATION

In marketing, product differentiation (also known simply as "differentiation") is the process of distinguishing a product or offering from others, to make it more attractive to a particular target market. This involves differentiating it from competitors' products as well as a firm's own product offerings.

Product differentiation is the process of distinguishing a product, to make it more attractive to a particular target market. Product differentiation means distinguishing one product or service from another that you offer. Differentiation is the act of designing a set of meaningful differences to distinguish the company's offering from the competitor's offerings. When using product differentiation to reach your target market, compile a list of what makes your product better than the rest. Some sources of product differentiation are differences in quality, price, features, or design of a product. The purpose of product differentiation is to make your product different even if it is very similar to competitors' products. For successful product differentiation, you must attain the trust of consumers that your item is the best out there.

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Successful product differentiation creates a competitive advantage for the seller, as customers view these products as unique or superior. Product differentiation includes the physical attributes and features of your products as well as the overall experience of your customers in doing business with you.

Marketing or product differentiation is the process of describing the differences between products or services, or the resulting list of differences. This is done in order to demonstrate the unique aspects of a firm's product and create a sense of value. Marketing textbooks are firm on the point that any differentiation must be valued by buyers. The term unique selling proposition refers to advertising to communicate a product's differentiation.

In economics, successful product differentiation leads to monopolistic competition and is inconsistent with the conditions for perfect competition, which include the requirement that the products of competing firms should be perfect substitutes.

There are three types of product differentiation:

1. Simple: It is based on a variety of characteristics.

2. Horizontal: It is based on a single characteristic but consumers are not clear on quality.

3. Vertical: It is based on a single characteristic and consumers are clear on its quality.

The brand differences are usually minor; they can be merely a difference in packaging or an advertising theme. The physical product need not change, but it could. Differentiation is due to buyers perceiving a difference; hence causes of differentiation may be functional aspects of the product or service, how it is distributed and marketed, or who buys it. The major sources of product differentiation are as follows.

- Differences in quality which are usually accompanied by differences in price.
- Differences in functional features or design.
- Ignorance of buyers regarding the essential characteristics and qualities of goods they are purchasing.
- Sales promotion activities of sellers and, in particular, advertising.
- Differences in availability (e.g. timing and location).

The objective of differentiation is to develop a position that potential customers see as unique. Given they target a same group of customers; it is imperative that free and paid versions be effectively differentiated.

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Differentiation primarily impacts performance through reducing directness of competition: As the product becomes more different, categorization becomes more difficult and hence draws fewer comparisons with its competition. A successful product differentiation strategy will move your product from competing based primarily on price to competing on non-price factors (such as product characteristics, distribution strategy, or promotional variables).

Most people would say that the implication of differentiation is the possibility of charging a price premium; however, this is a gross simplification. If customers value the firm's offer, they will be less sensitive to aspects of competing offers; price may not be one of these aspects. Differentiation makes customers in a given segment have a lower sensitivity to other features (non-price) of the product

Market segmentation - case study - overseas holidays

Introduction

The UK leisure travel industry is a large, highly **fragmented** and **competitive** market. In total, UK consumers take almost 110 million holiday trips each year.

Segmenting the market

The Overseas Holiday market can be segmented in several ways:

- **On the basis of Transportation**: The overseas holidays can be segmented on the basis of transportation i.e. air travel "Air-inclusive Tours" or "AIT" and other means of transport "Non-AIT". The most significant type of Non-AIT transportation is "Self-Drive", particularly to France, Italy and Ireland.
- **On the basis of Destination**: The most popular overseas destinations for UK holiday makers are Spain, France, North America, and Greece. Many of these destinations require air travel as part of the holiday experience On the other hand with self-drive only being a practical option for certain Western and Northern European destinations.
- **Accommodation**: Holiday accommodation varies enormously. It can be hotel-based (with a range of catering options), in apartments, villas, holiday home properties, mobile homes, tents, boats and other categories.
- **Flexibility and Customer Management**: Customers may prefer holidays with a high degree of independence and flexibility, with little involvement during the holiday from the tour operator. At the other end of the spectrum, many holidays are based around a fixed tour where the tour operator controls and manages most of the holiday experience.
- **Duration**: Most holidays tend to be taken for either 7 or 14 nights. However, according to the International Passenger Survey, the fastest growing segment by holiday duration is for holidays taken for between one and three nights i.e. weekend and short break holidays.

Product Positioning:

The concept of product positioning in the 21st century is blurred as many of the companies appear to have no ground or base on which they are really operating. Companies are operating with short-time goals to make a quick buck and quit soon. Unlike previous century, where companies successfully positioned their products by slicing and targeting consumers into right segments, most of the companies today are positioning their products with no clear strategies. This is because most of the companies are falling to set specific attributes for their products, services and their brand image. Most of the companies want to enter just because there is a scope for penetration and run the business without real long-time objectives.

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When we observe the positioning strategies of few brands like 'Lifebuoy' or 'Colgate', their positioning strategies was clear since their inception. While Lifebuoy build its brand as a mark of 'health and hygiene' product, Colgate positioned its dental products by offering a 'cavity protection'. While branding communicated the benefits of their products during previous century, today the importance of branding seemed to have lost its meaning. Similarly, positioning a product became a way of offering products with cosmetic changes to the existing product categories, rather than new products. In this context, I recall the words of John Trout who said that 'Positioning is not what you do to the product; it is what you do to the mind of the prospect'.

SUMMARY

- The term market segmentation is used to sub-divide the market or customers of the product in order to capture more and more sale effectively and efficiently. Market segmentation is the process of segmenting a market into a subgroup of people that have similar needs.
- Segmentation is the process of partitioning a market into groups of potential customers who share similar defined characteristics and who are likely to exhibit similar purchase behaviour.
- Target Marketing involves breaking a market into segments and then concentrating your marketing efforts on one or a few key segments.
- The term "target market" is used because that market-that group of people-is the bull's eye at which you aim all your marketing efforts.
- Target marketing conserves your small business resources for marketing to the people most likely to buy what your business sells.
- In an undifferentiated approach there is no description between market segments, and instead the market is viewed as one mass market with one marketing strategy for the entire market.
- A differentiated targeting approach recognizes that there are several market segments to target, each being attractive to the marketing organization.
- A concentrated or niche-marketing strategy recognizes that there are segments in the market, but implements a concentrated strategy by focusing on just a few market segments.
- In positioning, the firm decides how and around what parameters, the product offer has to be placed before the target consumers.
- Positioning is the act of fixing the exact locus of the product offer in the chosen market; it decides how and around what distinctive feature, the product offer has to be continued and communicated to the consumers.
- Product positioning involves creating a unique, consistent, and recognized customer perception about a firm's offering.
- Positioning encompasses two fundamental elements. The first element con-

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cerns the physical attributes, the functionality and capability that a brand offers. The second positioning element concerns the way in which a brand is communicated and how consumers perceive the brand relative to other competing brands in the marketplace.

- Positioning is the act of designing the company's offering and image to occupy the distinctive place in the minds of the target market.
- In marketing, product differentiation (also known simply as "differentiation") is the process of distinguishing a product or offering from others, to make it more attractive to a particular target market.
- In economics, successful product differentiation leads to monopolistic competition and is inconsistent with the conditions for perfect competition, which include the requirement that the products of competing firms should be perfect substitutes.

ANSWERS TO 'CHECK YOUR PROGRESS'

1. Market Segmentation is based on the division of a market into different homogenous group of customers.
2. Target Marketing involves breaking a market into segments and then concentrating your marketing efforts on one or a few key segments.
3. In positioning, the firm decides how and around what parameters, the product offer has to be placed before the target consumers.
4. Product differentiation is the process of distinguishing a product, to make it more attractive to a particular target market.

TEST YOURSELF

1) What do you mean by 'Product Positioning'?
2) Discuss various determinants of Successful Product Positioning.
3) State different types of Product Positioning Strategies.
4) Explain *process of Product Positioning.*
5) What do you mean by Product Differentiation?
6) What is Market Segmentation? Explain different levels of Market segmentation.
7) Discuss various bases for Segmenting the Market.
8) What is the procedure of Market Segmentation?
9) Why market segmentation is required?
10) What do you mean by Target Marketing? Why target market is important to market segmentation?
11) Discuss various approaches of Targeting.

FURTHER READING

- *Kotler & Armstrong, Principles of Marketing Management*
- *Kotler, Keller; Marketing Management, Pearson Education*

3 Product And Product Decisions

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Chapter Includes :

- MEANING OF PRODUCT
- LEVELS OF PRODUCT AND SERVICES
- IMPORTANCE OF A PRODUCT
- PRODUCT DECISIONS
- FACTORS INFLUENCING CHANGE IN PRODUCT MIX
- DECISIONS ON A PRODUCT-MIX LEVEL
- DECISIONS ON A PRODUCT-LINE LEVEL
- DECISIONS ABOUT THE TANGIBLE/PHYSICAL PRODUCT
- DECISIONS ABOUT THE INTANGIBLE/AUGMENTED PRODUCT
- BRANDING
- PACKAGING
- PRODUCT SERVICES
- PRODUCT DECISIONS FOR SERVICES
- CASE STUDY OF BRANDING

Learning Objective :

After going through this chapter, you should be able to:

- Define Product.
- Discuss Product Decisions.
- Explain Branding and Packaging.
- Understand Product Services.

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INTRODUCTION

A product is anything that can be offered to a market for attention, acquisition, use, or consumption and that might satisfy a want or need. It includes physical objects, services, persons, places, organizations, and ideas. Services are distinguished from 'physical' products on the basis of intangibility, inseparability, variability and perish ability. Services are a form of product that consist of activities, benefits, or satisfactions offered for sale that are essentially intangible and do not result in the ownership of anything.

Product is a complex concept that must be carefully defined. As the first of the four marketing mix variables, it is often where strategic planning begins. Product strategy calls for making coordinated decisions on individual products, product lines, and the product mix.

MEANING OF PRODUCT

Product is anything that can be offered by a market that may satisfy the wants of the consumer. A product can be defined as a collection of physical and symbolic attributes which yield satisfaction or benefits to a user or buyer. In other words, product is a combination of physical attributes like, size or shape; and subjective attributes like, image or quality.

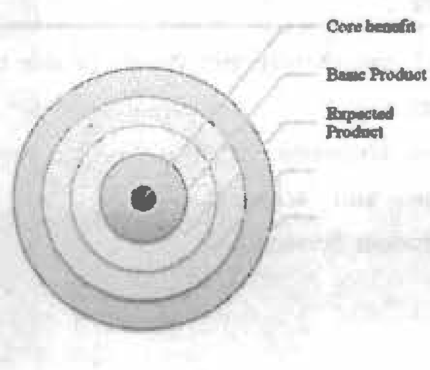
According to George Fisk, "Product is a cluster of psychological satisfactions."

According to Philip Kotler, "A product is a bundle of physical services and symbolic particulars expected to yield satisfactions or benefits to the buyer.

A satisfactory product is central to the marketing operations in any organization. The product of an organization is an item of its output which is usually offered for sale. In case of manufacturing units though products are tangible they can be intangible in case of service industries. Thus, an insurance plan of an insurance company is a product which is a service. 'Product' is viewed by different people in different ways. To the consumer, it is the bundle of perceived benefits that meets his or her needs, to the production manager, it is the task for thinking as he spends whole time on thinking about the product; to the advertising agency, it is communication challenge, to the finance manager, it is a source of finance.

LEVELS OF PRODUCT AND SERVICES

Product can be defined as the end result of the manufacturing process, which can be offered to a market that might satisfy a need or want. Product can be viewed on these levels:



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Core Benefit: This is the most basic level of the product, which identifies what consumers feel (What they are getting out of it) while buying the product. It is the service or benefit the customer is really buying. Marketers must see themselves as benefit providers. It is a full time task for a marketer to identify the core benefit for a particular target market.

Basic Product: At the second level, the marketer must turn the core benefit. For Example: A hotel room includes a bed, bathroom, towels, desk etc

Expected Product: At the third level, the marketer prepares an expected product a set of attributes and conditions that buyer normally expect when they purchase the product. Like hotel guests expect a clean bed, fresh towels, working lamps and a relative degree of quiet.

Augmented Product: At the fourth level, a marketer prepares an augmented product that exceeds customer expectations. In developed countries, brand positioning and competition take place at this level.

Potential Product: At the fifth level, stands the potential product, which encompasses all the possible augmentations and transformations the product or offering might undergo in the future. Here is where companies search for new ways to satisfy customers and distinguish their offering.

Importance of a Product

Good, attractive and diversified products (and services) are the heart of every strong brand. Like Splender is a trade mark product for Hero Honda. Hero Honda became the market leader because of Splender bike, and then they produced some more great products (Two wheelers).

Products Catalog should be designed in such a way that it gives an overview or general idea of your Company's products. Your Products Catalog should contain all your Best Selling Products. These Products should be the ones that are produced by your company constantly, give you a brand image and enhance your company's reputation. They must directly reflect your area of specialization.

The knowledge of product is important in marketing in the sense that there can be no marketing functions without the existence of a product:

A product assumes its importance in consideration of following facts:

1) The key element in a successful marketing policy and strategy is finding and meeting the needs of the consumers. A product through its tangible attributes like quality, services, and amenities can meet the consumers' needs and wants.
2) For the performance of marketing functions like selling, purchasing, distribution, etc., the existence a product is must.
3) The success of a company of its marketing efforts, in most cases, depends on the product policy.
4) The policies relating to pricing, distribution, sales promotion, and customer satisfaction are all dependent on the product policy.
5) The study of market size, sales volume, profits and profitability, and there growth or decline which serve as effective guides of the marketing management-are all done always in consideration of the product.

6) It is the knowledge of the product, whether consumer category or industrial category, that has led to the concept of product and marketing guided organization structure.

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PRODUCT DECISIONS:

The product decision can be defined as every conscious decision made by a company for a product. There are many different such decisions. At one extreme there are such things as a minor modification of the label or color of the package. At the other extreme, there are such things as diversification into new business fields, either through internal R&D or mergers and acquisitions.

There is a three-fold classification of product decisions:

- What are the decisions that a company should make about the product types?
- What are the decisions that a company should make about the tangible/physical product?
- What are the decisions that a company should make about the intangible/ augmented product?

1. DECISIONS ABOUT THE PRODUCT TYPES

The decisions about the product types to be offered represent the most critical decisions in determining the future of a company. The management must first decide what products to offer in the market place before other intelligent product decisions pertaining to the product's physical attributes, packaging branding, and so on, can be made.

There are two distinct levels at which such changes take place, namely:

- The product-mix level and
- The product-line level

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There are two distinct levels at which such changes take place, namely:

- The product-mix level and
- The product-line level

Product – Mix:

A product-mix is the set of all product lines and items that a particular seller offers to buyer for sale. In other words, a company's product mix refers to the total number of products that are offered for sale or it is a collection of products manufactured or distributed by a firm. An organization with several product lines has a product mix. Product mix of a company is the composite of all products offered for sale. For Example: If an enterprise manufactures different varieties of soaps, toothpaste, toothbrush etc, then the group of all these products is called 'Product Mix'.

According to American Marketing Association, "Product mix is the composite of products offered for sale by a firm or a business unit."

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Product Item: Product item refers to a specific product of certain specifications and may be distinguished from other products or brands. In other words, product item is a product of a particular brand like, Lux soap, Pepsodent toothpaste etc.

Product Line: A product line refers to a group of different product items that are closely related to each other. For Example: Toothpaste, Watch, TV, etc.

According to American Marketing Association, "product-line is a group of products that are closely related either because they satisfy a class of need, are used together, are sold to the same customer groups, are marketed through the same type of outlet or fall within given price range".

On the basis of above discussions, it can be concluded that a single product item is called as a 'product item'. All the product items of the same group are collectively known as a 'product line' and all the product lines manufactured and distributed by an enterprise are collectively known as 'Product Mix'.

The product mix has certain width, length, depth and consistency. These concepts are explained as follows:

1. The width of a product mix refers to the total number of different product lines of the company.
2. The length of a product mix refers to the total number of brands in all of the company's product lines.
3. The depth of a product mix refers to the total number of variants are offered of each product in the line.
4. The consistency of a product mix refers to how closely relate the company's product lines in terms of characteristics, production process, distribution channels to name just a few.

FACTORS INFLUENCING CHANGE IN PRODUCT MIX:

1. **Change in Demand:** The product mix decision is affected by the change in the demand of a product. The changes in the demand of a product may arise due to change in habits, fashion, purchasing power, income, attitude etc.
2. **Advertising and Distribution Factors:** Advertising and distribution factors may be the one factor for the changes in product mix.
3. **Change in Company Desire:** A company can change its product mix according to the change in desire of the company. A company may eliminate the unprofitable product and may start a new product.
4. **Competitors Action and Reaction:** The decision of adding or eliminating the product may be the reaction of competitor's action.
5. **Utilization of the residuals:** If residuals are used properly, then the company can develop its by-product into the main product.
6. **Change in consumer behaviour:** If the change in the buying behaviour of the customer arises then the company has to change the product mix keeping the profitability of the concern in the mind.
7. **Financial Resources:** Availability of the finance may also affect the product mix of the company. If the company is running sort of finance or if the

product is continuously going into loss the company may decide to drop the production of that product. Similarly if the company has sufficient funds, then the company may increase the production.

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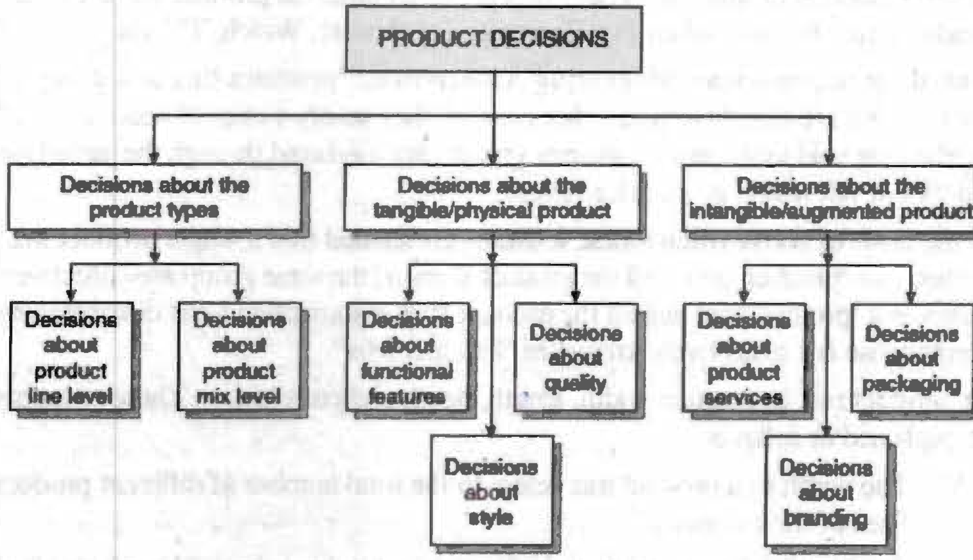

Types of Product Decisions

DECISIONS ON A PRODUCT-MIX LEVEL:

Decisions at the product-mix level represent the highest order decisions made by the company constraining all the subsequent lower order decisions and identifying the business that the company operates.

A company's product mix refers to the total number of products that are offered for sale. The product mix has certain width, length, depth and consistency (Kotler, 2003).

- The width of a product mix refers to the total number of different product lines of the company. For example, width = 2 (pasta and pasta sauces).
- The length of a product mix refers to the total number of brands in all of the company's product lines. For example, length = 5 (three pasta brands and two brands of pasta sauce).
- The depth of a product mix refers to the average number of variants of the company's products. For example, depth = 4 (three pasta brands, each marketed in two sizes: $3 \times 2 = 6$ and 2 pasta sauce brands, each marketed in 1 size: $2 \times 1 = 2$ means $6 + 2 = 8/2 = 4$).
- The consistency of a product mix refers to how closely related are the company's product lines in terms of characteristics, production process, distribution channels to name just a few.

Product decisions at the product-mix level tend to determine the width of a company's product-mix. The basic product-policy/strategy issues at the product-mix level cluster around the following questions:

1. Which product categories should we offer? Will we function primarily as a supplier of materials and components or as a manufacturer of end products?

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2. What are the groups and classes of customers for which our products are intended to serve?
3. Do we seek to serve our markets as full-line suppliers or limited line specialists? Closely allied to this is the degree of custom manufacturing to meet the needs of individual buyers versus quantity production of a limited range of product types.
4. Will we attempt to take a position of technical leadership or will we achieve greater success as a follower?
5. What are the business characteristics (criteria) such as target rate of profit, payback period on investment, minimum sales volume, etc., that each product line must meet in order to be included in the product mix (portfolio)?

The answers to the foregoing questions tend to form the company's general product policy, which will guide management in making decisions pertaining to the addition or elimination of product-lines from the company's product mix. In adding new product-lines management has to decide about the type and the nature of the product lines as well as the ways that these lines should be added to the mix. The decision to add new product-lines to the mix is ordinarily described as **diversification** and it can be materialized through internal R&D, licensing, merger and acquisitions, joint ventures or alliances.

However, companies are also involved in contracting their product-mixes through the elimination of product lines. Decisions are made about identifying, evaluating and specifying which product lines are to be removed from the market. The procedure of eliminating product lines from the company's product- mix is called **divestment or divestiture**.

DECISIONS ON A PRODUCT-LINE LEVEL

Important and complex decisions are also made at the product line level, which tend to determine the length of a company's product mix. The basic product policy strategy issues at the product line level cluster around the following questions:

1. What is the limit beyond which no product should be added?
2. What is the number of different products to be offered in the line and to what extent should they be differentiated?
3. What is the number of different versions (models) to be offered for each product in the line?
4. What are the business criteria (for example, minimum profitability, and minimum sales volume) that each product must meet in order to be included in the line?
5. In how many segments should we compete in order to maintain a secure overall cost and market position in respect of competitors?

In close relation to the company's product-line policy is the company's design policy. The formulation of a design policy may aim at:

1. Giving attention to innovation, high quality and reliable performance, to allow each product in the line to be differentiated from its competitors.

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2. Making the products compatible with the needs, emotional and rational, of the customer.
3. Achieving variety reduction of the range of product types in the line, and a simplification of the design and construction, to secure reduction in overheads and inventories.
4. Replacing expensive materials and those production processes requiring skilled labor to bring about savings in production costs.

Decisions at the product-line level imply either the extension of the line through the addition of new products (for example, Coca-Cola with lemon, Baileys with coffee), or the contraction of the line through the elimination of products, or the replacement of existing products with new and improved ones. The products that are added, eliminated or replaced in the product line might be either versions of existing products, models, sizes and the like – or product types that make up the product line.

Product line extension can be made in two forms:

a) **Line stretching**: Line stretching occurs when the company stretches its product line beyond its current range. In this respect, when a company serves the upper market, it can stretch its line downward by offering a new product in a lower price/quality (for example, Mercedes Benz in cooperation with Swatch launched Smart). By contrast, companies that serve the lower end of the market can make an upward stretch of their line by offering a new product in a higher price/quality (for example, Toyota introduced Lexus). Alternatively, when a company targets its products in the middle market, it can stretch its line both ways.

b) **Line filling:** Line filling occurs when new products are added to a company's present line for reasons like establishing an image of a full-line company, taking advantage of excess capacity, filling gaps in the market and discouraging competitive actions. For instance, there are various kinder chocolate products in the market, such as Kinder Milk Chocolate, Kinder Bueno, Kinder Delice, Kinder Chocolate Eggs and Kinder Happy Hippo. Keeping both products in the company's portfolio can be quite successful, as long as they are targeted to different segments and do not result in customer confusion and product cannibalization.

Product cannibalization can be caused when a new product introduced by a company in the market takes sales out of an existing company product. According to McGrath (2001), cannibalization is unfavorable, particularly for market leaders, when, first the new product will contribute less to profits, secondly, the economics of the new product might be unfavorable, thirdly, the new product will require significant retooling, and fourthly the new product has greater technical risks. Despite the aforementioned negative aspects of cannibalization, it can well be a planned action as part of an attacker's product strategy. Deliberate cannibalization can be implemented by using two main strategies:

1) **Cannibalizing an existing market to attack the market leader:** This strategy is suitable for attacking an entrenched market leader. In this case, the attacker can introduce its product using a different distribution channel (for example, offer a new bank loan through the Internet, instead of the

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traditional bank branch). Although the attacker cannibalizes its own product, it also erodes the position of the dominant company. Since the attacker has less to lose than the leader, it hopes to compensate for its losses with increased market share in the redefined market.

2) **Introducing a new technology first:** This strategy is common in high-technology industries where the market leader has an increased interest in maintaining the existing technology as long as possible. Using this strategy, the attacker can leapfrog the market leader by motivating the existing customers to replace their brand with a superior brand (namely, new technology).

DECISIONS ABOUT THE TANGIBLE/PHYSICAL PRODUCT

The decisions about the product types offered at the product-mix and product-line levels imply mainly the addition or elimination of products, and represent as we have already seen, the extreme and most complex types of product decisions. However, companies are also engaged in relatively less complex decisions, which imply the addition, elimination and modification of the products' specifications and physical attributes. Since products have a multitude of specifications and physical attributes there is almost an unlimited number of ways that products can be changed. Nevertheless, quality, functional features, and style, are the typical dimensions along which changes occur. These types of product changes may result in new and improved products, which are either added to the product line, or replace existing products in the line and consequently they are intimately tied up with the product line decisions.

Product quality:

In formulating a product quality policy, management must answer the following questions:

1. What level of quality should the company offer compared with what is offered by the competitors
2. How wide a range of quality should be represented by the company's offerings?
3. How frequently and under what circumstances should the quality of a product (line) be altered?
4. How much emphasis should the company place on the quality in its sales promotion?
5. How much risk of product failure should the company take in order to be first with some basic improvements in product quality?

Quality stems from manufacture, design or processing, and its basic dimensions are reliability and durability. Altering the materials from which the product is made and/or changing the way the materials are configured can vary both reliability and durability. A company may realize that it can make a real gain from its competitor by increasing the quality of its product and launching the new and improved product. Decisions of offering products with a higher quality may also be linked to a policy

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of trading up. However, an increase in the quality usually means higher costs and although the relationship between level of quality and cost can usually be reflected in the company's cost function, the explicit relationship between demand and quality is far more elusive. The estimation of the elasticity of demand with respect to quality is a difficult exercise.

The functional features of a product:

Another set of decisions revolves around the functional characteristics of the product. The selection of functional features depends very much on the company's design policy, which should give answers to the following questions:

1. What specific product features should be developed and made ready for the next product change?
2. Which of our competitors' product changes should we copy?
3. Should we hold back certain new product features – and which ones – for possible slowdown in sales?
4. What product features should our company emphasize?

Functional features can make the product more attractive to customers. Functional features modification has several competitive advantages and may assist the company, among other things, to find new applications for its product. Significant improvements as measured by technical standards create functional or technological obsolescence.

The style of the product:

Decisions about style may render a product 'different' in terms of its functional capacity and quality level. Style decisions again depend on the company's design and induced obsolescence policies. For example, frequent changes in style can make a product out of date and thus increase the replacement market. This is called style or psychological obsolescence and intends to make a person feel out of date if he/she continues to use it. However, despite the fact that style changes can be extremely effective for a company, they contain a significant element of risk. To start with, style decisions are usually thoroughgoing; companies tend to eliminate the old style by introducing the new one and therefore they risk losing some of the customers who liked the old style in the hope of gaining a large number of customers who like the new one. Moreover, styling is usually not as flexible as functional features. Style can be adopted or dropped quickly but it usually cannot be made optional as easily as functional features. With functional features it is often possible to fit features to satisfy the requirements of specific market segments; with styling it is usually more difficult to predict what kind of people will prefer the new style.

DECISIONS ABOUT THE INTANGIBLE/AUGMENTED PRODUCT:

The tendency to attach a lot of emphasis to the physical product as a basis for customer appeal might have severe consequences for the manufacturer. Management has become more aware in recent years of the fact that distinction between the physical characteristics of competing products and their performance efficiency has diminished. The period of exclusive advantage in the product's physical qualities has been shortened, and as such seeks to develop innovations in areas external to the physical product. The recognition of the fact that characteristics other than the physical ones assist a company to gain a comparative advantage led to the development of the 'augmented product' concept. Augmented product is the physical product along with the whole cluster of services that accompany it. Put another way, it is the totality of benefits that the buyer receives or experiences in obtaining the physical product. It is more the development of the right augmented product rather than the development of the right physical product that distinguish a company's product from those of competitors. According to Levitt (1969) the competition of product augmentation is not competition between what companies produce in their factories but between what they add to their factory output in the form of packaging, services, advertising, customer advice, finance, delivery arrangements, and other things that people value.

In the same context, Blois (1990) argues that 'in an attempt to ensure that their product is not regarded as a "commodity" undifferentiated from their competitors' products, firms will seek ways of augmenting their product – that is adding goods or services to the product over and above what the customer had come to expect'. As far as the product variable is concerned, the key characteristics external to the physical product that offer a company means of achieving a competitive plus are:

- branding,
- packaging and
- product services

BRANDING:

Brand: A brand is a name, sign, symbol or design or a combination of them which is intended to identify the goods or services of one manufacturer or group of manufacturers and to differentiate them from those of competitors. A brand identifies the product for a buyer. Marketers see a brand as an implied promise that the level of quality people have come to expect from a brand will continue with present and future purchases of the same product. The value of brand is determined by the amount of profit it generates for the manufacturer. This results from the combination of increased sales and increased price.

According to William J. Stanton, "All trademarks are brands and thus include the word, letters or numbers which may be pronounced; they may also include a pictorial design."

According to American Marketing Association, "A brand is a name, term, sign, symbol, or design, or a combination of them, intended to identify the goods or services of one seller or group of sellers and to differentiate them for those of competitors."

A brand name when registered is called 'trademark'. In essence, a brand identifies the seller or market. It can be name, trademark, logo or other symbol. Under trademark law, the seller is granted exclusive rights to the use of the brand name in perpetuity.

ADVANTAGES OF BRAND:

Advantages to Producers/ Marketers:

1) **Easy to Advertise:** When the product of an enterprise is marketed with a particular brand, it makes very easy for the enterprise to advertise its

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Check Your Progress

1. Define Product?
2. What do you mean by the term Product Mix?

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product because the enterprise can use the name of the brand in its advertisement message.

2) **Easy to identify the products:** The products can be identified very easily by the use of brand. The producers can advertise their products with their brand and consumers can identify such products easily.

3) **To get mare price:** When consumers like a brand and they start to use the product of that brand, they do not mind the little increase in the prices of such products.

4) **Easy to expand the product**-mix: If the brand of the producer is very popular in the market and the demand of such products is quite encouraging, the producers may decide to expand his product mix. He can add new product lines to his product mix or he can add new product items to his existing product lines. It does not create any difficulty for the producer to create demand for these new products because his brand has already got popularity among the consumers.

Advantages to Consumers:

1) **Easy to recognize: All** the products of a producer are of the same brand, packing, design, color, etc. Therefore, consumers can easily recognize the products of a particular brand of a particular producer.

2) **Availability of Quality Products:** The producers, who use the particular brands for their products, always try to improve the quality of their products because they want to increase the demand of their products. The result of such efforts of producers is that the consumers get the best quality products.

3) **Improved packing:** The packing of the products of standard brands is always of high quality. The name of the brand and all the relevant particulars about the product are printed in packing itself. The packing of such products is very attractive, convenient and durable.

4) **Mental Satisfaction:** The use of the products of a standard brand provides mental satisfaction to the consumers that they are using the goods of high quality and paying reasonable price for these products.

Branding:

Branding is the process of finding and fixing the means of identification. In other words, branding is a management process by which a product is named. Branding creates mental structures that helps consumers to organize their knowledge about products and services in a way that clarifies their decision making and, in the process, provides value to the firm.

Branding refers to decisions about names, including brands, brand names, brand marks and trademarks. A brand is a name, term, design, symbol or any other feature that identifies one seller's good or service as distinct from those of other sellers. A brand may identify one item, a family of items or all items of the seller. If used for the firm as a whole, the preferred name is trade name. A brand name is the part of a brand that can be verbalized; it includes letters, words and numbers. A brand name is sometimes an identity, simplifies shopping and connotes quality to consumers.

The brand mark is a symbol, design or other element of a brand that cannot be spoken.

Branding is the business process of managing your trademark portfolio so as to maximize the value of the experience associated with it, to the benefit of your key stakeholders, especially current and prospective:

a) Employees b) Customers c) Stock/shareholders

d) Suppliers e) Intermediaries

Brand Equity: Brand equity is the added value endowed on product and services. It may be reflected in the way that consumers think, feel and act with respect to the brand, as well as in the prices, market share, and profitability the brand commands for the firm.

It is 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. Powerful brand names command strong consumer preference and are powerful assets. Perhaps the most distinctive skill of professional marketers is their ability to create, maintain, protect, and enhance brands. Measuring the actual equity of a brand name is difficult. However, the advantages of having it include:

- High consumer awareness and loyalty.
- Easier to launch brand extensions because of high brand credibility.
- A good defense against fierce price competition.
- It is believed to be the company's most enduring asset. **Customer equity** tends to aid marketing planning in assuring **loyal customer lifetime value.**

Developing a Branding Strategy:

A firm's brand strategy reflects the number and nature of both common and distinctive brand elements it applies the products it sells. Deciding how to brand new products is especially critical. Management should make some more fundamental policy or strategic decisions pertaining to branding. When a firm introduces a new product, it has three main choices:

1. It can develop new brand elements for the new product.

2. It can apply some of its existing brand elements.

3. It can use a combination of new and existing brand elements.

When a firm uses an established brand to introduce a new product, the product is called a brand extension. When marketer combine a new brand with an existing brand, the brand extension can also be called a subbrand, like Amul Masti Dahi, Maruti swift automobile etc.

Branding Strategy Decisions:

The first branding strategy decision is whether to develop a brand name for a product. Today, branding is such a strong force that hardly anything goes un-

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branded. Assuming a firm decides to brand its products or services, it must then choose which brand names to use. Four general strategies are often used:

- **Individual names:** A major advantages of an individual-name strategy is that the company does not tie its reputation to the products. If the product fails or appears to have low quality, the company's name and image is not hurt for this failure. For Example: Procter & Gamble (India) has several individual brands in different product categories like Vicks (healthcare), Ariel and Tide (fabric care), Pantene, Head & Shoulders, Rejoice (hair care), Pampers (baby care) etc.
- **Blanket family names:** This policy is followed by Tata. The blanket family name of the company is used in diverse products categories such as salt, tea, automobiles etc. Development costs are lower with blanket names because there is no need to run "name" research or spend heavily on advertising to create recognition. Sates of the new products are likely to be very strong if the manufacturer's name is good.
- **Separate family names for all products:** The Aditya Birla Group in India follows this policy to great extent. It uses separate family names for its various products like Hindalco for aluminium, Ultra tech for cement, Grasim and Graviera for suiting etc. If a company produces quite different products like these, one blanket name is often not desirable.
- **Corporate name combined with individual products name:** Kellogg combines corporate and individual names in Kellogg's Krispies, Kellogg's Raisin Bran, and Kellogg's Corn Flakes as do Honda and Sony for their products. The company name legitimizes, and the individual name individualizes, the new product.

  Individual names and blanket family names are sometimes referred to as a "house of brands" and a "branded house", respectively, and they represent two ends of a brand relationship continuum. Separate family name comes in between the two, and corporate-plus-individual names combine them.

  The two key components of virtually any branding strategy are brand extension and brand portfolios.

Brand extensions:

Many firms have decided to leverage their most valuable asset by introducing a host of new products under their strongest brand names. In the 1990s, 81% of new products used brand extension to introduce new brands and to create sales. Launching a new product is not only time consuming but also needs a big budget to create awareness and to promote a product's benefits. Brand Extension is the use of an established brand name in new product categories. This new category to which the brand is extended can be related or unrelated to the existing product categories. A renowned/successful brand helps an organization to launch products in new categories more easily. For instance, Nike's brand core product is shoes. But it is now extended to sunglasses, soccer balls, basketballs, and golf equipments. An existing brand that gives rise to a brand extension is referred to as **"parent brand"**. Brand extension is one of the new product development strategies which can reduce financial risk by using the parent brand name to enhance consumers' perception due to the core brand equity.

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While there can be significant benefits in brand extension strategies, there can also be significant risks, resulting in a diluted or severely damaged brand image. Poor choices for brand extension may dilute and deteriorate the core brand and damage the brand equity. In some cases, the failures of brand extension are at higher rate than the successes.

Advantages of Brand Extension

Brand Extension has following advantages:

1. **It makes acceptance of new product easy.**
   a. It increases brand image.
   b. The risk perceived by the customers reduces.
   c. The possibility of gaining distribution and trial increases. An established brand name increases consumer interest and willingness to try new product having the established brand name.
   d. The efficiency of promotional expenditure increases. Advertising, selling and promotional costs are reduced. There are economies of scale as advertising for core brand and its extension reinforces each other.
   e. Cost of developing new brand is saved.
   f. Consumers can now seek for a variety.
   g. There are packaging and labelling efficiencies.
   h. The expense of introductory and follow up marketing programs is reduced.
2. There are **feedback benefits** to the parent brand and the organization.
   a. The image of parent brand is enhanced.
   b. It revives the brand.
   c. It allows subsequent extension.
   d. Brand meaning is clarified.
   e. It increases market coverage as it brings new customers into brand franchise.
   f. Customers associate original/core brand to new product, hence they also have quality associations.

Disadvantages of Brand Extension

1. Brand extension in unrelated markets may lead to loss of reliability if a brand name is extended too far. An organization must research the product categories in which the established brand name will work.

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2. There is a risk that the new product may generate implications that damage the image of the core/original brand.
3. There are chances of less awareness and trial because the management may not provide enough investment for the introduction of new product assuming that the spin-off effects from the original brand name will compensate.
4. If the brand extensions have no advantage over competitive brands in the new category, then it will fail.

Brand Portfolios:

All brands have boundaries - a brand can only be stretched so far, and all the segments the firm would like to target may not view the same brand equally favorably. Marketers often need multiple brands in order to pursue these multiple segments. Some other reasons for introducing multiple brands in a category include:

a) Increasing shelf presence and retailer dependence in the store.
b) Attracting consumers seeking variety who may otherwise have switched to another brand.
c) Increasing internal competition within the firm.
d) Yielding economies of scale in advertising, sales, merchandising, and physical distribution.

The brand portfolio is the set of all brands and brand lines a particular firm offers for sale in a particular category or market segment. The basic principle in designing a brand portfolio is to maximize market coverage, so that no potential customer are being ignored, but to minimize brand overlap, so brands are not competing for customer approval. Each brand should be clearly differentiated and appealing to a sizable enough marketing segment to justify its marketing and production costs.

Marketers carefully monitor brand portfolios over time to identify weak brands and kill unprofitable ones. Brand lines with poorly differentiated brands are likely to be characterized by much cannibalization and require pruning. Investors can choose among thousands of mutual funds. Students can choose among hundreds of business schools. For the seller, this spells hyper competition. For the buyer, it may mean too much choice.

Reasons for Branding:

Branding helps consumers identify the specific products they like or dislike so that they can purchase the products that satisfy their needs. Branding also helps consumers evaluate the quality of products, especially when they cannot judge a product's characteristics. In addition, a brand that symbolizes status can provide a psychological reward to consumers.

Branding also benefits sellers because brands identify their products, which encourages repeat purchases by consumers. When consumers become loyal to a specific brand, the producers share of that product market achieves a certain level of stability. Moreover, brands that have some-degree of customer loyalty can command premium prices.

Branding can facilitate the introduction of a new product that carries the name of an organization's existing products because buyers are already familiar with the firm's existing brands. Finally, branding expedites promotional efforts because the promotion of each branded product indirectly promotes all other products with a similar brand name.

Selecting an Effective Brand: Because the brand effects, customers' perceptions of and attitudes towards a product and sometimes towards the firm, it ultimately affects purchase decisions. Consequently, selection of an appropriate brand is a critical decision for organizations.

In selecting a brand name, marketers should consider a number of issues. A brand name should be easy for consumers to say, spell and remember. This includes foreign customers if the product is to le marketed in other countries. A short, one-syllable name such as Ponds, is easy to say, spell and recall. The brand name should also suggest a product's uses and special characteristics in a positive way. A perfume's name, for example, might suggest fragrance and magnetism.

An effective brand must be compatible with other products in the line. The manufacturer of kitchen aid appliances, for example, might have some doubts about putting the kitchen aid name on a household drill or vacuum cleaner. Finally, a brand should be designed to that it can be used and recognized in newspapers, magazines and billboards and a television and radio.

A brand name should also convey the derived product image. For instance, 'A-1 Steak Sauce' suggests a high quality product. Sporting goods made by 'Everlast' have an image of strength and durability. On the other hand, a bank named 'Fifth Bank' may convey an image cf an unsuccessful bank or a bank that is not the leader.

Categories of Brand: Brands fall into three categories, manufacturer, private distributor and generic brands. A manufacturer brand is developed and owned by its producer, who is usually involved with distribution, promotion and to some extent pricing decisions for the brand. IBM, Sony, Tata, Bajaj etc. are manufacturer brands. Manufacturer brands make it possible for consumers to identify products with their manufacturers at the point of purchase.

A Private Distributor Brand is developed and owned by re-seller, such as wholesaler or retailer. The manufacturer of a private brand is not identified on the product. Re-sellers employ private distributor brands to develop morn efficient promotion, generate higher gross margins and improve store image.

A Generic Brand does not list the manufacturer or any other distinguishing information on its label; only the product type (such as peanut butter, tomato sauce, cigarettes, papertowel) is identified. Because generic brands are rarely advertised, many grocery stores sell them at lower prices than they sell comparable branded items. Much of the growth in generic grocery brand sales has been at the expense of private distributor brands.

PACKAGING:

Packaging involves all the activities of designing and producing the container for a product. Well-designed packages can build brand equity and drives sales. The

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package is the buyer's first encounter with the product and is capable of turning the buyer on or off. Packaging also affects consumer's later product experiences. Packaging is often the key element in assisting mainly consumer goods companies to achieve a comparative advantage. The critical decisions that must be made on the package are concerned with the functions the product pack will perform as well as with the mix of packaging components best able to perform in different degrees, the particular functions of the packaging.

Packaging means wrapping of goods before they are transported or stored or delivered to a consumer. On the other hand, packaging is the sub-division of a packing function of marketing. "Packaging" has been defined as "an activity which is concerned with protection, economy, convenience, and promotional consideration".

According to William J. Stanton, "Packaging may be defined as a general group of activities in product planning which involves designing and producing the container or a wrapper for a product".

From the perspective of both the firm and consumers, packaging must achieve a number of objectives:

1. Identify the brand.
2. Convey descriptive and persuasive information.
3. Facilitate product transportation and protection.
4. Assist at-home storage.
5. Aid product consumption.

Reasons for Growth of Packaging:

1. **Self-service:** An increasing number of products are sold on self-service basis. In an average super market, which stocks 15,000 items, the typical shopper passes by some 300 items per minute. Given that 50% to 70% of all purchases are made in the store, the effective package must perform many of the sales tasks: attract attention, describe the product's features, create consumer confidence, and make a favorable overall impression.
2. **Consumer affluence:** Rising consumer affluence means consumers are willing to pay a little more for the convenience, appearance, dependability, and prestige of better packages.
3. **Company and brand image:** Packages contribute to instant recognition of the company or brand. In the store, packages for the brand can create a visible billboard effect, such as Garnier Fructis and their bright green packaging in the hair care aisle.
4. **Innovation Opportunity:** Innovation packaging can bring large benefits to consumer and profits to producer. Calcium Sandoz bottles, targeted at children and women, have been designed to make them attractive to the target customers.

Functions of Packaging:

1. **Product Protection:** Package protects the product. Package prevents breakage, contamination, pilferage, chemical change, insect attack, etc.
2. **Product Containant:** Package means using just the space in which the product will be contained.
3. **Product Attractiveness:** Attractiveness is a major consideration in modern packaging because the psychological feeling is that a good package contains good quality product in it. Therefore the size, shape of the package, its color, printed matter on it etc must make the package attractive.
4. **Product Identification:** Packages differentiate similar products. Packaging and labeling are inseparable and are closely related to branding.
5. **Product Convenience:** The purpose of packaging is not merely confined to consumer service. The design and size of the package must be in accordance with the contents, i.e., product; it must be convenient to the ultimate customers. Package which can be easily handled, opened, moved, etc., is appreciably favored by customers.

Advantages of Packaging:

Advantages of Packaging may be divided into three parts:

1) **Advantage to Manufacturers:** Advantages of packaging available to manufacturer are as under:

a) To keep the product safe;
b) To minimize the possibilities of adulteration;
c) To facilitate storage;
d) To facilitate distribution;
e) Helpful in advertising and sales promotion;
f) To increase the demand:
g) To increase the profits;
h) To increase the goodwill of the enterprise.

2) **Advantage to Middlemen:** Middlemen get following advantages of packaging:

a) Helpful in storage;
b) Helpful in handling;
c) Helpful in presenting the product before the consumers;

3) **Advantages to Consumers:** Packaging offers following advantages to consumers:

a) Minimum possibility of adulteration;
b) Helpful in providing necessary information about the product.
c) Helpful in providing necessary information about the producer;

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Check Your Progress

3. Explain the term Branding.
4. What is Packaging?

NOTES

d) Helpful in providing necessary instruction for the use of the product.

Decisions for Packaging:

The packaging components for which management must take a decision are the following:

1. packaging materials,
2. package size,
3. package shape,
4. package color, texture and graphic art, and
5. other packaging components such as 'ease of opening', 'ease of use', 're-usability', and so on which are incorporated into the package design.

One of the most important decisions pertaining to packaging components is the package-size decision, which is ultimately tied up with the product-line decisions. Changes in the size of the package may create an illusion of a new product. Companies tend to add to their lines either 'king' or 'giant economy' package sizes or 'small' package sizes. The packaging size decision evolves from appraisals of several factors, but the most important are the consuming unit and the rate of consumption. So it is important decide the package-size/consumption-rate relationship that are a major base for market segmentation. For instance, companies tend to segment markets on the basis of heavy, moderate and light user characteristics, and to develop package sizes accordingly. Similarly, the shape of the package can be used for segmentation purposes. Generally, packaging can be a powerful competitive tool as well as a major component of a marketing strategy. A better box or wrapper, a secondary use package, a unique closure or a more convenient container size, may give a company a competitive advantage. The companies can take advantage of an innovative packaging to gain a differential advantage over competitors.

PRODUCT SERVICES:

Finally, one more intangible characteristic through which a company may achieve a comparative advantage is product services. Product services tend to expand a product's utility and the buyers associate them with the physical product when considering alternative offers. For many industrial products, service policies are indispensable; for some consumer products, they are important elements in marketing programs. However, companies do, and can, offer an almost infinite range of services. However, the product connected services are rather limited and can be classified, using the type of value they add to the product as a basis for classification, into:

- product performance enhancing services;
- product life prolonging services and
- product risk reducing services

The product performance enhancing services are more important for industrial goods and include installation, application engineering and the training of operators. The product life prolonging services are equally important for both consumer and industrial products and intend to keep the product operating satisfactorily for a long period of time, and therefore, increase the customer's satisfaction. These services are primarily concerned with maintenance and repair. The product risk reducing services intend to reduce the risk associated with the uncertainty about a product and include product warranties. A warranty whether expressed or implied represents a seller's obligation for certain services such as free repair, full and partial refund of the purchase price, or replacement of the product. However, since every type of service is associated with different cost structures and customer perception, a company should combine services into a total 'service offering' in such a way as to minimize cost on the one hand and maximize favorable customer responses on the other. This means that each time a company changes its product service policies, such change (product decision) should lead towards an 'optimum' product service offering. This, of course, presupposes that the company knows very well the services that customers value most and their relative importance.

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PRODUCT DECISIONS FOR SERVICES:

The types of product decisions, which were described in the previous sections, require certain adjustments for service companies. In particular, while the decisions for the products to be offered at the product mix and the product line levels remain the same, there are significant differences as to the decisions for the tangible/physical and intangible/augmented product of the service providers (for example, packaging or style have no meaning).

Decisions about the tangible/physical service:

Given the intangible nature of services, the decisions regarding the tangible/physical service aim at reducing this inherent intangibility of services, and thus, helping customers perceive the service more easily. In general, this effort is assigned to marketers and it is considered so critical that it is recognized as the fifth p of the marketing mix (namely, physical evidence), along with product, price, place and promotion. Physical evidence includes the following elements:

• Facility exterior (for example, car park, signing);

• Facility interior (for example, lighting, temperature, interior design);

• Tangibles (for example, brochures, business documents, personnel uniforms).

The pertinent decisions a service company has to make include:

1. How tangible should the service be?

2. What elements should they be used to make a service more tangible?

Types of product decisions for service companies:

According to SERVQUAL model, five broad dimensions of service quality are as follows:

• Tangibles (for example, modern-looking equipment, visually appealing);

• Reliability (for example, showing a sincere interest in solving customers' problems);

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• Responsiveness (for example, willingness to help customers);

• Assurance (for example, knowledge to answer customer questions);

• Empathy (for example, to give customers individual attention).

The SERVQUAL model is based on the comparison of customers' perceptions of a service and their respective expectations.

According to INDSERV model, service quality comprises four underlying dimensions, namely:

• Potential quality (for example, offers full service, has required facilities);

• Hard process quality (for example, keeps time schedules, honors, looks at details);

• Soft process quality accepted enthusiastically (for example, listening to our problems, open to suggestions/ideas, argue if necessary);

• Output quality (for example, reaches objectives, contributes to our sales/image).

Potential quality relates to the search attributes that customers use in order to evaluate the provider's ability to perform the service before the relation has actually begun. **Hard quality** pertains to what is being performed during the service process, while **soft quality** pertains to how the service is performed during the service process. **Output quality** refers to the client's evaluation of the end-results of the hard and soft parameters.

All in all, service companies must make the following decisions in relation to service quality:

1. Which service quality dimensions should the company focus on?

2. How often and under which conditions should the company change the quality of its services?

3. How much emphasis should the company give to service quality during sales promotion?

Decisions about the intangible/augmented service

Decisions about the intangible/augmented service refer to the core service/delivery process, the supplementary services/delivery process and branding. The core service refers to the basic functional characteristics or to put it differently, to the core benefit delivered to the customer (for example, transportation, and car repair). Due to its inherent intangibility, a service can be viewed as an 'experience' that the customer lives through a specific delivery process. Designing the appropriate delivery process is an essential decision, which includes how and when the service is going to be offered, as well as the degree of involvement and interaction of frontline personnel and customers. For designing a service delivery process better, a '***service blueprint***' is used, which represents graphically the whole delivery system. In total, a service company must decide:

1. Which are the basic functional characteristics of its services?

2. Which functional characteristics must be emphasized?
3. How differentiated should these characteristics be from competition?
4. Which processes should be designed for delivering its services?

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CASE STUDY OF BRANDING:

The case describes: -

- Brand management strategies of the German branded goods major Beiersdorf for its Nivea range of products.
- Nivea's journey from being a one-product brand to a range encompassing fourteen product categories.
- The strategies taken by the company to ensure that brand dilution did not hamper the umbrella branding initiatives for Nivea.

Company Overview

- Nivea is a brand of Beiersdorf a German based company owing various other cosmetics brand.
- Company presents over 14 product categories.
- These product categories serve many people of 150 countries.
- Nivea began its operations in the year 1911.
- Mr. Oscar Troplowitz was the owner of this company and also he was the person who named it Nivea.
- Nivea comes from the Latin word niveus/nivea/niveum i.e. Snow-white.

Market Share: The brand had a 15% market share in the global skin care products market in 1990.

Core values of Nivea:

- They were not using animal fats in their product. Their product is made off natural ingredients.
- Nivea has a strong brand personality which is emotionally involving, based on childhood, trust and love.
- Nivea products meet consumer needs.
- Nivea is the mass market brand which offers the largest skincare assortment.
- Nivea always concern of keeping its brand young, attractive, energetic and sympathetic.
- The Nivea brand has always been closely linked with consumer.
- Nivea is truly global product, and its product are same everywhere.

Brand Extension Framework

- To maintain the brand extension framework, Nivea made sure that product extension that they are offering to the consumer is really adding value or not.
- They were offering their consumer an innovative product, so that consumer can try their product.

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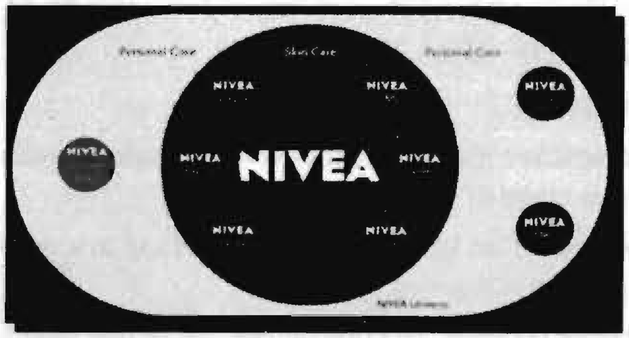
- To differentiate their product from competitors, Nivea adopted strategy of product variants, so that they can tap every consumer from the all corner of the world.



Market Strategy

- The target segment of Nivea was primarily women from the upper strata of society.
- Mass-marketing.
- Take the help of advertising for the brand recognition.
- Expanding the brand globally.

Reasons to expand the brand:

The main reasons to expand the brand to different product categories are as follows:

- Beiersdorf wanted to go globally with Nivea brand, so they extended their product categories.
- Geographical condition of various countries also motivated Beiersdorf to extend the brand Nivea.
- Beiersdorf wanted to increase the brand equity of Nivea brand, that's why they adopted the strategy of product category extension.
- As the competition increased in skin care market it was necessary for Nivea to extend it brand to be a-step-ahead of the competition.
- To tap all age group of consumer both male and female, it was essential for Nivea to extend its brand.

Brand Extension is of the new product development strategies, which can reduce financial risk by using the parent brand name, so Nivea decided to extend it product categories to tap new set of consumers.

Umbrella Branding

- An umbrella brand is a brand that covers diverse kinds of products which are more or less related.
- It applies also to any company that is identified only by its brand and history.
- An umbrella is a place brand used by a locality to attract the attention of different kinds of audiences, e.g. incoming tourists, investors, or students.

Pros of using Umbrella branding

- The same brand supports several products in different market.

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- The main advantage of using umbrella branding strategy is the capitalization on one single name.
- The umbrella branding strategy also helps new product to penetrate in the market.
- Umbrella branding strategy also helps in brand awareness and brand recall.
- An umbrella brand strategy allows the core brand to be nurtured by association with products with which it was not previously associated.
- An umbrella brand strategy also helps companies to reduce promotional and advertisement cost.

Cons of using umbrella Branding Strategy

- If the brand is not managed well, there is a threat for its associate brands.
- If the core brand is not stronger than its extension, it may destroy the brand image.
- Sometimes the brand communication strategy of core brand affects the extension brand, the message that the core brand is communicating is not clear.

Q. Why did Beiersdorf decide to extend the brand to different product categories? In the light of Beiersdrof's brand extension of Nivea, critically comment on the pros and cons of adopting an umbrella branding strategy?

Q. What are the core values of the Nivea brand? What type of brand extension framework did Beiersdorf develop to ensure that these core values did not get diluted?

SUMMARY

- A product is anything that can be offered to a market for attention, acquisition, use, or consumption and that might satisfy a want or need. Product is anything that can be offered by a market that may satisfy the wants of the consumer.
- Product is a combination of physical attributes like, size or shape; and subjective attributes like, image or quality.
- The product decision can be defined as every conscious decision made by a company for a product.
- A product-mix is the set of all product lines and items that a particular seller offers to buyer for sale.
- Product item refers to a specific product of certain specifications and may be distinguished from other products or brands.
- Branding creates mental structures that helps consumers to organize their knowledge about products and services in a way that clarifies their decision making and, in the process, provides value to the firm.
- Brand equity is the added value endowed on product and services. It may be reflected in the way that consumers think, feel and act with respect to the brand, as well as in the prices, market share, and profitability the brand commands for the firm.

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- Brand Extension is the use of an established brand name in new product categories. This new category to which the brand is extended can be related or unrelated to the existing product categories.
- Brand extension is one of the new product development strategies which can reduce financial risk by using the parent brand name to enhance consumers' perception due to the core brand equity.
- The brand portfolio is the set of all brands and brand lines a particular firm offers for sale in a particular category or market segment.
- Packaging has been defined as "an activity which is concerned with protection, economy, convenience, and promotional consideration".
- Product services tend to expand a product's utility and the buyers associate them with the physical product when considering alternative offers.

ANSWERS TO 'CHECK YOUR PROGRESS'

1. A product is a bundle of physical services and symbolic particulars expected to yield satisfactions or benefits to the buyer.
2. A product-mix is the set of all product lines and items that a particular seller offers to buyer for sale.
3. Branding is a process of finding and fixing the means of identification. Branding is a management process by which a product is named.
4. Packaging involves all the activities of designing and producing the container for a product.

TEST YOURSELF

1) What do you mean by Product Decision?
2) Briefly discuss various types of Product Decision.
3) Explain the concept of Branding.
4) Describe strategies of Branding Decisions.
5) What is Brand Extension?
6) Explain Brand Portfolios.
7) What do you mean by Packaging?
8) Discuss various reasons for the growth of Packaging.
9) Explain various functions of Packaging.
10) What do you mean by Product Services? Explain product decisions for services.

FURTHER READING

- *Kotler & Armstrong, Principles of Marketing Management*
- *Kotler, Keller; Marketing Management, Pearson Education*

4 Product Life Cycle And New Product Development

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Chapter Includes :

- PRODUCT LIFE CYCLE
- LIMITATIONS OF THE PRODUCT LIFE CYCLE THEORY
- UTILITY OF PRODUCT LIFE CYCLE
- ASSUMPTIONS OF PRODUCT LIFE CYCLE
- NEW PRODUCT DEVELOPMENT
- NEW PRODUCT FAILURE
- TYPES OF MARKET TESTING
- ORGANIZING NEW PRODUCT DEVELOPMENT
- PRODUCT LIFE CYCLE
- IDEA GENERATION:
- CONCEPT TESTING AND DEVLOPMENT
- TOTAL SALES ESTIMATION
- COMMERCIALIZATION
- INNOVATIVE MARKETING

Learning Objective :

After going through this chapter, you should be able to:

- Explain Product Life Cycle.
- Discuss New Product Development.
- Analyze New Product Failure.
- Understand the process of New Product Development.

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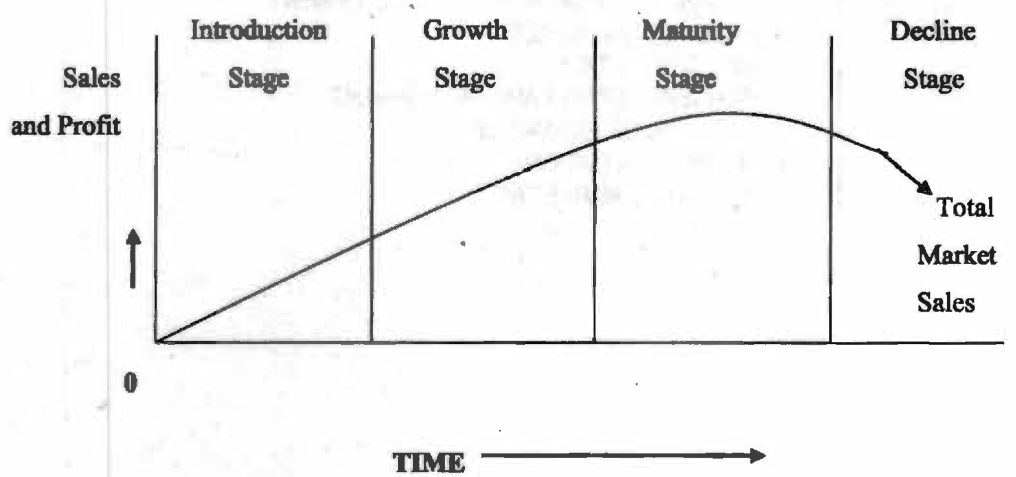
PRODUCT LIFE CYCLE

The theory of a product life cycle was first introduced in the 1950s to explain the expected life cycle of a typical product. Like human beings, products also have their own life-cycle. From birth to death human beings pass through various stages e.g. birth, growth, maturity, decline and death. The product life cycle also goes through multiple phases, involves many professional disciplines, and requires many skills, tools and processes. A product life begins with its introduction, and then goes through a period, during which it grows rapidly, then it reaches at maturity, then decline and finally its life comes to end.

The stages through which individual products develop over time are commonly known as the **"Product Life Cycle".**

The product life cycle has four stages (illustrated in the diagram below): introduction; growth; maturity and decline-



Product Life Cycle

According to Philip Kotler, "The product life cycle is an attempt to recognize distinct stage in the sales history of the product."

According to Arch Patton, "The life-cycle of a product has many points of similarity with the human life cycle; the product is born, grows lustily, attains dynamic maturity then enters its declining year."

A company's positioning and differentiation strategy must change as the product, market, and competitors change over the product life cycle (PLC). To say that a product has a life cycle is to assert four things:

1. Products have a limited life.
2. Product sales passes through distinct stages, each posing different challenges, opportunities, and problems to the seller.
3. Profits rise and fall at different stages of the product life cycle.
4. Products require different marketing, financial, manufacturing, and purchasing strategies in each life-cycle stage.

Strategies in different stages of the Product Life Cycle:

Introduction Phase

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This is the phase where a product is conceptualized and first brought to the market. When the product is introduced, sales will be low because customers are unaware about the product and its benefits. Some firms may announce their product before its introduction, but such announcements also alert the competitors. Advertising cost is very high during this stage in order to increase the customer's awareness of the product. During the introduction stage, the major objective of the concern is to establish a market and build primary demands for the product. The goal of any new product introduction is to meet consumer's needs with a quality product at the lowest possible cost in order to return the highest level of profit. The introduction of a new product can be broken down into five distinct parts:

- **Idea validation-** A company, finds that areas where needs are not being met by current products, and tries to think of new products that could meet that need. The company's marketing department is responsible for identifying market opportunities and defining who will buy the product, what the primary benefits of the product will be, and how the product will be used.
- **Conceptual design** occurs when an idea has been approved and begins to take shape. The company has to study about the available materials, technology, and manufacturing capability for the creation of a new product. Once that is done, more thorough specifications are developed, including price and style. Marketing is responsible for minimum and maximum sales estimates, competition review, and market share estimates.
- **Specification and design** is when the product is nearing release. Final design questions are answered and final product specs are determined so that a prototype can be created.
- **Prototype and testing** occurs when the first version of a product is created and tested by engineers and by customers. The marketing department is extremely important at this point. It is responsible for developing packaging for the product, conducting the consumer tests through focus groups and other feedback methods, and tracking customer responses to the product.
- **Manufacturing ramp-up** is the final stage of new product introduction. This is also known as commercialization. When the product completes its production and ready to release in the market, final checks are made on product reliability and variability.

In the introduction phase, sales may be slow as the company builds awareness of its product among potential customers. At this stage, marketing budget plays significant role for advertisement. The type of advertising depends on the product. If the product is intended to reach a mass audience, than an advertising campaign built around one theme may be in order. If a product is specialized, or if a company's resources are limited, than smaller advertising campaigns can be used. As a product matures, the advertising budget associated with it will most likely shrink since audiences are already aware of the product.

NOTES

Author Philip Kotler has found that marketing departments can choose from four strategies at this stage. These are as follows:

i. **Rapid skimming strategy:** The rapid refers to the speed with which the company recovers its development costs on the product and the strategy calls for the new product to be launched at a high price and high promotion level. High prices mean high initial profits (provided the product is purchased at acceptable levels of course), and high promotion means high market recognition. This works best when the new product is unknown in the market place.

ii. **Slow Skimming Strategy:** Slow skimming strategy entails releasing the product at high price but with low promotion level. Again, the high price is designed to recover costs quickly, while the low promotion level keeps new costs down. This works best in a market that is made up of few major players or products. The small market means everyone already knows about the product when it is released.

iii. **Rapid penetration strategy:** The other two strategies involve low prices. The first is known as rapid penetration and involves low price combined with high promotion. This works best in large markets where competition is strong and consumers are price-conscious.

iv. **Slow penetration strategy:** The second is called slow penetration, and involves low price and low promotion. The low price enables the company to penetrate the market whereas the low promotional costs enable the company to have better profitability.

Growth Phase

After completing the introduction phase, product enters the growth phase. The growth phase is a period of rapid revenue growth. The sales increase as more customers become aware of the product and its benefits. Once the product has been proven a success and customers begin asking for it, sales will increase further as more retailers become interested in carrying it. The marketing team may expand the distribution at this point. When competitors enter in the market, often during the later part of the growth stage, there may be price competition and/or increased promotional costs in order to convince consumers that the firm's product is better than the competitor's product.

The growth phase occurs when a product has survived its introduction and it's beginning to be noticed in the marketplace. This is the boom time for any product. Competition grows as awareness of the product builds. Minor changes are made as more feedback is gathered or as new markets are targeted. The goal for any company is to stay in this phase as long as possible. It is possible that the product will not succeed at this stage and move immediately past decline and straight to cancellation. Marketing department needs to evaluate just what costs the company can bear and what the product's chances for survival are. If the product is doing well, then the marketing department has other responsibilities. The goal of marketing department is to build brand loyalty for attaining more buyers and retaining past buyers. Sales, discounts, and advertising all play an important role in that process.

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During the growth stage, the goal is to gain consumer preference and increase sales. The marketing mix may be modified as follows:

- Add new product features and packaging options;
- Improvement of the product quality.
- Maintained at a high price level if demand is high, or reduced to capture additional customers.
- Distribution becomes more intensive. Trade discounts are minimal if resellers show a strong interest in the product.
- Increase the promotional activities to build brand preference.

Maturity Phase

Most products that survive the earlier stages tend to spend longest in this phase. Sales grow at a decreasing rate and then stabilize. Producers try to differentiate its products to the other products that are offered in the market. Price wars and intense competition occur at this point. At this stage the market reaches saturation. Producers begin to leave the market due to poor margins. Promotion becomes more widespread and uses a greater variety of media. At the maturity stage, growth in sales has started to slow and approaching the point where the inevitable decline will begin. Defending the market share becomes the chief concern, as marketing departments have to spend more and more on promotion to persuade the customers to buy the product. Additionally, more competitors have stepped forward to challenge the product at this stage, some of which may offer a higher quality version of the product at a lower price. This can create price wars. Lower prices mean lower profits, which will cause some companies to drop out of the market. The money earned from the mature products should then be used in research and development to come up with new product ideas to replace the maturing products. From marketing point of view, experts argue that the right promotion can make more impact at this stage than at any other. One popular theory postulates that there are two primary marketing strategies to utilize at this stage—offensive and defensive. Offensive strategy means looking beyond current markets and attempting to gain brand new buyers. Relaunching the product is one option. Other offensive tactics include changing the price of a product (either higher or lower) to appeal to an entirely new audience or finding new applications for a product. Defensive strategies consist of special sales, promotions, cosmetic product changes, and other means of shoring up market share. It can also mean quite literally defending the quality and integrity of your product versus your competition.

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Decline phase

This is the last and most crucial stage in the product life cycle. At this point there is a downturn in the market, this may due to more innovative products are introduced or consumer tastes have changed. There is intense price-cutting and many more products are withdrawn from the market. At this stage, revenues will drop to the point where it is no longer economically feasible to continue making the product. Investment is minimized. The product can simply be discontinued, or it can be sold to another company. Under this scenario, the product is discontinued and stock is allowed to dwindle to zero, but the company sells the rights to supporting the product to another company, which then becomes responsible for servicing and maintaining the product.

Limitations of the Product Life Cycle Theory:

The term "life cycle" implies a well-defined life cycle as observed in living organisms, but products do not have such a predictable life and the specific life cycle curves followed by different products vary substantially. Consequently, the life cycle concept is not well-suited for the forecasting of product sales. Furthermore, critics have argued that the product life cycle may become self-fulfilling. Nonetheless, the product life cycle concept helps marketing managers to plan alternate marketing strategies to address the challenges that their products are likely to face. It also useful for monitoring sales results over time and comparing them to those of products having a similar life cycle. A new product progresses through a sequence of stages from introduction to growth, maturity, and decline. This sequence is known as the product life cycle and is associated with changes in the marketing situation, thus impacting the marketing strategy and the marketing mix.

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 due to some improvement or re-design.
- This theory leads to over-emphasis on new product releases at the expense of mature products, but in reality the greater profits could possibly be derived from the mature product.
- This theory emphasizes individual products instead of taking larger brands into account.
- This theory does not adequately account for product redesign and/or reinvention.

Utility of Product Life Cycle:

1. **As a Forecasting Tool:** The study of product life cycle is an important tool for sales forecasting. It helps to foretell that problems and prospects, which will be faced by a product in future.

2. **As a Planning Tool:** The study of product life cycle is an important tool for planning. The study of product life cycle reveals the marketing strategies and policies of competitors. On the basis of this information, marketing manager of the enterprise can prepare his marketing plan.

3. **As a Control Tool:** The study of product life cycle helps in controlling the marketing activities of an enterprise.

4. **Development of New Products:** The study of product life cycle studies the changes taking place in the needs, habits, tastes and attitude of consumers. Keeping in view these changes, necessary decisions may be taken for the improvement of existing products and development of new products.

Assumptions of Product Life Cycle:

I. The products have a limited life,

II. The product sales pass through distinct stages, each having different challenges, opportunities, and problems to the seller,

III. The profits rise and fall at different stages of product life cycle, and

IV. The products require different marketing, financial, manufacturing, purchasing, and human resource strategies in each life cycle stage.

Summary of Product Life Cycle Characteristics, Objectives, and Strategies

	Introduction	Growth	Maturity	Decline
Characteristics				
Sales	Low Sales	Rapidly rising sales	Peak sales	Declining Sales
Costs	High cost per customer	Average cost per customer	Low cost per customer	Low cost per customer
Profits	Negative	Rising profits	High profits	Declining profits
Customer	Innovator	Early adopters	Middle majority	Laggards
Competitors	Few	Growing Number	Stable number beginning to decline	Declining number
Marketing Objectives				
	Create product awareness and trial	Maximize market share	Maximize profit while defending market share	Reduce expenditure and milk the brand

NOTES

Strategies				
Product	Offer a basic product	Offer product extensions, service, warranty	Diversify brands and items models	Phase out weak products.
Price	Charge cost plus	Price to penetrate market	Price to match or best competitors	Cut price
Distribution	Build selective distribution	Build intensive distribution	Build more intensive distribution	Go selective: phase out unprofitable outlets
Advertising	Build product awareness and early adopters and dealers	Build awareness and interest in the mass market	Stress brand differences and benefits	Reduce to level needed to retain hard core loyals
Sales Promotion	Use heavy sales promotion to attract consumers	Reduce to take advantage of heavy consumer demand	Increase to encourage brand switching	Reduce to minimal level

NEW PRODUCT DEVELOPMENT

Cut That Matter and Paste it in Introduce

A firm's new product development efforts are shaped by its size, as well as the nature of the industry in which it operates. New products may be defined as any product, service, or idea not currently made or marketed by a company, or which the consumer may perceive as new. In business, product development is the term used to describe the complete process of bringing a new product or service in the market and it is an ongoing practice in which the entire organization is looking for opportunities as new products provide growth promise to organizations that allow them to strengthen their market position. There are two parallel paths involved in the new product development process: one involves the idea generation, product design, and detail engineering; the other involves market research and marketing analysis. Intense global competition, short product and technology lifecycles, unpredictable consumer buying patterns and possible market stagnation makes new product development a critical activity in most businesses. Various studies suggest that between 50 and 80 percent of new products fail. There are numerous reasons for failure of new products; faulty management and planning are at the core of most failures. Therefore, managing the new product development process is a key to a healthy organization.

Today's successful firms learn and re-learn how to deal with the dynamics of consumers, competitors and technologies, all of which require companies to review and reconstitute the products and services they offer to the market. This, in turn, requires the development of new products and services to replace current ones. The product can satisfy the market needs and is sufficiently differentiated from competitors at price that will provide contribution to overheads. We can no longer ignore safety and environmental impact of our product. The business plan should provide guidance on likely areas for product development and in circumstances will constraints development or at least provide a strategic method of comparing opportunities.

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HISTORY

The history of product innovation can be divided into three stages, beginning with the product-oriented or technology-pushed stage. In the post-World War II era Americans were coming off wartime shortages and were in the mood to buy the many goods that manufacturers produced. This was a product-oriented process in which the market was considered the receptacle for products that emerged from the firm's research and development efforts.

However, competition escalated and consumers became more skeptical and selective about the types of products they purchased. Marketers found it increasingly difficult to rely on persuasive sales techniques to move products. Retailers grew restless when these products did not move off shelves as quickly as planned. Companies had to know more about their target markets. What were the wants and needs of the people who were buying their products? How could their firm satisfy these wants and needs?

The second stage was marked by the emergence of the market as the driver of innovation. Instead of being technology-driven, new product development evolved into a market-led process in which new products emerged from well-researched customer needs. The new product development process was placed in the hands of marketers who knew consumers' wants and needs. Customer demand "pulled" the product through the development process.

Modern new product development is a blending of these two orientations into a "dual-drive" approach to innovation. Companies recognize that innovation is a complex process that requires sound investment in research and development, as well as significant marketing expertise that focuses on satisfying consumers' wants and needs.

The rapid pace of change that engulfed businesses toward the end of the twentieth century put an even greater burden on companies to build adaptive capabilities into their organizations. Global competition means there are more competitors capable of world-class performance. This has made competition more intense, rigorous, and aggressive than ever before. Fragmenting and more sophisticated markets mean that consumers demand more from products in terms of quality, differentiation, and "meaningfulness."

New technologies have had two important outcomes in regards to innovation. First, new technologies are responsible for this new market sophistication in which con-

Check Your Progress

1. What is Product Life Cycle?
2. Define Product Development.

NOTES

sumers have more choices and are thus more demanding. Secondly, new technology has increased manufacturers' capabilities for rapid response to shifting market needs.

Finally, product life cycles have become more compressed as the skills required for developing new products increase in complexity. For example, consider the development of a new type of computer software. The expertise needed to develop the software from conception to commercialization might take years. The product's life cycle in such a competitive and turbulent environment might last only a few months. Therefore, companies have embraced the view that new products are transient, whereas the skills and expertise needed to develop these products are a much more persistent requirement for success. Instead of the mono-approach, in which technology or markets drive innovation, new product development now requires a convergence of technology, marketing, product design, engineering, and manufacturing capabilities. Speed, efficiency, and quality in product development are the challenges that new product development faces in today's intense competitive environment.

Meaning and Definition of Product Development:

Product Development is the next step to product planning. Product development is the process of finding out the possibility of producing a product.

According to William J. Stanton, "Product Development encompasses the technical activities of product research, engineering and design".

According to Limpson and Darling, "Product Development involves the adding, dropping, modification of item specifications in the product line for a given period of time, usually one year."

Product Development involves:

a) Product Innovation

b) Product Improvement

c) Packing Improvement

a) **Product Innovation:** It is the development of a new product resulting into an increase in the product line. The change in the market, technological changes, change in customer needs and styles etc. are taken into consideration.

b) **Product Improvement:** Product improvement involves improvement in quality, size, form, design and packing of the existing product.

c) **Packing Improvement:** This is also an important form of product development. The attractive packing helps to increase the sale of the products.

Categories of New Product:

1. **New to the World Product:** New products that create an entirely new market.

2. **New Product Lines:** New products that allow a company to enter an established market for the first time.

3. **Additions to existing Product Lines:** New products that supplement a company's established product lines.

4. **Repositioning:** Existing products that are targeted to new markets or market segments.

5. **Cost Reductions:** New products that provide similar performance at lower cost.

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Factors Contributing to New Product Development:

1. **Changing Customer Preferences:**

   The driving force in new product development is changing customer life-styles, leading towards a change in the customer's preferences and expectations.

2. **Technological Changes:**

   Another factor is the technological change in the industry and the market that contribute in the development of new product.

3. **Government Policy:**

   Government policy can also encourage or foster new product development processes.

ADVANTAGES OF PRODUCT DEVELOPMENT

The following are the advantages of product development:

i. **Industrial Stability:** A firm following the policy of product development is likely to be more stable because it will not have to face the obsolescence or closure of the unit because it always remains in touch with changes in technology, new products and new markets.

ii. **Diversification of risk:** Product development helps to diversify the product as well as risk. The greater the variety of products produced by a firm, the smaller the relative impact of one's disappearance from the market.

iii. **Availability of new products:** Product development helps to bring new products in the market. The most successful products of one time become obsolete the other day. Hence, the marketers consciously strive to reach specific market segments by introducing new products.

iv. **Proper utilization of waste and scrap:** Product development helps the company to make proper utilization of waste or scrap from the present production.

v. **Efficient use of marketing and production skills:** Product development helps the companies to make more efficient use of marketing and production skills.

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NEW PRODUCT FAILURE

New Product Development can be quite risky. The new product largely depends on the product quality and the marketing tactics of the firm, there are many occasions were the product failed miserably even after using the best technology and quality the reason is that the new product is not worth for the customers. The prime factor for the new product success is - customer value. New products can fail for many reasons: ignored or misinterpreted market research; overestimates of market size, high development costs, poor design, incorrect positioning, ineffective advertising, or wrong price, insufficient distribution support etc. Some additional factors hindering new product development are:

1. **Shortage of important ideas in certain areas:**

   There may be few ways left to improve some basic products.

2. **Social and Governmental Constraints:**

   New products must satisfy consumer safety and environmental concerns.

3. **Distribution related market:**

   The new product fails if the product is unable to meet the channel requirements. While developing the product the channel requirements must be given adequate consideration. For Example: when NESTLE launched its new chocolates the product and promotion was ok but the product failed in the distribution side because the company stipulated the product to be stored in refrigerators. The product faced two problems in the distribution side because it meant excluding a number of retail outlets as they didn't have this facility and secondly the chocolate was not picked by the customers as it was not seen upfront in the retail shops. Finally Nestle had to reformulate the product according to channel requirements.

4. **Poor timing of launch:**

   Too early or late entry into the market is a common cause of failure. The fundamental principle to be followed in product planning is to find out the exact time at which the product is to be introduced in the market.

5. **Improper Positioning:**

   Positioning means putting the product into the predetermined orbit. Improper positioning may affect the product success. For Example: Titan Tanishq introduced their 18 carat jewellery and the product was positioned at elite segment but there was a contradiction as to why this elite segment should go in for low carat gold because the norms for gold in India at that time was 22 carat. The product failed miserably in retrospect Titan had to introduce

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22-carat jewellery.

6. **Inadequate Sales force:**

   Selling is done by personal or impersonal methods. Impersonal methods. Impersonal methods include advertisement and similar promotional activities. Personal methods, on the other hand, are more intimate and more efficient promotional activities should be backed by adequate salesforce's to introduce the product properly in the market. If salesmen are not trained or do not possess salesmen qualities, the product will not succeed.

7. **Insufficient Marketing Effort:**

   It is wrong to assume that a manufacturer just ends is efforts the moment a product is ready for sale. Advertising and proper promotional activities also form a part of his job to make the product known to consumers.

8. **Product Defect:**

   This arises out of technical flaws in the process of production. This is a fundamental reason for product failure. Low quality of products, poor design or packing may lead to product failure. This can be done away the proper testing.

Some other reasons for product failure are:

* Lack of differential advantage
* Poor planning
* Technical problems in the product
* Competitors fighting back harder than expected
* Poor market research.

All these problems could be solved by the timely action of the management. Blain Cooke opines that today three products or more of new products fail. According to Blain Cooke, "the new products which fall are not in literal marketing sense products at all-they are merely interesting but worthless artifacts of the product process."

Budgeting for New Product Development:

The management must decide how much to budget for new product development. R&D outcomes are so uncertain that it is difficult to use normal investment criteria. Some companies solve this problem by financing as many projects as possible, hoping to achieve a few winners. Other companies apply a conventional percentage-of-sales figure or spend what the competition spends. Still other companies decide how many successful new products they need and work backward to estimate the required investment.

NEW PRODUCT DEVELOPMENT PROCESS:

A new product is the result of a series of steps taken by a company, beginning with the conception of a new idea to its successful commercial exploitation, the consum-

NOTES

ers needs should identified, competing and substitute products should be evaluated and above all, the strength of the firm should be examined before deciding to produce a new product. Normally, following stages are suggested for introducing a new product in the market:

New Product Development Process

1. **Idea Generation:** Idea Generation is often called the "fuzzy front end" of the NPD process. The process begins with idea generation. For every successful new product, many new product ideas are conceived and discarded. Therefore, companies usually generate a large number of ideas from which successful new products emerge. New product ideas can come from interacting with various groups and using creativity generating techniques.

   A product idea is a possible product the company that might offer to the market. Drucker suggested that the sources of ideas can broadly be divided as:

   i. Internal Sources i.e. within the company/industry, and

   ii. External Sources i.e. outside the company/industry.

The specific activities performed at this stage are:

   i. Determining the product fields of interest of the company.

   ii. Establishing a programme for planned idea generation, and

NOTES

iii. Collection of ideas through an organized work.

2. **Idea Screening:** Idea screening, the second step, considers all new product ideas in the idea pool and eliminates ones that are perceived to be the least likely to succeed. In the idea screening stage, the various product ideas are put to rigorous screening by expert product evaluation committees. In screening ideas, the company must avoid two types of errors. A DROP error occurs when the company dismisses a good idea. A Go-error occurs when the company permits a poor idea to move into development and commercialization. Not only the firm's manufacturing, technology, and marketing capabilities be evaluated at this stage, but also how the new idea fits with the company's vision and strategic objectives are also evaluated.

The screeners should ask several questions:

- Will the customer in the target market benefit from the product?
- What is the size and growth forecasts of the market segment/target market?
- What is the current or expected competitive pressure for the product idea?
- What are the industry sales and market trends the product idea is based on?
- Is it technically feasible to manufacture the product?
- Will the product be profitable when manufactured and delivered to the customer at the target price?

3. **Concept Developments and Testing:** The third stage, concept development and testing, requires formal evaluations of the product concept by consumers, usually through some form of marketing research. The product concept involves translating the basic idea into a specific set of features and attributes that the product will offer to potential customers. Once a clear product concept has been developed, it would be normal to progress by testing either the concept or a sample product or both in the market.

   A product concept is an elaborated version of the idea expressed in meaningful consumer terms. To conceptualize and implement an idea, the concepts need to be developed and tested.

I) Concept Development: A product idea can be turned into several concepts by asking following questions:

a) Who will use the product?

b) What primary benefit the product would provide?

c) When will the product be consumed?

d) How will the product be consumed?

II) Concept Testing: Concept testing means presenting the product concept, symbolically or physically, to target consumers and getting their reactions. In order to this, conjoint analysis is conducted to measure consumer preferences for alternative product concepts. This method derives the utility values that the consumers attach to varying levels of a product's attributes. Conjoint analysis has become one of the most popular concept-development and testing tools.

NOTES

4. **Market Strategy Development:** After testing, the new-product manager must develop a preliminary marketing-strategy plan for introducing the new product into the market. The plan consists of three parts:

   i. The first part describes the target market's size, structure, and behaviour; the planned product positioning; and the sales, market share, and profit goals sought in the first few years.

   ii. The second part outlines the planned price, distribution strategy, and marketing budget for the first year.

   iii. The third part of the marketing strategy plan describes the long-run sales and profit goals and marketing mix strategy overtime.

5. **Business Analysis:** The business analysis stage is next. At this point the new product idea is analyzed for its marketability and costs. Once the management develops the product concept and marketing strategy, it should evaluate the concept's business attractiveness. In order to do so, a proper estimation of total sales, costs and profits need to be done.

6. **Product Development:** The idea on paper is converted into product. The product is shaped corresponding to the needs and desire of the buyers. Product development is the introduction of the new markets in the present market. New or improved products are offered by the firm, to the present markets so as to satisfy better the present customers. If the product concept passes the business test, it moves to R&D or engineering department to be developed into a physical product. The R&D department will develop one or more physical versions of the product concept. Its goal is to find a prototype that serves the following functions:

   i. Consumers see it as embodiment of the key attributes described in the product-concept statement,

   ii. It performs safely under normal use and conditions,

   iii. It can be produced within the budgeted manufacturing costs.

   After making the prototype, they must be put through rigorous functional tests and customer tests.

   i. **Functional Tests:** Alpha testing is the name given to test the product within the company to see how it performs in different applications. After refining the prototype further, it is moved for beta testing. The company enlists a set of customers to use the prototype and give feedback on their experiences.

   ii. **Consumer Test:** It can take a variety of forms from bringing customers into a laboratory to giving them samples to use in their homes.

7. **Test marketing:** After designing, the next step is testing the product in the market. The term 'test marketing' is also known as 'field testing'. The world 'test' means examination or trial. Therefore 'test marketing' means testing the product in the market before the product is commercialized on a large scale. This is done with a view to understand the market and the marketing considerations like nature of competition, nature of demand, and the consumers needs etc.

According to Philip Kotler, "Test marketing is the stage at which the product and marketing programs are introduced into more realistic market settings."

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The objectives of test marketing are as follows:

i. To evaluate a complete market plan including advertising, distribution sales, pricing, etc.

ii. To determine media mix, channels etc.

iii. To forecast sales volume.

Types of Market Testing:

1. **Consumer Goods Market Testing:** Consumer-products tests seek to estimate four variables: trial, first repeat, adoption and purchase frequency. The company hopes to find all these variables at high levels. Many consumers may try the product but few rebuy it or it might achieve high permanent adoption but low purchase frequency. The four major methods of consumer-goods market testing, which are described below in the order from the least to most costly:

   a) **Sales-Wave Research:** In sales-wave research, consumers who initially try the product at no cost are reoffered the product or a competitor's product at slightly reduced prices.

      Sales-wave research can be implemented quickly, conducted with a fair amount of security, and carried out without final packaging and advertising.

   b) **Stimulated Test Marketing:** Stimulated test marketing asks a selected group of buyers about brand familiarity and preferences in a specific product category. These consumers attend a brief screening of both well-known and new TV commercials and print ads. This method gives fairly accurate results on advertising effectiveness and trial rates in a much shorter time and at a fraction of the cost of using real test markets. The results are incorporated into new-product forecasting models to project ultimate sales level.

   c) **Controlled Test Marketing:** In controlled test marketing, a research firm manages a panel of stores that will carry new products for a fee. The company with the new product specifies the number of stores and geographic locations it wants to test.

      Controlled test marketing allows the company to test the impact of in-store factors and limited advertising on buying behaviour. Controlled test marketing provides no information on how to sell the trade on carrying the new business. This technique also exposes the product and its features to competitors' scrutiny.

   d) **Test Markets:** The ultimate way to test a new consumer product is to put it into full-blown test markets. The company chooses a few representative cities, and the sales force tries to sell the trade on carrying the product and giving it good shelf exposure. The company runs full advertising and promotion campaign in these markets. In this regard, the management should consider the following factors:

      - The number of test cities

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- The decision of selecting cities
- Length of test
- Kind of information
- Mode of action.

2. **Business-Goods Market Testing:** Business goods can also benefit from market testing. Expensive industrial goods and new technologies will normally undergo alpha testing within the company and beta testing with external customers. During beta testing, the company's technical people observe how test customers use the product. The company will ask the test customers to express their purchase intention and other reactions after the test. Companies must interpret beta test result carefully, because only a small number of test customers are used, they are not randomly drawn, and tests are somewhat customized in each site. Another risk is that test customers who are unimpressed with the product may leak unfavorable reports about it.

   The second common test method for business goods is to introduce the new products at trade shows. The company can observe how much interest buyers show for the new product and how they react about the features and terms of the new product.

8. **Commercialization:** Once the test marketing is completed and the firm gets favorable result for the new product, it is ready to commercialize the product or in other words, launch the new product. New products approved for commercialization enter the final phase of the development process. During the period required to get into full scale production, various activities started in earlier phases, such as package design, promotional literature, and advertising copy can be completed. The level of investment and risk are highest at this stage. When the company decides to commercialize its products, the major cost takes place. Some decisions regarding commercialization have to be taken properly and judiciously.

1) **When (timing):** The market entry timing is very critical. The company can have three choices:

   a) **First Entry:** The first firm when enters into the market enjoys "first mover advantage" by locking up key distributers and customers and gaining reputation and leadership. But the product should not be rushed to the market before it is thoroughly tested otherwise it would acquire a faulted image.

   b) **Parallel Entry:** The Company can time its entry of new product to coincide with the competitor's entry.

   c) **Late Entry:** The firm may delay its launch until after the competitor has entered. This has following advantages:

   - The competitor has to pay the cost for educating the market.
   - The competitor's products can reveal the faults.
   - It helps to understand the size of the potential market and profitability of the target market segment.

The timing decision requires additional considerations. If a new product replaces an older product, the company might delay the introduction until the older product's stock is drawn down. If the product is seasonal, it might be delayed until the right season arrives.

2) **Where (Geographical Strategy):** The company must decide whether to launch the new product in a single locality, a region, several regions, national market or international market.

3) **To Whom (Target-Market Prospects):** Within the rollout markets, the company must target its initial distribution and promotion to the best prospect groups.

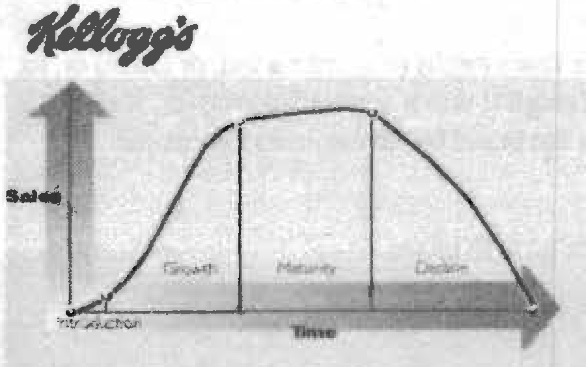
4) **How (Introductory Market Strategy):** The company must develop an action for introducing the new product into the rollout markets.

These steps may be iterated as needed. Some steps may be eliminated. To reduce the time that the NPD process takes, many companies are completing several steps at the same time (referred to as concurrent engineering or time to market). Most industry leaders see new product development as a proactive process where resources are allocated to identify market changes and seize upon new product opportunities before they occur (in contrast to a reactive strategy in which nothing is done until problems occur or the competitor introduces an innovation). Many industry leaders see new product development as an ongoing process (referred to as continuous development) in which the entire organization is always looking for opportunities.

Organizing New Product Development:

Companies handle the organizational aspect of new product development in several ways. Many companies assign responsibility for new product ideas to product managers. But product managers are often so busy managing existing lines that they give little thought to new products other than line extensions. They also lack the specific skills and knowledge needed to develop and critique new products. Kraft and Johnson & Johnson have employed new-product managers who report to category managers. Some companies have a high-level management committee charged with reviewing and approving proposals. Large companies often establish a new-product department headed by a manager who has substantial authority and access to top management. The department's major responsibilities include generating and screening new ideas, working with the R&D department, and carrying out field testing and commercialization.

PRODUCT LIFE CYCLE



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Check Your Progress

3. What is concept testing?
4. Explain Test Marketing.

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The traditional product life-cycle shows how a product goes through 4 stages during its life in the market place. At each stage in the product life-cycle, there is a close relationship between sales and profit so when a product goes into decline, profits decrease.

When a product is introduced to the market, growth is slow due to limited awareness. As the product is establishing itself, sales will start to increase during the period of growth. As the product reaches maturity, the company needs to inject new life into the product; either by creating brand extensions or variants otherwise the product will reach maturity and start to decline.

Before taking any investment decisions, Kellogg's undertook market research. It wanted to answer these questions:

- What changes taking place in society are likely to affect the product?
- How might new technologies affect our business?
- What are likely to be the future market trends?
- Where are the opportunities within the market place?
- What new categories would appeal to the target market?
- How far do consumers think the brand could stretch into the market for different product categories?

Kellogg's had to understand how the product could be extended into a series of variants which would keep the core product strong, but grow the brand as a whole.

Manufacturing capability is another key issue. If launches of new products are successful in global markets, Kellogg's must have the manufacturing capacity to meet consumer demand as well as the supply chain necessary to reach those consumers.

In considering Special K, the company concentrated on changing the product through new variants. Although Special K was already a well-established brand, its full potential had never been reached. It was viewed as a stand-alone product, and Kellogg's had not created any variants or brand extensions to develop the core product.

Managers can decide when to make key changes to a core product by analyzing its position within the product life-cycle. Life-cycle analysis accepts that products have a finite life, and analysts chart a product's performance through several phases, from its launch through various phases of growth until it reaches maturity and eventually decline.

A product's life cycle may last only a few months (e.g. with a fad, or craze) or, as with Special K, for many years. Although it was a successful product, Kellogg's recognized the opportunity to stretch the brand by investments that would:

- revitalise it
- extend and further develop its growth phase
- help to delay the onset of the maturity phase.

Kellogg's was convinced that such investment would help to maintain the brand's strength in a rapidly changing market place.

CASE STUDY ON PRODUCT DEVELOPMENT

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Kellogg's

Kellogg's is a global organization. Its products are manufactured in 19 countries worldwide and sold in more than 180 countries. Kellogg's is the world's leading producer of cereal products and convenience foods, such as cookies, crackers and frozen waffles. Its brands include Corn Flakes, Nutri-Grain and Rice Krispies.

When a company like Kellogg's is investigating a change in its marketing it can consider four elements. These are known as the marketing mix or 4Ps:

- **Product:** This element relates to what the company offers for meeting the changing needs and wants of customers. The growth in healthier lifestyles creates opportunities for Kellogg's to increase the number of products for this segment.
- **Price:** The amount a company charges for its product is important in determining sales. Super brands like Kellogg's can charge a premium because of the strength of the brand and product quality.
- **Place:** Where customers can purchase the product is also an important factor in determining sales. If a brand like Special K is not stocked in supermarkets where most purchases are made, sales will be lost.
- **Promotion:** Communicating the availability of a product is essential for sales to be made. Kellogg's uses above the line promotion like TV advertising as well as below the line promotion like on-pack promotions and sampling.

In a rapidly changing and competitive business environment, it is not easy to predict:

- future trends in consumer tastes and preferences
- competitors' actions
- market conditions

Creating new products or making changes to existing brands can be expensive. It involves making investment decisions now, in the hope of making a return later. Weighing up future returns against an investment is a crucial part of a manager's job.

It always involves an element of risk, because the future is never certain. Managers' previous experience, together with market research information helps them to predict future events and outcomes. However, all business activities involve some element of risk. There is often said to be a link between risk and return. The more you risk, the higher the likely returns (or profits). However, a balance must be struck.

It follows from this that decisions about a brand, (e.g. whether to develop it, maintain it, allow it to decline, or even kill it off) involve much discussion. In deciding to develop a brand, managers have to decide how much investment to make and to forecast the likelihood of a successful outcome.

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Brand managers aim to develop a long-term strategy to meet a range of objectives such as:

- growing market share
- developing a unique market position
- creating consumer or brand loyalty
- generating a targeted level of profit.

This case study describes a major investment in Kellogg's Special K. It illustrates how the company's investment in new product development served to strengthen a global brand.

Q. What factors that company should keep in mind while investing for new product?

Case Study on Development of Tata Nano Car

IDEA GENERATION:

So , how did TATA known for making lumbering trucks come out with a "cute as a bug car" that its rivals could not built to a target price of 1 lakh? "In India, a middle class family would travel by scooter in the classic, death defying Indian fashion. The father would drive with his son on the floorboard in front of him and the mother seated pillion, cradling her infant daughter in her arms. In India at that time, CARS for a young family were far out of reach and is still the same."- Ratan Tata started it with a dream which was translated into a reality on the 10th of January, 2008 at the Auto Expo, Delhi.

IDEA SCREENING

The next step was the screening of idea. How is this dream possible? What should they make?

- A scooter with two extra wheels at the back for better stability?
- An auto-rickshaw with four wheels?
- A four wheeled car made of Engineering Plastics?
- A Four wheeled rural car?
- Rolled up Plastic curtains in place of windows?
- Openings like Auto rickshaws from the side
- A four wheeled open car with safety side bars?

But the market wanted a car and if they build a people's car it should be a car and not something that people would say, "Ah! That's just a scooter with four wheels or an auto-rickshaw with four wheels & not really a Car." Trying to build a car cheap enough for motorcycle buyers seems to make sense now but seemed crazy several years ago when Ratan Tata, longtime chairman of Tata Motors, first mentioned his dream of building a one-lakh car in 2003. "They are still saying it can't be done," he says, insisting that it can and will. After we get done with it, there will hopefully be a new definition of low-cost."

CONCEPT TESTING AND DEVLOPMENT

Before starting the project, Wagh did something no one at Tata Motors ever had: He talked to customers. The three-wheeler men inevitably insisted on a cheap,

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dependable truck that could go from village to market carrying, say, a ton of onions or potatoes, one night, as sunset approached, Wagh stuck with one rickshaw driver. He says, "I kept asking the question. Why? Why? Why do you want a four-wheeler?" Wagh remembered. Finally, he got the real answer. It turned out it wasn't really a problem of transportation of vegetables "If I had a four-wheeler, I would have better marriage prospects in my village," the young man said. Drivers of three-wheelers are looked down upon in India. Wagh realized that four wheels had emotional, not just practical, appeal. Thus the new product was now to be developed.

The car was to cost Rs. 1 lakh on road.

- The car should be built on a different platform than conventional ones.
- It must be meeting all the safety and regulatory requirements.
- The car has to be designed so that it can be exported to other countries as the domestic demand may not materialize as per projections.
- The car must be a beacon for the Indian Automobile industry and prove to the world that we are capable to take any challenge and come out worthy winners.

That quest to build the world's cheapest car hasn't ended. The mission began back in 2003, when Ratan Tata, chairman of Tata Motors and the $50 billion Tata conglomerate, set a challenge to build a "people's car". Tata gave three requirements for the new vehicle:

It should be low-cost, adhere to regulatory requirements, and achieve performance targets such as fuel efficiency and acceleration capacity.

The design team initially came up with a vehicle which had bars instead of doors and plastic flaps to keep out the monsoon rains. It was closer to a quadricycle than a car, and the first prototype, even a bigger engine, which boosted the power by nearly 20 per cent, was still dismal. But failure didn't stop them they quickly realized it was necessary to bring everyone on board. Every one from manufacturers to vendor development teams were asked to be a part of decision-making. The body had to be changed because Ratan Tata, over six feet tall himself, wanted it to be easy for tall people to get in and out of the car. The attention to detail paid off: When the car rolled onto the dais at the Auto Show in New Delhi in January, and Ratan Tata stepped out of the driver's seat with ease, it made an immediate impact. What shook the automobile world most was the fact that the designers seem to have done the impossible: The sleek, sophisticated Nano didnt look flimsy or inexpensive. If it had been an upgraded scooter on four wheels, Tata still would have been applauded for making a family of four safer on Indian roads. The Nano, however, affords both safety and status. "The innovation wasn't in technology; it was in a mindset change".

BUSINESS ANALYSIS

Since the car had to be built within a cost of Rs. 1 Lac, no conventional design would work as the costs shall be higher and so the entire car has to be redesigned. What makes Nano so less expensive can be well understood from the following diagram.

The design has to question the need of each and every component from the point of view of its necessity of existence and also the minimum requirements of its

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functionality. TATA used the concept of Disruptive Technology which was cheaper than existing Technology, much higher performing is convenient to use and brings radical changes.

The Guiding factor was that the cost has to be minimized for each component yet maintaining its basic functionality.

The Alternatives are:

- Reduce Consumption of Material being used.
- Alternate Suppliers to get same material at fewer prices.
- Use alternate materials.

The design was outsourced to Italy's Institute of Development in Automotive Engineering, but Tata himself ordered changes along the way. Most recently he vetoed the design of the windshield wipers. His solution: a single wiper instead of two.

The target was very clearly defined that within the given cost structure of 1Lakh all the components have to be allocated a maximum price and the same had to be achieved using the available alternatives. The Guiding factor was that the tax structure, on materials and manufacturing, must support the final cost of Rs. 1 Lakh.

The Decisions were:

- Establish factory in a tax free zone.
- Get the tax advantages on infrastructure development.
- Get the suppliers to establish base near the factory.
- Get special concessions from State Govt.

In short select a manufacturing location where all the advantages could be achieved.

TOTAL SALES ESTIMATION

Now the question was, "how much to produce"

- It was estimated that the demand for the people's car shall be at least twice the demand for Maruti 800, the lowest end car. Initial projections were at about 500,000 cars per year.
- The basic reason was the conviction that the target price shall redefine the 4 - wheeler segment.
- The price decision of Rs 1 lakh is definitely going to make a lot many people transit to 4-wheeler fold and that shall explode the demand.
- If only 10% customers of 9 Million two wheeler market transit to 4- wheelers it shall amount to 50% of the passenger car market share.
- It was decided to set up plants with 5 lakhs cars per annum capacity and ramp the same up in stages, in line with increase in market demand.

PRODUCT DEVELOPMENT

And finally the product was developed with the following features.

- Engine Capacity Bosch 624 c.c. twin cylinder.
- Low capacity, Lighter, sufficient with better Power Rear Engine to reduce the transmission length using a balancer shaft.
- 4 Speed Manual Gear Box.
- All Aluminum Engine.
- Higher thermal conductivity than cast iron, Lighter and so better mileage.

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- Engine Management System by Bosch
- Superb control over emission and smooth acceleration.
- Dimensions L: 3.1m, W: 1.5m, H: 1.6m
- Less length but more inner cabin space due to height.
- Comfortable leg room.
- Independent Front & Rear Suspension McPherson Strut in Front & Coil spring & trailing arm in rear.
- Better ride than Maruti 800.
- Single piece ribbed steel body with safety features such as crumple zones, intrusion resistant doors, seat belts, strong seats & anchorages.
- Safety requirements are adequately met.
- Single Wiper in place of two.
- Cost effective.
- Tube less Tires.
- Weight reduced by 2 Kg. Cost reductions 200 Rs. And in line with modern vehicles.
- Instrument console in the centre
- Elegant to look at and can be used both in Left Hand & Right hand version.

COMMERCIALIZATION

It will be commercialized in whole of India. It is mostly targeted to the middle class and lower middle class people.

INNOVATIVE MARKETING

Tata will sell its ultra cheap new car through its own retail and electronics megastore outlets as well as auto dealerships

The Rs 1 lakh cars, which broke new ground in design, engineering and production processes, will opt for "cost-effective and innovative use of media," say people with knowledge of the Nano marketing strategy. To make the car more easily accessible to people, the Tata Motors team will sell the Nano not just through Tata car dealerships across the country, but also through conventional retail outlets like Westside and Croma. Westside and Croma outlets will display the Nano and also take bookings. Also available will be a whole range of Nano merchandise like baseball caps, T-shirts and key chains, among others The Nano's overall marketing strategy will use conventional media in an unconventional manner. Unlike most small cars, (Nano won't be big on advertising. There will be no TV campaign, only innovative use of print, radio and other media, particularly the web. The Tata team is working on Nano news in papers, Nano breaks on radio, Nano appearing in the form of messages or ticker news on TV, online Nano games, Nano chatrooms on the Net, Nano popups on major websites and Nano conversation on Facebook, Orkut and blogspaces).

According to people in the ad industry with direct knowledge of the Nano's marketing strategy, the campaign will be cost-effective and innovative so that Nano becomes synonymous with anything "small, cute and brief." "The idea is to make the Nano part of our everyday lingo like 'see you after a nano,' it's a totally word-of-mouth campaign," said a person familiar with the Nano marketing strategy."

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SUMMARY

- The product life cycle also goes through multiple phases, involves many professional disciplines, and requires many skills, tools and processes.
- A company's positioning and differentiation strategy must change as the product, market, and competitors change over the product life cycle (PLC).
- In the introduction phase, sales may be slow as the company builds awareness of its product among potential customers.
- Product development is the process of finding out the possibility of producing a product.
- The new product largely depends on the product quality and the marketing tactics of the firm, there are many occasions were the product failed miserably even after using the best technology and quality the reason is that the new product is not worth for the customers.
- A new product is the result of a series of steps taken by a company, beginning with the conception of a new idea to its successful commercial exploitation, the consumers' needs should identified, competing and substitute products should be evaluated and above all, the strength of the firm should be examined before deciding to produce a new product.

ANSWERS TO 'CHECK YOUR PROGRESS'

1. The product life cycle is an attempt to recognize distinct stage in the sales history of the product.
2. Product Development encompasses the technical activities of product research, engineering and design.
3. Concept testing means presenting the product concept, symbolically or physically, to target consumers and getting their reactions.
4. Test Marketing is the stage at which the product and marketing programs are introduced into more realistic market settings.

TEST YOURSELF

1) What do you mean by Product Life Cycle?
2) Briefly describe the strategies in different stages of the Product Life Cycle.
3) What are the utilities and limitations of the Product Life Cycle Theory?
4) What is meaning of Product Development?
5) State various different categories of New Product.
6) What general factors Contributing to New Product Development?
7) Explain reasons for the failure of New Product.
8) Describe the process of New Product Development.

FURTHER READING

- *Kotler & Armstrong, Principles of Marketing Management*
- *Kotler, Keller; Marketing Management, Pearson Education*

5 Pricing Strategy

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Chapter Includes :

- CONCEPT OF PRICE
- PRICING OBJECTIVES
- FACTORS TO CONSIDER WHEN SETTING PRICES / DETERMINANTS OF PRICING DECISIONS
- OTHER FACTORS INFLUENCING PRICING STRATEGY
- THREE C'S THAT AFFECT THE PRICING DECISIONS
- PRICE DETERMINATION PROCESS
- BASIC PRICING POLICIES
- GENERAL PRICING APPROACHES
- COST-BASED APPROACH
- PRICING STRATEGIES FOR NEW PRODUCTS
- PRODUCT MIX PRICING STRATEGIES
- PRICE-ADJUSTMENT STRATEGIES / PRICE MODIFICATION STRATEGIES
- CASE STUDY - SUPERMARKET PETROL PRICING
- PRICING STRATEGIES - DELL

Learning Objective :

After going through this chapter, you should be able to:

- Explain concept of Price.
- Discuss various determinants of Pricing Decisions.
- Understand different Pricing Approaches.
- Describe Pricing Strategies for New Products.

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INTRODUCTION

Price is the amount of money charged for a product or service. Price is the only element in the marketing mix that produces revenue; all other elements represent costs. Price is also one of the most flexible elements of the marketing mix. Unlike product features and channel commitments, price can be changed quickly. At the same time, pricing and price competition is the number-one problem facing many marketing executives.

Price is a component of exchange or transaction that takes place between two parties and refers to what must be given up by one party (i.e., buyer) in order to obtain something offered by another party (i.e., seller). Price is the marketing mix element that produces revenue and the other produce cost. Price may be defined as the exchange of goods or services in terms of money. In fact, price means different to different participants in an exchange:

- **Buyers' View:** In customer's view price refers to what must be given to obtain benefits. In most cases, what is given in terms of money for exchanging the goods or services is known as price of those goods of services.
- **Sellers' View** - For sellers in a transaction, price refers the revenue generated for each product sold. It is an important factor in determining profit. For marketing organizations price also serves as a marketing tool and is a key element in marketing promotions.

Price is commonly confused with the notion of cost. Let us take an example to clear the difference between both these terms: "I paid a high cost for buying my new plasma television." For it price is what a buyer pays to acquire television from a seller. Cost concerns the seller's investment (e.g., manufacturing expense) in the product (television) being exchanged with a buyer.

$$\text{PRICE} = \frac{\text{Quantity of money received by the seller}}{\text{Quantity of goods and services rendered received by the buyer}}$$

Many companies do not handle pricing well. Common mistakes that they make are:

1) Pricing is too cost-oriented.
2) Prices are not revised often enough to reflect market changes.
3) Prices do not take into account the other elements of the marketing mix.
4) Prices are not varied for different products, market segments, and purchase occasions.

PRICING OBJECTIVES:

1) **Profit Oriented:** Designed to maximize price relative to competitor's prizes, the product's perceived value, the firm's cost structure and production efficiency. Profit objectives are typically based on a target return, rather than simple profit maximization.
2) **Volume-oriented:** Sets price in order to maximize dollar or unit sales volume. This objective sacrifices profit margin in favor of high product turnover.

3) **Market demand:** Sets price in accordance with customer expectations and specific buying situations. This objective is often known as "charging what the market will bear".

4) **Market share:** Designed to increase or maintain market share regardless of fluctuations in industry sales. Market share objectives are often used in the maturity stage of the product life cycle.

5) **Cash flow:** Designed to maximize the recovery of cash as quickly as possible. This objective is useful when a firm has a cash emergency or when the product life cycle is expected to be quite short.

6) **Competitive matching:** Designed to match and or beat competitor's prices. The goal is to maintain the perception of good value relative to the competition.

7) **Prestige:** Sets high prices that are consistent with a prestige or high status product. Prices are set with little regard for the firm's cost structure or the completion.

8) **Status quo:** Maintain current prices in an effort to sustain a position relative to the competition.

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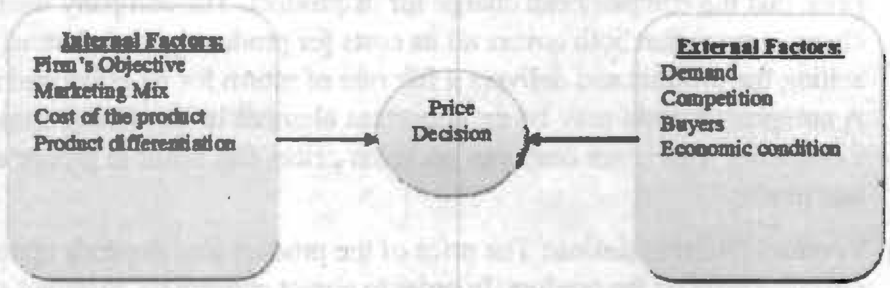
FACTORS TO CONSIDER WHEN SETTING PRICES / DETERMINANTS OF PRICING DECISIONS

The pricing decisions of a product may be affected by many factors which can be categorized into two main groups:

1). Internal Factors,

2). External Factors



Factors Affecting Pricing Decision

1). Internal Factors - When setting price, marketers must take into consideration several factors which may affect the results of the company decisions and actions. To a large extent these factors are controllable by the company and, if necessary, can be altered. For instance, product pricing may depend on the productivity of a manufacturing facility (e.g., how much can be produced within a certain period of time). The marketer knows that increasing productivity can reduce the cost of producing each product and thus allow the marketer to potentially lower the price of the product. Increasing productivity may require major changes in the manufacturing process that will take time. Some important factors that will affect the pricing decisions are as follows:

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a) **Objectives of the Firm:** A firm may have various objectives and pricing decisions contributes its share in achieving such objectives. Pricing policy should be established after proper consideration of the objectives of the firm. Pricing strategy is largely determined by decisions on market positioning. The clearer a firm is about its objectives, the easier it is to set price. Examples of common objectives are survival, current profit maximization, market share leadership, and product quality leadership.

b) **Marketing Mix:** Pricing is one of the important elements of Marketing Mix. A little change in one of the elements has an immediate effect on the other three – Production, Promotion, and Distribution. Price is only one of the marketing mix tools that a company uses to achieve its marketing objectives. Price decisions must be coordinated with product design, distribution, and promotion decisions to form a consistent and effective marketing program. Decisions made for other marketing mix variables may affect pricing decisions. Thus, the marketer must consider the total marketing mix when setting prices. If the product is positioned on non-price factors, then decisions about quality, promotion, and distribution will strongly affect price. If price is a crucial positioning factor, then price will strongly affect decisions made about the other marketing mix elements. However, even when featuring price, marketers need to remember that customers rarely buy on price alone. Instead, they seek products that give them the best value in terms of benefits received for the price paid. Thus, in most cases, the company will consider price along with all the other marketing-mix elements when developing the marketing program.

c) **Cost of the Product:** The most important that will affect the pricing decisions is the cost of production of the product. Costs set the floor for the price that the company can charge for its product. The company wants to charge a price that both covers all its costs for producing, distributing, and selling the product and delivers a fair rate of return for its effort and risk. A company's costs may be an important element in its pricing strategy. Companies with lower costs can set lower prices that result in greater sales and profits.

d) **Product Differentiation:** The price of the product also depends upon the characteristics of the product. In order to attract consumers, different characteristics are added to the product like change in quality, size, color, etc.

e) **Organizational Considerations:** Management must decide who within the organization should set prices. Companies handle pricing in a variety of ways. In small companies, prices are often set by top management rather than by the marketing or sales departments. In large companies, pricing is typically handled by divisional or product line managers. In industrial markets, salespeople may be allowed to negotiate with customers within certain price ranges. Even so, top management sets the pricing objectives and policies, and it often approves the prices proposed by lower-level management or salespeople. In industries in which pricing is a key factor (aerospace, railroads, oil companies), companies often have a pricing department to set the best prices or help others in setting them. This department reports to the marketing department or top management. Others who have an influence on pricing include sales managers, production managers, finance managers, and accountants.

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2). **External Factors** - There are a number of influencing factors which are not controlled by the company but will impact pricing decisions. External factor affecting the company's pricing decisions is competitors' costs and prices and possible competitor reactions to the company's own pricing moves. When setting prices, the company also must consider other factors in its external environment. Economic conditions can have a strong impact on the firm's pricing strategies. Economic factors such as boom or recession, inflation, and interest rates affect pricing decisions because they affect both the costs of producing a product and consumer perceptions of the product's price and value. The company must also consider what impact its prices will have on other parties in its environment. How will resellers react to various prices? The company should set prices that give resellers a fair profit, encourage their support, and help them to sell the product effectively. The government is another important external influence on pricing decisions. Finally, social concerns may have to be taken into account. In setting prices, a company's short-term sales, market share, and profit goals may have to be tempered by broader societal considerations.

Some of the important external factors that will affect the pricing decisions are as follows:

a) **Demand:** The demand for a product or service has a great impact on pricing. The factors that affect the demand of the product like, number and size of competitors, the prospective buyers, their capacity and willingness to pay, etc are must taken into account while fixing the price of the product. Whereas costs set the lower limit of prices, the market and demand set the upper limit. Both consumer and industrial buyers balance the price of a product or service against the benefits of owning it. Thus, before setting prices, the marketer must understand the relationship between price and demand for its product.

b) **Competition:** Competition is the crucial factor in the determination of price of the product. A firm can decide the price of the product which is equal to or less than that of the competitors.

c) **Buyers:** The buyers of the product or service may have an influence in the pricing decision. Their nature and behavior for purchasing a product or service affect pricing of the product.

d) **Economic Condition:** The economic condition effects pricing. In recession period, the prices are reduced to a certain extent to maintain the level of turnover. On the other hand, in the boom period prices are increased to cover the increasing cost of production.

Other Factors influencing Pricing Strategy:

1) **The level of Competition:** Most entrepreneurs believe the concept of selling their products with a very high margin. This idea can only be realistic when you have a monopolistic hold on the market. But if not, you can't sell with your desired profit margin without getting a sting from competition.

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According to Victor Klam, "In business, the competition will bite you if you keep running. If you stand still, they will swallow you." When trying to adopt a product pricing strategy or determine the right price for your product, the issue of competition is a factor that must be trashed out effectively. The more intense competition in your industry is, the product pricing strategy and policy will have to be very flexible.

"Defeat your opponent by strategy and flexibility." – Sun Tzu.

In simple words, if your competitor sells the same product as you are selling but at a lower price, it may affect your business negatively. That is why a feasibility study or business plan always includes an opposition or competition analysis section. Never implement your product pricing strategy without first putting your competition into consideration. Pricing your product without giving a check to your competitor's product pricing strategy is a sure way to business failure; so don't do it.

2) **Perceived value of your product:** This is another factor you must take into consideration before setting a price for your product. Your first step is to ask this question "what is the perceived value of my product in the heart of the customer? You must strive to find a good and definite answer to this question before fixing a price for your product. The reason perceived value is a critical factor to consider in a product pricing strategy is because customers often associate low price with low quality. In simple words, if your product is priced too low, the customers tend to feel the materials used in producing the goods is inferior and so therefore, the product is of low quality. So before fixing a price for your product, make sure you strike a balance between the price of your product and its perceived value.

3) **Product development cost:** According to normal business and market economics, you should never price your product below its actual cost price. Your actual product cost price is determined by the total cost of production including tax, divided by the total number of products produced. Product development cost is a cost incurred from research and experimentation, and it is a cost that is usually incurred when bringing an innovative product to the market.

- If you are a business owner, you should know that newly introduced products usually command a high price. This high introductory price is based on two reasons: The first reason for the high product price is due to lack of competition. Since the product is the first of its kind in the market place, there will be less or no competition thereby giving room for the company to fix price.
- The second reason is this; a high price will enable the manufacturer recover the heavy investments channeled into the research and development of the product.

4) **Economic trend:** This is another unavoidable factor that can influence the pricing of your product. I don't even need to stress much on this. As an entrepreneur, you should know that economic factors such as taxation rate, labor cost, inflation rate, and currency exchange rate, government's fiscal and monetary policy will definitely influence your adopted product pricing strategy either positively or negatively.

5) **Level of market demand:** This is the fifth factor that can greatly affect your product pricing strategy. In business economics, if demand exceeds supply,

there tends to be a mad rush for the few available products, thus inflating the price of the product and vice versa. Some companies even go as far as creating artificial scarcity in order to gain a stronger hold on the industrial price level.

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6) **Demographics:** The demographics of the targeted customers will indisputably influence the pricing of your product. Demographic factors to consider before taking a stand on your product price include:

- The age bracket of the customers you are targeting.
- Business location and customer's location.
- Educational status of targeted market.

In short, demographics are all about who is your targeted customer.

7) **Promotion Strategy:** Price discounts can be an effective means of getting consumers' attention and stimulating demand. For example, people might be tempted to try a new cereal if they get a half-price coupon for it. On the other hand, a firm could choose a high price to reinforce a high-quality image and help convince consumers that it is selling an exclusive, luxurious brand.

8) **Customers:** How will buyers respond? Three important factors are whether the buyers perceive the product offers value, how many buyers there are, and how sensitive they are to changes in price. In addition to gathering data on the size of markets, companies must try to determine how price sensitive customers are. Will customers buy the product, in given price? Or will they believe the value is not equal to the cost and choose an alternative or decide they can do without the product or service? Equally important is how much buyers are willing to pay for the offering.

Price elasticity, or people's sensitivity to price changes, affects the demand for products. Sometimes, demand for some products won't change even if the price changes. The formula for calculating the price elasticity of demand is as follows.

Price elasticity = percentage change in quantity demanded ÷ percentage change in price

When consumers are very sensitive to the price change of a product—that is, they buy more at low prices and less of it at high prices—the demand for it is price elastic. Durable goods such as TVs, stereos, and freezers are more price elastic than necessities. People are more likely to buy them when their prices drop and less likely to buy them when their prices rise. By contrast, when the demand for a product stays relatively the same and buyers are not sensitive to changes in its price, the demand is price inelastic. Demand for essential products such as many basic food and first-aid products is not as affected by price changes as demand for many nonessential goods. The number of competing products and substitutes available affects the elasticity of demand. Whether a person considers a product a necessity or a luxury and the percentage of a person's budget allocated to different products and services also affect price elasticity.

9) **Competitors:** How competitors price and sell their products will have a tremendous effect on a firm's pricing decisions. If you wanted to buy a certain pair of shoes, but the price was 30 percent less at one store than another, what

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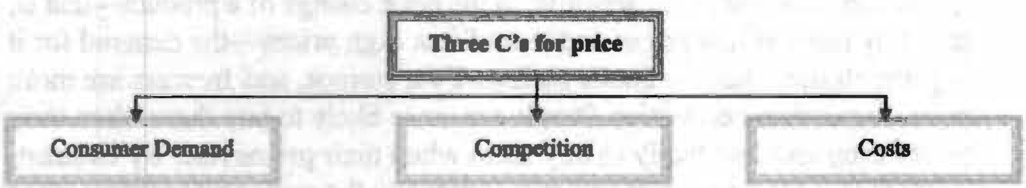
would you do? Because companies want to establish and maintain loyal customers, they will often match their competitors' prices. Some retailers, such as Home Depot, will give you an extra discount if you find the same product for less somewhere else. Similarly, if one company offers you free shipping, you might discover other companies will, too. The availability of substitute products affects a company's pricing decisions as well.

10) **The Economy and Government Laws and Regulations:** The economy also has a tremendous effect on pricing decisions. 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 féderal and state regulations. Regulations are designed to protect consumers, promote competition, and encourage ethical and fair behaviour by businesses.

11) **Product Costs:** The costs of the product—its inputs—including the amount spent on product development, testing, and packaging required have to be taken into account when a pricing decision is made. For example, when a new offering is launched, its promotion costs can be very high because people need to be made aware that it exists. Thus, the offering's stage in the product life cycle can affect its price. Keep in mind that a product may be in a different stage of its life cycle in other markets. The point where total cost equals to the total revenue is known as the breakeven point (BEP). For a company to be profitable, a company's revenue must be greater than its total costs. If total costs exceed total revenue, the company suffers a loss. Total costs include both fixed costs and variable costs. Fixed costs, or overhead expenses, are costs that a company must pay regardless of its level of production or level of sales. A company's fixed costs include items such as rent, leasing fees for equipment, contracted advertising costs, and insurance. Variable costs are costs that change with a company's level of production and sales. Raw materials, labour, and commissions on units sold are examples of variable costs.

Three C's that affect the Pricing Decisions



Price Determination Process:

Price is one of the four major elements of the marketing mix. Pricing is an important strategic issue because it is related to product positioning. Furthermore, pricing affects other marketing mix elements such as product features, channel decisions, and promotion. The following is a general sequence of steps that might be followed for developing the pricing of a new product:

1. **Develop marketing strategy** – The Company should formulate the marketing strategy including selection of target market and product positioning, before the development of the product.

2. **Make marketing mix decisions** – At this stage company should make the decisions regarding the marketing mix i.e. product, distribution, and promotion of the product.

3. **Estimate the demand curve** – There is a relationship between price and quantity demanded, it is important to understand the impact of pricing on sales by estimating the demand curve for the product. Therefore, demand curve is estimated and understands how quantity demanded varies with price.

4. **Calculate cost** – The cost of the product including fixed and variable costs are calculated. If the firm has decided to launch the product, there is at least a basic understanding of the costs involved; otherwise, there might be no profit to be made.

5. **Understand environmental factors** – The environmental factors like, competitor actions, legal constraints, etc are evaluated. Pricing must take into account the competitive and legal environment in which the company operates. From a competitive standpoint, the firm must consider the implications of its pricing on the pricing decisions of competitors. From a legal standpoint, a firm is not free to price its products at any level it chooses.

6. **Determination of pricing objectives** – The objectives of pricing are determined for example, profit maximization, revenue maximizdtion, or price stabilization (status quo).

7. **Determine price of the product** – The price of the product is determined on the basis of information collected in the above steps.

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BASIC PRICING POLICIES

Pricing policy setting starts with setting the pricing objective that can be:

- Profit Oriented (concerned with increase in profit),
- Sales Oriented (basically concerned with increase in sales) and
- Status Quo Oriented.

Whereas costs set the lower limit of prices, the market and demand set the upper limit. Both consumer and industrial buyers balance the price of a product or service against the benefits of owning it. Thus, before setting prices, the marketer must understand the relationship between price and demand for its product. In this section, we explain how the price–demand relationship varies for different types of markets and how buyer perceptions of price affect the pricing decision. Costs set the floor for the price that the company can charge for its product. The company wants to charge a price that both covers all its costs for producing, distributing, and selling the product and delivers a fair rate of return for its effort. A company's costs may be an important element in its pricing strategy. Companies with lower costs can set lower prices that result in greater sales and profits. Company's pricing decisions are also affected by competitors' costs and prices and possible competitor reactions to the company's own pricing moves therefore while setting the prices theses facts should also kept in mind. Final step is setting the final price by using different methods.

Check Your Progress

1. What are the internal factors that can affect Pricing Decisions?
2. What is Cost-based approach of Price Determination?

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GENERAL PRICING APPROACHES

Product costs set a floor to the price; consumer perceptions of the product's value set the ceiling. The company must consider competitors' prices and other external and internal factors to find the best price between these two extremes. Companies set prices by selecting a general pricing approach that includes one or more of three sets of factors. We examine these approaches: the *cost-based approach* (cost-plus pricing, break-even analysis, and target profit pricing); the *buyer based approach* (value-based pricing); and the *competition-based approach* (going-rate and sealed-bid pricing).

COST-BASED APPROACH

This is the simplest and easiest method of price determination. Under this method, the marketer estimates the total cost of producing and manufacturing a product and then adds the margin that the firm wants. In other words, Cost-based pricing involves the determination of all fixed and variable costs associated with a product or service. After the total costs attributable to the product or service have been determined, managers add a desired profit margin to each unit such as a 5 or 10 percent. The goal of the cost-oriented approach is to cover all costs incurred in producing or delivering products or services and to achieve a targeted level of profit.

1. COST-PLUS PRICING:

The simplest pricing method is cost-plus pricing—adding a standard markup to the cost of the product. Construction companies, for example, submit job bids by estimating the total project cost and adding a standard markup for profit. Lawyers, accountants, and other professionals typically price by adding a standard markup to their costs. Some sellers tell their customers they will charge cost plus a specified markup; for example, aerospace companies price this way to the government. To illustrate markup pricing, suppose any manufacturer had the following costs and expected sales:

Then the manufacturer's cost per toaster is given by:

$$\text{Unit Cost} = \frac{\text{Variable Cost + Fixed Cost}}{\text{Price - variable cost}}$$

Any pricing method that ignores demand and competitor prices is not likely to lead to the best price. Markup pricing works only if that price actually brings in the expected level of sales. Still, markup pricing remains popular for many reasons. First, sellers are more certain about costs than about demand. By tying the price to cost, sellers simplify pricing—they do not have to make frequent adjustments as demand changes. Second, when all firms in the industry use this pricing method, prices tend to be similar and price competition is thus minimized. Third, many people feel that cost-plus pricing is fairer to both buyers and sellers. Sellers earn a fair return on their investment but do not take advantage of buyers when buyers' demand becomes great.

Cost-based pricing must consider various kinds of costs:

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Total Fixed Cost: Total Fixed cost is the sum of costs that are fixed in nature. Fixed costs include rent, depreciation, executive salaries, property taxes and insurance. Such costs must be paid even if production stops temporarily. Over a period of years, fixed costs can be changed in some situations like - the factory may be expanded or sold; new executive may be hired or fired. But in the short run, total fixed cost is fixed.

Total Variable Cost: Total Variable cost is the sum of those variable expenses that are closely related to out-put like, wage paid to workers, packaging material, outgoing freight and sales commissions. At zero output, total variable cost is zero. As output increases variable cost also increases. If a dress manufacturer doubles the output of dresses in a year, the total cost of cloth would also roughly double, although the cost of cloth per dress would remain about the same.

2. BREAK-EVEN ANALYSIS AND TARGET PROFIT PRICING:

Another cost-oriented pricing approach is break-even pricing or a variation called target profit pricing the firm tries to determine the price at which it will break even or make the target profit it is seeking. This pricing method is also used by public utilities, which are constrained to make a fair return on their investment. Target pricing uses the concept of a *break-even chart,* which shows the total cost and total revenue expected at different sales volume levels. The manufacturer should consider different prices and estimate break-even volumes, probable demand, and profits for each.

Under target returns pricing method of price determination, a desired rate of return on the amount of capital invested by the organization is determined. Under B.E.P. pricing method of price determination is very useful for determining the price of a competitive product. The total cost of production of a product is divided into two parts i.e. fixed cost and variable cost. Under this method B.E.P. is calculated as under;

$$\text{B.E.P.} = \frac{\text{Fixed Costs}}{\textbf{Selling Price per unit} - \textbf{variable cost per unit}}$$

3. VALUE BASED PRICING

Value based pricing involves setting prices to increase profitability by adding value attributes to a product or service. This approach of pricing also depends heavily on strong advertising, especially for new products or services, in order to communicate the value of products or services to customers and to motivate customers to pay more if necessary for the value provided by these products or services.

Value-based pricing uses buyers' perceptions of value, not the seller's cost, as the key to pricing. Value-based pricing means that the marketer cannot design a product and marketing program and then set the price. Price is considered along with the other marketing mix variables before the marketing program is set. Cost-based pricing is product driven. The company designs what it considers to be a good product, totals the costs of making the product, and sets a price that covers costs plus a target profit. Marketing must then convince buyers that the product's value

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at that price justifies its purchase. If the price turns out to be too high, the company must settle for lower markups or lower sales, both resulting in disappointing profits.

4. COMPETITION-BASED PRICING

Consumers will base their judgments of a product's value on the prices that competitors charge for similar products. One form of competition-based pricing is *going-rate pricing,* in which a firm bases its price largely on competitors' prices, with less attention paid to its own costs or to demand. The firm might charge the same, more, or less than its major competitors. In oligopolistic industries that sell a commodity such as steel, paper, or fertilizer, firms normally charge the same price. The smaller firms follow the leader. They change their prices when the market leader's prices change, rather than when their own demand or costs change. Some firms may charge a bit more or less, but they hold the amount of difference constant.

PRICING STRATEGIES FOR NEW PRODUCTS:

Pricing strategies usually change as the product passes through its life cycle. The introductory stage is especially challenging. Companies bringing out a new product face the challenge of setting prices for the first time. For new products, the pricing objective often is either to maximize profit margin or to maximize quantity (market share). They can choose between two broad strategies: *market-skimming pricing* and *market penetration pricing.*

Market-Skimming Pricing:

This strategy refers to the firm's desire to skim the market, by selling at a premium cost. It attempts to "skim the cream" off the top of the market by setting a high price and selling to those customers who are less price sensitive. Skimming is a strategy used to pursue the objective of profit margin maximization. Skimming is most appropriate when:

- The product is perceived as enhancing the customer's status in society.
- The product represents significant technological breakthroughs and is perceived as a 'high technology' product.
- The company does not have the resources to finance the large capital expenditures necessary for high volume production.
- The customer is aware and willing to buy a particular product at higher prices.

Market skimming makes sense only under certain conditions. First, the product's quality and image must support its higher price, and enough buyers must want the product at that price. Second, the costs of producing a smaller volume cannot be so high that they cancel the advantage of charging more. Finally, competitors should not be able to enter the market easily and undercut the high price.

Market-Penetration Pricing

This strategy pursues the objective of quantity maximization by means of a low price. It is most appropriate when:

- The size of the market is large and it is a growing market.

- The market is characterized by intensive competition.
- Large decreases in cost are expected as cumulative volume increases.
- The firm uses it as an entry strategy.

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They set a low initial price in order to *penetrate* the market quickly and deeply—to attract a large number of buyers quickly and win a large market share. The high sales volume results in falling costs, allowing the company to cut its price even further. Several conditions must be met for this low-price strategy to work. First, the market must be highly price sensitive so that a low price produces more market growth. Second, production and distribution costs must fall as sales volume increases. Finally, the low price must help keep out the competition, and the penetration price must maintain its low-price position—otherwise, the price advantage may be only temporary.

PRODUCT MIX PRICING STRATEGIES:

The strategy for setting a product's price often has to be changed when the product is part of a product mix. In this case, the firm looks for a set of prices that maximizes the profits on the total product mix. Pricing is difficult because the various products have related demand and costs and face different degrees of competition. There are five product mix pricing situations. These are as follows:

Product Line Pricing:

Pricing different products within the same product range at different price points. An example would be a video manufacturer offering different video recorders with different features at different prices. The greater the features and the benefit obtained the consumer will pay greater for that product. This form of price discrimination assists the company in maximizing turnover and profits.

Optional-Product Pricing

Many companies use optional-product pricing—offering to sell optional or accessory products along with their main product. For example, a car with power window CD changer and car without power window and CD changer. Pricing these options is a sticky problem. Automobile companies have to decide which items to include in the base price and which to offer as options.

Captive-Product Pricing

Companies that make products that must be used along with a main product are using captive product pricing. Examples of captive products are razor blades, camera film, video games, and computer software. Producers of the main products (razors, cameras, video game consoles, and computers) often price them low and set high markups on the supplies. Thus, camera manufactures price its cameras low because they make its money on the film it sells. In the case of services, this strategy is called *two-part pricing*. The price of the service is broken into a *fixed fee* plus a *variable usage rate*. Thus, a telephone company charges a monthly rate—the fixed fee—plus charges for calls beyond some minimum number—the variable us-

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age rate. Amusement parks charge admission plus fees for food, midway attractions, and rides over a minimum. The service firm must decide how much to charge for the basic service and how much for the variable usage. The fixed amount should be low enough to induce usage of the service; profit can be made on the variable fees.

By-Product Pricing

In producing processed meats, petroleum products, chemicals, and other products, there are often by-products. If the by-products have no value and if getting rid of them is costly, this will affect the pricing of the main product. Using by-product pricing, the manufacturer will seek a market for these by-products and should accept any price that covers more than the cost of storing and delivering them. This practice allows the seller to reduce the main product's price to make it more competitive. By-products can even turn out to be profitable. Sometimes, companies don't realize how valuable their by-products are.

Product Bundle Pricing

Using product bundle pricing, sellers often combine several of their products and offer the bundle at a reduced price. Thus, theaters and sports teams sell season tickets at less than the cost of single tickets; hotels sell especially priced packages that include room, meals, and entertainment; computer makers include attractive software packages with their personal computers. Price bundling can promote the sales of products consumers might not otherwise buy, but the combined price must be low enough to get them to buy the bundle.

Price Discounts

The normally quoted price to end users is known as the *list price*. This price usually is discounted for distribution channel members and some end users. There are several types of discounts, as outlined below.

- **Quantity discount** – This discount is offered to those customers who purchase in large quantities.
- **Cumulative quantity discount** - This discount increases as the cumulative quantity increases. Cumulative discounts may be offered to resellers who purchase large quantities over time but who do not wish to place large individual orders.
- **Seasonal discount** – This discount is based on the time that the purchase is made and designed to reduce seasonal variation in sales. For example, the travel industry offers much lower off-season rates. Such discounts do not have to be based on time of the year; they also can be based on day of the week or time of the day, such as pricing offered by long distance and wireless service providers.
- **Cash discount** – This discount is offered to those customers who pay their bill before a specified date.
- **Trade discount** - A functional discount offered to channel members for performing their roles is known as trade discount. For example, a trade discount may be offered to a small retailer who may not purchase in quantity but nonetheless performs the important retail function.
- **Promotional discount** – This discount is offered for short-terms to stimulate sales of the product.

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PRICE-ADJUSTMENT STRATEGIES / PRICE MODIFICATION STRATEGIES:

Marketing management should device a price strategy that is compatible with strategies attached to other elements of the marketing mix. It is not always possible to set a price and apply this rigidly to all customers in all market situations. A pricing strategy denotes how a company will price its products at particular periods of time or particular market conditions. Demand oriented pricing sets a base price that the company must Endeavour to achieve, but it assumes that price be modified in line with changes in demand. Manufacturers must realize that customers are not the same. Some will purchase greater quantities than others, or be situated in areas that are more costly to reach.

If target-return on investment price is set, this may only be appropriate during the maturity stage of the product life cycle. During introduction or growth, it is often necessary to employ a pricing strategy that will enable the target return to be achieved over the long term.

A company's ability and willingness to formulate pricing strategies is a reflection of its willingness to adapt and modify price according to the needs of customers and market conditions.

Companies usually adjust their basic prices to account for various customer differences and changing situations. Fig summarizes six price-adjustment strategies: discount and allowance pricing, segmented pricing, psychological pricing, promotional pricing, geographical pricing, and international pricing.

Discount and allowance pricing

Most companies adjust their basic price to reward customers for certain responses, such as early payment of bills, volume purchases, and off-season buying. These price adjustments—called discounts and allowances—can take many forms.

A cash discount is a price reduction to buyers who pay their bills promptly. A typical example is "2/10, net 30," which means that although payment is due within 30 days, the buyer can deduct 2 percent if the bill is paid within 10 days. The discount must be granted to all buyers meeting these terms. Such discounts are customary in many industries and help to improve the sellers' cash situation and reduce bad debts and credit collection costs.

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A **quantity discount** is a price reduction to buyers who buy large volumes. A typical example might be "Rs10 per unit for less than 100 units, Rs9 per unit for 100 or more units." By law, quantity discounts must be offered equally to all customers and must not exceed the seller's cost savings associated with selling large quantities. These savings include lower selling, inventory, and transportation expenses. Discounts provide an incentive to the customer to buy more from one given seller, rather than from many different sources.

A **functional discount** (also called a trade discount) is offered by the seller to trade channel members who perform certain functions, such as selling, storing, and record keeping. Manufacturers may offer different functional discounts to different trade channels because of the varying services they perform, but manufacturers must offer the same functional discounts within each trade channel.

A **seasonal discount** is a price reduction to buyers who buy merchandise or services out of season. For example, lawn and garden equipment manufacturers offer seasonal discounts to retailers during the fall and winter months to encourage early ordering in anticipation of the heavy spring and summer selling seasons. Hotels, motels, and airlines will offer seasonal discounts in their slower selling periods. Seasonal discounts allow the seller to keep production steady during an entire year.

Allowances are another type of reduction from the list price. For example, trade-in allowances are price reductions given for turning in an old item when buying a new one. Trade-in allowances are most common in the automobile industry but are also given for other durable goods. Promotional allowances are payments or price reductions to reward dealers for participating in advertising and sales support programs.

Segmented pricing

Companies will often adjust their basic prices to allow for differences in customers, products, and locations. In segmented pricing, the company sells a product or service at two or more prices, even though the difference in prices is not based on differences in costs. Segmented pricing takes several forms. Under customer-segment pricing, different customers may different prices for the same product or service. Museums, for example, will charge a lower admission for students and senior citizens. Under product-form pricing, different versions of the product are priced differently but not according to differences in their costs. Using location pricing, a company charges different prices for different locations, even though the cost of offering at each location is the same. For instance, theaters vary their seat prices because of audience preferences for certain locations. Finally, using time pricing, a firm varies its price by the season, the month, the day, and even the hour. Public utilities vary their prices to commercial users by time of day and weekend versus weekday. The telephone company offers lower off-peak charges, and resorts give seasonal discounts. For the effectiveness of the segmented pricing certain conditions must exist, the market must be segmentable, and the segments must show different degrees of demand, the segmented pricing must also be legal. Most importantly, segmented prices should reflect real differences in customers' perceived value. Otherwise, in the long run, the practice will lead to customer resentment and ill will.

Psychological pricing

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Price says something about the product. For example, many consumers use price to judge quality. In using psychological pricing, sellers consider the psychology of prices and not simply the economics. For example, one study of the relationship between price and quality perceptions of cars found that consumers perceive higher-priced cars as having higher quality. By the same token, higher-quality cars are perceived to be even higher priced than they actually are. When consumers can judge the quality of a product by examining it or by calling on past experience with it, they use price less to judge quality. When consumers cannot judge quality because of they lack the information or skill, price becomes an important quality signal. Another aspect of psychological pricing is reference pricing—prices that buyers carry in their minds and refer to when looking at a given product. The reference price might be formed by noting current prices, remembering past prices, or assessing the buying situation. Sellers can influence or use these consumers' reference prices when setting price. For example, a company could display its product next to more expensive ones in order to imply that it belongs in the same class. Department stores often sell women's clothing in separate departments differentiated by price: Clothing found in the more expensive department is assumed to be of better quality.

Companies can also influence consumers' reference prices by stating high manufacturer's suggested prices, by indicating that the product was originally priced much higher, or by pointing to a competitor's higher price.

Promotional pricing

Companies will temporarily price their products below list price and sometimes even below cost. Promotional pricing takes several forms. Sellers will also use special-event pricing in certain seasons to draw more customers. Manufacturers will sometimes offer cash rebates to consumers who buy the product from dealers within a specified time; the manufacturer sends the rebate directly to the customer. Rebates have been popular with automakers and producers of durable goods and small appliances, but they are also used with consumer-packaged goods. Some manufacturers offer low-interest financing, longer warranties, or free maintenance to reduce the consumer's price. This practice has recently become a favorite of the auto industry. Or, the seller may simply offer discounts from normal prices to increase sales and reduce inventories. Promotional pricing, however, can have adverse effects. Used too frequently and copied by competitors, price promotions can create "deal-prone" customers who wait until brands go on sale before buying them. Or, constantly reduced prices can erode a brand's value in the eyes of customers. In fact, one observer notes that price promotions can be downright addicting to both the company and the customer. The point is that promotional pricing can be an effective means of generating sales in certain circumstances but can be damaging if taken as a steady diet.

Check Your Progress

3. What do you mean by Value based pricing?
4. Explain Pricing Strategies.

Geographical pricing

A company also must decide how to price its products for customers located in different parts of the country or world. Should the company take risk of losing the

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business of more distant customers by charging them higher prices to cover the higher shipping costs? Or should the company charge all customers the same prices regardless of location? Because each customer picks up its own cost, supporters of FOB pricing feel that this is the fairest way to assess freight charges. Uniform-delivered pricing is the opposite of FOB pricing. Here, the company charges the same price plus freight to all customers, regardless of their location. The freight charge is set at the average freight cost. Other advantages of uniform-delivered pricing are that it is fairly easy to administer and it lets the firm advertise its price nationally. Zone pricing falls between FOB-origin pricing and uniform-delivered pricing. The company sets up two or more zones. All customers within a given zone pay a single total price; the more distant the zone, the higher the price. Using base point pricing, the seller selects a given city as a "basing point" and charges all customers the freight cost from that city to the customer location, regardless of the city from which the goods are actually shipped. If all sellers used the same basing-point city, delivered prices would be the same for all customers and price competition would be eliminated. Industries such as sugar, cement, steel, and automobiles used basing-point pricing for years, but this method has become less popular today. Some companies set up multiple basing points to create more flexibility. They quote freight charges from the basing-point city nearest to the customer. Finally, the seller who is anxious to do business with a certain customer or geographical area might use freight-absorption pricing. Using this strategy, the seller absorbs all or part of the actual freight charges in order to get the desired business.

International pricing

Companies that market their products internationally must decide what prices to charge in the different countries in which they operate. In some cases, a company can set a uniform worldwide price. The price that a company should charge in a specific country depends on many factors, including economic conditions, competitive situations, laws and regulations, and development of the wholesaling and retailing system. Consumer perceptions and preferences also may vary from country to country, calling for different prices. Or the company may have different marketing objectives in various world markets, which require changes in pricing strategy. Costs play an important role in setting international prices.

CASE STUDY - SUPERMARKET PETROL PRICING

Predatory pricing on the supermarket petrol forecourts

This case study outlines how Safeway launched a petrol price war in 2002 to boost grocery market share.

Introduction

In June 2002, Safeway used a predatory pricing strategy for the sale of petrol from its supermarket garages in an attempt to increase its share of the UK grocery market. The strategy stunned competitors – and angered non-supermarket petrol retailers.

The Safeway petrol price offer

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Safeway's offer to the consumer comprised a price reduction on fuel purchases based on the amount customers had spent on groceries at its stores each visit.

Customers received 2p off a liter if they spent £25, 5p for £50, 12p for £100 and 20p for £150. The maximum 20p discount equated to a saving of £10 a week for the driver of an average family car.

The maximum 20p price reduction brought the price of a liter of petrol at Safeway down to 53p. This meant customers only had to pay enough to cover duty and VAT.

Safeway was effectively giving its petrol away in an effort to increase its share of the grocery market, which stood at around 10 per cent.

On the first day of the price promotion, fuel sales at Safeway's 180 petrol stations rose by 25 per cent.

Competitor response

Asda, which controls 15.6 per cent of the grocery market, was the only supermarket-based petrol retailer to react to Safeway's promotion. It swiftly cut its prices by 0.8p a liter.

Sainsbury's and Tesco, with 16.6 per cent and 26 per cent of the grocery market respectively, refused to be drawn into a fuel price war. They maintained their existing pricing strategies.

Both retailers guarantee to match the cheapest petrol prices within a three to four mile radius of their stores, but exclude promotional offers from this pledge. Sainsbury's introduced a petrol discount scheme in 1998, but the maximum discount offered is 4p a liter - awarded when customers spend £100.

Petrol retailers, rather than supermarkets, had the most to lose from Safeway's offer. Profit margins on petrol tend to be less than 4p a liter and, unlike supermarkets, petrol retailers are not able to fund losses through other activities.

The impact on the overall petrol retail market was softened by the comparatively small number of Safeway petrol stations. Large petrol companies such as Shell and Texaco each have more than 1,000 stations throughout the UK.

Reasons behind the strategy

Why would Safeway decide to instigate a price war of this kind? How frequent are price wars and do they work?

Price wars are not a new idea. For example, daily newspapers often engage in them – with varying degrees of success.

Price wars, of varying intensity, are fought in every market. Price-cutting is often seen as a way to eliminate smaller competitors, grab market share and boost sales. But any temporary increase in sales is not necessarily sustained after normal pricing is resumed.

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What was the motivation behind Safeway's decision? A Safeway marketing spokesman claimed that:

"We are aiming to drive sales and increase individuals' spend. The fuel promotion will encourage customers to increase their current spending levels from the average £80 a basket, and may also pull in customers who usually shop with competitors If the promotion generates high levels of sales it will fund itself, so we could keep it going for some time. But it is a promotion."

Retail analysts say that pricing strategies like Safeway's petrol promotion can be an effective way of gaining market share. To be successful, however, they must be

- Well-timed
- Well-planned, and
- Well-executed

According to a retail analyst:

"Price can make customers switch temporarily to a competitor, but it is not enough to make them stay. If price was the only factor grocery shoppers considered, then Aldi would win every time - yet the budget chain has a UK market share of just 1.7 per cent. "

Price-cutting may bring people in the door, but you cannot keep customers on price alone. Customer loyalty has to be earned, not bought. There is also a risk that price-cutting can devalue a brand

Price, then, can be an effective marketing tool - but it must be combined with a thorough strategy incorporating quality, service and customer retention. Implemented properly, price-cutting has the potential to bring down competitors and boost sales. Done badly, it can be a destructive waste of time and money.

PRICING STRATEGIES - DELL

1. Introduction

Pricing strategies usually change as the product passes through its life cycle, because there is constrains on the company's freedom to price a product at different stage. The purpose of this report is to determine and elaborate the elements in pricing strategies of Dell's notebook.

2. Key Objectives

Price is the amount of money changed for a product or service, or the sum of the values consumers exchange for the benefits of having or using the product or service (Kotler et al., 2003, p.332).

Historically, prices were determined through bargaining or negotiations between buyers and sellers. Different prices were set based on the buyer needs and bargaining skill. The establishment of one price for every customer is relatively new phenomenon that came about with the rise of retailers but price still remains a major factor in affecting consumer buying decisions. In addition, it is the most flexible of those components. The ability of price to affect consumer decision and its flexibility makes pricing strategies important in meeting Dell's objectives in a competitive environment. The main objective of Dell is to produce the low price and profitable notebook for the customer.

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For Dell Company, all the prices that they sell are posed to the internet and they usually based on the e-commerce market. The main reason for successful pricing strategy is having a reasonably accurate idea of supply and demand. If prices are too high demand fall as less buyers purchase the product. Too low price can increase volume of sales but reduce margins profit. So, Dell has aimed for the e-commerce which is the multiple markets operates at different times of day and may interact or affect each others.

Dell Company had set different types of price based on the home user, small business user and medium or large business user. The pricing structure changes as the products move through their life cycle.

SUMMARY

- Price is the amount of money charged for a product or service. Price is the only element in the marketing mix that produces revenue; all other elements represent costs.
- Price is a component of exchange or transaction that takes place between two parties and refers to what must be given up by one party (i.e., buyer) in order to obtain something offered by another party (i.e., seller).
- The company must consider competitors' prices and other external and internal factors to find the best price between these two extremes.
- Cost-based pricing involves the determination of all fixed and variable costs associated with a product or service.
- Cost-plus pricing is the simplest pricing method. It involves adding a standard mark-up to the cost of the product.
- Under target returns pricing method of price determination, a desired rate of return on the amount of capital invested by the organization is determined.
- Value based pricing involves setting prices to increase profitability by adding value attributes to a product or service.
- Value based pricing involves setting prices to increase profitability by adding value attributes to a product or service.
- Pricing strategies usually change as the product passes through its life cycle. The introductory stage is especially challenging. Companies bringing out a new product face the challenge of setting prices for the first time. For new products, the pricing objective often is either to maximize profit margin or to maximize quantity (market share).
- Marketing management should device a price strategy that is compatible with strategies attached to other elements of the marketing mix.
- A pricing strategy denotes how a company will price its products at particular periods of time or particular market conditions.

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- A cash discount is a price reduction to buyers who pay their bills promptly.
- A quantity discount is a price reduction to buyers who buy large volumes.
- A functional discount (also called a trade discount) is offered by the seller to trade channel members who perform certain functions, such as selling, storing, and record keeping.
- In segmented pricing, the company sells a product or service at two or more prices, even though the difference in prices is not based on differences in costs.
- In using psychological pricing, sellers consider the psychology of prices and not simply the economics.

ANSWERS TO 'CHECK YOUR PROGRESS'

1. Internal Factors that can affect Pricing Decisions are- Firm's objective, Marketing Mix, Cost of the product, Product Differentiation.
2. Under this method, marketer estimates the total cost of the producing and manufacturing a product and then adds the margin that the firm wants.
3. Value based pricing involves setting prices to increase profitability by adding value attributes to a product or service.
4. A pricing strategy denotes how a company will price its products at particular periods of time or particular market conditions.

TEST YOURSELF

1) What do you mean by the term 'Price' of a product?
2) What is the objective of Pricing?
3) What general factors affect the pricing decisions?
4) Explain various pricing strategies for New Products.
5) What is Product Mix Pricing Strategies?
6) Explain the concept of Price Discounts.
7) Discuss Price Modification Strategies.
8) Write a short note on:
   i) Cost-plus Approach of Pricing
   ii) Value-based Approach of Pricing
   iii) Break-even Analysis and Target Profit Pricing

FURTHER READING

- *Kotler & Armstrong, Principles of Marketing Management*
- *Kotler, Keller; Marketing Management, Pearson Education*

6 Product Promotion

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Chapter Includes :

- PROMOTION
- GOALS AND TASK OF PROMOTION
- OBJECTIVE OF THE PROMOTIONAL STRATEGY
- EVALUATING ADVERTISING
- SALES PROMOTION OBJECTIVES
- FEATURES OF SALES PROMOTION
- TYPES OF SALES PROMOTION ACTIVITIES
- MAJOR SALES PROMOTION TOOLS
- SALES PROMOTION USES AND LIMITATIONS OF SALES PROMOTION
- OBJECTIVES OF PERSONAL SELLING
- ESSENTIAL ELEMENTS OF PERSONAL SELLING
- QUALITIES OF SALESPERSON ENGAGED IN PERSONAL SELLING
- DIFFERENCE BETWEEN ADVERTISING AND PERSONAL SELLING
- CONTRIBUTIONS OF PERSONAL SELLING TO MARKETING
- PUBLICITY

Learning Objective :

After going through this chapter, you should be able to:

- **Define the term Promotion.**
- **List and describe various objectives of Promotional Strategy.**
- **Discuss the meaning of Promotion Mix.**
- **Define Advertising.**
- **Describe Sales Promotion and Personal Selling.**

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INTRODUCTION

Promotion can indirectly facilitate exchanges, by commu.nicatingjnformation about company activities and product to interest groups (such as environmental and consumer groups), current and potential investors, regulatory agencies and society in general. Promotional activities can help a company justify its existence and maintain positive, healthy relationships with various groups in the marketing environment.

To make promotional efforts effective in communicating with consumers and the public, a firm must properly plan, implement, co-ordinate and control all communications. First, the firm must obtain and use information from the marketing environment. The extent to which an organization can use promotion to maintain positive relationships with, environmental forces depend largely on the quantity and quality of the information it acquires. To illustrate, to effectively communicate information to consumers that will persuade them to buy a particular product, marketers need data about these consumers and about the types of information ihey use when making purchase decisions for that type of product. Thus the collection (through marketing research) and use of data are critical in successfully communicating with selected markets.

To ensure effective communications with consumers and other groups, marketing managers must first understand the communication process.

PROMOTION:

Promotion is the communication link between sellers and buyers for the purpose influencing, informing or persuading a buyer's purchasing decision. Such communication may be made either along the products or in advance of the introduction into the market.

Promotion is one of the four elements of marketing mix (product, price, promotion, distribution). It is the communication link between sellers and buyers for the purpose of influencing, informing, or persuading a potential buyer's purchasing decision. Such communication may be made either along the products or in advance of the introduction into the market.

The word promotion is also used specifically to refer to a particular activity that is intended to promote the business, product or service.

A promotional plan can have a wide range of objectives, including: sales increases, new product acceptance, creation of brand equity, positioning, competitive retaliations, or creation of a corporate image. Fundamentally, however there are three basic objectives of promotion. These are:

1. To present information to consumers as well as others
2. To increase demand
3. To differentiate a product.

According to Philip Kotler, "Promotion compasses all tools in the marketing mix whose major role is persuasive communication."

Promotion refers to any communication activity used to inform, persuade, and remind the target market about an organization, its products and its activities. Promotion can directly facilitate exchanges by communicating information about an organization's goods, services, and ideas to its target markets. For instance, Associated Air Freight, a mid-sized company that competes with larger express air services like Federal, Express, directly prorpotes ifs services by having sales representatives personally call on executives of firms that rely on overnight shipping to convince, them to give Associated Air Freight a iry. Some companies use a flashier, method,, such as hot air balloons shaped like their products,, to facilitate, .exchanges directly. Car dealers- have used videotapes about their brands of cars to deliver personalized messages to prospects.

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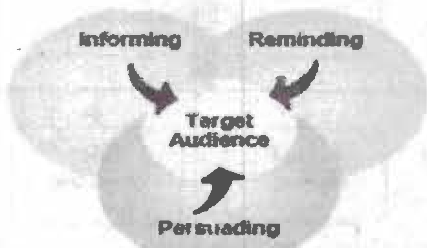
Characteristics of Promotion:

1 Promotion aims to inform about the products and services that offered by the company to the consumers.

2 Customers are requested or persuaded to purchase the products and services of the company.

3 Promotion is the responsibility of the producer to get information about the customers so that the necessary products may be served to meet their demands.

GOALS AND TASK OF PROMOTION:



Promotion is the final marketing mix element. Promotion strategy is the function of informing, persuading, and influencing a consumer decision. It is as important to non-profit organizations as it is to a profit oriented organization. Some promotional strategies are aimed at developing primary demand, the desire for the general product category.

OBJECTIVE OF THE PROMOTIONAL STRATEGY:

Promotional strategy objectives vary among organizations. Some use promotion to expand their markets, others to hold their current positions, still others to present a corporate view point on a public issue. Promotional strategies can also be used to reach selected markets. Most sources identify the specific promotional objectives or goals of providing information, differentiating the product, increasing sales, stabilizing sales, and accentuating the products value. An organization can have multiple promotional objectives. Some of these are as follows:

1) **Providing Information:** In the early days of promotional campaigns, when there was often a short supply of many items, most advertisements were designed to inform the public of the product's availability.

2) **Differentiating the product:** Marketers often develop a promotional strategy to differentiate their goods or services from those to competitors. To accomplish this, they attempt to occupy a "position" in the market that appeals to their target customers. Promotions that apply the concept of positioning communicate to consumers meaningful distinctions about the attributes, price, quality, or usage of a good or service.

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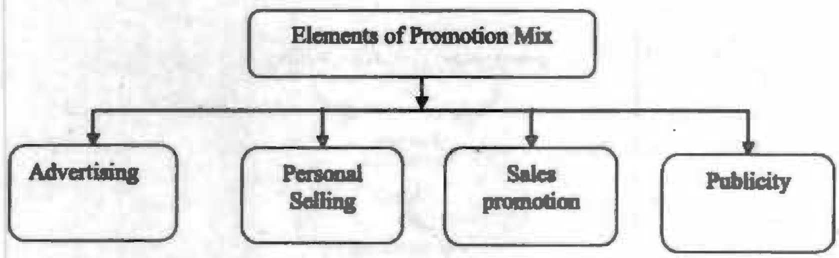
3) **Increasing Sales:** Increasing sales is the most common objective of a promotional strategy. Some strategies concentrate on primary demand, others on selective demand.

4) **Stabilizing sales:** Sales stabilization is another goal of promotional strategy. Sales contests are often held during slack periods. Such contest offer prizes (such as vacation trips, color television, and scholarship) to sales personnel who meet certain goals. Sales promotion materials – calendars, pens, and the like – are sometimes distributed to stimulate sales during off-periods. Advertising is also often used to stabilize sales. A sable sales pattern allows the firm to improve financial, purchasing, and market planning; even to even out the production cycle; and to reduce some management and production costs. The correct use of promotional strategy can be valuable tool in accomplishing these objectives.

5) **Accentuating the product's value:** Some promotional strategies are based on factors, such as warranty programs and repair services that add to the product's value.

Meaning of Promotion Mix:



Promotion mix refers to the combination of various promotional elements i.e. advertising, personal selling, publicity and sales promotion techniques used by a company for creating, maintaining and increasing the demand of a product. A promotion mix specifies that how much attention and money has to pay to each of the elements. Promotion- mix involves an integration of all the above elements of promotion.

Organisations use various promotional methods to communicate with individuals, groups and organizations. Just as product, price, distribution, and promotion make up the marketing mix, so four components make up the *promotion mix*. The *promotion mix* is the specific combination of these four promotional methods - advertising, personal selling, sales promotion, and publicity - which an organization uses for a specific product.

The next sections present some general characteristics of each element of the promotion mix, investigate the primary factors that influence a company to use the various elements, and examine how promotion must be adapted for global markets.

Recently, marketing firms have emphasized the need to co-ordinate various forms of persuasive communications. Integrated marketing communications is the application of various communication methods including advertising, sales promotion, public relations, direct marketing and personal selling, to accomplish marketing objectives.

Promotion Mix Elements:

The four major elements of the promotion mix are advertising, personal .selling, sales promotion and publicity. All four elements may be used to promote some products, but only two or three may be used for others.

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Advertising:

Advertising is a form of communication intended to persuade a customer to purchase or to consume that particular product. It includes the name of a product or service and how that product or service could benefit the consumer. Advertising aims to motivate the consumers to buy these goods and services. Advertising is a paid form of non-personal communication about an organization, its products, or its activities that is transmitted through a mass medium to a target audience. The mass medium could be television, radio, newspapers, magazines, direct mail, signs on mass transit vehicles, outdoor displays, handbills, catalogues or directories.

Advertising gives marketers the flexibility to reach an extremely large target audience or to focus on a smaller, precisely defined segment of the population.

Advertising is an extremely cost-efficient promotional method because it can reach a large number of people at a low cost per person. Advertising enables the user to transmit a message a number of times. In addition, the visibility that an organization gains from advertising can be used to enhance its public image.

Advertising has several drawbacks. Even though the cost per person reached may be low, the absolute dollar outlay can be extremely high. Organizations like Procter & Gamble, Coca-Cola, 3M and IBM may spend millions of dollars to advertise a single product. These high costs can limit and sometimes eliminate, advertising as an element of the promotion mix. Feedback from advertising is generally slow, if it occurs at all, and measurement of the effect of advertising on sales is difficult. Finally, advertising normally has less persuasive power over customers than other forms of promotion, such as personal selling.

Personal Selling:

Personal selling is a person to person transaction between a buyer and seller. Face-to-face communication with potential buyers to inform them about and persuade them to buy an organization's product is called *personal selling*. A real estate agent uses personal selling when he or she shows a house and tries to persuade the prospective home owner to purchase it. Because of its one-on-one nature, personal-selling can be much more persuasive than advertising. In addition, personal-selling can be much more persuasive than advertising. In addition, personal-selling efforts generate immediate feedback, enabling the salesperson to adjust the message in response to customers' needs for information. However, because personal selling is communication with only one or a few individuals, it costs considerably more than advertising, which reaches a much larger audience.

Virtually everyone in the organization is involved in varying degrees in personal selling. From the president of a bank to the tellers, or from the CEO of a large manufacturing organization to the assembly-line workers, members of the organization must sell others both inside and outside on the organization's mission, people and products. Although a sales person may be responsible for making the actual calls on customers, other members of the organization must also be committed to sales.

Sales Promotion:

Sales promotion includes all those activities which are used in promoting sales of the product or persuading the customer to purchase the product. Sales promotion may include attractive prices, gifts, coupons, free sample, etc. Sales promotion is an

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activity or material that offers consumers, salespersons, or resellers a direct inducement for purchasing a product. This inducement, which adds value to or incentive for the product, might take the form of a coupon sweepstakes, refund, demonstration or display. Some firms even give away free samples as an inducement to purchase a product. The term sales promotion should not be confused with promotion; sales promotion is only one aspect of the larger area of promotion, which also includes advertising, personal selling and publicity

Sales promotion techniques are gaining popularity among consumers. Organizations often make use of sales promotions to reinforce .the effectiveness of other ingredients of the promotion mix, especially advertising and personal selling. Sales promotion can be used as the primary promotion vehicle, although such use is unusual. In contrast to advertising and personal selling, which are generally used on a continuous or cyclical basis, sales promotion devices get mere irregular use. Often they are designee to produce immediate, short-term increases.

Publicity:

Publicity is a non personal, not paid stimulation of demand of the products or services by planting commercially significant news in the print media. Publicity is the process of letting people knows that you're marketing something. In other words, publicity is a non-paid form of non-personal communication about an organisation or its products that is transmitted through a mass medium in the form of a news story. Examples of publicity include magazine, newspaper, radio and TV News stories about new retail stores or products, a firm's personnel changes or special activities. Publicity differs from the other elements of the promotion mix in that it does not directly facilitate exchanges instead, its purpose is to provide information to the general public and to create and maintain a favourable public image of the organization.

Although an organisation does not pay for the transmission of publicity messages, publicity should not be viewed as free communication. Companies spend millions of dollars each year preparing news releases and encouraging media personnel to broadcast or print them.

FACTORS INFLUENCING PROMOTION MIX:

Many factors affect the composition of the promotion mix, including the organisation's promotional objective and policies, the organisation promotional budget, the characteristics of the target market, the characteristics of the product and the cost and availability of promotional methods.

When dividing on the composition of a promotion mix, marketing managers must also decide whether to use PUSH POLICY or PULL POLICY. With a Push Policy, the marketer promotes the product only to the next member down in the marketing channel. In a consumer marketing channel with wholesalers and retailers, the producer focuses its promotion efforts on the wholesaler, who is the member below the producer in the marketing channel. Each channel member, in turn, promotes or pushes the product down through the marketing channel. Marketers employing a push policy generally focus, on personal-selling efforts, although sales promotion and advertising may be used in conjunction with personal selling to push the products down through the channel.

By contrast, a business using a *pull policy* promotes its product directly to consumers to stimulate strong consumer demand 'or the product. When consumers learn, through promotional activities, about a product that they believe will satisfy their needs and wants, they ask tor the product in retail stores. To satisfy customers' demand, retailers In turn try to purchase the product from the producer or wholesalers. A pull policy is therefore intended to 'pull' products down through the, marketing channel by stimulating demand at the consumer level. To stimulate strong consumer demand, a marketer focuses promotional efforts on intensive advertising and sometimes, on sales promotion. Many pharmaceutical companies use a pull policy, advertising directly to consumers and encouraging them to ask their doctors about certain prescription drugs.

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Some producers attempt to balance push and pull strategies. In other words, they use promotion to encourage retailers to stock the product (push strategy) and to induce customers to purchase the product (pull strategy). Today, a greater proportion of promotional dollars is spent on incentives aimed at wholesalers and retailers.

The term "promotion" refers to a function which is directed towards persuading the customers for a given product or service. Some factors that influence the promotion – mix are as follows:

1) **Promotional Budget:** The resources available limit how much an organization can spend on promotion. A company with a very small promotional budget will probably rely on personal selling because it is easier to measure a sales person's contribution to sales than to measure the contribution of advertising or publicity. To implement regional or national advertising and sales promotion activities, a business must have a considerable promotional budget.

   Several methods are used to establish the promotional budget. Some firms, especially small firms with limited resourced, simply use all available funds. This practice often results in an inadequate budget, because firms set the promotional budget only after meeting all other obligations and the budget is not related to the firm's promotional objectives. Many firms use the percentage of sales method; the promotional budget is based on a percentage of the previous year's sales or the next year's forecast sales. This method is somewhat rigid and can lead to over-spending when sales are high and understanding when sales fall. The competition-matching approach involves following the action of major competitors in establishing the promotional budget. This approach assumes that competitors are correct and that their decisions are also good for a firm. Another method for determining the promotional budget is the *Objective and task approach*. This involves determining the tasks required to achieve the promotional objective and allocating the budget needed to perform these tasks. The objective and task approach is very effective because managers can accurately identify the tasks needed to accomplish the objectives. Because the budgeting decision is so difficult, some managers use an *arbitrary approach* and spend what they think is needed. However, setting a budget arbitrarily can be very dangerous, even for experienced managers.

   Some organizations, especially having small business, have a limited promotional budget. There are several inexpensive techniques these organizations can use and still stay within budget constraints, including networking with civic, business and trade associations; co-sponsoring a contest or event with another firm to share promotional costs; showcasing a business by sponsoring a Chamber of

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Commerce meeting at the place of business, such as a restaurant; making an employee who is an expert in a field write a newspaper column or give talks or organize workshops in his area of expertise; or, if the business is unique, persuading the local news media to do a feature story. Even though promotion is expensive, small organizations as well as larger ones can take advantage of low-cost promotion activities by being aggressive and creative.

2) **Target Market Characteristics:** Other factors which help to determine the composition of a promotion mix are the characteristics of an organization's target market, such as size, geographic distribution and demographics. If an organization's target market is quite small, its promotion mix will emphasise personal selling because this is an efficient means of communicating with small numbers of people. Conversely, when a target market includes millions of consumers, the promotion mix will probably stress advertising and sales promotion because these methods can reach large numbers of people at a low cost per person.

   When a company's customers are concentrated in a small area, personal selling is more practical than when customers are, dispersed across a vast geographic region. In the latter case, advertising may be a more efficient media of reaching numerous and widely dispersed customers.

3) **Product Characteristics:** The characteristics of the product affect the blend of elements in the promotion mix. Personal selling plays a major role in promoting organisational products, but advertising is used heavily to promote consumer goods, consumer convenience products are generally promoted through national advertising and sales promotion; personal selling is used extensively for consumer durables such as home appliances automobiles and houses. Publicity is a component of promotion mix for both organisational and consumer goods.

   Manufacturers of highly seasonal products, such as Toys, Christmas Thanksgiving and Valentine's Day cards, Gifts etc. generally rely on advertising and perhaps, sales promotion because off-season sales of these products are not sufficient to support an extensive year-round sales force. Toy producers have sales force to sell to resellers, yet most depend heavily on advertisements to promote their products.

   Service firms also rely heavily on advertising and personal selling to promote their products. As we mentioned earlier, personal selling is critical for services, because many times the sales people represent the service. Sales promotion is somewhat more difficult to implement for services because of their intangible nature; however, premiums such as calendars and coffee mugs can be used to promote service providers like hospitals, dry cleaners, funeral homes and so on. Service firms often rely more heavily on publicity than do firms marketing goods. Non-profit organisations also rely heavily on publicity, as well as on advertising and personal selling and not so much on sales promotion. The price of a product also has an impact on the composition of the promotion mix. High-priced products like automobiles and major appliances require personal-selling efforts, as weir as advertising, because consumers associate greater risk with the purchase of an expensive product and therefore expect information and advice from a knowledgeable sales person. For this reason, most consumers would be reluctant to purchase an expensive refrigerator from a self-service establishment. On the other hand, advertising is more practical than personal selling at the retail level for low priced convenience goods such as milk, flour, soft drinks and newspapers. The profit margins on many of these items are too low to justify the use of sales people and most customers do not need, or even want, advice from sales personnel when making such routine purchases.

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4) **Cost and Availability of Promotional Methods:** The costs of promotional methods are certainly important considerations when developing a promotion mix. National advertising and sales promotion efforts require large expenditure even though the cost per individual reached may be quite low. Because of budget constraints, many small organisations restrict their promotion mix to advertising through local newspapers, magazines, radio and television stations and outdoor displays.

   Availability of promotional techniques is another factor that marketers must explore when formulating a promotion mix. A company may discover that no available advertising media are effective in reaching a certain market. Finding an appropriate medium may be especially difficult when marketers try to advertise in foreign countries. Some media, like television, are simply not available or not in widespread use. Other media that are available may be restricted in the types of advertisements they can run. For example, in Spain, marketers cannot advertise tobacco and alcohol products (with the exception of beer and wine) on television; in Germany, marketers are prohibited from appealing to children in advertisements. In the United States, some state laws prohibit the use of certain types of sales promotion activities such as contests.

ADVERTISING:

The term "advertising" is derived from the original Latin word "advertise" which means to turn the attention. Thus advertising refers to bring the attention of potential and current customers towards a product or a service or an idea. Advertising plan for a product might be different than that for another product. In short, advertising may be called as, any activity that turns the attention to an idea or a product.

According to American Marketing Association, "it is any paid from of non-personal presentation of ideas, goods or services by an identified sponsor."

According to Weeler, "Advertising is any form of paid non-personal presentation of ideas, goods or services for the purpose of including people to buy."

Advertising is any paid form of non personal presentation and promotion of ideas, goods, or services by an identified sponsor. Ads can be cost effective way to disseminate messages, whether to build a brand preference or to educate people. Even in today's challenging media environment, good ads can pay off.

Advertising is the use of paid media by a seller to inform, persuade, and remind about its products or organization. It is a strong promotion tool. Advertising decision-making is a five-step process consisting of decisions about the objectives, the budget, the message, the media, and, finally, the evaluation of results. Advertisers should set clear objectives as to whether the advertising is supposed to inform, persuade, or remind buyers. The advertising budget can be based on what is affordable, on a percentage of sales, on competitors' spending, or on the objectives and tasks. The message decision calls for designing messages, evaluating them, and executing them effectively. The media decision calls for defining reach, frequency, and impact goals; choosing major media types; selecting media vehicles; and sched-

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uling the media. Message and media decisions must be closely coordinated for maximum campaign effectiveness. Finally, evaluation calls for evaluating the communication and sales effect of advertising before, during, and after the advertising is placed.

Advertising is also very expressive. It allows the company to dramatize its products through the artful use of visuals, print, sound, and colour. Advertising also has some shortcomings. Although it reaches many people quickly, advertising is impersonal and cannot be as directly persuasive as company salespeople. For the most part, advertising can carry on only a one-way communication with the audience, and the audience does not feel that it has to pay attention or respond. In addition, advertising can be very costly. Although some advertising forms, such as newspaper and radio advertising, can be done on smaller budgets, other forms, such as network TV advertising, require very large budgets.

FEATURES OF ADVERTISING:

Advertising is a non-personal from of promotion. It is the most economical method of communication of ideas, goods and services because it reaches a large number of people hence its cost per message is low. Some important features of advertising are as follows:-

1) **Mass-Communication Process:** Manufactures and dealers use the mass media to communication the message to the target customers.
2) **Non-Personal Presentation:** Advertising is the non-personal attempt to present the message regarding a product or services In other words, the manufactures and consumers are not in direct or personal contact with one another.
3) **Not the past of product:** Advertising cost is the part of product cost but we do not consume advertising with the product or a service.
4) **Persuasive Act:** Advertising is any form contains persuasion, because the major function of advertising is to persuade the buys.
5) **Competitive Act:** There are many manufactures in the market and all they want to push their products and services to the maximum possible extent. Competition is of two types namely, quality and price. In both the cases, change in quality standards and change in price should be noticed to the target customers.
6) **Informative in Action:** Each and every advertisement is piece of information to the listeners, readers and viewers. An advertisement aims to inform to the customers, about the new products, its special features, and explains the best use of the product.

OBJECTIVES OF ADVERTISING:

The basic objective of advertising is to increase the sales. Some important objectives are as follows:

1. **To inform people about the availability of product and services:** Advertising aims to inform people in an attractive way about the different product and services that are available in the market to satisfy their needs.
2. **To introduce a new product:** Advertising is required for introducing new product in the market. It educates the people about the new product, new versions of old products etc.

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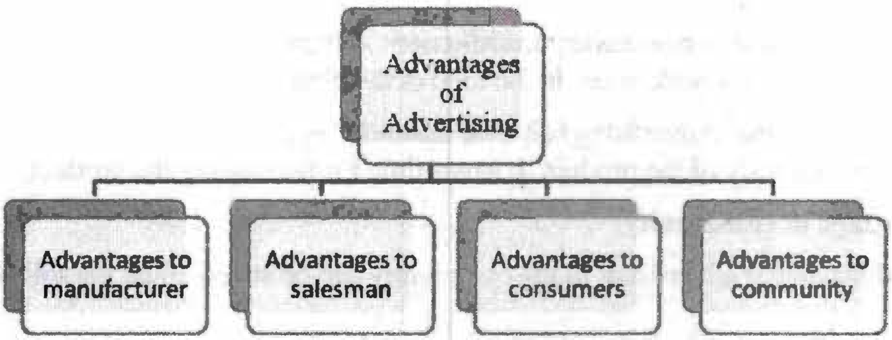
3. **To inform about the change in product:** Whenever changes are introduced in prices, channels of distribution or any improvement in product like in quality, size, weight, packing etc. the change must be informed to the customer through advertising.
4. **To create goodwill for the concern:** Advertising helps to build good image of the concern. Adverting builds up a certain monopoly area for the product in which new entrants find it difficult to enter.
5. **To increase demand:** Advertising is regarded as an art of creating demand. It induces the sales of the product.

AVANTAGES OF ADVERTISING:



Advantage to Manufactures:

1) **Increase in the sales volume:** The main advantage of advertising is to increase the sales volume of the product by increasing, or creating the demand of the product.
2) **It controls product price:** Wholesale and retail price of a product is controlled through advertisement.
3) **It creates reputation:** Advertising increases the reputation of the manufactures in the public. It builds the image of the product and goodwill of the manufacture.
4) **It is less expensive:** With a smaller amount of money advertising reaches many people therefore it is considered to be less expensive.
5) **It helps in opening new Market:** Advertising is helpful in opening or creating new market. It helps to get leadership in the market. It helps the manufactures to take decisions whether to expand the market share or not.

Advantage to Salesman:

1) **Creates a background:** The advertisement creates a background that helps the salesman. Customers know about the product through advertisement.
2) **Curtails the burden of the salesman's Job:** If advertising is done by the manufactures the work of the salesman is reduced. Salesman's function is supported and supplemented by advertisement.
3) **Consumer's need can be studied:** Advertising reduces salesman's job. It may creates enthusiasm and confidence in the salesmen.

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Advantage to the consumers:

The ultimate aim of marketing of goods is to satisfy the needs of the consumers and advertising plays an important role in achieving that aim of marketing. Advertising helps the consumers in the following ways.

1) **Easy purchasing:** Advertising provides guidance about the quality of the product to the consumers. Advertising helps the consumers in the purchasing of the product.

2) **Best quality Product:** Advertising generally stands for a quality product. If the product is not good in quality, customers will switch to other brand. Therefore, the manufactures try to maintain their quality to retain in the market.

3) **Eliminates unnecessary middlemen:** Advertising helps to eliminate the unnecessary middlemen in the field of distribution.

4) **Sales time:** Advertising helps the customer by giving information about the availability of the product. It saves time for purchasing the product.

Advantage of community:

The advantage of advertising to the community can be stated under the following head:

1) **Increase the employment opportunities:** Advertising generates employment opportunities to many people directly or indirectly. Direct employment opportunities are artists, painters, singers, musicians, writers etc. Advertising indirectly helps to create employment avenues as it stimulates the production of good by creating and sustaining demand for different types of goods and service.

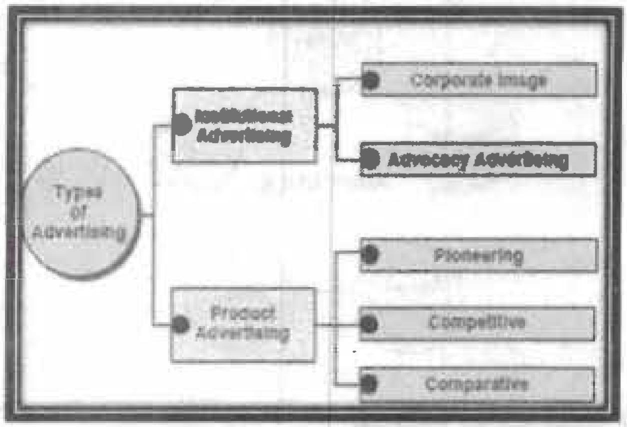
2) **Educative values:** Advertising educates the people of the community about the uses of the product. Advertising help to clear the merits of the product. People are aware about the varieties of products and their availability in the market.

3) **Helps press:** In modern days, press is sustained by advertisement. Advertisements are essential for the press.

DISADVANTAGE OF ADVERTISING:

1. Advertising makes good costlier.
2. Advertising is less persuasive than personal selling.
3. It is highly difficult to evaluate the effectiveness of advertising as so many other factors can influence the sales and consumer's attitude.
4. Advertising may misleads the customers and gives false information to the customers.
5. Advertising creates wants and wants cannot be satisfied. It increases unhappiness to the customers.
6. Sometimes advertising results in high levels of wastage, as the coverage audience of advertising may not be interested in the products and service being advertised.

TYPES OF ADVERTISING:



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Institutional Advertising:

Such advertising are designed to build company's image or goodwill rather than to sell a specific product or service. Such ads create positive public image of institution. Such ads are also called the goodwill ads. For Example: ad issued by Steel Authority of India Ltd. (SAIL) advertises only company's name in its ad. This ad is to promote, institutional or corporate image ultimately help to increase the sales in the long run. The scope of institutional advertising extends to all kinds of products, services and organizations. Following are the main advantages of institutional advertising: To establish, change or maintain the firm's identity – not an attempt to sell anything.

- It improves the image of manufacturer.
- It helps the manufacturer in product diversification.
- It helps the manufacturer to attract the dealers, stockiest, efficient sales person, etc.
- Investors are attracted to institutions that have good institutional image.
- Institutional advertising helps to improve public relations.

Product Advertising:

Product ads are designed to inform, to persuade the potential buyers to buy the advertiser's products or services. These ads give information about the product of advertiser. These ads are directly aimed at increasing the sales. Particular brand and particular product is advertised in product advertising. Product advertising is trying to promote and sell a specific brand or product. There are three types of Product advertising:

Pioneering Advertising: To stimulate demand for a new product: primary demand.

Competitive Advertising: It attempt to increase sales: brand insistence.

Comparative Advertising: It directly or indirectly compares two brands.

FIVE M's OF ADVERTISING:

In developing an advertising program, marketing managers must always start by identifying the target market and buyer motives. Then they can make the five major decisions, known as "five Ms":

Check Your Progress

1. What is Promotion?
2. What do you mean by Promotion Mix?

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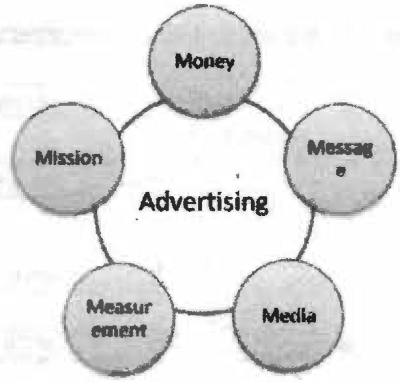

Five M's of advertising are as follows:

Mission: Mission is the basic objective or goal that any company wants to attain by its advertising campaign.

The mission of advertising includes:

(a) Sales goals, and (b) Advertising objectives

Money: The second important factor of advertising is money. How much money should be spent by the company to achieve the objective of advertising and the basic factors that should be considered while deciding about the budget of the advertising? This factor considers-

(a) Stage in product life cycle, (b) Market share and consumers lose,

(c) Competition, (d) Product substitutability

Message: This is the third important factor of advertising. What specific information of the company wants to communicate through its advertising, what should be the contents of the message etc? This factor considers-

(a) Massage generation, (b) Massage evaluation,

(c) Massage execution, (d) Social responsibility review

Media: Communication of the message to people requires some media that can be print electronic its selection requires certain decisions like selection of type of media, scheduling of media etc. This factor considers-

(a) Major media type,

(b) Specific media vehicles,

(c) Media timing,

(d) Geographical media allocation

Measurement: It is something related to evaluation of the advertising campaign that can be done either by considering its impact on sales or profits of the company. This is the last factor of advertising this factor considers:

(a) Communication impact, and

(b) Sales impact

ADVERTISING DECISIONS

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Marketing management must take important decisions when developing an advertising program. These decisions are summarized in the following sections:

SETTING ADVERTISING OBJECTIVES

Setting advertising objectives is the first step in developing an advertising program. These objectives should be based on past decisions about the target market, positioning, and marketing mix, which define the job that advertising must do in the total marketing program. An advertising objective is a specific communication task to be accomplished with a specific target audience during a specific period of time. Advertising objectives can be classified by primary purpose as:

1) **Informative advertising**, which is used to inform consumers about a new product or feature or to build primary demand. It aims to create brand awareness and knowledge of new products.
2) **Persuasive advertising** which is used to build selective demand for a brand by persuading consumers that it offers the best quality for their money. It aims to create brand awareness liking, preferences, conviction, and purchase of a product or service. Some persuasive advertising uses comparative advertising, which makes an explicit comparison of the attributes of two or more brands.
3) **Comparison advertising**, which is advertising that, compares one brand directly or indirectly to one or more other brands.
4) **Reminder advertising**, which is used to keep consumers thinking about a product. This form of advertising is more important for mature products. It aims to stimulate repeat purchase of products and services.

The advertising objective should emerge from a thorough analysis of the current marketing situation. If the product class is mature, the company is the market leader, and the brand usage is slow, the objective is to stimulate more usage. If the product class is new, the company is not the market leader, but the brand is superior to the leader, then the objective is to convince the market of the brand's superiority.

SETTING THE ADVERTISING BUDGET

After determining its advertising objectives, the marketer must set the advertising budget for each product and market. How does a company know its spending the right amount? Some critics charge that large consumer-packaged-goods firms overspend on advertising and business-to-business marketers generally under spend on advertising. They claim that, on the one hand, the large consumer companies use lots of image advertising without really knowing its effects. They overspend as a form of "insurance" against not spending enough. On the other hand, business advertisers tend to rely too heavily on their sales forces to bring in orders. They underestimate the power of company and product image in pre-selling to industrial customers.

Some specific factors that should be considered when setting the advertising budget are:

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1) **Stage in the product life cycle:** New products typically need large advertising budgets to build awareness and to gain customer trial. Established brands usually are supported with lower advertising budgets, measured as a ratio to sales.

2) **Market share and customer base:** High-market share brands usually need more advertising expenditure as a percentage of sales to maintain share. To build share by increasing market size requires larger expenditure.

3) **Competition and clutter:** In a market with a large number of competitors and high advertising spending, a brand must advertise more heavily to be heard. Even simple clutter from advertisements not directly competitive to the brand creates a need for heavier advertising. More advertising is usually required in a market with many more competitors and their advertising clutter.

4) **Product differentiation:** When a brand closely resembles other brands in its product class, more advertising (and therefore budget) is needed. Brands in less-well-differentiated or commodity like product classes (beer, soft drinks, banks and airlines) require heavy advertising to establish a differential image.

The primary questions to be answered during the budget process are how much to spend and what impact is expected or acceptable. This process is difficult because measurement techniques of effectiveness rarely give precise answers.

DEVELOPING THE ADVERTISING CAMPAIGN

In designing and evaluating an ad campaign, marketers employ both art and science to develop the message strategy and positioning of an ad-what the ad attempts to convey about the brand-and its creative strategy-how the ad expresses the brand claims. Advertising go through three steps: message generation and evaluation, creative development and execution and social responsibility to review.

In the past, companies often viewed media planning as secondary to the message-creation process. The creative department first created good advertisements, and then the media department selected the best media for carrying these advertisements to desired target audiences. This often caused friction between creative and media planners. Today, however, media fragmentation, soaring media costs, and more focused target marketing strategies have promoted the importance of the media-planning function. In some cases, an advertising campaign might start with a great message idea, followed by the choice of appropriate media. In other cases, however, a campaign might begin with a good media opportunity, followed by advertisements designed to take advantage of that opportunity. Increasingly, companies are realizing the benefits of planning these two important elements jointly. Thus, more and more advertisers are orchestrating a closer harmony between their messages and the media that deliver them. Media planning is no longer an after-the-fact complement to a new ad campaign. Media planners are now working more closely than ever with creative to allow media selection to help shape the creative process, often before a single ad is written. In some cases, media people are even initiating ideas for new campaigns.

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1. Message Generation and Evaluation: No matter how big the budget, advertising can succeed only if commercials gain attention and communicate well. Good advertising messages are especially important in today's costly and cluttered advertising environment. If all this advertising clutter bothers some consumers, it also causes big problems for advertisers. Until recently, television viewers were pretty much a captive audience for advertisers. Viewers had only a few channels from which to choose. But with the growth in cable and satellite TV, VCRs, and remote-control units, today's viewers have many more options. They can avoid ads by watching commercial-free cable channels. They can "zap" commercials by pushing the fast-forward button during taped programs. With remote control, they can instantly turn off the sound during a commercial or "zip" around the channels to see what else is on. In fact, a recent study found that half of all television viewers now switch channels when the commercial break starts.

Thus, just to gain and hold attention, today's advertising messages must be better planned, more imaginative, more entertaining, and more rewarding to consumers. Some advertisers even create intentionally controversial ads to break through the clutter and gain attention for their products.

2. Creative Development and Execution: The ad's impact depends not only on what it says, but often more important, how it says it. Execution can be decisive.

1) **Message Strategy:** The first step in creating effective advertising messages is to decide what general message will be communicated to consumers—to plan a message strategy. The purpose of advertising is to get consumers to think about or react to the product or company in a certain way. People will react only if they believe that they will benefit from doing so. Thus, developing an effective message strategy begins with identifying customer benefits that can be used as advertising appeals. Ideally, advertising message strategy will follow directly from the company's broader positioning strategy. Message strategy statements tend to be plain, straightforward outlines of benefits and positioning points that the advertiser wants to stress. The advertiser must next develop a compelling creative concept—or "big idea"—that will bring the message strategy to life in a distinctive and memorable way. Advertising appeals should have three characteristics: First, they should be meaningful, pointing out benefits that make the product more desirable or interesting to consumers. Second, appeals must be believable—consumers must believe that the product or service will deliver the promised benefits. Appeals should also be distinctive—they should tell how the product is better than the competing brands.

2) **Message Execution:** The advertiser now has to turn the big idea into an actual ad execution that will capture the target market's attention and interest. The creative people must find the best style, tone, words, and format for executing the message. Any message can be presented in different execution styles, such as the following:

- **Slice of life:** This style shows one or more "typical" people using the product in a normal setting.

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- **Lifestyle:** This style shows how a product fits in with a particular lifestyle.
- **Fantasy:** This style creates a fantasy around the product or its use.
- **Mood or image:** This style builds a mood or image around the product, such as beauty, love, or serenity. No claim is made about the product except through suggestion.
- **Musical:** This style shows one or more people or cartoon characters singing about the product.
- **Technical expertise:** This style shows the company's expertise in making the product.
- **Scientific evidence:** This style presents survey or scientific evidence that the brand is better or better liked than one or more other brands.
- **Testimonial evidence or endorsement:** This style features a highly believable or likable source endorsing the product.

3. Legal And Social Issues: Advertisers and their agencies must be sure advertising does not overstep social and legal norms. Public policy makers have developed a substantial body of laws and regulations to govern advertising.

DECIDING ON MEDIA AND MEASURING EFFECTIVENESS:

After choosing the message, the advertiser's next task is to choose media to carry it. The steps here are as follows:

a) Deciding on reach, frequency, and impact;

b) Choosing among major media types;

c) Selecting specific media vehicles;

d) Deciding on media timing.

Deciding on Reach, Frequency, and Impact:

Media selection is finding the most cost-effective media to deliver the desired number and type of exposures to the target audience. To select media, the advertiser must decide what reach and frequency are needed to achieve advertising objectives. *Reach* is a measure of the *percentage* of people in the target market who are exposed to the ad campaign during a given period of time. For example, the advertiser might try to reach 70 percent of the target market during the first three months of the campaign. *Frequency* is a measure of how many *times* the average person in the target market is exposed to the message. For example, the advertiser might want an average exposure frequency of three. The advertiser also must decide on the desired *media impact*—the *qualitative value* of a message exposure through a given medium. For example, for products that need to be demonstrated, messages on television may have more impact than messages on radio because television uses sight *and* sound. The same message in one magazine may be more believable than in another. In general, the more reach, frequency, and impact the advertiser seeks, the higher the advertising budget will have to be.

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Choosing Among Major Media Types

The media planner has to know the reach, frequency, and impact of each of the major media types. The major media types are newspapers, television, direct mail, radio, magazines, outdoor, and the Internet. Each medium has advantages and limitations. Media planners consider many factors when making their media choices.

1 **Target audience media habits**: The *media habits of target audience* will affect media choice—advertisers look for media that reach target consumers effectively.

2 **Product Characteristics**: Media types have different potential for demonstration, visualization, explanation, believability, and color. For example, fashions are best advertised in color magazines, and automobile performance is best demonstrated on television.

3 **Message Characteristics:** Different *types of messages* may require different media. Timeliness and information content will influence media choice. A message announcing a major sale tomorrow will require radio or newspapers. A message with a lot of technical data might require magazines, direct mailings, or an online ad and Web site.

4 ***Cost:*** *Cost* is another major factor in media choice. For example, network television is very expensive, whereas newspaper or radio advertising costs much less but also reaches fewer consumers.

Given the abundance of media, the planner must first decide how to allocate the budget to the major media types. Consumers are increasingly time starved. Attention is a scarce currency, and advertisers need strong devices to capture people's attention.

Selecting Specific Media Vehicles

The media planner now must choose the best *media vehicles*—specific media within each general media type. Media planners must compute the cost per thousand persons reached by a vehicle. The media planner ranks each magazine by cost per thousand and favors those magazines with the lower cost per thousand for reaching target consumers. The media planner must also consider the costs of producing ads for different media. Whereas newspaper ads may cost very little to produce, flashy television ads may cost millions. In selecting media vehicles, the media planner must balance media cost measures against several media impact factors. First, the planner should balance costs against the media vehicle's *audience quality.*

Deciding on Media Timing

The advertiser must also decide how to schedule the advertising over the course of a year. Suppose sales of a product peak in December and drop in March. The firm can vary its advertising to follow the seasonal pattern, to oppose the seasonal

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pattern, or to be the same all year. Most firms do some seasonal advertising. Some do *only* seasonal advertising. Finally, the advertiser has to choose the pattern of the ads. *Continuity* means scheduling ads evenly within a given period. *Pulsing* means scheduling ads unevenly over a given time period. The idea is to advertise heavily for a short period to build awareness that carries over to the next advertising period. Those who favor pulsing feel that it can be used to achieve the same impact as a steady schedule but at a much lower cost. However, some media planners believe that although pulsing achieves minimal awareness, it sacrifices depth of advertising communications. Recent advances in technology have had a substantial impact on the media planning and buying functions.

EVALUATING ADVERTISING

Most advertisers try to measure the communication effect of an ad-that is, its potential effect on awareness, knowledge, or preference. They would also like to measure the ad's sales effect.

Communication–Effect Research: Measuring the *communication effects* of an ad—*copy testing*—tells whether the ad is communicating well. Copy testing can be done before or after an ad is printed or broadcast. Before the ad is placed, the advertiser can show it to consumers, ask how they like it, and measure recall or attitude changes resulting from it. After the ad is run, the advertiser can measure how the ad affected consumer recall or product awareness, knowledge, and preference.

Sales-Effect Research: The *sales effects* of advertising are often harder to measure than the communication effects. Sales are affected by many factors besides advertising—such as product features, price, and availability.

SALES PROMOTION

Sales promotion, a key ingredient in marketing campaigns, consists of a collection of incentive tools, mostly short term, designed to stimulate quicker or greater purchase of particular products or services by consumers or the trade.

Sales promotion includes a wide assortment of tools—coupons, contests, cents-off deals, premiums, and others—all of which have many unique qualities. They attract consumer attention, offer strong incentives to purchase, and can be used to dramatize product offers and to boost sagging sales. Sales promotions invite and reward quick response—whereas advertising says, "Buy our product," sales promotion says, "Buy it now." Sales promotion effects are often short lived, however, and often are not as effective as advertising or personal selling in building long-run brand preference.

According to William J. Stanton, "Sales promotion is an exercise in information, persuasion, and influence."

According to Philip Kotler, "Promotion encompasses all the tools in the marketing mix whose major role is persuasive communication."

Sales promotion consists of short-term incentives to encourage the purchase or sale of a product or service. Whereas advertising and personal selling offer reasons to buy a product or service, sales promotion offers reasons to buy *now.* Several factors have contributed to the rapid growth of sales promotion, particularly in consumer markets. First, inside the company, product managers face greater pressures to increase their current sales, and promotion is viewed as an effective short-run sales tool. Second, externally, the company faces more competition and competing brands are less differentiated. Increasingly, competitors are using sales promotion to help differentiate their offers. Third, advertising efficiency has declined because of rising costs, media clutter, and legal restraints. Finally, consumers have become more deal oriented and ever-larger retailers are demanding more deals from manufacturers. The growing use of sales promotion has resulted in *promotion clutter,* similar to advertising clutter. Consumers are increasingly tuning out promotions, weakening their ability to trigger immediate purchase. Manufacturers are now searching for ways to rise above the clutter, such as offering larger coupon values or creating more dramatic point-of-purchase displays.

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Benefits of Sales Promotion: Sales promotion tools offer three distinctive benefits:

a) **Communication:** They gain attention and may lead the consumer to the product.

b) **Incentive**: They incorporate some concession, inducement, or contribution that gives value to the consumer.

c) **Invitation:** They include a distinct invitation to engage in the transaction now.

Characteristics of Sales Promotion:

a) Sales promotion does not include advertisement, personal selling and publicity.

b) Sales promotion activities are purely temporary and performed at certain times like display, free sample, exhibitions, etc.

c) Sales promotion encourages dealers, distributors and consumers.

SALES PROMOTION OBJECTIVES:

The major objectives of sales promotion are:

a) To introduce a new product in the market.

b) To influence the public with the help of new uses of the product.

c) To increase the frequency of purchase by each buyer.

d) To encourage dealers to stock more goods.

e) To withstand in the competitive field.

f) To notify the customers about the utility of the product.

g) To effect spot buying and to attract new customers.

h) To increase sales during slack periods and to increase profits of the firm.

i) To improve the public image/goodwill of the firm.

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Sales promotion objectives vary in their specific objective. Sellers may use consumer promotions to increase short-term sales or to help build long-term market share. Objectives for trade promotions include getting retailers to carry new items and more inventories, getting them to advertise the product and give it more shelf space, and getting them to buy ahead. For the sales force, objectives include getting more sales force support for current or new products or getting salespeople to sign up new accounts. Sales promotions are usually used together with advertising or personal selling. Consumer promotions must usually be advertised and can add excitement and pulling power to ads. Trade and sales force promotions support the firm's personal selling process.

In general, sales promotions should be *consumer relationship building*. Rather than creating only short-term sales or temporary brand switching, they should help to reinforce the product's position and build long-term relationships with consumers. Increasingly, marketers are avoiding "quick fix," price-only promotions in favor of promotions designed to build brand equity.

FEATURES OF SALES PROMOTION:

Following the feature of sales promotion:

1) Involves inducement to provide incentive to buy.
2) Incentive is the key element in a promotional program.
3) Attempts to add value to the product or service by appealing to "value" (pocket).
4) Acts as an acceleration tool.
5) Designed to speed up sales.
6) Targeted at different parties with different types & levels of incentives.

TYPES OF SALES PROMOTION ACTIVITIES:

There are different types of sales promotion activities and the two main categories in this regard are explained below, while the consumer oriented promotion is known as Pull strategy and the Trade oriented promotion is known as Push strategy:

Consumer Oriented Promotion:

It is also known as Pull strategy and targeted to consumers, e.g. samples, coupons, refunds, rebates, contests etc.

Trade Oriented Promotion:

It is also known as the Push strategy and targeted to Dealers / Distributors., e.g. contests and dealer incentives, trade shows, trade allowances, point of purchase displays etc.

GROWING IMPORTANCE OF SALES PROMOTION:

The reasons of growing important of the sales promotion is explained below:

1) **Retailers' Power:** In these days there is the shift at the market place from manufacturer to retailer.

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2) **Declining brand loyalty:** Over the last few years brand loyalty is on the decline and the customers are purchasing more on the basis of price value and convenience. When they view all brands equal they may shift from one brand to another.

3) **Brand proliferation:** The market has become saturated with new brands across all product categories.

4) **Competition:** To maintain competitive advantages manufacturers are increasingly using sales promotion.

5) **Increased accountability:** The companies now demand results from sale promotions expenditures.

6) **Short term focus:** The brand managers receive requests from the sales force retailers and wholesalers for sales promotional activities to meet short term targets.

7) **Fragmentation of consumer market:** The large numbers of marketers are also using sales promotion techniques to target ethnic markets. As consumers markets are getting fragmented, the fragmentation due to which mass media advertising is becoming less effective.

MAJOR SALES PROMOTION TOOLS

Many tools can be used to accomplish sales promotion objectives. Descriptions of the main consumer, trade, and business promotion tools are as follows:

Consumer Promotion Tools

The main consumer promotion tools include samples, coupons, cash refunds, price packs, premiums, advertising specialties, patronage rewards, point-of-purchase displays and demonstrations, and contests, sweepstakes, and games.

- **Samples** are offers of a trial amount of a product. Sampling is the most effective—but most expensive—way to introduce a new product. Some samples are free; for others, the company charges a small amount to offset its cost. The sample might be delivered door-to-door, sent by mail, handed out in a store, attached to another product, or featured in an ad. Sometimes, samples are combined into sample packs, which can then be used to promote other products and services.
- **Coupons** are certificates that give buyers a saving when they purchase specified products. Most consumers love coupons: Coupons can stimulate sales of a mature brand or promote early trial of a new brand. However, as a result of coupon clutter, redemption rates have been declining in recent years. Thus, most major consumer goods companies are issuing fewer coupons and targeting them more carefully.
- **Cash refund offers (or rebates)** are like coupons except that the price reduction occurs after the purchase rather than at the retail outlet. The consumer sends a "proof of purchase" to the manufacturer, who then refunds part of the purchase price by mail.

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- **Price packs (also called cents-off deals)** offer consumers savings off the regular price of a product. The reduced prices are marked by the producer directly on the label or package. Price packs can be single packages sold at a reduced price (such as two for the price of one), or two related products banded together (such as a toothbrush and toothpaste). Price packs are very effective—even more so than coupons—in stimulating short-term sales.
- **Premiums** are goods offered either free or at low cost as an incentive to buy a product, ranging from toys included with kids' products to phone cards, compact disks, and computer CD-ROMs. A premium may come inside the package (in-pack), outside the package (on-pack), or through the mail.
- **Advertising specialties** are useful articles imprinted with an advertiser's name given as gifts to consumers. Typical items include pens, calendars, key rings, matches, shopping bags, T-shirts, caps, nail files, and coffee mugs. Such items can be very effective. In a recent study, 63 percent of all consumers surveyed were either carrying or wearing an ad specialty item. More than three-quarters of those who had an item could recall the advertiser's name or message before showing the item to the interviewer.
- **Patronage rewards** are cash or other awards offered for the regular use of a certain company's products or services. For example, airlines offer frequent flier plans, awarding points for miles traveled that can be turned in for free airline trips.
- **Point-of-purchase (POP) promotions** include displays and demonstrations that take place at the point of purchase or sale. Unfortunately, many retailers do not like to handle the hundreds of displays, signs, and posters they receive from manufacturers each year. Manufacturers have responded by offering better POP materials, tying them in with television or print messages, and offering to set them up.
- **Contests, sweepstakes, and games** give consumers the chance to win something, such as cash, trips, or goods, by luck or through extra effort. A *contest* calls for consumers to submit an entry a jingle, guess, suggestion—to be judged by a panel that will select the best entries. A *sweepstakes* calls for consumers to submit their names for a drawing. A *game* presents consumers with something—bingo numbers, missing letters—every time they buy, which may or may not help them win a prize. A sales contest urges dealers or the sales force to increase their efforts, with prizes going to the top performers.

Trade Promotion Tools:

Trade promotion can persuade resellers to carry a brand, give it shelf space, promote it in advertising, and push it to consumers. Shelf space is so scarce these days that manufacturers often have to offer price-offs, allowances, buy-back guarantees, or free goods to retailers and wholesalers to get products on the shelf and, once there, to stay on it. Manufacturers use several trade promotion tools. Many of the tools used for consumer promotions—contests, premiums, displays—can also be used as trade promotions. Or the manufacturer may offer a straight discount off the list price on each case purchased during a stated period of time (also called a *price-off, off-invoice,* or *off-list*). The offer encourages dealers to buy in quantity or to carry a new item. Dealers can use the discount for immediate profit, for advertising, or for price reductions to their customers.

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Manufacturers also may offer an ***allowance*** (usually so much off per case) in return for the retailer's agreement to feature the manufacturer's products in some way. An advertising allowance compensates retailers for advertising the product. A display allowance compensates them for using special displays. Manufacturers may offer *free goods,* which are extra cases of merchandise, to resellers who buy a certain quantity or who feature a certain flavor or size. They may offer ***push money***—cash or gifts to dealers or their sales forces to "push" the manufacturer's goods. Manufacturers may give retailers free *specialty advertising items* that carry the company's name, such as pens, pencils, calendars, paper weights, matchbooks, memo pads, and yardsticks.

Business Promotion Tools

Companies spend billions of dollars each year on promotion to industrial customers. These business promotions are used to generate business leads, stimulate purchases, reward customers, and motivate salespeople. Business promotion includes many of the same tools used for consumer or trade promotions. Here, we focus on two additional major business promotion tools— conventions and trade shows, and sales contests. Many companies and trade associations organize *conventions and trade shows* to promote their products. Firms selling to the industry show their products at the trade show. Trade shows also help companies reach many prospects not reached through their sales forces. About 90 percent of a trade show's visitors see a company's salespeople for the first time at the show. A *sales contest* is a contest for salespeople or dealers to motivate them to increase their sales performance over a given period. Sales contests motivate and recognize good company performers, who may receive trips, cash prizes, or other gifts. Some companies award points for performance, which the receiver can turn in for any of a variety of prizes. Sales contests work best when they are tied to measurable and achievable sales objectives (such as finding new accounts, reviving old accounts, or increasing account profitability).

DEVELOPING THE SALES PROMOTION PROGRAM

The marketer must make several other decisions in order to define the full sales promotion program. First, the marketer must decide on the strong size of the incentive. A certain minimum incentive is necessary if the promotion is to succeed; a larger incentive will produce more sales response. The marketer also must set conditions for participation. Incentives might be offered to everyone or only to select groups. The marketer must decide how to promote and distribute the promotion program itself. A 50% off coupon could be given out in a package, at the store, by mail, or in an advertisement. Each distribution method involves a different level of reach and cost. Increasingly, marketers are blending several media into a total campaign concept.

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The **length of the promotion** is also important. If the sales promotion period is too short, many prospects (who may not be buying during that time) will miss it. If the promotion runs too long, the deal will lose some of its "act now" force. **Evaluation** is also very important. Yet many companies fail to evaluate their sales promotion programs, and others evaluate them only superficially. Manufacturers can use one of many evaluation methods. The most common method is to compare sales before, during, and after a promotion. Suppose a company has a 6 percent market share before the promotion, which jumps to 10 percent during the promotion, falls to 5 percent right after, and rises to 7 percent later on. After the promotion, sales fell as consumers used up their inventories. The long-run rise to 7 percent means that the company gained some new users. If the brand's share had returned to the old level, then the promotion would have changed only the *timing* of demand rather than the *total* demand. Consumer research would also show the kinds of people who responded to the promotion and what they did after it ended. *Surveys* can provide information on how many consumers recall the promotion, what they thought of it, how many took advantage of it, and how it affected their buying.

Sales promotions also can be evaluated through *experiments* that vary factors such as incentive value, length, and distribution method. Clearly, sales promotion plays an important role in the total promotion mix. To use it well, the marketer must define the sales promotion objectives, select the best tools, design the sales promotion program, implement the program, and evaluate the results. Moreover, sales promotion must be coordinated carefully with other promotion mix elements within the integrated marketing communications program.

SALES PROMOTION USES AND LIMITATIONS OF SALES PROMOTION

Sales promotion tools are effective for the organizations in different aspects like they can be used to introduce new products, making existing customers to buy more, attract new customers, combat competition, maintain sales in off season, increase retail inventories, tie in advertising and personal selling, enhance personal selling efforts. Beside these advantages, sales promotions have certain limitations as well like:

- Cannot Reverse Declining Sales Trend,
- Cannot Overcome, inferior Product,
- May Encourage Competitive Retaliation, and
- May Hurt Profit.

SALES PROMOTION STRATEGIES

There are three types of sales promotion strategies:

a) Push,

b) Pull, and

c) A combination of both.

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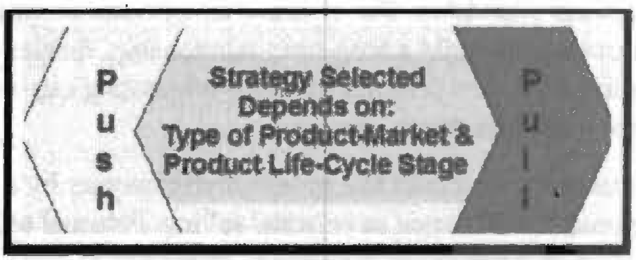
1). **Push Strategy:** A 'push' sales promotion strategy involves 'pushing' distributors and retailers to sell your products and services to the ultimate consumer by offering various kinds of promotions and personal selling efforts. A company promotes their product/services to a reseller who in turn promotes it to another reseller or to the consumer. The basic objective of this strategy is to persuade retailers, wholesalers and distributors to carry your brand, give it shelf space, promote it by advertising, and ultimately 'push' it forward to the consumer. Typical push sales promotion strategies include; buy-back guarantees, free trials, contests, discounts, and specialty advertising items.This strategy involves convincing the trade intermediary channel members to "push" the product through the distribution channels to the ultimate consumer via promotions and personal selling efforts.



2). **Pull strategy:** A 'pull' sales promotion strategy focuses more on the consumer instead of the reseller or distributor. This strategy involves getting the consumer to 'pull' or purchase the product/services directly from the company itself .The Company focuses its marketing communications efforts on consumers in the hope that it stimulates interest and demand for the product at the end-user level. This strategy is often employed if distributors are reluctant to carry a product, thus pulling it through the channel. Consumer-promotion objectives are to attract consumers to try a new product, tempt customers away from competitors' products, hold & reward loyal customers, and build consumer relationships. The strategies employed in pull strategy are: samples, coupons, cash refunds and rebates, premiums, advertising specialties, loyalty programs/patronage rewards, contests, sweepstakes, games, and point-of-purchase (POP) display.

A **'combination' sales promotion strategy** is just that; it is a combination of a push and a pull strategy. It focuses both on the distributor as well as the consumers, targeting both parties directly. It offers consumer incentives side by side with dealer discounts.

PERSONAL SELLING:

Today, most companies use salespeople to bring their company's offering to the consuming or business publics. The salesperson's role is a key one in the organization. The high cost of maintaining a sales force means that management is especially interested in how to efficiently organize this vital element.

Personal selling refers to the presentation of goods and services before the customers and convincing or persuading them to buy the products or services.Personal selling is a promotional method in which one party (e.g., salesperson) uses skills and

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techniques for building personal relationships with another party (e.g., those involved in a purchase decision) .The "value" for the salesperson is realized through the financial rewards of the sale while the customer's "value" is realized from the benefits obtained by consuming the product. Personal selling involves personal contact, this promotional method often occurs through face-to-face meetings or via a telephone conversation or any new technology that allows to direct contact of both the parties.

Personal selling is the most effective tool at certain stages of the buying process, particularly in building up buyers' preferences, convictions, and actions. It involves personal interaction between two or more people, so each person can observe the other's needs and characteristics and make quick adjustments. Personal selling also allows all kinds of relationships to spring up, ranging from a matter-of-fact selling relationship to personal friendship. The effective salesperson keeps the customer's interests at heart in order to build a long-term relationship. A sales force requires a longer-term commitment than does advertising—advertising can be turned on and off, but sales force size is harder to change.

The direct presentation of a product to a prospective customer by a representative of the selling organization is termed as personal selling. Personal selling is the personal communication of information to persuade somebody to buy something. Personal Selling occurs when a company representative comes in direct contact with a customer in order to inform a client about a good or service to get a sale. Personal selling is especially important for business-to-business marketers since products and services are complex and expensive. In many companies, personal selling is the largest single operating expense.

According to American Marketing Association, the personal selling is "the personal or impersonal process of assisting or persuading a prospective customer or buy a commodity or service or to act favorable upon an idea that has commercial significance to the seller."

Thus, Personal Selling involves oral presentation in conversation with one or more prospective buyer for the purpose of making sales. The purpose of personal selling is to bring the right products into contact with the right customers.

Personal selling is the most effective tool at latter stages of the buying process, particularly in building up buyer preference, conviction, and action. Personal selling has three distinctive qualities:

a) **Personal Interaction:** Personal selling creates an immediate and interactive episode between two or more persons. Each party is able to observe the other's reaction.

b) **Cultivation:** Personal Selling also permits all kinds of relationships to spring up, ranging from a matter-of-fact selling relationship to a deep personal friendship.

c) **Response:** The buyer may feel under some obligation for having listened to the sales talk.

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OBJECTIVES OF PERSONAL SELLING

Personal selling is used to meet the five objectives of promotion in the following ways:

- **Building Product Awareness** – A common task of salespeople is to educate customers on new product offerings. In consumer markets personal selling is very important to build awareness about the product.
- **Creating Interest** – The personal selling involves person-to-person communication for reaching customers to experience a product for the first time. In fact, creating interest goes hand-in-hand with building product awareness as sales professionals can often accomplish both objectives during the first encounter with a potential customer.
- **Stimulating Demand** –The most important objective of personal selling is to convince customers to make a purchase.
- **Reinforce the Brand** – Most personal selling is intended to build long-term relationships with customers. A strong relationship can only be built over time through regular communication with a customer. Meeting with customers on a regular basis allows salespeople to repeatedly discuss their company's products and by doing so customers' are aware about what the company has to offer, it may reinforce the brand of the product.

ESSENTIAL ELEMENTS OF PERSONAL SELLING:

Personal selling consists of the following elements:

- **Face-to-Face interaction**: Personal selling involves a salesmen having face-to-face interaction with the prospective buyers.
- **Persuasion**: Personal selling requires persuasion on the part of the seller to the prospective customers to buy the product. So that an interest may be created in the mind of the customers to use that product.
- **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. According to the situation the approach of personal selling is changed.
- **Supply of Information**: Personal selling provides various informations to the customers regarding availability of the product, special features, uses and utility of the products. It is an educative process.
- **Mutual Benefit:** It is a two-way process. Both seller and buyer derive benefit from it.

IMPORTANCE OF PERSONAL SELLING:

Personal Selling is extremely important as it helps in increasing sales. Let us discuss the importance of personal selling from the point of view of producers as well as consumers.

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For producer's point of view

a) It creates demand for products both new as well as existing ones.

b) It creates new customers.

c) It helps in expanding the market for the product.

d) It leads to product improvement. The seller gets familiar with the choice and demands of customers.

For customer's point of view

a) It informs and educates the consumers about new products.

b) The customers know about the use of new products.

c) Personal selling also guides customers in selecting goods best suited to their requirements and tastes because it involves face-to-face communication.

QUALITIES OF SALESPERSON ENGAGED IN PERSONAL SELLING:

The quality of the salesperson will vary from time to time and from situation to situation. It also depends upon the customers' demand and nature of the product. 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

1) **Physical quality:** A salesman should have a good appearance and an impressive personality.

2) **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.

3) **Integrity of character:** A good salesman should posses the qualities of honesty and integrity. A salesman should be loyal both to the employer and to the customers. He is able to gain the confidence of the customers. He should be able to understand their needs and guide them how to satisfy those needs.

4) **Knowledge of the product and the company:** A salesman should have full knowledge of the product. He should be able to explain each and every aspect of the product i.e. its qualities, how to use it, what precautions should be taken while using the product, etc. He should also have knowledge of products of rival companies.

5) **Good behaviour:** A salesman should be co-operative and well-mannered. Good behaviour enables one to win the confidence of the customers. He should not feel irritated if the buyer asks many questions even if the questions are irrelevant. It is also not necessary that the person he is trying to convince buys the product. In that case he should be very peaceful.

6) **Ability to persuade:** A good salesman should be good in conversation so that he can convince the person to purchase the product.

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NATURE OF PERSONAL SELLING

Selling is one of the oldest professions in the world. Today, most salespeople are well-educated, well-trained professionals who work to build and maintain long-term relationships with customers. They build these relationships by listening to their customers; assessing customer's needs, and organizing the company's efforts to solve customer problems. The term salesperson covers a wide variety of positions and responsibilities. The person can be:

1 An inside order taker.

2 An order getter (a great amount of creative selling skills are demanded in this position).

Personal selling is likely to be emphasized in a promotional mix when the market is concentrated or the product has a high unit value, is technical in nature, and requires a demonstration. It is also useful if the product can be tailored to an individual customer's need, or the product is in the introductory stage of the product life cycle.

PRINCIPLES OF PERSONAL SELLING:

Personal selling is an ancient art. Effective salespeople today however have more than instinct; they are trained in methods of analysis and customer management. Companies now spend hundreds of millions of dollars each year to train salespeople and transform them from passive order takers into active order getters. Representatives are taught the SPIN method to build long-term relationships with questions such as:

1) **Situation question:** They ask about facts or explore the buyer's present situation. For Example, "What system are you using to invoice your customers?"

2) **Problem questions:** These deals with problems, difficulties, and dissatisfactions the buyers are experiencing. For Example: "What parts of the system create errors?"

3) **Implication questions:** Theses ask about the consequences or effects of the buyer's problems, difficulties, or dissatisfactions. For Example: "How does this problem affect your people's productivity?"

4) **Need-payoff questions:** These ask about the value or usefulness of a proposed solution. For Example: "How much would you save if our company could help reduce the errors by 80%?"

DIFFERENCE BETWEEN ADVERTISING AND PERSONAL SELLING:

Advertising	Personal selling
1. It is concerned with the public in general.	1. It is concerned with specific individual.
2. It is comparatively less expensive.	2. It is very expensive in comparison to advertising
3. It creates an interest in buyer in a general way.	3. It create an interest according to the needs of individual buyer

4. Advertising is not flexible.	4. Personal selling is flexible.
5. It encourages the art of photography, act, music etc.	5. It generates the art of speaking.

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CONTRIBUTIONS OF PERSONAL SELLING TO MARKETING:

Today, most professional salespeople are well-educated, well-trained men and women who work to build long-term, value-producing relationships with their customers. They succeed not by taking customers in but by helping them out—by assessing customer needs and solving customer problems. Success in a selling environment requires careful teamwork among well-trained, dedicated sales professionals who are bent on profitably taking care of their customers.

Sales representatives engage in a total selling job. Representatives work closely with customers. They organize much of their own time and effort. They often experience role ambiguity and role conflict.

Changing patterns in personal selling

Traditionally, personal selling has been a face-to-face, one-on-one situation. But now new trends and patterns are emerging which are:

Salesperson Attributes:

Salesperson is an individual (like: Serving, and Information gathering Salespeople, sales representatives, account executives, sales consultants, sales engineers, agents, district managers, marketing representatives, account development reps, etc) acting for a company by performing one or more of the following activities. Salesperson is an individual acting for a company by performing one or more of the following activities:

Prospecting is the first step in the selling process. It is the process of identifying qualified potential customers. Approaching the right potential customers is crucial to selling success. Than during the presentation step of the selling process, the salesperson tells the product "story" to the buyer, showing how the product will make or save money. The salesperson describes the product features but concentrates on presenting customer benefits. Using a *need-satisfaction approach*, the salesperson starts with a search for the customer's needs by getting the customer to do most of the talking.

To be more effective in this process sales person should possess certain attributes, they should be honest should be competent to demonstrate the products and handle objections should be customer oriented so that customers can be satisfied, should possess the skills so that potential customers are ready to listen about the offered products.

ADVANTAGES OF PERSONAL SELLING

The advantages of personal selling over the other promotion tool are as follows:

- It can be adapted for individual customers.
- It can be focused on prospective customers.

- It results in the actual sale, while most other forms of promotion are used in moving the customer closer to the sale.

DISADVANTAGES OF PERSONAL SELLING

The major disadvantages of the personal selling are:

- Expensive per contact
- Many sales calls may be needed to generate a single sale
- Labor intensive
- It is costly to develop and operate a sales force.
- It may be difficult to attract high-caliber people.

PUBLICITY

Publicity is information about a company's goods or services appearing in the mass media as a news item. It is the stimulation of demand for a good, service, place, idea, person, or organization by unpaid placement of commercially significant news or favorable media presentations. Publicity is more credible to consumers than any other promotional mix element Although publicity is generally thought of as not paid for, firms incur publicity-related expenses that include the cost of employing marketing personnel assigned to create and submit publicity releases, printing and mailing costs, and related expenses.

Publicity is the deliberate effort to manage the public's perception of a subject. The subject of publicity includes people like politicians and performing artists, good and service, all kinds of organization. In marketing, publicity is one component of promotion- mix. The other element of the promotion- mix is advertising, sales promotion selling.

According to the Dictionary, "Publicity is defined as the process of drawing attention to a person or thing".

The publicists try to create their own news. He cannot wait around for the news to present opportunities. Example of this includes-

1. Contest,
2. Art exhibitions,
3. Event sponsorship,
4. Conduct a poll or survey,
5. Take a stand a controversial subject,
6. Announce an appointment,
7. Issue a report

POWER OF PUBLICITY:

In order to understand publicity it will be appropriate to first of all know its power. This is explained below:

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Check Your Progress

3. Define Advertising.
4. Explain the meaning of Sales Promotion.
5. What is Personal Selling?

NOTES

1 Highly Credible.

2 Information endorsed by medium in which it appears.

3 News value and frequency of exposure generated by it makes it powerful.

4 Publicity is news and people like to pass on information having news value.

CONTROL OVER PUBLICITY:

Being power medium unlike advertising companies have no control over publicity because companies cannot do much to stop media from releasing negative information. However, Publicity should be managed like any other promotional tool. In any case marketers must have control as much as possible over time & place where information is released.

IMPORTANCE OF PUBLICITY:

1. Publicity can sell product or services without the burdensome expenses of advertising.
2. Publicity can create profitable unexpected opportunities.
3. Publicity for good work, earns goodwill.
4. Publicity helps in rising above the competition.
5. Publicity can broaden audience.

ADVANTAGES OF PUBLICITY:

Using publicity the companies can have following advantages:

• Credibility.

• News value.

• Significant "word of mouth" – Communication.

• A perception of being endorsed by media.

DISADVANTAGES OF PUBLICITY:

Despite being useful and powerful publicity does have some disadvantages as under:

1) Publicity has potential for negative publicity.

2) Timing not always completely under control of marketer.

3) Press release is major source of publicity, so may not be reported the way desired.

4) Publicity looks control over the specific content, timing and the amount of coverage.

5) Publicity always talk about good not about errors and mistakes.

6) Publicity cannot be repeated as stories are not likely to be repeated.

CASE STUDY

Case Study: L'Oreal's Promotional Strategies in Indian Cosmetics Market for Garnier

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Garnier has been very active and upfront in adopting new promotional techniques to market its products. The company follows a very popular technique to advertise and market its products that is the Viral Marketing policy. Viral marketing is a term coined to define the productive ways a marketing message is made available. And corporate are using the medium to circulate brands and brand messages. The idea has caught on like a virus, as efficiently as Information Technology has entered households and businesses.

Take care.
GARNIER

Firms are now structuring their businesses in a way that allows them to grow like a virus and lock out the existing brick and mortar competitors through innovative pricing and exploitation of competitors' distribution channels. The beauty of this marketing technique is that none of it requires any marketing. Customers, who have caught the virus, do the selling. Viral marketing describes any strategy that encourages individuals to pass on a marketing message to others, creating the potential for exponential growth in the message's exposure and influence. Like viruses, such strategies take advantage of rapid multiplication to explode the message to thousands, to millions.

Off the Internet, viral marketing has been referred to as "word-of-mouth", "creating a buzz", "leveraging the media" and even "network marketing." It's a deceptively simple concept: Create a message, send it via e-mail, and make it so compelling that recipients want to pass it on to everyone in their address book. Advertisers are hot on the tactic, and the idea of putting consumers to work spreading the word about a brand or service seems sound.

What is unique about the concept is that where brands or brand ideas are exchanged within communities, they are idea-led, not advertising-led. There are some high-profile viral success stories. Like Hotmail. By simply sending an e-mail, consumers hawked the service because every message contained a Hotmail ad that helped it grow to 12 million accounts in its first year, way back in 1996. The 1999-hit film 'The Blair Witch Project' also benefited from a similar contagion. On web sites and in chat rooms, the film's promoters hinted that the fictional tale was really a documentary and let the bug run wild. In most cases, the consumers were bitten.

When Garnier launched its Fructis shampoo, they latched on to the idea. The firm had to introduce the aspect of five times stronger hair and the firm had a braid competition whereby consumers could register on a site and create a knot on the Fructis brand, as part of their entry into the contest. The knot creation was actually created (visually presented on the site) and as a next step, consumers were expected to invite their friends to visit the braid and add to their score. A record 76,000 consumers created their own knot on the braid and forwarded the link to more than 82,000 of their friends, a survey report indicated. Viral marketers practice delayed gratification. They may not profit today, or tomorrow, but if they can generate a groundswell of interest from something free, they know they will profit

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soon and for the rest of their lives. Since 'Free' happens to be the most powerful word in a marketer's vocabulary, most viral marketing programmes have attached themselves to it. The idea is to give away valuable products or services to attract attention. And, more importantly, someone else's resources are depleted rather than our own. Garnier has positioned itself as a lifestyle product mainly targeting teenagers and young girls. This is very evident from Garnier ads be it for Garnier fructis shampoos or for hair color. In a recent advertisement of Garnier hair color, a daughter advises her mother to try the product and thus makes an attempt to promote product among middle-aged women. Hence, expanding the base of the target segment gives a whole new market to marketers, provided they are successful in convincing the customers of the second-rung segment.

Companies need to be very strategic in presenting the product and its features to attract another segment. At the same time, companies need to be sensitive about the impact of targeting other segments on the existing target segment. It may be damaging, especially, if in a process of expanding its customer base, a premier brand is targeted at the aspiring middle-class also. In case of any signals of lowering demand with the existing target group, companies should adopt line extensions by bringing suitable changes in the products.

Advertising and marketing specialists are aiming at young, urban Indian women, who are earning their own money and are potential customers for a host of products, including name-brand clothes, cosmetics and new cars.

Increasing its ad spend for the launch of its new products, L'Oreal has been relying more on its international campaigns to make an impact in the Indian market. McCann Erickson in Mumbai handles the L'Oreal and Maybelline account while Publicis India is in charge of Garnier. "The ad accounts have been aligned according to our international affiliations with these agencies and we try to have a mix of both the Indian and international ads," says Mr. Rajgopal.

L'Oreal India currently has three brands in its consumer products portfolio and there are product overlaps between its hair care, skin care and color cosmetics brands. Garnier, L'Oreal and Maybelline have been defined by their price segments and positioning.

SUMMARY

- Promotion is the communication link between sellers and buyers for the purpose of influencing, informing or persuading a buyer's purchasing decision.
- Promotional activities can help a company to justify its existence and maintain positive, healthy relationships with various groups in the marketing environment.
- Promotion strategy is the function of informing, persuading, and influencing a consumer decision. It is as important to non-profit organizations as it is to a profit oriented organization. Some promotional strategies are aimed at developing primary demand, the desire for the general product category.
- Promotion mix refers to the combination of various promotional elements i.e. advertising, personal selling, publicity and sales promotion techniques used by a company for creating, maintaining and increasing the demand of

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a product.

- The *promotion mix* is the specific combination of these four promotional methods - advertising, personal selling, sales promotion, and publicity - which an organization uses for a specific product.
- Advertising is a form of communication intended to persuade a customer to purchase or to consume that particular product.
- Five M's of Advertising: Mission, Money, Message, Media and Measurement.
- Personal selling is a person to person transaction between a buyer and seller. Face-to-face communication with potential buyers to inform them about and persuade them to buy an organization's product is called *personal selling*.
- Sales promotion includes all those activities which are used in promoting sales of the product or persuading the customer to purchase the product.
- Publicity is a non-personal, not paid stimulation of demand of the products or services by planting commercially significant news in the print media.

ANSWERS TO 'CHECK YOUR PROGRESS'

1. Promotion refers to any communication activity used to inform, persuade and remind the target market about an organization, its products and its activities.
2. Promotion mix refers to the combination of various promotional elements i.e. advertising, personal selling, publicity and sales promotion techniques used by a company for creating, maintaining and increasing the demand of the product.
3. Advertising is any paid form of non-personal presentation and promotion of ideas, goods, or services by an identified sponsor.
4. Sales promotion is a key ingredient in marketing campaigns, consists of a collection of incentive tools, mostly short term, designed to stimulate quicker or greater purchase of particular products or services by consumers or the trade.
5. Personal selling refers to the presentation of goods and services before the customers and convincing or persuading them to buy the products and services.

TEST YOURSELF

1) Explain the concept of Promotion. What are the goals and characteristics of Promotion?
2) Discuss the objective of the Promotional Strategy.
3) What is Promotion Mix? Discuss various elements of Promotion Mix.
4) Define Advertising. What are the advantages and disadvantages of Advertising?
5) Discuss types of Advertising.

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6) What do you mean by Five M's of Advertising?
7) What is Sales Promotion? Explain the importance of Sales Promotion.
8) Discuss major tools of Sales Promotion.
9) Describe various strategies of Sales Promotion.
10) Write a short note on Personal Selling.
11) Explain essential qualities of Salesperson.
12) Discuss principles of Personal Selling.
13) What do you mean by Publicity?

FURTHER READING

- *Kotler & Armstrong, Principles of Marketing Management*
- *Kotler, Keller; Marketing Management, Pearson Education*

7 Marketing Channels

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Chapter Includes :

- THE IMPORTANCE OF CHANNELS
- CHANNEL DESIGN
- CHANNEL OF DISTRIBUTION
- TYPE OF CHANNEL MEMBERS
- FLOW OF MARKETING CHANNEL
- CHANNEL LEVELS
- TYPES OF DISTRIBUTION INTERMEDIARIES
- FACTORS AFFECTING CHANNELS OF DISTRIBUTION
- DISADVANTAGES OF USING AN INTERMEDIARY
- DISTRIBUTION SYSTEMS
- SELECTION OF CHANNEL
- RELATIONSHIP ISSUES IN CHANNELS
- CHARACTERISTICS OF WHOLESALERS
- FUNCTIONS OF WHOLESALERS
- RETAILING
- FUNCTIONS OF RETAILERS

Learning Objective :

After going through this chapter, you should be able to:

- **Explain channel design.**
- **Discuss Channel of Distribution.**
- **Understand different types of Channel Members.**
- **Analyze different levels of channels.**
- **Understand the meaning of Channel Management.**

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Most producers do not sell their goods directly to the final users; between them stands a set of intermediaries performing a variety of functions. These intermediaries constitute the marketing channel (also called a trade channel or distribution channel). Formally marketing channels are set of interdependent organizations involved in the process of making a product or service available for use or consumption. They are the set of pathways a product or service follows after production, culminating in purchase and use by the final and end user.

A set of interdependent organizations involved in the process of making a product or service available for use or consumption by the consumer or business user. The simple marketing system involves customers, producers that are having something valuable for making transactions. These transactions are made in exchange process and creation availability of products for customers. This availability is created by using networks of distribution channels. Every product and service whether an automobile, a watch, a personal computer, or office furniture, must somehow be made available to billions of people. Products must also be made available to millions of industrial firms, businesses, government institutions, and other organizations worldwide. Firms try to realize this goal through the creation of distribution channels.

THE IMPORTANCE OF CHANNELS:

A marketing channel system is a particular set of marketing channels a firm employs, and decisions about it are among the most critical ones management faces. The channel chosen affect all other marketing decisions. The company's pricing depends on whether it uses mass merchandisers or high quality boutiques. The firm's sales force and advertising decisions depends on how much training and motivation dealers need. In addition, channel decisions include relatively long-term commitments with other firm's as well as a set of policies and procedures. But at the same time, channel choice themselves depend on the company's marketing strategy with respect to segmentation, targeting, and positioning.

CHANNEL DEVELOPMENT:

A new firm typically starts as a local operation selling in a fairly limited market, using exiting intermediaries. The number of such intermediaries is apt to be limited: a few manufacturer's sales agents, a few wholesalers, several established retailers, a few trucking companies, and a few warehouses. Deciding on the best channels might not be a problem; the problem is often to convince the available intermediaries to handle the firm's line.

If the market is successful, it might branch into new markets and use different channels in different markets. In smaller markets the firm might sell directly to retailers; in larger markets, it might sell distributers. In rural areas, it might work with general-goods merchants; in urban areas' with limited-line merchants.

In short, the channel system evolves as a function of local opportunities and conditions, emerging threats and opportunities, company resources and capabilities, and other factors.

CHANNEL DESIGN:

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The word 'channel' has been derived from the French word for canal. These channels or routes or ways connect the producers with the consumers. Some channels are straight, short and direct while some others are strong are long and distinct. The process of channel design always begins with an understanding of the target customers. Because of the purpose of the marketing channels is to delight customers, all channel decisions must be aligned with the customer's desires. Once customers desires are fully understood, marketers determines what kind of channels are required.

Channel design is the dynamic process of developing new channels where none existed and modifying existing channels. The business marketer usually deals with modification of existing channels.

Channel design begins with assessing customer channel-service needs and company channel objectives and constraints. The company then identifies the major channel alternatives in terms of the types of intermediaries, the number of intermediaries, and the channel responsibilities of each. Managing distribution conflict is a necessity if quality service and low cost is to be delivered. Since distribution relationships tend to be long-term in nature, the choice of channel partners is very important and should be taken very seriously.

Marketing channel decisions are the most important decisions that are facing marketing managers. A company's channel decisions are linked with every other marketing decision. Companies often pay too little attention to their distribution channels. This can be very damaging. Distribution channel decisions often involve long-term commitments to other firms. There are four major issues or questions that concern distribution channels:

1) What is the nature of distribution channels?
2) How do channel firms interact and organize to do the work of the channel?
3) What problems do companies face in designing and managing their channels?
4) What role does physical distribution play in attracting and satisfying customers?

CHANNEL OF DISTRIBUTION:

Introduction

The channel of distribution is an important part of the 'marketing-mix' in any business enterprise. The products produced by the producer need to be distributed among the final consumers or the users. The task of distribution involves transfer of ownership and physical possession of products and services from the manufacturer to the consumers. Marketing channels satisfy the demand of consumers by supplying goods and services at the right time, place, quantity and price. A number of alternate 'channels' of distribution may be available:

- Distributor, who sells to retailers,
- Retailer (also called dealer or reseller), who sells to end customers

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According to American Marketing Association, "A channel of distribution, or marketing channel, is the structure of intra-company organization units and Extra company agents and dealers, wholesale and retail through which is a commodity, product or service is marketed.

According to Philip Kotler, "Every producer seeks to link together the set of marketing intermediaries that best fulfills the firm's objective. This set of marketing intermediaries is called the marketing channel (also trade channel or channel of distribution)."

Thus, channels of distribution may be defined as the pathway for the flow of ownership and possession of goods and services. The main aim of channels of distribution is delivery. It is only through distribution the goods and services can be made available for consumption. It is a system of intermediaries who form mutual beneficial coalitions with the manufacturer to ensure that the product and services becomes available at the point of consumption. Channel decisions refer to the managerial decision concerning the selection of the best paths or routes for moving the goods from the producer to the consumer.

In short, the distribution channel is nothing but it is a process of transfer the products or services from Producer to Customer or end user. There have also been some innovations in the distribution of services.

A channel of distribution or trade channel is the path or route along which goods move from producers to ultimate consumers. It is a distribution network through which a producer puts his products in the hands of actual users. A trade or marketing channel consists of the producer, consumers or users and the various middlemen who intervene between the two. The channel serves as a connecting link between the producer and consumers. By bridging the gap between the point of production and the point of consumption, a channel creates time, place and possession utilities. A channel of distribution represents three types of flows:

a) Goods flow from producer to consumers;

b) Cash flow from consumers to producer as payment for goods; and

c) Marketing information flows in both directions, from producers to consumers in the form of information on new products, new uses of existing products, etc. The flow of information from consumers to producers is the feedback of the wants, suggestions, complaints, etc.

TYPE OF CHANNEL MEMBERS

Channel activities may be carried out by the marketer or the marketer may seek specialist organizations to assist with certain functions. We can classify specialist organizations into two broad categories: resellers and specialty service firms.

Resellers

These organizations, also known within some industries as intermediaries, distributors or dealers, generally purchase or take ownership of products from the marketing company with the intention of selling to others. If a marketer utilizes multiple resellers within its distribution channel strategy the collection of resellers is termed a *Reseller Network*. These organizations can be classified into several sub-categories including:

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- **Retailers** – Organizations that sell products directly to final consumers.
- **Wholesalers** – Organizations that purchase products from suppliers, such as manufacturers or other wholesalers, and in turn sell these to other resellers, such as retailers or other wholesalers.
- **Industrial Distributors** – Firms that work mainly in the business-to-business market selling products obtained from industrial suppliers.

Specialty Service Firms

These are organizations that provide additional services to help with the exchange of products but generally do not purchase the product (i.e., do not take ownership of the product):

- **Agents and Brokers** – Organizations that mainly work to bring suppliers and buyers together in exchange for a fee.
- **Distribution Service Firms** – Offer services aiding in the movement of products such as assistance with transportation, storage, and order processing.
- **Others** – This category includes firms that provide additional services to aid in the distribution process such as insurance companies and firms offering transportation routing assistance.

BENEFITS OFFERED BY CHANNEL MEMBERS

When choosing a distribution strategy a marketer must determine what value a channel member adds to the firm's products. Several surrounding features can be directly influenced by channel members, such as customer service, delivery, and availability. Consequently, for the marketer selecting a channel partner involves a value analysis in the same way customers make purchase decisions. That is, the marketer must assess the benefits received from utilizing a channel partner versus the cost incurred for using the services. These benefits include:

1) **Cost Savings in Specialization** – Members of the distribution channel are specialists in what they do and can often perform tasks better at lower cost than companies who do not have distribution experience. Marketers attempting to handle too many aspects of distribution may end up exhausting company resources as they learn how to distribute, resulting in the company being "a jack of all trades but master of none."

2) **Reduce Exchange Time** – Not only channel members are able to reduce distribution costs by being experienced at what they do, they often perform their job more rapidly resulting in faster product delivery.

3) **Customers Want to Conveniently Shop for Variety** – Marketers have to understand what customers want in their shopping experience. As we know, shopping is time consuming process. But consider what would happen if customers had to visit multiple retailers each week to satisfy their grocery needs. Hence, resellers within the channel of distribution serve two very important functions:

   a) they give customers the products they want by purchasing from many suppliers (termed accumulating and assortment services), and

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b) they make it convenient to purchase by making products available in single location.

4) **Resellers Sell Smaller Quantities** – Not only resellers allow customers to purchase products from a variety of suppliers, they also allow customers to purchase in quantities that work for them. Suppliers though like to ship products they produce in large quantities since this is more cost effective than shipping smaller amounts.

5) **Create Sales** – Resellers are at the front line when it comes to creating demand for the marketer's product. In some cases resellers perform an active selling role using persuasive techniques to encourage customers to purchase a marketer's product. In other cases they encourage sales of the product through their own advertising efforts and using other promotional means such as special product displays.

6) **Offer Financial Support** – Resellers often provide programs that enable customers to more easily purchase products by offering financial programs that ease payment requirements. These programs include allowing customers to: purchase on credit; purchase using a payment plan; delay the start of payments; and allowing trade-in or exchange options.

7) **Provide Information** – Companies utilizing resellers for selling their products and depend on distributors to provide information that can help to improve the product. High-level intermediaries may offer their suppliers real-time access to sales data including information showing how products are selling by such characteristics as geographic location, type of customer, and product location (e.g., where located within a store, where found on a website). If high-level information is not available, marketers can often count on resellers to provide feedback as to how customers are responding to products. This feedback can occur either through surveys or interviews with reseller's employees or by requesting the reseller allow the marketer to survey customers.

CHARACTERISTICS OF CHANNELS OF DISTRIBUTION:

Channels of distribution satisfy demand by supplying goods and services at the right time, place, quantity, and price. The channels of distribution have following characteristics in marketing:

- **Place Utility:** Channels of distribution help in moving the goods from one place to another.
- **Time Utility:** They help in bringing the goods to the consumers when required.
- **Possession value:** Consumers obtain goods with ownership title through channels of distribution.
- **Marketing Tools:** Channels of distribution serve as vehicle for viewing the marketing organization in its external aspects. They help in bridging the physical and non-physical gaps which exist in moving goods from the producers to the consumers.

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FUNCTIONS OF A DISTRIBUTION CHANNEL/ROLE OF MIDDLEMEN OR INTERMEDIARIES:

The distribution channel moves goods and services from producers to consumers. It overcomes the major time, place, and possession gaps that separate goods and services from those who would use them. Members of the marketing channel perform many key functions but the main function of a distribution channel is to provide a link between production and consumption. Organizations that form any particular distribution channel perform many key functions:

1) **Information:** Middlemen provide information about the market like entry of new competitors, change in customer's preferences, new brands, etc to the manufacturer because these middlemen are present in the market place and close to the customer. Therefore they can provide this information at no additional cost.

2) **Promotion:** Another function of middlemen is to promote the product in his territory.

3) **Help in Production Function:** The middlemen are expert in their profession therefore the producer can concentrate on the production function leaving all marketing problem to them. Their service can best utilize for the selling of the product.

4) **Helpful in Financing:** Middlemen can finance the manufacturers by providing the essential working capital in advance for the goods and services.

5) **Matching Demand and Supply:** The major function of middlemen is to assemble the goods from many producers in such a manner that the customers can purchase easily. **According to Wroe Alderson,** "the goal of the marketing is the matching of segments of supply and demand."

6) **Matching Buyers and Sellers:** The most critical activity of the marketing channel members is to match the needs of buyers and sellers. The sellers do not know the where they can reach the potential buyers and in the same way buyers do not know where they can reach the potential sellers. Therefore, the role of marketing channel to match the needs of buyers and sellers becomes very important.

7) **Risk taking**: When some of the functions of marketing are shifted to intermediaries, the producer's costs and prices may be lower, but the intermediaries must charge more to cover the costs of their work. In dividing the work of the channel, the various functions should be assigned to the channel members who can perform them most efficiently and effectively to provide satisfactory assortments of goods to target consumers.

All of the above functions need to be undertaken in any market. The question is - who performs them and how many levels are needed in the distribution channel in order to make it cost effective.

FLOW OF MARKETING CHANNEL:

A marketing channel performs the work of moving goods from producers to consumers. It overcomes the time, place, and possession gaps that separate goods and

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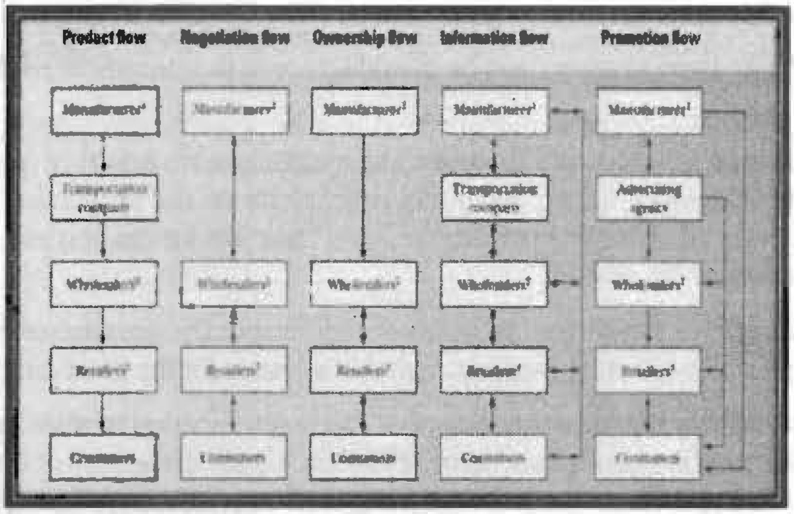
services from those who need or want them. Members of marketing channel perform a number of key functions.

When a marketing channel has been developed, a series of flows emerges. These flows provide the links that tie channel members and other agencies together in the distribution of goods and services. From the stand points of channel strategy and management, the most important of these flows are:

1. Product flow
2. Negotiation flow
3. Ownership flow
4. Information flow
5. Promotion flow



The **product flow** refers to the actual physical movement of the product from the manufacturer through all of the parties who take physical possession of the product, from its point of production to final consumers.

The **negotiation flow** represents the interplay of the buying and selling functions associated with the transfer of title (right of ownership). The transportation firm is not included in this flow because it does not participate in the negotiatory functions. The arrows flow in *both* directions, indicating that negotiations involve a mutual exchange between buyers and sellers at all levels of the channel.

The **ownership flow** shows the movement of the title to the product as it is passed along from the manufacturer to final consumers. Here again, the transportation firm is not included because it does not take title to the product nor is it actively involved in facilitating the product's transfer. It is only involved in the transportation of the physical product itself.

The **information flow** shows that the transportation firm has reappeared in this flow and all of the arrows showing the flow of information from the manufacturer to consumers are two-directional. All parties participate in the exchange of information, and the flow can be either up or down. The flow of information sometimes bypasses the transportation firm, as shown by the arrow leading from the manufacturer (at the right-hand side of the box) directly to the wholesalers, retailers, and consumers. This route of information flow occurs when the information sought does not concern the transportation company, such as details associated with the buying, selling, or promotion of products.

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Finally, the **promotion flow** refers to the flow of persuasive communication in the form of advertising, personal selling, sales promotion, and publicity. Here, a new component, the advertising agency, is included in the flow because the advertising agency is actively involved in providing and maintaining the promotion flow, especially the advertising element of promotion.

The two-directional arrow connected by a line between the manufacturer and the advertising agency is meant to show that the manufacturer and advertising agency work together closely to develop promotional strategies. All other arrows show one-directional flow from the advertising agency or directly from the manufacturer to the other parties in the marketing channel.

Further, the concept of channel flows provides a good basis for separating channel members from nonmembers. In the standpoint of channel flows, only those parties who participate in the negotiation or ownership flows would be members of the marketing channel. From a management standpoint, the concept of channel flows provides a useful framework for understanding the scope and complexity of channel management. By thinking in terms of the five flows, it becomes obvious that channel management involves much more than merely managing the physical product flow through the channel. The other flows (of negotiation, ownership, information, and promotion) must also be managed and coordinated effectively to achieve the firm's distribution objectives. Indeed, much of the material in this text is concerned with channel management activities that involve these channel flows. Dealing with environmental changes and the behavioral dimensions of channels certainly involves the information flow. Formulating channel strategies, designing the channel, and selecting the channel members are very much concerned with the negotiation, ownership, and information flows as well as the product flow. Motivating channel members is dependent on the effective management of the information and promotion flows. Finally, the evaluation of channel member performance is almost dependent entirely on effective management of the information flow. From the perspective of channel management, the concept of flows in marketing channels helps to convey the dynamic nature of marketing channels. Changing patterns of buyer behavior and new forms of technology add yet another dimension of change. Channel flows must be adapted to meet these changes. Innovative channel strategies and effective channel management are needed to make this happen.

DIFFERENT TYPES OF CHANNEL OF DISTRIBUTION

Every small-scale entrepreneur requires a channel that can distribute his product to the right customers at the right time and at the right cost. It consists of all the middlemen which participate in the distribution of goods and which serve as a link between the manufacturer and the consumer.

A brief explanation of different channels of distribution is given below:

1) **Manufacturer —Customer:**

   This is also known as direct selling because no middlemen are involved. A producer may sell directly through his own retail stores, for example, Bata.

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This is the simplest and the shortest channel. It is fast and economical. Small producers and producers of perishable commodities also sell directly to the local consumers. Big firms adopt direct selling in order to cut distribution cost and because they have sufficient facilities to sell directly to the consumers. The producer or the entrepreneur himself performs all the marketing activities.

2) **Manufacturer-Retailer—Customer:**

This is one stage distribution channel having one middleman, i.e., retailer. In this channel, the producer sells to big retailers like departmental stores and chain stores who in turn sell to customer. This channel is very popular in the distribution of consumer durables such as refrigerators, T V sets, washing machines, typewriters, etc. This channel of distribution is very popular these days because of emergence of departmental stores, super markets and other big retail stores. The retailers purchase in large quantities from the producer and perform certain marketing activities in order to sell the product to the ultimate consumers.

3) **Manufacturer-Wholesaler—Retailer—Customer:**

This is the traditional channel of distribution. There are two middlemen in this channel of distribution, namely, wholesaler and retailer. This channel is most suitable for the products with widely scattered market. It is used in the distribution of consumer products like groceries, drugs, cosmetics, etc. It is quite suitable for small scale producers whose product line is narrow and who require the expert services and promotional support of wholesalers.

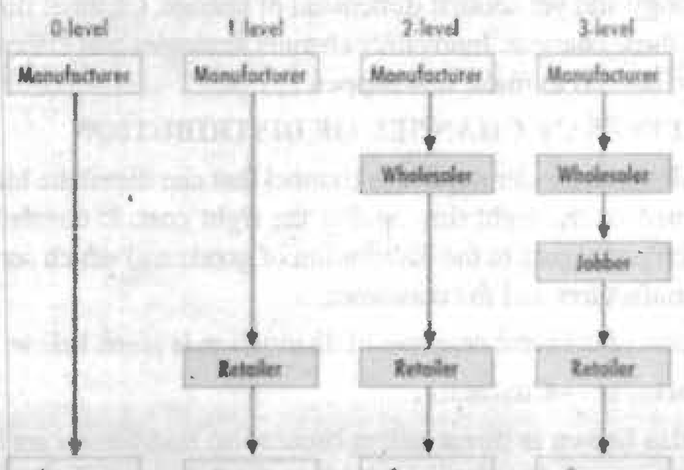
CHANNEL LEVELS:

The producer and the final customer are part of every channel. Channel levels consist of consumer marketing channels or the industrial marketing channels.

1). Channels of distribution for Consumer Goods:

Channel of distribution is the combination of middlemen that a company uses to move its product to the ultimate consumer. For the consumer goods, following four different channels are widely used:

(a) Consumer marketing channels



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a) **Zero Level channel / Direct Marketing Channel** – A zero-level channel means selling products or services directly manufacturer to the end consumer. There is no middleman present between the producers and consumers. This might mean door to door sales, direct mails or telemarketing.

b) **One Level channel** – As the name suggests, the one level channel has an intermediary may be a retailer between the producer and the consumer. An example of this can be insurance in which there is an insurance agent between the insurance company and the customer.

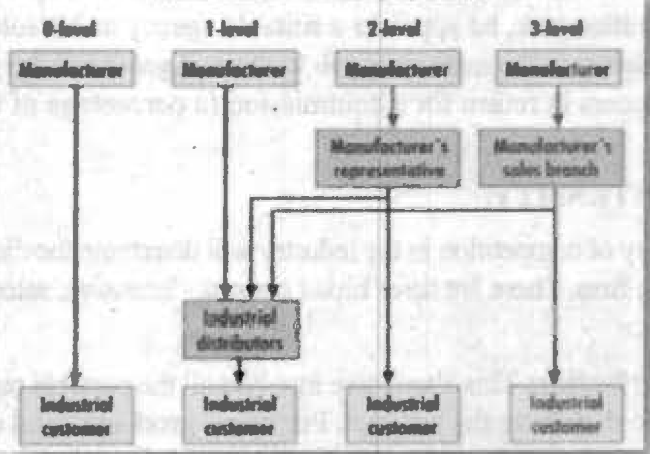
c) **Two level Channel** – A two level channel contains two intermediaries. In consumer markets, these are a wholesaler and a retailer.

d) **Three level Channel** – Similarly, three level channels contains three intermediaries. In consumer market, wholesalers sell to jobbers, who sell to small retailers.

2). Channels of Distribution for Industrial Products:

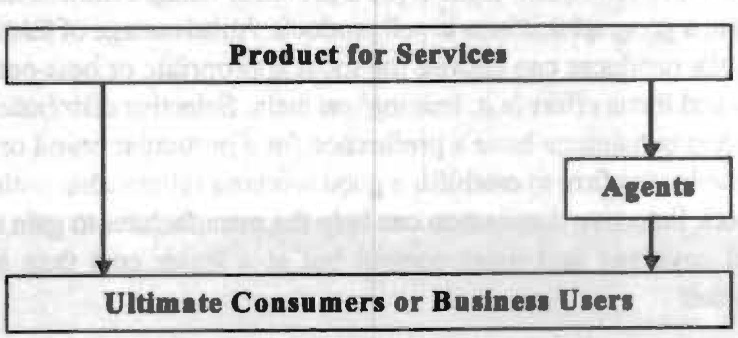
The figure commonly shows the channels used in industrial marketing. An industrial-goods manufacturer can use its sales force to sell directly to industrial customers. It can sell through distributers, manufacturer's representatives or its own sales branches directly or indirectly to industrial customers. Zero, one and two level marketing channels are quite common in industrial marketing channels.

(b) Industrial marketing channels



3). Channels of Distribution for Service: The intangible nature of services creates special distribution requirements. There are two channels for services:

Distribution Channels for Services



TYPES OF DISTRIBUTION INTERMEDIARIES:

There are many intermediaries that may get involved before a product gets from the original producer to the ultimate consumer. These are described briefly below:

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Retailers : A retailer buys goods or products in large quantities from manufacturers or importers, either directly or through a wholesaler, and then sells individual items or small quantities to the general public or end user customers. Retailers are at the end of the supply chain. Marketers see retailing as part of their overall distribution strategy. Retailers are at the bottom of the distribution hierarchy. They mainly operate in a small territory or at a specific location.

Wholesalers/ distributers: Wholesalers or distributers are a large operator but not on a level comparable with a marketer or sole-selling agent, in size, resources and territory of operation. The wholesaler operates under the marketing sole selling agent. A distributor or middleman who sells mainly to retailers and institutions, rather than consumers is known as wholesalers.

Value-added Resellers: They are intermediaries that buy the basic products from producers and add value to it (depending on the nature of the product), modify it and then resell it to final customers.

Franchises: Franchises are independent businesses that operate a branded product (usually a service) in exchange for a license fee and a share of sales.

Sole-Selling Agent:/Marketer: When a manufacturer wants to stay out of the marketing and distribution task, he appoints a suitable agency as his sole-selling agent/ marketer and delegate the marketing job to them. Agents sell the products and services of producers in return for a commission (a percentage of the sales revenues).

DISTRIBUTION INTENSITY:

The nature and intensity of competition in the industry will determine the distribution pattern adopted by the firm. There are three broad options - intensive, selective and exclusive distribution:

1. **Intensive distribution:** This alternative involves all the possible outlets that can be used to distribute the product. For many products, total sales are directly linked to the number of outlets used (e.g. cigarettes, beer). Intensive distribution is usually required where customers have a variety of acceptable brands to choose from. In other words, if one brand is not available, a customer will simply choose another.

2. **Selective distribution:** It involves a producer using a limited number of outlets in a geographical area to sell products. An advantage of this approach is that the producer can choose the most appropriate or best-performing outlets and focus effort (e.g. training) on them. Selective distribution works best when consumers have a preference for a particular brand or price. It also enables the firm to establish a good working relationship with channel members. Selective distribution can help the manufacturer to gain optimum market coverage and more control but at a lesser cost than intensive distribution.

3. **Exclusive distribution**: It is an extreme form of selective distribution in which only one wholesaler, retailer or distributor is used in a specific geographical area. This is a common form of distribution in products and brand that seek a high prestigious image.

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FACTORS AFFECTING CHANNELS OF DISTRIBUTION:

The Channel Choices are influenced by several factors. Such factors may be classified as follows:

1. **Nature of the products:** The nature of the product plays an important role in influencing the channel selection. The marketing executive must study the uses of product, its frequency of purchase, its value etc.

2. **Consumer's location and coverage:** The location of customers and the coverage of customers will affect the choice of channels. Widely spread population or nation will require the use of many channel members than concentred markets or nation.

3. **Cost of channel:** Costs must always be minimized to increase profits. It should be noted that costs vary from channel to channel hence it affects the costs of goods and services differently.

4. **Economic Conditions:** When economic conditions are dispersed the producers prefer shorter channels to cut costs. If there is multipoint tax on sales, the line should be shorter to avoid the tax burden on the consumers and they prefer to sell directly to the retailers or consumers.

5. **Policies of Competitors:** The channel decision is also affected by the policies of the competitors. If most of the competitors are distributing their products through middlemen, the other will also decide to do so.

6. **Product- Mix:** A fresh expansion of plant capacity may require more aggressive channels. If company's product-mix is consistent then it ensures the homogeneity of its marketing channels.

7. **Goodwill of the Enterprise:** If the producer is reputed, then he can select any channel of his choice because every middleman is ready to work with such reputed producer. If the producer is new or does not enjoy any such reputation, then he should select that channel which enjoys high reputation.

BENEFITS OF INTERMEDIARIES IN CHANNELS OF DISTRIBUTION

Intermediaries provide several benefits to both manufacturers and consumers like improved efficiency, a better assortment of products, routinization of transactions, and easier searching for goods as well as customers.

- The improved efficiency that results from adding intermediaries in the channels of distribution can easily be understood with the help of an examples. If there are 5 manufacturers and 20 retailers. If each manufacturer sells directly to each retailer, there are 100 contact lines—one line from each manufacturer to each retailer. The complexity of this distribution arrangement can be reduced by adding wholesalers as intermediaries between manufacturers

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and retailers. If a single wholesaler serves as the intermediary, the number of contact lines is reduced from 5 contact lines between the manufacturers and the wholesaler, and 20 contact lines between the wholesaler and the retailers. Reducing the number of necessary contact lines brings more efficiency to the distribution system by eliminating duplicate efforts in ordering, processing, shipping, etc.

- Intermediaries provide a second benefit by bridging the gap between the assortment of goods and services generated by producers and those in demand from consumers. Manufacturers typically produce many similar products, while consumers want small quantities of many different products. In order to smooth flow of goods and services, intermediaries perform such functions as sorting, accumulation, allocation, and creating assortments.
- A third benefit provided by intermediaries is that they help to reduce the cost of distribution by making transactions in routine.
- The use of intermediaries also helps in the search processes of both buyers and sellers. Producers are searching to determine their customers' needs, while customers are searching for certain products and services. A degree of uncertainty in both search processes can be reduced by using channels of distribution.

DISADVANTAGES OF USING AN INTERMEDIARY

Manufacturers quite often see intermediaries as parasites rather than assets. The disadvantages of using an intermediary stem from psychological apprehensions, market antecedents which have created such apprehensions, and lack of managerial skills or resources that are sufficient to balance and manage the intermediary. Fears, which may come true if the producer fails to manage the intermediary, might include:

- Fear of losing control.
- Fear of losing customer contact.
- Fear of losing customer ownership.
- Fear of opportunistic behaviour.
- Fear of inadequate communication.
- Fear that the objectives of the intermediary will conflict with those of the producer.
- Fear that the intermediary will extract rather than add to value.
- Fear of poor market management.

Furthermore, an intermediary may have many of the same fears (except for the last two on the list). These fears often undermine the working relationship between a producer and an intermediary and keep them from effectively utilizing each other's resources and maximizing the potential of the marketing mix.

MARKETING ISSUES IN CHANNELS

Distribution strategy can be shaped by how decisions are made in other marketing areas.

Product Issues

The nature of the product often dictates the distribution options available especially if the product requires special handling. For instance, companies selling delicate or fragile products, such as flowers, look for shipping arrangements that are different than those sought for companies selling extremely tough or durable products, such as steel beams.

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Promotion Issues

Besides issues related to physical handling of products, distribution decisions are affected by the type of promotional activities needed to sell the product to customers. For products needing extensive salesperson-to-customer contact (e.g., automobile purchases) the distribution options are different than for products where customers typically require no sales assistance (i.e., bread purchases).

Pricing Issues

The desired price at which a marketer seeks to sell their product can impact how they choose to distribute. As previously mentioned, the inclusion of resellers in a marketer's distribution strategy may affect a product's pricing since each member of the channel seeks to make a profit for their contribution to the sale of the product. If too many channel members are involved the eventual selling price may be too high to meet sales targets in which the marketer may explore other distribution options.

Target Market Issues

A distribution system is only effective if customers can obtain the product. Consequently, a key decision in setting up a channel arrangement is for the marketer to choose the approach that reaches customers in the most effective way possible. The most important decision with regard to reaching the target market is to determine the level of distribution coverage needed to effectively meet customer's needs. Distribution coverage is measured in terms of the intensity by which the product is made available.

LEVEL OF DISTRIBUTION COVERAGE

As we will see the marketer must take into consideration many factors when choosing the right level of distribution coverage. However, all marketers should understand that distribution creates costs to the organization. Some of these expenses can be passed along to customers (e.g., shipping costs) but others cannot (e.g., need for additional salespeople to handle more distributors). Thus, the process for determining the right level of distribution coverage often comes down to an analysis of the benefits (e.g., more sales) versus the cost associated with gain the benefits.

There are three main levels of distribution coverage - mass coverage, selective and exclusive.

- **Mass Coverage** - The mass coverage (also known as intensive distribution) strategy attempts to distribute products widely in nearly all locations in which that type of product is sold. This level of distribution is only feasible for relatively low priced products that appeal to very large target markets (e.g., see consumer convenience products). A product such as Coca-Cola is a classic example since it is available in a wide variety of locations

Check Your Progress

1. What is Channel Design?
2. Explain briefly Channel of distribution.

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including grocery stores, convenience stores, vending machines, hotels and many more. With such a large number of locations selling the product the cost of distribution is extremely high and must be offset with very high sales volume.

- **Selective Coverage** - Under selective coverage the marketer deliberately seeks to limit the locations in which this type of product is sold. To the non-marketer it may seem strange for a marketer to not want to distribute their product in every possible location. However, the logic of this strategy is tied to the size and nature of the product's target market. Products with selective coverage appeal to smaller, more focused target markets (e.g., see consumer shopping products) compared to the size of target markets for mass marketed products. Consequently, because the market size is smaller, the number of locations needed to support the distribution of the product is fewer.
- **Exclusive Coverage** - Some high-end products target very narrow markets that have a relatively small number of customers. These customers are often characterized as "discriminating" in their taste for products and seek to satisfy some of their needs with high-quality, though expensive products. Additionally, many buyers of high-end products require a high level of customer service from the channel member from whom they purchase. These characteristics of the target market may lead the marketer to sell their products through a very select or exclusive group of resellers. Another type of exclusive distribution may not involve high-end products but rather products only available in selected locations such as company-owned stores. While these products may or may not be higher priced compared to competitive products, the fact these are only available in company outlets give exclusivity to the distribution.

We conclude this section by noting that while the three distribution coverage options just discussed serve as a useful guide for envisioning how distribution intensity works, the advent of the Internet has brought into question the effectiveness of these schemes. For all intents and purposes all products available for purchase over the Internet are distributed in the same way - mass coverage. So a better way to look at the three levels is to consider these as options for distribution coverage of products that are physically purchased by a customer (i.e., walk-in to purchase).

DISTRIBUTION SYSTEMS

For marketers the choice of distribution design comes down to the following options:

1. Direct Distribution Systems
2. Indirect Distribution Systems
3. Multi-Channel or Hybrid Distribution Systems

Distribution Systems: Direct

With a direct distribution system the marketer reaches the intended final user of their product by distributing the product directly to the customer. That is, there are no other parties involved in the distribution process that take ownership of the product. The direct system can be further divided by the method of communication that takes place when a sale occurs. These methods are:

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- **Direct Marketing Systems** – With this system the customer places the order either through information gained from non-personal contact with the marketer, such as by visiting the marketer's website or ordering from the marketer's catalog, or through personal communication with a customer representative who is not a salesperson, such as through toll-free telephone ordering.
- **Direct Retail Systems** – This type of system exists when a product marketer also operates their own retail outlets.
- **Personal Selling Systems** – The key to this direct distribution system is that a person whose main responsibility involves creating and managing sales (e.g., salesperson) is involved in the distribution process, generally by persuading the buyer to place an order. While the order itself may not be handled by the salesperson (e.g., buyer physically places the order online or by phone) the salesperson plays a role in generating the sales.
- **Assisted Marketing Systems** – Under the assisted marketing system, the marketer relies on others to help communicate the marketer's products but handles distribution directly to the customer. Other agents and brokers would also fall into this category.

Distribution Systems: Indirect

With an indirect distribution system the marketer reaches the intended final user with the help of others. These resellers generally take ownership of the product, though in some cases they may sell products on a consignment basis (i.e., only pay the supplying company if the product is sold). Under this system intermediaries may be expected to assume many responsibilities to help in selling the product.

Indirect methods include:

- **Single-Party Selling System** - Under this system the marketer engages another party who then sells and distributes directly to the final customer. This is most likely to occur when the product is sold through large store-based retail chains or through online retailers, in which case it is often referred to as a trade selling system.
- **Multiple-Party Selling System** – This indirect distribution system has the product passing through two or more distributors before reaching the final customer. The most likely scenario is when a wholesaler purchases from the manufacturer and sells the product to retailers.

Distribution Systems: Multi-Channel (Hybrid)

In cases where a marketer utilizes more than one distribution design the marketer is following a multi-channel or hybrid distribution system.

The multi-channel approach expands distribution and allows the marketer to reach a wider market. The marketer must be careful with this approach due to the potential for channel conflict.

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CHANNEL MANAGEMENT:

Channel management, as a process by which a company creates formalized programs for selling and servicing customers within a specific channel, it can really affect your business. Channel management program includes:

1) **Goals:** Define the specific goals you have for each channel segment. Consider your goals for the channel as a whole as well as individual account. And, remember to consider your goals for both acquisition and retention.

2) **Policies:** Construct well-defined polices for administering the accounts within this channel. Be sure to keep the unique characteristics of each segment in mind when defining policies for account set up, order management, product fulfillment, etc.

3) **Products:** Identify which products in your offering are most suited for each segment and create appropriate messaging.

4) **Sales/Marketing Programs:** Design support programs for your channel that meet their needs, not what your idea of their needs are. To do this, you should start by asking your customers within this segment, "How can we best support you in the selling and marketing of our products?"

Defining a channel management strategy for each segment allows you to be more effective within each segment, while gaining efficiency at the same time. Still, maintaining brand consistency across all channel segments is critical to your long-term success. So find a good balance between customization and brand consistency and you'll be on your way to successful channel management.

SELECTION OF CHANNEL:

The selection of distribution is affected by many of factors, which play significant role while choosing the channel for distribution. It may include the buying pattern of consumer, type of the product is perishable, or auto mobile, weight and bulk and it also depends on the company's resources.

Factors Influence Selection of a Channel of Distribution:

The factors to be considered before choosing a suitable channel of distribution are listed below:

1) **Product considerations:** The nature and type of product have an important bearing on the choice of distribution channels. For examples, perishable goods need speedy movements and hence shorter channel or route of distribution; for durable goods, longer and diversified channels may be used; similarly, for technical products requiring specialized selling and serving talents, the shortest channel should be used.

2) **Market considerations:** The nature and type of customers and size of market are important considerations in the choice of a channel of distribution. For example, if the market size is large, there may be long channels, whereas in a small market direct selling may be profitable. The nature and type of consumers include factors such as desire for credit, preference for the stop shopping, demand for personal services, amount of time and effort

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the customer is willing to spend. It also includes factors like age, income group, sex, and religion of customers.

3) **Company considerations:** The nature, size and objectives of the business firm also play an important role in the selection of distribution channel. It includes financial resources, market standing, volume of production, desire for control of channel, services provided by manufacturers', etc. For example a company with substantial financial resources need not rely too much on the middlemen and can afford to reduce the levels of distribution. Similarly a company desiring to exercise greater control over channel will prefer a shorter channel.

4) **Middlemen considerations:** The cost and efficiency of distribution depend largely on the nature and type of middlemen. It includes characteristics of middlemen such as availability, attitudes, services, sales potential, costs etc. For example, if the terms and conditions of engaging wholesalers are unfavorable, a manufacturer may like to channelize his products through semi- wholesalers or retailers, thereby, bypassing wholesalers. However, the determining factor would be the differential advantage involved in the choice.

To conclude, the channel generating the largest sales volume at lower unit cost will be given top priority. This will minimize distribution cost.

RELATIONSHIP ISSUES IN CHANNELS

A good distribution strategy takes into account not only marketing decisions, but also considers how relationships within the channel of distribution can impact the marketer's product.

Managing Channel Relationships

Each member of a marketing channel has a position with rights, obligations, and rewards; and each is subject to penalties for non-conformance. Moreover, each channel member has certain expectations of every other channel member. Retailers expect wholesalers to keep sufficient inventories on hand and to deliver goods on time. Wholesalers expect retailers to abide by the terms of payment contracts and to keep thorn informed about inventory levels. If the marketing channel is to operate effectively, channel members must co-operate with each other and keep conflict in check.

Channel Co-operation:

Channel co-operation occurs when channel members work together for their mutual benefit. Marketing channels cannot function without sustained co-operation. Co-operation is necessary if each channel member is to gain something from other members. The realization of overall channel objectives and individual member objectives depends on co-operation. Unless a channel member can be replaced, the misconduct of one member can destroy the entire channel. Thus it is vital that policies be developed to ensure the welfare and survival of all indispensable channel members.

Channel Power

Channel power is the ability to alter channel member's behaviour so that they take actions they would not have taken otherwise. A channel can be made up of many

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parties each adding value to the product purchased by customers. However, some parties within the channel may carry greater weight than others. In marketing terms this is called channel power, which refers to the influence of one party has over other channel members within a channel. When power is exerted by a channel member they are often in the position to make demands of others. For instance, they may demand better financial terms (e.g., will only buy if prices are lowered, will only sell if price is higher) or demand other members perform certain tasks (e.g., do more marketing to customers, perform more product services). Channel power can be seen in several ways:

- **Product Power** – Occurs when a product manufacturer or service provider markets a brand that has a high level of customer demand. The marketer of the brand is often in a power position since other channel members have little choice but to carry the brand or risk of losing customers.
- **Middle or Wholesale Power** – Occurs when an intermediary, such as a wholesaler, services a large number of smaller retailers that obtains product in large quantity from many manufacturers. In this situation the wholesaler can exert power since the small retailers are often not in the position to purchase products and in as much variety as what is offered by the wholesaler.
- **Front or Retailer Power** – As the name suggests, the power in this situation rests with the retailer who can command major concessions from their suppliers. This type of power is most prevalent when the retailer commands a significant percentage of sales in the market they serve and others in the channel are dependent on the sales generated by the retailer.

Channel Conflict

Channel conflict is generated when one channel member's actions prevent another channel from achieving its goal. In an effort to increase product sales, marketers are often attracted by the notion that sales can grow if the marketer expands distribution by adding additional resellers. Such decisions must be handled carefully, so that existing dealers do not feel threatened by the new distributors who they may feel are influencing on their customers and taping potential business. For marketers, channel strategy is designed to expand product distribution that may in fact do the opposite if existing members feel there is a conflict in the decisions made by the marketer. If existing members sense a conflict and feel the marketer is not sensitive to their needs they may choose to stop handling the marketer's products.

Causes of Channel Conflict: Some causes of channel conflict are easy to resolve, other are not. Conflict may arise from:

a) **Goal incompatibility:** For Example, the manufacturer may want to achieve rapid market penetration through a low-price policy. Dealers, in contrast, may prefer to work with high margins and pursue short-run profitability.

b) **Unclear roles and rights:** HP may sell personal computers to large accounts through its own sales force, but its licensed dealers may also be trying to sell to large accounts. Territory boundaries and credit for sales often produce conflict.

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c) **Differences in perception:** The manufacturer may be optimistic about the short term economic outlook and want dealers to carry high inventory. Dealers may be pessimistic. In the beverage category, it is not uncommon for disputes to arise between manufacturers and their distributors about the optimal advertising strategy.

d) **Intermediaries' dependence on the manufacturer:** The fortunes of exclusive dealers, such as auto dealers, are profoundly affected by the manufacturer's product and pricing decisions. This situation crates a high potential for conflict.

Co-ordinating Marketing Channels:

The functions and efforts of channel members must be co-ordinated for the mutual benefit and efficient interaction of all parties involved, including the customer. This co-ordination is sometimes accomplished through the consensus of all channel members, in which case they voluntarily agree to perform those functions that are most beneficial to the entire channel. However, reaching a consensus of channel members, each with its own set of goals, is often quite difficult. For this reason, some marketing channels are organized and controlled by a single channel leader, which may be a producer, wholesaler or retailer. The channel leader is responsible for guiding other channel members and coordinating their efforts to achieve channel objectives. The channel leader may establish channel policies and co-ordinate the development of the marketing mix. General Foods, for example, is a channel leader for some of the many products that it sells. Frequently, the channel member with the most financial resources and power is the channel leader.

Under the management of a channel leader, the various links or stages of the channel may be integrated either horizontally or vertically. Integration can stabilize supply, reduce costs and increase co-ordination of channel members.

Vertical Integration: Vertical integration occurs when one channel member acquires control of one or more other members of its marketing channel, usually by purchasing them. Vertical integration eliminates the need for a marketing channel member to act as an independent organisation.

Total vertical integration occurs when one organisation controls all marketing channel functions, from manufacturing to providing service to the final consumer. One company that uses this type of arrangement is Shell Oil, which owns oil wells, refineries, pipelines, terminals and service stations.

A Marketing channel that is professionally manager and centrally controlled by a single marketing channel member is a Vertical Marketing System (VMS). Vertical marketing systems improve distribution efficiency by combining the efforts of individual channel members. As organisations have recognised their practicality, vertical marketing systems have gained popularity.

Horizontal Integration: Horizontal integration occurs when a channel member purchases firms at the same level of the marketing channel or expands the number of units (such as retail stores) at one level. Horizontal integration allows the combined organisations to achieve efficiencies and economies of scale in promotion, marketing research, purchasing and the employment of specialists.

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Horizontal integration is not always effective in improving distribution because organisations sometimes experience difficulty in co-ordinating the increased number of units. As a result, further marketing research and planning may be needed to manage large-scale operations. In addition, horizontal integration decreases organisational flexibility. Finally, the government has found some of these mergers to be in violation of the Sherman Act.

VERTICAL MARKETING SYSTEM

Vertical marketing system is a recent development which has emerged to challenge conventional marketing channels. In a VMS, one of the channel members may own the others, influence the others due to better bargaining power, or develop a contractual arrangement with the different channel members.

A vertical marketing system (VMS) is a distribution channel structure in which producers, wholesalers, and retailers act as a unified system. One channel member owns the others, has contracts with them, or has so much power that they all cooperate. A conventional distribution channel consists of one or more independent producers, wholesalers, and retailers. A vertical marketing system, on the other hand, provides a way to resolve the channel conflict that can occur in a conventional distribution channel where channel members are separate businesses seeking to maximize their own profits—even at the expense sometimes of the system as a whole. The VMS can be dominated by the producer, wholesaler, or retailer.

In other words, vertical marketing system is one in which the main members of a distribution channel—producer, wholesaler, and retailer—work together as a unified group in order to meet consumer needs. In conventional marketing systems, producers, wholesalers, and retailers are separate businesses that are all trying to maximize their profits. When the effort of one channel member to maximize profits comes at the expense of other members, conflicts can arise that reduce profits for the entire channel. To address this problem, more and more companies are forming vertical marketing systems.

The concept behind vertical marketing systems is similar to vertical integration. In vertical integration, a company expands its operations by assuming the activities of the next link in the chain of distribution. For example, an auto parts supplier might practice forward integration by purchasing a retail outlet to sell its products. Similarly, the auto parts supplier might practice backward integration by purchasing a steel plant to obtain the raw materials needed to manufacture its products. Vertical marketing should not be confused with horizontal marketing, in which members at the same level in a channel of distribution band together in strategic alliances or joint ventures to exploit a new marketing opportunity.

Types of Vertical Marketing System:

There are three major types of vertical marketing systems: corporate, contractual, and administered.

Corporate Vertical Marketing System:

A corporate VMS is a vertical marketing system that combines successive stages of production and distribution under single ownership—channel leadership is established through common ownership. A little-known Italian eyewear maker, Luxottica, sells its many famous eyewear brands—including Giorgio, Armani, Yves Saint Laurent, and Ray-Ban—through the world's largest optical chain, Lens Crafters, which it also owns.

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In other words, corporate VMS, one of the channel members exerts complete control over the rest of the channel partners and everyone follows the objectives and procedures as dictated by this dominant channel member.

Contractual Vertical marketing System:

Contractual VMS consists of independent firms operating at different channel levels and forming a system on a contractual basis. Contracts direct the channel members to cooperate with each other for mutual benefits. A contractual VMS is a vertical marketing system in which independent firms at different levels of production and distribution join together through contracts to obtain more economies or sales impact than they could achieve alone. Coordination and conflict management are attained through contractual agreements among channel members. A contractual VMS consists of independent firms joined together by contract for their mutual benefit. One type of contractual VMS is a retailer cooperative, in which a group of retailers buy from a jointly owned wholesaler. Another type of contractual VMS is a franchise organization, in which a producer licenses a wholesaler to distribute its products.

The **franchise organization** is the most common type of contractual relationship. There are three types of franchises: *manufacturer-sponsored retailer franchise system* (Ford Motor Co.), *manufacturer-sponsored wholesaler franchise system* (Coca-Cola bottlers), and *service-firm-sponsored retailer franchise system* (McDonald's). The fact that most consumers cannot tell the difference between contractual and corporate VMSs shows how successfully the contractual organizations compete with corporate chains.

Administered Vertical Marketing System:

An administered VMS is similar to a conventional distribution system except that there are greater inter-organizational relationships and sharing of an overall objective. An administered VMS is a vertical marketing system that coordinates successive stages of production and distribution, not through common ownership or contractual ties, but through the size and power of one of the parties. Manufacturers of a top brand can obtain strong trade cooperation and support from resellers (P&G). Large retailers such as Wal-Mart can exert strong influence on the manufacturers that supply the products they sell. In an administered VMS, one member of the channel is large and powerful enough to coordinate the activities of the other members without an ownership stake.

Channel members are independent with a high level of inter-organizational management by informal coordination. Agree to adopt uniform accounting policies etc., and promotional activities. One Channel member dominates has a *channel leader*.

Examples:

- Wal Mart
- Toys R Us

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- Kellog
- Pepsi
- Coke
- GE
- P&G
- McKesson Corp
- JC Penney
- Campbell

Channel Leader-Effectiveness of channel hinges on channel leadership. Leader must possess channel power. Power can come in the following forms:

- Reward—provide financial benefits
- Expert—be the expert compared with other members
- Referent—strongly identify with leader
- Coercive—punish members

Advantages of VMS

VMS holds both advantages and disadvantages for small businesses. The main advantage of VMS is that your company can control all of the elements of producing and selling a product. In this way, you are able to see the whole picture, anticipate problems, make changes as they become necessary, and thus increase your efficiency. However, being involved in all stages of distribution can make it difficult for a small business owner to keep track of what is happening. In addition, the arrangement can fail if the personalities of the different areas do not fit together well.

The advantages of VMSs include improved profitability, better control on the product quality, increased efficiency in inventory management, increased ability to respond to changing market needs, better economic control, improved marketing know-how, decrease in costs leading to better competitive advantage, stability in operations, and reduction in risks arising from competitor actions. Another principal benefit that prompts many companies to vertically integrate is differentiation.

For small business owners interested in forming a VMS, Egelhoff recommended starting out by developing close relationships with suppliers and distributors. "What suppliers or distributors would you buy if you had the money? These are the ones to work with and form a strong relationship," he stated. "Vertical marketing can give many companies a major advantage over their competitors."

HYBRID CHANNELS:

Today's successful companies are also multiplying the number of "go-to-market" or hybrid channels in any one market area.

Hybrid marketing channel network is one of the most important and widely used systems among types of VMN (vertical marketing network). Using hybrid marketing channel network, a single firm may set up two or more marketing channels in order to reach multiple marketing segments.

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Hybrid channel systems develop when organizations begin to use a number of channels to sell their products. These channels include a direct sale force, direct mail, telemarketing, catalog selling, and retail selling. The advantages of using hybrid channels include better product promotion, reduction in transaction costs, increase in market and customer coverage, and the benefit of developing a customized approach to selling and distribution of products. Designing hybrid systems involves identifying the tasks required to fulfil the desired objectives and then segregating the selling tasks and assigning them to the respective channels. Designing hybrid systems involves determining the channel characteristics, identifying the channel mix properties and selecting the number of channels that will bring about the desired outcomes. To effectively manage the hybrid channel system, the manager must be able to identify the source of any conflict, assess its magnitude, observe the reaction of customers and channel members, and analyze the time needed to solve the conflict. Modern information systems have enabled organizations to effectively manage the hybrid channels and avoid overlap of activities and draining of resources.

WHOLESALING:

Wholesaling includes all the activities involved in selling goods or services to those who buy for resale or business use. Wholesalers are one of the important middlemen in the channel of distribution who deals with the goods in bulk quantity. They buy goods in bulk from the producers and sell them in relatively smaller quantities to the retailers. In some cases they also sell goods directly to the consumers if the quantity to be purchased is more. They usually deal with a limited variety of items and also in a specific line of product, like iron and steel, textiles, paper, electrical appliances, etc.

According to Philip Kotler, "Wholesaling consists of the sale and all activities in selling goods or services to those who buy for resale or business use."

According to American Marketing Association, "Wholesalers sell to retailers or other merchants and or industrial, institutional and commercial users but they do not sell in significant amounts to ultimate consumers."

CHARACTERISTICS OF WHOLESALERS:

The followings are the characteristics of wholesaler:

a) Wholesalers buy goods directly from producers or manufacturers.

b) Wholesalers buy goods in large quantities and sells in relatively smaller quantities.

c) They sell different varieties of a particular line of product. For example, a wholesaler who deals with paper is expected to keep all varieties of paper, cardboard, card, etc.

d) They may employ a number of agents or workers for distribution of products.

e) Wholesalers need large amount of capital to be invested in his business.

f) They generally provide credit facility to retailers.

g) He also provides financial assistance to the producers or manufacturers.

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h) In a city or town they are normally seen to be located in one particular area of the market. For example, you can find cloth merchants in one area, book publishers and book-sellers in one area, furniture dealers in one area etc.

FUNCTIONS OF WHOLESALERS:

Following are the functions, which a wholesaler usually performs.

a) **Collection of goods**: A wholesaler collects goods from manufacturers or producers in large quantities.

b) **Storage of goods**: A wholesaler collects the goods and stores them safely in warehouses, till they are sold out. Perishable goods like fruits, vegetables, etc. are stored in cold storage.

c) **Distribution**: A wholesaler sells goods to different retailers. He also performs the functions of distributor.

d) **Financing**: The wholesaler provides financial support to producers and manufacturers by sending money in advance to them. He also sells goods to the retailer on credit. Thus, at both ends the wholesaler acts as a financier.

e) **Risk Bearing**: The wholesaler buys finished goods from the producer and keeps them in the warehouses till they are sold. Therefore, he assumes the risks arising out of changes in demand, rise in price, spoilage or destruction of goods.

f) **Market Information:** Wholesalers supply information to suppliers and customers regarding competitor's activities, new products, and price developments.

g) **Selling and Promoting:** Wholesaler's sales forces help manufacturers to reach many small business customers at a relatively low cost.

h) **Buying and assortment building:** Wholesalers are able to select items and build the assortments their customers need, saving them considerable work.

i) **Bulk breaking:** Wholesalers achieve savings for their customers by buying large carload lots and breaking the bulk into smaller units.

j) **Transportation:** Wholesalers can often provide quicker delivery to buyers because they are closer to the buyers.

RETAILING:

The distribution of consumer products begins with producers and ends at the ultimate consumers. Retailer is a middleman who links the producers and the ultimate consumers. Retailers are the traders who buy goods from wholesalers or sometimes directly from producers and sell them to the consumers. They usually operate through a retail shop and sell goods in small quantities. They keep a variety of items of daily use.

According to William J. Stanton' "A retailer or a retail store is a business enterprise which sells primarily to the ultimate consumers for non business use."

According to Cundiff and Still, "Retailing consists of those activities involved in selling directly to ultimate consumers."

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Thus, retailing includes all those activities that involved in selling goods and services directly to final consumers for personal or non-business use.

CHARACTERISTICS OF RETAILERS:

The following are the characteristics of retailers:

a) Retailers have a direct contact with consumers. They know the requirements of the consumers and keep goods accordingly in their shops.

b) Retailers sell goods for ultimate use by consumers. For example, you buy fruits, clothes, pen, pencil etc. for your use, not for sale.

c) Retailers buy and sell goods in small quantities. So that customers can fulfill their requirement without storing much for the future.

d) Retailers require less capital to start and run the business as compared to wholesalers.

e) Retailers generally deal with different varieties of products and they give a wide choice to the consumers to buy the goods.

FUNCTIONS OF RETAILERS:

All retailers deal with the customers of varying tastes and temperaments. Therefore, they should be active and efficient in order to satisfy their customers and also to induce them to buy more. Let us see what the retailers do in distribution of goods.

a) **Buying and assembling of goods**: Retailers buy and assemble varieties of goods from different wholesalers and manufacturers. They keep goods of those brands and variety which are liked by the customers and the quantity in which these are in demand.

b) **Storage of goods**: To ensure ready supply of goods to the customer retailers keep their goods in stores. Goods can be taken out of these stores and sold to the customers as and when required.

c) **Credit facility**: Although retailers mostly sell goods for cash, they also supply goods on credit to their regular customers. Credit facility is also provided to those customers who buy goods in large quantity.

d) **Personal services**: Retailers render personal services to the customers by providing expert advice regarding quality, features and usefulness of the items. They give suggestions considering the likes and dislikes of the customers. They also provide free home delivery service to customers. Thus, they create place utility by making the goods available when they are demanded.

e) **Risk bearing**: The retailer has to bear many risks, such as risk of:

a. fire or theft of goods,

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b. deterioration in the quality of goods as long as they are not sold out, and

c. Change in fashion and taste of consumers.

f) **Display of goods**: Retailers display different types of goods in a very systematic and attractive manner. It helps to attract the attention of the customers and also facilitates quick delivery of goods.

g) **Supply of information**: Retailers provide all information about the behaviour, tastes, fashions and demands of the customers to the producers through wholesalers. They become a very useful source of information for marketing research.

Distinction between Wholesaler and Retailer:

Wholesaler	Retailer
(i) Buys goods in large quantities.	(i) Buys goods in small quantities.
(ii) Buys goods directly from producers.	(ii) Generally buys goods from the wholesalers.
(iii) Deals with limited variety of goods.	(iii) Deals with wide range of products.
(iv) Requires more capital to start and run the business.	(iv) Requires less capital to start and run the business.
(v) Sell goods for resale purpose.	(v) Sell goods for consumption.
(vi) No direct contact with consumers.	(vi) Direct contact with consumer.
(vii) No special attention is given to decoration of shop.	(vii) In order to attract the attention of customers retailers give more attention to decoration of shop.

CASE STUDY

MAXWELL CORPORATION-DISTRIBUTION SYSTEM

The president of Maxwell Corporation was considering whether the company should up its own distribution system or to outsource the entire distribution and logistics function to a third party service provider. The company had set up a manufacturing plant in vizag where a wide range of orthopedic equipments viz., crutches, wheel chairs, walkers, back braces, heating pads, elastic bandage, canes, knee braces, shoulder braces and so forth were manufactured. Presently, the finished goods warehouse was located at Vizag itself and the product were sent to all major towns in India as a point to point dispatch. The company was supplying these equipments directly to retail stores at all these locations. Marketing activity was headed by a general manager- marketing based at Vishakhapatnam who was supported by a sales team comprising of sales officers. The company was not resorting to advertisement and publicity though the products of the company were fairly well known. It was felt that these entire customer wanted quick responses to their orders as the products catered to emergency patient.

But, these retail outlets carried only very limited inventories. This was due to the fact that most of the products came in a variety of styles, shapes and sizes and the requirements were more customers driven. Keeping even a moderate inventory of all types was not economically viable and lead to dead stock in long run. The company was looking at various options which included the following:

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- Setting up of hub and spoke type of a distribution network wherein it was proposed to set up a stock point or mother warehouse in each zone viz., East, West, North and South and respective retail outlets were to be fed from the warehouse located in that zone.
- Setting up of a central warehouse anywhere in Central India and feeding retail outlets from this location.
- Changing the distribution channel from the present numerous retail outlet systems to a more efficient system.
- Outsourcing the entire distribution and logistics to a third party wherein the entire activity of transportation and distribution till the ultimate retail outlet would be taken care of by this service provider and company could focus more on activities of marketing and sales.

Question for discussion:

1. What in your opinion is of immediate importance for Maxwell Corporation and why?
2. What should be the distribution channel for Maxwell and outline the advantages for having such a type of a set up?
3. What type of a marketing and sales set up would you recommend for Maxwell Corporation?

SUMMARY

- A marketing channel system is a particular set of marketing channels a firm employs, and decisions about it are among the most critical ones management faces.
- Channels or routes or ways connect the producers with the consumers. Some channels are straight, short and direct while some others are strong and long and distinct.
- The process of channel design always begins with an understanding of the target customers.
- Channel design is the dynamic process of developing new channels and modifying existing channels where none existed.
- Channel design begins with assessing customer channel-service needs and company channel objectives and constraints.
- The channel of distribution is an important part of the 'marketing-mix' in any business enterprise. The products produced by the producer need to be distributed among the final consumers or the users.

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- The task of distribution involves transfer of ownership and physical possession of products and services from the manufacturer to the consumers. Marketing channels satisfy the demand of consumers by supplying goods and services at the right time, place, quantity and price.
- Channels of distribution may be defined as the pathway for the flow of ownership and possession of goods and services.
- Channel decisions refer to the managerial decision concerning the selection of the best paths or routes for moving the goods from the producer to the consumer.
- Channel of distribution is the combination of middlemen that a company uses to move its product to the ultimate consumer.
- A zero-level channel means selling products or services directly manufacturer to the end consumer.
- An industrial-goods manufacturer can use its sales force to sell directly to industrial customers.
- Marketing channels issues: Product issues, promotion issues, pricing issues, and target market issues.
- The mass coverage (also known as intensive distribution) strategy attempts to distribute products widely in nearly all locations in which that type of product is sold.
- Under selective coverage the marketer deliberately seeks to limit the locations in which this type of product is sold.
- With a direct distribution system the marketer reaches the intended final user of their product by distributing the product directly to the customer.
- With an indirect distribution system the marketer reaches the intended final user with the help of others.
- The multi-channel approach expands distribution and allows the marketer to reach a wider market.
- Channel management, as a process by which a company creates formalized programs for selling and servicing customers within a specific channel, it can really affect your business.
- Defining a channel management strategy for each segment allows you to be more effective within each segment, while gaining efficiency at the same time.
- Channel co-operation occurs when channel members work together for their mutual benefit. Marketing channels cannot function without sustained co-operation.
- Channel power is the ability to alter channel member's behaviour so that they take actions they would not have taken otherwise.

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- Channel conflict is generated when one channel member's actions prevent another channel from achieving its goal.
- Vertical integration occurs when one channel member acquires control of one or more other members of its marketing channel, usually by purchasing them.
- Vertical marketing systems improve distribution efficiency by combining the efforts of individual channel members.
- Horizontal integration occurs when a channel member purchases firms at the same level of the marketing channel or expands the number of units (such as retail stores) at one level.
- A vertical marketing system (VMS) is a distribution channel structure in which producers, wholesalers, and retailers act as a unified system.
- A corporate VMS is a vertical marketing system that combines successive stages of production and distribution under single ownership—channel leadership is established through common ownership.
- Contractual VMS consists of independent firms operating at different channel levels and forming a system on a contractual basis.
- An administered VMS is a vertical marketing system that coordinates successive stages of production and distribution, not through common ownership or contractual ties, but through the size and power of one of the parties.
- Wholesaling includes all the activities involved in selling goods or services to those who buy for resale or business use.
- Retailer is a middleman who links the producers and the ultimate consumers. Retailers are the traders who buy goods from wholesalers or sometimes directly from producers and sell them to the consumers.

ANSWERS TO 'CHECK YOUR PROGRESS'

1. Channel design is the dynamic process of developing new channels none existed and modifying existing channels.
2. Channels of distribution can be defined as the pathway for the flow of ownership and possession of goods and services.
3. Vertical marketing system is a distribution channel structure in which producers, wholesalers, and retailers act as a unified system.
4. Wholesaling includes all the activities involved in selling goods and services to those who buy for resale or business use.

TEST YOURSELF

1) Explain the concept of Marketing Channels.
2) What do you mean by Channel Design?
3) Discuss the meaning of Channel of Distribution.

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4) Explain different functions of a distribution channel?

5) Explain flow of Marketing Channel.

6) State different types of Channel of Distribution.

7) What are the different levels of Channel?

8) Explain relationship issues in Channels.

9) Discuss various factors affecting Channels of Distribution.

10) Explain advantages and disadvantages of intermediaries in Channels of Distribution.

11) What do you mean by Vertical Marketing System?

12) State the difference between Wholesaling and Retailing.

13) Write a short note on:

    i) Channel Conflict

    ii) Channel Power

    iii) Hybrid Channel

    iv) Distribution Intensity

FURTHER READING

- *Kotler & Armstrong, Principles of Marketing Management*
- *Kotler, Keller; Marketing Management, Pearson Education*

8 Logistics Market

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Chapter Includes :

Learning Objective :

After going through this chapter, you should be able to:

- Explain Logistics.
- List and describe different functions of Logistics.
- Understand the importance of Logistic in Business.
- Analyze different objectives of Logistics.
- Discuss ethics in Marketing.

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LOGISTICS MARKET: AN OVERVIEW

Companies today are finding it extremely difficult to maintain their competitive advantage over others purely on the basis of innovative strategies pertaining to the product, price, place, or promotion. Since competitors can easily imitate each of these competitive advantages, the emphasis on building a sustainable competitive advantage has made companies focus their attention on logistics, which provides such a means for companies to successfully differentiate themselves from competing firms. Logistics is a complex process by which companies transport products, parts, and materials from the place where they are manufactured to the place where they are required.

According to Council of logistics management:

> "Logistics is the process of planning, implementing and controlling the efficient, effective flow and storage of goods, services and related information from point of origin to point of consumption for the purpose of conforming the customer requirement".

This definition clearly points out the inherent nature of logistics and it conveys that Logistics is concerned with getting products and services where they are needed whenever they are desired. In trade Logistics has been performed since the beginning of civilization: it's hardly new. However implementing best practice of logistics has become one of the most exciting and challenging operational areas of business and public sector management. Logistics is unique, it never stops.

Word, 'Logistics' is derived from French word 'loger', which means art of war pertaining to movement and supply of armies. Basically a military concept, it is now commonly applied to marketing management. Fighting a war requires the setting of an object, and to achieve this objective meticulous planning is needed so that the troops are properly deployed and the supply line consisting, interalia, weaponary, food, medical assistance, etc. is maintained. Similarly, the plan should be each that there is a minimum loss of men and material while, at the same time, it is capable of being altered if the need arises. As in the case of fighting a war in the battle-field, the marketing managers also need a suitable logistics plan that is capable of satisfying the company objective of meeting profitably the demand of the targeted customers.

From the point of view of management, marketing logistics or physical distribution has been described as 'planning, implementing and controlling the process of physical flows of materials and final products from the point of origin to the point of use in order to meet customer's needs at a profit. As a concept it means the art of managing the flow of raw materials and finished goods from the source of supply to their users. In other words, primarily it involves efficient management of goods from the end of product line to the consumers and in some cases, includes the movement of raw materials from the source of supply to the beginning of the production line. These activities include transportation warehousing, inventory control, order processing and information monitoring. These activities are considered primary to the effective management of logistics because they either contribute most to the total cost of logistics or they are essential to effective completion of the logistics task. However, the firms must carry out these activities as essential part of providing customer with the goods and services they desire.

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"The service of providing the right resources at the right time and right place for efficient and effective performance of a goal-oriented activity, including consumption is called as logistics."

In simple words, "Logistics is the process of anticipating customer needs and wants; acquiring the capital, materials, people, technologies, and information necessary to meet those needs and wants; optimizing the goods- or service-producing network to fulfill customer requests; and utilizing the network to fulfill customer requests in timely way."

Logistics is the support element of the enterprise. It helps in managing the movement and storage of:

- Material into the enterprise.
- Goods in the enterprise.
- Finished goods from the enterprise.

Its focus should be upon its inbound logistics system (movement of material within the organization) and its outbound logistics system (meeting the requirements of its customers). The definition above accurately defines the logistics process but is too restrictive under the modern concept of logistics. Logistics, as a support element of the enterprise, incorporates activities beyond those identified in the preceding definition. Consider an example, the enterprise that introduces a new product or a significant change in the existing product. Support of the new product or feature may require training, the development of technical publications and the acquisition of spare parts and special tools or repair (test) equipment. These items also belong under the umbrella of logistics; thus our definition must be revised to include them.

This is the simplified definition of logistics, which states logistics objective clearly:

"Getting the right item to the right customer, in the right quantity, in the right condition, at the right place, at the right time and at the right cost."

There are several reasons for the overriding importance being given to logistics by businesses across the world. These reasons include wider availability of alternatives to maintain cost and service standards, need for location of retail outlets closer to the market, the growing complexity of product lines, the increasing shortage of raw materials, and the perceived need for an effective system of computerized inventory control.

Logistics is a complex process and involves several functions such as procurement or purchasing, inward transport, receiving, warehousing, stock control, order picking, materials handling, outward transport, physical distribution management, recycling, and returns & waste disposal functions.

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Effective logistics management requires that the actual status of goods and services be communicated in real-time to the various groups of people involved in the logistics process. This helps logistics service providers to improve their service by keeping a closer watch on inventory and taking the steps necessary to avoid losing customers. Communication using satellite technology and sophisticated devices makes it possible for the various players involved in the logistics chain of processes to remain in constant communication with one another and with the end customer. Technology is playing a key role in communication as well as in other processes in the logistics function and helping logistics firms to attain a competitive advantage. The various types of technology being implemented in logistics activities include Electronic Data Interchange, artificial intelligence, expert systems, communication technology in the form of satellite and wireless communication, and bar coding and scanning.

It is necessary to streamline the logistics process to maintain the efficiency of the logistics network. In addition to integrating information technology and advanced logistical approaches into their business operations, businesses are beginning to realize the need to focus on their logistics strategy in order to efficiently maintain their supply chain capabilities. A logistics strategy examines logistical operations and activities and provides logistical firms with a sense of unity, direction, and purpose. It helps firms involved in the business to attain a competitive advantage over others by allowing them to promptly respond to the opportunities and threats in the business environment.

In their efforts at logistical management, firms face several challenges, which may be local or global in their scope. While the need for integration of logistics activities and lack of qualified personnel are the primary challenges faced in logistics management at the local level, the global challenges include challenges arising due to greater distance, modes of transport, documentation, coordination of intermediaries, cultural and political differences, globalization, need for flexibility and speed, need to integrate supply chain activities, and challenges due to emphasis of companies on green logistics.

The reduction of trade barriers, both on the domestic as well as international front, has led to a rapid growth of the logistics market throughout the world. Items such as Swiss cheese, Chinese gadgets and Italian fashion goods that were earlier limited only to the place of manufacture have now crossed the geographical boundaries to take their place in the international market. This has indeed globalized the area of operations and has benefited several economies.

How that is made possible? Obviously, apart from favorable governmental policies, it is the growth of logistics that has made all this possible. The boundaries have been minimized due to advances in the modes of transportation. Logistics not only deals with delivery of goods at the right time, for a right price, and in the right condition, but also has extended its role in globalizing the sphere of products and services.

The global logistics sector has evolved and remained open to favorable changes during the last 20 years. Nowadays the manufacturers do not feel reluctant in outsourcing and adding considerable value to the functions performed by logistics much above the normal functions of delivery, warehousing, storage and distribution of goods. Global logistics management is considered to be highly integrated and therefore requires a thorough knowledge of materials management, customs regulations, foreign exchange, purchasing, supply-chain management, transportation and information technology. This trend is quite visible throughout Americas and Europe and is slowly attaining its due importance in Asia Pacific countries like China and India.

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These days the logistics manager assumes one of the most important and complex jobs in the organization. The profitability of a business, along with consistent levels of customer satisfaction depends to a great deal on the skills of the logistics manager.

FUNCTIONS OF LOGISTICS:

Transportation management: Transportation enables the means of transfer of inventory given the location & network framework developed earlier. This involves the selecting the modes of transportation like Air, Water, Rail, Road & the decisions relating to outsourcing this activities to other agencies. Selection of the modes of transportation depends on the following factors:

- Speed & reliability
- loss& damage
- Inventories
- Freight rate
- Market competitiveness
- Company policy & customer influence
- External market influences.

The aspects of transportation management is an essential factor

1. Facility Location
2. Transportation cost
3. consistency

Inventory management:

Inventory management concerns with the decision regarding the amount of type & material stored at various facility location. These decisions will be affected by the decision made under the function of facility location & transportation e.g.: the location of warehouse & retail outlets.& modes of transport whether fast or slow will affect the quantity type of material to be stored at facilities location.

Warehousing management:

Warehousing provide the adequate space for the inventory at the right location, unpack aging, sorting, & consolidation of material & modification of

NOTES

material elements if required .the role of warehouse provide the economic & service benefit to the logistical system. Economic benefits: – movement consolidation, break bulk, cross-dock, processing /postpone movement & stock piling. Service benefits are spot stocking, assortments, mixing & production supports.

Material handling system:

Material handling activities are required while unloading, moving & loading material at facilities. These include the variety of mechanical equipment like Conveyors, Forklift, Truck, and Crane. One of the considerations of effective material handling is the minimization of product damage during handling.

Packaging:

It helps in achieving the objective of maintaining the material in the right condition through the logistics process. Packaging decision is impacted by requirement of other activities like protection & facilitation during transportation, material handing & storage as so ultimately customer requirements.

MARKETING LOGISTICS -LOGISTICS AND MARKETING MANAGEMENT ARE VERY HIGHLY INTERRELATED

Logistic managers are given the task of marketing logistics as well as communicating logistics with a purpose of positioning logistics in the present competitive environment. The cut-throat competition so commonly associated with many current organizations has caused most businesses all over the world to remain proactive and any organization which ignores the importance of logistics has to blame itself. The entire purpose of logistics is defined when the logistics managers start to take marketing initiatives.

Logistics and marketing management are concerned with the effective flow of products and services in the economy and pertain to the distribution of both consumer and industrial goods. Marketing is considered to be a vital part of an economy and there is a need for an efficient marketing system which can ensure that all marketing activities are carried out in accordance with the predefined goals of the business.

Logistics managers and executives nowadays are entrusted with the added responsibility of taking important decisions and they want a better due in return for their work by being recognized as members of the pivotal winning team.

Wholesalers, manufacturers, business firms and retailers are facing the urgent need to formulate implement policies pertaining to marketing. This can be done by the execution and development of executive marketing programs and strategies. The logistics executives and managers are primarily concerned with expansion of product line and product development, choice of the channels of distribution and are also concerned with the overall development of promotional programs and establishment of pricing methods and policies.

Logistics is primarily concerned with a high degree of development in the relations that concern marketing exchange. It is commonly believed that an effective marketing strategy creates opportunities for the implementation of logistics in addition to building up effective and efficient logistics systems.

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A developed economy or an economy which is expanding its horizons for its overall development requires the integration of both logistics and marketing. This greatly influences the facilitation of the concepts of logistics and marketing. There is interplay between flow-oriented logistics and the market-oriented concept of marketing. Thus, the manufacturer of a product is benefited in such a way that he is enabled to increase the informational and material properties of the product as evaluated by the end-consumer. This integration also helps in stimulating the emergence of marketing logistics within the logistics structure to provide the customer with a wide range of options.

The concept of effective marketing which is widespread in the developed countries of the world allows modifications on the part of commercial mediators, their concerned functions and objectives. These mediators shift their base from traditional catering to solvent demand for goods which are demanded by the customers to respond to customer groups' particular demand. The marketing strategy allows the commercial mediators to get involved in supplying various means of production besides raising the standards of servicing by efficiently and effectively performing their functions. This also leads to a reduction in the levels of price and costs through the streamlining of product flows.

Thus, it can be rightly concluded that marketing and logistics are inter-related to each other and an organization which wants to achieve equilibrium of stability and overall development must consider them as an integral part of the organization.

Marketing logistics are basically the physical distribution of goods. Marketing logistics involve planning, delivering, and controlling the flow of physical goods to a market as well as the material and information necessary to meet customer demands. The demands of the customer must be met at a profit that increases revenue for the organization.

Logistics is concerned with the storage and transportation of goods and information from the place of origin to the place of consumption. It is broadly divided into two categories namely physical supply and physical distribution. Physical supply deals with the transportation of the goods from the supplier to the manufacturer and the storage of raw material used for work in progress.

Physical distribution is concerned with transportation and storage of the finished goods from the manufacturer to the customer. Cost is an important aspect in the logistics function. Every sub-function of logistics is associated with some cost and the logistics function as a whole proves to be effective only when its total cost is minimized.

This is the concept behind the application of the total cost approach to logistics. Customer service plays an important role in the overall fulfillment of the logistics function. Elements of customer service in logistics include lead time, inventory availability, order fill rate, and order status information.

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Another sub-function, warehousing, is concerned with the effective storage and protection of goods. Warehouses are divided into public warehouses and private warehouses. Public warehouses carry goods of more than one supplier whereas private warehouses are dedicated to only one supplier. Every manufacturer aims at optimizing and in many cases, minimizing the inventory holding level.

Economic Order Quantity (EOQ) is used to identify and carry optimum inventory levels. Inventory can be minimized by applying the just-in-time technique to maintain very thin inventory levels. Effective logistics management aims at minimizing the order processing time and delivering the goods to the customer at an early date and thereby satisfying the customers.

An integrated systems approach would help in managing and coordinating the logistics function. Many firms find it difficult to manage logistics on their own and outsource the function to other third party and fourth party service providers

IMPORTANCE OF LOGISTIC IN BUSINESS:

The importance of logistics systems lies in the fact that it leads to ultimate consummation of the sales contract. The buyer is not interested in the promises of the seller that he can supply goods at competitive price but that he actually does so. Delivery according to the contract is essential to fulfilling the commercial and legal requirements. In the event of failure to comply with the stipulated supply of period, the seller may not only get his sale amount back, but may also be legally penalized, if the sales contract so specifies. There is no doubt that better delivery schedule is a good promotional strategy when buyers are reluctant to invest in warehousing and keeping higher level of inventories. Similarly, better and/or timely delivery helps in getting repeat orders through creation of goodwill for the supplier.

Thus, as effective logistics system contributes immensely to the achievements of the business and marketing objectives of a firm. It creates time and place utilities in the products and thereby helps in maximizing the value satisfaction to consumers. By ensuring quick deliveries in minimum time and cost, it relieves the customers of holding excess inventories. It also brings down the cost of carrying inventory, material handling, transportation and other related activities of distribution. In nutshell, an efficient system of physical distribution/logistics has a great potential for improving customer service and reducing costs.

Logistics has gained importance due to the following trends

- Raise in transportation cost.
- Production efficiency is reaching a peak
- Fundamental change in inventory philosophy
- Product line proliferated
- Computer technology
- Increased use or computers

- Increased public concern of products Growth of several new, large retail chains or mass merchandise with large demands & very sophisticated logistics services, by pass traditional channel & distribution.
- Reduction in economic regulation
- Growing power of retailers
- Globalization

As a result of these developments, the decision maker has a number of choices to work out the most ideal marketing logistics system. Essentially, this system implies that people at all levels of management think and act in terms of integrated capabilities and adoption of a total approach to achieve pre-determined logistics objectives.

Logistics is also important on the global scale. Efficient logistics systems throughout the world economy are a basis for trade and a high standard of living for all of us. Lands, as well as the people who occupy them, are not equally productive. That is, one region often has an advantage over all others in some production specialty. An efficient logistics system allows a geographical region to exploit its inherent advantage by specializing its productive efforts in those products in which it has been an advantage by specializing its productive to other regions. The system allows the products' landed cost (production plus logistics cost) and quality to be competitive with those form any other region. Common examples of this specialization have been Japan's electronics industry, the agricultural, computer and aircrafts industries of United States and various countries dominance in supplying raw materials such as oil, gold, bauxite, and chromium.

Furthermore Logistics has gained importance in the international marketing with the following reasons:

1. Transform in the customers attitude towards the total cost approach rather than direct cost approach.
2. Technological advancement in the fields of information processing and communication.
3. Technological development in transportation and material handling.
4. Companies are centralizing production to gain economies of scale.
5. Most of the MNC organizations are restructuring their production facilities on a global basis.
6. In many industries, the value added by manufacturing is declining as the cost of materials and distribution climbs.
7. High volume data processing and transmission is revolutionizing logistics control systems.
8. With the advancement of new technologies, managers can now update sales and inventory planning faster and more frequently, and factories can respond with more flexibility to volatile market conditions.

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9. Product life cycles are contracting. Companies that have gone all out to slash costs by turning to large scale batch production regularly find themselves saddled with obsolete stocks and are unable to keep pace with competitors' new-product introductions.

10. Product lines are proliferating. More and more product line variety is needed to satisfy the growing range of customer tastes and requirements, and stock levels in both field and factory inevitably rise.

11. The balance of power in distribution chain is shifting from the manufacturers to the trader.

OBJECTIVES OF LOGISTICS:

The general objectives of the logistics can be summarized as:

- Cost reduction
- Capital reduction
- Service improvement

The specific objective of an ideal logistics system is to ensure the flow of supply to the buyer, the:

- right product
- right quantities and assortments
- right places
- right time
- right cost / price and,
- right condition

This implies that a firm will aim at having a logistics system which maximizes the customer service and minimizes the distribution cost. However, one can approximate the reality by defining the objective of logistics system as achieving a desired level of customer service i.e., the degree of delivery support given by the seller to the buyer. Thus, logistics management starts with as curtaining customer need till its fulfillment through product supplies and, during this process of supplies; it considers all aspects of performance which include arranging the inputs, manufacturing the goods and the physical distribution of the products. However, there are some definite objectives to be achieved through a proper logistics system. These can be described as follows:

1. Improving customer service:

As we know, the marketing concept assumes that the sure way to maximize profits in the long run is through maximizing the customer satisfaction. As such, an important objective of all marketing efforts, including the physical distribution activities, is to improve the customer service. An efficient management of physical distribution can help in improving the level of customer service by developing an effective system of warehousing, quick and economic transportation, all maintaining optimum level of

NOTES

inventory. But, as discussed earlier, the level of service directly affects the cost of physical distribution. Therefore, while deciding the level of service, a careful analysis of the customers' wants and the policies of the competitors is necessary. The customers may be interested in several things like timely delivery, careful handling of merchandise, reliability of inventory, economy in operations, and so on. However, the relative importance of these factors in the minds of customers may vary. Hence, an effort should be made to ascertain whether they value timely delivery or economy in transportation, and so on. One the relative weights are known, an analysis of what the competitors are offering in this regard should also be made. This, together with an estimate about the cost of providing a particular level of customer service, would help in deciding the level of customer service.

2. Rapid Response:

Rapid response is concerned with a firm's ability to satisfy customer service requirements in a timely manner. Information technology has increased the capability to postpone logistical operations to the latest possible time and then accomplish rapid delivery of required inventory. The result is elimination of excessive inventories traditionally stocked in anticipation of customer requirements. Rapid response capability shifts operational emphasis from an anticipatory posture based on forecasting and inventory stocking to responding to customer requirements on a shipment-to-shipment basis. Because inventory is typically not moved in a time-based system until customer requirements are known and performance is committed, little tolerance exists for operational deficiencies

3. Reduce total distribution costs:

Another most commonly stated objective is to minimize the cost of physical distribution of the products. As explained earlier, the cost of physical distribution consists of various elements such as transportation, warehousing and inventory maintenance, and any reduction in the cost of one element may result in an increase in the cost of the other elements. Thus, the objective of the firm should be to reduce the total cost of distribution and not just the cost incurred on any one element. For this purpose, the total cost of alternative distribution systems should be analyzed and the one which has the minimum total distribution cost should be selected.

4. Generating additional sales:

Another important objective of the physical distribution/logistics system in a firm is to generate additional sales. A firm can attract additional customers by offering better services at lowest prices. For example, by decentralizing its warehousing operations or by using economic and efficient modes of transportation, a firm can achieve larger market share. Also by avoiding the out-of-stock situation, the loss of loyal customers can be arrested.

5. Creating time and place utilities:

The logistical system also aims at creating time and place utilities to the products. Unless the products are physically moved from the place of their origin to the place where they are required for consumption, they do not serve any purpose to the

Check Your Progress

1. What is Logistic Market?
2. Explain briefly functions of Logistics.
3. What is ethics in marketing?

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users. Similarly, the products have to be made available at the time they are needed for consumption. Both these purposes can be achieved by increasing the number of warehouses located at places from where the goods can be delivered quickly and where sufficient stocks are maintained so as to meet the emergency demands of the customers. Moreover, a quicker mode of transport should be selected to move the products from one place to another in the shortest possible time. Thus, time and place utilities can be created in the products through an efficient system of physical distribution.

6. Price stabilization:

Logistics also aim at achieving stabilization in the prices of the products. It can be achieved by regulating the flow of the products to the market through a judicious use of available transport facilities and compatible warehouse operations. For example, in the case of industries such as cotton textile, there are heavy fluctuations in the supply of raw materials. In such cases if the market forces are allowed to operate freely, the raw material would be very cheap during harvesting season and very dear during off season. By stocking the raw material during the period of excess supply (harvest season) and made available during the periods of short supply, the prices can be stabilized.

7. Quality improvement:

The long-term objective of the logistical system is to seek continuous quality improvement. Total quality management (TQM) has become a major commitment throughout all facets of industry. Overall commitment to TQM is one of the major forces contributing to the logistical renaissance. If a product becomes defective or if service promises are not kept, little, if any, value is added by the logistics. Logistical costs, once expended, cannot be reversed. In fact, when quality fails, the logistical performance typically needs to be reversed and then repeated. Logistics itself must perform to demanding quality standards. The management challenge of achieving zero defect logistical performance is magnified by the fact that logistical operations typically must be performed across a vast geographical area at all times of the day and night. The quality challenge is magnified by the fact that most logistical work is performed out of a supervisor's vision. Reworking a customer's order as a result of incorrect shipment or in-transit damage is far more costly than performing it right the first time. Logistics is a prime part of developing and maintaining continuous TQM improvement.

8. Life-Cycle support:

A good logistical system helps to support the life cycle. Few items are sold without some guarantee that the product will perform as advertised over a specified period. In some situations normal value-added inventory flow toward customers must be reversed. Product recall is a critical competency resulting from increasingly rigid quality standards, product expiration dating and responsibility for hazardous consequences. Return logistics requirements also result from the increasing number of laws prohibiting disposal and encouraging recycling of beverage containers and

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packaging materials. The most significant aspect of reverse logistical operations is the need for maximum control when a potential health liability exists (i.e.. a contaminated product). In this sense, a recall program is similar to a strategy of maximum customer service that must be executed regardless of cost. Firestone classical response to the tyre crisis is an example of turning adversity into advantage. The operational requirements of reverse logistics range from lowest total cost, such as returning bottles for recycling, to maximum performance solutions for critical recalls. The important point is that sound logistical strategy cannot be formulated without careful review of reverse logistical requirements.

9. Movement consolidation:

As the logistical system aims at cost reduction through integration, consolidation One of the most significant logistical costs is transportation. Transportation cost is directly related to. the type of product, size of shipment, and distance. Many Logistical systems that feature premium service depend on high-speed, small shipment transportation. Premium transportation is typically high-cost. To reduce transportation cost, it is desirable to achieve movement consolidation. As a general rule, the larger the overall shipment and the longer the distance it is transported, the lower the transportation cost per unit. This requires innovative programs to group small shipments for consolidated movement. Such programs must be facilitated by working arrangements that transcend the overall supply chain.

MANAGING THE TOTAL MARKETING EFFORT

Managing the total marketing effort examines how the marketing function is organized and how it relates to other company functions and how marketing plans must be implemented in order to succeed in the marketplace.

The modern marketing department evolved through several stages. It started as a sales department, and later took on ancillary functions, such as advertising and marketing research. As the ancillary functions grew in importance, many companies created a separate marketing department to manage them. Sales and marketing people generally worked well together. Eventually, the two departments were merged into a modern marketing department headed by a marketing vice-president. A modern marketing department, however, does not automatically create an effective marketing company unless the other departments accept and practice customer orientation. When a company refocuses its organizational structure on key process, rather than departments, it becomes a process-outcome-based company.

Modern marketing departments are organized in a number of ways. A functional marketing organization is where separate managers head marketing functions, reporting to the marketing vice-president. A geographical marketing organization allocates its sales organization resources along geographic lines, nationally, regionally, or locally. A product management organization assigns products to product managers who work with functional specialists to develop and achieve product plans. A market management organization assigns major markets to market managers who in turn work with functional specialists to develop and implement their plans. Some

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large companies use a product and market management organization called a matrix organization. Finally, multi-division companies usually operate with a corporate marketing department and divisional marketing departments.

Marketing must work harmoniously with other functional areas. In its pursuit of the customer's interests, marketing may come into conflict with R&D, engineering, purchasing, manufacturing, operations, finance, accounting, credit, and other functions. These conflicts can be reduced when the company president commits the firm to a customer orientation and when the marketing vice-president learns to work effectively with the other executives. Acquiring a modern marketing orientation requires top executive support, a marketing task force, outside marketing consulting help, in-house marketing training, and acquisition of strong marketing talent, a customer-oriented system, and other related steps.

Those responsible for the marketing function must not only develop effective marketing plans but also implement them successfully. Marketing implementation is the process of turning plans into action exercises describing who does what, when, and how. Effective implementation requires skills in allocating, monitoring, organizing, and interacting at all levels of the marketing effort. Evaluations and control include annual-plan control, profitability control, efficiency control, and strategy control. The capstone effort in this process is the marketing audit.

ETHICS IN MARKETING:

The term Ethics is derived from the Greek word 'ethos' which refers to character. The term ethics refers to a code of conduct that guides an individual while dealing with others. It relates to social rules and cardinal values that motivate people to be honest in dealing with others. Ethics is direct human behavior and it also differentiates between good and bad, right and wrong, fair and unfair human behavior actions.

Ethics are a collection of principles of right conduct that shape the decisions people or organizations make. Practicing ethics in marketing means deliberately applying standards of fairness, or moral rights and wrongs, to marketing decision making, behavior, and practice in the organization.

In a market economy, a business may be expected to act in what it believes to be its own best interest. The purpose of marketing is to create a competitive advantage. An organization achieves an advantage when it does a better job than its competitors at satisfying the product and service requirements of its target markets. Those organizations that develop a competitive advantage are able to satisfy the needs of both customers and the organization.

As our economic system has become more successful at providing for needs and wants, there has been greater focus on organizations' adhering to ethical values rather than simply providing products. This focus has come about for two reasons. First, when an organization behaves ethically, customers develop more positive attitudes about the firm, its products, and its services. When marketing practices

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depart from standards that society considers acceptable, the market process becomes less efficient—sometimes it is even interrupted. Not employing ethical marketing practices may lead to dissatisfied customers, bad publicity, a lack of trust, lost business, or, sometimes, legal action. Thus, most organizations are very sensitive to the needs and opinions of their customers and look for ways to protect their long-term interests.

Second, ethical abuses frequently lead to pressure (social or government) for institutions to assume greater responsibility for their actions. Since abuses do occur, some people believe that questionable business practices abound. As a result, consumer interest groups, professional associations, and self-regulatory groups exert considerable influence on marketing. Calls for social responsibility have also subjected marketing practices to a wide range of federal and state regulations designed to either protect consumer rights or to stimulate trade.

The Federal Trade Commission (FTC) and other federal and state government agencies are charged both with enforcing the laws and creating policies to limit unfair marketing practices. Because regulation cannot be developed to cover every possible abuse, organizations and industry groups often develop codes of ethical conduct or rules for behavior to serve as a guide in decision making. The American Marketing Association, for example, has developed a code of ethics. Self-regulation not only helps a firm avoid extensive government intervention; it also permits it to better respond to changes in market conditions. An organization's long-term success and profitability depends on this ability to respond.

Ethical behaviour by businesses was a major focus for change in the 1990s, with increasing concern about the impact of business behaviour on the environment and a growing recognition about the rights of stakeholder groups. The role of marketing today must be seen in terms of connecting with stakeholders not only in terms of value, but in terms of values. Market value is measured not just in terms of sales but in terms of intangible assets and corporate reputation; hence the need to focus on ethical issues more than ever before.

It must be recognized, however, that the concept of ethical behaviour is both subjective and cultural. The norms and values of individuals differ, often as represented by political parties. Types of marketing acceptable in one country may break the cultural, social or religious norms of another. All we can say as business students is that the law makes some activities illegal. There are many other activities in that 'grey area', where some of the population regards them as unethical and others do not. We would place issues of drugs (alcohol and smoking) and pornography in this category. However, it is also true to say that the building of roads or the broadcasting of 'violent' cartoons are considered unethical by many, even if these groups may not want these activities to be made illegal.

In terms of the marketing function, firms need to consider the following key ethical issues:

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- To what extent should firms create demand for products and services, rather than just satisfying established needs and wants? Linked to this is the marketing of products and services to children or other vulnerable groups.
- To what extent should marketing create unrealistic aspirations and focus on individual concerns and fears through advertising? Should, for instance, private health care companies raise fears about possible life threatening illness to sell their services?
- To what extent should firm's market products and services that are dangerous, immoral or a risk to health, even though the sale of the products themselves are legal. Cigarette marketing has been a particular focus with, advertising being banned in many countries. Other issues relate to the legalization of drugs such as cannabis, and to the sales of replica firearms.

Advertising has often been regarded as the 'secret persuader'; encouraging consumers to purchase products they do not need. This approach perhaps underplays the intelligence of the consumer and ignores the fact that there is now enormous choice in virtually all markets. However, which one of us can claim we have never been influenced by a marketing message to purchase one product in preference to another or, even worse, to buy an item we do not need and regret buying almost as soon as we get home!

It could be argued that consumers are not easily manipulated, and that rather than create demand, firms are merely anticipating demand in line with the definition by the Institute of Marketing. The fact that sales of the marketed product, increase in response to advertising, merely supports their recognition of a need by the firm.

There is much debate about adverts that promote unhealthy habits such as smoking and drinking. Most committed smokers recognize the dangers of their habit even if they choose to ignore the warnings. However, there are ethical issues around the marketing of national lotteries that can build gambling addictions, or the offers of financial services which make the creation of unsustainable debt a problem? The debate here is less clear-cut.

It is often easier to be ethical in times of boom rather than in times of recession. When firms are performing well, terms and conditions for employees may improve and the firm will be able to deal in a responsible manner with the community and with their suppliers, whilst providing a reliable and good value product for customers. What happens when competitive pressures increase and profits fall? Should the firm immediately look for cost reductions through downsizing or seek deeper discounts from their supplier when they know this will cause individual distress and commercial failures?

CASE STUDY OF WALMART: LOGISTICS MANAGEMENT

An important feature of Wal-Mart's logistics infrastructure was its fast and responsive transportation system. The distribution centers were serviced by more than 3,500 company owned trucks. These dedicated truck fleets allowed the company to ship goods from the distribution centers to the stores within two days and replenish the store shelves twice a week. The truck fleet was the visible link between the stores and distribution centers. Wal-Mart believed that it needed drivers who were committed and dedicated to customer service. The company hired only experienced drivers who had driven more than 300,000 accident-free miles, with no major traffic violation.

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Wal-Mart truck drivers generally moved the merchandise-loaded trailers from Wal-Mart distribution centers to the retail stores serviced by each distribution center. These retail stores were considered as customers by the distribution centers. The drivers had to report their hours of service to a coordinator daily. The coordinator scheduled all dispatches depending on the available driving time and the estimated time for travel between the distribution centers and the retail stores. The coordinator informed the driver of his dispatches, either on the driver's arrival at the distribution center or on his return to the distribution center from the retail store. The driver was usually expected to take a loaded truck trailer from the distribution center to the retail store and return back with an empty trailer. He had to dispatch a loaded truck trailer at the retail store and spend the night there. A driver had to bring the trailer at the dock of a store only at its scheduled unloading time, no matter when he arrived at the store. The drivers delivered the trailers in the afternoon and evening hours and they would be unloaded at the store at nights. There was a gap of two hours between unloading of each trailer. For instance, if a store received three trailers, the first one would be unloaded at midnight (12 AM), the second one would be unloaded at 2 AM and the third one at 4 AM. Although, the trailers were left unattended, they were secured by the drivers, until the store personnel took charge of them at night. Wal-Mart received more trailers than they had docks, due to their large volume of business.

Wal-Mart maintained a strict vigil over its drivers by keeping a record of their activities through the "Private Fleet Driver Handbook". The purpose of the book was to educate the drivers with regard to the code of conduct. It also included the terms and conditions regarding the safe exchange of trailers with the store personnel and the safety of Wal-Mart's property. This book also contained a list of other activities, the non-compliance of which would result in the termination of the driver. To make its distribution process more efficient, Wal-Mart also made use of a logistics technique known as 'cross-docking.' In this system, the finished goods were directly picked up from the manufacturing plant of a supplier, sorted out and then directly supplied to the customers. The system reduced the handling and storage of finished goods, virtually eliminating the role of the distribution centers and stores. There were five types of cross-docking.

In cross docking, requisitions received for different goods from a store were converted into purchase or procurement orders. These purchase orders were then forwarded to the manufacturers who conveyed their ability or inability to supply the goods within a particular period of time. In cases where the manufacturer agreed to supply the required goods within the specified time, the goods were directly

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forwarded to a place called the staging area. The goods were packed here according to the orders received from different stores and then directly sent to the respective customers. To gain maximum out of cross-docking, Wal-Mart had to make fundamental changes in its approach to managerial control. Traditionally, decisions about merchandising, pricing and promotions had been highly centralized and were generally taken at the corporate level. The cross docking system, however, changed this practice. The system shifted the focus from "supply chain" to the "demand chain," which meant that instead of the retailer 'pushing' products into the system; customers could 'pull' products, when and where they needed. This approach placed a premium on frequent, informal cooperation among stores, distribution centers and suppliers with far less centralized control than earlier.

About Walmart

Wal-Mart Stores, Inc. is the largest retailer in the world, the world's second-largest company and the nation's largest nongovernmental employer. Wal-Mart Stores, Inc. operates retail stores in various retailing formats in all 50 states in the United States. The Company's mass merchandising operations serve its customers primarily through the operation of three segments. The Wal-Mart Stores segment includes its discount stores, Supercenters, and Neighborhood Markets in the United States. The Sam's club segment includes the warehouse membership clubs in the United States. The Company's subsidiary, McLane Company, Inc. provides products and distribution services to retail industry and institutional foodservice customers. Wal-Mart serves customers and members more than 200 million times per week at more than 8,416 retail units under 53 different banners in 15 countries. With fiscal year 2010 sales of $405 billion, Wal-Mart employs more than 2.1 million associates worldwide. Nearly 75% of its stores are in the United States ("Wal-Mart International Operations", 2004), but Wal-Mart is expanding internationally. The Group is engaged in the operations of retail stores located in all 50 states of the United States, Argentina, Brazil, Canada, Japan, Puerto Rico and the United Kingdom, Central America, Chile, Mexico, India and China.

SUMMARY

- Logistics is a complex process by which companies transport products, parts, and materials from the place where they are manufactured to the place where they are required.
- Effective logistics management requires that the actual status of goods and services be communicated in real-time to the various groups of people involved in the logistics process.
- A logistics strategy examines logistical operations and activities and provides logistical firms with a sense of unity, direction, and purpose.
- Inventory management concerns with the decision regarding the amount of type & material stored at various facility location.

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- Logistic managers are given the task of marketing logistics as well as communicating logistics with a purpose of positioning logistics in the present competitive environment.
- Logistics and marketing management are concerned with the effective flow of products and services in the economy and pertain to the distribution of both consumer and industrial goods.
- Logistics is primarily concerned with a high degree of development in the relations that concern marketing exchange.
- Marketing logistics are basically the physical distribution of goods.
- Marketing logistics involve planning, delivering, and controlling the flow of physical goods to a market as well as the material and information necessary to meet customer demands.
- Logistics is concerned with the storage and transportation of goods and information from the place of origin to the place of consumption.
- An efficient system of physical distribution/logistics has a great potential for improving customer service and reducing costs.
- Logistics management starts with as curtaining customer need till its fulfillment through product supplies and, during this process of supplies; it considers all aspects of performance which include arranging the inputs, manufacturing the goods and the physical distribution of the products.
- Managing the total marketing effort examines how the marketing function is organized and how it relates to other company functions and how marketing plans must be implemented in order to succeed in the marketplace.
- The term ethics refers to a code of conduct that guides an individual while dealing with others.
- Ethics is direct human behavior and it also differentiates between good and bad, right and wrong, fair and unfair human behavior actions.
- Ethics are a collection of principles of right conduct that shape the decisions people or organizations make.

ANSWERS TO 'CHECK YOUR PROGRESS'

1. Logistics is a complex process by which companies transport products, parts, and materials from the place where they are manufactured to the place where they are required.
2. Functions of Logistics: Transport Management, Inventory Management, Warehousing Management, Material Handling system, Packaging.
3. The term ethics refers to a code of conduct that guides an individual while dealing with others. Ethics are a collection of principles of right conduct that shape the decisions people or organizations make.

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TEST YOURSELF

1) What do you mean by Logistics Market?
2) Explain the functions of Logistics.
3) Discuss the relation between Marketing Logistics and Marketing Management?
4) What is the importance of logistic in Business?
5) What are the objectives of logistics?
6) How total marketing effort is managed?
7) Explain ethics in Marketing.

FURTHER READING

- *Kotler & Armstrong, Principles of Marketing Management*
- *Kotler, Keller; Marketing Management, Pearson Education*

9 Understanding Consumer And Industrial Market

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Chapter Includes :

Learning Objective :

After going through this chapter, you should be able to:

- Explain the concept of Consumer Behaviour.
- List and describe the characteristics and importance of Consumer Behaviour.
- Understand various factors affecting Consumer behavior.
- Ahalyze applications of Consumer Behaviour.
- Discuss Industrial buying behavior and Rural Consumer of India.

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INTRODUCTION

A consumer is the ultimate user of a product or service. The overall consumer market consists of various consumers; they consume things for personal or family use. They also consume and buy the products or services according to their needs, preferences and buying power. What they buy, how they buy, where and when they buy, in how much quantity they buy depends on their perception, self concept, social and cultural background and their age and family cycle, their attitudes, beliefs values, motivation, personality, social class and many other factors that are both internal and external to them. While buying, they also consider whether to buy or not to buy and, from which source or seller to buy.

Behaviour is what a person does. Behaviour is defined as the observable and measurable activity of human beings. This is known as overt behaviour. Activities that qualify under this category show great variation; these may be in the form of mental process like decision making, or in the form of physical process like handling a machine. There is another aspect of behaviour which is non-observable or measurable, known as covert behaviour like feelings, attitude formation- favourable or unfavourable, perception formation, etc. The covert behaviour is a significant part of the total behaviour because it shapes and influences overt behaviour. Thus understanding of the total behaviour is important. All individuals and households who buy or acquire goods and services for personal consumption are termed as consumers. Markets have to be understood before marketing strategies can be developed. People using consumer markets buy goods and services for personal consumption. Consumers vary tremendously in age, income, education, tastes, and other factors. *Consumer behavior* is influenced by the buyer's characteristics and by the buyer's decision process. *Buyer characteristics* include four major factors: cultural, social, personal, and psychological.

Concept of Consumer Behaviour:

Consumer behaviour essentially refers to how and why people make the purchase decisions. Consumer behaviour is the study of when, why, how, and where people do or do not buy a product. It attempts to understand the buyer decision making process, both individually and in groups. Consumer behaviour study is based on consumer buying behaviour, where the consumer playing the three distinct roles i.e. user, payer and buyer.

According to Belch and Belch, Consumer behaviour is 'the process and activities people engage in when searching for, selecting, purchasing, using, evaluating, and disposing of products and services so as to satisfy their needs and desires'.

According to Professor Bearden and Associates, "Consumer behaviour is "the mental and emotional processes and the physical activities of people who purchase goods and services for personal consumption".

Consumer behaviour can be defined as the decision-making process and physical activity involved in acquiring, evaluating, using and disposing of goods and services. This definition clearly brings out that it is not just the buying of goods/services that receives attention in consumer behaviour but, the process starts much before the goods have been acquired or bought.

Marketers should strive to understand this behaviour so they can better formulate appropriate marketing stimuli that will result in increased sales and brand loyalty. The science of evaluating and influencing consumer behaviour is foremost in determining which marketing efforts will be used and when. Consumer behaviour is a complex, dynamic, multidimensional process, and all marketing decisions are based on assumptions about consumer behaviour.

Marketing strategy is the game plan which the firms must adhere to, in order to achieve the desired objectives of the concern. In formulating the marketing strategy, to sell the product effectively, cost-benefit analysis must be undertaken. There can be many benefits of a product, for example, for owning a motor bike one can be looking for ease of transportation, status, pleasure, comfort and feeling of ownership. The cost is the amount of money paid for the bike, the cost of maintenance, gasoline, parking, risk of injury in case of an accident, pollution and frustration such as traffic jams. The difference between this total benefit and total cost constitutes the **customer value**. The idea to provide superior customer value is required for the formulation of a marketing strategy. The entire process consists of market analysis, which leads to target market selection, and then to the formulation of strategy by organizing the product, price, promotion and distribution, so that a total product (a set of entire characteristics) is offered. The total product creates an image in the mind of the consumer, who undergoes a decision process which leads to the outcome in terms of satisfaction or dissatisfaction, which reflects on the sales and image of the product or brand.

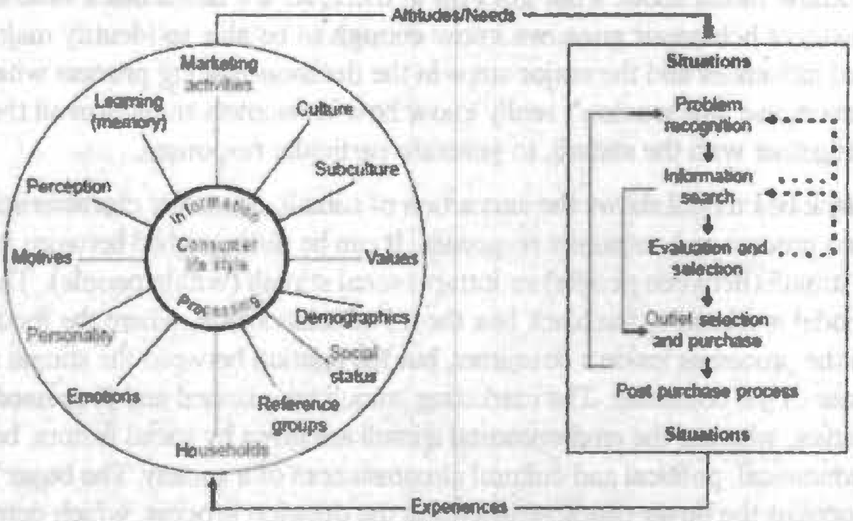

Fig. 1.1 A simplified framework for studying consumer behaviour.

The figure shows in detail the shaping of consumer behaviour, which leads a consumer to react in certain ways and he makes a decision, keeping the situations in mind. The process of decision-making varies with the value of the product, the involvement of the buyer and the risk that is involved in deciding the product/service. The figure shows the consumer life style in the centre of the circle. The consumer and his life style are influenced by a number of factors shown all around the consumer. These are culture, subculture, values, demographic factors, social status, reference groups, household and also the internal make up of the consumer, which are emotions, personality motives of buying, perception and learning. Con-

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sumer is also influenced by the marketing activities and efforts of the marketer. All these factors lead to the formation of attitudes and needs of the consumer.

BLACK-BOX MODEL OF CONSUMER BEHAVIOUR:

The study of how and why people purchase goods and services is termed **consumer buying behaviour**. Models of consumer buying behaviour draw together the various influences on, and the process of, the buying decision. They attempt to understand the proverbial 'black box' of what happens within the consumer between his or her exposure to marketing stimuli and the actual decision to purchase.

ENVIRONMENTAL FACTORS		BUYER'S BLACK BOX		
Marketing Stimuli	Environmental Stimuli	Buyer Characteristics	Decision Process	BUYER's RESPONSE
Product Price Place Promotion	Economic Technological Political Cultural Demographic Natural	Attitudes Motivation Perceptions Personality Lifestyle Knowledge	Problem recognition Information search Alternative evaluation Purchasedecision Post-purchase behaviour	Product choice Brand choice Dealer choice Purchase timing Purchase amount

It is called the 'black box' model because we still know so little about how the human mind works. We cannot see what goes on in the mind and we don't really know much about what goes on in there, so it's like a black box. As far as consumer behaviour goes, we know enough to be able to identify major internal influences and the major steps in the decision-making process which consumers use, but we don't really know how consumers transform all these data, together with the stimuli, to generate particular responses.

The black box model shows the interaction of stimuli, consumer characteristics, and decision process and consumer responses. It can be distinguished between interpersonal stimuli (between people) or intrapersonal stimuli (within people). The black box model is related to the black box theory of behaviorism, where the focus is not set on the processes inside a consumer, but the relation between the stimuli and the response of the consumer. The marketing stimuli are planned and processed by the companies, whereas the environmental stimuli are given by social factors, based on the economical, political and cultural circumstances of a society. The buyer's black box contains the buyer characteristics and the decision process, which determines the buyer's response.

The black box model considers the buyers response as a result of a conscious, rational decision process, in which it is assumed that the buyer has recognized the problem. However, in reality many decisions are not made in awareness of a determined problem by the consumer.

CHARACTERISTICS OF CONSUMER BEHAVIOUR:

Consumer behavior is the process through which the ultimate buyer makes purchase decisions. Following are some basic characteristics of consumer behaviour:

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1. Consumer behaviour is the process by which consumer decides – what, when, from whom, where and how much to buy.
2. Consumer behaviour includes both mental and physical activities of a consumer.
3. Consumer behaviour is influenced by a number of marketing stimuli offered by the marketer.
4. Consumer behaviour is reflected from the post purchase evaluation that indicates the satisfaction and non-satisfaction from purchases.
5. Consumer behaviour is influenced by internal and external factors.
6. It is an integral part of human behaviour.
7. Consumer behaviour is basically social in nature.
8. Consumer behaviour is very dynamic.

IMPORTANCE OF CONSUMER BEHAVIOUR OR NEED FOR THE STUDY OF CONSUMER BEHAVIOUR:

The need for the study of consumer's behaviour can be explained with the help of following points:

1) **Production Policies:** The production policy of an enterprise is affected by the study of consumer behaviour. The study of consumer's behaviour helps to recognize the habits, tastes and preferences of consumers and such information enables an enterprise to plan and develops its products according to these specifications. It is very essential for an enterprise to be in continuous touch with the changes in consumer behaviour so that necessary changes in products can be made. Thus consumer behaviour plays a very important role in formulating production policies.

2) **Price policies:** Price policy of an enterprise is also affected by the consumer behaviour. As we know, consumers are heterogeneous in nature and they all are different from each other in certain respects. The buyers of some products purchase those products only because they are cheaper than the competitive products available in the market. In such a case the price of such products cannot be raised. Some products are purchased because it enhances the prestige and social status of persons. In that case, price of such products can be raised.

3) **Decisions regarding Channels of Distribution:** Decisions regarding channels of distribution are taken on the basis of consumer behaviour. If products are purchased and sold solely on the basis of low price, then the distribution channel must be cheap and economical. In some products after sale service are required like T.V. sets, refrigerators, etc, these products must have different channels of distribution.

4) **Decisions regarding Sales Promotion:** The study of consumer behaviour is also very essential for taking decisions regarding sales promotion. It enables the producer to know what motives inspires the consumer to make purchase.

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The marketer takes decision regarding brand, packaging, discount, gifts, etc. on the basis of consumer behaviour for promoting sales of the products.

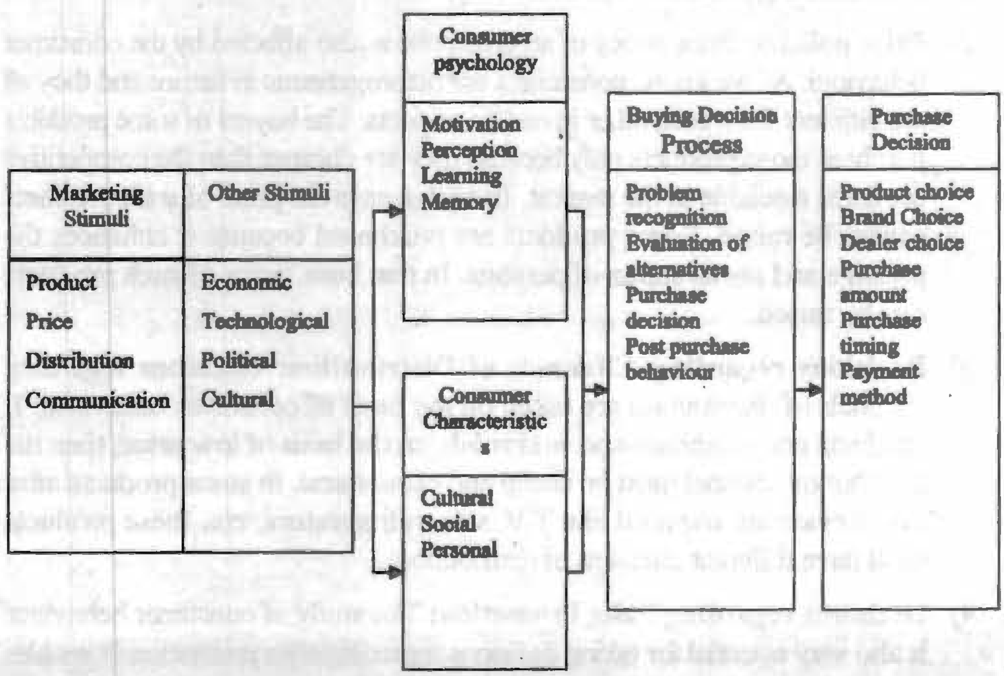
5) **Exploiting Marketing Opportunities:** A study of consumer behaviour helps the marketers to understand the consumers, needs, aspirations, expectations, problems, etc. This knowledge will be useful to the marketers in exploiting marketing opportunities and meeting the challenges of the market.

6) **Rapid Introduction of New Products:** Rapid introduction of new product with technological advancement has made the job of studying consumer behaviour more imperative. For instance, the information technologies are changing very fast in personal computer industry.

Thus, study of consumer behaviour plays an important role in decision making. As a principal, the marketing concept involves understanding the needs of the consumers and translating these needs into products or services to satisfy these needs. The basic objective in marketing is to achieve the goal of profit making through customer satisfaction. To do this, an organization should understand the consumer and be as close to them as possible.

PROCESS OF CONSUMER BEHAVIOUR:

The starting point for understanding consumer behaviour is the stimulus – response model. Marketing and environmental stimuli enter the consumer's consciousness, and a set of psychological processes combine with certain consumer characteristics to result in decision processes and purchase decisions. The marketer's task is to understand what happens in the consumer's consciousness between the arrival of the outside marketing stimuli and the ultimate purchase decisions. Four key psychological processes – motivation, perception, learning, and memory – fundamentally influence consumer responses.



PROCESS OF CONSUMER BEHAVIOUR

FACTORS INFLUENCING CONSUMER BEHAVIOUR/ FACTORS AFFECTING CONSUMER BEHAVIOUR

Consumer behaviour is affected by a lot of variables, ranging from personal motivations, needs, attitudes and values, personality characteristics, socio-economic and cultural background, age, sex, professional status to social influences of various kinds exerted by family, friends, colleagues and society as a whole. The combinations of these various factors produce a different impact on each one of us as manifested in our different behaviour as consumers.

The consumer behaviour or buyer behaviour is influenced by several factors or forces. They are:

1) Internal, or Psychological factors
2) Social factors
3) Cultural factors
4) Economic factors
5) Personal factors
6) Other factors

1. **Internal or psychological factors:**

   The buying behaviour of consumers is influenced by a number of internal-or psychological factors. They are: a) Motivation, b) Perception, c) Learning, d) Beliefs and Attitudes e) Personality.

   (a) Motivation: In the words of William J Stanton: "A motive can be defined as a drive or an urge for which an individual seeks satisfaction. It becomes a buying motive when the individual seeks satisfaction through the purchase of something". From this definition, it is clear that a motive is an inner urge that moves a person to some action.

   Motivation is the force that activates goai-oriented behaviour. Motivation acts as a driving force that impels an individual to take action to satisfy his needs. So it becomes one of the internal factors influencing consumer behaviour.

   Man is a perpetual wanting animal. Therefore, when one need is satisfied, a new need at a higher level emerges. These needs have been classified by Abraham H. Maslow, who called it 'Hierarchy of Needs'. The following diagram shows that:

   Maslow's Need Hierarchy Theory: People will try to satisfy their most important needs first. When a person succeeds in satisfying an important need, he will then try to satisfy the next – most important need. For example: a starvation man (need 1) will not take an interest in the latest happenings in the art world (need5), nor in how he is viewed by others (need 3 or 4), nor even in whether he is breathing clean air (need 2); but he has enough food and water, the next – most – important need will come salient.

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Maslow's has divided the human needs into five categories and arranged in hierarchal order. These various needs are:

Maslow's Hierarchy of needs

According to the Maslow's the individual behavior is highly determined by his needs. This is only need, which motivates an individual to show specific behavior at a particular time. An individual may have different needs at the different time, situation and stage of life. Individuals are always motivated to make some efforts to satisfy these needs.

a) **Physiological Needs:** The physiological needs are very first need in the hierarchy, it is also called as basic or biological needs. This includes the need for food, shelter, clothing and sex. Physical needs will dominate when all needs are unsatisfied. In such case, no other need would serve as a basis for motivation.

b) **Safety Needs:** Once the physiological needs are satisfied the next higher need assumes importance. The next higher needs are called safety needs which includes the needs for being free from the physical danger or harm like ill health, economic disaster, safety of life and future.

c) **Social Needs:** Social needs are those needs which motivate people to make relationship with the social groups. People always want to be a member of informal groups for support of unfulfilled social needs such as affiliation.

d) **Esteem Needs:** These needs consist both of the need for awareness of importance to others (self esteem) and the actual esteem from others. Esteem from others must also be felt as warranted and deserved satisfaction of these needs leads to a feeling of self-confidence and prestige.

e) **Self Actualization Needs:** This need includes the desire to become more and more perfect. What one can become everyone is capable of becoming.

Personality traits and characteristics are also important to establish how consumers meet their needs. Pragmatists will buy what is practical or useful, and they make purchases based more on quality and durability than on physical beauty. The aesthetically inclined consumer, on the other hand, is drawn to objects that project symmetry, harmony, and beauty. Intellectuals are more interested in obtaining knowledge and tend to be more critical. They also like to compare and contrast similar products before making the decision to buy. Politically motivated people seek out products and services that will give them an "edge,"

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enhancing power and social position. And people who are more social can best be motivated by appealing to their fondness for humanity with advertising that suggests empathy, kindness, and nurturing behaviour.

As man has hierarchy of needs, marketing managers must try to stimulate the concerned needs of the human beings and convert them into motives.

b) Perception: A motivated person is ready to act. How the person acts is influenced by his perception of the situation.

According to Bernand Berelson and Gary A. Steiner, "Perception is the process by which an individual selects, organises and interprets information inputs to create a meaningful picture of the world." People form different perceptions of the same stimulus because of three perceptional processes viz. selective exposure, selective distortion and selective retention.

Selective exposure: A person may be exposed to a number of stimuli every day. But it is not possible for him to give attention to all these stimuli. He will pay attention only to a few selected stimuli after screening. It is found out by research that people are likely to notice only those stimuli which relate to their current needs. So: marketers must try to find out which stimuli will the people notice.

Selective distortion: People who notice the same stimuli may not interpret them in the same way as intended by the marketers. They may interpret them to fit their own beliefs or attitudes, which differ from person to person. It explains the tendency of the people to adopt information in a way that will support what they already believe. It suggests that the marketers must try to understand the mind-set of the consumers and how they will affect interpretation of stimuli i.e. advertisements and sales information.

Selective retention: People tend to forget a number of stimuli or information to which they are exposed. They will retain only those information which support their beliefs and attitudes. They remember only that information in which they are interested and have strong buying motives. Therefore, the marketers must make an appeal to the buyers' strong motives.

(c) Learning: It is defined as the changes in the behaviour of an individual arising from the past practice or previous experience. The buying behaviour is critically affected by their learning experience. The learning process occurs through the interplay of drives, stimuli, cues responses and reinforcement. 'A drive is a strong internal stimulus which calls for action. This becomes a motive when it is directed towards a particular stimulus object. It motivates a person to act towards the satisfaction of the needs. The objects are stimuli which satisfy the drives. Cues are minor stimuli which determine when, where and how the buyer responds. It may be seeing the object in the television every day, hearing about discount in price etc. This puts him into action. The response of satisfaction or dissatisfaction is reinforced. This learning process results in habits, attitudes and beliefs. A marketing manager can build a demand for their products by associating it with strong drives, using motivating cues & providing positive reinforcement.

d) **Beliefs & attitudes:** People through acting and learning, develop their beliefs and attitudes, which, in turn, influence their buying behaviour.

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Beliefs refer to a descriptive thought which a person has about something. Marketing managers are generally interested in the beliefs that the people formulate about specific products and services.

An attitude is a state of mind or feeling. It may be described as a person's emotional feelings, action, tendencies towards some idea or object. It explains a person's relatively consistent evaluations, feelings and tendencies towards an object or idea.

Attitudes cannot be changed easily, because a person's attitudes settle into a consistent pattern. So the marketing managers should usually try to fit firm's products into existing attitudes rather than trying to change the attitudes themselves.

e) **Personality:** It refers to the personal traits & qualities that determine an individual's behaviour such as dominance, adventurousness, sociability, friendliness, responsibility etc. The primary features of personality are self-concept, roles to be played levels of consciousness. The self-concept or self image indicates how a person sees himself and how it believes others to see him at a particular time.

2. **Social factors:**

The social factors influencing consumer behaviour are: a) Family, b) Reference Groups, c) Roles and status.

a) **Family:** There are two types of families in the buyer's life viz. Nuclear family and Joint family. Family members can strongly influence the buyer behaviour, particularly in the Indian contest. The tastes, likes, dislike, life styles etc. of the members are rooted in the family buying behaviour.

The family influence on the buying behaviour of a member may be found in-two ways i) the family influence on the individual personality, characteristics, attitudes and evaluation criteria, ii) the influence on the decision-making process involved in the purchase of goods and services. In India, the head of the family may alone or jointly with his wife decide upon a purchase. So marketers should study the role and the relative influence of the husband, wife and children in the purchase of goods and services.

b) **Reference group:** A reference group is a group of people with whom an individual associates. It is a group of people who influence a person's attitudes, values and behaviour directly or indirectly. The various reference groups are:

i) **Membership groups:** They are those groups to which the person belongs and interacts. These groups have a direct influence on their member's behaviour.

ii) **Primary groups:** They refer to groups of friends, family members, neighbours, co-workers etc. In this case, there is fairly continuous or regular, but informal interaction.

iii) **Secondary groups:** They include religious groups, professional groups etc. Here, there is less continuous interaction.

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iv) **Aspirational groups:** These are groups to which a person would like to join as member. People are also influenced by these groups.

v) **Dissociative groups:** These are groups whose value an individual rejects.

The reference group exerts strong influence on one's behaviour. Therefore knowledge of reference groups is quite essential for marketers for successful marketing. This makes it easier for the marketers to know why consumers behave in a particular way. In a reference group, there may be a group leader who acts as an opinion leader and whose life style is most likely to be adopted by others in the group. So marketers must try to contact and impress upon the opinion leader to popularise their products.

c) **Roles and Status:** A person participates in many groups - family, clubs, organisations etc. The person's position in each group can be defined in terms of role and status. A role consists of the activities that a person is expected to perform. Each role carries a status. People choose products that communicate their role and status in society. Marketers must be aware of the status symbol potential of products and brands.

3. Cultural factors:

Cultural factors consist of a) Culture, b) Sub culture c) Social class.

a) **Culture:** Culture is the most fundamental determinant of a person's wants jmd behaviour. The growing child acquires a set of values, perceptions, preferences and behaviours through his or her family and other key institutions. Culture influences considerably the pattern of consumption and the pattern of decision-making. Marketers have to explore the cultural forces and have to frame marketing strategies for each category of culture separately to push up the sales of their products or services.

b) **Sub-culture:** Each culture consists of similar sub-cultures that provide more specific identification and socialization for their members; sub-cultures include nationalities, religions, racial groups and geographic regions. Many sub-cultures make up important market segments and marketers have to design products and marketing programs tailored to their needs.

c) **Social class:** Consumer behaviour is determined by the social class to which they belong. Social class is relatively a permanent and ordered division in a society whose members share similar value, interest and behaviour.

Social class is not determined by a single factor, such as income but it is measured as a combination of various factors, such as income, occupation, education, authority, power, property, ownership, life styles, consumption pattern etc.

There are three different social classes in our society. They are upper class, middle class and lower class. These three social classes differ in their buying behaviour. Upper class consumers want high class goods to maintain their status in the society. Middle class consumers purchase carefully and collect information to compare different producers in the same line and lower class consumers buy on impulse. Therefors marketing managers are required to study carefully the relationship between social classes and their consumption pattern and take

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appropriate measures to appeal to the people of those social classes for whom their products are meant.

4. **Economic Factors**

Consumer behaviour is influenced largely by economic factors. The various economic factors that influence consumer behaviour are

a) Personal Income
b) Family income
c) Income expectations
d) Savings
e) Liquid assets of the Consumer
f) Consumer credit

a) **Personal Income:** The personal income of a person is an important determinant of his buying behaviour.

The gross personal income of a person consists of disposable income and discretionary income.

The disposable personal income refers to the actual income (i.e. money balance^ remaining at the disposal of a person after deducting taxes and compulsorily deductible items from the gross income. An increase in the disposable income leads to an increase in the expenditure on various items. A fall in the disposable income, on the other hand, leads to a fall in the expenditure on various items.

The discretionary personal income refers to the balance remaining after meeting basic necessaries of life. This income is available for the purchase of shopping goods, durable goods and luxuries. An increase in the discretionary income leads to an increase in the expenditure on shopping goods, luxuries etc. which improves the standard of living of a person.

b) **Family income:** Family income refers to the aggregate income of all the members of a family.

Family income influences the buying behaviour of the family. The surplus family income, remaining after the expenditure on the basic needs ot the family, is made available for buying shopping goods, durables and luxuries.

e) **Income Expectations:** Income expectations are one of the important determinants of the buying behaviour of an individual. If he expects any increase in his income, he is tempted to spend more on shopping goods, durable goods and luxuries. On the other hand, if he expects any fall in his future income, he will curtail his expenditure on comforts and luxuries and restrict his expenditure to bare necessities.

d) **Savings:** Savings also Influence the buying behaviour of an individual. A change in the amount of savings leads to a change in the expenditure of an individual. If a person decides to save more out of his present income, he will spend less on comforts and luxuries.

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e) **Liquid assets:** Liquid assets refer to those assets which can be converted into cash quickly without any loss. Liquid assets include cash in hand, bank balance, marketable securities etc. If an individual has more liquid assets, he goes in for buying comforts and luxuries. On the other hand, if he has less liquid assets, he cannot spend more on buying comforts and luxuries.

f) **Consumer credit:** Consumer credit refers to the credit facility available to the consumers desirous of purchasing durable comforts and luxuries. It is made available by the sellers, either directly or indirectly through banks and other financial institutions. Hire purchase, instalment purchase, direct bank loans etc. are the ways by which credit is made available to the consumers.

Consumer credit influences consumer behaviour. If more consumer credit is available on liberal terms, expenditure on comforts and luxuries increases, as it induces consumers to purchase these goods, and raise their living standards.

5. Personal Factors: Personal factors also influence buyer behaviour. The important personal factors which influence buyer behaviour are:

a) Age
b) Occupation
c) Income
d) Lifestyle

a) **Age:** Age of a person is one of the important personal factors influencing buyer behaviour. People buy different products at their different stages of iife cycle Their taste, preference, etc also change with change in life cycle.

b) **Occupation:** Occupation or profession of a person influences his buying behaviour. The life styles and buying considerations and decisions differ widely according to the nature of the occupation. For instance, the buying of a doctor can be easily differentiated from that of a lawyer, teacher, clerk, businessman, landlord, etc. So, the marketing managers have to design different marketing strategies to suit the buying motives of different occupational groups.

c) **Income:** Income level of people is another factor which can exert influence in shaping the consumption pattern. Income is an important source of purchasing power. So, buying pattern of people differs with different levels of income.

d) **Life Style:** Life style to a person's pattern or way of living as expressed in his activities, interests and opinions. Life style of a person determines his interaction with the society in which he lives.

Marketing managers have to design different marketing strategies to suit the life styles of the consumers.

6. Other Factors

Other factors include factors, such as political factors, legal factors, technological factors and ethical factors which influence the buying behaviour of consumers.

Check Your Progress

1. Define Consumer Behaviour.
2. What are the applications of Consumer Behaviour?

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a) **Political Factors:** Political factors have an important impact on the pattern of consumption. In a controlled economy, the consumption pattern is determined by the Government. But in a free capitalistic economy, consumers have economic freedom and wider choice and are free to spend their income in any way they like.

b) **Legal Factors:** In every country, consumer expenditure is governed by legal factors like taxes, tax laws, etc. If the taxes are low and legal restrictions are less, consumer expenditure will be more. On the other hand, if taxes are high and restrictions on the purchases are more, consumer expenditure will be less.

c) **Technology:** Consumers, usually, prefer more up-to-date and sophisticated goods. Technological advances contribute to the production and availability of modern goods. At more and more modern, goods are released to the market; the more will be the consumer expenditure on those goods. So, technological advances also influence the buying behaviour of consumers.

d) **Ethical Considerations:** Ethical considerations (i.e. the sense of morality) have an important effect on the buying behaviour of the consumers. For instance, if people are religious and spiritual-minded, they spend less on modern comforts and luxuries. On the other hand, if people are educated, civilised and advanced, they spend more on comforts, and luxuries.

SCOPE OF CONSUMER BEHAVIOUR:

Scope of Consumer behaviour refers to the study of market potential available in particular area of the country, based on the customer taste, habits and standard of living of the people living there. Consumer behaviour is the study of how people buy, what they buy, when they buy and why they buy. It is a subcategory of marketing that blends elements from psychology, sociology, socio psychology, anthropology and economics. It attempts to understand the buyer decision making process, both individually and in groups.

The study of consumers helps firms and organizations to improve their marketing strategies by understanding issues like:

- The psychology of how consumers think, feel, reason, and select between different alternatives (e.g., brands, products);
- The psychology of how the consumer is influenced by his or her environment (e.g., culture, family, signs, media);
- The behaviour of consumers while shopping or making other marketing decisions; and
- How marketers can adapt and improve their marketing campaigns and marketing strategies to more effectively reach the consumer.

APPLICATIONS OF CONSUMER BEHAVIOUR:

Consumer behaviors plays important role in almost all types of decisions to be made in marketing. For the reason being that all functions performed in marketing revolve around the customers and consumers. Following are the main applications of consumer behavior:

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- **Market Strategy:** The most obvious is for marketing strategy—i.e., for making better marketing campaigns. For example, by understanding that consumers are more receptive to food advertising when they are hungry, we learn to schedule snack advertisements late in the afternoon. By understanding that new products are initially adopted by a few consumers, and then only gradually, to the rest of the population, we learn that
    1) companies that introduce new products must be well financed so that they can stay afloat until their products become a commercial success and
    2) it is important to please initial customers, since they will in turn influence many subsequent customers' brand choices.
- **Social marketing:** It involves getting ideas across to consumers rather than selling something.
- **Positioning:** Positioning involves arranging a product to occupy a clear, distinctive, and desirable place relative to competing products in the minds of target consumers. Some firms find it easy to choose their positioning strategy. For example, a firm well known for quality in certain segments will go for this position in a new segment if there are enough buyers seeking quality. But in many cases, two or more firms will go after the same position. Then, each will have to find other ways to set itself apart. Each firm must differentiate its offer by building a unique bundle of benefits that appeal to a substantial group within the segment. The positioning task consists of three steps: identifying a set of possible competitive advantages upon which to build a position, choosing the right competitive advantages, and selecting an overall positioning strategy. The company must then effectively communicate and deliver the chosen position to the market.
- **Market-mix determination:** Marketing mix variable are – Product, Price, Promotion, Physical Distribution. Study of consumer behaviour is very essential for the determination of marketing-mix.
- **Market Segmentation:** It involves subdividing the market place into distinct subsets of customers having similar needs and wants, each of which can be reached with a different marketing mix.

  Market segmentation reveals the firm's market segment opportunities. The firm now has to evaluate the various segments and decide how many and which ones to target. We now look at how companies evaluate and select target segments. The company also needs to examine major structural factors that affect long-run segment attractiveness. For example, a segment is less attractive if it already contains many strong and aggressive competitors. The existence of many actual or potential substitute products may limit prices and the profits that can be earned in a segment. The relative power of buyers also affects segment attractiveness. Finally, a segment may be less

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attractive if it contains powerful suppliers who can control prices or reduce the quality or quantity of ordered goods and services.

- **Environmental Analysis:**

  It is the assessment of the external forces that act upon the firm and its customers and that create threats and opportunities.

- **Market opportunity analysis:**

  It involves analyzing the market to identify unsatisfied needs and wants. The analysis begins with a study of general market trends such as consumer's lifestyle and income levels which suggests unsatisfied needs and wants.

- **Target market selection:**

  Market opportunity analysis results in the selection of target market i.e. distinct groupings of consumers who have unique wants and needs.

There are several units in the market that can be analyzed. Our main thrust in this course is the ***consumer.*** However, we will also need to analyze our own firm's strengths and weaknesses and those of ***competing firms***.

CONSUMER NEEDS

Consumers adjust purchasing behaviour according to their individual needs and interpersonal factors. In order to understand these influences, researchers try to ascertain what happens inside consumers' minds and to identify physical and social exterior influences on purchase decisions.

Every individual has needs. These needs could fall under three broad categories:

1. **Physiological (or primary) needs:**

   These are referred to as **innate needs** or biogenic needs. Innate Needs are those needs that an individual is born with. They are physiological (biogenic) in nature; they include all factors required to sustain physical life (e.g. food, water, shelter, clothing, sex, physical safety etc). Therefore these needs are considered as primary needs or motives also.

2. **Psychological needs:**

   These are the needs that relate to our competence to deal effectively with the outside world or environment. In simple worlds, they are also termed as personal competence.

3. **Learned (secondary or cultural):**

   These needs are also known as **acquired needs**. Learned needs are those needs, which arise as a result of our socialization. They are acquired from the individual's subjective psychological state and relationship with other persons. As the name suggests, they are learned and are dependent on the culture we grow up in. Some cultures may give more value to power and status while others to humility and a structured life. Acquired needs are those needs that an individual develops after birth they are primarily psychological (psychogenic).

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On some levels, consumer choice can appear to be quite random. However, each decision that is made has some meaning behind it, even if that choice does not always appear to be rational. Purchase decisions depend on personal emotions, social situations, goals, and values. People buy to satisfy all types of needs, not just for utilitarian purposes. These needs, as identified by Abraham Maslow in the early 1940s, may be physical or biological, for safety and security, for love and affiliation, to obtain prestige and esteem, or for self-fulfilment.

NEED AROUSAL / AROUSAL OF MOTIVES:

The arousal of any particular set of needs at a specific point in time may be caused by internal stimuli found in the individual's physiological condition, emotional or cognitive processes, or by stimuli in the outside environment.

a) **Physiological Arousal:**

Bodily needs at any specific moment in time are rooted in an individual's physiological condition at that moment. A drop in blood sugar level or stomach contraction will trigger awareness of a hunger need.

b) **Emotional arousal:**

Sometimes daydreaming results in the arousal or stimulation of latent needs. People who are frustrated in attempts to achieve their goal often engage in daydreaming (autistic thinking), in which they imagine themselves in all sots of desirable situation.

c) **Cognitive arousal:**

Sometimes, random thoughts or personal achievement can lead to a cognitive awareness of needs. An advertisement that provides reminders of home might trigger instant desire to speak with one's parents. This is the basis for many long distance telephone company campaigns that stress the low cost of international long distance rates.

d) **Environmental arousal:**

The set of needs activated at a particular time are often determined by specific cues in the environment. Without these cues, the needs might remain dormant. For example: the 6 o'clock news, the sight and smell of bakery goods, fast foods commercials on television, the end of the school day – all of these may arouse the "need" for food.

In the following table few examples of all the four stimuli types are as follows:

Type of stimulus	Mechanism	Need aroused
Physiological	Fall in the blood sugar level	Hunger (primary)
Cognitive	Remembering daughter who is staying far away. Seeing an ad which reminds you to wish a friend on her wedding anniversary.	Affection Social
Emotional	Elderly couple staying alone have a fear of being burgled	Security
Exterior or environmental	Finding a dream house to match your budget and convey your prestige and status.	Success prestige

Check Your Progress

3. What is positioning?
4. What do you mean by Industrial Buying?

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INTERPRETING CONSUMER BEHAVIOR

When market researchers commence evaluating the behaviour of consumers, it is a mistake to rely on conventional wisdom, especially when it is possible to study the actual activity in which consumers are engaged when using a product or service. Where are they? When they buy certain items? When do they use it? Who is with them when they make the purchase? Why do they buy under certain circumstances and not others? Researchers should try to determine the major needs being satisfied by that good or service in order to effectively sell it.

There are two principal ways to evaluate the motivation behind consumer purchases. These are by direction (what they want) and intensity (how much they want it).

Direction refers to what the customer wants from a product. For example, if a customer is selecting pain reliever, they may like the idea is one pain reliever is cheaper than another, but what they really want is fast pain relief, and will probably pay more if they think the more expensive brand can work more effectively. Marketers need to understand the principal motivation behind each type of product to correctly target potential customers.

The other way to evaluate consumer behaviour, **intensity**, refers to whether a customer's interest in a product is compelling enough that they will go out and make the purchase. Good marketing can create that kind of intensity. Understanding consumer motivation is the best way to learn how to increase buyer incentive, as well as a better alternative to the easy incentive-decreasing the price.

INDUSTRIAL BUYING BEHAVIOUR:

Industrial buying is a process by which a company establishes a need for purchasing products and choosing among competing brands and suppliers. Industrial buying involves the purchase of products and services by industry. Although, industrial buying is similar to family buying, it is significantly different on several counts. Unlike in the case of family buying, rational decision making, strong ties with the suppliers, large-scale purchases, expert purchase agents, derived demand, and reverse buying, are part of organizational buying.

Industrial buying usually involves more people than individual buying. Often, many people are involved in making decisions as to (a) whether to buy, (b) what to buy, (c) at what quantity, and (d) from whom.

Industrial buying behavior is the buying behavior of industry that buy goods and services for use in the production of other products and services, for using the products in operational noncore operation like photocopier for office management or for the purpose of reselling or renting them to others at a profit.

Different department's role in business buying:

1) **Marketing:**

   Purchasing decision has an effect on marketability of product so they are active influencers in purchase decision process.

2) **Manufacturing:**

Responsible for determining the feasibility and economic consideration of producing end products.

3) **R & D:**

Initial development of product and set board specification for components.

4) **Purchasing:**

They are negotiable experts dominant in straight rebuy.

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BUYING SITUATION:

There are 3 types of buying situation are termed as Straight rebuy, modified rebuy, and new task. These are explained as follows:

- **Straight rebuy:**

  Straight rebuy is a repetitive or routine buying order placed by the buyer to the supplier.

- **Modified rebuy:**

  This situation occurs when buyer wants to modify any purchase i.e. improvement in product specification and this poses a threat and opportunity to suppliers.

- **New task:**

  This is most risky decision of buyer. Buyer goes for first time purchase so take lot of time to decide about the purchase. In case of a new task, the organizational buying process involves seven stages - problem recognition, need description, product specification, supplier and evaluation search, proposal solicitation, supplier selection, and order and post-purchase evaluation.

INFLUENCES OF INDUSTRIAL BUYING BEHAVIOUR

Industrial buying behaviour is affected by the background of the individuals involved in the purchase. There are four broad categories of factors that influence industrial buying behaviour: environmental, organizational, interpersonal and individual.

1) Environmental Factors:

Seven environmental factors influence industrial buyers:

- **Physical:** The physical environment includes such factors as the climate and geographical location of the industry and can affect the behaviour of industrial members and determine the constraints and options for the buying industry. A supplier's geographical location, for example, is an important consideration in whether it is chosen or not. Many firms prefer local suppliers and in the international sphere, many buyers prefer to use domestic suppliers where possible.

- **Technological:** The level of technological development defines what types of goods and services are available to the industrial buyer.

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- **Cultural:** The industrial buying behaviour is greatly influenced by the culture of the industry, which, in turn, is based on various internal (values, perceptions, and learning) and external (firm graphics, national culture and government policies) factors.
- **Economic:** The economic environment for the buying industry is affected by the price and wage conditions, money and credit availability, consumer demand etc, these sorts of factors will determine the availability of goods and services, ability of buyers to finance purchases, and what price will be paid.
- **Political:** Political influence could include such factors as country trade agreements, tariff barriers, lobbying activities, defence spending, government assistance to certain industries or companies, and government attitude toward business.

2) Industrial / Organizational Factors:

- **Tasks:** The buying task is performed by the organization in order to accomplish its objectives. These tasks may be classified in different ways such as by purpose, level of expenditure, type of good and service purchased, the extent to which the process is routine or not, and extent to which responsibility for purchasing is centralized or decentralized.
- **Structure:** The buying structure of the organization has an effect on the purchasing process. Organization has a formal and an informal structure. Marketers must understand both the formal and informal organization in order to effectively sell to the buyer.
- **Technology:** Technology may influence not only what is brought but also the buying decision process itself.
- **People:** The people in the organization who are involved in the purchasing situation will be a major determinant of the industrial buying process.

3) Interpersonal Factors:

The interaction between only two people or a larger number is a significant influence on industrial buying process.

- **Decision making unit [buying center]:** Buying center is an informal, cross department decision unit in which the primary objective is the acquisition, impartation and processing of relevant purchasing related information. This decision making units may vary in size based on:
  a) How novel, complex, and important the purchase decision is; and
  b) How centralized, formalized, and specialized the organization is.
- **Buying center roles:** Industrial purchases are generally handled by internal buying centres. Industrial buying decisions are most likely to be made by a committee or group of people than wholly by an individual. A buying centre can have multiple participants like gatekeepers, initiators, influencers, deciders, buyers, approvers, and users.

1) **Users** – Users are the individuals most likely to be the final user of the

products. They are the one who initiate the buying process; in fact they are the need recognizers.

2) **Influencers** – As most of the decision in an organization is made by committee or purchase department, some people acts as influencers in the group for example if for the atomization of office communication the company have to install the latest devices the user may place the need for voice recorders or some other device but the IT department will influence which one to buy as they have the responsibility to decide in broader view of overall organization technology policy. Once the IT department gives the product specification and process, the Purchase department will evaluate the sellers.

3) **Decision Makers** – The decision makers are the one who took the final decision of what should be purchased and from where it should be purchased.

4) **Approvers** – Once the decision makers took their decision it goes to the approving authority. For example if the purchase department finalized what is purchased and from whom it purchased, the order will go to finance department for approval.

5) **Buyers** – As the finance department approves the decision the purchase department can go ahead and purchase the communication device.

6) **Gate-keepers** – These members control the access to persons in DMU for example secretaries manage the work flow of purchase department head so how successful a company is at selling can sometimes depend how fast the secretary process your file for perusal.

The above decision making units not necessarily have to be separate units' in fact they can very well overlap too. For example the IT department can be user and influencer while purchasing and information technology product.

4) **Individual Factors:**

Participants in the organizational buying process bring to a situation their own individual thoughts, feelings, and actions. These psychological factors are very relevant.

a) **Motivation:** Motivation of buying-centre members are difficult to assess accurately. They have generally be categorized into task related and non-related motives. **Task-related motives** include such needs as product quality, price, service and delivery, or getting the right product for the right price at the right time from the right source. **Non-task related** motives include such variables as potential for promotion, salary increases, more job security, and so forth.

b) **Perception:** Individuals receive and interpret stimuli and organize them into a coherent picture of their world. Organizational buying centre member's perceptions are important to marketers' development of effective strategies.

c) **Learning:** Learning is another variable strongly influencing the individual in the organizational buying process. Learning occurs as buyers make decisions that are satisfactory and this reinforcement increases their tendency to make the same decision in future similar situations. The continual reinforcement of a decisions leads to a habit, which is relatively automatic response.

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STAGES OF BUSINESS BUYING PROCESS IN THE INDUSTRY

The business buying process is very similar to the consumer buying process, with a few exceptions. Business buying is not generally need-driven but it is instead problem-driven.

1) **Need Recognition:** The need is recognized when someone in the organization perceives a difference of sufficient magnitude between the desired state and the actual state of affairs. The need is recognized by external or internal stimuli.

2) **General Need Description** – Once need recognition occurs, the organization must then determine the quantity and describe the characteristics of the item needed.

3) **Product specifications** – After the need has been recognized and described, detailed specifications of the product must be prepared by using department to communicate precisely what is needed. These specifications may include detailed performance requirements, product attributes, service support needs, etc. for complex products by using departments that will be involved as well as engineering experts and financial executives.

4) **Supplier Search** – At this stage the organization tries to identify companies who may be appropriate suppliers of the specified product. In order for the organization to write it's specifications on complex products, it must start with what products and suppliers currently exist, moving from there to the next stage which may involve decisions on the "who" and "how" of supply for an item which is presently unavailable in the marketplace.

   The organization has to deal and negotiate with different buyers and suppliers at various times, it is better that the company presents a uniform face as it will help in building long term relationship with the suppliers. It will help the organization in securing long term suppliers with mutual trust and confidence.

5) **Proposal Solicitation** – Particularly with new task and modified rebuy situations, the company may next send a request for proposal to selected competent suppliers asking them to bid based on product specifications so that they can apply for the order.

6) **Supplier selection** – Once the proposal solicitation is over the supplier or set of suppliers are chosen to fulfill the requirement of the company. Once the conceptualization of the supplier selection decision-making process suggests two possible strategies a firm may pursue i.e. Simultaneous scanning and sequential evaluation. In **simultaneous scanning** a company arrays and reviews potential suppliers at the same time, whereas in **sequential evaluation** the potential suppliers are first ranked and then evaluated sequentially until one is found that satisfiers purchase needs. Simultaneous

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scanning is likely in a new task buying situation or when several attractive potential suppliers are available on the other hand sequential evaluation occur in the case of straight rebuys or when one supplier is clearly predominant in a market.

7) **Order Routine specifications** – This stage is involved in placing an order with a supplier who posses it and ships the product. It is then received, approved, and payment is made.

8) **Performance review** – This is more important in business buying decision making then consumer buying decision. This stage involves an evaluation of the supplier's performance is made by the buyer. This is an important stage in providing feedback so that the buyer and seller will be better able to work as a team. In fact positive performance reviews leads to successful re-ordering and building strong business relations.

DIFFERENCE BETWEEN CONSUMER MARKET AND INDUSTRIAL MARKET

Areas	Industrial Market	Consumer Market
1. Market Characteristics	• Geographically concentrated • Relatively fewer buyers	• Geographically disbursed • Mass markets
2. Product Characteristics	• Technical complexity • Customised	• Standardised
3. Service characteristics availability very important.	Service, timely delivery and somewhat important.	Service, delivery, availability
4. Buyer behaviour	• Involvement of various functional areas in both buyer and supplier firms. • Purchase decisions are mainly made on rational/ performance basis. • Technical expertise • Stable interpersonal relationship between buyers and sellers.	• Involvement of family members. • Purchase decisions are mostly made on physiological /social/ psychological needs. • Less technical expertise. • Non-personal relationship.
5. Channel Characteristics	• More direct • Fewer intermediaries/ middleman	• Indirect • Multiple layers of intermediaries.
6. Promotional Characteristics	Emphasis on personal selling.	Emphasis on advertising
7. Price Characteristics	• Competitive bidding and negotiated prices. • List price for standard products.	List prices or maximum retail price (MRP)

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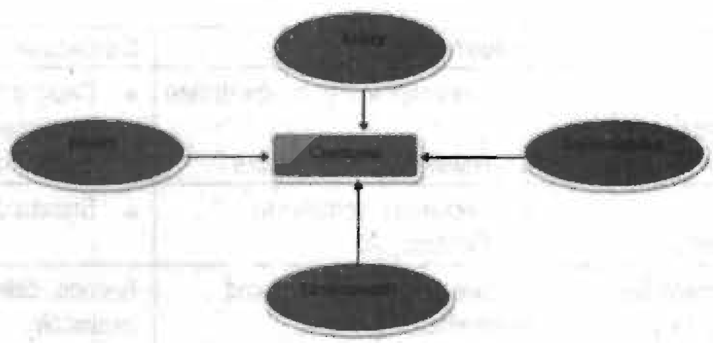
INDIAN CONSUMER MARKET:

Possibly the most challenging concept in the marketing is to deal with understanding the consumer behaviour. The attitude of Indian consumers has undergone a major transformation over the last few years. The Indian consumer today wants to lead a life full of luxury and comfort. He wants to live in present and does not believe in savings for the future. An important and recent development in India' s consumerism is the emergence of the rural market for several basic consumer goods. Consumer behaviour is affected by a lot of variables, ranging from personal motivations, needs, attitudes and values, personality characteristics, socio-economic and cultural background, age, sex, professional status to social influences of various kinds exerted by family, friends, colleagues and society as a whole.

We have developed a HSSE model that is: Health, Safety, Sophistication and Environment of Indian consumer.

HSSE Model of Indian consumer



In this context we have found that today' s consumers strictly follow their culture, tradition and values, as a result of which foreign companies were forced to give an Indian touch to them in order to succeed in India. McDonalds, MTV, Pepsi, Star TV, Coca Cola. India and many more had to indianize themselves to flourish in India.

The Indian consumers have shown another major change in their buying behaviour. They just don' t want availability of products; they also want better experience, services and ambience. This has led to the growth of shopping malls where a shopping, entertainment and better facility is all available under one roof. The tastes and preferences of the current generation are changing rapidly. The current generation does not mind paying extra for better facilities and ambience. One thing is for sure that the pace of change in the needs, desires and wants of the Indian consumers will be even steeper and will further change drastically in the near future. So to achieve sustainable long term success and growth, the marketer will have to understand that how consumers will respond to different product features, price and advertising appeal has a great advantage over its competitors.

The Indian middle class has provided a big boost to the consumer culture during the recent past and it is hoped that their buying behaviour will continue to change in the coming future. Due to fast growth of the services sector per capita income of people of India is also increasing. The number of middle class is increasing due to another fact that people are fast shifting from agriculture to the services and industry sector where growth prospects are reasonably high as compared to the agriculture sector which is showing slow growth.

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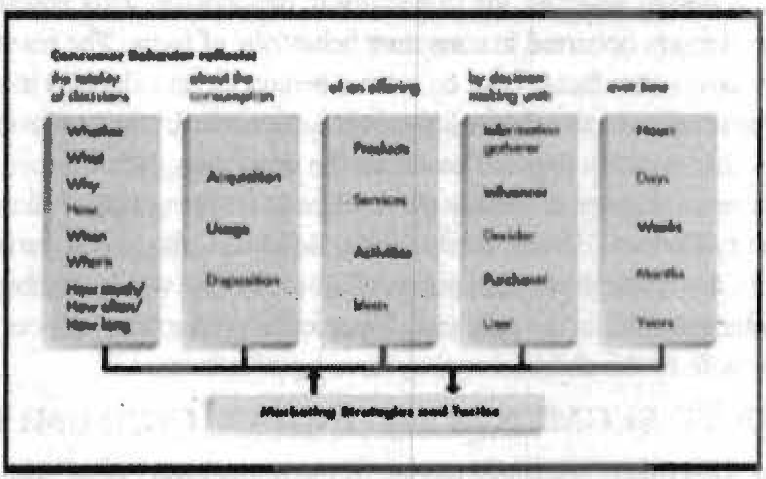
CONSUMPTION PATTERN:

The consumption pattern of a country depends on liberalization of economic policies, buying habits of the younger generation, financial independence at a young age, increase in number of nuclear families and increase in media exposure of the people. The tastes and preferences of the current generation are changing rapidly. The current generation does not mind paying extra for better facilities and ambience. Another major factor that has led to increased consumerism is the growth of credit culture in India. The Indian consumer does not feel shy to purchase products on credit and pay tomorrow for what they use or buy today. This tendency has led to a tremendous increase in purchase of homes, cars, two-wheelers and consumer goods. The market for luxury products in India is also climbing at a surprising rate as compared to a decade ago when it was almost negligible. The reason behind this is that the purchasing power of people of India is rising very steeply. The Indian consumer today is highly aware about the product, price, quality and the options available with him. The purchasing is done by keeping all these factors in mind. Today, price is not the only consideration as it was a few years back when prices played a major role in purchasing. Marketers are trying hard to capture this ever increasing Indian middle class as they form the bulk of Indian consumers.

Consumer behaviour reflects the totality of consumer' s decisions with respect to the acquisition, consumption and disposition of goods, services, activities and ideas by human decision making units. Consumer behaviour means more than just how a person buys tangible products such as bath soap, digital music players and automobiles. It also includes consumer' s use of services, activities and ideas such as going to the doctor, visiting a theme park, etc.



Howard and Sheth (1969) explained how consumers buying behaviour influenced by internal and external factors. They explained that human mind is "BLACK BOX" which receives stimuli. This stimulus creates perception in the mind of consumer which implied the kind of learning – favorable or unfavorable. This will give the output in the form of acceptance or rejection. Basically this model is based on Stimulus -Response theory.

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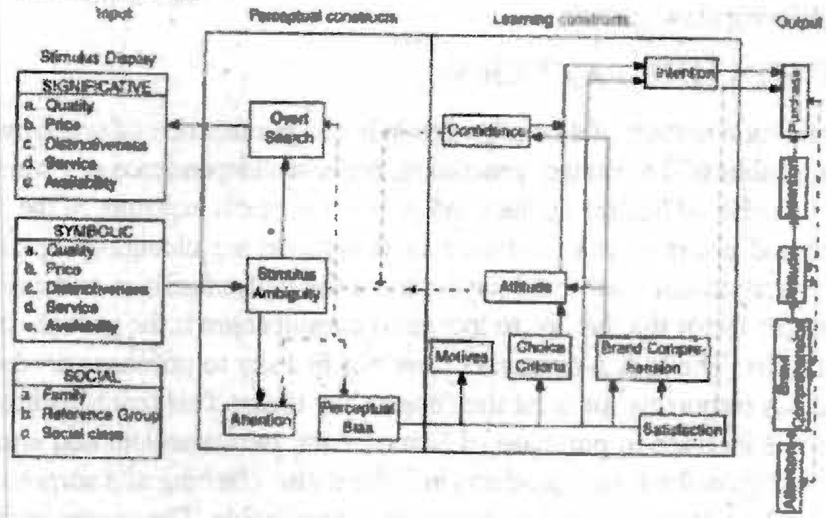
The Howard Sheth Model



Objective:

The purpose of the study of Indian Consumer Market is:

1) To understand the changing behaviour of consumer and develop strategies to adopt those changes to achieve sustainable long term growth and success.
2) To identify the factors affecting the consumer behaviour of India.
3) To identify changes in marketing strategies of marketers due to changes in consumer behaviour of India.
4) To identify the future trends in consumer behaviour.

Research Methodology: -

The research design selected for this study is descriptive. This research paper explains the changes occurred in consumer behaviour of India. The research work is intends to cover new facts about consumer behaviour and changes in marketing strategies those changes to achieve long term sustainable growth and success. The synthesis of this research paper is based on the secondary data sources. We have observed some consumers at various players like at shopping Hall, Talkies, Market Street, Beauty Parlors, Hotels, Restaurants, School, College and various social gatherings. In this research we have put an effort to find out which member of family has the greater influence in the purchase of particular products or services either the husband, or wife or the children or they have equal influence.

DIFFERENT SEGMENTS OF INDIAN CONSUMER:-

a) **The Socialites:** Socialites belong to the upper class. They prefer to shop in specialty stores, go to clubs on weekends, and spend a good amount on luxury goods. They are always looking for something different. They go for high value, exclusive products. Socialites are also very branding conscious and would go only for the best known in the market.

b) **The conservatives:** The Conservatives belong to the middle class. The conservative segment is the reflection of the true Indian culture. They are traditional in their outlook, cautious in their approach towards purchase; spend more time with family than in partying and focus more on savings than spending. Slow in decision making, they seek a lot of information before making any purchase. They look for durability and functionality but at the same time is also image conscious.

c) **The working women:** The working woman segment is the one, which has seen a tremendous growth in the late nineties. This segment has opened the floodgates for the Indian retailers. The working woman today has grown out of her long-standing image of being the homemaker. Today, she is rubbing shoulders with men, proving herself to be equally good, if not better. Working women have their own mind in decision to purchase the products that appeal to them.

d) **Youth segments:** The rise of generation next has been written about with unbridled optimism and enthusiasm, based on the coming of age of liberalization children. They are global in their worldwide view and have been exposed to enormous information unlike their parents, raised amidst a consumption-friendly and consumption encouraging social discourse. They are expected to be at the forefront of creating a new, modern, west-embracing consumer society, as well as yield the demographic dividend that will drive economic growth.

THE NEW INDIAN CONSUMER MARKET STRUCTURE:-

There are five types of consumer groups based on what they consume and created a framework:

- **The Rich :** The rich who have most of the luxury goods like cars, PCs, air conditioners and are generally the consumers of premium products.
- **The Consuming Class :** Consumers which have 70 percent of the utility durables like two wheeler, refrigerators, washing machines and the bulk of regular FMCGs.
- **The Climbers :** Consumers which have at least one major durable in their homes – either a mixer or a sewing machine or perhaps a television set. They are main consumer of population segment consumer goods.
- **The Aspirants :** Consumers who are just entering consumption and have the very basics Goods like a watch, a bicycle, a radio, or a table fan.
- **The Destitute :** Consumers who own and consume practically nothing, living as they do from hand to mouth.

RURAL CONSUMER OF INDIA

Rural Consumers majorly look into the value that the product offers. They associate value with the Benefits that the product offers, its availability, and its Cost. When talking of benefits, they look at the features of the product as well as the Packaging and attractiveness, availability, whether or not the products are available at Retail Shops and Haats, cost, whether or not the product is reasonably priced.

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TODAY'S CONSUMER

The Indian consumers of today are unique in the following aspects:

1) Indian consumers have become value sensitive and are not much price sensitive as was the case earlier. If they feel that a particular product offers them more value and its price is high, even then they are willing to buy the product.

2) The Indian consumers strictly follow their culture, tradition and values, as a result of which foreign companies were forced to give an Indian touch to them in order to succeed in India. McDonalds, MTV, Pepsi, Star TV, Coca Cola India and many more had to indianize themselves to flourish in India. Karva-Chauth is celebrated with more zeal and enthusiasm than the Valentine Day.

3) The Indian consumer of today gives preference to features of a product rather than its brand name. The trend that higher segment consumers only buy the top brands has also come to an end.

4) Even after liberalization Indian companies and brands are doing very well. It is clearly evident from the fact that despite many foreign brands being sold in India, Raymond is still India' s largest textile company and Haldiram is doing well despite the presence of McDonalds and Pizza Hut.

5) The consumers today are not confined to a single brand and prefer change rather than sticking to the same brand. Not often do we see any home with cars of the same brand or household products of the same brand.

6) The use of credit card for shopping is a new emerging trend in India. Also consumers are availing credit or loan from banks and other financial institutions to fulfill their needs and wants.

7) The Indian consumers have shown another major change in their buying behaviour. They just don' t want availability of products; they also want better experience, services and ambience. This has led to the growth of shopping malls where a shopping, entertainment and better facility is all available under one roof.

8) The rural Indian consumers are also showing signs of change. They have all the modern amenities at their home and their standard of living is fast improving. The rural households have earned huge money due to price rise in real estate. They are also shifting towards industrial and services sector; hence their purchasing power is increasing. It is reflected in their living standard and possession of all electronic gadgets and luxury cars.

9) There is a stiff competition in the Indian market today and it has become a buyer' s market from seller' s market. Customers are the ultimate beneficiary of the fierce competition in the market. Competition has reduced prices to a great extent and has forced the manufacturer to maintain product quality to sustain in the highly competitive market.

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CHANGE IN MARKETING STRATEGEIS WITH THE CHANGE IN BUYING BEHAVIOUR:

With change in consumer buying behaviour the companies also made necessary changes in their marketing strategies. The changes include:

1) Launching of premium products by companies to fulfil requirements of high class consumers.
2) Since purchasing power of rural India has increased, the companies have started shifting their focus towards rural India to capture untapped rural market. This has reaped huge benefits for companies like in cases of PepsiCo, Coca Cola India and other FMCG companies.
3) Companies not only aim to sell their products but also aim to provide better after sales services to its consumers. For example companies have provisions to send their technicians to repair the cars struck at highways or other outer locations due to technical failure or in case of a mishap. This improves the company?s credibility and helps to build its customer base.
4) Companies design their products on the basis of market segmentation so that they have products to suit every pocket and requirement.
5) Due to sharp growth in the communication sector, companies are providing many schemes and plans to attract customers. For example mobile service providers provide lifetime option and free calls to other mobile users under a specific plan of the company.
6) Due to fierce competition in the electronics market and people' s willingness to purchase hi-tech products the rates of LCD and plasma TVs have been slashed by 25%-30%. Through this strategy electronic companies received very good response from the consumers in the recent past and were able to build a considerable market for their products.
7) Indian consumers have developed a liking for foreign tours and holidays. This has led to development of many travel agencies that provide a planned foreign tour at a reasonable price. What is even more interesting is that the customer does not have to pay the amount in lump sum; instead, he has the facility to make the payment in monthly instalments according to his convenience.
8) Consumers of India have developed a tendency to save travel time. For such consumers low fare carriers are available that provide air travel facility at a very affordable price.
9) Consumers of India want better housing facilities. The construction companies are fulfilling this requirement of consumers by providing them luxurious houses, exquisite interiors, round the clock water and electricity supply, full time security, club house, gymnasium, etc. within the premises.
10) Indian consumers are increasingly becoming aware of the importance of health and hygiene. Hence companies are making products to suit their

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health like low calorie, low fat food. As far as hygiene is concerned companies have fully mechanized their plants to maintain hygiene and pack the food in such a way that it remains fresh for longer period of time and does not lose its nutritive value before consumption.

11) The need for internet is fast growing. To fulfil this need of consumers, mobile manufacturing companies are providing internet access facility on mobile phones. This has revolutionized the communication sector and provided a means of communication that was never ever in anybody?s dreams till a few years back.

12) Indian consumer' s liking for credit is also increasing rapidly. Hence many financial institutions have come into existence in India and are flourishing. Banks have also become liberal in their loan and credit policies.

FUTURE TRENDS IN CONSUMER BEHAVIOUR

Some emerging future trends of buying behaviour of Indian consumers are:

1 The new generation will prefer brands that are launched during their growing up years. They will not prefer brands that are very old in the market. This will make it easier for new brands to cement their place in the market and run successfully.

2 The new generation will possess more risk taking capability than their previous generations. They will be willing to try out new careers, new ideas and new ways of doing things.

3 Indian consumers will be more logical in their thinking and foreign brands will not only be considered as the standard of quality. Each brand, be it Indian or foreign, will be judged on its merit.

4 The middle and lower class consumers? buying behaviour will change and they may behave as if they are rich.

5 The contribution of women in decision making will increase with growing number of nuclear families, educated women and working women. The number of middle class working women will rise sharply. This will lead to introduction of women oriented products that may range from insurance products to vocational education.

6 Tomorrow' s consumer will focus more on technology and credit purchase.

7 Number of nuclear families will increase.

8 Health care will become very important in the coming years.

From above analysis it is very clear that Indian consumer's buying behaviour and their attitude have changed drastically in the recent past. Living for the day is the new motto. This translates into spending on a new home, a new car, the latest digital camera, appliances for the kitchen, home decor etc. The change is drastic compared to a generation back where saving for a rainy day was the usual practice. There was a clear line drawn between necessities, which could be counted on the fingertips of one hand, and luxuries. Loans were not forthcoming. Never borrow, never lend was the favorite theme. Banks and credit card companies are tying with each other in offering loans to customers. The credit card business is booming. Indians were sold 45,000 credit cards a day last year and together they spent Rs 120 crores a day through credit cards during the year. The face of changing India is reflected as Airlines, hotels, FMCG companies, auto giants, retail chains, mobile phone companies are all reworking strategies and slashing prices to reach the low-end consumer in rural areas.

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The success-driven Indians don' t have to wait for opportunity to knock at their doors. It is all around them and in plenty. With a job scene that is booming a host of avenues are open to even college students. Call centers, retail chains, mobile phone companies, data processing firms have all contributed to the job explosion. But that's not the whole story. Even as high-tech gadgets have invaded the Indian consumer market with the liberalization of the economy, finding two square meals a day is a daunting task for some. It is this broad spectrum of people perhaps that makes India keep its head on its shoulders and not get carried away. One thing is for sure that the pace of change in the needs, desires and wants of the Indian consumers will be even steeper and will further change drastically in the near future.

CASE STUDY

When most people hear "GILLETTE", one thing comes to mind-Razors. That's to be expected, since safety razors were invented by King C. Gillette in 1903, and the product in various forms has been the core of the company's business ever since. Few firms have dominated an industry so completely and for so long. Wet-razor shaving (as distinct from electric razors) is a $900 million market. Gillette's share is 62 percent, with the remainder divided among SCHICK-15 per cent, BIC-11 percent, WILKINSON sword-2 percent, and a number of private brands.

Gillette would like to achieve a similar position in the men's toiletries with a new line of products called the GILLETTE Series. However, its record that market is spotty at best.

Gillette

One Gillette success, Right Guard Deodorant, was market leader in the 1960's. Right Guard was one of the first Aerosols, and it became a family product which was used both by men and women. However, the product has not changed although the deodorant market has become fragmented with the introduction of antiperspirants, various product forms and applicators, and many different scents. As a result, Gillette slipped to third position in deodorant sales behind P & G and Colgate-Palmolive.

An even more embarrassing situation is Gillette's foamy shaving cream, a natural fit with the razor business. S. C Johnson and Sons Edge Gel have supplanted that brand as the leading seller. These experiences created frustration at Gillette. Despite its preeminence in razors and blades, the company has been unable to sustain a leading position across the full range of toiletries.

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Gillette is using its most recent success, the sensor razor, as a springboard for its new toiletries. The Sensor story provides the background necessary to understand the marketing of the Gillette Series, and also offers some insight into Gillette's marketing prowess.

Sensor- a high technology cartridge razor- was a gamble for Gillette because it ran counter to consumers' buying preferences. Disposable razors, which were produced by the French firm BIC in 1974, had gained control in nearly 80 % of the razor market by 1990. Gillette's analysis showed that disposables provide a worse shave than a cartridge blade, cost more to make than a blade and are sold at a lower profit margin. Despite its disdain for the product, competitive pressure forced Gillette to introduce its own disposable, Good News

As concern about the squeeze that disposables were putting on profit margins grew, Gillette began looking for a way to displace them. The company spent $ 300 million to develop a technology to significantly improve on the three attributes desired in shaving- closeness, comfort and safety. They came up with the Sensor, a razor with independently moving twin blades. The Sensor produces a superior shave, but it is also more expensive to produce than a disposable. So Gillette's gamble was that a better shave would be enough to justify a premium price, and in the process, displace the successful but not a very comfortable disposable razor. In addition to the R & D investment, Gillette spent $ 110 in the first year to advertise Sensor. The strategy paid off. Estimated 1992 sales for the brand was $ 390 million, and equally important, the share of the market held by the disposables has gone down to 42%.

Gillette then moved to capitalize on the success of Sensor. The company had a line of toiletries in development, and the decision was made to tie them closely to sensor. The line consists of 14 items:

1. two shaving gels for sensitive and regular skin
2. two shaving creams
3. two concentrated shaving gels
4. a clear gel anti- perspirant
5. a clear gel deodorant
6. an anti- perspirant stick
7. a deodorant stick
8. An after- shave gel
9. An after-shave lotion
10. An anti- perspirant aerosol and a deodorant body spray available only in Europe.

The products in the Gillette series were developed over a three year period at a cost of $ 75 million. They were tested on 70000 consumers. An indication of their newness is the fact that Gillette has 20 patents pending with them. Consideration

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had been given to introducing the line in 1992, but the introduction was cancelled by Gillette's CEO, Alfred Zeien. He insisted that the line not be launched until consumer tests showed that each of the 14 products was preferred to the best-performing brand in its category.

All the products have a common fragrance that Gillette calls Cool Wave. They come in silver and blue packages like the Sensor, and the black lines on the packages match the grooved sides of the Sensor Razor handle.

The items retail at $ 2.69 each, 10- 20 % higher than the prices of major competing items. As was the case with Sensor, Gillette hopes that the products' innovation will convince men to switch brands and pay the higher prices.

During the Gillette Series first year, the company spent $ 60 million on a joint advertising campaign with Sensor. Just like Sensor, the line was to introduce in January with ads on the Super Bowl. The campaign uses the same theme as Sensor. " The Best a man can get". Initial TV commercials were one minute in length. They started with 15 seconds on shaving gels, and cream, followed by 30 seconds on Sensor and 15 seconds on aftershaves. The deodorants are advertised separately.

The Gillette series faces two major problems:

- Convincing consumers that the line is actually better and the higher price justified will be more difficult than with SENSOR. With the razor, Gillette had name recognition as the dominant firm in the industry. In addition, the design differences the sensor were visible, and a consumer can directly enjoy a closer shave. With the toiletries, Gillette does not have a strong position in the consumers' minds, nor are the benefits provided by the products obvious. Furthermore, the men's toiletries market is extremely competitive. Powerful firms with proven marketing skills have taken a greater interest un this category. P & G has acquired Old Spice and Noxzema; Colgate owns Mennen, and Unilever purchased Brut. It's unlikely the rest of the firms in the market will sit back and ignore Gillette's activity.
- Gillette is tying, the new product line to the Sensor but using a different brand name. If consumers do not associate the Gillette Series with the innovativeness and success of Sensor, the new line may just be another brand in an already cluttered market.

According to a Gillette Vice President, one of the most compelling aspects of the Gillette series is its synergy with the company's core business-razors. If the new line is successful, Gillette anticipates adding other men's grooming products such as hair sprays and shampoos. The firm's CEO, Zeien says, " we're already the worldwide leader in blades, Will we be the world leader in other (toiletries) or not? That's our goal."

QUESTIONS:

1. How is the Gillette Series being positioned with respect to (a) competitors, (b) the target market, (c) the product class, (d) price and quality? What other positioning possibilities are there?

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2. Is Gillette making the best use of the brand equity that has been created with Sensor?
3. What strategies do you propose to Gillette? Address the entire marketing mix.

SUMMARY

- The overall consumer market consists of various consumers; they consume things for personal or family use.
- Behaviour is defined as the observable and measurable activity of human beings. This is known as overt behaviour.
- There is another aspect of behaviour which is non-observable or measurable, known as covert behaviour like feelings, attitude formation- favourable or unfavourable, perception formation, etc.
- Consumer behaviour essentially refers to how and why people make the purchase decisions. Consumer behaviour is the study of when, why, how, and where people do or do not buy a product.
- Marketing strategy is the game plan which the firms must adhere to, in order to achieve the desired objectives of the concern.
- Consumer behaviour is the process by which consumer decides – what, when, from whom, where and how much to buy.
- Consumer behaviour is affected by a lot of variables, ranging from personal motivations, needs, attitudes and values, personality characteristics, socio-economic and cultural background, age, sex, professional status to social influences of various kinds exerted by family, friends, colleagues and society as a whole.
- A motive can be defined as a drive or an urge for which an individual seeks satisfaction. It becomes a buying motive when the individual seeks satisfaction through the purchase of something.
- Motivation acts as a driving force that impels an individual to take action to satisfy his needs.
- Personality traits and characteristics are also important to establish how consumers meet their needs.
- Scope of Consumer behaviour refers to the study of market potential available in particular area of the country, based on the customer taste, habits and standard of living of the people living there.
- Positioning involves arranging a product to occupy a clear, distinctive, and desirable place relative to competing products in the minds of target consumers.
- Consumers adjust purchasing behaviour according to their individual needs and interpersonal factors. In order to understand these influences, research-

ers try to ascertain what happens inside consumers' minds and to identify physical and social exterior influences on purchase decisions.

- The arousal of any particular set of needs at a specific point in time may be caused by internal stimuli found in the individual's physiological condition, emotional or cognitive processes, or by stimuli in the outside environment.
- Industrial buying is a process by which a company establishes a need for purchasing products and choosing among competing brands and suppliers. Industrial buying involves the purchase of products and services by industry.
- Industrial buying behavior is affected by the background of the individuals involved in the purchase. The industrial buying behavior is influenced by, environmental, organizational, interpersonal and individual.
- The consumption pattern of a country depends on liberalization of economic policies, buying habits of the younger generation, financial independence at a young age, increase in number of nuclear families and increase in media exposure of the people.
- Rural Consumers majorly look into the value that the product offers. They associate value with the Benefits that the product offers, its availability, and its Cost.

ANSWERS TO 'CHECK YOUR PROGRESS'

1. Consumer behavior essentially refers to how and why people make the purchase decisions. Consumer behavior is the study of when, why, how and where people do or do not buy a product.
2. Applications of Consumer behavior: Market Strategy, Social Marketing, Positioning, Market-mix determination, Market segmentation, Environmental Analysis, Market opportunity analysis, Target Market selection.
3. Positioning involves arranging a product to occupy a clear, distinctive, and desirable place relative to competing products in the minds of target consumers.
4. Industrial buying is a process by which a company establishes a need for purchasing products and choosing among competing brands and suppliers. Industrial buying involves the purchase of products and services by industry.

TEST YOURSELF

1) Explain the concept of Consumer Behaviour.
2) What is the Black-Box Model of Consumer Behaviour?
3) What are the various factors that affect consumer behaviour?
4) Why study of consumer behaviour is important for the organization?
5) Discuss the applications of consumer behaviour.
6) Explain Maslow's Need Hierarchy Theory of Motivation.

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7) Discuss Industrial Buying Behavior.

8) Describe various factors affecting Industrial Buying Behavior.

9) Explain stages of business, buying process in the Industry.

10) Write a short note on Indian Consumer Market.

11) Explain future trends in Consumer Behaviour.

FURTHER READING

- *Kotler & Armstrong, Principles of Marketing Management*
- *Kotler, Keller; Marketing Management, Pearson Education*

10 Globalization

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Chapter Includes :

Learning Objective :

After going through this chapter, you should be able to:

- Explain Globalization.
- List different dimensions of Globalization.
- Discuss Globalization of Indian Business.
- Understand advantages and disadvantages of Globalization.
- Describe Direct Marketing.

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INTRODUCTION

Globalization is the process of continuing integration of the countries in the world. Globalization is not a new phenomenon but continuation of developments that have been going on for some considerable time. The recent trend of liberalization of economic activities is qualitatively different, however, as the world has definitely ceased to be a collection of relatively autonomous economic agents that are only marginally connected and are more or less immune to events in their neighborhoods. Globalization is a process that has been going on for the past 5000 years, but it has significantly accelerated since the demolishing of the Soviet Union in 1991. The many meanings of the word "globalization" have accumulated very rapidly and recently, the verb "globalize" was first attested by the Merriam Webster Dictionary in 1944. In considering the history of globalization, some authors focus on events since the discovery of the America in 1492, but most scholars and theorists concentrate on the much more recent past.

But long before 1492, people began to link together disparate locations in the world into extensive systems of communication, migration, and interconnections. This formation of interaction between the global and the local has been a central driving force in the world history.

Roughly, Economic Globalization means that world trade and financial markets are becoming more integrated.

According to Friedman (1999), globalization is: "The inexorable integration of markets, nation states, and technologies to a degree never witnessed before- in a way that is enabling individuals, corporations and nation-states to reach around the world farther, faster, deeper and cheaper than before, the spread of free-market capitalism to virtually every country in the world. On the other hand, a great number of economists assert that globalization, as an on-going historical process that reached its apex toward the end of the 20th century. This process leads to the increasing integration of the production of goods, services, ideas, culture, communication and environmental pollution on a world-wide scale, imparting locality of populations and labor.

Dimensions of Globalization

Globalization is an umbrella term and has some dimensions. It can be related to every fields of daily life. For instance, a marketing staff versus an engineer could interpret globalization in different ways.

Dimensions are as follows:

- **Economics** – related to globalization in trade, money, corporations, banking, capital,
- **Political** – science, governance, wars, peace, IGOS, NGOS, and regimes,
- **Sociology**-communities, conflict, classes, nations, agreements,
- **Psychology**-individuals as subjects and objects of global action,
- **Anthropology**- cultures overlapping, adapting, clashing, merging,
- **Communications**- information as knowledge and tools-internet,

• **Geography**- Everything provided it can be anchored in space.

Each of these social sciences looks at a special aspect of the whole system of interdependent parts that constitutes our world system. Each discipline constructs a concept of globalization that reflects its special point of view: Consider how it relates its focal concerns to the contemporary world system.

According to Kongar, globalization has three dimensions. These are political, economic, and cultural aspects of globalism.

Political dimension denotes that after collapsing of the Soviet Union, the U.S. of America has become the superpower and the single authority of the new world order and security. On the other hand, economic dimension of the globalization denotes the economic sovereignty and domination of international capital globally. As the third dimension of globalization, cultural aspect denotes two unrelated results of this phenomenon: One of them is globalism of the consumer behaviors, such as consuming similar food, clothes, entertainment and similar products in any aspects of daily life. The second dimension is the micro-nationalism; too much freedom for citizens results in destruction of the unitary structures of independent states, such as Yugoslavia and Iraq.

Drivers of Globalization

From the economical point of view, two macro factors seem to underlie the trend toward globalization (Frankel, 2000). The first is the decline in barriers to flow of goods, services and capital that has occurred since the end of World War II. The second factor is technological change, particularly the dramatic developments in recent years in communication, information processing, and transportation technologies.

Everybody knows the importance of the role technological innovations and developments in globalization; on the other hand, "declining trade and investment barriers" with the help of GATT and WTO is as important as the first one.

During the 1920s and 30s, many nations erected formidable barriers to international trade and foreign direct investment. International trade occurs when a firm exports goods or services to consumers in another country. Foreign direct investment occurs when a firm invests resources in business activities outside its home country. Many of the barriers to international trade took the form of high tariffs on imports of manufactured goods. The typical aim of such tariffs was to protect domestic industries from foreign competition. Ultimately, this practice depressed world demand and contributed to the Great Depression of the 1930s (Hill, ibid: 11).

Having learned from this experience, the advanced industrial nations of the West committed themselves after World War II to removing barriers to the free flow of goods, services, and capital between nations. This goal was protected and realized in the General Agreement on Tariffs and Trade. Under the umbrella of GATT, nine rounds of negotiations among member states have worked to lower barriers to the flow of goods and services. The impacts of GATT agreements on average tariff rates for manufactured goods were formidable. If we give a figure, average tariff rates have been fallen significantly since 1950, from average 30-40 percent to 3.9 percent in 2000 (The United Nations, 2001). In order to nullify this tariff rate,

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Regional economic integrations have been created. Such as, European (EU), North American Free Trade Area (NAFTA), Free Trade Area of the America (FTAA), Association of Southeast Asian Nations (ASEAN), and Asia-Pacific Economic Cooperation (APEC) are important attempts to achieve economic gains from the free flow of trade & investment between neighboring countries.

The most successful regional economic cooperation is the EU. The Single European Act sought to create a true single market by abolishing administrative barriers to the free flow of trade and investment between EU countries. In the near future, it is expected that the EU will become a political union like the USA (Swann, 1990).

GLOBALISATION OF INDIAN BUSINESS:

Globalization, liberalization and privatization were the three cornerstones of India's New Economic Policy of 1991. The year 1991 marks the beginning of a new era in the Indian economy. The new objective to be pursued by the policy makers, strategists and executives was to make India the largest free market economy of the 21st century. In pursuit of this objective, the Indian economy was to be integrated with the world economy through a programme of structural adjustment and stabilization. While the stabilization programme included inflation control, fiscal adjustment and BOP adjustment, the structural reforms included trade and capital flow reforms, industrial deregulation, disinvestment and public enterprise reforms and financial sector reforms. The programme of economic reforms has not been entirely successful and as a result, the globalization process of the Indian economy has not gathered momentum. Indian business continues to face a number of difficulties and obstacles in their effort to globalize their business. These obstacles are as follows:

GOVERNMENT POLICY AND PROCEDURES:

Government policy and procedures in India are extremely complex and confusing. Swift and efficient action is a pre-requisite for globalization- which sadly missing. The procedures and practice continue to be bureaucratic and hence a speed breaker in the globalization effort.

HIGH COST OF INPUTS AND INFRASRUCTURAL FACILITIES:

The cost of raw materials, intermediate goods, power, finance, infrastructural facilities etc. in India is high which reduces the global competitiveness of Indian business. The quality and adequacy of infrastructural facilities in India is far from satisfactory. Further the technology employed by Indian industries and the style of operation is generally out dated.

RESISTANCE TO CHANGE:

The pre-reform era (1951- 1991) breeded lethargy, created rigid structures, systems, practices and procedures and generally instilled a laid back attitude. These factors are a hindrance to the processes of modernization, rationalization and efficiency improvement. Technological change is generally perceived to be employment reducing and hence resisted to the extent possible. For instance, information technology was introduced in India in the early eighties. However, computerization process of nationalized banks began only in the mid nineties. Excess labor is particularly employed in the public sectors in areas such as banking, insurance, and the railways and Indian industry in general.

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SMALL SIZE AND POOR IMAGE:

Grant Indian firms are known to be global pygmies. A look at the fortune 500 list would reveal all to you. On a global scale, Indian firms are found to be small in size with low availability of resources. Indian firms there for cannot compete successfully in the international market. Indian products suffer from a poor image in the international market for both reasons valid and otherwise. Indian firms continue to miss consumer focus both domestically and internationally. The value-money equilibrium is missing in Indian products. Further, Indian firms are do not have the where- withal to keep up to the delivery schedule, accepts large orders and match up to international specifications.

GROWING COMPETITION AND POOR SPEND:

Indian firms are not only up and against competition from developed countries but also emerging Asian powerhouses such as South Korea and China. Continuous improvement in quality and usefulness and competitive costs with competitive pricing can only keep you afloat and in order to remain afloat, one has to spend quite a lot on R & D. bóth public and private sector outlays on research in India is deliberately low when compared to the developed countries.

NON – TARIFF BARRIERS (NTBs)

Member nations of the World Trade Organizations are bound to progressively reduce tariff rates across the board over a definite period of time so that level playing field is created in global trade. Tariff barriers are therefore not of much concern. What concerns developing nations in particular, are non- tariff barriers imposed by the developed countries. Issues such as child labor content in some of the products exported by India to the developed nations had cropped up and remain unresolved.

ADVANTAGES OF GLOBALISATION:

For successful globalization, countries need to chalk out strategies and policies to open up the doors for the inflows of foreign direct investment (FDI). The FDI by the MNCs brings with it flow of foreign exchange/ foreign capital, inflow of technology, real capital goods, managerial and technical skills and know- how. Globalization can easily promote exports of the country by exploiting its export potentials in a right way. Globalization can be the engine of growth by facilitating export- led growth strategy of developing country. ASEAN countries such as Indonesia, Malaysia and Thailand have demonstrated their success of export- led growth strategy supported by the FDI under globalization approach. Globalization can provide sophisticated job opportunities to the qualified people and check 'brain drain' in a country. Globalization would provide varieties of products to consumers at a cheaper rate when they are domestically produced rather than imported. This would help in improving the economic welfare of the consumer class.

Under globalization, the rising inflow of capital would bring foreign exchange into the country. Consequently, the exchange reserve and balance of payments position of the country can improve. This also helps in stabilizing the external value of the country's currency.

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Under global finance, companies can meet their financial requirements easily. Global banking sector would facilitate e banking and e-business. This would integrate countries economy globally and its prosperity would be enhanced.

DISADVANTAGES OF GLOBALIZATION:

Globalization is never accepted as unmixed blending. Critics have pessimistic views about its ill- consequences. When a country is opened up and its market economy and financial sectors are well liberalized, its domestic economy may suffer owing to foreign economic invasion. A developing economy then lacks sufficient maturity; globalization may have adverse effect on its growth.Globalization may kill domestic industries when they fail to improve and compete with foreign well-managed, well-established firms. Globalization may result into economic imperialism. Unguarded openness may become a playground for speculators. Currency speculation and speculators attacks, as happened in case of Indonesia, Malaysia, Philippines, Thailand, etc. recently, may lead to economic crisis. It may lead to unemployment, poverty and growing economic inequalities.

STRATEGIES FOR GLOBALISATION:

When a company makes the commitment to go international, it must choose an entry strategy. This decision should reflect an analysis of market potential, company capabilities and the degree of marketing involvement and commitment management is prepared to make. The approach to foreign marketing can range from minimal investment with infrequent and indirect exporting with little thought given to market development, to large investments of capital and management in an effort to capture and maintain a permanent, specific share of world markets. Depending on the firm's objectives and market characteristics, either approach can be profitable. In fact, a company in various country markets may employ a variety of entry modes since each country market poses a different set of conditions. Having more than one strategy allows the company to match its expertise with the specific needs of each country market.

The various strategies available to Indian firms to enter the international environment are discussed as follows:

1. **Exporting:** Exporting is perhaps the first step for a company to go global. It is the first of the attempts to understand the international environment develop markets abroad.

   Exporting can be direct or indirect. With direct exporting the company sells to a customer in another country. This is the most common approach employed by companies taking their first international step because the risks of financial loss can be minimized. In contrast, indirect exporting usually means that the company sells to a buyer in the home country who in turn exports the product. Customers include large retailers like Wal-Mart or Sears, Wholesale supply houses, trading companies, and others that buy to supply customers abroad. In a global environment, the sourcing of finance, materials, managerial inputs etc. will also be global. However, with 0.5 percent share in the world trade, India is an insignificant player. There are a number of products with large export potential but these have not been tapped

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properly. With a more pragmatic and realistic export policy, procedural reforms and institutional support, with technological development, modernization and expansion of production facilities, India can definitely improve its share in the world trade from its present poor status. There are three strategies to increase export revenue. These are:

- increase the average unit value realization,
- increase the quantity of exports and
- Export new products.

Value added exports assume significance in the context of increasing the average unit value realization. The bulk of India's manufactured exports constitute the low price segment of international markets. Quality improvement and aggressive marketing is required to enter the high price segments of the markets. This can be achieved by technology imports and or foreign collaborations. The size of India's export basket needs to be expanded by adding new products. In order to identify new products for exports, export opportunities needs to be explored and products with high foreign demand also need to be identified. There are also market segments, and industries which are abandoned by the developed countries on account of factors such as environmental consideration, lack of competitiveness etc. For instance, developed countries are progressively vacating production of a range of chemicals due to higher expenditure on overheads and wages. Yet another strategy available to Indian Companies is Niche Marketing.

2. **Foreign Investment**: It refers to investment in foreign country. Foreign investment by Indian Companies have been negligible because of factors such as assured domestic market, want of global orientation, protective government regulation etc. However, this inward orientation has undergone substantial change after the adoption of the new economic policy 1991. With the economic liberalization and growing global orientation, many Indian firms are setting up manufacturing, assembling and trading bases overseas. These facilities are either wholly owned or foreign partnership firms.

   Further, through acquisition route, Indian companies have made substantial investments abroad. The Aditya Birla Group has been pioneer in making foreign investments much before the adoption of the new economic credo. Indian companies are also setting up production bases in foreign countries to get an easy entry into the regional trade blocks. For instance, a production facility in Mexico opens the doors to the NAFTA area for Arvind Mills. Yet another example is that of Cheminoor Drugs by Dr. Reddy's Labs in New Jersey which is set up as a subsidiary.

3. **Mergers and Acquisitions**: In merger, two companies come together but only one survives and the other goes out of existence as it is merged in the other company. While in acquisition, one company (acquirer) gets control over the other company (acquired) at the willingness of each of the companies. Mergers and acquisitions is an important entry strategy in international business. Mergers and acquisitions can be used to acquire new tech-

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nology, reduce the level of competition and provides quick access to markets and distribution network. Many Indian firms have resorted to the acquisition route to gain a foothold in the foreign market. For instance, Indian companies had spent $ 711.4 million in acquisitions abroad in 2000 in industries such as InfoTech, drugs and pharmaceuticals, paints, tele-communication, petroleum and broadcasting. Some of the major acquisitions include investments by Zee Telefilms, Leading Edge System BPL Software and Tata Tea. Dataline Transcription, Team asia semiconductors, Goa Carbons, Wockhordt and Acro lab are few other firms to name from a long list. A very important acquisition has been the $ 271 billion leveraged buyout of Tetley by Tata Tea. With the acquisition of Tetley, Tata Tea, having been the largest integrated tea producer in the world, also got possession of the second largest global tea marketer. Indian companies have also acquired foreign brands. Nicholas Piramal India has acquired the Indian rights for three anti-infective brands from the US firm Eli Lilly. Ranbaxy interred the German pharma market by acquiring the generics business of Bager Ali. The Indian Rayon acquired Madura Garments; a subsidiary of the UK based coats Viyella and also acquired global rights for Coats Viyella brands such as Louis Phillipe, Allen Solly and Peter England.

4. **Joint Ventures**: Joint Ventures as a means of foreign market entry have accelerated sharply since the 970s. Joint ventures refer to joining with foreign companies to produce or market the products or services. Besides serving as a means of lessening political and economical risks by the amount of the partner's contribution to the venture, JVs provide a less risky way to enter markets that pose legal and cultural barriers than would be the case in an acquisition of an existing company. There are two types of JVs, namely:

    1. Contractual JVs and
    2. Equity based JVs.

A contractual JV consists of a contractual arrangement between two or more companies in which certain assets and liabilities are shared for a specific purpose and time. Contractual JVs are common in the construction, extractive and consultancy services. An equity JV is a capital sharing arrangement between an MNC and a local company or another MNC or even a foreign government. Each partner holds share in the subsidiary and shares the profits in proportion to its ownership share.

The advantage of a JV for MNC is that it can spread its investment across locations, and thereby minimize its risks. The liberalization of policy towards the foreign investment by Indian firms along with the new economic environment seems to have given joint venture a boost. At the beginning of 1995 although there were 177 JVs in operation, there were 347 under implementation. Not only the number of JVs is increasing but also the number of countries and industries in the map of Indian JVs is expanding. Companies like Ranbaxy, Dr. Reddy's Lab, Lupin etc. have taken the JV route to mark their presence in the overseas market.

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5. **Strategic Alliance:** A Strategic International Alliance (SIA) is a business relationship established by two or more companies to cooperate out of mutual need and to share risk in achieving a common objective. It is an agreement between companies that is of strategic importance to one or both companies' competitive viability. Strategy refers to the means to fulfill company's objectives. In everyday business, the term 'strategic alliance' is generally used to describe a wide variety of collaborations, irrespective of strategic importance. In a strategic alliance, a firm could establish relationships with organization that have the potential to add values. Bench marking, re-engineering, outsourcing, merger and acquisition are examples of strategic alliance. On the basis of structure, strategic alliances can be classified into equity based and non- equity based. Non-equity based alliances such as licensing agreements, marketing agreements, technology transfer agreements etc. are found to be more dynamic, constructive and strategic. The scope of strategic alliance ranges from Research and Development to distribution.

6. **Licensing And Franchising:** A means of establishing a foothold in foreign markets without large capital outlays is licensing. It is a favorite strategy for small and medium sized companies. International licensing helps a firm from one country (licensor) to permit another firm in a foreign country (licensee) to use its intellectual property such as patents, trademarks, copyrights, technology, technical know-how, marketing skill etc. in return for royal payments. Royal payments or license fee is regulated in most of the countries.

   The advantages of licensing are most apparent when: capital is scarce, import restrictions forbid other means of entry, a country is sensitive to foreign ownership, or it is necessary to protect trademarks and patents against cancellation of nonuse. An important risk of licensing is that the licensor may give birth to his own competitor i.e. the licensee can become a competitor after the expiry of the licensing agreement. The only anti-dote that is available to the licensor to pre-empt any potential or actual competition is continuous innovation. Only innovation will provide sustainable competitive advantage.

   Franchising is a form of licensing in which a parent company (franchiser) grants another company (franchisee) the right to do business in a specific manner. Franchising can assume various forms such as selling the franchiser's products, using the name of the franchiser, production and marketing techniques etc. Important forms of franchising are:

   1. Manufacturer- retailer systems e.g. automobile dealership

   2. Manufacturer- wholesaler system e.g. soft drink companies

   3. Service firm- retailer systems e.g. lodging and fast food outlets.

   Potentially, the franchise system provides an effective blending of skill centralization and operational decentralization, and has become increasingly important form of international marketing.

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CONSUMERISM

Consumerism is the name given to the phenomenon of groups of consumers exerting power and influence over the companies that supply them. Consumer protection organizations, magazines and sections of government have taken greater roles since this development and consumerist organizations are a significant force in most geographical marketplaces championing the rights of the consumer against the large organizations which often would otherwise control the markets.

Consumerism is concerned with broadening the rights of consumers. The concepts of social responsibility and consumerism go hand-in-hand. If every organization practiced a high level of social responsibility the consumer movement might never have begun. Consumerism is a struggle for power between buyers and sellers; specifically, it is a social movement seeking to increase the rights and powers of buyers in relation to sellers.

Seller's rights and powers are presented in the following list:

1) To introduce any product in any size and style they wish into the marketplace, so long as it is not hazardous to personal health or safety or if it is hazardous, to introduce it with the proper warnings and controls
2) To price the product at any level they wish, provided there is no discrimination among similar classes of buyers
3) To spend any amount of money they wish to promote the product, so long as the promotion is not defined as unfair competition
4) To formulate any message they wish about the product provided that it is misleading or dishonest in content or execution
5) To introduce any buying – incentive schemes they wish

In contrast, here are buyers' rights and power:

- To refuse to buy a product that is offered to them
- To except the product to be safe
- To expect the product to essentially match how the seller represented it
- To receive adequate information about the product

It is in the best interest of marketers to understand the level of consumer standards and the nature of consumer perceptions, as well as what is required to foster realism and accuracy among consumers.

The term "consumerism" is used to refer to the consumerist movement, consumer protection or consumer activism, which seeks to protect and inform consumers by requiring such practices as honest packaging and advertising, product guarantees, and improved safety standards. In this sense it is a movement or a set of policies aimed at regulating the products, services, methods, and standards of manufacturers, sellers, and advertisers in the interests of the buyer.

Check Your Progress

1. What is Globalization?
2. Explain Consumerism.

GREEN MARKETING AND ETHICAL ISSUES

The next important area the marketer need to know about what is the relevance of Social Marketing in order to protect the environment and to improve the quality of life and are concerned with issues that include conservation of natural resources, reducing environmental pollution, protecting endangered species, and control of land use. The three R's of environmentalism are Reduce, Reuse, and Recycle. Many companies are finding that consumers are willing to pay more for a green product. Toyota has become quite successful with their hybrid cars.

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Green marketing refers to the development and distribution of ecologically-safe products. It refers to products and packages that have one or more of the following characteristics: (1) are less toxic, (2) are more durable, (3) contain reusable materials, or (4) are made of recyclable material. In short, these are products considered "environmentally responsible". To sight an example One Canadian Executive stated that "Any marketing executive who does not put a 'green' filter on their strategies is looking at losing market share. The whole idea of disposal is going to become unacceptable". In West Germany and Canada, Procter & Gamble has found high consumer acceptance of pouches of liquid detergents and fabric softeners so consumers can refill rather than discard large plastic bottles.

Green or environmental 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 minimum impact on the natural environment. The products making green claims should state they are "less environmentally harmful" rather than "Environmental friendly". Thus green marketing should look at minimizing environmental harm, not necessarily eliminating it. Green marketing is important because the mankind has limited resources on the earth, with which he/she must attempt to provide for the worlds 'unlimited wants'. Ultimately green marketing looks at how marketing activities utilize these limited resources, while satisfying consumers wants both of individuals and industry, as well as achieving the selling organization's objectives.

Need of Green Marketing:

There are five possible reasons for firms increased use of green marketing. These are:-

i) Organizations perceive environmental marketing to be an opportunity that can be used to achieve its objectives.

ii) Organizations believe they have a moral obligation to be more socially responsible.

iii) Government bodies are forcing firms to become more responsible.

iv) Competitor's environmental activities pressure firms to change their environmental marketing activities and

v) Cost factors associated with waste disposal or reductions in material usage forces firms to modify their behaviour.

Problems with green marketing:

While using green marketing the firms must overcome a number of potential problems. These are:-

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i) The firms 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.

ii) The firms who modify their products due to increased consumer concern must contend with the fact that consumer's perceptions are sometimes not coirect.

iii) When firms attempt to become socially responsible, they may face the risk that the environmentally responsible action of today will be found to be harmful in future.

iv) Reactions of competitors.

v) The push to reduce costs or increase profits may not force firms to address this imoortant issue.

There are a variety of ways in which organizations can enter foreign markets. The three main ways are by direct or indirect export or production in a foreign country.

DIRECT MARKETING

Direct Marketing involves a "direct response" from a consumer. It is a technique that is used to address commercial messages towards individual consumers. A synonym which is sometimes used is "One-to-one Marketing". It differs from regular advertising in that it does not place its messages on mass media such as newspapers or TV. Instead, the marketing message of the service or commodity is addressed directly to the consumer. This sales and promotion technique uses promotional materials such as leaflets, brochures, letters, catalogs, or print ads that are delivered individually to potential customers via so called "addressable media".

Direct marketing is a marketing tool which comprises activities such as direct mail, telemarketing, mail order, direct response advertising and email marketing.

Direct marketing provides a unique range of benefits because it enables you to engage directly with your audience - whether they are prospects, leads, end users or existing customers. Direct marketing is concerned with establishing an individual relationship between the business offering a product or service and the final customer.

Direct marketing has been defined by the Institute of Direct Marketing as: "the planned recording, analysis and tracking of customer behaviour to develop relational marketing strategies".

Direct marketing is any unsolicited contact your business makes with existing or potential customers in order to generate sales or raise awareness.

For many businesses, it's by far the most cost-effective form of marketing. From direct mail and leaflet drops to telemarketing and email marketing, it allows you to target customers with greater accuracy than any other method.

However, careful preparation of direct-marketing campaigns is essential if you are to make the most of your investment, get the response rates you want and ensure you do not contact individuals who have decided they do not want to receive direct marketing mailings.

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This guide sets out the different types of direct marketing and outlines the advantages and disadvantages of each. It gives details of current legislation and industry best practice, and tells you where to get more help and information on both.

USE OF DIRECT MARKETING

Direct marketing allows you to generate a specific response from targeted groups of customers. It's a particularly useful tool for small businesses because it allows you to:

- focus limited resources where they are most likely to produce results
- measure the success of campaigns accurately by analysing responses
- test your marketing - you can target a representative sample of your target audience and see what delivers the best response rates before developing a full campaign

A direct marketing campaign can help you to achieve the following key objectives:

- increasing sales to existing customers
- building customer loyalty
- re-establishing lapsed customer relationships
- generating new business

There are many different approaches to direct marketing. These include traditional methods such as mail shots and telemarketing, and electronic methods such as email marketing, SMS (short message service) marketing and social media. The method most appropriate for your business will depend on who you are targeting, the message you want get across and response you want to generate.

For smaller companies without the technical expertise or resources to utilize electronic marketing methods, mail shots remain a popular option. Mail shots can take the form of personalized, direct mail or unaddressed door drops. If they are well planned, mail shots can be a cost effective option. They are also more likely to generate a response than some other direct marketing methods.

But remember that the results of direct marketing aren't guaranteed. A poorly planned or targeted campaign can be a waste of money. A badly designed mailshot, for example, could simply end up in the bin. And worse still, it may irritate recipients and damage your business' reputation as a result.

The process of direct marketing covers a wide range of promotional activities some of them are as follows:

- Direct-response adverts on television and radio

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- Mail order catalogues
- E-commerce
- Magazine inserts
- Direct mail (sometimes also referred to as "junk mail")
- Telemarketing

But most marketing managers are in support of this kind of business. The various forms in which direct business is made are:

1) **Direct mailing:** Here, paper mails are sent to the selected groups of people, who likely to give positive response e.g. the paper mails of latest food processor is sent to all homes where house wives are resident so that immediate response is seen. Also CDs can be used as demonstrating media.

2) **Email Marketing:** Here, emails are sent to all the selected customer categories with repeated intervals of time. But most of these are put into trash and spams. So the effectiveness of this form cannot be predicted.

3) **Telemarketing:** In telemarketing, calls are made directly to the consumers and the concerned product is advertised. People sit at call centers to sell products on behalf of their clients. But this form of direct business is quite unpopular and most people oppose the uninvited calls. It was initially made illegal but later on new laws were re-enforced and calls are now made only to those who don't mind them.

4) **Voicemail:** Telemarketing created a lot of consumer opposition and consumers would abuse the ones advertising on the phones. In order to avoid this, voicemail marketing was introduced, wherein; the entire advertisement is digitally recorded and presented.

5) **Use of coupons:** Coupons are attached to direct mails and sent to the consumers. These generally advertise and give cost benefit to the consumers. So they avail these coupons and respond fast.

6) **Television marketing:** Advertisements are given on the television and demos are with toll-free call back numbers or certain websites for the consumer to get in touch with the manufacturers.

7) **Broadcast faxing**: This is the least popular form of direct marketing. The ads are directly faxed to the consumers.

Direct marketing can thus become successful only if the entanglements with the consumer are good. It can be B2B or B2C. It measures exact consumer response.

Steps in the Direct Marketing method:

1. **Strategic decisions**. Researching, targeting set the objectives, Media choice.
2. **Communication** of the offer.

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3. **Customer response and ordering of the products**. Donation. Subscription. Membership. Attending a demonstration. Asking for more information.
4. **Fulfillment**. Filling the order. Distribution. Customer service.
5. **Database Maintenance** and Customer Relationship Management.

ADVANTAGES AND DISADVANTAGES OF DIRECT MARKETING:

The term marketing implies the single goal of profit. It is categorized into two, direct marketing and indirect marketing and there is a significant line of difference between the two. Direct marketing is basically business from manufacturer to consumer without the involvement of middlemen, whoever it is. This is generally done by mailing the consumer or contacting him directly, so he can know about the products. The use of media advertisements is very limited and whatever little use is made includes only the demonstration of their products with call back numbers. Direct marketing is a boon and a bane, both in some respects:

Advantages:

1) Direct marketing involves direct business. So it is cost beneficial for consumers, as there is no price hike due to wholesalers or retailers.
2) Marketing executives can state certainly of the exact response to their products.
3) The profit or loss can be more accurately judged.

Other advantages of direct marketing include:

1) **Flexible Targeting**: Direct marketing enables you to talk directly identify, isolate and communicate with well-defined target markets. This means you get a higher conversion and success rate than if you tried communicating to everyone in the mass market. And direct marketing is also far cheaper than mass market communication.

2) **Multiple Uses**: Direct marketing doesn't just have to be used to sell - it can be used to test new markets and trial new products or customers, to reward existing customers to build loyalty, collect information for future campaigns, or segment a customer base.

3) **Cost-Effectiveness**: The cost per acquisition of direct mail can be significantly less than other marketing methods. Plus once you've acquired a customer, you can also benefit from highly profitable repeat sales, gained once again through direct marketing methods.

4) **Ease of Management**: Direct marketing provides greater control and accountability than other marketing methods. It is easy to measure results because you know exactly how many people you've contacted in the first place. Once you've run a direct marketing campaign and know the conversion rates involved, you can work on refining and improving your success

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rates. Plus it also makes it easier to plan, forecast and budget for future direct marketing campaigns.

5) **Rapid Delivery**: Direct marketing is both swift and flexible in achieving results. This is especially true for telemarketing, one of the direct marketing tools, as the results of a conversation can be logged immediately and scripts adjusted straight away to improve results.

6) **Testing Capability**: Direct marketing allows you to test, test and test again in order to hit upon the most successful combination of direct marketing tools. Any of these variables such as timing, list, message, mailer and offer can be adjusted, tested again, and measured to find the optimum direct marketing proposition.

7) **Relationship Building**: Direct marketing is far more effective at initiating and developing a meaningful dialogue with new customers. From the outset you have a direct relationship with them, which can also be used as part of a push pull strategy to stimulate demand for retailers.

8) **Targeting of Messages**: Direct marketing can enable you to target different messages to different recipients. Using technology such as digital printing, it's even possible to display different images, designs and offers in a direct mailer according to who it's being sent to, as well as personalizing the mailer to the recipient to increase conversion rates.

9) **Geographic Targeting**: Direct marketing can be used for any level of geographic targeting, whether it's the local area surrounding a shop or restaurant, regional targeting by postcode or county, national targeting and even international - when direct marketing can prove a far cheaper way of testing the market than a costly personal sales visit.

Direct marketing exploits the growth in new technology, and can create a completely new distribution channel direct to the customer or end user. Discover the advantages of direct marketing for your business.

Strengths of Direct marketing model:

- Cost-effective.
- Effectiveness can be measured directly by comparing purchasing behavior of targeted vs. non-targeted consumers.
- Direct contact with the customers.
- Consumers receive commercial messages which have been adjusted to their profile. Convenience.

Limitations of the Direct Marketing approach:

- Sometimes criticized for generating unwanted solicitations (Junk Mail and Spam).

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- Privacy concerns. Legitimate Direct Marketing firms should offer methods by which individuals can 'opt out' of these lists upon request. Direct Marketing agencies must respect the **do-not-call list** maintained by government agencies such as the Federal Trade Commission (FTC).
- Sometimes, direct mailing offends the customers and many do not endorse it as they say it inhibits their private lives.

NETWORK MARKETING

Definition:

It is a business in which a distributor network is needed to build the business. Usually such businesses are also MLM in nature in that payouts also occur at more than one level. Network Marketing is sometimes also used incorrectly to indicate that the business uses a network of product suppliers in order to offer a broader selection of products. It is usually used this way to differentiate themselves as a way to suggest that their program is superior to other such programs.

Network marketing is commonly known as multi-level marketing or MLM. It is part of the direct selling industry and is run as a business-distribution model that allows a parent company to market its products directly to consumers through a large network of distributors and consumers, thereby by passing the middleman.

Network marketing is also known as a relationship business. In order for a person to succeed in this business model, you have to first of all help the people in your organization succeed. Then only will you be able to succeed. It is basically a 'people helping people' business.

Mention network marketing or MLM and many people will think of pyramid schemes and scams. A company is considered as a pyramid if there are no products or services offered or the distributors make money just by recruiting more distributors. This is illegal.

Most network marketing companies allow you to start a home business for just a very low capital. This allows more people to get involved. What is great about this type of business model is that for those with good compensation plans, it allows you to build your organization successfully and leverage upon the time and effort of others, whilst generating residual income.

As network marketing is all about sales and distribution, it is important to continuously prospect and generate leads for your home business. Prospecting is the life-blood of the MLM business.

It is imperative that you communicate with your target market and build a great relationship with your leads before you start selling your products, services or MLM business opportunity to them. Since MLM is also defined as a business of moving products, targeting your target market will help you to move more products. Remember to always listen to what they have to say and pitch your offer according to their needs and desires.

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At the same time, as your success is determined by how successfully you grow your organization, training those in your organization to do what you are doing in order to succeed is of great importance. If you miss out on this aspect, or do not do it well, you will not be able to leverage on your organization. It will thus be difficult for you to build your residual income.

In network marketing, you are in the business for yourself, but not by yourself. You will have a team to help you out. Thus, you do not have to worry that you are working individually. Although you are building your own business, you are not alone and if done correctly, you will be able to make good money by leveraging on your organization and earning a solid residual income.

EVENT MARKETING

Events can be defined as one off, big budget occasions. They can be once in a lifetime events such as weddings, or more common functions such as book launches or Christmas parties. Events require long, careful, intensive planning and they generally only take place once. Event managers are solely responsible for the smooth running of the event and there is a lot of safety and financial risk involved.

Event marketing involves marketing of products through the sponsorship of events such as concerts, sports contests, or art exhibits. Sponsorship of an event affords the marketer an opportunity to establish good public relations among the members of the target market while also offering an opportunity for sales promotion. The event itself can create an environment attractive to the product's target market, and the marketer can give away free samples and special promotional material, while developing a positive image for the product. Event management and hospitality are both hugely competitive growth industries. Theorists suggest that hospitality comprises many input industries. The key among them is event management, and under the wider umbrella, marketing, which gives event managers a competitive edge. Event managers need to adopt the theory that is it far more costly and time consuming to gain new customers than it is to retain old ones. Event managers need to have an attractive point of difference and focus on retaining repeat, loyal customers so as to increase profits and reduce costs.

The activity of designing or developing a themed activity, occasion, display, or exhibit (such as a sporting event, music festival, fair, or concert) to promote a product, cause, or organization is called as event creation. While marketing an event, there are a few key tactics and methods that can be employed to ensure that the event gains the maximum response and also that event is managed in the minimum cost possible. Event marketing has been a concept that has only recently been pioneered in India. But, though new, the concept has taken off very well with the Indian consumers who are evolving rapidly.

Some of the tactics and methods are listed below. Following them can ensure a cost effective implementation of the event marketing.

Event Marketing Hint 1: If the event is meant to market a certain product, then it is necessary to ensure that the purchase decision-maker attends the event. It is important to get the message across to the target audience and therefore enough research about the profile of the attendees is important to be able to communicate effectively to them about the product. It is important that least 50-60% of the people attending the event are targets of the product to be promoted.

Event Marketing Hint 2: It is also important to evaluate the value-added benefits that the venue or the trade show organizer makes available to your business. Make sure you find out if they allow access to the attendee mailing list so you can implement a pre-mailing process in order to promote your one-day trade show special, as well as the location of your booth.

Make sure you get participant contact information before the event as well as after. Other value-added benefits that can be expected from the show organizer include: being included in participant email distributions promoting the event, as well as an advertisement in the event show guide.

Event Marketing Hint 3: Before the event is undertaken, the cost effectiveness of promoting the product through the event should be questioned by asking yourself event qualifying questions around the "who" instead of the "how many"

Event Marketing Hint 4: The giveaways at the event should be relevant to the business being promoted through the event. And make sure you don't give something away for free just for the heck of it.

Event Marketing Hint 5: The location chosen for the event is perhaps the most important aspect. Make sure you don't purchase a cheap booth at a popular exhibition because there are strong chances that no one will be visiting you, since your booth will be tucked away hidden from all eyes. The most ideal locations in any exhibition areas are found at the entryway to the event and near the pathway to the food stations and restrooms.

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Check Your Progress

3. What is Direct Marketing?
4. Describe Event Marketing.

Relationship between Event Managers and Stakeholders

A stakeholder is classified as anyone who holds interest in the event. They contribute to the success of an event and are vital components at every function. They are participating in the event directly or indirectly, either by supplying goods and services, or marketing the event. Obviously the primary stakeholder is the client, but the number of stakeholder types varies because of the diverse nature of the events industry. Common examples include the caterers, the florist, bar staff, local city council, security companies, and the band. An event manager relies on the assistance of these stakeholders for the planning, the set up, and the running of the event. Due to the diversity inherent within each event, stakeholders are constantly changing, but the relationship they hold with the event coordinator is critical and should represent a win-win mentality for both groups. They rely on each other for business and success.

Primary Functional Areas of Events

The mentality of the relationship that stakeholders have with the event planner embraces direct benefits for all, especially the client. When selecting stakeholders; the

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event manager should be cognizant of the ability of stakeholders to meet and exceed not only their expectations, but those of the client and the guests at the event. Often well established event companies will have a huge stakeholder base and they will work with those same companies continually, having built a reputable relationship with them, where both parties benefit. For example special events such as weddings often require the same stakeholder base, such as the celebrant, the florist, the caterer, the venue. This is why an important relationship between the stakeholders and the event planner is essential and beneficial. The event company can use these stakeholder companies for each wedding event, thus saving time and money. The relationship between the event planner and the primary stakeholder; the client is vital. "The advantages of customer loyalty are long term and cumulative. Businesses have to invest money to attract new customers, but for loyal customers, these costs are eliminated or minimalised."

Marketing

Event management and hospitality are highly competitive, growth industries. Marketing can give event managers a competitive edge or strategic advantage over competitors. "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 organizational objectives." The principle element of marketing relates to the "Marketing Mix", a well known prototype in marketing and its operations. The mix includes the four "P's".

- Product
- Price
- Promotion
- People

These can be controlled by the marketing practitioner; the event manager, through their organizational efforts. The product is the tangible and intangible elements of the event, including the stakeholders, for example the food as a tangible element, and the service of the wait staff as an intangible element. Price is the cost of the event for the client. It covers elements such as wholesale discounts and seasonal pricing. Promotion includes brands, which introduce stability into businesses. A well recognized brand will offer security to the client and minimalise risk. By providing a big brand to the client the event manager is offering credibility and for this the client is usually prepared to pay a premium. People represent the role of the consumer and the event manager, including anyone else who contributes to the event, such as the stakeholders. It is vital that event managers know about demographics and the client's view of the basic "marketing principles" so they can make broad generalized claims as to what suits the consumer. According to Reichheld, it costs approximately five times the amount to gain a new customer as it does to retain a previous one. A study conducted by McDonalds found that it costs them nearly nine American dollars to attract each new customer. That customer must then visit five and a half times before McDonalds gains from their business. This supports Reichhelds Loyalty theory and in an ever expanding and competitive industry such as events management, customer loyalty is essential. The event manager must provide a point of difference through marketing strategies to give themselves a competitive advantage. It is in the interest of an event manager to also build up brand awareness, which is good for customers and positive for the events business.

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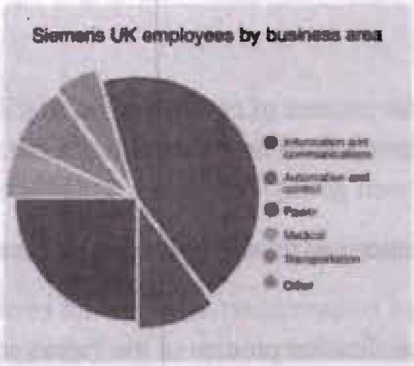
The events industry, along with the MICE sector are both growing and developing rapidly. There are many different sizes and classifications of events, which differ from customer to customer. Event managers must be highly skilled and have knowledge of demographics and different customer types so they can provide the best customer service and retain those customers. Customer retention has become very important in today's society and as a result, the need to build strong relationships with customers has arisen. Relationships need to be formed between event managers and stakeholders because it is beneficial for all involved. The relationships are win-win. The loyalty effect and marketing principles, coupled with demographic and target market profile insights enable a professional event manager to develop a competitive advantage over other industry players.

CASE STUDY

Globalisation

'Globalisation' refers to the trend where individual countries become less influential in relation to crossnational bodies. People worry we are turning into one global 'village'. Decision makers are far away. There is fear because such decisions do not take note of what local people need or want. However, as the case study will show, meeting local needs is key to the performance of a business like Siemens'.



Siemens is multi-national. It operates across 190 separate nation states. Executives in Germany and across the world must make decisions in the best interests of Siemens' shareholders. Most multinationals have many capabilities. They must make decisions about where their separate activities should be. For Siemens it is not efficient to design and manufacture all products in all countries. It is more efficient to concentrate manufacturing to keep economies of scale through specialisation. Products can be shipped anywhere within the group.

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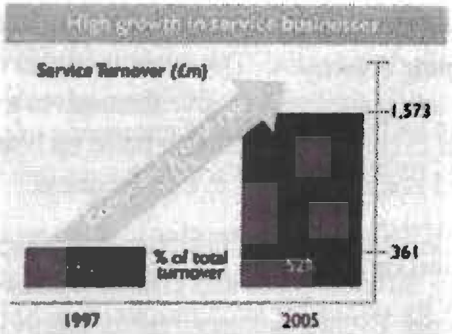

One danger of being multi-national is the threat caused by currency fluctuations. The price of products supplied from one place to another can vary because of currency changes. The value of the Euro can rise against the US dollar. In Europe, Siemens then becomes more expensive than US competition. It has an internal risk management function to check this threat. Steps can be taken to avoid its damaging effects.

Globalization presents many challenges to Siemens. How does Siemens in the UK remain an efficient part of the global business? How does it ensure that it continues to contribute to Siemens' overall mission, as it has done for 162 years?

One way of securing the UK business is by making sure that Siemens in the UK offers a range of top class services that add value to customers' work. A customer can buy raw materials from any supplier. The cheapest supplier, however, may not have access to technical expertise and high levels of service.

Siemens offers highly technical products with service benefits added in. This sort of service capability drives a competitive advantage over other suppliers. This is a deliberate strategy.

SUMMARY

- Globalization is the process of continuing integration of the countries in the world. Globalization is not a new phenomenon but continuation of developments that have been going on for some considerable time.
- The term globalization has three dimensions: political, economic and cultural.
- The programme of economic reforms has not been entirely successful and as a result, the globalization process of the Indian economy has not gathered momentum.
- Globalization, liberalization and privatization were the three cornerstones of India's New Economic Policy of 1991.
- Member nations of the World Trade Organizations are bound to progressively reduce tariff rates across the board over a definite period of time so that level playing field is created in global trade.
- For successful globalization, countries need to chalk out strategies and policies to open up the doors for the inflows of foreign direct investment (FDI).

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- Globalization can be the engine of growth by facilitating export- led growth strategy of developing country.
- Consumerism is the name given to the phenomenon of groups of consumers exerting power and influence over the companies that supply them.
- The term "consumerism" is used to refer to the consumerist movement, consumer protection or consumer activism, which seeks to protect and inform consumers by requiring such practices as honest packaging and advertising, product guarantees, and improved safety standards.
- Direct marketing is a marketing tool which comprises activities such as direct mail, telemarketing, mail order, direct response advertising and email marketing.
- Network Marketing is sometimes also used incorrectly to indicate that the business uses a network of product suppliers in order to offer a broader selection of products.
- Event marketing involves marketing of products through the sponsorship of events such as concerts, sports contests, or art exhibits.

ANSWERS TO 'CHECK YOUR PROGRESS'

1. Globalization is the process of continuing integration of the countries in the world.
2. The term consumerism is used to refer to the consumerist movement, consumer protection or consumer activism, which seeks to protect and inform consumers by requiring such practices as honest packaging and advertising, product guarantees, and improved safety standards.
3. Direct Marketing is a marketing tool which comprises activities such as direct mail, telemarketing, mail order, direct response, advertising and email marketing.
4. Event Marketing involves marketing of products through the sponsorship of events such as concerts, sports, contests, or art exhibits.

TEST YOURSELF

1) What is Globalization? Explain the role of Globalization for Indian Business.
2) What are the Dimensions of Globalization?
3) Explain various drivers of Globalization.
4) Discuss the advantages and disadvantages of Globalization.
5) What are the strategies for Globalization?
6) What do you mean by the term "Consumerism"?
7) Briefly describe Green Marketing.

NOTES

8) What is Direct Marketing? Discuss the use of Direct Marketing.

9) Write a short note on:

   a) Network Marketing

   b) Event Marketing

FURTHER READING

- *Kotler & Armstrong, Principles of Marketing Management*
- *Kotler, Keller; Marketing Management, Pearson Education*