Institute of Open and Distance Education

Faculty of Management

Marketing Management

4BBA4

Marketing Management

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Marketing Management

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UNIT 1

AN INTRODUCTION TO MARKETING

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1.0 AIMS AND OBJECTIVES

After studying this lesson, you should be able to:

- Explain the concept of market
- Understand the exchange process
- Discuss the concept of marketing
- State the nature of marketing
- Explain the scope of marketing
- Discuss the core concepts of marketing
- Explain the elements of traditional and modern marketing mix

1.1 INTRODUCTION

Marketing is as old as civilization. Though marketing is talked and discussed in business terms today, its origin goes back to the ancient civilisation when man used symbols, signs and material artifacts to transact and communicate with others. Modern marketing revolves around the concepts, which are age old. The first signs that man made to communicate with others gave birth to the idea of marketing. The evolution of marketing has made it a structured discipline to study; otherwise marketing did exist in the ancient past.

Marketing was also used as a synonym for the art of selling in the past. Even today much confusion exists between marketing and selling amongst students of management and practitioners, regarding the two dominant modes of business and exchange.

1.2 CONCEPT OF MARKET

Earlier, a market was defined as a place where buyers, sellers, resellers, and intermediaries met for exchange of goods and services. But with the changing landscape, modern day marketing has witnessed drastic changes. Globalisation and technological advances like the Internet and e-commerce empowers the marketer to overcome geographical boundaries. The market has become a virtual world and marketing comes off in space than in a geographical place. Thus, market may be defined as a set of consumers, potential consumers, past consumers, sellers, resellers and intermediaries who are involved in either the process of exchange or the process of getting involved in an exchange process. Hence, marketplace is a physical place where buyers and sellers meet for an exchange, whereas market space is the virtual world where buyers and sellers meet through the Internet.

Markets can differ in size, range, geographic scale, location, types, variety of human communities and the types of goods and services traded. Some examples include local farmers' markets held in town squares or grounds, shopping centres and shopping malls, international currency and commodity markets, etc.

We can categorise markets on the following basis:

- *Markets based on focus of the marketer:* We can classify markets into the following types:
    - *Consumer markets:* These are the markets dominated by products and services intended for the general consumer. Consumer markets are categorised into four primary categories – consumer products, food and beverage products, retail products, and transportation products. For example, market for cars.

- *Imperfect market:* In a market category, where individual firms exercise control over the price, there are fewer buyers and sellers, and the firms do not sell identical products. These markets are further divided into three parts:

  (i) Monopoly: A kind of market structure where there is a single seller and there is no close substitute for the product that is offered by the seller. The price of the product is set by the single seller (price is often regulated by some regulatory authority like the government). There are four key features of monopoly: (i) there is a single firm that sells all the output in a market, (ii) the firm or the seller offers a unique product, (iii) there are restrictions to enter and exit the industry, and (iv) other potential producers do not have access to the specialised information about the production techniques. A few examples of monopoly are local water utility, local electricity utility, railways, etc.

  (ii) Oligopoly: A kind of market structure where there are a few sellers in the market and they control the supply of a product in the market. Each seller has some degree of control over the price. There are three key features of oligopoly: (i) the industry is controlled by a small number of large firms, (ii) the firms sell either homogeneous or differentiated products, and (iii) there are significant barriers to enter the industry. A few examples of oligopoly are the petroleum, steel and aluminium industry.

  (iii) Monopolistic competition: A kind of market structure where there are many sellers (but not as many as in a perfect market) and they produce somewhat different products that are close substitutes of each other. There are four key features of monopolistic competition: (i) there are large numbers of small firms, (ii) they sell similar but not homogeneous products, (iii) there is relative freedom of entry and exit, and (iv) the producers have extensive knowledge of technology and prices.

1.3 THE EXCHANGE PROCESS

Marketing occurs when people decide to satisfy their needs and wants through the exchange of goods and services. It is the core concept of marketing. It is the act of obtaining a desired object from someone by offering something in return. For example, exchange takes place when you buy a music CD from a store and give money to the store owner or when you give your services to an organisation in return for salary.

For exchange potential to exist, the following five conditions must be fulfilled.

1. At least two parties must exist.
2. At least two things of value must form consideration for each other (for example, car and cash).
3. Each party must be able to communicate and deliver.
4. Each party must be free to accept or reject the exchange offer.
5. Each party must believe it is appropriate to deal with other party.

An exchange will actually occur only when the two parties involved can agree on terms that will leave them both better off (or at least not worse off) than before. Exchange can be looked at as a value-creating process as it usually leaves both parties better off.

Figure 1.1 shows an exchange process where customer and marketer exchange things that have value and both the parties agree to the terms and conditions of the exchange.

consumer durables, FMCGs, soft drinks, etc. (provided these goods are bought for individual use).

- *Industrial markets.* The goods and services sold in these markets are not directly aimed at final consumers. They are aimed at buyers who purchase them for use in the production of other goods and services. For example, markets for machines, photocopier, trucks, auditing services, etc.

- *Non-profit and governmental markets.* In these markets, the buyers are government agencies and non-profit institutions who buy products and services for running their organisations. For example, the military needs an incredible amount of supplies to feed and equip troops.

- ***Markets based on area:*** When area is used as a basis of market classification, the markets can be categorised into the following types:

  - *Local markets:* This market includes the client or customers who purchase the product in the region or area where it is brought forth. Marketing managers must know the target customers, their location, and the distance they are willing to travel to purchase the product. The local market includes customers located within the region where the products or services are available. For example, vegetable market, hairdressers, tailors, etc.

  - *National markets:* This market encompasses domestic marketplace for goods and services functioning within the borders and is governed by the regulations of a particular country. The health of national markets can be a deciding factor for business success. For example, spice market located in Kerala, rice market located in Kolkata, etc.

  - *International markets.* This market is for products and services that are bought by consumers residing outside the national boundaries of the country to which the manufacturing company belongs. For example, for companies like Tata Motors, Reliance, Wipro, etc., all countries except India constitute international market.

- ***Markets based on the nature of competition:*** The most important form of market classification is based on the nature of competition, i.e., the buyer-seller interaction. On this basis, the markets can be classified as:

  - *Perfect competition.* This is a kind of market structure which reflects a perfect degree of competition and where a single price prevails. The concept of perfect competition was propounded by Dr. Alfred Marshall. It is a free market situation in which the following conditions are fulfilled:

    (i) buyers and sellers are numerous in numbers but a few have a degree of individual control over the prices;

    (ii) buyers and sellers attempt to maximise their profit (income);

    (iii) buyers and sellers are free to get in or leave the market,

    (iv) buyers and sellers are endowed with the information regarding availability, price, and quality of goods being traded; and

    (v) goods of a specific category are homogeneous, hence they are interchangeable for one another. This market structure is also called perfect market or pure competition.

    The industry that closely resembles perfect competition in real life is the agricultural industry.

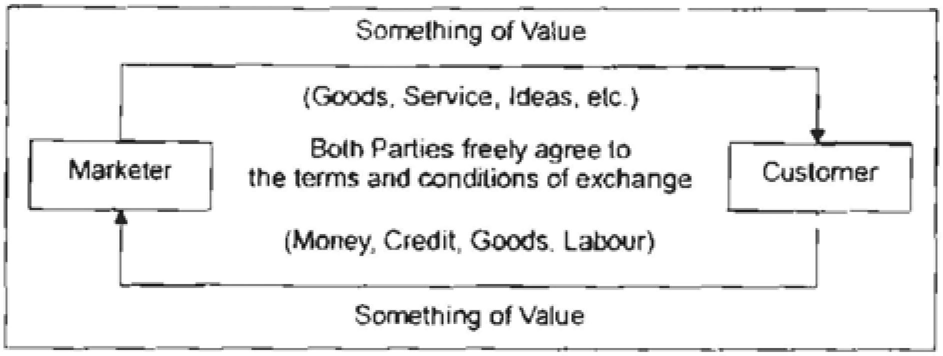

Figure 1.1: The Concept of Exchange

You must note that an exchange is not an event. It is a process of negotiation in which both the parties try to arrive at mutually agreeable terms. When they reach an agreement, we say that a transaction takes place. A transaction involves at least two things of value, agreed-upon conditions, a time of agreement and a place of agreement.

Generally, a legal system exists to support and enforce compliance among the parties involved in a transaction.

You must also note that transactions do not require money as one of the traded values. For example, in a barter transaction, goods or services are traded for other goods or services.

1.4 WHAT IS MARKETING?

Man is a social animal. Human needs and wants are shaped by interplay of various social forces. Marketing evolves through this peculiar social system. It involves relationships among members of the society. It helps business enterprises to estimate consumer demand and produce for their satisfactory consumption. It helps in anticipating customer demand and creating satisfied customers through conception, production, promotion and physical distribution of goods and services in a socially relevant exchange process.

American Marketing Association defines marketing as "the performance of business activities that direct the flow of goods and services from producer to consumer or user". This definition seems somewhat narrow because of its emphasis on flow of products that have already been produced. This definition is more of a physical distribution oriented idea, which presupposes that there is nothing beyond smooth flow of quality goods and services to customers.

Philip Kotler defines marketing as a societal process by which individuals and groups obtain what they need and want through creating, offering and freely exchanging products and services of value to each other. Marketing is an ongoing process of discovering and translating consumer needs and desires into products and services, creating demand for these products and services, serving the consumer and his demand through a network of marketing channels and expanding the market base in the face of competition. From a broader social point of view, definition of Paul Mazur is more relevant. Mazur defines marketing as the creation and delivery of a standard of living to society. This is a much broader approach, which views the firm as an organised behaviour system designed to generate outputs of value to consumers.

Marketing is defined as development and distribution of goods and services for chosen consumer segments by which profitability is achieved with a goal of customer satisfaction. Marketing activities begin with new product concepts and designs are analyzed and developed to meet specific consumer needs. This elaborate definition of marketing includes many other organisational activities other than mere distribution function.

An effective marketing effort is in accordance with ethical business practices and should be effective from both the social and business point of view. This approach emphasizes the need for efficiency in distribution. The nature, type and degree of efficiency are largely dependent upon the kind of marketing environment within which the enterprise operates. Final assumption is that the customer determines the marketing program. The marketer identifies those consumer segments that will be satisfied through production and marketing activities of the enterprise before actually producing the products and services.

Modern marketing involves transactions of ten entities – namely physical goods, intangible services, places, persons, events, possessions, corporate organisations, information or knowledge and ideas. Most of the marketing efforts revolve around physical goods coming out of the manufacturing systems. Indian companies make products from safety pins to rockets and satellites. Physical products manufactured for both consumer and business markets constitute a large percentage of gross domestic product. As the economy progresses and avenues for consumption increase due to increase in standard of living and disposable income, marketing of services gains importance. Services like airlines, tourism, banking, hospitality demand more marketing attention compared to erstwhile physical products.

1.5 NATURE OF MARKETING

The points given below elaborate nature of marketing:

- ***Creation of utilities:*** Marketing creates four components of utilities viz. time, place, possession and form. The form utility refers to the product or service a company offers to their customers. The place utility refers to the availability of a product or service in a location i.e., easier for customers. By time utility, a company can ensure that products and services are available when customers need them. The possession utility gives customers ownership of a product or service and enables them to derive benefits in their own business.
- ***Goal oriented:*** Marketing seeks to achieve benefits for both buyers and sellers by satisfying human needs. The ultimate goal of marketing is to generate profits through the satisfaction of the customer.
- ***Guiding element of business:*** Modern marketing is the heart of industrial activity that tells what, when, how to produce. It is capable of guiding and controlling business.
- ***System of interacting business activities:*** Marketing is the system through which a business enterprise, institution or organisation interacts with the customers with the objective to earn profit, satisfy customers and manage relationship. It is the performance of business activities that direct the flow of goods and services from producer to consumer or user.
- ***Marketing is a dynamic process of series of interrelated functions:*** Marketing is a complex, continuous and interrelated process. It involves continuous planning, implementation and control.

1.6 SCOPE OF MARKETING

Marketing is a mixture of various activities that will get the consumer to buy a product. These activities are referred to as marketing functions. Figure 1.2 depicts the major functions of marketing.

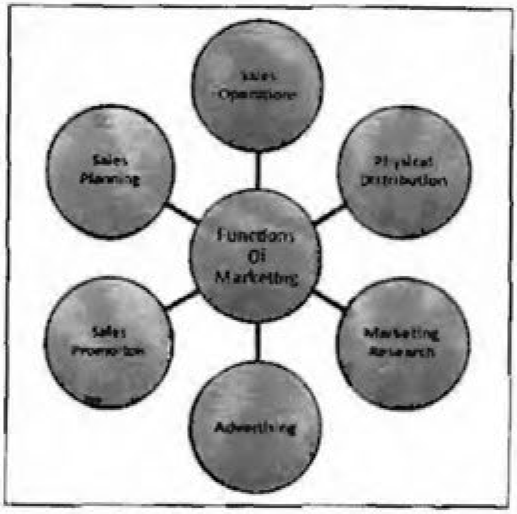

Figure 1.2: Functions of Marketing

Let us now study the functions in detail:

- ***Marketing research:*** Marketers need to approach their customers in a scientific manner. Marketing research provides a basis for it as it is basically concerned with gathering data about the market. So, market analysis (measurement and evaluation of target market and its characteristics), product/service determination (analysis of consumer aspirations, expectations, tastes, functional and economic utility) and distribution analysis are the important sub-functions of marketing research.

- ***Advertising:*** Advertising is a mass media tool. It is perhaps a very powerful tool in the hands of the marketer, particularly in consumer goods markets. It is an impersonal presentation and promotion of ideas, products or services that are paid by the sponsors. It attempts to inform, persuade and remind customers about the products and services.

- ***Sales promotion:*** This is a short-term incentive to boost sales. It acts as a supplement to personal selling and advertising. Usually, marketers use various sales promotion devices when the product is launched and when the product reaches its maturity. Consumer sales promotion and dealer sales promotion are the important sub-functions of a sales promotion programme.

- ***Sales planning:*** This function involves the planning for marketing of the right products at the right prices. The sub-functions include formulating sales plans, price and quantity determinations, packaging and budgeting (forecast sales, setting sales quota and estimating sales expenses).

- ***Sales operations:*** This is concerned with transferring of products to the customer point. Organising field and indoor sales force and their management are the sub-functions of sales operations. Sales force management includes recruitment, training, direction and supervision, compensation and evaluation.

- ***Physical distribution:*** Moving and handling of products comes under physical distribution. Order processing, inventory, warehousing and transportation are the key decisions to be assessed in the physical distribution system.

1.7 IMPORTANCE OF MARKETING

Peter Drucker, popularly known as the father of modern management, said in one of his articles that "marketing is everything". All other activities in the organisation are support services to the marketing strategy that a firm pursues.

Marketing is important for the following:

- ***Importance of marketing for the consumer***
  - It provides more alternatives to choose from, controls the price mechanism and allows the consumer to bring a balance between his/her income and level of consumption.
  - It ensures that high quality goods and services are available to the customers at the right time and at the right place.
- ***Importance of marketing for the economy***
  - It opens new vistas of research by supporting product innovation and enhancing the quality of life of the people of the economy.
  - It generates resources that are ploughed back to the economic system which accelerates the growth cycle of the country.
  - It generates additional employment, increases per capita income and helps in the overall progress of an economy.
- ***Importance of marketing to society***
  - *Improving the standard of living:* The main object of marketing is to provide goods and services to the people in the society according to their needs and tastes at a reasonable price. It is to satisfy the wants and demands of people. According to a management thinker, marketing is the delivery of standard of living to society. So marketing creates, maintains and increases the demand of new and existing products and thus raises the standard of living of the people.
  - *Provides employment:* According to an estimate, 40 percent of the labour force in developed economies is engaged in different marketing activities.
  - *Reduction in cost:* By reducing the cost of distribution to a minimum marketing aims at delivering goods and services that might be within the reach of a maximum number of consumers. It increases the level of consumption in the society. Reduction in the cost of distribution directly reduces the prices of the goods and services to the customers. As a result, a greater number of consumers are able to purchase them.
  - *Increase in national income:* Sound marketing system is associated with the creation of an increased demand for goods and services. An increased demand stimulates production activity in the country which in turn increases the national income.
- ***Importance of marketing to the firm***

  Marketing plays an important role for the well-being of a firm. As Peter F. Drucker says, marketing is the distinguishing and the unique function of the business.
  - *Better business decision making:* Marketing is helpful not only to plan the production but it is helpful also in business planning and taking various decisions regarding the business. A firm will produce what it can sell or as much quantity as it can sell and not what and how much it can produce. Thus, marketing decisions affect the business decisions.
  - *Increasing profitability:* Every business has its inherent profit motive. Marketing helps in increasing the business profits by reducing the selling cost, on the one hand and by increasing the demand of the product through advertising and sales promotion activities, on the other hand.

- *Increasing communication with society:* A business collects various information regarding consumers behaviour and their changes from time to time through marketing. Marketing also provides information to the firm of the competitor's price policies, production policies, advertising and sales promotion policies and distribution policies. It helps the firm in framing its own policies. Moreover, marketing provides extensive information of the product regarding its quality, price, utility and place of availability to the society.

- ***Importance of marketing to the other business functions of the organisation***

  - Companies have learned that their marketing departments cannot exist in isolation from the other functional departments of their organisation. The importance attached to an organisation's marketing activities is influenced by the nature of the environment in which the organisation operates. In a production-oriented firm, a marketing department has little role to play other than merely processing orders. In a truly marketing-oriented company, marketing responsibilities cannot be confined to something called a marketing department. In the words of Drucker, marketing is so basic that it cannot be considered to be a separate function. It is the whole business seen from the point of view of its final result, that is, from the customer's point of view. In marketing-oriented organisations, the customer should be the concern not just of the marketing department, but also all of the production and administrative personnel whose actions may directly or indirectly create value in the mind of customers. For example:

    - The selection, training, motivation and control of staff by personnel managers cannot be considered in isolation from marketing objectives and strategies as marketing demands highly trained and motivated front line staff.

    - Production managers tend to prefer long production runs of standardised products but marketers increasingly try to satisfy market niches with specially adapted products.

    - Finance managers actions in respect of the level of credit offered to customers can significantly affect the quality of service and the volume of customers with which the marketing department is able to do business.

    Marketing orientation requires all of these departments to think about customer and work together to satisfy the customer needs and expectations. A number of initiatives have sought to organise the activities of a company around processes that create value as perceived by customers.

1.8 EVOLVING MARKETING CONCEPTS

Marketing concepts or philosophies refer to a general thought or idea which is used by firms to effectively and efficiently achieve their goals through identification and satisfaction of consumer needs and wants.

1.8.1 Traditional Concept of Marketing

According to this concept, marketing consists of those activities which are concerned with the transfer of ownership of goods from producers to consumers. Thus, marketing refers to selling of goods and services. In other words, it is the process by which goods are made available to ultimate consumers from their place of origin. The traditional concept of marketing corresponds to the general notion of marketing which means selling goods and services after they have been produced. The emphasis of marketing is on sale of goods and services. Consumer satisfaction is not given adequate emphasis. Viewed in this way, marketing is regarded as production/sales oriented.

1.8.2 Modern Concept of Marketing

According to the modern concept, marketing is concerned with creation of customers. Creation of customers means identification of consumer needs and organising business to satisfy these needs. Marketing in the modern sense involves decisions regarding the following matters:

1. Products to be produced.
2. Prices to be charged from customers.
3. Promotional techniques to be adopted to contact and influence existing and potential customers.
4. Selection of middlemen to be used to distribute goods and services.

Modern concept of marketing requires all the above decisions to be taken after due consideration of consumer needs and inner satisfaction. In business, the objective of earning profit is sought to be achieved through provision of consumer satisfaction. This concept of marketing is regarded as consumer oriented as the emphasis of business is laid on consumer needs and their satisfaction.

Business enterprises conduct their marketing activity around these concepts.

Production Concept

The production concept emerges out of the production orientation of the firm. It is based on the idea that the more we make, the more profitable we become. So let us go out there and make customers buy our products. The basic proposition is that customers will choose products and services that are widely available and are of low cost. So managers try to achieve higher volume by lowering production costs and following intensive distribution strategy. Managers believe that consumers prefer products that are priced low and are widely available. This seems a viable strategy in a developing market where market expansion is the survival strategy for the business. Companies interested to take the benefit of scale economies pursue this kind of orientation. It is natural that the companies cannot deliver quality products and suffer from problems arising out of impersonal behaviour with the customers. Application of this concept leads to poor quality of service and higher level of impersonalisation in business.

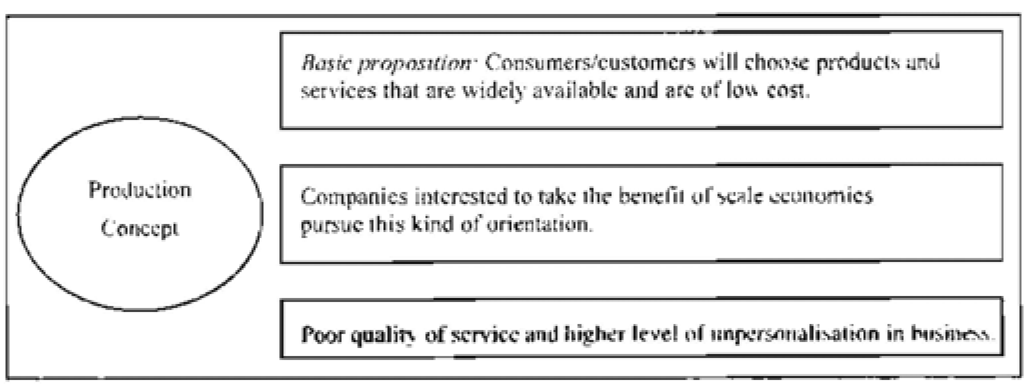

Figure 1.3: Production Concept

Product Concept

The product concept has the proposition that consumers will favour those products that offer attributes like quality, performance and other innovative features. Managers focus on developing superior products and improving the existing product lines over a period of time. Innovations in the scientific laboratory are commercialised and consumers get an opportunity to know and use these products. This is called "Technology Push Model". The problem with this orientation is that managers forget to read the customer's mind and launch products based on their own technological research and scientific innovations. Many-a-times it is observed that innovations enter in the market before the market is ready for the product. Innovative products are launched without educating the customers about them and the probable benefit or value that the customer is likely to get by using the new products. The Golden Eye Technology was brought to the Indian market by the television major Onida but the market could not perceive the benefit of this advantage. Subsequently, as the customers became aware of the various brands and technology related to televisions, LG brought the new technology to the market and achieved marketing success.

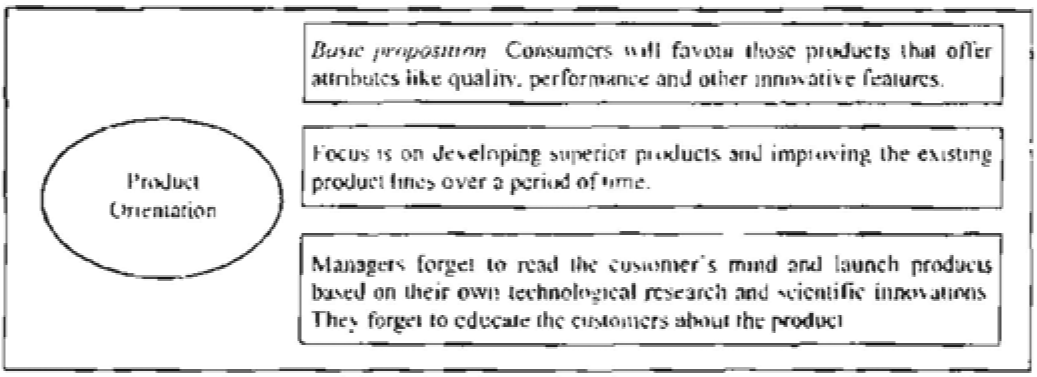

Figure 1.4: Product Concept

Selling Concept

The selling concept proposes that customers, be they individuals or organisations will not buy enough of the firm's products unless they are persuaded to do so through the selling effort. So companies should undertake selling and promotion of their products for marketing success. The consumers typically are inert and they need to be goaded into buying by converting their inert need into a buying motive through persuasion and selling action.

This approach is applicable in the cases of unsought goods like life insurance, vacuum cleaner, and firefighting equipment's including fire extinguishers. These industries are seen having a strong network of sales force. Firms with high capacity apply this orientation in which their goal is to sell what they produce than what the customer really wants. In a modern marketing situation, the buyer has a basket to choose from and is also exposed to a high decibel of advertising. Effectiveness of such an orientation comes down as more and more mass media is used for the purpose of brand communication. Use of this concept breeds the misconception that marketing is all about selling. The problem with this approach is the assumption that the customer will certainly buy the product after persuasion and if dissatisfied will not complain. In reality, this does not happen and companies pursuing this concept often fail in business.

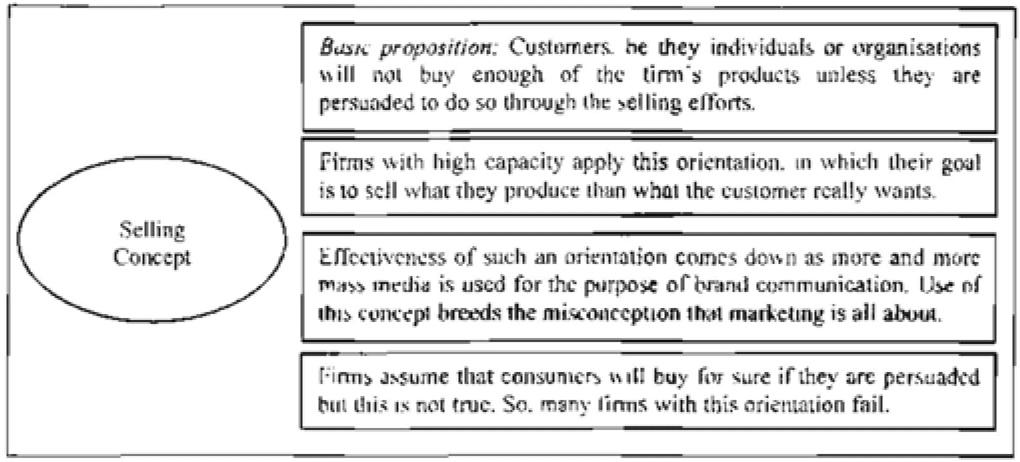

Figure 1.5: Selling Concept

Marketing Concept

The marketing concept proposes that the reason for success lies in the company's ability to create, deliver and communicate a better value proposition through its marketing offer, in comparison to the competitors for its chosen target segment. According to Theodore Levitt, "Selling focuses on the needs of the seller and marketing focuses on the buyer. Selling is preoccupied with the seller's need to convert his product into cash, marketing deals with the idea of satisfying customer needs by offering a quality product and the whole cluster of things associated with creating, delivering and finally consuming it". The marketing concept is an elaborative attempt to explain the phenomenon that rests on four key issues like target market, customer need, integrated marketing communication and profitability.

Companies are interested in increasing their market share, profitability and expect a higher return on investment. Instead of spending on a mass, undifferentiated market, they prefer looking for specific product markets to which their product will best match and accordingly design a marketing program that suits the taste of this target segment. The next important act is the understanding of the need of the customer so that we can design and offer a suitable product or service for higher customer satisfaction. Needs are the inner state of felt deprivation. They can be spelt and un-spelt also. It is difficult to understand the un-spelt need of the customer.

Marketers use various sophisticated techniques of consumer research to understand customer need. It is important to understand and act upon the need of the customer because the effort to keep a satisfied customer is almost one-fifth of the effort expended to get a new customer. The whole organisation has to be integrated to this *mantra* of customer satisfaction. So business needs an integrated approach. The integration has to start at the marketing department level where various key marketing functions like product design, distribution channel selection, advertising, sales promotion, customer service and marketing research needs to be integrated with the understanding of common marketing goals.

Success of the marketing concept depends on enterprise-wide adaptation of marketing culture. If every department thinks about the customers and keeps them in the forefront of their decision-making, then the organisation can achieve a complete market oriented culture. Marketing has both internal and external orientations. While external marketing targets customers outside the organisation, internal marketing targets customers inside the organisation who can be trained to serve the end customer better. The ultimate goal of any business house is to earn profit. Today's world not only looks at profit but also tries to benchmark the effort and cost required to achieve this level of profit. In the current situation, profitability of the enterprise is derived through better customer orientation. So, profitability is now a by-product that comes out of efforts and strategies followed by firms in creating superior product value and higher costomer satisfaction.

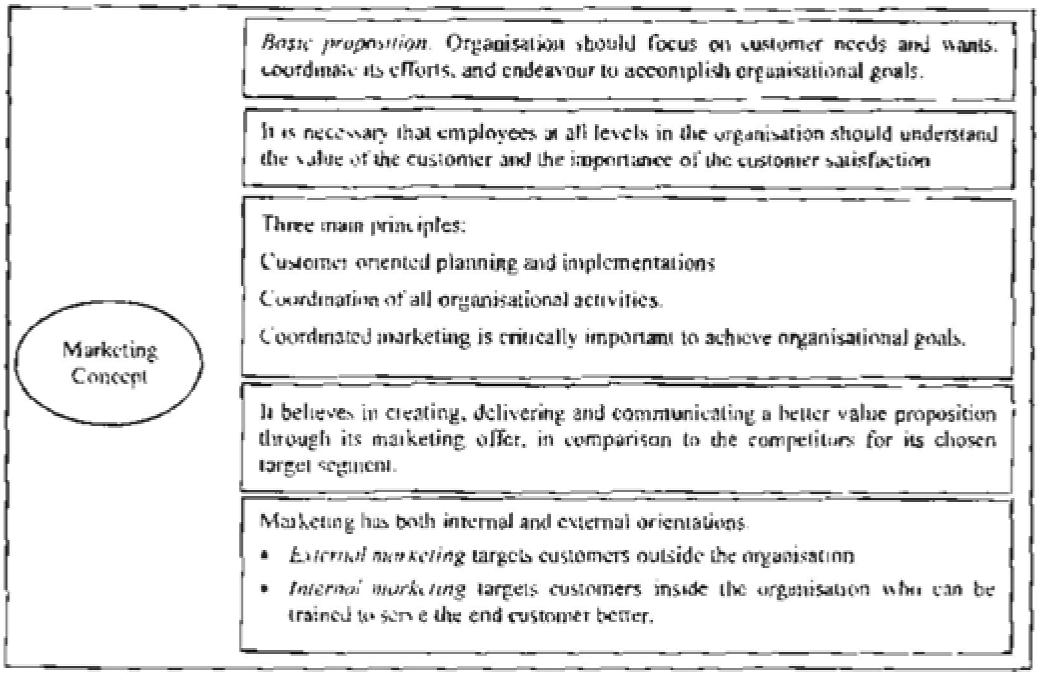

Figure 1.6: Marketing Concept

Relationship Marketing

Companies in developed countries and many businesses in developing countries aim to satisfy customer needs and build lasting relationships. The issue focuses on reliability and trust between customer and organisation. As a result of this customer focus, a whole new subject, customer relationship management is now studied in marketing courses.

The term relationship marketing refers to long-term and mutually beneficial arrangements wherein both buyer and seller focus on value enhancement through the creation of more satisfying exchanges.

The new approaches to marketing such as experiential, permission and one-to-one marketing can all be seen as means of creating stronger relationships with customers. The emphasis is on developing long-term bonds with customers by making them feel good about how the firm interacts or does business with them by giving them some kind of personal connection to the company.

Societal Marketing

Societal marketing believes that the enterprise's task is to determine the needs and wants of the consumers and to deliver the expected satisfaction more effectively and efficiently than the competitors in a way to preserve or enhance the consumer's and society's well-being. It combines the best elements of marketing to bring social change in an integrated planning and action framework with the utilisation of communication technology and marketing techniques. It also expects marketers to instill social and ethical considerations into their marketing decisions. The goals of profit maximisation should match with the goals of customer satisfaction and responsible corporate citizenship. Social marketing often termed as cause related marketing, utilizes concepts of market segmentation, consumer research, product concept development, product testing and brand communication to maximise the target segment response.

Experience Marketing

This concept is the based on creating an experience where the result is an emotional connection to a person, brand, product or idea. It is a form of marketing or advertising based on the principle of marketing a product or brand through an experience rather than the placement of advertisements.

It involves the events, contests, interactive campaigns to promote use of the product or service. Customer service, special events, product give-away (free-sampling) and PR stunts have engaged consumers and the public emotionally.

In today's changing scenario, there has been a rise in the experience concept which is attributed, mainly to the three major factors:

1. Perception (considered as a new approach)
2. It results in the word of mouth publicity rather than connecting with public via traditional media.
3. Creating an emotional connection through an experience has worked for brands in the past.

Green Marketing

It is the marketing of products that are presumed to be environmentally safe. It incorporates the range of activities, including product modification, changes to the production process, packaging changes, as well as modifying advertising.

It is basically the marketing of the eco-friendly products. It refers to the ecological marketing as well. Due to excessive change of the natural environment, the companies now-a-days are focusing on the green marketing concept. They are producing the products which are more eco-friendly and less harmful to the consumers.

Example: HP has promised to cut its global energy use 20 percent by the year 2010. The Hewlett-Packard Company announced plans to deliver energy-efficient products and services and institute energy-efficient operating practices in its facilities worldwide.

1.9 IMPORTANCE OF MARKETING AS A SUBJECT OF STUDY

In one of his classic articles, Peter F. Drucker said that marketing is everything. All other activities in the organisation are support services to the marketing strategy that a firm pursues. Marketing has higher significance in an emerging economy, where it not only has to satisfy the customer's needs but also to support the process of economic development. The success of business is known by its achievement in the marketing front, measured in terms of profits, market share and cash flows. Marketing is also important for a consumer as it provides more alternatives to choose from, controls the price mechanism, allows the consumer to bring a balance between his income and level of consumption. It is important to the economic progress of the country as it opens up new vistas of research by supporting product innovation and enhancing the quality of life for the ultimate consumer.

Marketing generates resources that are ploughed back to the economic system, which hastens the growth cycle for the country. Over a period of time, the people in industry, government and academia have realised the importance of marketing. Therefore, special concentration is paid under the domain of marketing to understand consumer behaviour, marketing for services and industrial products, effects of advertising and sales promotion on consumers. Marketing brings revenue and earns goodwill for a manufacturer or a marketer, provides alternatives of choice in goods and services to the consumer and enables society in redistribution of income, generation of additional employment through manufacturing, trading and improvement in the overall standard of living of the citizens of a country.

Marketing managers use different strategic and management tools like environmental scanning, marketing opportunity analysis, forecasting techniques, tools for evaluation and tracking of consumer choices. Marketing helps the consumers to exercise greater choices and have a final say in the success of offers. Easy availability of high quality goods and services at competitive prices is made possible by efficient marketing systems. Marketing management creates time, place and possession utility for products and services. Products and services are useful if they are available for consumption at the right time and place. Marketing management creates such utilities. It generates additional employment, increases per capita income and helps in the overall progress of an economy.

1.10 CORE CONCEPTS OF MARKETING

Now let us learn some core concepts in marketing.

1.10.1 Market

A market can be viewed as any person, group or organisation with which an individual, group or organisation has an existing or potential exchange relationship. We can distinguish four broad markets:

1. Consumer markets
2. Business markets
3. Global or international markets
4. Non-profit and governmental markets

1.10.2 Marketing and Selling

Many managers use 'marketing' and 'selling' as synonyms, though there is a substantial difference between both the concepts. A successful marketing manager must understand the differences between them. Selling and marketing bring different orientations to business; hence managers are expected to follow different kinds of strategies for business success.

Table 1.1: Differences between Selling and Marketing

Emphasis is on the product	Emphasis on consumer needs and wants
Company manufactures the product first and then decides to sell it	Company first determines customers' needs and wants and then decides on how to deliver a product to satisfy these wants.
Management is sales volume oriented	Management is profit oriented.
Planning is short-run-oriented, in terms of today's products and markets	Planning is long-run-oriented, in terms of new products, tomorrow's markets and future growth.
Stresses needs of seller.	Stresses needs and wants of buyers.
Views business as a goods producing process.	Views business as consumer satisfying process
Emphasis is on staying with existing technology and reducing costs	Emphasis is on innovation in every sphere, on providing better value to the customer by adopting a superior technology.
Different departments work in highly separate water tight compartments.	All departments of the business operate in an integrated manner, the sole purpose being generation of consumer satisfaction.
Cost determines price.	Consumer determines price; price determines cost.
Selling views customer as the last link in business	Marketing views the customer as the very purpose in business.

1.10.3 Needs, Wants and Demand

Needs are part of the basic fabric of human life. A need can be defined as a felt state of deprivation of some basic satisfaction. This means that unless the individual feels deprived of some basic satisfaction, at least for this individual, the need does not exist. Humans have a long list of needs, some very basic and others complex.

- The basic needs are physiological or biogenic in nature and individuals are born with them. These needs are essential to sustaining human life such as need for air, water, food, shelter, clothing and sex. These basic needs are also referred to as primary needs.
- Other types of needs are those that individuals learn as a result of being brought up in a culture and society such as need to belong, acquire knowledge, self-expression. self-esteem, prestige, power, achievement, etc. These are considered as secondary needs, also called acquired needs and generally believed to be the result of an individual's subjective psychological make up and relationship with others.

To differentiate between need and want, let us assume four individuals are hungry; their need is food. Assuming they have the resources to get involved in acquiring food to satisfy hunger. they go to McDonald's.

One orders a vegetable burger, the second orders a puff, the third asks for a chicken burger and the fourth buys a huge ice cream. All of them are eating some variation of food to satisfy hunger. The specific satisfier that an individual looks for defines the want. Therefore, wants are specific satisfiers of some needs. Individual wants are shaped by culture, lifestyle and personality. For example, an individual buys a Mercedes as a status symbol and a tribal chief in some remote area of Amazon rain forests sticks an eagle feather in his headgear as status symbol.

To satisfy any given need, different people may express a variety of wants and the total number of wants for all sorts of needs is apparently unlimited. Just because people have needs and wants is not enough to affect exchanges. The resources to acquire the products are limited for every individual and hence people want to buy products that they believe will provide the maximum value and satisfaction for their money. When the want is backed by purchasing power, it is called the demand and marketers are particularly interested in demand rather than just needs or wants. Marketing aims at identifying human and social needs and endeavours to satisfy them by creating, communicating, and delivering products and services. According to Kotler. marketers are involved in marketing 10 different entities: tangible products. services. events, information, ideas, places, persons, experiences, properties and organisations to accomplish the objective of delivering satisfaction to customers.

1.10.4 Product and Services

Products and services fulfill the needs and wants of the consumers.

A product is a mix of intangibles and tangibles offered by the marketer at a price. For example. cars, food, air conditioner, mobiles, etc.

Services are intangible products that are not goods. For example, accounting, teaching, hair dressing, etc. Customer service is the provision of service to customers before, during and after a purchase.

1.10.5 Concept of Exchange

The concept of exchange is the essence and central to marketing thinking. Unless there is actual or potential exchange, there is no marketing. People can acquire what they need or want by pursuing socially acceptable behaviours or the behaviours not approved by the society. Two socially acceptable approaches of acquiring things include self-producing or exchanging what a person needs or wants.

The third method, begging is viewed in some societies as somewhat a less than dignified way of acquiring things.

The fourth approach may include behaviours such as shoplifting, burglary, or using potentially threatening force, etc., to acquire things, and these means are totally unacceptable by all civilised societies and punishable by law. The highly regarded way to acquire what a person needs or wants is the concept of exchange in marketing context.

Both parties in an exchange offer something of value and freely acceptable to each other. It is understandable that parties involved in an exchange must first agree to terms and conditions laid-down by each party so that actual exchange takes place.

1.10.6 Customer Value and Satisfaction

In developed and developing economies, consumers have several products or brands to choose from to satisfy a given need or a group of needs. Much depends on what consumers' perceptions are about the value that different products or services are expected to deliver. The sources that build customer expectations include experience with products, friends, family members, neighbours, associates, consumer reports and marketing communications.

Customer value is the ratio of perceived benefits and costs that the customer has to incur in acquiring that product or service. The emphasis here is on customers' perceptions and not the accurate, objective evaluation of value and costs as customers often do not judge values and costs accurately.

Value indicates that a certain product or service is perceived as having the kinds and amounts of benefits (economic, functional and emotional) that customers expect from that product or service at a certain cost (monetary costs, time costs, psychic and energy costs). Thus, value is primarily determined by a combination of quality, service and cost.

The value to the customer can be made favourable either by increasing the total benefits at the same cost, maintaining the same benefit level and decreasing the cost, or increasing both the benefits and the costs, but the proportion of benefits is higher than the increase in costs.

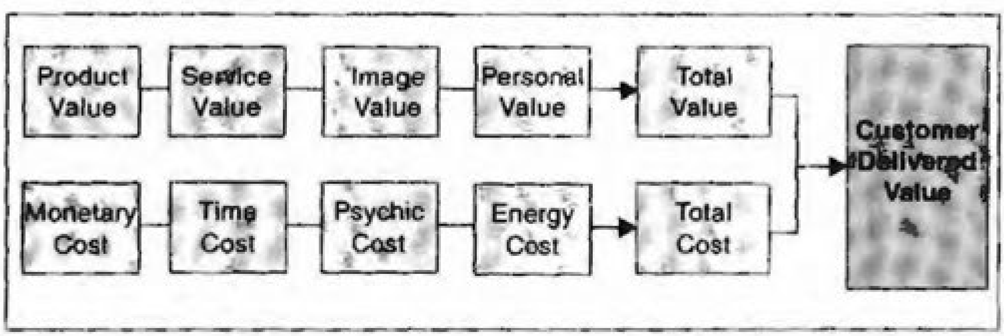

Figure 1.7: Satisfaction Depends on Customer's Perceived Total Costs and Value

Customers generally experience satisfaction when the performance level meets or exceeds the minimum performance expectation levels. Similarly, when the performance level far exceeds the desired performance level, the customer will not only be satisfied but will also most likely be delighted.

In cases of dissatisfaction, the customer might completely abandon the company and bad-mouth its products or services, a process over which a marketer has no control. In the true sense, marketing starts with the customer and ends with customer.

1.11 MARKETING TASKS

In a nutshell, marketing is demand management and the demand for products and services often requires different approaches for a variety of reasons. There may also be other situations where demand management would require different types of handling. For example, demand for hotel accommodation at Mussoorie declines during a severe winter. Philip Kotler and Sidney J. Levy identified eight major demand states in two different articles:

1. ***Negative Demand:*** This situation is faced when a major part of the target market dislikes the product and may even pay a price to avoid it. The marketing task is to unearth and analyze the reasons for this state, and to learn if a product redesign or change in marketing mix elements can help.
2. ***No Demand:*** The customers may be unaware or indifferent towards the product. The remedy is to create product awareness and connect product benefits to customers' needs and wants.
3. ***Dormant Demand:*** This may occur when the currently available products fail to satisfy the strong needs that customers feel. To meet the latent demand more effectively, the marketing task is to develop product or service if the market size is favourable.
4. ***Falling Demand:*** Sooner or later, companies face this situation with respect to their products or services. The task is to reverse this trend, and marketing should find out the reasons and take swift remedial action. New markets, product feature modification or more focused and effective promotion may hold the solution.
5. ***Fluctuating Demand:*** Many companies experience this pattern, the demand varying according to the season or festivals, etc. The task is to synchronize marketing efforts to alter the demand pattern by adopting flexible pricing and sales promotion techniques.
6. ***Full Demand:*** This is a situation all companies aspire and work for. The task is to maintain the level of demand and keep pace with the changing customer preferences and ever increasing competition and monitor customer satisfaction.
7. ***Excess Demand:*** At this demand level, the company is unable to meet the demand level. The only option usually available is to find ways to decrease demand temporarily or permanently. Generally, marketing seeks to discourage overall demand through demarketing, either by increasing prices or reducing promotion and services. Selective demarketing involves reducing demand from those markets that are less profitable.
8. ***Unwholesome Demand:*** This concerns managing demand for harmful products. The marketing task is to make the public aware about the dangers and harmful effects caused through misuse or over use of such products by using appropriate degree of fear appeals, price hike or reduced availability.

1.12 P'S OF MARKETING – THE MARKETING MIX

A marketing mix is the combination of the elements of marketing and what roles each element plays in promoting your products and services and delivering those products and services to your customers. The term marketing mix became popular when Neil H Borden published his 1964 article 'The Concept of Marketing Mix'

Traditional P's

Traditional there were 4 P's of marketing that are the elements of a marketing mix. They are:

1. ***Product:*** The products or services offered to your customer. Their physical attributes, what they do, how they differ from your competitors and what benefits they provide.

2. ***Price:*** How you price your product or service so that your price remains competitive but allows you to make a good profit. How price plays a role in your marketing strategy with respect to differentiating your products or services from your competitors'.

3. ***Place (also referred to as distribution):*** Where your business sells its products or services and how it gets those products or services to your customers. May also be used in your marketing strategy to differentiate you from your competition.

4. ***Promotion:*** The methods used to communicate the features and benefits of your products or services to your target customers

Modern Mix (including P's for Services)

In services marketing, we have an extended mix, which has three other elements in addition to the four given above. They are:

1. ***People:*** It is an essential ingredient to any service provision is the use of appropriate staff and people. Recruiting the right staff and training them appropriately in the delivery of their service is essential if the organisation wants to obtain a form of competitive advantage. Consumers make judgments and deliver perceptions of the service based on the employees they interact with. Staff should have the appropriate interpersonal skills, aptitude and service knowledge to provide the service that consumers are paying for.

2. ***Process:*** It refers to the systems used to assist the organisation in delivering the service Imagine you walk into Burger King and you order a Whopper Meal and you get it delivered within 2 minutes. What was the process that allowed you to obtain an efficient service delivery? Banks that send out Credit Cards automatically when their customers old one has expired again require an efficient process to identify expiry dates and renewal. An efficient service that replaces old credit cards will foster consumer loyalty and confidence in the company.

3. ***Physical Evidence:*** Where is the service being delivered? Physical evidence is the element of the service mix which allows the consumer again to make judgments on the organisation. If you walk into a restaurant your expectations are of a clean, friendly environment. On an aircraft if you travel first class you expect enough room to be able to lay down! Physical evidence is an essential ingredient of the service mix, consumers will make perceptions based on their sight of the service provision which will have an impact on the organisations perceptual plan of the service.

Check Your Progress

Fill in the blanks:

1. ____________ can differ in size, range, geographic scale, location, types, variety of human communities, and the types of goods and services traded.
2. An ____________ will actually occur only when the two parties involved can agree on terms that will leave them both better off (or at least not worse off) than before.
3. A business collects various information regarding consumers behaviour and their changes from time to time through ____________.
4. Due to excessive change of the natural environment, the companies now-a-days is focusing on the ____________ marketing concept.
5. ____________ can be defined as a felt state of deprivation of some basic satisfaction.

1.13 LET US SUM UP

- Marketing is a dynamic and all pervasive subject in business, that makes the whole organisation ready to serve the customers. So, success of a business largely depends on the success of marketing.
- There are various definitions to marketing. We can generalise the definition, through the definition of the famous marketing author, Philip Kotler who defines marketing as a social activity directed towards satisfying customer needs and wants through an exchange process. It is a process of identifying consumer needs, developing products and services to satisfy consumer needs, making these products and services available to the consumer through an efficient distribution network and promoting these products and services to obtain greater competitive advantage in the market place.
- Marketing, as a concept, has evolved over a period of time and has witnessed changes and modifications with the progress of civilization. It has augmented exchange with dominating paradigms in marketing. They are production concept, product concept, selling concept, marketing concept and societal concept. People often confuse between selling and marketing.
- Core concepts of marketing include: markets, marketing and selling, needs, wants and demand, exchange, customer value and satisfaction and relationship marketing.
- Traditional 4P's include product, price, place and promotion. The modern mix includes these four and three other elements namely people, physical evidence and process. All these together are referred to as marketing mix.

1.14 UNIT END ACTIVITY

Conduct a small survey among customers of a retail store nearby your area and find out the difference between the customers' expectations of service and what is being delivered at the counter.

1.15 KEYWORDS

Marketing: A societal process by which individuals and groups obtain what they need and want through creating, offering and freely exchanging products and services of value with others.

Marketing Orientation: It requires the firm to look for consumer needs and the necessity to search for new opportunities to satisfy the consumers in a better way than the competitor.

Production Concept: It emerges out of the production orientation. The basic proposition is that customers will choose products and services that are widely available and are of low cost.

Product Concept: This has the proposition that consumers will favour those products that offer the most attributes like quality, performance and other innovative features.

Selling Concept: It proposes that customers, be they individual or organisations will not buy enough of the organisation's products unless they are persuaded to do so through selling effort.

Marketing Concept: It proposes that the reason for success lies in the company's ability to create, deliver and communicate a better value proposition through its marketing offer in comparison to the competitors for its chosen target market.

Societal Marketing Concept: This proposes that the enterprise's task is to determine the needs, wants and intentions of the target market and to deliver the expected satisfaction more effectively and efficiently than the competitors' in a way to preserve or enhance the consumer's and society's well-being.

Exchange Process: It occurs when the buyer with a demand and a seller with a product offering confront each other.

Needs: A condition or situation in which something is required.

Wants: It is something that is desired.

Demand: A want or desire backed by the ability and willingness to pay.

Relationship Marketing: It is a marketing strategy whose objective is to establish and maintain a profitable, long term relationship with a customer.

Marketing Mix: It is the combination of the elements of marketing and what roles each element plays in promoting your products and services and delivering those products and services to your customers.

1.16 QUESTIONS FOR DISCUSSION

1. Explain market and types of market.
2. Define marketing. Explain how marketing has evolved to the current state as it is practiced.
3. "Marketing involves satisfaction of consumer needs". Elucidate the statement.
4. What are the marketing concepts? Explain the evolution process of management philosophy.
5. Marketing is a reflector of standard of living. Compare the products available in the eighties and in this century to show how marketing has reflected the standard of living of people over the years.
6. Differentiate between marketing and selling.

7. Explain the concept of needs, wants and demand with help of examples.
8. What do you mean by marketing mix? Discuss the elements of marketing mix. Give examples.
9. List and explain traditional P's of marketing mix.
10. Write a note on relationship marketing.

Check Your Progress: Model Answer

1. Markets
2. Exchange
3. Marketing
4. Green
5. Need

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UNIT 2

MARKETING ENVIRONMENT

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2.0 AIMS AND OBJECTIVES

After studying this lesson, you should be able to:

- Explain the meaning of marketing environment
- Understand the macro environmental factors affecting businesses
- Summarise the micro environmental factors affecting businesses
- Identify the differences between macro and micro environmental factors

2.1 INTRODUCTION

Many people believe that organisations can survive if they are sure about the management of their internal systems like business processes, flow of goods and internal practices of quality and cost control. Most organisations devote a large part of their effort in managing the internal elements that they can control. But in addition to this, they need to respond and adapt to the external environmental changes. Though they cannot significantly influence the external environment but they can be responsive to larger social and other environmental changes, which is likely to affect their business in both short and long term.

The environment consists of various forces that affect the company's ability to deliver products and services to its customers. The environment can affect a company in many ways. A company can have the best technologies, employees and the best of suppliers but it can fail miserably if any of the factors like exchange rate, policies of the host government, changing needs of customers, etc. start to act against it. On the other hand, a mediocre company can be spectacularly successful if the factors in the external environment start favouring its strategies and policies. It is imperative that companies keep a close watch on the environment factors that may affect them and prepare themselves adequately to face the emerging challenges.

2.2 CONCEPT OF MARKETING ENVIRONMENT

A variety of environmental forces influence a company's marketing system. Some of them are controllable while some others are uncontrollable. It is the responsibility of the marketing manager to change the company's policies along with the changing environment.

Marketing environment means the market situation/atmosphere within which a business enterprise has to operate.

According to Philip Kotler, "A company's marketing environment consists of the internal factors and forces, which affect the company's ability to develop and maintain successful transactions and relationships with the company's target customers".

The environmental factors may be classified as:

1. Internal factor
2. External factor

External factors may be further classified into:

External micro factors and external macro factors

2.2.1 Importance of Environment Analysis

The marketing manager needs to be dynamic to effectively deal with the challenges of environment. The environment of business is not static. It is changing with fast speed. The following benefits of environment scanning have been suggested by various authorities:

- It creates an increased general awareness of environmental changes on the part of management.
- It guides with greater effectiveness in matters relating to government.
- It helps in marketing analysis.
- It suggests improvements in diversification and resource allocations.
- It helps firms to identify and capitalise upon opportunities rather than losing out to competitors.
- It provides a base of 'objective qualitative information' about the business environment that can subsequently be of value in designing the strategies.
- It provides a continuing broad based education for executives in general and the strategists in particular.

Marketing management is concerned with matching of the organisation with the demands of the business environment. There is a need for the marketer to monitor the business environment on an ongoing basis so that opportunities and threats facing the organisation are identified and subsequently reflected in the firm's strategy.

The environmental conditions faced by an organisation are capable of varying greatly in their complexity and need to be reflected both in the ways in which environment analysis is conducted and in the ways in which strategy is subsequently developed. It is widely recognised that the pace of environmental changes is increasing and this requires the organisation to develop a structured approach to environmental analysis with the results then being fed into the marketing planning process in a greater degree than ever before.

2.3 MACRO ENVIRONMENT

Companies, its competitors and other players in the competitive world operate in the macro world. Decisions take shape in relation to the macro world, as a marketing manager cannot really influence these external, uncontrollable forces. So, he needs to monitor the external world and try to moderate the effect of these external factors on his business. As we have mentioned, macro environmental factors are grouped as demographical, cultural, social, legal and political, economic, natural and technological environment.

2.3.1 Demographical Environment

Demography is the study of population and its characteristics. Marketers are always interested in population related growth indices because eventual market growth rate in the long run depends largely on growth of population.

Demographic environment explains the pattern and changes in the society based on age, sex, educational background, marital status, family size, family life style, religion, nationality, etc.

Demographic environment is useful for marketing decisions, market segmentation and formulation of marketing strategies. A knowledge of the demographic environment is very important to a marketer for performance of his functions. People constitute the market and market depends on customers. Demography provides quantitative as well as qualitative aspects of population. It is also helpful in behavioural analysis of population.

- ***Population mix:*** If the majority of the population is vibrant and in the work force, then they contribute towards the country's growth and have higher power of consumption, but as the population ages, their demand for products and services gets restricted.
- ***Country Market:*** Though a market can be characterised by a geographical boundary to be called as a 'country market', but in reality it is the sum total of some sub markets identified more closely with the ethnic and language based classifications.
- ***Education:*** Consumption patterns also vary depending on the education level of the people. People who are educated and aware of their rights and demands will always make a concerted decision, compared to people who are illiterate. For example, in a country like USA, where there are a large number of educated people, consumption decisions are more on the basis of brands, whereas in a sub Saharan African country, people will be involved in commodity based decision making.
- ***Household patterns:*** It explains the family types in a demographical environment. Household incomes are on a rise due to both husband and wife taking up careers. This has also led to growth in consumption and use of products and services that provide more convenience to the working woman.
- ***Shifts in population:*** Over the years, a large number of people have moved out of villages and rural areas to urban in search of job and better conditions of living. These migrants are responsible for taking urban brands to the rural markets and increase the awareness level of the rural people towards urban produce. The rural market is on a rise because for people from villages, any urban product is a status symbol. So they will like to possess products and services that will make them more urban.

2.3.2 Cultural Environment

Culture influences consumer's beliefs, values and norms. Culture is the complex whole that includes knowledge, belief, art, morals, laws, custom and any other capabilities and habits acquired by a consumer as a member of the society. It's a distinct way of life of a group of people and their complete design of living.

It is everything that is socially learned and shared by the members of the society. It consists of material artifacts and non-material components.

- ***Material artifacts*** include all the physical substances that have been changed and used by people such as tools, roads, farms, products and services, which are produced and consumed.
- ***Non-material components*** include the words people speak, the ideas, customs, beliefs and habits, the way customers shop, the desire of consumers for better and newer products and consumer response to sales.

Nowadays, people are using products and services which are mostly western. These are reflected in our food habits, dressing patterns, choice of fashion garments and also in the way of living. The degree of permissibility has increased substantially after the opening up of economy and the younger generations are found to be more westernised than the older generations. Growth of multiplexes, large shopping malls, beauty parlours, discos and use of western outfits are examples of how cultural factors can influence the marketing decisions of a firm.

2.3.3 Social Environment

The social environment factors consist of human relationships and the development, form and function of such a relationship having a bearing on the business of an organisation. Some of the important factors and influences operating in the social environment are the buying and consumption habits of people, their languages, beliefs and values, customs and traditions, tastes and preferences, education and all factors that affect the business.

A very interesting example is of Vicks Vaporub which is a popular balm for cough and cold but is also used as a mosquito repellent in some places. Similarly, in some languages Pepsi cola's slogan "Come active" translates as "Come out of the grave".

The social environment of a nation determines the value system of the society which in turn affects the marketing of products. Social factors are caste, customs, conventions, cultural heritage and respect for seniority, etc. For example, the nature of goods and services in demand depends upon people's attitudes, customs, social values, etc.

In India, social environment is continuously changing. One of the most profound social changes in recent years is the large number of women entering the job market. It affected the hiring and compensation policies and resource capabilities of firms employing them. They have also created or greatly expanded the demand for a wide range of products and services necessitated by their absence from the home. There is a lot of change in quality of lifestyles and people are willing to have many durable consumer goods like T.V., fridge and washing machines even when they cannot afford them because of their availability on hire purchase or installment basis. One more change in social environment is the shift in national age distribution. Changing social values and increased acceptance of improved birth control methods have resulted in a rise in the mean age of various countries. To sum up, we can say that social environment has the following dimensions:

- Changes in people's lifestyles,
- Concerns for social problems, and
- Growth of consumerism.

Perhaps social environment has maximum direct effect on consumers. Social forces shape consumption habit of people.

Taste and consumer behaviour also vary from place to place.

Examples:

- Italians drink beer before sleep whereas Germans prefer them during lunch.
- In Italy, a US company that set a corn-processing plant found that its marketing effort failed because Italians think of corn as "pig food".

The marketing manager needs to understand how the consumers react to different products and marketing practices in a social setting. One of the most tragic and avoidable marketing mistakes is the failure of marketing managers to understand and appreciate societal differences. The rise of consumerism and consumer movement is traced to the increasing public concern with making marketing more responsible towards its larger societal constituents.

2.3.4 Legal and Political Environment

Legal and political environment also influences marketing decisions.

Government plays a great role in moderating the role of business in the society through legislation. Business is expected to play a decent role and practice fair play but sometimes it is necessary to control business because the major motive of earning profit makes them compromise on the welfare aspect of business. Although one can argue that in a free market economy, business should be self-regulated but experience of free market economy and roles played by large business houses in the past makes us more skeptic and this puts pressure on government to regulate business. There has been a growth in number of legislations over a period of time to let the business know that before they play the game, they should learn the rules. Ignorance of the legal environment often results in loss of public life and goodwill and results in fines, embarrassing negative publicity and expensive civil damage suits.

It is an extremely difficult task to understand all the laws related to marketing because of the legislations at multiple levels.

False advertising related legislation includes prohibition of false statements of any kind made to the public about products and services. We have seen Pepsodent's false claim of effectiveness being questioned by legislation and subsequently, the campaign was withdrawn from the market.

Marketers often use very offensive pricing strategy to kill competition. There are also instances in which marketers have used discriminatory pricing mechanism against customers in different markets. Selling above advertised price is also prohibited. So it is necessary to offer a fair price to consumers; government controls and legislates against increase in prices through a cartel. There are various provisions for protection of consumer rights in different laws but the Consumer Protection Act (COPRA) 1985, specifically gives rights to consumers and protects consumer interest.

The legal framework for relationship between business and consumers is designed to encourage a competitive marketing system to employ and adhere to best business practices. Such protections are necessary because they make fair play possible and protect the quality manufacturer and promote a healthy business environment.

2.3.5 Economic Environment

Economic environment is the most significant component of the marketing environment. Economic environment has the highest influence on the marketing decisions, as it affects the purchasing power of the consumer. It affects the success of a business organisation as well as its survival. By economic environment, we mean all those macro-economic factors like income distribution, level of saving, debt and credit available to consumers and stages in business cycle.

The economic policy of the government needless to say has a very great impact on business. Some categories of business are favourably affected by the government policy, some are adversely affected while some others remain unaffected. For example, a restrictive import policy or a policy of protecting the home industries may greatly comfort indigenous industries while liberalisation of the import policy may create difficulties for such industries. The economic system thus is a very important determinant of the scope of private business and is therefore a very important external constraint on business. The economic environmental forces can be studied into three broad categories: (a) General economic conditions, (b) Industrial conditions and (c) State of supply of resources for production.

A. *General Economic Conditions:* General economic conditions in a country are influenced by various factors. The following factors are important:

- Agricultural trends,
- Industrial output trends,
- Per capita income trends.
- Pattern of income distribution,
- Pattern of savings and expenditures,
- Price levels,
- Employment trends,
- Impact of government policies, and
- Economic systems.

B. *Industrial Conditions:* Economic environment of a country is influenced by the prevalent industrial conditions as well as industrial policies of a country. A marketer needs to pay attention to the following aspects of the industrial conditions:

- Market growth of the industry,
- Demand patterns of the industry, and
- Its stage in product life cycle.

C. *State of Supply of Resources for Production:* Supply of resources required for production determines inputs which are available for production. These are the most important resources required for production:

- Land,
- Labour,
- Capital,
- Machinery and equipment, and
- Managers.

The above-stated environmental forces determine the economic environment of a country. The statement on next page provides various statistical indicators of a country's economic goals.

Situations in economic environment give opportunity and also generate threats to marketers.

To illustrate, a company which sells price value products, has more scope to get higher customers in a declining economy compared to a luxury brand.

The economic environment is extremely complex and it includes dynamic business fluctuations that tend to follow a cyclic pattern, generally composed of four stages, depicted in Table 2.1.

Table 2.1: Stages in Business Cycle

Stage	Meaning	Effect on Consumers	Marketing Strategy
Recession	General slowdown in economic activity over a period of time.	Weakening of both consumer confidence and consumer spending.	Focus on customer value and customer benefits. Expand product portfolio. Sales promotion. Stress on market share. **Example:** In 2008-2009, Chevrolet promised a 3 year free maintenance deal with purchase of its cars.
Depression	Severe downturn that lasts several years.	Depressed spending on high value items. Savings to focus on necessities.	Low cost of production and lower prices. Focus on company values Excellent services and benefits. Some companies use this as an opportunity to make a cut while rivals relax their spending **Example:** HP began during Great Depression and made its way through it
Recovery	Period following a recession, during which the GDP rises.	Increase in rate of growth of consumer spending. Cautious approach and high information search.	Aggressive marketing to attract customers. Low/competitive pricing. Sales promotion. **Example:** In 2010, Toyota came up with demonstration shows at malls to attract high end customers.
Prosperity	Condition of low-unemployment and high total income	High purchasing power. More spending on consumer durables.	Aggressive marketing. Competitive pricing. Fair amount of sales promotion if alternatives are many. **Example:** In 1908, Ford introduced Model T which captured the market within 10 years

Inflation and its Implications

- Inflation is a rising price level resulting in reduced purchasing power for the consumer. A person's money is devalued in terms of what it can buy for him.
- Higher inflation leads to widespread concern over public policy to stabilise price levels and over ways of adjusting personally to the reduced spending power of consumers.
- Higher taxes mean less consumer purchasing power, which results in sales decline for non-essential goods and services.
- Lower expenditure levels make the government a less attractive customer for many industries.
- A lowered money supply means less liquidity is available for potential conversion to purchasing power.
- Another way in which inflation affects marketing is by modifying consumer behaviour.
- Modest increases in the general price level, often termed as creeping inflation, go largely unnoticed by customers. But as purchasing power continues to decline, customers become more conscious of inflation, which leads to price-consciousness, which leads to three possibilities.

- Consumers can buy now believing that prices will go higher, decide to reallocate their purchasing pattern or postpone certain purchases.

Using De-marketing Strategy

It is used in a situation when the brisk demand exceeds manufacturing capacity or outpaces the response time required to gear up a production line.

Shortages may also be caused by a lack of raw materials, component parts, energy or labour.

It is a process of cutting consumer demand for a product back to a level that can be reasonably supplied by the firm.

2.3.6 Natural Environment

Perhaps people are more concerned about natural environment today compared to yesteryears.

Finite, non-renewable resources that include fuel and gasoline are heading towards a big energy crisis for the world. If we are not able to find out alternatives to fossil fuel consumption, it is going to reverse the process of development and growth across the globe.

This crisis makes us rethink current allocation of energy resources. Existing sources are being expanded. Traditional resources like coal are being rediscovered. New ones are being sought. Perhaps the most important fact is that attempts are being made to cut waste in energy utilisation.

Increased energy cost will automatically increase the cost of goods sold in the market.

People are also getting concerned about water, sound and air pollution levels. The level of observation towards pollution and control mechanism to curb the level of pollution is on an increase.

2.3.7 Technological Environment

The technological environment consists of those factors related to knowledge applied and the materials and machines used in the production of goods and services that have an impact on the business of an organisation.

Technology has accelerated the pace of change in the market place. Technological life cycles are shortening day by day and new product introduction has become a phenomenon of the market place. Companies are open to exploit unlimited opportunities in the field of marketing in providing better products and services. Companies like Sony, 3M, Samsung, Wipro have increased their research and development budget manifold, so as to always be ahead of their competitors.

Nobody ever thought that revolution in the form of Internet technology will bring e-commerce to the forefront of business and customers will find web as an alternative channel of transaction. Companies like priceline.com, ebay.com and amazon.com are some of the successful stories in the era of Internet revolution.

We are also seeing an increase in regulation due to technological changes. Laws related to protection of intellectual property rights and patents, cyber crime and fraud on internet are on the increase. There is a global agreement to control the lawbreakers and bring new technology related business into order.

Some of the important factors and influences operating in the technological environment are as follows:

- Sources of technology like company sources, external sources as also foreign sources, collaboration in and transfer of technology.

- Technological development, stages of development change and rate of change of technology and research and development.
- Impact of technology on human beings, the man-machine system and the environmental effects of technology.
- Communication and infrastructural technology and technology in management.

Technological environment provides both opportunities and threats, and its impact is direct as well as indirect. Kotler suggests that the aspects to which a marketing planner should pay attention include:

- High expenditure on research and development,
- Concentration on product improvement and development,
- Unlimited innovations in technology,
- Accelerating pace of technological change, and
- Greater emphasis upon the regulation of technological change.

Advances in technology are difficult to predict. However, the marketer should consider potential, technological developments determined from resources committed by major industries or the government. Being in a market that is rapidly changing due to technological development, will require the marketer to make careful short-term marketing decisions as well as being prepared with contingency plans given any new technological developments that may affect product or services.

Technological environment in India is guided by technology policy which is framed by the Government of India and is updated from time to time.

2.3.8 E-Business and the New Economy

The widespread electronic linking of individuals and businesses has created a new economic environment in which time and space are much less limiting factors, information is more important and accessible, traditional intermediaries are being replaced and the consumer holds increasing amounts of power. The internet is both an effect and a cause of this new economy. Although, in the past, large companies were able to conduct their business electronically, using EDI and private networks, the high costs associated with EDI prevented most businesses from using the technology. The internet has levelled the playing field by making it easier and cheaper for companies of all sizes to transact business and exchange information electronically.

2.4 ANALYSING THE ORGANISATION'S MICRO ENVIRONMENT

Micro environment is the immediate environment in which marketers have to take decisions. The players of this environment are called actors as they have a direct bearing on the marketing decisions.

This environment identifies the way a company does business and against whom it stands in the market. For example, Nirma, a detergent company has defined its competitive environment by identifying key players in business namely, the suppliers, competitors, intermediaries and the customers.

You will learn about the components of a company's micro environment, namely the company, intermediaries, public, competitors, suppliers and customers in the subsequent sub-sections.

Figure 2.1 depicts the components of micro environment of a company.

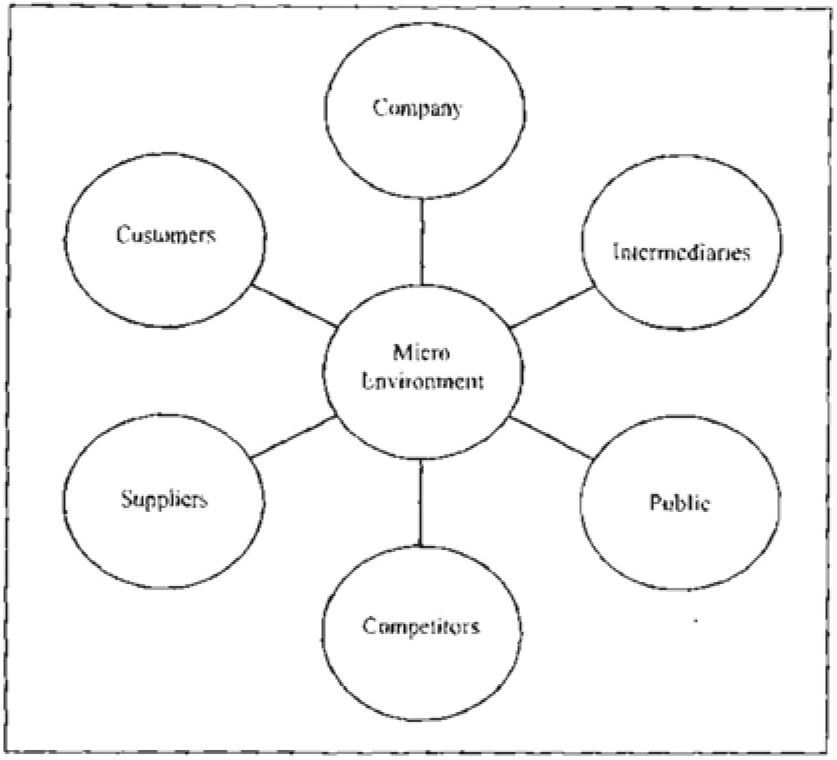

Figure 2.1: Components of an Organisation's Micro Environnent

Let us now study the components in detail.

2.4.1 Company

Some company factors that affect the marketing decisions are:

- ***Culture and value system:*** Organisational culture can be viewed as the system of shared values and beliefs that shape a company's behavioural norms. A value is an enduring preference as a mode of conduct or an end state. The value system of the founders of the organisation has a lasting impact on it. The value system not only influences the working of the company and the attitude of its people but also the choice of its business.
- ***Mission and objectives:*** The mission and objectives of the company guide the priorities, direction of development, business philosophy and business policy.
- ***Management structure and nature:*** Structure is the manner in which the tasks and sub-tasks of the organisation are related. Structure is concerned with the hierarchical relationship and the relationship between the management of different functional areas like the structure of the top management and the pattern of shareholding.
- ***Human resource:*** This concerns factors like manpower planning, recruitment and selection, compensation, communication and appraisal.

2.4.2 Intermediaries

Intermediaries are independent business units and they carry the company's products and services to the customers. Prominent intermediaries include wholesalers, retailers, merchants, selling agents, brokers, etc. Their objective of being in business is different than being in a firm, so the intermediaries will be interested in maximising their profits. Any trade promotion scheme will motivate them to push competitors' product deeper and faster.

2.4.3 Public

Positive and favourable public opinion is crucial to marketing success since the public is the authority that permits the existence and operation of competitive marketing systems.

This environmental factor includes the general public, its support, the government and the set of public who have a direct bearing on business. These public can be classified as welcome public, sought public and unsought public. For example, Investors and financial institutions are under the category of welcome public, Government and media are counted as sought public. Without their help, it is difficult to have a positive impact on consumers and society.

Pressure groups like consumer activists and environmental activists are unsought public because they would create problems for the firm through their righteous activities.

As a marketer, one must understand that the general public grants the licence for conducting business with an expectation that the company will practise fair play. Lack of this supportive framework as evidenced by declining sales or adverse public opinion can lead to eventual failure of the firm as well as the marketing system.

2.4.4 Competitors

Success or failure of an offer largely depends on how competitors react to the company's offer. Godrej was a successful refrigerator manufacturer. Once competition intensified, the company started losing market share. Today, though there is a growth in refrigerator industry. Godrej as a brand is not growing as fast as its competitors.

Through the years, marketing systems have become increasingly competitive. Traditional economic analysis views competition as a battle between companies in the same industry or between substitutable products.

Marketers, however, tend to accept the argument that all firms are competing for a limited discretionary buying power. Though we can say that Maruti as a car manufacturing company is facing competition from other car manufacturers, ultimately it is the consumer's disposable income for which shampoos, soaps and scooters are also competing with Maruti. A customer is expected to allocate his disposable income optimally and in the process a category also competes with another category to be in the active consideration set of customers for such an allocation.

Industry has found numerous new uses for existing products, with the whole arena of competition being expanded. While this forces business to reassess long-established marketing practices, it also opens new avenues of business opportunity. Emergence of computers with multimedia as a tool of infotainment and knowledge sharing device has challenged traditional products in the entertainment market.

2.4.5 Suppliers

Increase in the price of raw materials will have a bang on effect on the marketing mix strategy of an organisation. As a result, the prices may be forced up. This is the impact that the suppliers can have. Closer relationship with suppliers is one way of ensuring competitive and quality products for an organisation.

2.4.6 Customers

Organisations exist because of customers. No customer means, no business. Organisations' survival depends on how they meet the needs and wants of the customers and provide them with maximum benefits. Failure to do so will result in a failed business strategy.

2.5 DIFFERENCES BETWEEN MICRO AND MACRO ENVIRONMENT

The day to day activities of an organisation are affected by many factors. Even if the industrial relations are good, a poor condition of the economy can incite layoffs and bad production. Macro environment factors are external factors that affect an environment. On the other hand, micro-environment comprises influential factors within a company, such as employee relations or customer satisfaction. In many respects, factors in the macro-environment have influence over decisions made on the micro-scale.

Technological advances in the macro-environment influence employment decisions on the micro-level. The difference between the micro and macro environment is summarised in Table 2.2.

Table 2.2: Differences between Macro and Micro Environment

	Macro environment	Micro environment
1.	It is very large in size.	It is smaller than the macro environment.
2.	The components of the macro environment cannot be controlled	The components of the micro environment can be controlled to some extent.
3	Macro environment is very unpredictable and highly uncertain.	Micro environment is not very unpredictable and ranks low in uncertainty.
4.	The components are very complex in nature.	The components are comparatively simpler.
5.	Macro environment includes political, social, cultural, technology, demographic, economic and natural environment.	Micro environment includes customer, publics, competitors, suppliers and intermediaries.

2.6 TECHNIQUES OF ENVIRONMENT SCANNING

Environmental scanning is designed to aid the long-term planners and strategists in the organisations. Many people criticise the environmental scanning technique because of the diffused and general nature of its results.

Companies use various methods for environmental scanning. We will discuss two important techniques, namely Delphi technique and Scenario building technique, in subsequent sub-sections.

2.6.1 Delphi Technique

Delphi technique is used to increase the meaning of factual data collected from secondary sources. This technique is an example of methods on which we aggregate the judgments of individual experts who cannot come together physically.

This is a qualitative research technique in which we try to collect data from some experts and industry observers and use their interpretations to map the emerging trends in that industry. Around twenty-five experts who have adequate knowledge of the marketing environment are asked questions pertaining to the marketing environment via mail, fax, e-mail, and other modes of communication. They are asked to rank their statements as per importance and to explain the rationale behind such rankings. The aggregate information is sent to all the participants to get their overall agreement and disagreement on the aggregate data and through this process a coherent agreement is arrived at.

2.6.2 Scenario Building Technique of Environmental Scanning

This process is futuristic and the decision-maker has to analyse his decisions with respect to the future. The five stages of scenario building approach are as shown in Figure 2.2.

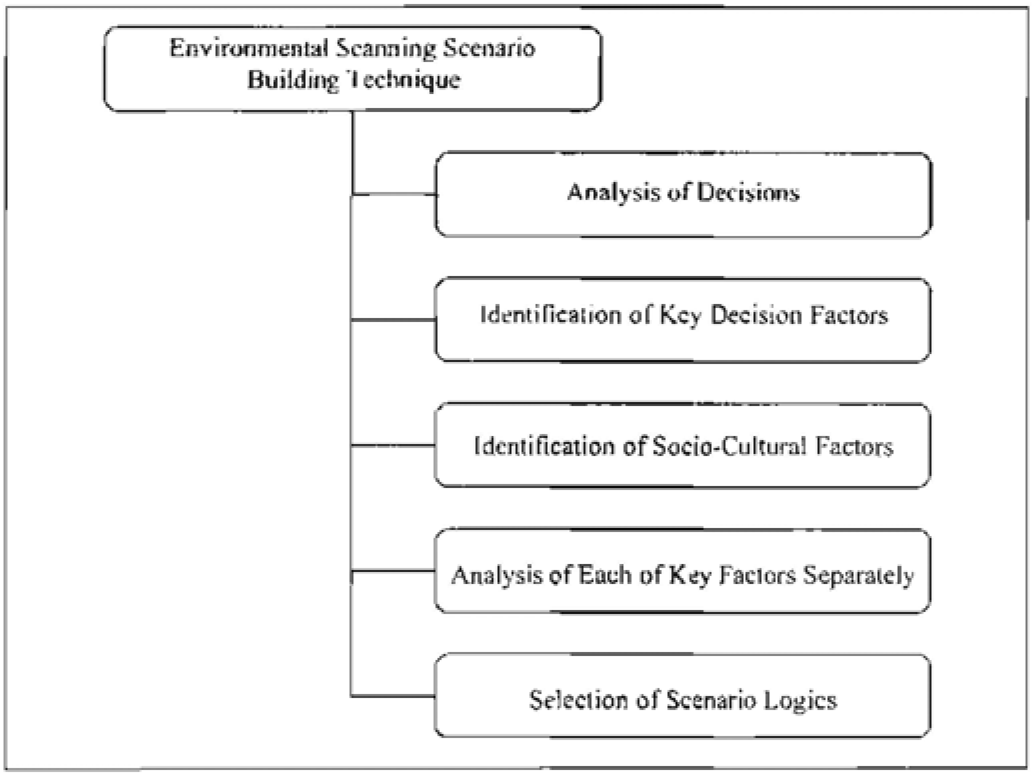

Figure 2.2: Stages in Scenario Building Technique of Environmental Scanning

Let us now understand the stages in detail.

1. ***Analysis of the decision(s):*** The decision-maker makes a detailed analysis of all the resources that he/she might require to implement his/her decisions. Thus, if a financial institution like ICICI decides to go into retail banking, then it has to take into account the human and material resources that would be required. It could include an analysis of the estimated distribution networks, technology and technology support.

2. ***Identification of key decision factors:*** The service marketer identifies all those variables that influenced his/her decision. For ICICI to go into retail banking, it would analyse the new banking norms (government policy), market share of the existing players (competitors), growth and potential of the market (customers), etc.

3. ***Identifying the socio-cultural factors:*** The service marketer should identify and evaluate the influence of such social and group forces as demographic changes, social class, culture, family and household influences, value systems, reference group influences, and the consumer-decision-making process. ICICI would have taken into consideration the age distribution of the market, the income and occupation of prospects, the spread of the population in metros and other towns,

product development, and communication strategy. It would also have analysed the banking needs of the market and their inclination towards time-saving devices.

4 ***Analysis of each of the key variables separately:*** All the above variables are independently analysed and all other details are collected for each of them. The sources of data are secondary as well as primary.

5 ***Selection of scenario logics:*** The collected data are then extrapolated and projections are made. The scenario build-up is supported with more evidence. Thus for ICICI, the growing middle-class and the aspirations of the middle class for a better banking climate would be relevant to the decision to go in for retail banking. Other evidence could be the consumerism of the middle class, their upscale lifestyles, etc.

Need for Environmental Analysis

Environmental analysis attempts to give an extensive insight as to the current market conditions as well as of impact of external factors that are uncontrollable by the marketers. These variables play an important role in convincing potential customers regarding changes in market trends, market conditions, etc.

In analyzing the environment, Johnson and Scholes suggested five stages of environmental analysis which are as given below:

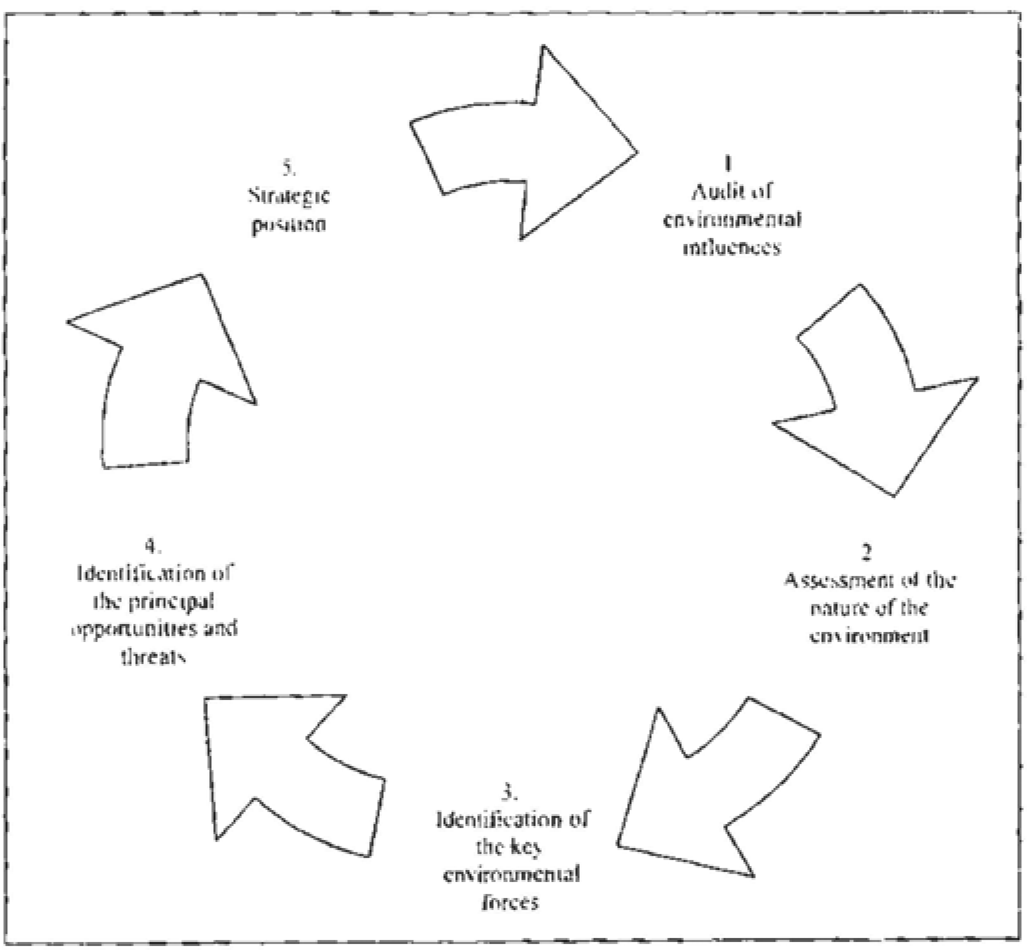

Figure 2.3: Five Stages in Environmental Analysis

After environmental analysis, the marketer has to handle the different environmental conditions. For doing so, Johnson and Scholes suggested the following model:

Conditions			
	Simple/Static	Dynamic	Complex
Aims	To achieve thorough (historical) understanding of the environment	To understand the future rather than simply relying on past experiences.	The reduction of complexity. Greater structural understanding.
Methods	Analysis of past influences and their effect on organisational performance. Identification of key forces. Analysis of existing relationships	Managers' sensitivity to change. Scenario planning. Contingency planning. Sensitivity planning	Specialist attention to elements of complexity. Model building.
Dangers	The sudden emergence of unpredicted change. Mechanistic organisational structures. Lack of skills. Focus on existing relationships. Lack of willingness to accept that conditions are changing. Stereotyped responses.	Management myopia. Mechanistic organisational structures. Lack of skills. Inappropriate forecasting. Failure to recognise significant new players	Unsuitable organisational structure of control systems. Inappropriate reactions. Inappropriate focuses.

Source: Adapted from Johnson and Scholes (1988), op. cit.

Nature of the Marketing Environment

The marketing environment has been defined in a variety of ways. According to Philip Kotler, "the company's marketing environment is made up of the sectors and forces outside the firm's marketing function which infringe upon the ability of marketing management to develop and maintain a successful relationship with the firm's target audience." Within the environment there are two distinct components: the micro-environment and the macro-environment.

The market environment consists of factors related to the groups and other organisations that compete with and have an impact on an organisation and its business.

Some of the important factors and influences operating in the market environment are as follows:

1. Customer and client factors such as the needs, preferences, perceptions, attitudes, values, bargaining power, buying behaviour and satisfaction of customers.

2. Product factors such as the demand, features, utility, functions, design, image, life cycle, price, promotion, distribution, etc.

3. Marketing intermediary factors such as needs, preferences, perceptions, attitudes, levels and quality of customer service, etc.

4. Competitors-related factors such as the different types of competitors, entry and exit of major competitors, nature of competition and relative strategic position of major competitors.

Check Your Progress

Fill in the blanks:

1. ____________ environment means the market situation/atmosphere within which a business enterprise has to operate.
2. ______________ provides quantitative as well as qualitative aspects of population.
3. ____________ environment in India is guided by technology policy which is framed by the government of India and is updated from time to time.
4. ___________technique is used to increase the meaning of factual data collected from secondary sources.
5. _______________attempts to given an extensive insight as to the current market conditions as well as of impact of external factors that are uncontrollable by the marketers.

2.7 LET US SUM UP

- A marketing manager is required to observe and monitor the trend in the external environment and incorporate the results of this observation in business and marketing plans.
- Environmental scanning helps a marketing manager in analysing the components of the company's environment.
- Observation and evaluation of marketing environment helps the marketing manager to identify opportunities and threats involved in the business and helps in designing suitable marketing responses.
- Analysing the micro environment is very important for businesses that include their suppliers, intermediaries, customers, shareholders and competitors.
- Macro environmental factors are grouped as demographical, cultural, social, legal and political, economic, natural and technological environment.
- Two common environment scanning techniques used by the companies are Delphi technique and Scenario building technique.

2.8 UNIT END ACTIVITY

Suppose you are the marketing manager of a banking firm. Your bank has opened its first branch overseas. What factor do you think will affect the choice of marketing the most and why?

2.9 KEYWORDS

Demographic Environment Analysis: It is the study of population and its characteristics. Marketers are always interested in population-related growth indices because eventual market growth rate in the long run largely depends on the growth of population.

Legal Environment: It is the environment that frames the rules of the game within which firms play their business strategies.

Economic Environment: By economic environment we mean all those macro-economic factors like income distribution, level of saving, debt and credit available to consumers and stages in business cycle.

Inflation: Inflation is a rising price level resulting in reduced purchasing power for the consumer.

Business Cycle: A predictable long-term pattern of irregular periods of economic growth and decline that is characterised by changing employment, industrial productivity and interest rates.

Cultural Environment: It is everything that is socially learned and shared by the members of the society. It consists of material artefacts and non-material components.

Country Market: It is the sum total of some sub-markets identified more closely with the ethnic and language based classifications in India.

Delphi Technique: A forecasting procedure in which a series of questions and the resulting feedback are used to reach a group consensus.

Environment Scanning: It refers to careful monitoring of an organisation's internal and external environments for detecting early signs of opportunities and threats that may influence its current and future plans.

Marketing Environment: It refers to all the forces outside marketing that affect marketing management's ability to build and maintain successful relationships with the target customers.

2.10 QUESTIONS FOR DISCUSSION

1. What do you mean by marketing environment? Why do managers need to scan the environment?
2. Describe the components of the micro environment of marketing.
3. How important is public opinion in marketing of a product?
4. What factors would affect the marketing strategy of a fashion product?
5. Differentiate between micro and macro environment of marketing.
6. Describe the scenario building approach of environmental scanning with the help of an example.
7. Why are marketers interested in demography of a country?
8. How does culture influence the buying behaviour of consumers?
9. Examine the relevance of analyzing legal, political and economic environment.
10. What elements constitute of a firm's internal environment?
11. Discuss the scenario building approach of scanning the environment.

Check Your Progress: Model Answer

1. Marketing
2. Demography
3. Technological
4. Delphi
5. Environmental Analysis

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UNIT 3

CONSUMER BEHAVIOUR

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3.0 AIMS AND OBJECTIVES

After studying this lesson, you should be able to:

- Explain the concept of consumer behaviour
- List the nature of consumer behaviour
- Discuss the importance and scope of consumer behaviour

- Explain the consumer buying roles and classify the buying behaviour
- List the factors influencing consumer behaviour
- Understand the consumer buying process (PADSAPP Model)
- Elucidate the concept of customer lifetime value

3.1 INTRODUCTION

It is said that in modern marketing – 'consumer is the king'. Everything that a marketer does is for the consumers. Organisations and marketing managers need to understand the secrets of consumer behaviour and develop mechanism to measure them also.

Consumer behaviour involves the psychological processes that consumers go through in recognising needs, finding ways to solve these needs, making purchase decisions (e.g., whether or not to purchase a product and, if so, which brand and where), interpret information, make plans and implement these plans (e.g., by engaging in comparison shopping or actually purchasing a product).

3.2 CONSUMER BEHAVIOUR – THE BASIC CONCEPT

The dictionary of Marketing and Advertising defines consumer behaviour as an observable activity chosen to maximise satisfaction, through the attainment of economic goods and services such as choice of retail outlet, preference for particular brands and so on. Consumer behaviour refers to the actions of consumers in the market place and the underlying motives for those actions. Marketers expect that by understanding what causes consumers to buy particular goods and services they will be able to determine which products are needed in the market place, which are obsolete, and how best to present the goods to the consumers.

Consumer behaviour is defined as the process and physical activity individuals engage in while evaluating, acquiring, using or disposing of goods and services. Consumer behaviour refers to the behaviour that consumers display in searching for, purchasing, using, evaluating and disposing of products and services that they expect will satisfy their needs. Study of consumer behaviour is the study of how individuals make decisions to spend their available resources like time, money and effort on consumption related items.

Consumers can be different in age, income and occupation. The items to be consumed can be of any form; from a product to a service, a concept or an idea. The needs and desires to be satisfied range from basic needs like hunger, thirst to psychogenic needs like love, care and even higher order fulfillments. The consumer can resell, dispose of the packaging and also recommend others to use the product or service after using the product himself. The domain of study of consumer behaviour covers all these processes involved through which the consumer makes decisions.

Study of consumer behaviour assumes that consumers are actors in the market place. The perspective of role theory assumes that consumers play various roles in the market place. Starting from information provider to consumer, from user to payer and to disposer, consumers play these roles in the decision process. The roles also vary in different consumption situations. for example a mother plays the role of an influencer in a child's purchase process whereas she plays the role of disposer for the products consumed by the family. Consumer behaviour involves many different actors. The common assumption is that a consumer is a person who identifies a need or desire, makes a purchase and then disposes of the product during the three stages of the consumption process i.e. pre-purchase, purchase and post purchase processes.

3.3 NATURE OF CONSUMER BEHAVIOUR

Consumer behaviour can be studied at micro or macro levels depending upon whether it is used to analyze individual level behaviour or group level behaviour. The nature of consumer behaviour as a subject can be understood by following points:

- ***Systematic process:*** Consumer behaviour is a systematic process relating to buying decisions of the customers. The buying process consists of the following steps:
  - Need identification to buy the product.
  - Information search relating to the product.
  - Listing of alternative brands.
  - Evaluating the alternative (cost-benefit analysis).
  - Purchase decision.
  - Post-purchase evaluation by the marketer.
- ***Influenced by various factors:*** Consumer behaviour is influenced by a number of factors. The factors that influence consumers are marketing, personal, psychological, situational, social, cultural, etc.
- ***Different for all customers:*** All consumers do not behave in the same manner. Different consumers behave differently. The difference in consumer behaviour is due to individual factors such as nature of the consumer's life style, culture, etc.
- ***Different for different products:*** Consumer behaviour is different for different products. There are some consumers who may buy more quantity of certain items and very low/no quantity of some other items.
- ***Region bounded:*** The consumer behaviour varies across states, regions and countries. For instance, the behaviour of urban consumers is different from that of rural consumers.

  Normally, rural consumers are conservative (traditional) in their buying behaviour.
- ***Vital for marketers:*** Marketers need to have a good knowledge of consumer behaviour. They need to study the various factors that influence consumer behaviour of their target customers. The knowledge of consumer behaviour enables marketers to take appropriate marketing decisions.
- ***Reflects status:*** Consumers buying behaviour is not only influenced by status of a consumer, but it also reflects it. Those consumers who own luxury cars, watches and other items are considered by others as persons of higher status.
- ***Spread effect:*** Consumer behaviour has a spread effect. The buying behaviour of one person may influence the buying behaviour of another person. For instance, a customer may always prefer to buy premium brands of clothing, watches and other items, etc.

  This may influence some of his friends, neighbours and colleagues. This is one of the reasons why marketers use celebrities like Shahrukh Khan, Sachin Tendulkar to endorse their brands.
- ***Standard of living:*** Consumer buying behaviour may lead to higher standard of living. The more a person buys the goods and services, the higher is the standard of living.

- ***Keeps on changing:*** The consumer's behaviour undergoes a change over a period of time depending upon changes in age, education and income level, etc. for instance, kids may prefer colorful dresses, but as they grow up as teenagers and young adults, they may prefer trendy clothes.

3.4 SCOPE OF CONSUMER BEHAVIOUR

The scope of consumer behaviour lies in:

- ***Consumer behaviour and marketing management:*** Effective business managers realise the importance of marketing to the success of their firm. A sound understanding of consumer behaviour is essential to the long run success of any marketing program. In fact, it is seen as a corner stone of the marketing concept, an important orientation of philosophy of many marketing managers. The essence of the marketing concept is captured in three interrelated orientations consumers' needs and wants, company integrated strategy.

- ***Consumer behaviour and non-profit and social marketing:*** In today's world even the non-profit organisations like government agencies, religious sects, universities and charitable institutions have to market their services for ideas to the "target group of consumers or institution". At other times, these groups are required to appeal to the general public for support of certain causes or ideas. Also they make their contribution towards eradication of the problems of the society. Thus, a clear understanding of the consumer behaviour and decision making process will assist these efforts.

- ***Consumer behaviour and government decision making:*** In recent years, the relevance of consumer behaviour principles to government decision making. Two major areas of activities have been affected:

  (a) *Government services:* It is increasingly and that government provision of public services can benefit significantly from an understanding of the consumers, or users, of these services.

  (b) *Consumer protection:* Many agencies at all levels of government are involved with regulating business practices for the purpose of protecting consumers welfare.

- ***Consumer behaviour and demarketing:*** It has become increasingly clear that consumers are entering an era of scarcity in terms of some natural gas and water. These scarcities have led to promotions stressing conservation rather than consumption. In other circumstances, consumers have been encouraged to decrease or stop their use of particular goods believed to have harmful effects. Programs designed to reduce drug abuse, gambling and similar types of conception examples. These actions have been undertaken by government agencies, non-profit organisations and other private groups. The term "demarketing" refers to all such efforts to encourage consumers to reduce their consumption of a particular product or services.

- ***Consumer behaviour and consumer education:*** Consumer also stands to benefit directly from orderly investigations of their own behaviour. This can occur on an individual basis or as part of more formal educational programs. For example, when consumers learn that a large proportion of the billions spent annually on grocery products is used for impulse purchases and not spend according to pre-planned shopping list, consumers may be more willing to plan effort to save money. In general, as marketers that can influence consumers' purchases, consumers have the opportunity to understand better how they affect their own behaviour.

3.5 IMPORTANCE OF CONSUMER BEHAVIOUR

Now a day's consumer behaviour is very important for an organisation to be successful. Its importance can be understood by studying the following points:

- ***Production policies:*** The study of consumer behaviour effects production policies of enterprise. Consumer behaviour discovers the habits, tastes and preferences of consumers and such discovery enables and enterprise to plan and develop its products according to these specifications. It is necessary for an enterprise to be in continuous touch with the changes in consumer behaviour so that necessary changes in products may be made.

- ***Price policies:*** The buyer behaviour is equally important in having price policies. The buyers of some products purchase only because particular articles are cheaper than the competitive articles available in the market.

- ***Decision regarding channels of distribution:*** The goods which are sold and solely on the basis of low price mast and economical distribution channels. In case of those articles, which are weak, T.V. sets, refrigerators, etc. Must have different channels of distribution. Thus, decisions regarding channels of distribution are taken on the basis of consumer behaviour.

- ***Decision regarding sales promotion:*** Study of consumer behaviour is also vital in making decisions regarding sales promotion. It enables the producer to know what motive prompt consumer to make purchase and the same are utilised in promotional campaigns to awaken desire to purchase.

- ***Exploiting marketing opportunities:*** 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.

- ***Consumer do not always act or react predictably:*** The consumers of the past used to react to price levels as if price and quality had positive relation. Today, week value for money, lesser price but with superior features. The consumers response indicates that the shift had occurred.

- ***Highly diversified consumer preferences:*** This shift has occurred due to availability of more choice now. Thus, study of consumer behaviour is important to understand the changes.

- ***Rapid introduction of new products:*** Rapid introduction of new product with technological advancement has made the job of studying consumer behaviour more imperative. For example, the information technologies are changing very fast in personal computer industry.

- ***Implementing the "marketing concept":*** This call for studying the consumer behaviour, all customers need have to be given priority. Thus identification of target market before production becomes essential to deliver the desired customer satisfaction and delight.

3.6 DIFFERENT BUYING ROLES

We have explained in the earlier sections that an individual or a group of consumers play different roles in different kinds of purchase situations. Though there is no hard and fast role that buyers need to play, it is possible to characterise the roles in the context of purchase decision. The following are the nine different roles played by people in the consumer decision process.

1. ***Initiator:*** The initiator is a person who first suggests or thinks of the idea of buying the particular product. The child plays the role of an initiator in the purchase process of a chocolate.

2. ***Influencer:*** The influencer is a person who explicitly or implicitly has some influence on the final buying decision of others. The mother plays the role of an influencer in the purchase process of a chocolate.

3. ***Gatekeeper:*** The gatekeeper is a person who allows certain information to flow and restricts flow of some set of information. Parents play the role of a gatekeeper in the selection of television channels for children.

4. ***Decider:*** The decider is a person who ultimately determines any part or the whole of the buying decision, i.e., whether to buy, and what to buy, how to buy, when to buy or where to buy. In the event of buying a mutual fund product, the individual or head of the family plays the role of the decider.

5. ***Buyer:*** The buyer is the person who actually purchases and pays for the purchase. In a typical family decision making process, father plays the role of the buyer who is involved in the economic transaction process.

6. ***User:*** The user is the person who actually uses or consumes the services or products. In most of the grocery product purchase, the whole family uses the product. In a typical purchase of washing machine, the housewife plays the role of user.

7. ***Preparer:*** The preparer is the person who converts the product to usable form for consumption. For example, in a typical family consumption of food items, mother plays the role of preparer.

8. ***Maintainer:*** Members who service or repair the product so that it will provide continued satisfaction is a maintainer.

9. ***Disposer:*** The disposer is the person who finally disposes the package of the product. For example, mother plays the role of a disposer after the product is consumed by the family.

The marketer's task is to study the buying process and the role of the participants in the buying process. He should initiate all of them to make purchases of his product at different stages and through different strategies.

3.7 CLASSIFICATION OF BUYING BEHAVIOUR

Different consumers follow different steps in making their choice of products and services. Though it is difficult to generalise all the purchase processes, but fair approximations and generalisations can be made for most of the consumer decision processes. There is a substantial degree of variation in the choice processes depending upon two key factors, namely the level of involvement and degree of perceived difference between different alternatives in the market.

Table 3.1: Classification of Buying Behaviour

	High Involvement	Low Involvement
Alternatives do not have significant difference	Dissonance reducing buying behaviour	Routinised response behaviour or habitual behaviour
Alternatives have significant difference	Complex buying behaviour	Variety seeking buying behaviour

- ***Routinised buying behaviour:*** A buying situation in which the buyer has had considerable past experience also called automatic response behaviour or habitual response behaviour. Habitual buying behaviour is where the individual buys a product out of habit e.g., a daily newspaper, sugar or salt.

For example, on a visit to a supermarket to do the weekly household shop, Mrs. X purchases a family pack of tissues. She assumes the current pack at home will not last much longer. She may be influenced by promotional offers (such as 2 for 1) and may use other product criteria such as colour and use of recycled materials in her purchase decision. However, her overall involvement in the purchase is low.

- ***Dissonance reducing buying behaviour:*** Customers show dissonance reducing buying behaviour when the involvement of customer in the purchase activity is high and customers cannot find a substantial differentiation among the alternatives. The consumer is highly involved and sees little difference among brand alternatives. The purchase is high involvement in the case of first time buying without previous purchase experience, in an expensive, infrequent and risky buying situation. The buyer will shop around in the market to learn about the various alternative brands in the market. If there is a substantial difference in quality level among similar brands, then he is likely to buy the higher priced brand. If there is only a little difference, then his purchase will be on the basis of price or convenience.

  In this case, the consumer is likely to experience dissonance. Dissonance is a state of consumer's mind when he experiences substantial difference between what is expected out of the choice and the real performance of the chosen alternative. This may occur if he finds his purchase not getting an acceptance in social setting e.g. among peers or there is some negative publicity about the chosen brand. So he will strive to collect any positive information about the brand in the environment, which supports his decision. In this case, the consumer first makes a decision, then acquires new beliefs and then ends up with a set of attitudes. The job of the marketer is to communicate to customers through a process of assuring them that they are making the right choice which will help the consumer feel good about his brand choice.

- ***Complex buying behaviour:*** This is a case where the consumer is highly involved in situations very similar to the first case of dissonance reducing buying behaviour but he finds a substantial difference among the available brands. In this case, the buyer develops beliefs about the product or service, then he develops a set of attitude towards the product and finally he makes a deliberate choice. This is a case when products are expensive, bought infrequently, risky and highly self-expressive.

  The marketer needs to understand this structured process of information gathering, processing and evaluation. The marketing program should help in assisting consumers to learn about the attributes of products, their relative weight in the company's brand and significance of these attributes in the purchase process. If you wish to buy toothpaste, you will like to find out the desired level of oral health present in a company's brand. LG Electronics promotes a particular attribute of 'Golden Eye' technology and makes consumers take a decision in favour of the brand by using 'Golden Eye' benefit in its brand communication.

- ***Variety seeking buying behaviour:*** This kind of behaviour is shown in some situations where the consumer shows low involvement behaviour but there is significant brand difference. Consumers show a high level of brand switching behaviour. Consumers buy chocolates without considering any such variable as explained in the previous cases and for no reason switch brands to test the variety in the market.

The dominant players as well as the challengers in this situation follow different strategies. The market leader or the dominant player will promote habitual buying behaviour whereas the challenger will promote variety seeking behaviour to break loyalty and formation of habitual buying behaviour. The challenger will break the habitual behaviour by offering discounts, encouraging participation in contests and sweepstakes.

3.8 FACTORS INFLUENCING CONSUMER BEHAVIOUR

The consumer decision process explains the internal process as well as individual behaviour for making product or service decisions. The consumption process is influenced by external factors like cultural, social, personal and psychological factors. When the marketing and other stimuli come in contact with buyer, his decision process is initiated. The marketer has to correctly read the buyer's conscious/unconscious behaviour to generate positive response. Every person has his/her distinct set of standards of judgment. However, there is some commonality between all of us, which make a marketer classify and analyze consumer behaviour. These are known as similarities or universals.

Consumer behaviour is affected by a host of variables, ranging from psychological factors like personal motivations, needs, attitudes and values, personality characteristics, socioeconomic and cultural background, demographic variables like age, gender, professional status, social influences of various kinds exerted by family, friends, colleagues and society as a whole and broader cultural factors. The combination of these variables has a deeper impact on each one of us as manifested in our different behaviour as a consumer.

3.8.1 Influence of Cultural Factors

There is a subtle influence of cultural factors on consumer's decision process. Consumers live in a complex social and cultural environment. The types of products and services they buy can be influenced by the overall cultural context in which they grow up to become individuals. There is also influence of the immediate subculture with which consumer identifies himself as a member. Consumers also grow up in a social setting which is characterised by the concept of social class.

- *Culture:* Culture is the complex way of living of individuals. It represents the way consumers live and grow up to acquire cultural values and norms. Culture is defined as a complex of values, ideas, attitudes and other meaningful symbols created by man to shape human behaviour and the artifacts of that behaviour as they are transmitted from one generation to the next. Culture is also the largest single grouping of people sharing a distinctly unique social heritage. Each culture evolves over centuries and passes from one generation to other. Many of our consumption behaviour are manifested in our subconscious due to transformation from one generation to the other. Every culture has two components viz. material and non-material component. Material artifacts are the products, tools, monuments and structures that man has created from the natural resources which have come to stay as an indicator of a particular culture.

  Non-material cultural components explain the symbols, signs, semiotics and rituals used by people to reflect their way of living and tell the life story of nations and civilizations. Life in itself is called rites of passage. Every one of us has to complete these rites in the birth, graduation, marriage and death of individuals. Marketing managers need to understand the cultural context in which consumers derive meaning from products and services. Religion being the foremost factor in deciding the cultural context allows or forbids certain consumption choices for instance Hindus are forbidden to use beef and Muslims to use pork. Colours and symbols also carry different meanings in different cultures. The symbol of Swastika is a sacred symbol of Hindus whereas its slight modified version represents the tyranny of Nazi rulers of Germany and hence is a symbol of hatred in Europe.

So, while studying consumer behaviour in any culture, one must recognise products or services not only as materials produced by the culture, but also as the culmination of abstract values, attitudes and related symbolism associated with the culture having a direct bearing on the consumption pattern of the user.

- ***Sub-culture:*** Culture is a larger manifestation of a nation. People tend to identify themselves with immediate sub-cultural systems, which are reflected through the race, religion, nationality and geographical locations. Sub-cultural factors help in providing an immediate identification and socialization to the consumer.

  People tend to identify and behave in a very similar manner when they come from the same state, practice similar faith and are from the representative race. A Punjabi will always present himself as someone from Punjab and finds it more comfortable in the company of Punjabis. There is more homogeneity in practices, rituals and celebrations among Punjabis than any other non-Punjabi community Sub cultural identifications are immediate in consumption choices compared to a broader national culture.

- ***Social Class:*** More immediate identification and homogeneity in consumption is seen in the social classification system used to develop a hierarchical order in every society. In a developed and capitalistic economy, the social classification is linked to the financial and material resources of the individual; the eastern nations like India have a different method of social classification through caste system. In an oriental society, social classification comes out of ascription, which is directly linked to the caste system. Irrespective of material and financial gains, Brahmins in India are put in the highest echelon in the social ladder, followed by warriors, businessmen or trade community and finally the scheduled castes whose job is to serve the upper three castes. The social classification and belongingness is not linked to the individual's economic success but to his birth or ascription to a particular class.

  Social class is defined as a relatively permanent and homogeneous division(s) in the society to which individuals and families belong and they share similar values, lifestyles, interests and behaviour. These are very broad groupings of individuals who hold roughly similar status levels in society, arranged in a hierarchy from low through middle to upper class divisions. The individual can move up or down during his lifetime among the social classes depending on his success in career and business. People in one social class tend to show very similar behaviour and there is a variation of behaviour between each class. Since social classification is enduring and is a part of a broader social system, it is always studied in the context of broader cultural influence on consumer behaviour.

3.8.2 Influence of Social Factors

As we have mentioned, cultural factors are broader influences on consumption choice and are subtle in their impact in shaping the consumption choice of individuals. Social factors in turn reflect a constant and dynamic influx through which individuals learn different consumption meanings. The social factors influencing consumer behaviour include reference group, family and social roles and status. Let us discuss each one of them in brief and understand their influence in consumer decision process.

- ***Reference Group:*** A person's reference group has a face-to-face, direct impact or indirect impact on his attitude and behaviour. Groups with direct influence are the membership groups. Membership groups can be classified as primary membership groups like family, friends, neighbours and colleagues with whom he has a continuous and informal interaction; secondary membership groups like religious membership groups, professional associations and trade union groups where interactions are more formal and less continuous in nature. References groups expose people to new behaviour through which they develop membership behaviour by using products and services similar to the group members. So, new groups exert pressure to confirm to group norms, which influences the brand choice behaviour. People are also influenced by the aspirational groups to which they are currently not members but expect to belong at future period of time. Similarly individuals reject ideas and membership norms of certain reference groups. They are called dissociative groups.

  Reference groups influence consumption decisions, which can be studied by analyzing factors like product category, reference group characteristics and group communication process. The kind of goods and services used by a reference group is also a determinant of influence on the consumption decisions of group members. People generally resent strong pressures and bold directives. However, a participative approach of communicating group norms regarding consumption decisions can yield a better adoption by people in a group.

- ***Family:*** Out of all the social factors, the one most important and effective in influencing the consumption choice is the family. Aristotle in 4th B.C. defined family, as the association established by nature for the supply of man's everyday wants. It is defined as two or more people related by blood, marriage or adoption that reside together. The individuals who constitute a family might be described as members of the most basic unit of society or the most fundamental unit of society who live together and interact to satisfy their personal and mutual needs. Families are sometimes referred as households but not all households are families. A household might include individuals who are not related by blood, marriage or adoption such as unmarried couples, family friends, roommates or boarders. We will use family and household synonymously.

  The simplest type of family in number of members is a married couple. A husband and wife and one or more children constitute a nuclear family. The nuclear family, together with atleast one grandparent living within the household is called an extended family. When a couple creates a family with their children, it is called family of procreation and when they are a part of family with their parents, it is called family of orientation.

  Families have four basic functions, namely function of economic well being in which husband is the bread earner and wife is the home maker and the child rearer, function of emotional support in which the family attempts to assist its members in coping with personal and social problems; function of suitable family life cycle which covers upbringing, experience and the personal and jointly determined goals of the spouses. It determines the importance placed in education, career, reading and selection of other entertainment and recreational activities. Family life cycle commitments including allocation of time for other members greatly influence the consumption pattern. For example, marketing of convenience and fast foods, emergence of shopping malls and out of the home entertainment is due to increased number of working mothers in households of India; the fourth function the family member socialization especially for children, is the central family function. This process consists of imparting to children the basic values and modes of behaviour consistent within the culture. These generally include moral and religious principles, interpersonal skills, dress and grooming standards, appropriate manners and speech and selection of suitable educational, occupational career goals.

Most marketers recognise the family as the basic decision making unit and therefore they most frequently examine the attitudes and behaviour of one of the family members whom they believe to be the decision maker. They are also likely to evaluate the consumption role and observe the behaviour of the member who is likely to make the final decision.

- ***Roles and Status:*** Consumers participate in different roles in different groups like family, professional and recreational association and formal organisations. Their role is defined in terms of role and status. A role consists of the set of activities a person is expected to perform in all these groups – as a father, as an employee or as a member of the work organisation. Each of these roles carries some level of status. A person working as the vice president of a company enjoys more status than a marketing manager. Marketing communication managers communicate various roles and status through their brand associations. As a marketer they need to be aware about what kind of status symbol each of the products and services carry for the consumer. In a modern society, status comes from achievements, source of income and materialistic ownership of products and properties, whereas in an oriental and traditional society, consumers tend to get a status out of ascription and inheritance. Marketing managers develop favourable brand associations by linking their brands and products with the meaningful status connotations in society.

3.8.3 Influence of Personal Factors

A person's consumption behaviour is shaped by his personal characteristics. These factors include demographic factors like age, income and language, level of education and gender factors, his stage in life cycle, occupation, economic circumstances, lifestyle, personality and the self concept. People consume different kinds of products in different age groups. Marketers take a count on the target population's requirements and design products and marketing programs with the life stage of the consumer. The ever-ageing population in Japan is in need of products and services, which will help them in digestion, viewing and mobility. So marketers find a big market for digestive tablets, glasses and walking sticks aimed at this segment of population whereas majority of Indians being in stage of youth need quality education, technical training, housing and jobs. So the age of the consumer as well as his stage in life will also influence his consumption pattern.

- ***Occupational Factors:*** Occupational factors also influence consumer behaviour. These factors include both the type of job and nature of job. Demand pattern for a blue-collar worker is different than that of a white-collar worker. His product choice, brand beliefs are influenced by his occupation. By nature of occupation, we mean the regularity of income. If the person is in a full time and permanent job, his consumption pattern will be different than a person who goes in and out of a job. The financial conditions and income levels will influence his demand and consumption pattern.

  In a typical situation, marketers look for the level of spendable income that the target segment has. Whatsoever the consumer earns, he cannot spend it all as there are tax related obligatory payments he has to make. This income is called disposable income. He will save some amount of money in the form of savings and investments from his disposable income. The net from this proceeding is called spendable income. A consumer will be happy to find an overall increase in the spendable income level, which will allow him to allocate higher resources in each consumption situation. His economic circumstances will influence his financial liquidity position, debts, borrowing power and attitude towards spending and savings. Marketers selling price value products in a developing market keep a watch on the trends in income and consumption pattern and spending and saving habits of target consumers. In the event of a boom like what India is experiencing these days, marketers tend to make the products and services more affordable and luxurious for commodities and expensive for personal categories respectively.

- ***Lifestyle:*** Lifestyle is also another personal factor influencing the decision of consumers. People coming from a different culture, social class and occupation exhibit different lifestyles. Lifestyle is the wholesome pattern of living of a person in the world as expressed in his values and lifestyle patterns, in his activities, interests and opinions. It portrays whole person interacting with his or her environment. It is important for marketers to establish a link between the lifestyle of people with the associations people develop with products and brands. For example, a person working in a Business Process Outsourcing (BPO) industry tends to show a different pattern of lifestyle compared to someone teaching in a business school. At a later stage, the former will be more oriented towards achievement whereas a professor in a business school will be more oriented towards self actualisation.

  A study of lifestyle is called Psychographics. It is the science of using psychological and social variables to understand consumers and their usage context. There are various measures for identifying psychographics of people. The way in which marketers facilitate the expression of an individual's lifestyle is by providing customers with parts of a potential mosaic from which they as artists of their own lifestyles can pick and chose to develop the composition that, for the specific time looks best. Psychographics deals with mental profiling of consumer's psychological processes and properties. It is the systematic use of relevant activity, interest and opinion constructs to quantitatively explore and explain the communicating, purchasing and consuming behaviour of consumers for brands, products or set of products. Psychographics is the method of defining lifestyle in measurable terms. There are two frameworks used for the purpose of lifestyle analysis viz. AIO and VALS framework. AIO (Activities, Interest, Opinion) framework model frames long sets of questions using the following measures to find out major dimensions of lifestyles of consumers.

- ***Personality and self-concept:*** The next set of personal factors influencing the purchase decision of consumers is personality and self-concept. Personality refers to a person's consistent way of responding to a wide range of situations. Marketers are interested in personality as a way to target consumers. Are people with particular personalities more likely to buy certain products? Personalities are stable among people and do not change under normal circumstances. However, behaviours shown under conditions of intoxication, medication cannot be taken as part of personality. Individuals tend to show a systematic pattern of response and also demonstrate a stable set of characteristics to be considered under one personality type. Our idea is to only make the reader understand what personality is and how a marketing program can influence the consumer's behaviour.

  There are various theories on personality. They are grouped as psychological, sociological, trait and factor theories of personality. The psychological school propounded by Freud postulates that consumers have three dynamic forces namely id, ego, and super ego and the personality is shaped by interplay of these three internal forces. While id addresses the hedonistic desires of individuals, super ego attempts to play the moral policeman; ego is the executive that tries to bring a balance between these two opposites. Personality of individuals is shaped by interplay of these three forces.

The sociological theories of personality take a radical view and assume that personality of an individual is shaped by how he interacts and learns from his environment. So it has more to do with a person interacting with society and seeking power, love, care and appreciation, which in turn will form his personality. characteristics. Karen Harney propounded the sociological school of personality which was subsequently supported by many others.

Quite contrary to the above two propositions, marketers follow the trait and factor theories for developing consumer stereotypes for the purpose of application of personality ideas in the context of marketing. Traits are relatively stable set of characteristics that individual's show in all possible situations like aggression, patriotism or power-seeking behaviour. Many traits have a high degree of relationship and they explain a broader variable called 'Factor of Personality'. Factors are independent variables or characteristics explaining the personality of the individuals.

Marketing application of personality theories is very evident in the field of advertising. While trait and factor theories propagate stereotyping personalities in brand communication, sociological theories are used in advertisements e.g., Raymonds' campaign in which the child appreciates the dress of father, Santoor brand of soap in which the mother of a grown up girl looks younger and is asked about the college in which she studies; psychological theories of personality are applied in cases where some element of sex is hidden in the context of marriage and shown in the advertisement e.g MR coffee campaign with the catch line 'you don't get satisfaction by instant' is an example of use of psychological theories in advertising. Personality explains totality of a person's make up rather than focusing on specific action that he or she will take in particular situations.

Marketers use self-concept to develop brand personality. They expect that using self-concept will help customers to identify and match their personalities with that of the brand. Self-concept has various classifications. There is a real self or actual self, which is what the consumer thinks he is; there is an ideal self which explains how he wants to himself; there is the other self which is how he thinks he is being viewed by others. A marketer needs to know which kind of self the consumer is likely to use in his product choice context and accordingly project that self-concept in his marketing program. Jennifer Aaker in her seminal article on brand personality has identified five traits as components of brand personality.

(a) Sincerity (down to earth, honest, wholesome and cheerful)

(b) Excitement (daring, spirited, imaginative and upto date)

(c) Competence (reliable, intelligent and successful)

(d) Sophistication (upper class and charming)

(e) Ruggedness (outdoorsy and tough)

As a consumer, we naturally buy goods and services that fit our self-concept or self-image. All of us carry around a complex mental picture of ourselves. Marketers should try to develop brand images that match the self-image of the target market. Of course, one's actual self-concept may differ from his ideal self-concept. Some purchases and possessions such as clothing, cars, furniture and houses, are more central to self-concept than others. Marketers of products that contribute strongly to self-image (hairstyling, shoes, perfume, jewellery, eyeglasses) need to assess their customers' self-concepts.

3.8.4 Psychological Factors

Consumers are also influenced by the psychological factors. Internal psychological factors subtly guide the decision making process. These factors are important as they influence the reason or 'why' of buying. These factors are motivation, learning, perception, attitude and beliefs. Let us discuss each of these factors and how they influence the consumer decision process.

- ***Motivation:*** Motivation leads people to move from a general level of need awareness to pursuing a specific goal and to take action towards achieving that specific goal. Psychology helps in understanding how the consumer learnt about a brand and how his memory influences his buying habits. Consumers have biogenic needs driven by born instincts and psychogenic needs which arise from psychological states of tension such as the need for love, care and belongingness. A need becomes motive only when the need is strong enough to drive the person to act in a desired way. Various theories are available in literature to explain the concept of motivation.

  Maslow's hierarchy of needs model explains that individuals follow a typical pattern of need structure. In order to fulfill their needs, they follow a hierarchical model in which once a lower order need is fulfilled, the customer pursues the next order of need.

  The human factor always moves towards satisfying certain basic needs as explained by Maslow. Therefore, a study of why and how a consumer is motivated to buy certain products and services helps us in understanding consumer behaviour. Maslow classified the needs of individuals as physiological needs, safety needs, social needs, esteem needs and self-actualization needs. A person would first satisfy his physiological need and then move higher in the order to satisfy the higher order needs. The physiological needs include basic needs like hunger, thirst and sex. Safety needs include needs related to security and protection. Social needs include sense of belonging and love. Esteem needs include self-esteem and recognition need. Self-actualization need covers self-development and realisation need. People will try to satisfy the most pressing needs first and then move to the next level. Marketers help in giving signals and cues to make their brand as fulfilling the most pressing need of the consumer.

- ***Perception:*** Perception is a process through which a consumer's mind receives, organises and interprets physical stimuli. It is influenced by various factors such as colour, size and brand. Perception explains how consumer's process information. A motivated customer is ready to take a purchase decision for which he will search, process and interpret available information about products and services. It is a process of customers painting their world with meanings about the products and services. Product or brand perception also depends on external environment, biases and loyalty of individuals towards other products and brands. The problem of perception is that it is dependant on each individual's ability to process and interpret the physical stimuli, so the meanings for the same product or brand will vary from person to person. This happens because of three processes involved in perception, namely selective attention, selective distortion and selective retention.

  We are exposed to a huge amount of information about the world everyday which also includes information about products and services. Due to the advent of Internet, there has also been an infonnation explosion. Unfortunately, ability of consumer to process this huge information and interest in evaluating this information is limited. His interest is in evaluating information, which is pertinent to his current goals and needs. He actively searches this information and processes it for developing meanings. In some cases, though he does not face a consumption problem currently, he evaluates information passively due to his interest or expectation that a need may arise in future. His information processing is more passive and ongoing in nature. This behaviour of consumers is called selective attention.

Thus, individuals will process that information and notice that stimuli which relates to one of their current needs; individuals will notice those stimuli which they expect to use in future and finally, they will notice a stimuli which is largely deviating from the conventional and traditional models of information for delivery of physical product stimuli. An advertisement, which is very creative and different than others in a slot, is likely to catch consumer's attention because of this deviated behaviour. Although individuals continuously evaluate information they are also influenced by unexpected stimuli such as sales promotion programs and events organised around products and brands.

The information stimuli sent by the marketer or sender gets modified and distorted due to various external factors and the availability of previous information with the individuals. This is called selective distortion process, which explains the likelihood of consumers to modify and twist the information and interpret information in a way, which is different than the way the company wanted it to be interpreted and which will fit better into their preconceptions. Marketer's role in the selective distortion process is very limited.

Finally, people do not have such a powerful memory box to remember all the information aimed at them through various marketing and communication programs. In that case, they are likely to reject huge amount of information and prioritize what set of information, they are going to retain for future use. This process is called selective retention. Due to the process of selective retention, individuals tend to remember only key benefits or attributes of products and brands and reject a major part of marketing information.

- ***Learning:*** Learning is closely related to knowledge, skill and intention – three basic behavioural characteristics. It appears that knowledge and intention acquired through experience and skills, come from practice. Learning is not directly observed but rather is inferred from a change in performance. This indicates that learning and performance are related but distinct concepts regarding the consumer.

  Learning brings changes in people's behaviour due to experience or application of insight. Most human behaviour is learned and people acquire new behavioural patterns and meanings through the learning process. Learning occurs due to interplay of drives, stimuli, cues and responses. Drive is a strong stimulus that impels customers to take action. An important desire or pressing motivation takes the form of a drive which breaks the inertia and activates consumers to take decisions. A cue is a weak stimulus, which in itself has no ability to generate a response but has ability to guide the direction of the effect of a stimulus. It is like a catalyst in a chemical reaction. Ambience in a store and colour of packaging are examples of cues. People learn to discriminate between various similar stimuli. Discrimination is defined as the process in which the individual learns to recognise differences in sets of similar stimuli and can adjust his response to each differentiating stimulus.

  Learning theories help marketers design marketing programs and design programs to make customers learn about selective consumption in favour of company's products and brands. The marketing manager can associate the offer with the desired expectations of consumers, use cues to hasten the process of decision-making and manage the response pattern in the form of higher mind share and market share. There are two approaches of learning as explained in the following paragraphs.

(a) *Conditional Learning:* This is based on stimulus-response behaviour and is based on experiential learning. These theories postulate that learning can happen by conditioning a relationship between the stimulus and response. The individual learns this relationship through experience. This may happen involuntarily or may happen due to the consumer's actions. Pavlov's experiment on the dog and bell is an example of involuntary learning in which the dog was forced to learn about the bell; which was rung everytime the food was served. In this case, food is the unconditioned stimulus, bell is the conditioned stimulus and the salivation of the dog is the desired response. In BF Skinner's experiment of instrumental conditioning, the bird voluntarily tried to press one of the switches and learnt to connect the particular switch with the food and developed the learning over trial and error method.

(b) *Cognitive Learning:* This kind of learning occurs without previous experience and by use of insight and cognition. There is no need to have an earlier conditioning between stimulus and response for learning. Wolfgang Kohler's experiment with the chimpanzee is based on the cognitive learning in which the animal used his own insights for using the tool kept in the cage to reach the bananas. It used insight and self-estimation for the goal and developed learned response pattern through use of the stool to reach the bananas. Consumers are engaged in various kinds of behaviour, and use the sum-total of their information, experiences, attitudes, values, beliefs, etc., to try to solve their problems and derive satisfaction. Consumer learning based on application of marketing knowledge is an example of cognitive consumption learning.

- *Attitude:* Consumers develop favourable or unfavourable attitudes towards products or brands before they decide to buy the product or brand in the market place. Formation of positive attitude is a necessary condition for the completion of the purchase process. Attitude is defined as a favourable or unfavourable predisposition that people hold towards objects in the environment. An attitude is a tendency to respond to a given product in a particular way. Awareness about attitudes helps the marketing managers in deciding what product attributes and service components should be there in the marketing program to create a positive disposition.

  Attitude has three distinct components namely cognitive, affective and behavioural or connative. Attitude is an individual's enduring favourable and unfavourable evaluations, emotional feelings and action tendencies towards some objects. The cognitive component addresses the rational and logical evaluations whereas affective component addresses the emotional feeling that consumers hold towards the objects and products and finally the connative components addresses the action tendencies. Attitude leads people towards a consistent way of viewing and responding to objects.

- *Beliefs:* Consumers also have descriptive thoughts about products and brands in the market place. These descriptive thoughts are called brand beliefs and they influence the decision making process of consumers. If consumers believe that a brand available in the market is good then it is very difficult to push another product without changing the brand belief of consumers. Brand beliefs reside in consumer memory and often advertisers use it for building storyboards for products and brands. The belief that diamonds are forever made advertisers to use a catch line *Hira hain sada ke liye* in diamond advertising campaign. Marketers use neutral network models to find out which is the desired set of associations that consumers hold towards a brand and use them in their brand promotion. Consumers hold brand beliefs like 'Tatas are an ethically correct company' and "Sony only sells premium brands in the television market". This helps the marketing manager to decide where to position brands and what kind of brand belief he would love consumers to make for his brand.

3.9 CONSUMER BUYING PROCESS

For certain product categories, the consumer takes his buying decision immediately without much consideration. These are items of daily consumption. When consumers buy products and services without much consideration, they tend to show impulse buying behaviour. For some other product categories, mainly luxury or durable items the consumer thinks carefully before taking a decision to purchase them. Sometimes, the consumer may also consult others. Generally, the purchaser passes through five distinct stages namely need or problem recognition, information search, alternative evaluation, purchase decision and post purchase behaviour.

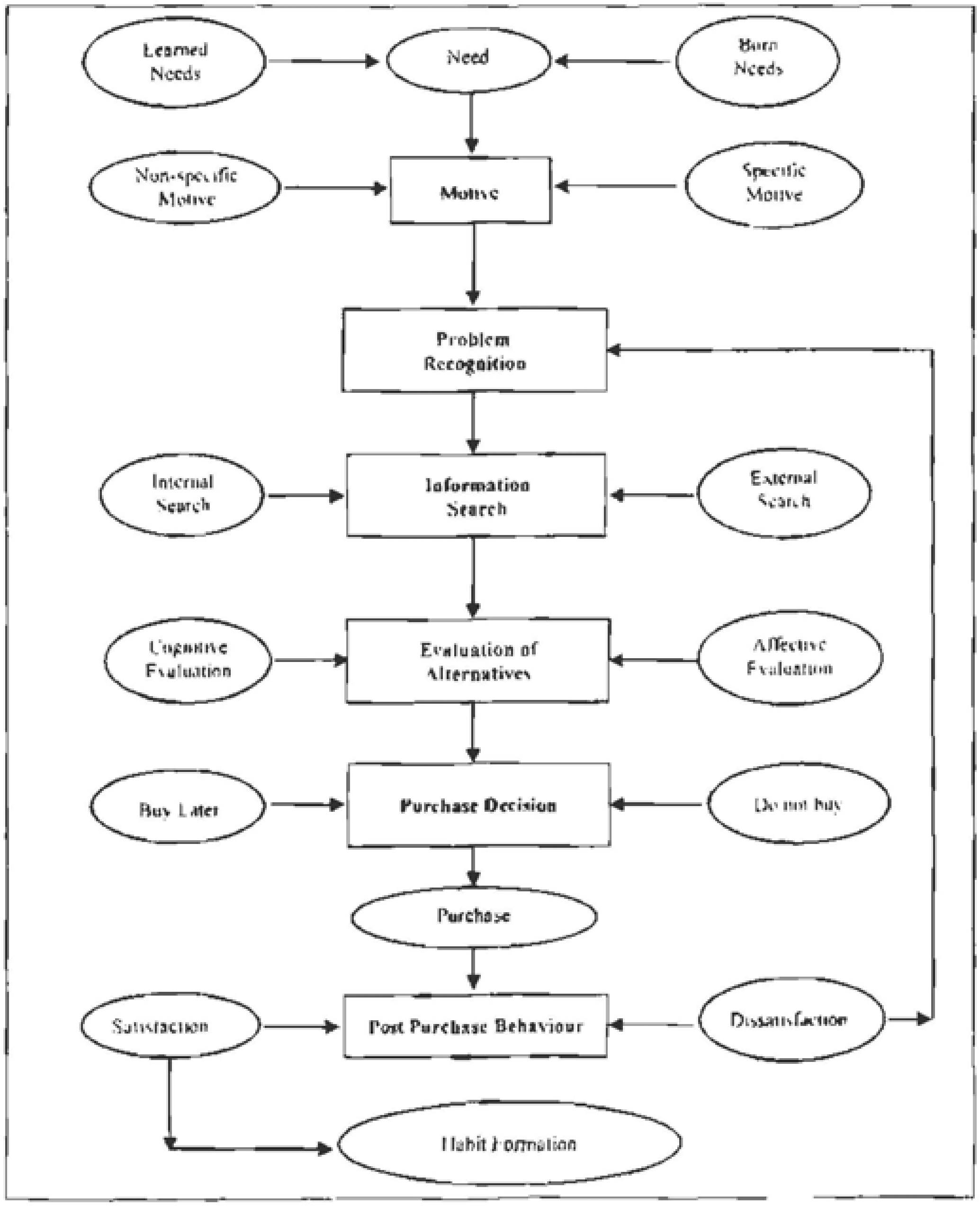

Figure 3.1: Stages in Consumer Decision-making Process

3.9.1 Stage of Problem Recognition

A buying process starts when a consumer recognizes that there is a substantial discrepancy between his current state of satisfaction and expectations in a consumption situation. Need is an internal state of felt deprivation. A consumer must have a countless set of needs but he becomes aware about few of them when a feels devoid of certain experiences of product or service, whose existence would have otherwise made him satisfied. This explanation assumes that consumers always become aware of their needs through internal process of realization of deprivation. But in reality, the marketer can make the consumer aware about a particular need through communication or the social environment may make him aware about a particular need.

For example, needs related to basic instincts like hunger, sex, thirst, etc. are the needs that have the capacity of self-arousal. Whereas social needs like ownership of products and services related to social class belongingness and status are aroused by the individual customer's socialization process. Through marketing communication program marketers expose consumers to new products and services for the satisfaction of some latent hidden need.

A need can be activated through internal or external stimuli. The basic needs of a common man rise to a particular level and become a drive and he knows from his previous experience how to satisfy these needs like hunger, thirst, sex, etc. This is a case of internal stimulus. A need can also be aroused by an external stimulus such as the sight of new product in a shop while purchasing other usual products. There is a two-fold significance of need arousal stage to a marketer.

The marketer must identify the drive that might actually or potentially connect with the product class or brand and make the buyer feel that the product can satisfy his needs.

He should also recognize that the need levels for the product fluctuate over time and are triggered by different cues. The marketer can arrange cues to conform better to the natural rhythms and timing of need arousal.

So mere existence of a need does not initiate a decision making process. When this need is backed up by goal directed behaviour, it is called a motive. Motives are more dynamic and kinetic compared to needs, which are static in nature. Motives bring both propensity to search for information and propensity to spend energy to acquire that information.

3.9.2 Stage of Information Search

After need arousal, the behaviour of the consumer leads towards collection of available information about various stimuli i.e., products and services in this case from various sources for further processing and decision-making. Depending upon the intensity of need discrepancy and urgency of the problem, an individual reaches two states. The first state is called heightened attention where the consumer becomes more receptive to the information regarding the products and services he needs. He becomes alert to information related to his need as well as on alternatives about their gratification. If a consumer needs to purchase a television, he will pay more attention to TV advertisements. He keeps remembering the remarks made by friends and associates about TVs. In this case, he is slowly collecting the information through an ongoing or passive information search process.

If need is more intense and the problem is urgent, the individual enters a state of active information search in which he tries to collect more information about the product, its key attributes, qualities of various brands and about the outlets where they are available. His information search is direct and is also observable through his behaviour.

The first source of consumer information is the internal source. The consumer searches for any relevant product information from his memory box. If the information is not available and in the case of supporting available information from internal source for making a purchase decision he may collect information from external sources. External sources for desired information can be grouped into four categories.

1. Personal sources (family, friends, neighbours and peer group).
2. Commercial sources or market dominated sources (advertisements, salesmen, dealers and company owned sales force).
3. Public sources (mass media, consumer rating organisations, trade association publications, etc.).
4. Experiential sources (handling, examining and using the product).

At this stage, the consumer is actively involved in the buying process and pays attention to the product. However, if he loses interest during this involvement, his attention will be diverted and the buying-decision process will break down. In our example of the housewife requiring a washing-aid, she may look for further information about these machines once she becomes aware of such machines. The kind of information she may look for are the alternative washing machines available in the market place, their relative prices, operational efficiency and warranty and service facilities.

3.9.3 Stage of Alternative Evaluation

Once interest in a product(s) is aroused, a consumer enters the subsequent stage of evaluation of alternatives. The evaluation stage represents the stage of mental (cognitive) and emotional (affective) trial of various product alternatives. During this stage, the consumer assigns relative value-weights to different products/brands on the basis of accumulated stock of product information and draws conclusions about their relative potential for giving satisfaction to his needs. When the consumer uses objective choice criteria, it is known as cognitive evaluation. In the case of using emotional reasons for evaluating the alternatives, we call this as affective evaluation. Consumers evaluate brands by using either or both the criteria in purchase situation.

Evaluation leads to formation of buying intention that can be either to purchase or reject the product/brand. Intention is the forecasting of future course of action. The final purchase will, however, depend on the strength of the positive-intention, that is the intention to buy. In our example of the housewife, after arousal of her interest in washing machines, she will compare the stock of information she has accumulated about the different washing machines in the market and then evaluate the value of each one of them before she develops the intention to buy. However, if she feels that a washer-man/woman would serve the need then she may altogether reject the idea of buying any washing machine.

On the basis of the evaluation of behaviour of consumers, the marketer can improve or develop the product and segment the market on the basis of product attributes. So, at the evaluation stage, the consumer gives relative weights to each factor for his purchase decision and evaluates each brand on the basis of those factors for each alternative.

3.9.4 Stage of Purchase Decision

The consumer arrives at a purchase decision. Purchase decisions can be one of the three viz. no buying, buying later and buy now. No buying takes the consumer to the problem recognition stage as his consumption problem is not solved and he may again get involved in the process as we have explained. A postponement of buying can be due to a lesser motivation or evolving personal and economic situation that forces the consumer not to buy now or postponement of purchase for future period of time. If positive attitudes are formed towards the decided alternative, the consumer will make a purchase.

There are three more important considerations in taking the buying decision: (a) attitude of others such as wife, relatives and friends. Interestingly, it depends more on the intensity of their negative attitude and the consumer's motivation to comply with the other person's wishes (b) anticipated situational factors such as expected family income, expected total cost of the product and the expected benefits from the product and (c) unanticipated situational factors, like accidents, illness, etc. Both the influencer's negative attitude towards purchase process and motivations of the buyer to overcome these influences will influence a no-purchase situation. The customer in this case is likely to go back again to problem recognition stage.

Purchase is a consumer commitment for a product. It is the terminal stage in the buying decision process that completes a transaction. It occurs either as a trial and/or adoption. If a consumer is buying something for the first time then from the behaviour viewpoint, it may be regarded as a trial. This trial enables him to accumulate experience about the product purchased. If this experience is positive in terms of the satisfaction derived, then repeat purchases may occur, otherwise not.

For example, when a new brand of bathing soap is introduced in the market, the consumer may buy it for the first time as a trial. However, repeat purchases will occur only when he is satisfied with its performance. But the possibility of a trial purchase is not available in all cases. In the case of consumer durables such as scooters, refrigerators and the like, a trial is not possible, because once a product is purchased, it has to be adopted and repeatedly used. Adoption means a consumer decision to commit to a full or further use of the product. In our example of the housewife, the washing machine is not open for a trial purchase: it will have to be adopted only If the customer decides to make a purchase, his post consumption behaviour is studied in the next stage.

3.9.5 Stage of Post Purchase Behaviour

If the product matches his expectations, the consumer is satisfied. If the performance of the product exceeds the expectations, the consumer is delighted and if the performance falls short of expectations, he is dissatisfied. So post purchase behaviour leads to three situations, namely customer is satisfied: customer is delighted or customer is dissatisfied. In the event of dissatisfaction, the consumer goes back to the problem recognition stage and again undergoes the process of information search, evaluation of alternatives and final purchase. In the subsequent stages, he is not likely to include the rejected brand of previous round and will only consider the existing brands and new brand information that he acquired while he was still evaluating the previous brand.

Post-purchase behaviour refers to the behaviour of a consumer after his commitment to a product has been made. It originates out of consumer experience regarding the use of the product and is indicated in terms of satisfaction. This behaviour is reflected in repeat purchases or abstinence from further purchase. A satisfied product-use experience leads to repeat purchase, referrals from satisfied customers to new customers, higher usage rate and also brand advocacy. Post purchase behaviour study also includes how consumers use and dispose the product after consumption. Disposal of products explains the emerging environmental issues related to package disposal and its impact on the environment.

A consumer's decision to buy a product or service is the result of the interplay of many forces or stimuli. The starting point is the marketer's stimuli in the form of product offering through a marketing program, which is communicated through integrated marketing communication methods, and the products are made available at retail outlets at a price. The marketing stimuli for the product include developing a marketing program by locating target markets and segmenting markets as per the customer's needs and requirements.

3.10 CUSTOMER LIFETIME VALUE (CLV) – UNDERSTANDING AND APPLICATION

A fundamental concept of Customer-Relationship Management is the lifetime value of a new customer. The basic idea is that customers should be judged on their profitability to the firm over the total time they make purchases. Profitability is usually based on net value, that is, the mark-ups over cost less the cost of acquiring and keeping the customer. Fixed costs are not considered because it is assumed that these costs will be incurred with or without the particular customer.

The example presents a simple method of doing the calculations. It is based on the average customer and does not consider the time value of money or the effects of marketing actions such as loyalty programs and referral programs.

3.10.1 Approach

The simplest approach to lifetime value is to compute the average net revenue by multiplying four quantities together:

Avg. sale * No. of purchases/year * Stay of customer * Average Profit %

Example: Consider a stationery store serving small corporate clients:

Average sale – ₹ 2,000

Number of purchases/year – 2

Expected length of customer stay (years) – 3

Average profit margin – 24%

Thus, the Lifetime net revenue: ₹ 2,880

Having the net revenue, the lifetime value can be determined by subtracting acquisition and retention costs:

Lifetime value = Lifetime revenue – Cost to acquire – (Cost to retain × No. of purchases)

If, for example, the allocated cost to an acquired customer from an advertisement is ₹ 500 and the cost to retain the customer for each purchase after the first one is ₹ 20 then:

Net lifetime value of customer = 2880 – 500 – (20 × 5) = ₹ 2,280

Three strategies can be followed to increase the value of the customer:

1. Increase size of average sales (tie-ins, package multiple items).

2. Increase the number of sales (find other customer-needs you can provide and satisfy them with).
3. Increase profit margin (reduce overhead costs, reduce cost of goods and raise price if market will stand it).

A more sophisticated calculation would probably include retention rates (percent of customers who buy again), discount rates, effect of loyalty programs, average annual purchase per customer (including increasing number of sales and increasing amount per sale to retained customers), mark-up of goods, cost to obtain a new customer, cost per year to maintain a customer, cost to obtain customers through referrals, risk factor (that the customer will not pay), delay between order and payment (i.e., the account receivable days), repurchase cycles, etc.

All of these considerations would need to be factored in a lifetime value model depending on the industry and company where Customer Relationship Management is to be implemented.

Lifetime customer value refers to the profit a customer is expected to generate while he/she maintains a relationship with the company. The net margins on transactions, taken over all channels of a company determine customer value.

This analysis is possible because a company can distinguish among customers and collect information about individual purchase histories. A good way to think about lifetime value is to consider the return on investment on the customer asset. The investment includes the cost to acquire and retain the customer. Once obtained, a repeat purchaser whose cost to maintain is relatively small becomes an asset that adds to the firm's profitability.

The cost to develop and maintain the individual customer relationship involves assumptions about the direct and indirect marketing and management costs.

Each customer is unique has a different lifetime value, and has personal preferences that need to be taken into account. Despite these limitations, computing and understanding lifetime customer value is central before implementing a CRM program.

3.10.2 Applications

Strategy always begins with some assumptions. "If we do this, then the customer will do that". The calculations of CLV can help in following:

- ***Retention Rate:*** Building relationships increases customer loyalty and augments the retention rate. Increases in the retention rate will reduce the costs of servicing customers, and increase the revenue per customer.
- ***Referrals:*** Relationship building activities can turn your customers into advocates and lead them to suggest your company to their friends, co-workers or relatives. This works in business-to-business as well as consumer marketing. Referrals typically have higher retention rates and spending rates than other newly acquired customers.
- ***Increased Sales:*** Database activities can lead to increased visits to the store, larger average purchases, cross-selling or upgrades.
- ***Reduced Direct Costs:*** Database activities can reduce costs, in some cases, by changing the channel of distribution. Once you have customers on your database, you can learn more about them, and can increase your channels to reach them. You can send them e-mails. You can call them on the phone.

- *Reduced Marketing Costs:* Well-planned database activities are often much more cost effective than mass advertising. Once you have your customers on a database, you will develop innovative ways to market to them. For example, you will find that some customers have a negative lifetime value. They are costing you profits. Why spend a lot of money trying to build a relationship with these losers? Save your marketing money for people who can do you some good.

Check Your Progress

Fill in the blanks.

1. Study of consumer behaviour assumes that consumers are ____________ in the market place.
2. Each customer is unique, has a different ___________ value, and has personal preferences that need to be taken into account.
3. The consumer decision process explains the ___________ process as well as individual behaviour for making product or service decisions.
4. When consumers buy products and services without much consideration, they tend to show ____________ buying behaviour.
5. ____________ customer value refers to the profit a customer is expected to generate while he/she maintains a relationship with the company.

3.11 LET US SUM UP

- Consumer behaviour is the study of why, how, what, where and how often do consumers buy and consume different products and services. It tries to understand the process followed by consumers in making product and brand choices.
- Knowledge of consumer behaviour is helpful to the marketing manager in understanding the needs of different consumer segments and developing appropriate marketing strategies for each segment.
- The study of consumer behaviour also provides an insight into how consumers arrive at the purchase decision and what are the key variables influencing their decision process.
- The consumers follow a decision process characterized by problem recognition, information search, alternative evaluation, purchase decision and post-purchase behaviour.
- Consumers also play various roles in the purchase process, namely the role of initiator, influencer, gate-keeper, decider, buyer, user, preparer, maintainer and disposer in the context of a purchase decision.
- An individual consumer's decision to purchase a product is influenced by a number of variables, which can be classified into four categories, namely cultural, social, personal and psychological factors.
- Cultural factors have a broader consumption context through which the consumer learns the significance of consumption. Sub-culture, social class, nationality and religion are some of the cultural issues influencing the decision making process.
- The social factors include family, reference group, roles and status of individual customer in influencing his consumption behaviour.

- Consumers differ from one another in terms of their sex, age, education, income, family life-cycle stage, personality and lifestyle and other personal characteristics, which influence their buying behaviour.
- Consumers differ fundamentally in income, education level, taste and age. In the past marketers had close and direct contact with the consumers, which enabled them to understand consumers.
- Consumer is the king around whom the entire system of marketing revolves. If anybody makes the marketing program ignoring the consumer preferences, he probably will not achieve his ultimate objective.
- The government also plays a vital role in protecting the interest and rights of the consumers. During the last decade, Customer Lifetime Value (CLV) has become the standard method for measuring the success of Customer Relationship Management programs.
- Return on investment (ROI) is used for campaigns and profitability is used, particularly in banks, to take a snap shot of the performance of existing customers.

3.12 UNIT END ACTIVITY

'Technology is a powerful tool in influencing and changing consumer behaviour. As new technologies emerge to disrupt industries, companies of all sizes can't afford to sit on the side lines. In a world where new technologies pop up all the time, the companies that put consumer needs first are in a position to win'. Prepare a presentation on importance of new technology in studying consumer behaviour.

3.13 KEYWORDS

Buying Motive: It is the reason why a person or an organisation buys a specific product or makes purchases from a specific firm.

Culture: It is the wholesome way of consumers and explains his mosaic of living. It is a way of living that distinguishes a group of people from others. Culture is learned and transmitted from one generation to another.

Lifestyle: A person's activities, interests, attitudes, opinions, values and behaviour patterns in explaining his way of living.

Motive: A need sufficiently stimulated to move an individual to seek satisfaction.

Perception: The process carried out by an individual to receive, organise and assign meaning to stimuli detected by the five senses.

Personality: The person's distinguishing psychological characteristics that lead to relatively consistent responses to his or her own environment.

Physiological Needs: These are the innate (i.e., biogenic needs) needs for food, water, clothing and shelter and are also known as primary needs.

Reference Group: A group or a person that serves as a point of comparison or reference for an individual in the information of either general or specific values, attitudes or behaviour.

Customer Lifetime Value: It is the net present value (NPV) of the future profits to be received from a given number of newly acquired or existing customers during a given period of years.

3.14 QUESTIONS FOR DISCUSSION

1. Discuss two situations, with examples, that show the influence of culture/subculture on consumer purchase behaviour.
2. Describe how reference groups can influence consumers' buying behaviour. Give two examples.
3. In what aspects roles and family can influence buying behaviour?
4. Discuss the impact of attitudes on consumer behaviour, with examples.
5. What are the important types of decision-making approaches that consumers use?

   How can different situational factors influence the purchase behaviour?
7. What different decision steps are involved in buying behaviour? Do you think consumers may skip one or more of these stages?
8. What is post-purchase dissonance? Do consumers experience this anxiety after every type of purchase?

Check Your Progress: Model Answer

1. Actors
2. Lifetime
3. Internal
4. Impulse
5. Lifetime

3.15 REFERENCE

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BLOCK-II

UNIT 4

MARKETING SEGMENTATION

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4.0 AIMS AND OBJECTIVES

After studying this lesson, you should be able to:

- Explain the concept of market segmentation
- Discuss the types of segmentation
- Understand the importance of targeting
- Explain the concept of positioning
- State the STP process

4.1 INTRODUCTION

In traditional marketing method, the marketer develops a product and then searches for customers. Whosoever has the purchasing power is contacted for making a sale. However, modern marketing is based on the reverse process, in which first the customer's needs and demands are identified and looking at the feasibility of an entry in the relevant market, the marketer develops a product and allied marketing program. The subsequent marketing program of the firm depends on how the marketer identifies the potential customers, profiles them, targets them and positions his offering in the minds of the customers. These concepts are studied under segmentation, targeting and positioning popularly known as STP (Segmentation, Targeting and Positioning).

The marketer has a choice of developing a product or service and selling it to everybody available in the market. In such an instance, the marketer has to spend a higher amount of resource to reach the prospective customers. So the return on marketing investments per customer is lower. Some of the marketers tend to classify the market on certain significant variables or group customers on certain characteristics and then find out their demand potential and position the product in the minds of customers to create a differentiation in relation to competitors and thus enjoy competitive advantage. This process is called market targeting and consists of segmentation, targeting and positioning.

Segmentation in a business-to-consumer market is a process of dividing the large consumer market into smaller group of customers with similar demand patterns. It also involves grouping of a few number of large customers into one segment due to similar demand pattern for industrial markets. Targeting involves including decisions encompassing which market(s) to enter out of the available market segment alternatives. Positioning is about the customer's perception about the brand as being different from other brands on specific dimensions, including product attributes. While positioning is a customer driven strategy related to 'how consumers perceive', product differentiation is related to the marketer differentiating the offer on certain product attributes. Therefore, product differentiation is an attribute-based differentiation strategy, while positioning is a customer-led perceived difference created by the marketer through its marketing program.

4.2 SEGMENTATION

Market segmentation is the process of dividing the market into distinct homogenous sub-groups of consumers with similar needs or characteristics that lead them to respond in similar ways to particular marketing programmes.

There exists large heterogeneous markets in which customers are different from one another on various dimensions – by their place of dwelling and also the kind of income they earn in society and the status enjoyed by them. So, the marketer has to identify smaller homogenous markets where customers are more similar or have similar demand patterns and he can develop a differentiated marketing offer for each of these markets. This process of sub-dividing the heterogeneous market into homogeneous sub-sections of customers, in which each sub-section may conceivably be similar to each other, is called market segmentation. Each selected market can be targeted with a distinct marketing mix.

Thus, market segmentation consists of taking the total heterogeneous market for a product and dividing it into several sub-markets or segments, each of which tends to be homogeneous in all significant aspects.

Non-segmented Markets

Non-segmented market is the one which is not differentiated by the marketers for the promotion of their products. It is a single market which uses the single marketing mix for the entire market. It is also called undifferentiated market. Undifferentiated marketing assumes everyone is the same and aims a particular product at everyone. It involves ignoring the difference among the customers and offer only one product or service to the entire market. All consumers have similar needs for a specific kind of product. Homogeneous market or demand is so diffused it is not worthwhile to differentiate, try to make demand more homogeneous. It consists of single pricing strategy, single promotional program aimed at everybody and single type of product with little/no variation distributed in the entire market via single distribution channel. The elements of the marketing mix do not change for different consumers; all elements are developed for all consumers.

Examples include staple foods - sugar and salt and farm produce. Henry Ford, Model T, all in black. For more than 90 years, Coca-cola offered only one product version to the whole market. Hamdard offers Roohafza based on this strategy as it provides cost economies.

This type of strategy is popular when large scale production has to take place. It is not so popular now due to competition. improved marketing research capabilities and total production and marketing costs can be reduced by segmentation. The main objective of this type of approach is to have maximum sales. It is advantageous for a firm as it is easier to plan and common for all. It does not miss anyone. It too has certain limitations. It can be wasteful to ignore segmentation due to differences in customer's preferences. It can lead to disappointing sales because consumer needs within a market vary, one marketing mix could not adequately satisfy the needs of the entire market.

4.2.1 Purpose of Market Segmentation

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

As in the case of differentiated marketing strategy, unless there is a substantial difference among the segments, it will be duplication of efforts and wastage of resources to launch differentiated marketing programs for each of the segments. When there exists a clear distinction between segments, the marketing manager can use the resources in an efficient manner by spending more on the segment with higher potential and then building other segments for the future.

A mass marketer needs to create a differentiation among his customers and then make his product proposition fit each of the segments so that he can understand the homogeneous customer needs and their evolution better than an undifferentiated marketer. It also helps in better understanding of the competitive situation in each of the segments. As the degree of competition will vary across segments, the marketing manager needs to spend accordingly. The marketing manager can accurately identify, measure his marketing goals in terms of market share and mind share in each of the segments and regulate his company's performance in each of the segments.

4.2.2 Requirements for Effective Segmentation

Five conditions must exist for segmentation to be meaningful:

1. A marketer must determine whether the market is heterogeneous. If the consumers' product needs are homogeneous, then it is senseless to segment the market.
2. There must be some logical basis to identify and divide the population into relatively distinct homogeneous groups having common needs or characteristics and which will respond to a marketing programme. Differences in one market segment should be small compared to differences across various segments.
3. The total market should be divided in such a manner that comparison of estimated sales potential, costs and profits of each segment can be done.
4. One or more segments must have enough profit potential that would justify developing and maintaining a marketing programme.
5. It must be possible to reach the target segment effectively. For instance, in some rural areas in India, there are no media that can be used to reach the targeted groups. It is also possible that paucity of funds prohibits the development required for a promotional campaign.

4.3 SEGMENTATION PROCESS

Market segmentation process is depicted in Figure 4.1.

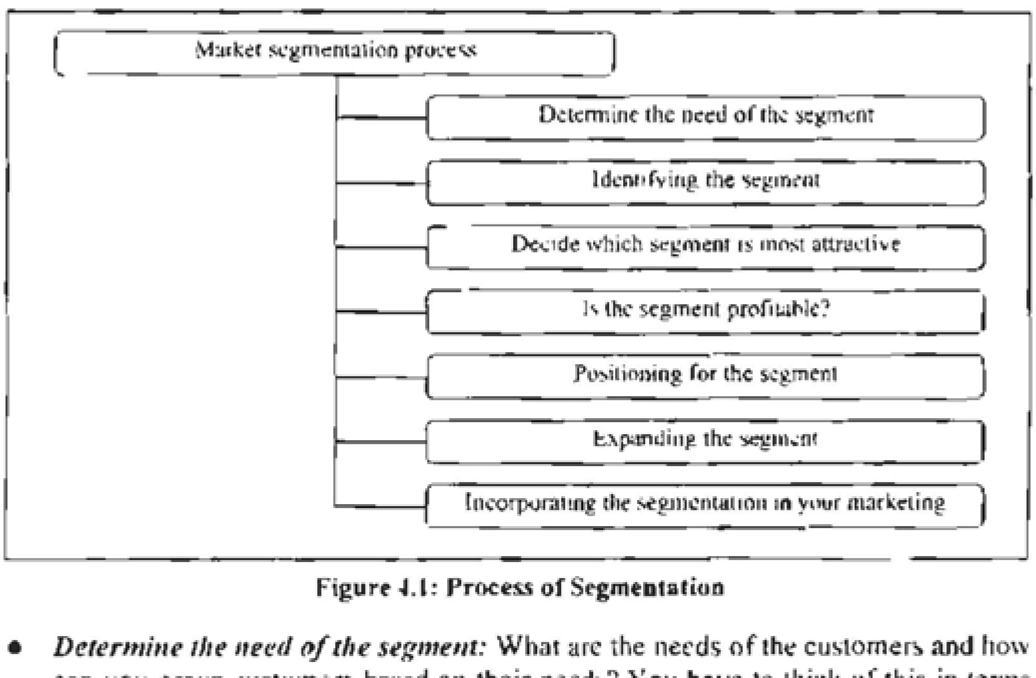


Figure 4.1: Process of Segmentation

- ***Determine the need of the segment:*** What are the needs of the customers and how can you group customers based on their needs? You have to think of this in terms of consumption by customers or what would each of your customer like to have. For example, in a region, there are many normal restaurants but there is no Italian restaurant or there is no fast food chain. So, you came to know the need of consumers in that specific region.

- ***Identifying the segment:*** Once you know the need of the customers, you need to identify that "who" will be the customers to choose your product over other offerings. Quite simply, you have to decide which type of segmentation you are going to use in this case. Is it going to be geographic, demographic, psychographic or what? The 1st step gives you a mass of crowd, and in the 2nd step, you have to differentiate the people from within that crowd. Taking the same above example of Italian restaurant – The target will be children, youngsters and middle aged people. Italian food is generally not preferred by old age people who prefer food which can be easily chewed.

- ***Decide which segment is most attractive:*** Now, we approach the targeting phase in the steps of market segmentation. Out of the various segments you have identified via demography, geography or psychographic, you have to choose which is the most attractive segment for you. This is a tough question to answer because one of them will be left out.

  If you are using psychographic segmentation, then you need to target the psychology of consumers which takes time. So you will not be able to expand faster. But if your product is basic, then you can use demographic segmentation as the base, and expand much faster in surrounding regions. So this step involves deciding on all the different types of segmentation that you can use.

  Attractiveness of the firm also depends on the competition available in the segment. If the competition is too much in a given segment, then it does not make sense to take that segment into consideration. In fact, that segment is not attractive at all.

  Taking the above example of an Italian restaurant, the restaurant owner realizes that he has more middle aged people and youngsters in his vicinity. So it is better to market his store on weekends and malls where this target group is likely to go. The middle aged people can bring children and elders as per their convenience. So the 1st target is the middle aged group, and the 2nd target is youngsters. He is using a combination of demographic and geographic segmentation to target middle aged people in his region.

- ***Is the segment profitable?:*** So, now you have different types of segmentation being analysed for their attractiveness. Which segment do you think will give you the maximum crowd has been decided in the 3rd step. But which of those segments is most profitable is a decision to be taken in the 4th step. This is also one more targeting step in the process of segmentation. For example, the Italian restaurant owner above decides that he is getting fantastic profitability from the middle aged group, but he is getting poor profitability from youngsters. Youngsters like fast food and they like socializing. So they order very less, and spend a lot of time at the table, thereby reducing the profitability. So what does the owner do? How does he change this mindset when one of the segments he has identified is less profitable? Let's find out in the next step.

- ***Positioning for the segment:*** Once you have identified the most profitable segments via the steps of market segmentation, then you need to position your product in the mind of the consumers. The basic concept is that the firm needs to place a value on its products.

  If the firm wants a customer to buy their product, what is the value being provided to the customer, and in his mindset, where does the customer place the brand after purchasing the product? What was the value of the product to the customer and how valuable does he think the brand is – that is the work of positioning. And to complete the process of segmentation, you need to position your product in the mind of your segments. For example, in the above case, we saw that the Italian restaurant owner was finding youngsters unprofitable. So what does he do? How does he target that segment as well? Simple, he starts a fast food chain right next to the Italian restaurant. What happens is, although the area has other fast food restaurants, his restaurant is the only one which offers good Italian cuisine and a good fast food restaurant next door itself. So both, the middle aged target group and the youngsters can enjoy. He has converted the profit earned from the middle aged group, into more profit, and has achieved top of the mind positioning for all people in his region.

- ***Expanding the segment:*** All segments need to be scalable. So, if you have found a segment, that segment should be such that the business is able to expand with the type of segmentation chosen. If the segment is very niche, then the business will run out of its course in due time. Hence the expansion of the segment is the second last step of market segmentation. In the above example, the Italian restaurant owner has the best process in his hand – an Italian restaurant combined with a fast food chain. He was using both demographic and geographic segmentation. Now he starts looking at other geographic segments in other regions where he can establish the same concept and expand his business. Naturally, with more expansion he will earn more profits.
- ***Incorporating the segmentation in your marketing strategy:*** Once you have found a segment which is profitable and expandable, you need to incorporate that segment in your marketing strategy. How do you think McDonalds, Dominos or KFC became such big chains of fast food? They had a very clear process of segmentation because of which it became easier to find regions to target. With the steps of market segmentation, your segments become clear and then you can adapt other variables of marketing strategy as per the segment being targeted. You can modify the products, keep the optimum price, enhance the distribution and the place and finally promote clearly and crisply to target audience. Business becomes simpler due to the process of market segmentation.

4.4 TYPES OF SEGMENTATION (BASES FOR SEGMENTATION)

Market segmentation involves grouping and sub-grouping of consumers on the basis of similar buying characteristics. There are a number of bases on which such segmentation or grouping of consumers can be done. The types of segmentation are discussed below:

4.4.1 Geographic Segmentation

This is the simplest form of segmenting the market. Here, the marketer divides the target market into different geographical units such as nations, states and regions. He may decide to operate in one or more than one geographical areas. Identifying the geographical location of the customers i.e., their place of residence helps in defining the segments. For example, a particular brand may be popular only in North India, then the North Indian market can be divided on the bases of zones, villages, cities, climate, etc.

A classic example of geographic segmentation is Amul, which was initially marketed only in Gujarat and then by strengthening distribution network, the company went for a national launch. A retail brand like MTR initially targeted the South Indian market for its products and then moved into the other territories. This method of segmentation is helpful in case the company plans for a regional roll out of the products and decides to enter into the market by establishing itself in different territories sequentially.

Companies can match their available resources with market entry strategy if they can segment geographically and then plough back success from one market to other markets. In a country like India, when we move across from one part of the country to another part, we find a number of local yet powerful brands sold in each geographic market.

4.4.2 Demographic Segmentation

While it is easy to find and group people living in one geographic location, there may be a large variation in their demographic characteristics. Demographic variables include factors like age, gender, family size, family life cycle, income, occupation, education, marital status, religion, race, generation, nationality, language and social class, etc. Since consumer needs, wants and demand patterns are directly linked with demographical variables, this method of segmentation is popular among marketers. These variables are easier to measure and one needs the help of demographic statistics to estimate the size of the market which serves as a key indicator for distinctive market segments. Marketers of personal care products like cosmetics, shampoos and beauty products segment the market on the basis of age and gender. Food marketers segment the marketer on the basis of age and life cycle stage to market various food items.

Age is an important factor while segmenting the market as demand and brand choice of people changes with age. Life cycle is also another important variable in segmenting the market. People pass through different stages of life cycle like childhood, bachelorhood, young and married couple without children, couples with grown up kids, couples with children living away from parents and finally a loner where one of the partner is dead. Customers tend to develop different consumption patterns at different stages of the life cycle. Human beings need to complete the rites of passage through the lifetime, which helps the marketer to estimate the likely demand of products and services at different stages of life cycle.

Segmenting the market on the basis of gender helps the marketer to categorise products specifically targeted for males and females. Marketers use gender differences for marketing garments, personal care products, bikes, cosmetics and magazines. Lakme is a popular Indian brand, which sells beauty care products to women only. Though VLCC is a personal grooming brand targeted for women, it has now ventured into the male segment. Bikes like TVS Scooty, Kinetic Honda are targeted towards women only. In the famous book 'Men are from Mars and Women are from Venus' the author has identified a significant difference in the behavioural and attitudinal pattern of males and females. The women segment is more into socialization and community sharing and males, are more goal-driven and individualized. While women are found to be taking data from the environment while making decisions, men use the environment more for achieving their goals. Some television channels also synchronize their programming by looking at which segment is likely to watch the television programs. Brands like Bajaj Pulsar, Fair and Handsome are exclusively targeted for the male segment.

Income based segmentation has a direct bearing on the brand choice behaviour and lifestyle pattern of consumers. People in similar income brackets are more prone to buy similar products and services. The customer's social status level is also linked to his source of income. Automobile majors, fashion garments manufacturers, hospitality and financial services industry players segment the market on the basis of income of consumers. In many instances, income is not a sufficient indicator for product and brand choice. In the latest round of study conducted by National Council of Applied Economics and Research (NCAER), it was observed that people Below the Poverty Line (BPL) who by strict definition of income classification should not have any purchasing power are found to be heavy purchasers of consumer durables like pressure cookers, bicycles, wrist watches, table fans and radios. This segment is also defined as Bottom of Pyramid (BOP) market and research indicates a high propensity of consumption in this segment. Marketers are developing different kinds of product-marketing strategy for catering to these markets. Nirma is a successful brand in Indian market, which targeted to the lower income group of the society and delivered, a promised value at a lower cost.

A bird's eye view of the Indian market makes us believe that the Indian market can be classified into a market of four tiers based on income distribution. Tier 1 right at the top, consists of a small and easy to reach segment of customers who are willing to pay high prices to have the latest in the world. Tier 2 is much larger in volume consisting of consumers who will judiciously balance price and benefit to purchase premium or high-end popular products. Most multinational companies who came in with products at prices catering to the top tier have been forced to move to this tier, the most visible being the liquor majors, sports shoes world leaders and branded apparel makers. Tier 3 consists of consumers who have a definite ceiling on how much they can spend and look at the best available benefits at that price. Tier 4 is the most populated tier and consists of people who are just entering the arena of consumption - the first-time consumers whose needs and wants are minimal as are their purses. There is greater value in terms of potential demand in the lower tier of the market than in the top tiers. What is needed is relentless effort to develop the cost capability and appropriate products, which can appeal to the lower tiers.

Table 4.1: Components of Demographic Variables

Demographic Variables of Segmentation	Components
Age	15-20, 20-25, 25 30, 30-35
Family Size	Single, Two Member Family, Four Member Family
Family Life Cycle	Bachelorhood, Young Married Couple, Young Married Couple with Small Children, Youngest Child over Age of Six, Grown Up Children Dependant on Parents, Grown Up Children not Living with Parents, Older and Single People
Gender	Male, Female
Education	Below 10th class, Under Graduates, Graduates, Professionally Qualified, Technically Qualified
Religion	Hindu, Muslim, Christian, Sikhs
Nationality	Indian, American, English man, Pakistani
Race	Aryans, Dravidians, Nagas, Blacks, Tribes
Income (Monthly)	Below 5000, 5000-12,000, 12,000-20,000, 20,000 and above
Occupation	Farmers, Non Farm Sector Workers, Salaried Class, Businessman, Retired, Students, Unemployed and Professionals
Generation	Imperial Oldies, Patriotic Indians, Indian Baby Boomers, Generation X and MTV Generation
Social Class	Lower-Lower Class, Upper-Lower Class, Lower Middle Class, Upper Middle Class, Working Class, Lower Upper Class and Upper Upper Class

Modern market can also segment the market on the basis of cohorts. Each of the generations gets influenced by the events of their time. These events and living patterns are reflected in the fashion, music, movies and thought process. The icons and their styles have influenced genres and people can be segmented by generation also. A bird's eye view of Indian film industry classifies generations by icons of each period like Dev Anand's era, Rajesh Khanna's period, Amitabh Bachchan's age and the current genre of Shahrukh Khan. People in each of these generations have their own styles, interest in music and fashion patterns. The members of same cohort share the similar major political, economical and cultural experiences and have similar outlooks and value systems. However life stage analysis reveals that two customers representing the same cohort vary in their life stages and psychographics.

Another important base for demographic segmentation is social class. Customers in one social class tend to behave in similar patterns and they behave differently across the social classes. Social classes are hierarchical in nature and one is placed either above or below another social class. Though social classification in the West is based on various factors like source of income, profession, possessions, it has a different connotation in the form of caste system in the Indian heartland. Urban India has a social classification similar to the western world. Marketers associate their products and services with aspirations of people by projecting the idea of product ownership just above the real class of the customer. Customers for automobiles, holidays, clothing and retail stores are segmented on the basis of social class.

4.4.3 Psychographic Segmentation

Other than the demographic methods of market segmentation, segmentation on the basis of psychography is another popular method among marketers. Psychographics is the study of lifestyle of individuals. It involves developing sub-group identification on the basis of psychographical characteristics. Lifestyle is a person's entire way of living. It reflects the person's living as a combination of his actions, interests and opinions. Marketing researchers have tried to measure consumer psychography by undertaking various studies and developing dimensions for mapping the individual lifestyle patterns and using them subsequently for the purpose of segmentation.

One of the popular methods of psychographic study is AIO framework, which explains the individual's lifestyle pattern as a combination of his activities, interests and opinions with demographic explanations. Table 4.2 represents the AIO framework variables.

Table 4.2: Common Life Style Dimensions

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

Understanding VALS Network (Profiling your Customer): Stanford Research Institute (SRI) developed a popular approach to psychographics segmentation called VALS (Values and Lifestyles). This approach segmented consumers according to their values and lifestyles in USA. Researchers faced some problems with this method and SRI developed the VALS 2 programme in 1978 and significantly revised it in 1989. VALS2 puts less emphasis on activities and interests and more on psychological drivers to consumer behaviour. To measure this, respondents are given statements with which they are required to state a degree of agreement or disagreement. Some examples of statements are:

- I am often interested in theories.
- I often crave excitement.
- I liked most of the subjects I studied in school.

- I like working with carpentry and mechanical tools.
- I must admit that I like to show off.
- I have little desire to see the world.
- I like being in charge of a group
- I hate getting grease and oil on my hands.

According to the present classification schemer, VALS has two dimensions. The first dimension, primary motivations, determines the type of goals that individuals will pursue and refers to pattern of attitudes and activities that help individuals reinforce, sustain or modify their social self-image. This is a fundamental human need. The second dimension, resources, reflects the ability of individuals to pursue their dominant motivations that includes the full range of physical, psychological, demographic and material means such as self-confidence, interpersonal skills, inventiveness, intelligence, eagerness to buy, money, position and education, etc. The questions above are designed to classify respondents based on their primary motivations. Stanford Research Institute (SRI) has identified three basic motivations:

1. ***Ideals (principle):*** Individuals are guided in their choices by their beliefs and principles and not by feelings, desires and events.
2. ***Achievement:*** Individuals are heavily influenced by actions, approval and opinions of others.
3. ***Self-expression (action):*** Individuals desire physical and social activity, variety and risk taking.

Based on the concepts of basic motivations and resources, the typology breaks consumers into eight groups.

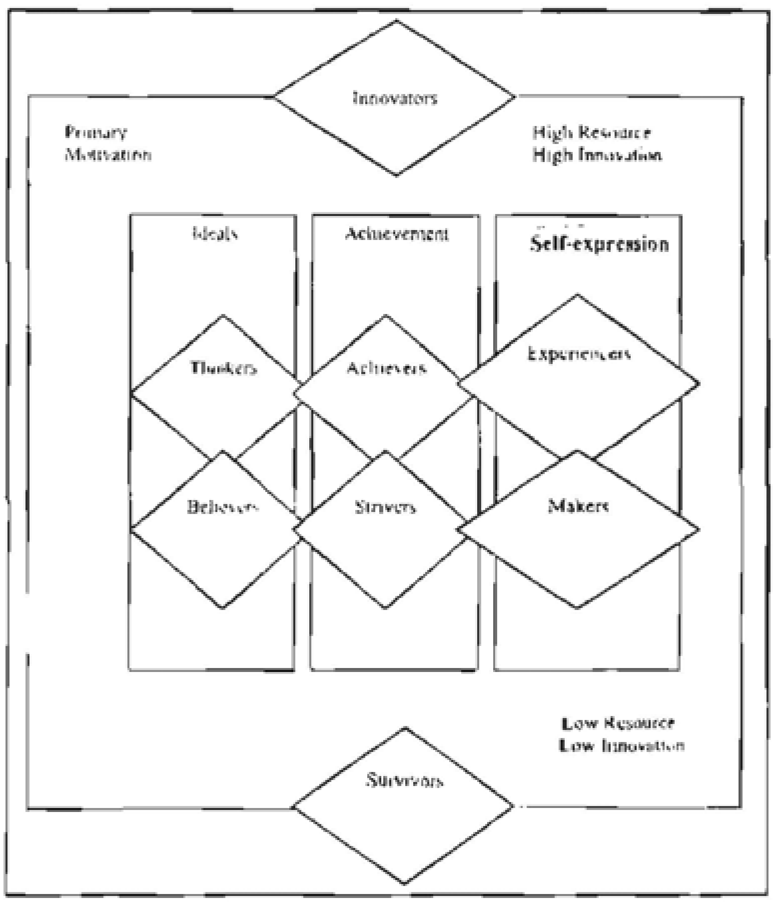


Figure 4.2: VALS Segmentation System – 8 Typologies

1. ***Innovators (formerly actualisers):*** This segment is small in size compared to other seven but may be the most attractive markets because of their high incomes and they are the leading edge of change. They are among the established or getting established leaders in business or government, yet they seek challenges. Image is important to them as an expression of their taste, independence and character. These people are successful, sophisticated, active and with high self-esteem. They are interested in growth and development; they explore, and express themselves in many different ways. They have social and intellectual interests, and are open to social change. They are guided sometimes by ideals and at other times by desire and are fond of reading. They prefer premium products to show their success to others.

2. ***Thinkers (formerly fulfilled):*** Thinkers are motivated by ideals and exhibit behaviour according to the views of how the world is or should be. They are mature in their outlook, satisfied, comfortable, are well-educated, reflective people who value order, knowledge and responsibility. They like their home and family are satisfied with their careers and enjoy their leisure activities at home. They are open-minded about new ideas and accept social change. As consumers, they are conservative and practical. They purchase products for their durability, functionality and value.

3. ***Believers:*** Like thinkers, believers are also motivated by ideals; their basic approach to decision-making is rational. Believers are not well-educated and the moral code of conduct is deeply rooted in their psyche and is inflexible. They are conservative, conventional and have deep beliefs based on tradition, family, religion and community. Their routines are established and largely influenced by home, family, religion and social organisation. Their behaviour as consumers is predictable and conservative. Their income is modest but enough to meet their needs.

4. ***Achievers:*** They are motivated by the desire for achievement and make choices based on a desire to enhance their position, or to facilitate their move to another group's membership for which they aspire. They have goal-oriented life-styles and a deep commitment to career and family. They are more resourceful and active. Achievers are inclined to seek recognition and self-identity through achievement at work and in their personal lives. They have high economic and social status and patronise prestige products and services and time saving devices that exhibit success to their peers. They value consensus, predictability and stability over risk, and intimacy.

5. ***Strivers:*** They are trendy and fun-loving and are motivated by achievement. They are dependent on others to indicate what they should be and do. They believe money represents success and never seem to have enough of it. Their self-definition is based on approval and opinion of others around them. They are impulsive by nature, get easily bored, are unsure of themselves, and low on economic, social and psychological resources. Strivers try to mask the lack of enough rewards from their work and family, and to conceal this, they attempt to appear stylish. They try to emulate those with higher incomes and possessions, generally beyond their reach. Strivers are active consumers, shopping to them is both a social activity and an opportunity to show their peers their ability to buy. They read less but prefer to watch television.

6. ***Survivors (formerly strugglers):*** They have narrow interests; their aspirations and actions are constrained by low level of resources. Strivers are comfortable with the familiar and are basically concerned with safety and security. They are ill-educated, with strong social bonds, low-skilled and are poor. They feel powerless and unable to have any impact or influence on events and feel the world is

changing too quickly. As consumers they show the strongest brand loyalties, especially if they can purchase them at a discount. They are cautious consumers and represent only a modest market. They watch a lot of television, read women's magazines and tabloids.

7. *Experiencers:* They are young, full of vitality, enthusiastic, impulsive and rebellious and motivated by self-expression. They are avid consumers and spend high proportion of their income on fashion, entertainment and socialising. Their desire is to feel good and having "cool" stuff. They are college-educated and much of their income is disposable. They have an abstract disregard for conformity and authority. Experiencers seek excitement and variety in their lives and like to take risks. Their patterns of values and behaviour are in the process of being formulated. They are fond of outdoor recreation, sports and social activities. They spend heavily on clothing, music and fast food.

8 *Makers:* Their motivation is self-expression. They like to be self-sufficient, have sufficient income and skills to accomplish their desired goals. Makers are energetic, like to experience the world, build a house, have families, raise children and have sufficient skills backed with income to accomplish their projects. They are practical people and have constructive skills and energy to carry out their projects successfully. Their outlook is conservative. they are suspicious of new ideas, respect government and authority, but resent any intrusion on their rights. They are not impressed with others' wealth and possessions.

For several reasons, psychographic segmentation variables are used on a limited scale. To accurately measure psychographic variables is rather difficult compared to other types of segmentation bases. The relationships between psychographic variables and consumer needs are often difficult to document. Also, certain psychographic segments may not be reachable. For example, it may be difficult to reach introverted people at reasonable cost.

4.4.4 Behavioural Segmentation

In the case of behavioural segmentation, the market is divided on the basis of purchase decision and product or brand usage made by consumers. For example, Criticare (Medical Instrument Manufacturing Company) has divided its Delhi market in six buyer groups, which are as follows:

1. *Most Modern Hospitals:* Escorts Heart and Research Center, Batra Hospital and Research Center, Apollo Hospital, etc. These hospitals are constantly on the look out for new instruments to become more efficient. As the Purchase Manager of Escorts Heart and Research Center said, "We always want to be the first ones to buy new technologies"

2. *Autonomous Hospitals:* For example, the All India Institute of Medical Sciences. Here, the most important influence on purchase decision is of the specialist doctors and the heads of the respective departments. Even if they go in for tenders, technical specifications, rather than price alone, influence the purchase decision.

3. *Government Hospitals:* Ram Manohar Lohia Hospital, GB Pant Hospital, LNJPN Hospital, etc. Here the Medical Superintendent and the Financial Controller influence the purchase decision. They generally decide in favour of the lowest quote.

4. *Medium-size Private Hospitals:* Maharaja Agrasen Hospital, Shanti Mukund Hospital, etc. They use a blend of quality and price considerations. Generally the choice of Medical Director is final.

5. *Nursing Homes:* Kukreja Nursing Home, Giriraj Hospital, etc. Generally they have one operation room in which they use pulse oximeter. To get their nursing

homes recognised by the Ministry of Health, it is essential for them to have pulse ox meters. They also go for quality, low price and after-sale service.

6. ***Freelancing Anesthetist:*** Doctor-Anesthetist who are attached with different nursing homes have their own pulse ox meter so that they can use where this facility is not available in the nursing homes.

In the case of volume segmentation, quantity purchased is the basis for segmentation. It attempts to identify frequent users of a product category or brand. The 80:20 pare suggests that eighty percent of customers buy twenty percent of products and twenty percent of them buy eighty percent of products. So it is possible to segment the market on the basis of usage rate and classify the buyers as heavy users, moderate users and light users. Products like cigarettes, wine and personal care categories are classified on the basis of volume segmentation. They can also be grouped as bulk buyers, small-scale buyers, regular buyers and one-time buyers.

An alternative method of segmentation is brand user segmentation. The marketer tries to identify the user characteristics on the basis of brand usage as brand users, brand triers and non-users. The non-users are motivated to buy through introduction of new products appealing to the non-user segment profile.

Buyers of different brands may not be found to be different from one another on certain distinguishable characteristics but a marketer would like to segment the market on the basis of certain distinguishable elements so that he can reach them effectively. The objective of doing a product-based segmentation is to influence generic demand of customers and convert their demand towards selective demand for the brands.

Marketers are also interested in attracting not only brand users but also the consistent users of the brand. The repetitive purchase patterns of brands are studied to classify customers into highly loyal, moderately loyal, switchers, disloyal and fence sitters. When the company is able to identify the brand loyal users, he can develop appropriate marketing strategy to attract the customers who are loyal to competing brands. So it is possible to segment the market on the basis of brand loyalty. Companies develop relationship-marketing programs to keep their loyal customers happy. Many companies have also started key account management programs to attract and keep their loyal customers. This is based on an assumption that the cost to serve loyal customers is lesser than to make the new customers.

Marketers also segment the market on the basis of situation segmentation. Many marketers are happy with identifying the segments and profiling the segments and they do not attempt to find out how customers are experiencing the brand and what is their ultimate way of using the brand. Peter Dickson suggested the person situation method of segmenting the market in which the marketer can go deep into understanding the buying pattern of consumers in different situations and then group customers on the basis of their brand usage situation experience. This method is based on an assumption that people buy different products and brands in different usage situations. A person may select a business class hotel when he is traveling alone for the purpose of business whereas in a family holidaying situation, he may prefer to book a leisure tourist resort to spend time with his family.

4.4.5 Benefit Segmentation

All the above methods of segmentation are based on a post facto analysis of the kind of people who make up specific segment of a market. These methods help in describing the characteristics of different segments rather than finding out what causes these segments to develop. People suggesting benefit segments ground their idea on assumption that benefits people expect out of the product consumption situation are the basic reason of purchase and customers can be grouped as per the basic reason of their purchase. Benefit segmentation involves classifying buyers according to the benefits they expect (get) from the product. Let us look at the following list of benefits derived from toothpaste.

Table 4.3: Benefit Segmentation of the Toothpaste Market

Benefit Segments	Demographics	Behavioural	Psychographics	Favoured Brands
Economy (Low price)	Men	Heavy users	High autonomy value oriented	Brands on sale
Medicinal (Decay prevention)	Large families	Heavy users	Hypochondriac conservative	Crest Maclean's
Cosmetic (Bright teeth)	Teenagers, young adults	Smokers	High sociability active	Ultra Bright
Taste (Good taste)	Children	Spearmint lovers	High self-involvement	Colgate

Source: Adapted from Russell J. Haley, "Benefit Segmentation: A Decision Oriented Research Tool", Journal of Marketing, July 1963 pp. 30-35

Marketers can do benefit segmentation by a three-stage process. The marketer needs to conduct exploratory research to develop a complete listing of benefits of possible value in segmenting the relevant market. Then the marketer develops a sensitive and reliable scale to measure major attitude dimensions.

Finally, the marketer develops quantitative measurements of the market, usually involving a national sample, resulting in clustering of respondents by their attitudes. Individual clusters are developed and described in terms of their behaviour, lifestyles, demographics and other relevant characteristics. So each of the segments are discriminated by their attitudes and differences in their behaviour are analysed through developing multiple cross-tables.

4.4.6 Geo-demographic Segmentation

There are several commercial geo-demographic segmentation schemes available, that combine demographics and geography as a segmentation basis. This approach aims to identify groups of small geographic areas that have similar demographic profiles. These tend to suffer from the fallacy of averages. Some areas may be genuinely relatively homogenous but many are not and this can be very misleading.

4.5 TARGETING

In this stage, the marketing manager evaluates different market opportunities and decides how many and which segments to target. This method is called market targeting. A target market is defined as a set of buyers sharing common needs or characteristics that the company decides to serve. It is very important to select the target market, which the company decides to serve because knowledge about how the consumers decide, what are the criteria of buying products, and what are the characteristics and lifestyle of the targeted customers help the marketers to develop a suitable marketing strategy.

Furthermore, every marketing program involves a certain level of marketing expenditure and the return on a marketing program can be calculated if the marketer is able to know to which target market the marketing program is aimed at. It is a common observation that a large part of marketing expenditure is wastage of company resources as it is spent on buyers with lesser or no potential. An understanding of the nature and characteristics of the target market helps the marketing planner to drive higher return on marketing investments.

Knowledge of the target market characteristics, its growth and changes in the attitude of consumers in the target market will help the planner to modify and design new marketing programs suited to changing needs of customers and which will in turn help in long term success of the organisation. Hence, understanding of target market and measurement of attractiveness of each target market is a key decision in marketing.

The firm needs to identify the target markets and then evaluate potential of each of these markets in order to prioritise their resource investment intent. The marketing manager should look at five factors for evaluating each segment. They are segment size and worthiness, segment measurability, segment attractiveness, and accessibility of the segment. These should match the available company resources and long-term goals of the organisation.

The company should first collect and analyse data on the size of the current segment, growth rates in the past and estimate the likely rate of growth by analyzing various market indicators for both short term and long term future. This will help in estimating the expected profitability of each alternative segment. One of the best ways to calculate the profitability is by estimating the response elasticity.

Response elasticity is calculated by taking into consideration, past marketing expenditures as an independent variable and the returns from the said marketing program in different periods of time as dependent variable. We can develop a graph to explain response elasticity, where responses (sales) are on the Y-axis and the corresponding marketing expenditures are presented in the X-axis. This graph is a sufficient indicator of the profit growth potential in each of the segments.

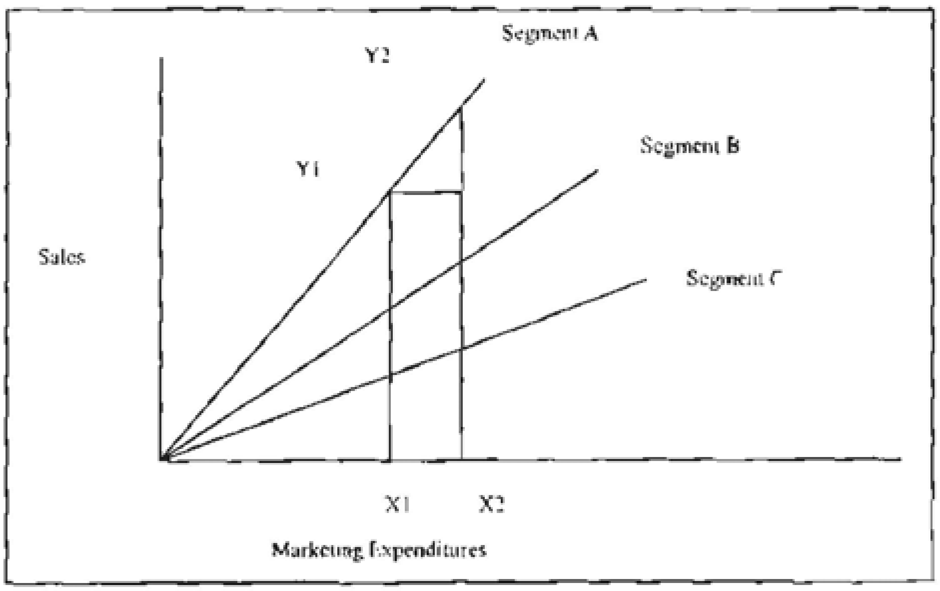


Figure 4.3: Response Elasticity

From the Figure 4.3, it is evident that in Segment A, the company achieves sales of Y1 and Y2 at different points of time by spending X1 and X2 amount in the form of marketing expenditure. Now the response elasticity can be calculated as:

$$[(Y2 - Y1)/Y1]/[(X2 - X1)/X1] = Ra$$

Similarly, we can calculate response elasticity for segment B and segment C with same marketing expenditure (X1 and X2) and can take a decision on which market to enter in. From the Figure 4.3, it is evident that segment A is highly profitable compared to segment B and B is comparatively profitable compared to segment C. This is purely based on evaluation of incremental return from each of the market segments by estimating the response elasticity.

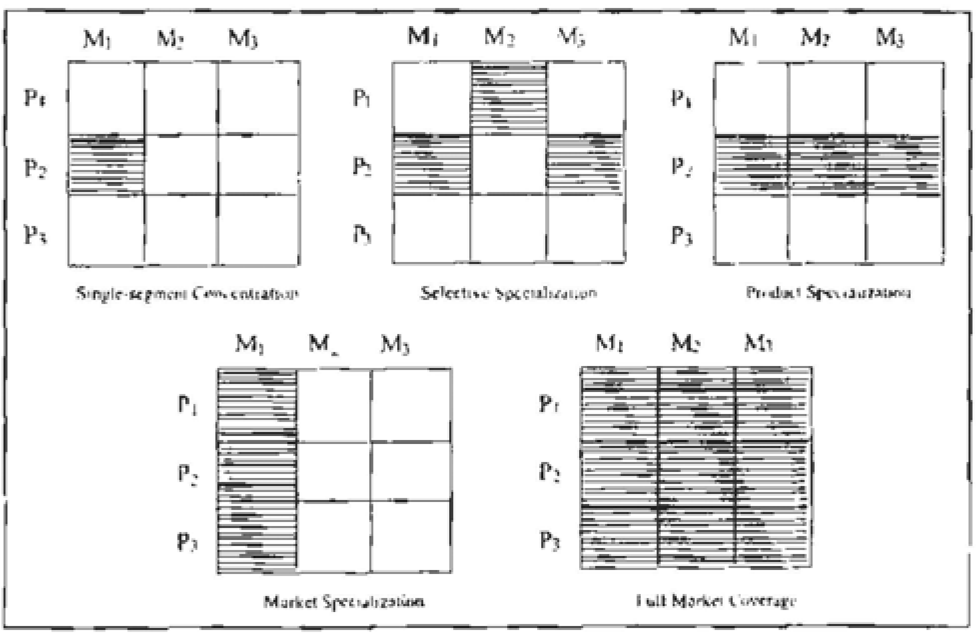
The myth of marketing says that both the fastest growing and the biggest market may not remain the same for a long period of time. Hence, future profitability will slow down, as more competitors will enter into the business, looking at the marketing profits enjoyed by the most profitable firm. So a marketer should be careful about such a phenomenon in the market and instead look for future, long-term profit potential than current short-term returns as a criterion for deciding on which market to enter. The identified target segments should also be measurable for their size and composition. You cannot really manage something which is not possible to measure.

The target segment should be accessible to the marketer so that he can develop a distribution network and use available media to reach potential customers. There is a possibility that there exists an attractive segment but the cost of reaching and serving the target segment is higher compared to segments with moderate potential.

Let us take an example of the Indian rural market where the growth potential and demand for many fast moving consumer goods is very high but the cost to serve these markets is also very high which prevents many marketers from venturing into this market. The marketing manager should also evaluate the resources available for market coverage. If the company lacks adequate skill and necessary resources, then it should target geographically concentrated markets and markets with higher density of potential customers. Most of the niche marketers target such geographically concentrated markets.

4.5.1 Selecting Target Markets

The selection of target markets helps the marketer to correctly identify the markets and the group of target customers for whom the products/services are produced. In these days, market targeting is used for all types of markets including developing and emerging markets. It helps in sub-dividing the market into many segments, and then deciding to offer a suitable marketing offer to some selected segments. Market targeting is the act of evaluating and comparing the identified groups and then selecting one or more of them as the prospects with the highest potential. A marketing program is developed which will provide the organisation with the best return on sales, by correspondingly deliver the maximum value to customers. After analysing different segments, the marketing manager must select one or many segments to serve. The firm can select one or more patterns from the following patterns.



Source: Adapted from Derek F. Abell, "Defining the Business: The Strategic Point of Strategic Planning" (Englewood Cliffs, N.J. Prentice Hall, 1980), Chapter 8, pp 192-196.

Figure 4.4: Patterns

From the Figure 4.4, it is evident that a product can be targeted for a single segment through single segment concentration strategy. The company can also decide to select few products and target each of these product alternatives for specific market segments. The marketing manager can decide a single product for all the market segments and use product specialisation. The market specialisation strategy allows marketing managers to offer different products in a single segment. A full-scale product market strategy allows marketing managers to launch all types of products for all types of market segments.

Table 4.4: Indian Examples of Market Segments

Single Segment Concentration	Woodland Shoes Cellular Phones
Selective Specialisation	DENTA Cream Tooth Power (Dabur)
Market Specialisation	Sultan Chand & Sons (Books covering all types of student needs, schools, colleges & institutes)
Product Specialisation	Mahindra & Mahindra Jeeps Bajaj Auto
Full Coverage	Pepsi, Titan Bata

Market segmentation helps marketing managers to understand the consumer needs and behaviour better so that a marketer can plan accordingly. Market segmentation helps in paying proper attention to requirements of each market segment. It also helps selecting channels of distribution and in understanding competition. Segmentation helps in effective use of resources and proper utilisation of advertising and other promotion strategies for targeting selected markets.

4.6 POSITIONING

Jack Trout and Al Ries suggest that managers should ask themselves six basic questions to create a position for a product or service:

1. What position, if any, do we already have in the prospect's mind? (This information must come from the market place, not the managers' perceptions).
2. What position do we want to own?
3. What companies must be outgunned if we are to establish that position?
4. Do we have enough marketing money to occupy and hold the position?
5. Do we have the guts to stick with one consistent positioning strategy?
6. Does our creative approach match our positioning strategy?

The brand or product manager must determine which strategy is best suited in a given situation to position the brand or the firm, as the case may be. The exercise to determine the positioning strategy is not easy and could prove to be difficult and quite complex. Six steps need to be taken to reach a decision about positioning.

1. ***Identify competitors:*** It may appear simple but it is not. This requires broad thinking. The competing products may not be only those, which come from the same product category with which the brand competes directly.

   For example, Maggi competes not only with Top Ramen and other noodles, but also with all other products, which are used as snacks. The marketer must consider all likely competitors, various use situations and usage effects on the consumer.

2. ***Assessment of consumers' perceptions of competition:*** After defining the competition, it is important to determine how consumers perceive the competing

products. To do this, a set of product attributes, such as product characteristics, consumer benefits, product uses or product users are chosen for comparison. The task is to identify relevant attributes to avoid any which would be superfluous. The most useful and relevant attributes are chosen which describe the brand images.

3. ***Determining competitor's position:*** This exercise is undertaken to reveal how all the competing brands, including the company's own are positioned and what is their relative position in the consumer's perceptual map. Which are the competing brands that consumers consider as similar and which are the ones considered dissimilar?

   Marketing research can be used to plot a perceptual map that would show the position of different competing brands. Two-dimensional and multi-dimensional scaling techniques are available to help the researcher.

4. ***Analysing the consumers' preferences:*** The analysis so far discussed would determine where in the perceptual map the product should be positioned. The next step requires the identification of segments or clusters of customers who prefer this product location in the perceptual maps. Customers who value a certain set of attributes or benefits would form a segment. An ideal product would be the one that is preferred over all others.

5. ***Making the positioning decision:*** Upto this point, it may become reasonably clear to make some subjective decision as to which position can be appropriate. In many situations, however, it may become necessary to rethink. Positioning usually involves segmenting the market and choosing one or more segments.

   This would require ignoring the remaining parts of the market and focusing on only a selected part. It is to be considered whether the selected segment or segments would support the brand entry. A specific chosen position may lead consumers to believe that this is what the product is for and those not looking for that specific benefit may not consider the brand. If the decision is for undifferentiated strategy, it may be possible to be general in positioning approach, encouraging consumers that they will get what they are looking for.

   For instance, the Toyota slogan, "I love what you do for me Toyota," communicates to consumers that they will get whatever they are looking for in this brand.

6. ***Monitoring the position:*** How strongly and advantageously a position is maintained in the market should be monitored periodically by using the tracking studies to measure the image of the brand or the company.

4.6.1 Positioning Approaches

Marketers manage product positioning by focusing their marketing activities on a positioning strategy. Pricing, promotion, channels of distribution and advertising, all are geared to maximise the chosen positioning strategy.

According to C. Merle Crawford, common bases used for positioning include:

- ***Features*** refer to objective physical or performance characteristics and are often used to differentiate products. For example, Amazon.com has a unique "1-click" ordering facility. Some autos claim "Zero to 100 Kph in 6 seconds". This sort of positioning is more common with industrial products.

- ***Benefits*** are directly related to products, such as Volvo's emphasis on safety and durability, "Sticks in a snap," FeviKwik, Fairglow soap is "fairness soap".

- ***Usage*** includes end use, demographic, psychographic or behavioural segments for whom the product is meant. It also includes product popularity. For example, Chyawanprash to build body resistance of children or elders, Farex for small kids, Bajaj Pulsar "definitely male" for customers of a certain psychographic profile.
- ***Parentage*** means the lineage denoting who makes the product. "Buying a car is like getting married It's a good idea to know the family first," advises The Mercedes S Class model. Companies proudly trumpet their names, such as "Sony Vaio", "Tata Indica", "Fiat Palio", etc.
- ***Manufacturing process*** is often used to position the product. Some expensive watches claim to be "hand crafted," an appealing proposition in an age of mass produced artifacts.
- ***Ingredients*** are sometimes highlighted to create a position. For example, some garment manufacturers claim "One hundred percent cotton," or "Hundred percent Merino wool".
- ***Endorsements*** are made either by experts or a common person with whom the target customers are likely to identify. For example, Michael Jordan using Nike shoes, and the unforgettable Lalitaji (a savvy middle class housewife concerned about family budget) and her enduring advice that "Surf Ki Kharidari Mein Hi Samajhdari Hai" (It's wise to buy Surf).
- ***Comparison*** with a competitor's product is a fairly common positioning approach. Avis compared itself with Hertz, stressing that it tries harder because it is the second-biggest car rental company. Samsung Laser Printer compared itself with HP Laserjet and thereby jumped cleverly onto the platform.
- ***Pro-environment*** approach to positioning aims to show that the company is a good citizen. Canon mentions on its packages, "Made from recycled material".
- ***Product class*** such as freeze-dried coffee shown as a product that is different one from instant or regular coffee. Dove soap positioned as a moisturiser and not the toilet soap, and Pears as a glycerine soap.
- ***Price/quality*** is a powerful positioning technique. Zenith computers say "Multinational quality, Indian price".
- ***Country or geographic area,*** such as German Engineering, Russian Vodka, Benarsi silk sari, or Dehradun rice.

4.7 APPLYING THE STP PROCESS

Before one can devise a set of marketing strategies, he must first understand the concepts of Segmenting, Targeting, and Positioning (STP). Actually, without these three, it would be very difficult for a company to make a sale. The commercial landscape is full of diverse consumers and it is important for a marketer to divide the market into different segments and choose which of them matches its product or service well. The marketer may also work the reverse way – select a market segment first and then design an offering fit for the chosen segment. Once the target market is identified, the next task of a marketing body is to position the product or service it sells. This refers to establishing a reputation or image in the industry or market. By undergoing the STP process, a company can establish its own identity and differentiate itself from competitors.

Box 4.1: Applying the STP Process – Tourism Marketing

Segmentation Process

1. Segment the potential countries
2. Segmentation of the tourists from the different types of countries
   - Developed countries
   - Developing countries
   - Under Developed countries
3. Segment the visitors in SEC (Socio-Economic category) and their nature of visits
   - Under SEC
     Upper class
     Middle class
     Lower class
   - Under nature of visit
     Business executives
     Leisure travellers
     The delegate
     Religious travellers
     NRI visiting homes
     Fans for sports
     International airline crews
     International ship carrier crews
     Heritage travellers
     Travellers for arts and architecture
     Travellers for mountain sports
     Travellers for wildlife camps, bird sanctuaries
     Beach strollers
     Interest groups, etc.
4. Segment the locations according to the above the segmentation of travellers

Targeting Process

1. Classify the locations according to the visitors requirements
2. Select the target group of visitors
3. Focus the target group of visitors with the USPs' of locations

Positioning Process

1. Develop USP (Unique Selling Proposition) for all tourism locations
   - Mountain sports
   - Wildlife camps
   - Heritage place
   - Sprawling beaches
     Arts and architecture, etc.
2. Design proper strategic plan to promote the locations among domestic and foreign tourists.

4.8 TARGET MARKETING STRATEGIES

The targeting strategy largely depends on the kind of product market coverage that the firm plans for the future.

4.8.1 Market Coverage Strategies

The product market coverage strategies are broadly classified as undifferentiated marketing, concentrated marketing and differentiated marketing strategies.

Basically, there are three strategic options available to marketers:

1. ***Undifferentiated marketing:*** This strategy involves ignoring any differences among consumers and offer one product or service to the entire market. This strategy of mass marketing focuses on what is common in the needs of consumers rather than what is different. For more than 90 years, Coca-Cola offered only one product version to the whole market and hoped that it would appeal to everyone. Undifferentiated marketing provides cost economies.

2. ***Differentiated marketing:*** The marketer decides to enter several market segments or niches and develops separate offers for each. For instance, Maruti produces different models of cars for various segments. Nike offers athletic shoes for different sports and Coca-Cola and Pepsi offer different versions of their soft drinks. Companies producing toiletries are offering different versions of toilet soaps for dry skin, oily skin and normal skin. These companies expect higher sales volumes by offering product versions and a stronger position within each segment. Differentiated marketing strategy increases costs considerably.

3. ***Concentrated marketing:*** Strategy of concentration appeals to companies with limited resources. In this situation, the company targets a segment and goes for a large market share instead of a small share in a larger segment. Recycled paper producers, such as Wizard India, focus on the market for greeting cards or wedding cards. Oshkosh Trucks is the largest producer of airport rescue trucks. Concentrated strategy involves more than normal risks. If a powerful competing company decides to enter the same segment, it may become quite tough for the smaller company.

4.8.2 Niche Marketing

Niche marketing is a narrowly defined customer group, more homogeneous customer groups with specific product requirements catered to individual needs and services. The products are specifically tailored for customers. It is gaining importance in industrial markets and forms a key strength to marketers. In today's highly competitive market place, marketers are focusing heavily into segments which they can successfully compete in. If the niche is large enough, marketers should be able to promote a unique product to cater to that segment.

4.8.3 Market Entry Strategies

The marketer can make use of market entry strategies by investing in promotions or making widespread entrée through low price, and skimming strategies where short-term gain is the objective with high entrée price. For services, the marketer is more capable of moving in at high speed than the goods marketer, as he does not have to grapple with such problems of production, inventory, storage and logistics.

The marketer can choose from any of the given four market entry alternatives:

		PROMOTION High	PROMOTION Low
PRICE	High	Rapid Skimming Strategy	Slow Skimming Strategy
	Low	Rapid Penetration Strategy	Slow Penetration Strategy

Source: 2.bp.blogspot.com

Figure 4.5: Market Entry Strategies

- ***Rapid Skimming:*** It is an expensive initiative combining high price and high promotion, directed at a low aware, low willingness-to-buy market. This strategy is very useful if the market size and potential is very high and the likelihood of the competition to quickly adopt and adapt to the offer is also very high. When a firm has a short-term goal of profit maximisation and increase in the sales volume, it can resort to this strategy. The target markets are the early adopters and innovators who do not mind paying the high price for the privilege of being the early users.

  For example, the early entrants in the cell phone service operations like BPL Mobile, Max Touch/Orange/Hutch, RPG Cellular, etc., followed this strategy.

- ***Slow Skimming:*** This strategy is used when the firm is confident that it can recoup its investments in sufficient time. This could be due to lack of competition (public sector undertakings, infrastructure services like airlines, telecommunication, etc., are some examples), requirement of heavy investments in technology and systems to compete, etc. The target market, mostly business and industrial users pays for the high price as the product is exclusive and vital for their competitiveness. Five star hotels and Enterprise Resource Planning (ERP) and Supply Chain Management (SCM). System providers like SAP, BaaN, i2, Mindtree Consulting, etc., used this strategy.

- ***Rapid Penetration Strategy:*** If the firm has a long-term objective of being a market leader, market share and profit maximisation, and if there exists entry barriers like intensive competition, then this strategy is useful. ICICI Bank as also Korean firms like Samsung and LG entered India with their dreaded retailing, using rapid penetration strategy. The price of their offers is lower but there is high visibility in the media. Big Bazaar, the discounter major has successfully used this strategy to make its mark.

- ***Slow Penetration Strategy:*** When the market size is large, well aware of the products and service offer and sensitive to price but the competitive threats are almost non-existent, this strategy is used. The long-term objective of the firm is to maximise sales or profits.

- ***Speed to market:*** ICICI Bank made waves by moving in very fast with its retail banking products. So did the grocery chain of cooperatives in superstore format Apna Bazar. A slow entry would enable the competitors to bring out "me too" products – and quite possibly grab a large market share. With the capability to move in quickly, the service marketer can considerably reduce the lead time between product conception/incubation and product introduction. This is known as the marketer's and/or their product's "speed to market" factor. A necessary system for the marketer to speedily consolidating his entry includes information integration, cohesiveness and synchronization of all management functions.

4.9 APPLICATION OF MARKETING MIX – STRATEGIC PERSPECTIVE

Marketing mix strategy is about achieving your marketing objectives through proper analysis of the 4 P's or elements of marketing, namely:

1. Product
2. Price
3. Place
4. Promotion

A successful marketing mix depends on the right combination of these marketing elements.

For example, if the pricing of a product or service is higher, instead of changing the price, you can add new features to the product or change the service. You can also make the product or service available more conveniently to the customers.

Each elements of marketing mix strategy affects the other and the proper combination of these four elements is the key to the success of any marketing process.

- ***Product Mix Strategy:*** Product mix strategy is about determining features of your product or service. Product mix strategy deals with:
  - Product life cycle
  - Brand name
  - Packaging
  - Design
  - Quality
  - Safety
  - After sales service
- ***Pricing Strategy:*** The price of a product can be fixed in many ways. Marketing mix pricing is a tool that helps in settling on a pricing strategy, considering the followings:
  - Retail price
  - Wholesale price
  - Special offers
  - Penetration pricing
  - Price skimming
  - Optional product pricing
  - Geographical pricing
- ***Place (Distribution) Strategy:*** Place marketing mix is nothing but distributing product to the customer. Few instances for this:
  - Warehousing
  - Distribution centers
  - Reverse logistics
  - Transportation
  - Inventory management
- ***Promotion Mix Strategy:*** Promotion mix strategy deals with the available tools for marketing communications. This element helps in deciding on the location, where the customers will get the product or service. Promotion mix strategy also deals with:
  - Sales promotion
  - Distribution channels
  - Advertising
  - Sponsorship
  - Trade fairs and events
  - Logistics
  - Storage

- ***Sales Strategy:*** Sales mix strategy is nothing but the point of influence of price and promotion on sales, and its revenue and profits. Sales mix strategy is dependent on the following factors:
  - Decision-making process
  - Market response to price
  - Market response to promotion
  - Profit contribution and strategy
  - Budget deviations
  - Cost of budget deviations
  - Team working
  - Behaviour observation
  - Observers
- ***Marketing Strategy and Marketing Mix Strategy:*** Marketing mix is a tool that assists in defining a marketing strategy for the product or service. Marketing Strategy and Marketing Mix Strategy are closely related to each other. Proper marketing mix analysis is very important for implementation of your marketing plan to achieve the business goals. An organisation's strategy impacts its marketing mix:
  - *Long-term Marketing Mix Strategy*
    - Brand building and increase company awareness.
    - Revenue grows gradually with permanent effects.
    - Healthy relationships with distributors and others.
    - Scope for research and development.
  - *Short-term Marketing Mix Strategy*
    - Creates immediate revenue.
    - Results are direct and quantifiable.
    - The effect is temporary.

Check Your Progress

Fill in the blanks:

1. One or more segments must have enough ____________ potential that would justify developing and maintaining a marketing programme.
2. Segmenting the market on the basis of ____________ helps the marketer to categorise products specifically targeted for males and females.
3. Companies develop ____________ programmes to keep their loyal customers happy.
4. The ____________ segment should be accessible to the marketer so that he can develop a distribution network and use available media to reach potential customers.
5. The targeting strategy largely depends on the kind of ____________ market coverage that the firm plans for the future.

4.10 LET US SUM UP

- Market segmentation seeks to carve out a homogenous market out of a large, heterogeneous market. There are a few common bases, which are used in segmentation e.g., demographic, economic, psychographics, etc. Although the use of demographic variables is appealing and widely available to marketers, but these variables are not able to profile segments on their own.
- Market segmentation for individual customer markets is different from that of industrial markets. Segmentation in a business-to-consumer market is possible by either segmenting through customer characteristics or on the basis of consumer response to marketing programs.
- Segmentation is advantageous to marketers in many ways. Instead of spending all marketing resources on a heterogeneous market where customers have varied characteristics and response patterns, segmentation guides marketing managers to identify who are the likely buyers and to spend the resources on these buyers to achieve a time based result.
- It also helps firms to develop differentiated offers to suitably cater to cater different market segments.
- Segmentation is a scientific process in which the marketing manager identifies the bases or variables on which the market is to be divided, forms segments, and profiles them and then launches marketing programs for each segment.
- Managers can use any of the base variables for profiling segments for e.g., demographic, psychographic and behavioural variables. The success of a segmentation process depends on the ability of the marketing manager to find a difference worth promoting among customers.
- Marketers use three strategic options in target marketing. They are undifferentiated marketing, differentiated marketing and concentrated marketing. In undifferentiated marketing strategy, the same marketing program is offered to everyone regardless of their differences. In differentiated marketing, two or more segments are targeted using different marketing programs for each of the segments. In concentrated marketing strategy, the marketing manager focuses on one segment out of many possible segments.
- A decision on target marketing largely depends on the profit potential of each segment, resources available with the firm and the strategic intent of the firm.
- Positioning is a very important concept in modern marketing. It is the decision by a marketer to try to achieve a well-defined and differentiated brand image relative to competition in a targeted market segment.
- The marketer can make use of market entry strategies by investing in promotions or making widespread entrée through low price, and skimming strategies where short-term gain is the objective with high entrée price. Marketing mix is a tool that assists in defining a marketing strategy for the product or service.
- Marketing strategy and marketing mix are closely related to each other. Proper marketing mix analysis is very important for implementation of your marketing plan to achieve the business goals.

4.11 UNIT END ACTIVITY

Suppose you want to start a business of sports items. Prepare a report on how you start and plan up for that business after focussing on market segmentation strategies.

4.12 KEYWORDS

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

Market Targeting: The process of segmenting, targeting and positioning an offer in the market.

Psychographics: It is the science of using psychology and demographics to study the lifestyle patterns of consumers.

Selective Specialisation: The firm selects a specific market segment and a product to offer for that segment.

Product Specialisation: The firm selects specific products and markets each one of them in a different segment.

Market Specialisation: The firm selects a product and launches in different markets without any alteration to the product.

Demography: The statistical study of human population and its distribution.

Market Fragmentation: The identification of smaller and smaller market segments.

Behavioural Segmentation: Market segmentation based on consumer's product related behaviour, typically the benefits desired from a product.

Target Market: It is a group of customers that the business has decided to aim its marketing efforts and ultimately its merchandise.

Positioning: It is the process by which marketers try to create an image or identity in the minds of their target market for its company, product and services and brands.

4.13 QUESTIONS FOR DISCUSSION

1. What is meant by marketing segmentation? What will be the suitable base for the marketing of televisions?
2. A company plans to launch a new brand of summer cool deodorant. How will you segment the market?
3. Discuss the VALS framework. Give examples.
4. "Target marketing follows market segmentation". Discuss.
5. Discuss major market segmentation variables for the toothpaste market, highlighting benefit segments.
6. Discuss the positioning process and approaches. Give suitable examples.
7. Discuss the various options that the marketers have while deciding on product coverage and market entry.
8. Connect marketing strategy and marketing mix.

Check Your Progress: Model Answer

1. Profit
2. Gender
3. Relationship-marketing
4. Target
5. Product

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UNIT 5

PRODUCT

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5.0 AIMS AND OBJECTIVES

After studying this lesson, you should be able to:

- Discuss the concept of product
- Identify the levels of products

- Explain the classification of products
- Discuss the product mix decisions

5.1 INTRODUCTION

Consumers will buy only what suits them. As consumers, we buy different kinds of products and services to satisfy our various needs. We buy toothpaste, butter, shaving cream, pen, scooter and tickets for foreign trips and many other such items in our daily life. As we understand, our decision to buy an item is based not only on its tangible attributes but also on psychological attributes such as services, brand, package, warranty, image, etc. As a marketing manager, one has to plan for a unique product offer to meet needs and wants of target customers. Marketing planning begins with designing an offer. The customers will evaluate the product on some basic evaluation characteristics like product features and quality, accompanying services and quality of that service and price that they have to pay to own the product.

5.2 CONCEPT OF PRODUCT

A product is something that an organisation offers to prospective consumers to satisfy their needs and wants. It is a bundle of benefits consisting of key product features and accompanying services.

A product is the central idea behind any marketing planning and decides the business success or failure of the organisation. It is a set of complex tangible and intangible attributes, including packaging, colour, price, marketer's prestige and image, retailer's prestige and marketer's and retailer's services which buyer may accept as offering satisfaction of wants and needs at a price. A product can be anything including physical goods (soaps), services (airlines), experiences (tourism package), events (motor rally), concepts (family planning), ideas (youthfulness), propositions (patriotism), places (Hyderabad), nations (Kenya), properties (shopping mall), organisations (Cancer Foundation of India) and information (website www.ndtv.com). A product is something of value, which is offered to customers for attention, acquisition, use and disposal of consumers for satisfaction of their needs and wants.

The benefits associated with any product can be classified as core, tangible and augmented benefits.

- ***Core benefits:*** These benefits explain the core meaning of the product to the consumer. These are the intangible benefits at the core of the product that the consumer expects to obtain through ownership to consumers. Ladies while making a choice about lipstick expect the product to offer some level of hope of looking beautiful. For example, a car offers the generic benefits of convenience in travelling.
- ***Tangible benefits:*** These benefits are the tangible benefits that the consumer comes across while making a choice. These are the physical attributes of the product that the consumer confronts in the market place. These include features, colour, design, style, quality, size, weight and durability. The marketer identifies the need for a lipstick and converts it to a tangible product by styling, featuring and giving a brand name to the product.
- ***Augmented benefits:*** Many basic products are a combination of core and tangible benefits. Companies augment the core and tangible benefits with warranty, guarantee and after sales service programs so that the customers experience with the brand increases. The other augmented benefits include facilities for credit, packaging, repair and after sales service facilities.

5.3 LEVELS OF PRODUCTS

A product has different layers or levels like an onion and each layer contributes to the making of the product. As a marketer, you are required to analyse the product at different levels. The identified layers are:

- *Core layer:* The core layer of the product explains the reasons for which the customer is making the purchase. This layer explains the 'why' of buying the product.
- *Basic product layer:* At the second layer, the consumer looks at the basic utilities, like physical features and tangible elements of the product.
- *Expected product layer:* The expected layer is a set of attributes and conditions that buyers normally expect out of the product. The basic product is the 'given thing' in the product. In expected level, consumers use their anticipations and utility expectations for defining the product.
- *Augmented product layer:* The augmented part of the product is the associated services and cues, which help the product to deliver beyond the expectation level of the consumer. Brand positioning and competition starts at farm level when all the products in a market look similar. In developing nations, the competition originates at the level of expected product.
- *Potential product layer:* The last layer is the potential layer of the product in which the offer may undergo all the possible augmentations and transformations in the future. Here the marketer is always on constant search for new methods and processes to differentiate the offer on the basis of product features and services that will satisfy the customer and create the desired differentiation.

  The levels of the products are used to explain the concept of value hierarchy in which the product manager can plan the level at which the basic product is proposed and the level at which differentiation is to be made.

5.4 CLASSIFICATION OF PRODUCTS

Products can be classified on the basis of three essential characteristics namely, durability, tangibility and user type. While durability explains the average life of the product available for consumption, tangibility explains the physical attributes of the product, and user type classifies products into consumer products and industrial products.

Figure 5.1 depicts a typical product classification.

Classification of Products

↓

(1) Durability and Tangibility	**(2) Consumer goods**	**(3) Industrial goods**
	(a) Convenience goods	(a) Material and parts
(a) Non-durable goods	(b) Shopping goods	(b) Capital items
(b) Durable goods	(c) Specialty goods	(c) Supplies and business services
(c) Services .	(d) Unsought goods	

Figure 5.1: Classification of Products

Let us now study about the classification of products in detail.

5.4.1 Classification on the Basis of Durability and Tangibility

Products can be classified on the basis of durability and tangibility. On the basis of durability, they can be grouped as non-durable and durable products. On the basis of tangibility, they can be classified as physical products and services.

- *Non-durable goods:* Non-durable goods are tangible goods normally consumed in one use or a few uses. They are purchased frequently and also consumed very often. Most of the fast moving consumer goods are members of this class. Examples include detergents, food items and household consumption goods.
- *Durable goods:* Durable goods are tangible goods that can normally be used for many years. These products need more personal selling and after sales service. They offer higher margin and are often backed by guarantee and warranty programmes. Examples include colour TV, refrigerators, washing machines and vacuum cleaners.
- *Services:* On the basis of tangibility, products can be classified as physical products and services. Services are intangible, inseparable, variable and perishable products. Services need a good amount of quality control, credibility of the supplier and adaptability to variable consumption behaviour. Examples include airlines, insurance and banking services.

5.4.2 Consumer Goods Classification

Consumer goods can be classified on the basis of their shopping habits. They are grouped as convenience goods, shopping goods, speciality goods and unsought goods. Consumer goods are targeted for consumption of either individuals or family members.

- *Convenience goods:* These are goods frequently purchased by consumers. Consumers often buy them in frequent consumption situations and they are purchased immediately with minimum efforts. Examples include toiletries, soaps, cigarettes and newspapers. These goods can be further classified as:
  - *Staple goods:* Consumer purchases on regular basis. There is a high level of routinised response behaviour for this kind of products. Toothpastes and soaps fall under this category.
  - *Impulse goods:* Consumer purchases without any planning or searching effort. Purchase of a magazine or a chocolate candy is an example of situation in which customers buy on impulse.
  - *Emergency goods.* Consumer purchases on urgent need. There is no previous decision to buy them but consumer is forced to buy due to the emerging situation. These include purchasing of umbrellas, antiseptic creams like Burnol, or the purchase of knives to cut down trees during the rainy season.
- *Shopping goods:* These are goods purchased by the customer after a comparative process of selection and purchase on basis of price, psychological fitment, suitability, style and quality. Examples include furniture, electrical appliances, home furnishings and clothing. Shopping goods can be classified as:
  - *Homogeneous goods:* These goods are similar in quantity but differ in price levels, justifying a pricing comparison by the buyer.
  - *Heterogeneous goods:* These goods differ in product features and services and these differences are more important than price for a decision.
- *Speciality goods:* These are goods with unique characteristics or brand identification for which the buyers need to make a special purchasing effort.

Examples include music systems, televisions, cars and men's clothing. There is hardly any comparison in speciality goods as each brand is unique and different than others. The buyer is ready to spend more time and effort while making a purchase decision for this kind of goods.

- *Unsought goods:* These are goods that the consumer does not know about or does not normally think of buying. These goods need advertising and more personal selling efforts for making a sale. These include life insurance products, coffins and fire alarms.

5.4.3 Industrial Goods Classification

Many goods coming out of a firm enter another firm's production process, so that the final goods can be made ready for consumption by individuals or family consumers. Many of these products go to the production process as raw materials and spare parts; some of them also enter as capital items for augmenting the finished goods and the rest as consumables or supplies. These are ably supported by services targeted towards business class customers.

Figure 5.2 depicts the industrial goods classification process.

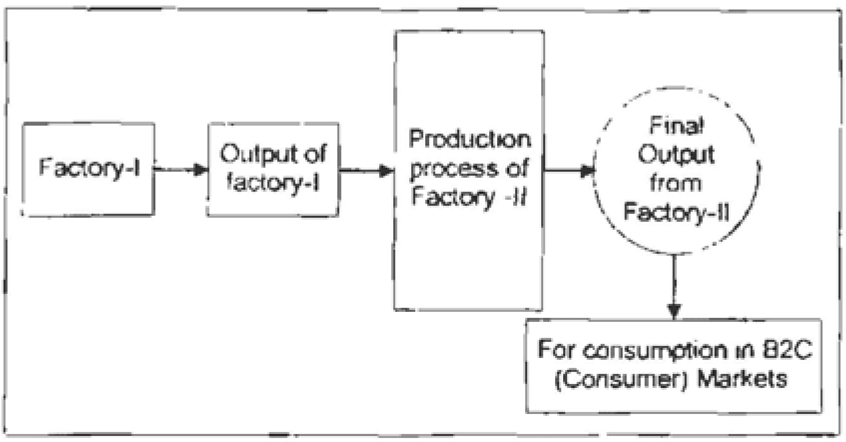

Figure 5.2: Industrial Goods Classification Process

Following is the classification of industrial goods applicable for the purpose of product management.

- *Materials and parts:* These are goods that enter the manufacturer's product completely. They are of two types namely, raw materials and manufactured materials. Raw materials can be farm products like rice, maize, cotton, starch or natural products like fish, petroleum, gas, iron and aluminium ore. Manufactured materials can be classified as component materials like iron, steel, zinc, and component parts like motors, printed integrated circuits. The component materials are further fabricated like from alumina to aluminium, pig iron to steel and yarn to cloth. Components enter the final product without being changed or modified. In this case, price, quality and service are important factors while making a decision.

- *Capital items:* These are long-lasting goods that facilitate developing or managing the finished product. They include two groups: installations and equipment. Examples of installation include buildings, shades, offices, and shop floors and heavy equipments like earthmovers, trucks, drillers, servers and mainframe computers. Equipments include hand tools and office equipments like personal computers and laptops. These equipments are not permanent and they need to be replenished at different periods of time.

- *Supplies and business services:* These are short-term goods and services that facilitate managing or developing the finished product supplies. They can be of two kinds namely maintenance and repair items and operating supplies.

  Maintenance supplies include painting and nailing. Operating supplies include writing papers, consumables for computer, lubricants and coal.

  Business services can be classified as maintenance service like copier repair, window and glass cleaning, and business advisory services include consultancy, advertising, and legal services.

5.5 PRODUCT HIERARCHY

Each product is somehow linked to certain other products. The product hierarchy embraces both the basic needs and the items that satisfy that need. The seven levels of product hierarchy can be listed as follows:

1. *Need family:* The core need that is the foundation for the existence of a product family. Example: security.
2. *Product family:* All the product classes that can gratify a core need with fair effectiveness. Example: savings and incomes.
3. *Product class:* A group of products within the product family acknowledged as having a certain functional coherence. Example: financial instruments.
4. *Product line:* A group of product within a product class, which shows resemblance due to functional similarity, is sold to the same customer group and marketed through the same channels. Example: life insurance.
5. *Product type:* A group of items within a product line that share one of the numerous possible forms of a product. Example: term life.
6. *Brand:* The name linked to one or more items in the product line that is employed to recognise the source or character of item(s). Example: prudential help in recognising the source or character of an item of a product line.
7. *Item (also known as stock keeping unit or product variant):* A distinct unit within a brand or product line that can be distinguished by the size, price, appearance, or by some other attribute. Example: prudential renewable term life insurance. A brand or product line unit which can be distinguished by looks, price or any other characteristic.

5.6 PRODUCT LINE STRATEGIES

A *product line* is a group of products for essentially similar use and technical and marketing considerations. Colgate product line includes Colgate Dental Cream, Colgate Gel, Colgate Total, Colgate Herbal, etc. In this section, we will analyse the different types of product line strategy. Major product line strategies are:

- *Expansion of product mix:* Expanding may be a valid decision if it is in an area in which consumers traditionally enjoy a wide variety of brands to choose from and are accustomed to switching from one to another; or if the competitors lack a comparable product or have already expanded into this area. However, the main limitation in expansion is the availability of sufficient finance, time and equipment.
- *Contracting or dropping the product:* This is more difficult because money has already been invested and therefore, as long as possible, products are allowed to linger on until a loss is incurred. When a decision on contraction is taken, various

alternatives are available to the marketers. The product may be consolidated with several others in the line so that fewer styles, sizes or added benefits are offered. If the product fails even after this pruning, the company may stop it altogether.

- ***Alteration of existing products:*** Sometimes experience may show that improving an existing product may be more profitable and less risky than developing and launching a new product. Alterations may be made in the design, size, colour, texture, flavour, package, use of raw materials, advertising appeal or the brand manager may bring a change in the quality level.

- ***Development of new uses for existing products:*** The company or people may find new uses of the existing products. For example, a detergent being used for cleaning clothes, floors, utensils and even glass products.

- ***Trading-up and trading-down:***

  - *Trading-up:* It refers to the adding of a higher priced, prestige product to the existing lines with the intention of increasing sales of the existing low-priced product. Under trading-up, the seller continues to depend upon the older, low-priced product for the major portion of the sales. Ultimately he/she may shift the promotional emphasis to the new product so that larger share of sales may go to the new product.

  - *Trading-down:* It refers to the adding of low priced items to the line of prestige products, with an expectation that the people who cannot buy the original product may buy these new ones because they carry some status of the higher priced goods.

- ***Product differentiation and market segmentation:***

  - *Product differentiation:* Product differentiation involves "developing and promoting an awareness of difference between the advertiser's product and competitor's product". When product differentiation strategy is used, it enables a company to come out of price competition so that it may compete on a non-price basis. The company may show that its product is different from or even better than the competitor's products. It is possible to differentiate on quality, design, brand or packaging. This strategy works in markets which are reasonably homogeneous in their wants and the products are standardised.

  - *Market segmentation:* Under market segmentation strategy, the seller knows that the total market is made of many smaller homogeneous units, each of which has different wants and motivations. To meet these different demands, different products can be developed. The product managers can tailor-make products to suit the segments. This strategy attempts to penetrate a limited market in depth, whereas the product differentiation seeks breadth in a more generalised market.

5.7 PRODUCT MIX STRATEGIES

Product mix is the total number of products that a company markets. *Product mix consistency* means how closely related different product lines are in end-use, production requirements, distribution, etc. A company may have many product lines in its product mix. The term *product mix width* refers to the number of product lines a company has. *Product line length* means the number of product variants available in a company's product line.

The efficient fulfillment of the marketer's goal to supply goods and services to the consumers for satisfaction of their needs can be possible if due attention is given to the three issues which govern the product mix, namely sales growth, sales stability and profits.

Sales growth can be achieved either by increasing its share in existing markets or by finding new markets. Following are the ways in which product mix can be adjusted to achieve organisational goals.

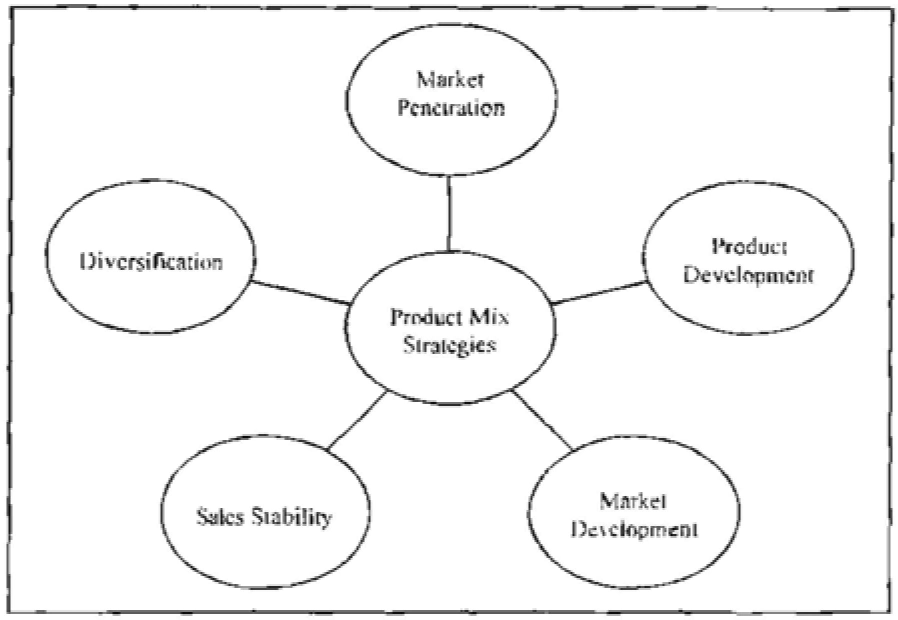

Figure 5.3: Product Mix Strategies

- ***Market penetration:*** Market share is increased by expanding sales of the present products in existing uses.
- ***Market development:*** Markets are expanded by creating new uses of present products.
- ***Product development:*** Market share is increased by developing new products to satisfy existing needs.
- ***Diversification:*** Market is expanded by developing new products to satisfy new consumer needs.
- ***Sales stability:*** Stable sales allow for more efficient planning in all phases of production and distribution. It is also desirable to maintain a proper balance in total sales and product mix so that a product losing the market share can be counteracted by another product picking-up the market share.

Profits are determined by the components of the product mix. Some items are usually more profitable than others. Low profit items may be performing a valuable part in helping to sell company's more profitable products. They may also serve as insurance against an unforeseen failure in profitable products. Theoretically speaking, though one should keep only highly profitable products, one needs to also understand the cross linking between products within a product mix.

5.8 PRODUCT MIX DECISIONS

Most companies, whether large or small, whether in manufacturing or retailing generally handle a multitude of products and product varieties. In course of time, the companies may expand new lines or contract, the old lines after the existing product or develop new uses for the existing products. These activities involve managerial strategies and policy making with respect to the company's line of products and services. A product mix is also called product assortment, which is the set of all products and items a particular seller offers for sale. It consists of various product lines. Godrej has multiple product lines namely soaps, office equipment, edible oil, computers and other products through different manufacturing processes and targeted towards different markets.

The proliferation of products within the company means that product policy decisions are made at three different levels of product aggregation, viz. product item, product line and product mix.

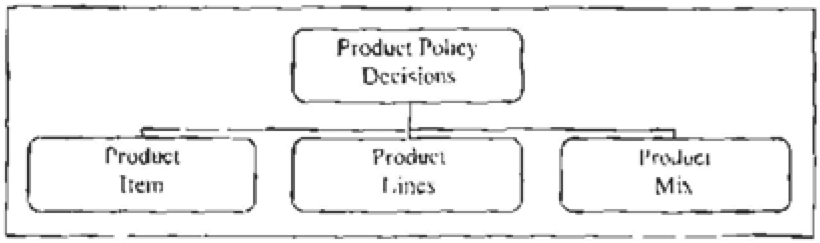

Figure 5.4: Product Policy Decisions

- ***Product item:*** It is a specific version of a product that has a separate designation in the seller's list. For example, Hindustan Motors' Ambassador Mark II is a product item

- ***Product lines:*** A group of products that are closely related either because they satisfy a class of need, or are used together, or sold to the same customer group, or marketed through the same types of outlets, or fall within given price ranges or are considered a unit because of marketing, technical, or end-use considerations. In other words, a broad group of products, which are meant for essentially similar uses and possess reasonably similar physical characteristics, constitute product line. For example, Kodak Camera, or cloth apparel is a product line; or non-food product line for babies includes baby clothes, nursery equipment, vaporizers and toiletries.

- ***Product mix:*** Products offered for sale by a firm or a business unit. In other words, product mix is the full list of all products offered for sale by a company. For example, Kodak's cameras, photographic supplies, chemicals, plastics and fibers are its product mix; or Tata's hair oil, cosmetics, locomotives, textiles, iron and steel goods, etc. are product mix.

5.8.1 Organisational Goals and Product Mix

The efficient fulfillment of the marketer's goal to supply goods and services to consumer for satisfaction of their needs can be possible if due attention is given to three issues which govern the product mix, namely sales growth, sales stability and profits.

1. ***Sales growth*** can be achieved either by increasing its share in existing markets or by finding new markets. Following are the four ways in which product mix can be adjusted to achieve organisational goals.

   (a) *Market penetration,* under which market share is increased by expanding sales of present products in existing uses;

   (b) *Market development,* under which markets are expanded by creating new uses of present products;

   (c) *Product development,* where market share is increased by developing new products to satisfy existing needs;

(d) *Diversification,* where market is expanded by developing new products to satisfy new consumer needs.

2. ***Sales stability:*** Stable sales allow for more efficient planning in all phases of production and distribution. It is also desirable to maintain a proper balance in total sales and product mix so that a market share losing product can be counteracted by another picking up market share. Sales stability is also possible by making an entry into a new market.

3. ***Profits*** are determined by the components of the product mix. Some items are usually more profitable than others. Low profit items may be performing a valuable part in helping to sell company's more profitable products; and they may also prove as insurance against an unforeseen failure in profitable products. Theoretically speaking, though one should keep highly profitable products only, yet one needs to understand the cross linking between products within a product mix.

5.8.2 Constituents of Product Mix

A product system for a firm is the group of diverse but related items that function in a compatible manner. A product mix constitutes the set of all products and services offered by a marketer. The constituents of a typical product mix include dimensions of width, depth and length and consistency.

By 'width of the product mix', we mean the number of different product lines found within the company. In other words, the number of product lines carried by the company measures breadth. For example, Bajaj Electrical produces bulbs, fluorescent lights, mixtures and grinders, toasters, scooters. pressure cookers and a host of other electrical appliances. This list of number of product lines can be called as width.

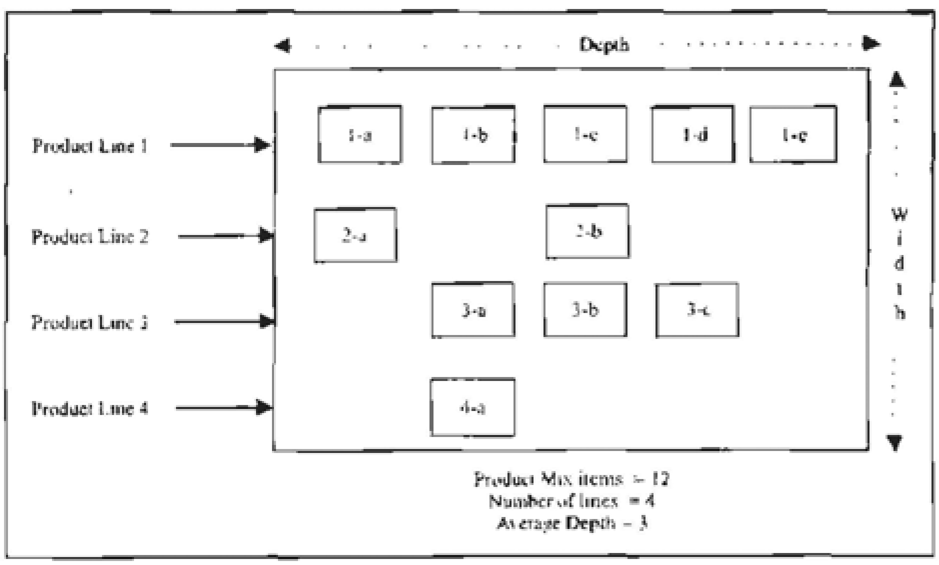

Figure 5.5: Constituents of Product Mix

The 'depth of the product mix' refers to the average number of items offered by the company within each product line. In other words, the depth is measured by assortment of sizes, colours, models, prices and quality offered within each product line. For example, HLL produces ten variants of shampoo in shampoo line. So depth is ten for the company in shampoo line.

The length refers to the total number of items produced by the company in all the product lines. This is the sum total of number of items in each product line.

The 'consistency of product mix' refers to how closely related are the various product lines in terms of consumer behaviour, production requirements, channels of distribution or in some other way. For example, the products produced by the General Electric Company have an overall consistency in that most products involve electricity in one way or the other

The four dimensions of width, depth, length and consistency have a strong marketing implication. As the company increases, the width of the product mix, the company plans to capitalise on its good reputation and skills in present markets by increasing its presence in other product categories. As the company increases, the depth of its product mix, the company plans to entice the patronage of buyers of widely differing tastes and needs. As the company increases, the consistency of its product mix, the company hopes to acquire an unparalleled reputation in a particular area of endeavour. As the company increases its length in different product lines, it plans to enter deeper into each of the product market segment it serves.

The dimensions of the product mix, and the ways in which they relate to each other are important for the marketing manager. Changing the product item involves the issues whether to modify, add or drop product items. Changing the width of the product mix involves altering policy at the product-line level, whether to deepen or shorten an existing product line. Changing the product mix involves the issues as to what product-markets the marketer should enter or leave and how to handle communications for the various product lines or items.

Box 5.1: Selected Product Mix Elements in Just Three Product Lines of HUL

Product Mix Width (No. of Product Lines)

	Product Line – 1	***Product Line – 2***	***Product Line – 3***	***Product Line – 4***
	Bathing Soaps	Laundry Products	Beverages	Cosmetics
Product Line Length (Number of product item within a product line)	Dove Lux Pears Liril Rexona Lifebuoy Breeze Moti Hamam Jai	Surf Rin Sunlight Wheel 501	Lipton Green Label Brook Bond Red Label Taj Mahal Bru Taaza (Lipton) Super Dust	X Y Z

5.9 PRODUCT DIFFERENTIATION AND POSITIONING

Product differentiation has been discussed in brief in the previous section.

5.9.1 Product Positioning

The approaches of positioning have already been discussed earlier. However, we will discuss a related concept of perceptual mapping here in brief.

Product positioning refers to a brand's objective and functional attributes in relation to competing brands. It is a characteristic of the physical product and its functional features. Product positioning is central and critical in that, it is to be considered at the level of the mission statement. Product positioning at the strategic level comes to represent the essence of a business.

Perceptual Mapping

When a marketer intends to display his interest in the perceptions of target consumer segments, there is a need to measure the perceptions. The method of measuring the perception of consumers about the product in comparison to competing products through graphical measures is called 'perceptual mapping'. Perceptual mapping is usually represented on two-dimensional scales so that the marketing manager can readily see where his own brand is positioned in the mind of his prospects and in relation to other brands. Perceptual mapping technique identifies the dimensions that differentiate consumer perceptions of products and configurations of the brand in relation to competing products on these dimensions. Let us take an example of positioning of Surf Excel, Ghadi and Nirma on dimensions of price and quality.

A product manager can use the following steps for constructing the perceptual maps.

Step I: The parameters on which the map is to be prepared have to be identified.

Step II: Central tendency mean of television brands parameters to be determined.

Step III: Inferences to be put on the map.

Step IV: Combination can also be calculated if it is required to understand perceptual mapping.

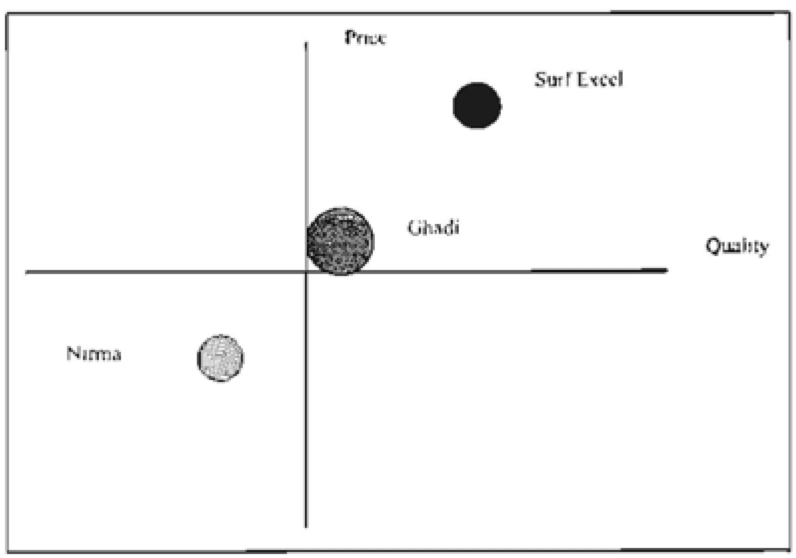

Figure 5.6: Perceptual Map of Nirma, Ghadi and Surf Excel

5.9.2 Positioning and Differentiation Strategies

A firm that decides to operate in a heterogeneous market recognizes that it normally cannot serve all customers in that market since the customers are numerous, dispersed and varied in their buying requirements. So there is a need of product differentiation for catering to different market segments. Differentiation could be based on product and service qualities or on perceived benefits as communicated to the customer.

Table 5.1: Product Differentiation Strategies used by some premium brands

Product Attribute	Examples
Product Design	Braun shaver, Harpic lotion
Product Style	Titan watches, Woodland shoes
Product Range	Revlon cosmetics, Bata shoes
Service Quality	Dell computers, Eureka Forbes vacuum cleaners
Packaging	Tata tea, Colgate toothpaste
Product Features	Sony Trinitron Television, Hero Honda CD Dawn
Performance Quality	Whisper sanitary napkins, Ujala, Eveready batteries

5.10 PACKAGING AND LABELLING

Packaging includes all the actions that involve the development of a container and a graphic design for a product. A package may have three levels; the *primary package* is the container of the product such as a bottle, jar or tube, the *secondary package* is the box of cardboard or some other material containing the primary package; and the last is *shipping package* that contains more units of secondary package.

5.10.1 Packaging Considerations

A variety of packaging materials, processes and designs are available. Marketer's primary concern is to consider the costs involved. The question is how much money consumers are willing to pay. Research can be used to determine this.

Companies also need to consider how much consistency they desire among packages of the firm's products. If the aim was to promote an overall corporate image, the company would prefer to have similar packages or include one major design characteristic. Some companies prefer to use family packaging for different product lines. The package's promotional aspect includes symbol, contents, features, uses, advantages and precautions. The package design, colour, texture, shape, etc., also communicate a product's desirable images and associations. An expensive perfume cannot communicate the image of luxury and exclusiveness if its package is ordinary or cheap looking.

Marketers should carefully study this aspect while choosing packaging colours. Pastel colours are viewed as feminine and dark colours as masculine. The need to create a tamper proof packaging would depend on the nature of product and extent of its necessity. The package should be convenient for transportation, storage and handling. A cumbersome package may sometimes discourage resellers from stocking and displaying a product.

5.10.2 Labelling

Labelling is closely related to packaging and is used in many different informational, legal and promotional ways. A label may be a part of package or it may be a tag attached to the product. Depending on the product category and specific laws of the country, the label might include only the product's brand name or more detailed information desired by the marketer or information conforming to the legal requirements. The label can facilitate product identification by presenting the brand and a distinct graphic design. The labels perform a descriptive function relating to a product's source, its contents, important features and benefits, instructions for use, cautions or warnings, storage instructions, batch number, date of manufacture and date of expiry

Many product labels contain a *Universal Product Code* (UPC). It consists of a series of thin and thick lines that identify a product, and provide pricing and inventory information. An electronic scanner reads this *UPC* information at the retail check counter that is used by retailers and marketers for inventory and price control purposes.

5.11 NEW PRODUCT DEVELOPMENT

Many companies follow different types of new product development system. Standard new product development system is explained in the following section:

1. ***Concept generation and market structure identification***
   - *Idea generation:* The first stage of new product's evolution begins with an idea for the product. Hence this stage is also termed as 'idea generation'. Ideas may originate from the following sources:
     - Sales personnel
     - Marketing personnel
     - Research and development department
     - Top management executives
     - Production department
     - Customer service decisions
     - Employee suggestion system
     - Customers
     - Competitive products
     - Foreign products
   - *Market structure analysis.* The next step in the process of new product development process is to implement a market structure. This process delineates the consumer's perception of market by building a map outlining the critical consumer dimensions, positioning existing brands on the perceptual map and indicating favourable new product opportunities.
   - *Sales potential:* In this step, the potential of a new product entry into the market structure is estimated. The purpose of developing such a model helps in establishing a rough estimate of the size of the business potential. It also helps in establishing a base case for using this model for continuous monitoring of the sales forecast and its advances throughout the new product development process.
   - *Concept screening:* At this stage, the ideas collected are scrutinised to eliminate those inconsistent with the product policies and objectives of the firm. The main intention of this phase is only to eliminate unsuitable ideas as quickly as possible.
2. ***Advertising development:*** This stage of new product development involves the development of advertising and formulation of the product. All the advertising and technical developments of the product concept have a greater focus due to the results from the earlier stages. This stage typically involves two activities, viz. development of advertising strategy and product formulation.

   The main objective of advertising is to create an advertising copy which can reflect the product's points of difference to the consumer. Asking the client servicing and creative team to observe the focus group discussion helps in initiating advertising strategy development process. Both the teams get a chance to look at the real consumers and listen to their opinion about the product category and product proposition.

3. ***Product formulation and testing:*** The product formulation happens in the laboratory. During this stage, the 'idea-on-the-paper' is turned into a 'product-on-hand'. In other words, the idea is converted into a product that can be produced and demonstrated This stage is also termed as technical development. It is during this period that all developments of the product, from idea to final physical form, take place.

   The final decision whether a product should be developed on a commercial scale or not is decided at this stage because the time-lag required to attain this stage is long and it is possible that some adverse developments might have taken place during this period.

4. ***Testing the product:*** In this stage of product testing, the new product manager can check the feasibility and accuracy of product performance. Thus, commercial experiments are necessary to verify earlier business judgments. The objective of this stage is to assess whether the product meets the technical and commercial specifications developed at various levels of concept development for ascertaining product acceptability.

5. ***Commercialisation and final launch:*** In this stage, the product is submitted to the market and thus commences its lifecycle. Commercialisation is also the phase where marketing is most active in connection with the new product. This stage is considered to be a critical one for any new product and should therefore be handled carefully.

   For instance, it should be checked whether advertising and personal selling have been done effectively and whether proper outlets have been arranged for the distribution. Despite the care with which the previous development stages have been planned, unforeseen events can impair commercialisation seriously. The following activities are usually undertaken during this stage:

   - Completing final plans for production and marketing.
   - Initiating coordinated production and selling programs.
   - Checking results at regular intervals.

   All the stages explained above stress the fact that the development of a new product must pass through certain logical stages. Innovation is necessarily an orderly and predictable process and can be performed only in a sequence. For example, commercialisation cannot precede the development stage of a product.

Check Your Progress

Fill in the blanks:

1. A product is something of _____________, which is offered to customers for attention, acquisition, use and disposal of consumers for satisfaction of their needs and wants.
2. A product _____________ is a group of products for essentially similar use, and technical and marketing considerations.
3. Sales _____________ can be achieved either by increasing its share in existing markets or by finding new markets.
4. The _____________ of the product mix and the ways in which they relate to each other are important for the marketing manager.
5. The main objective of _____________ is to create advertising copy, which can reflect the product's points of difference to the consumer.

5.12 LET US SUM UP

- A product is the offer that the consumer ultimately owns in the exchange process. Each product offers some level of core, tangible and augmented benefit to consumers.
- A product has different layers or levels like an onion and each layer contributes to the make of the product. The identified levels are: core layer, basic product layer, expected product layer, augmented product layer and potential product layer.
- Products can be classified on the basis of three essential characteristics - durability, tangibility and user type.
- Product mix is an assortment of all related and unrelated products that the company offers in the market place. Product mix has got four important elements like width, depth, length and consistency.
- Product line decisions are related to the length and depth of each product line and the decisions that the marketer should take for each product's market segment.
- Many companies follow different types of new product development system which are concept generation and market structure identification, advertising development, product formulation and testing, commercialisation and final launch.
- Products follow certain kinds of lifecycle patterns. The stages of product lifecycle are introduction stage, growth stage, maturity stage and decline stage.

5.13 UNIT END ACTIVITY

Conduct a search on internet for top 5 companies producing and marketing FMCG products. Prepare a report on products the companies are dealing with considering the product mix strategies used for various products.

5.14 KEYWORDS

Convenience Products: These products satisfy the needs but one isn't willing to spend time or effort to shop for them.

Durable Goods: These are the goods that survive many uses by consumers.

Industrial Products: Products that are used in producing other products.

Non-durable Goods: These are the goods which are consumed in one instance or a few uses.

Product: A product is anything which is offered to the market to satisfy consumer needs and wants.

Product Line: A set of individual products that are closely related.

Product Width: It explains how many different product lines a company carries.

Product Depth: It explains the number of products that a product line has in its overall product mix.

Shopping Products: The consumers compare the features and buying criteria of these products with the competing brands before making a choice.

5.15 QUESTIONS FOR DISCUSSION

1. Define a product. What are the various levels of a product?
2. Explain the classification of a product with suitable examples.
3. Distinguish between consumer products and industrial products. Also explain the various classifications of industrial products.
4. Explain the stages in the new product development process.
5. A product lifecycle is the market's response to a new product launch in the market. Explain the stages of product lifecycle.
6. Demand for industrial products that go into another product for final consumption is derived in nature. Explain this with suitable examples.
7. What factors guide the scope of product line decisions? Explain the relevance of these factors in Indian marketing context.
8. Find out the product mix for any two major Indian companies.
9. What is meant by product line expansion? What other strategies do marketers adopt for product categories?

Check Your Progress: Model Answer

1. value
2. line
3. Growth
4. Dimensions
5. Advertising

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UNIT 6

BRAND

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6.0 AIMS AND OBJECTIVES

After studying this lesson, you should be able to:

- Discuss the concept of brands and their importance
- Identify the difference of brand and branding
- State the concept of brand identity
- Discuss the concept of brand equity

6.1 INTRODUCTION

Brands are in stores, in advertisements, television commercials and with the internet, they are everywhere we look, while browsing through the vast networks of our interests. Brands are extremely fascinating. Most companies recognise brands but fail to see the true essence behind the brand or the reason for their purchasing behaviour. Many companies see branding as a process that involves only tangible aspects such as the visual appearance of a company.

Brands are everywhere in our life. A product is anything that can be offered to a market for attention, use or consumption that might satisfy a need or want. A product is a physical good, service, retail store, person, organisation, place or idea.

6.2 MEANING OF BRAND

A brand helps the customer to distinguish the goods of one producer from another. Let us understand the conceptual meaning of the term brand.

A person is known by a name. Likewise, a product is known by a brand name, which enables the consumers to distinguish it from other products.

A brand name of a product or service means many things to a consumer.

It may mean a symbol of quality or it may be associated with his/her lifestyle. In fact, consumers buy brand images rather than products. Certain brands strike a chord as soon as the product is announced. For example, 'Coke' or 'Pepsi' as a soft drink, 'Vicks Vaporub' as a solution for cold, 'Dettol' as an antiseptic for everyday scratches and cuts.

These are a few illustrative examples to signify the role of brands in consumer buying behaviour. Some brand images remain in the consumers' mind forever and they come to stand for an entire range of ideas, sentiments, etc. This helps you to specify, reject or recommend brands. The present unit covers the concept of brand equity which is a set of assets linked to a brand's name and symbol that increases the value of the product or service. You will also be able to know how the image of the product should be created or positioned in the minds of consumers. You will also be familiarised with the selection of brand name and its development.

6.3 SIGNIFICANCE OF BRAND

Branding is a major decision issue in managing products. Well-known brands have the power to command price premium. Today, the brands Mercedes, IBM, Sony, Canon and others enjoy a huge brand-loyal market. According to *Business Week*, the Intel brand is one of the top 10 global brands, with a brand equity value of more than US 30 billion dollars.

The history of branding goes back centuries in time, when craftsmen wanted to be identified for their skills and placed their distinct and identifiable marks on goods they crafted. This was the earliest form of branding to build reputation of particular artisans by word-of-mouth. Buyers learnt to look for distinctive marks just as we look today for brand names and trademarks on products. According to George S. Low and Ronald A. Fullerton, such marks have been found on early Chinese porcelain, on pottery jars from ancient Greece and Rome, and on goods from India dating back to 1300 B. C. The origin of "brand" is the Norse word *brandr*, that means, "to burn," and owners of livestock mark their animals to identify them.

Branding has always been an important aspect of marketing. Distillers in the 16th century burned or put their brand name on the wooden containers. This identified the whisky of one distiller from that of others. The branding evolution continued and the real boost for branding came in the middle of the 20th century. American Marketing Association defined brand as, *"a name, term, sign, symbol, or design, or a combination of them, intended to identify the goods and services of one seller or group of sellers and to differentiate them from those of competition"*. Thus, according to AMA definition, the key to be able to create a brand is to choose a name, term, sign, symbol, logo, design, package or other attributes to identify a product from those of others.

As noted earlier, most competition in developed and developing economies is essentially hot at product augmentation level, because most companies in an industry can successfully develop and produce satisfactory products at the expected level. Nearly 45 years earlier, Prof. Theodore Levitt wrote, *"The new competition is not between what companies can produce in their factories but between what they add to their factory output in the form of packaging, services, advertising, customer service, financing, delivery arrangements, warehousing and things people value"*. Thus, a brand is much more than what AMA definition describes. It is a product, but one that adds other dimensions differentiating it in some way from other products designed to satisfy the same need (Kevin Lane Keller, *Strategic Brand Management*, 2nd ed. 2003). These other differences include not only tangible and rational aspects related to brand performance, but also intangible, emotional and symbolic meanings consumers perceive the brand represents.

Brands live in the minds of consumers and are much more than just a tag for their recognition and identification. They are the basis of consumer relationship and bring consumers and marketers closer by developing a bond of faith and trust between them. The promise of brand is consistent with reliable quality, service and overall psychological satisfaction. The marketer has to establish a mission for the brand and a vision of what the brand is and can do. It is crucial for the marketer to consider that it's an offering of a contract to the consumer about how the brand will perform, and it must be an honest contract. All these factors add value not only for the consumer but also for the marketer. Brands identify the source or maker of a product. This allows consumers to assign responsibility to a manufacturer or distributor. Based on their past experience of use, brands are a means of eliminating search costs, risks and simplify product purchase decision process.

Brands are believed to be the real generators of wealth of 21st century and determine the market value of business entities. Gillette, Lakmé, Hit and Goodnight are different names, but there is one thing common among them. They are all brands which other companies have bought. Procter & Gamble has bought Gillette for $57 billion. Hindustan Lever Ltd. bought Lakmé for ₹ 78 crores, Godrej bought Goodnight and Hit for ₹ 131 crores. The prices paid for these brands are many times more than their tangible assets.

A *brand mark* refers to that part of brand which is not made up of words, but can be a symbol or design such as swoosh mark of Nike or Golden Arches of McDonald's. A *trademark* is a legal registration indicating the owner's exclusive right to use a brand or some part of brand. A *trade name* is the full and legal name of a firm, such as Maruti Udyog Ltd., and not the specific name of a product.

6.4 BRAND AND BRANDING

A traditional definition of brand stands as a name, word, mark, symbol, device, or a combination thereof, used to identify some product or service of one seller and to differentiate them from those of the competitors. The definition clearly focuses on the function of a brand, that is, to identify, irrespective of the specific means employed for the identification. A modern definition talks about the brand as a vehicle for delivering a certain value to the consumers. Hence, a brand is a mental patent and set of associations that delivers a set of functional and emotional value to the consumer in a unique way as compared to others in the business.

Creating a brand is the ultimate aim of marketing endeavour. The AMA defines it as "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 from those of competitors". A brand is a name, term, design, symbol or any other feature that identifies a seller's good or service as distinct from those of other sellers. There are three aspects of this definition. Firstly, it focuses on 'what', of the brand. Secondly, it emphasises on what the brand 'does'. A brand can be a combination of name, symbol, logo or trade mark. Brands do not have fixed lifetimes. Under the trademark law, the users are granted exclusive rights to use brand names in perpetuity.

Figure 6.1 depicts what a brand is and what it does.

A brand is a name, symbol, design, or a combination thereof.

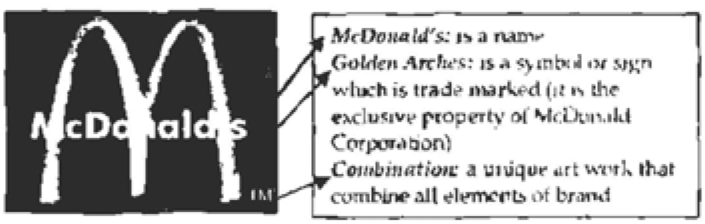

Figure 6.1: Example of Branding

Figure 6.1 shows that any outlet that displays this sign achieves two objectives immediately in the prospect's mind. The objectives are:

1. The prospect can easily identify that this outlet is of McDonald's Corporation. Hence he/she knows what to expect from this outlet.

2. The brand differentiation. The prospect, upon seeing the above sign, will be able to differentiate this outlet from the others which also sell similar kind of products or services (it is not Wimpy's).

A brand name is a word or a combination of words or letters that is pronounceable e.g., Promise toothpaste, Rexona soap, etc. Brand as a logo is unique to that product as a product design and signage. Examples of brands that are easily identifiable include the unique shape of Coca-Cola bottle, the distinctive rainbow mark of *Wipro*, the golden arches of McDonald's, and a part of an eaten apple of Apple Macintosh.

A brand mark can be a design, a distinctive logotype, a colouring scheme, a picture, etc. In other words, it is not a name but a means of identification.

Let us now learn about the advantages and disadvantages of branding.

6.4.1 Advantages and Disadvantages of Branding

Advantages

The following are the advantages of branding:

- A brand promises and delivers a high level of assurance to consumers.
- A brand serves as an assurance to the customer about the product performance. A brand helps customers to identify the product on the shelf and helps in making an informed choice.
- A brand as a symbol of status and social significance gives you psychological satisfaction.
- The brand speaks about the product's attributes and how they perform. about the brand name and what it stands for and about the company associated with a brand. Hence, for a consumer, the brand aids decision making by building trust, familiarity and assurance of a certain standard.

The brand also provides benefits to the company. It develops a loyal customer base e.g., brands like Starbucks coffee, Harley. Lux. Kellogg's and Horlicks have a strong loyal consumer base.

Disadvantages

The following are the disadvantages of branding:

- Branding is not free from the critique of creating disadvantages to the customer.
- Brand building is an expensive process because of which the average cost of the product goes higher and in many instances the consumer has to bear the cost.
- Brand building involves a huge expenditure by the firm and, if this fails, the brand cannot sustain the pressure of additional expenses.
- Once the brand is perceived in a particular way, it is difficult to position it in an alternate way, though a need may arise due to changes in macro-economic environment.
- Expenditure on brand promotion is considered a social waste. Such wasteful expenditure will increase the cost of production, leading to higher price of the brand.

6.5 BRAND IDENTITY

Different brands vary in the power and value they command in the market place. Many brands are largely unknown to consumers and for some others, there is very high level of awareness in terms of name recall and recognition. David A. Aaker defines brand identity as, "a unique set of brand associations that the brand strategist aspires to create or maintain. These associations represent what the brand stands for and imply a promise to customers from the organisation members". Brand identity and brand image are sometimes used interchangeably in different texts. Brand identity refers to an insider's concept reflecting brand manager's decisions of what the brand is all about. Brand image reflects the perceptions of outsiders, that is customers, about the brand. From customers' point of view, it is the image they have of a brand that matters. Brand image is the sum total of impressions created by the brand in the consumer's mind. This includes a consumer's impressions about the brand's physical characteristics, its performance, the functional benefits, the kind of people who use the product, the emotions and associations it develops, and the imagery or the symbolic meanings it generates. To put it differently, how a consumer perceives a brand in its 'totality' is the brand image and encompasses both physical and perceptual components. It is a concept that drives customer behaviour with respect to brand.

According to Jean-Noel Kepferer, a brand is a complex symbol and capable of conveying upto six dimensions or meanings:

1. ***Physique:*** Physique dimension refers to the tangible, physical aspects. The physical dimensions are usually included in the product such as name, features, colours, logos and packaging. The physique of IBM brand would be data system, servers, desktop PCs, notebooks PCs, and service, etc

2. ***Personality:*** Marketers deliberately may try to assign the brand a personality; or people on their own may attribute a personality to a brand. It is not surprising that people often describe some brands by using adjectives such as "young," "masculine," "feminine," exciting," "rugged," "rebel," "energetic," etc., as if they are living persons. Brands usually acquire personalities because of deliberate communications from marketers and use of endorsers. Bajaj Pulsar ads communicate "Definitely male". The personality of Boost is seen as young, dynamic, energetic and an achiever.

3. ***Culture:*** Culture includes knowledge, belief, rites and rituals, capabilities, habits and values. A brand reflects its various aspects and values that drive it. Culture manifests various aspects of a brand. For instance, Apple computers reflect its culture. It is a symbol of simplicity and friendliness. Its symbol (munched Apple) connotes being different from others and not following the beaten path. Mercedes symbolises disciplined, efficient, high quality German engineering.

4. ***Relationship:*** Brands are often at the heart of transactions and exchanges between marketers and customers. The brand name Nike is Greek and relates to Olympics, and suggests glorification of human body. "Just Do It" is all about winning, the unimportance of age, and encourages us to let loose. Apple conveys emotional relationship based on friendliness. Relationship is essentially important in service products.

5. ***Reflection:*** This refers to defining the kind of people who use it. It is reflected in the image of its consumers: young, old, rich, modern and so on. For example, Pepsi reflects young, fun loving, carefree people. The reflection of Allen Solly's brand is a typical young executive. However, it does not by any chance mean that they are the only users. The concept of target market is broader than reflection.

6. ***Self-image:*** This means how a customer relates herself/himself to the brand. Self-image is how a customer sees herself/himself. The self-image of users of Bajaj Pulsar motorcycle is believed to that of being tough, young males. Users of Nike see their inner reflection in the brand's personality

6.6 BRAND EQUITY

Brand equity is the added value that the consumer assigns to the products and services. It is an arrangement of brand assets and liabilities linked to a brand, its name and symbol that put in or subtract the value provided by a product or service to an organisation and/or to that organisation's customers. These equity components can be grouped into the following categories:

- Brand loyalty
- Brand awareness

- Perceived quality
- Brand associations

Let us now study the components of brand equity in detail.

6.6.1 Brand Loyalty

Brand loyalty is the situation in which consumers repeatedly prefer and continue to purchase the same brand within a product or service category. Brand loyalty is one of the important basis of equity creation. When customers show allegiance to the brand, it creates equity. Loyalty is at the heart of equity. Six distinct conditions are necessary for brand loyalty. Brand loyalty is the (i) bias, (ii) behavioural reaction, (iii) expressed over time, (iv) by any decision-making unit, (v) in relation to one or more alternative brands, and (vi) is a functional task of psychological processes.

6.6.2 Brand Awareness

Brand awareness is the ability to identify a brand under different conditions. It includes brand recognition and brand recall. Brand recognition is known as the capacity to verify prior exposure ("yes, I've seen it earlier") and recall is the capacity to consider the brand when a product category is thought about. This type of awareness is necessary for a brand to be included in the decision process.

6.6.3 Perceived Quality

The quality may be objective or perceived. The objective quality indicates the actual superiority of a product or service though the perceived quality is perception of excellence of a product or service in relation to its intended function. Perceived quality is customer based. Various people value different things. It engrosses judgement concerning what is valued by the customers. Quality also requires to be distinguished from satisfaction.

A customer may still be satisfied with poor quality. Satisfaction is determined by expectations. On the whole, perceived quality is an overall feeling that a customer tends to have about a brand. It is generally based on some underlying quality dimensions (product attributes or benefits) on which the customer perceives the product's performance or delivery.

Since the brand delivers values higher than the commodity, perceived quality is a critical decision. The brand manager should take a decision on what kind of attributes and what quality level he/she should offer in his/her product to satisfy his/her consumers. Developing a matrix of such desirable attributes helps in positioning both the product and brand. A marketer has the option to position his/her brand at any segment of the market: top, bottom or the intermediate.

6.6.4 Brand Associations

The customer associates the attribute of the brand with his/her belief. Attributes are descriptive features which are used to characterise a product or service. For instance, how is a refrigerator described? It can be described as a cooling machine, normally available in white colour, comes in different sizes, meant for homes or offices, expensive, runs on electricity, has a compressor, etc. The attributes may be differentiated on the basis of how directly they are associated with the performance of the product or service.

6.7 BRAND IMAGE

Brand image is the key concept intervening between the brand and its equity. It is the driver of brand equity. The image of a brand can adjust brand value upwards or downwards. When the coconut oil is "Parachute', its value moves upwards. This shift is the result of brand name. The name adds visual and verbal dimensions in consumer's mind and acts as intervening variable moving the value upwards. The name Rolex or Omega add radical value to the product. A customer who is not familiar with brands like Rolex or Omega will most probably assess the value of these brands as just another watch (a product) because these brands mean nothing to her/him. In such a case, these brands are unlikely to alter value because there is no intervening variable between the brands and their valuation.

A brand exists as a complex network of associations in a consumer's mind. Alexander L. Biel proposed that types of brand associations can be *hard* and *soft* and brand sub-images consist of three elements: *image of provider, image of product* and *image of user*

The types of brand associations are discussed below:

- ***Hard Associations:*** Hard associations include consumer's perceptions of tangible or functional attributes of a brand. These involve brand's physical construction and performance abilities such as economy, quality, reliability, sturdiness, etc. For example, the hard associations of an automobile can include its power, speed, fuel economy, etc
- ***Soft Associations:*** Associations of this type are emotional in nature. Such associations can be positive or negative. A motorcycle can be visualised as male, tough, exciting, youthful, etc. For instance, Bajaj Auto has managed to associate its Pulsar motorcycle with maleness, toughness, youthfulness and excitement. As a consequence of negative associations, consumers associate Indian Airlines with dullness, old age, indifference and inefficiency.

The elements of brand sub-images are discussed below:

- ***Image of provider:*** This refers to the image of manufacturer. Consumers also carry in their memories a network of associations about companies. For example, Apple computers create associations such as unconventional, exciting, user friendly, creative, innovative and cool. When consumers visualise Delhi Cloth Mills (DCM), the kind of associations that may emerge are likely to be old, dull, cloth; Rath Vanaspati (vegetable oil): unchanging, and unexciting. An inappropriate corporate image may tarnish the image of an otherwise good product.
- ***Image of product:*** Products also carry an image of what they carry and have aspects such as functional characteristics, technology intensiveness, emotionality, old or modern that go with them. Products such as laundry detergents, cold remedies, mosquito repellents, etc., tend to be driven by functional attributes and rationality. On the other hand, fashion clothing, perfumes, cold drinks, expensive watches and many alcoholic beverages tend to be associated with emotions and substantial symbolism. Therefore, brand image has to be shaped within structural limits imposed by the product image.
- ***Image of the user:*** The brand image brings to consumers' minds the image of its users. The image of brand may indicate the age, sex, occupation, lifestyle, interests and personality attributes. For example, the image of Raymond suitings is that of a "complete man". The user image dimension reflects the brand's personality. According to Leon G. Schiffman and Leslie Lazer Kanuk, a study

found that beer, coffee, cigarettes, cars, credit cards, haircuts, legal services, scotch, sneakers and toothpaste were found to be masculine. Products perceived as feminine included bath soaps, shampoo, facial tissue, clothes dryers, washer and dishwashing liquid.

Brand image management requires determining brand concept. This concept embodies the central meaning of the brand that the company chooses and is derived from basic consumer needs. The more strongly the brand satisfies these needs, the more differentiated and strong the brand image customers carry. These needs can be put under three broad groups.

1. Functional needs refer to performance related aspects of customer's living. These needs may relate to solving existing problems or avoid future problems. For example, the need to get rid of dandruff, have relief from cold, insuring for health or protection against burglars. Some examples of functional brands include Bisleri (pure and safe water), Pepsodent (fights germs causing dental problems), FeviKwik (bonds in a snap) and Dispirin (relief from headache).

2. Symbolic needs are learned, needs as a result of living in a society and include wants for esteem, self-enhancement, identification with desirable groups, etc. Some examples of symbolic brands include Raymond (the complete man), Omega (the sign of excellence), Louis Philippe (upper crest) and Ruggers (be casual).

3. Experiential needs refer to sensual gratification that comes from brand usage experience. People seek pleasure through their senses, including cognitive stimulation and variety. Some examples of experiential brands include Mother Dairy (pleasure of taste), Armani (the power of smell), Ford Ikon 'Josh' (driving experience), Dove (doesn't dry your skin), Gillette (the best a man can get) and Fisher Price Toys (cognitive stimulation).

6.8 BRAND POSITIONING

Brand positioning denotes the positioning of the brand vis-à-vis the competing brands in the chosen product category.

After deciding brand identity, which corroborates with the expected brand image, the brand manager's task of implementing the branding strategy begins. He/she needs to establish communication objectives and plan the creative execution strategy. The beginning of an execution strategy is the brand position statement. Brand position is that part of brand identity and value proposition that is to be actively communicated to the target audience which depicts the advantages of the brand over the competitors. Once the brand position decision is made, brand identity and value proposition can be translated into a suitable execution strategy in the form of an integrated advertising campaign.

There are three places within the brand identity system, which help in identifying the brand positioning statement. These statements are the core identity of the brand, which explains the central, timeless essence of the brand. The most unique and valuable aspects of the brand are often represented in the core identity. Hence, brand position should include the core identity so that the brand communications do not stray away from the brand's essence. A brand position can be based on the point of leverage, which may not necessarily be in the core identity. Sub brands, features or service can become a point of leveraging. A customer related benefit is a part of the value proposition and forms a basis for brand customer relationship.

For example, the positioning statement of Titan as a 'Tata product' explains the core identity in the form of a brand position statement whereas the brand positioning statement of DHL couriers explains the service component with 'nobody delivers like us'. The BPL washing machine with fuzzy logic technology explains higher value proposition as compared to other washing machines and that serves as a positioning statement.

6.9 BRAND NAME SELECTION

The selection of a brand name is closely related to the desired positioning and a number of total considerations. Giving a brand name is one of the crucial decisions in brand management. This is a crucial decision resting on two dimensions. Firstly, the name should satisfy several marketing criteria and secondly, the name should not be in use by other firms. This necessitates extensive consumer research and mapping of consumer interest.

A brand is defined as a composite set of beliefs and associations in the mind of consumers. So a brand name is believed to indicate the product's benefits, be memorable, and help in reinforcing the belief and associations in the consumer's psyche. The name has to be unique so as to rise above the clutter. However, when unique names become run of the mill, suddenly a simple name becomes a hit and people remember this name. Decision on branding a product should be done in such a way that it helps in 'de-cluttering' the brand.

A good brand name should basically possess qualities of distinctiveness. That is, it should be short, noticeable, impressive, easy-to-remember, and should stand out among a host of competing names. For example, names like Usha, Lux, Rin, Vim, etc. satisfy the condition of being short and easy to remember. Brand names like Hotshot, VIP, Amul, etc. have earned a reputation for quality. In selecting a brand name, managers should ask themselves what they want to achieve from it. Should it be descriptive, reassuring, evocative, or should it convey certain qualities or benefits derived for using their products?

There is no hard and fast rule to the selection of a brand name. However, through extensive research and past experiences, brand marketers have developed the following principles, which should be followed while selecting the brand name.

- A brand name must reflect directly or indirectly some features of the product, like benefits and functions. For example, Ezee means that it is easy to use; Good Knight, a mosquito repellent, means that one can have a good sleep at night, and PUMA conjures up the celebrated speed of a 'cheetah'.
- A brand name should be distinctive, especially if there is a higher clutter in the category e.g., a name like "chancellor" for a cigarette portrays status, power and an opulent lifestyle.
- A brand name should be easy to pronounce and remember. Some of the classic examples are Vimal, Taj, Onida, Bajaj, MRF, Fem, Lux, Thums Up, etc.
- A brand name should be legally protective.
- A brand name should be acceptable to the social settings.
- A brand name should be easy to memorise and recall.

A brand name is also expected to generate favourable associations. In order to make it suggestive and descriptive, it needs marketing investment through a brand communication strategy. A brand name can be classified as:

- Descriptive brand name, for example, Handyplast.
- Suggestive brand name, for example, Kamasutra and Denim.
- Free standing brand name, for example, Kodak, which does not communicate any information immediately to the consumer.

6.10 BRAND SPONSORSHIP

The brand sponsorship decision involves whether it should be a manufacturer's brand (also known as a national band) or a private brand (also known as private label) or partly manufacturer's brand and partly private brand. In most developed countries, where large chain or departmental stores dominate the retail distribution system, retailers buy the products from manufacturers and sell under their own brand. This is a growing phenomenon in the Indian context as we see the emergence of a large number of super bazaars and chain stores coming up with different product categories.

Mother Dairy, Amul, Food Bazaar from Pantaloon, BPL Garage, Kids Kemp and Cross Roads are some of the upcoming supermarkets and chain stores marketing exclusive product categories. Thus, the brand sponsorship decision involves the decision of using the brand manufacturer's name or the retailer's name. The decision largely depends on who has more power in the value network.

6.11 BRAND DEVELOPMENT

The brand development decision involves a set of decisions to add or to maintain the number of brand elements to its product portfolio. Whether to brand a product or not is a decision which can be taken only after considering the nature of the product, the type of outlets envisaged for the product, the perceived advantages of branding and the estimated costs of developing the brand.

Historically, it is observed that brand development is closely related to the increase in disposable income, level of sophistication of distribution system and increase in estimated size of the national market. We are experiencing a situation similar to the above in the current Indian market.

The concept of branding is applicable to commodities like rice, flour and oil in India. Firms like ITC and HLL have achieved success in such commodity markets. One of the important factors for successful branding strategies in the food and commodity categories is the willingness of consumers to pay more for better quality product through the value promise of brands. When customers buy a branded product, they get the same quality in whichever retail shop they go. Many other commodities such as spices are also now being branded. There is no doubt that this trend is going to stay for long in the Indian market and we are going to see more and more brand building initiatives in the market.

In brand development, as a part of branding strategy decision, the brand manager can decide to create new brand elements for the new products, apply some of the existing brand elements to the new product, or use a combination of existing and new brand elements to the existing and new products.

When a firm uses an established brand to introduce a new product, it is called *brand extension*. When a brand manager combines elements of an existing brand with a new brand, it is called *sub-brand*. If an existing brand name is used for a new product category, then the existing brand is called *parent brand or master brand*. If the parent brand is associated with multiple products through brand extensions, it is called *family branding*. There are two kinds of brand extension, namely vertical extension and horizontal extension.

When the same brand name is taken to products very similar to the current offer, higher or lower in the same product line, it is called *vertical extension or line extension*. Line extension can be step up or step down extensions also. A step up line extension occurs when the brand manager moves up in the price quality dimension with the same brand name.

A step down model occurs when a current brand name is used to launch a low value product. The *horizontal extension* is a process of taking an existing brand name to a newer product category. This is also known as *category extension*. In this case, the parent brand name is used to enter into a newer product category. A brand line means a set of products sold under the same brand name.

A brand line can have similar as well as dissimilar products in its line. A *brand mix* is the set of all the brand lines that a multi-product firm offers to the market. Companies can also launch branded variants in which they have a range of specific brands for specific distribution channels or specific product-market situations. The brand variants are available in the market due to excessive pressure of retailers to deliver specific brands in the marketplace. We have seen LG having specific brands for specific distribution channels in the market. The distributed retailer brands are different than the set of brands available in LGeasybuy.com sites.

6.12 BRANDING STRATEGIES

With the passage of time, successful companies grow and the number of products handled by most companies also grows. These companies face the question as to what kind of branding relationships these products will have. The branding strategies that companies adopt reflect this relationship. There is no best branding strategy and the choice is not easy. Different companies adopt different strategies, and since there is no best strategy for all types of products, a company may adopt different branding strategies across its product mix.

Companies differ in their approaches to branding. A casual look at western world and eastern world shows that companies of the western world generally adopt product-branding strategies (one product one brand or many products many brands). At the top of this approach are three giant and familiar companies, P&G, HLL and Xerox. Eastern companies, such as those from South Korea and Japan adopt a mega branding approach. The company tagline covers all products "Chips to Ships". Examples are Hyundai, Samsung, LG, Hitachi, Mitsubishi, Toyota, etc. These two general approaches reflect customer or market-oriented logic or cost oriented logic.

Companies enlarge their product mix by either stretching existing product lines or adding new product lines, or both. In these situations, they either use existing brand names or use new brand names or some combination of company name and product brand name. The six branding strategies discussed here can be termed as generic branding strategies, each having its own set of pros and cons.

6.12.1 Product Branding Strategy

This approach is driven by customer-orientation. The thinking focuses on customer perception and information processing and the company believes the most effective method to differentiate its offer in a customer's mind is to give the product an exclusive position and identity. What the brand represents is clearly comprehended and internalised by its target market. Placing several products under one brand name may cause confusion among consumers. Al Ries and Laura Ries say:

"A successful branding programme is based on the concept of singularity. It creates in the mind of the prospect the perception that there is no product on the market quite like your product". (Al Ries and Laura Ries, The 22 Immutable Laws of Branding, 1998)

This strategy focuses on promoting the brand exclusively so that it reflects its own personality, identity, associations and image. The brand does not take on company associations and any benefits from its name.

Procter & Gamble is an ardent follower of product branding strategy in its purest form as shown in (Table 6.1). Hindustan Lever Ltd. also largely follows product brand strategy, but shows some shifts by leveraging established brand names into areas outside its product category. Actually, very few companies follow only product branding strategy. HLL has brands such as Dove, Lux, Rexona, Lifebuoy, Liril, Pears, etc. Dove moisturises skin, Lux is the toilet soap of film stars, Rexona is a gentle soap with natural oils, Lifebuoy fights germs, Liril is 'the' freshness soap and Pears is the 'original' translucent glycerine soap. It is worth noting that both P&G and HLL use separate brand names for products that are in the same product category (Ariel and Tide are detergents; Lux and Liril are soaps).

Product branding approach is also followed by ITC for its tobacco-based products. At the product level, most cigarettes generally tend to be the same and what counts really is the perceived differentiation among consumer groups who show strong brand preference. This is more distinct in the upmarket segments. The basic product by itself does not offer much opportunity for differentiation. This differentiation has to be created in consumers' perceptions of a brand. This is the major reason why ITC adopts the product differentiation approach for cigarettes. ITC's brand portfolio of cigarettes includes India Kings, Classic, State Express, Benson & Hedges, Gold Flake Kings, Wills, Navy Cut, etc. Each brand is highly differentiated and occupies a distinct position. However, ITC seems to have diluted its product branding approach in case of its powerful Wills brand and has extended the brand into ready-to-wear clothes.

Product branding delivers certain advantages. It helps to create an identifiable brand enjoying a unique position and directed at a well-defined target segment, and the company can cover an entire market composed of several segments by creating multiple brands each addressing a different segment. This leaves very little chance of creating confusion among consumers. Product branding is especially advantageous when products are similar such as detergents or soaps.

By extending established brands in other categories, a company tries to minimise its risks and excessive promotional expenditures. When a new product is given a familiar and established brand name, consumers are likely to feel more confident about the new product such as HLL extended the Lux name to introduce its shampoo. HLL's brands Signal (toothpaste), and Blue Seal (peanut butter) failed and most people did not even know these were from Hindustan Lever Ltd. All brands of P&G are stand-alone in all of its SBU's, leaving the company to venture into many unrelated fields.

Table 6.1: Product Branding Strategy of P&G (incomplete list)

Brands	Category	Position
Ariel	Detergent	High-tech detergent.
Tide	Detergent	Whiteness no other can deliver
Head & Shoulders	Shampoo	Anti-dandruff shampoo with micro ZPTO
Pantene	Shampoo	Healthy and Shiny hair.
Whisper	Sanitary Napkin	Hygienic protection.
Vicks	Balm	Clear blocked nose by touch therapy
Old Spice	After shave	Sign of manliness.

The major disadvantage of product branding is excessive costs that may be as high as ₹ 5 to ₹ 50 crores in building a successful brand in India. In developed markets, these costs may run into hundreds of million dollars. Another disadvantage is that new brands miss the opportunity of exploiting the strengths of a powerful company name or its brands.

6.12.2 Line Branding Strategy

The term 'line branding' is altogether different than what product line refers to in the context of product mix. Companies often have several product lines in the product mix. For example, Gillette India has three product lines: personal care, oral care and alkaline batteries. In line branding, products share a common concept. Line brands start with a single product conveying a concept and later the brand name extends to other complementary products. The core concept remains unchanged. For example, the core concept of Denim brand is. "The man who doesn't have to try too hard". All products sporting the Denim brand name share the same concept. Lakmé concept is "the source of radiant beauty". The brand concept appeals to a distinct target group of consumers and Lakmé offers a number of additional products that go together, complement each other, and form a whole such as winter care lotion, cleansing lotion, body lotion, lipsticks, eye make up and nail enamels. All products in line branding draw their identity from the main brand. Park Avenue is also an example of line branding with several products that complement each other addressing the upward mobile man.

Line branding strategy aims to satisfy customer's complementary needs that surround the core need. The core customer need that Lakmé aims to fulfil is 'need to be beautiful' and all products surrounding this need complement each other. The brand takes care of total needs rather than just offering one or two fragmented items. The company focuses on promoting only the main brand concept that builds and reinforces all related items without incurring much additional expenditures. The company can also extend brand without much investment in promotion. The negative side is that success and ease sometimes tempts a company to over extend and weaken the brand.

6.12.3 Range Branding Strategy

This strategy seems to resemble line branding but is significantly different. It is also called brand extension. Product categories are different but brand name is the same, such as carrying the brand name Maggi is a range of different products: noodles, sauce, soup, dosa mixes, etc. The range represents the area of expertise, which is fast food. In line branding, every product originates from the "product concept". Lakmé concept is "the source of radiant beauty," and all products surround this core product concept. Line branding is restrictive to brand expansion into products that do not surround this core product concept and complement each other in this regard. In case of range branding, it is not the product concept but "the area of expertise". This strategy permits expanding into products that do not complement each other. For example, a company's area of competence might be microprocessors, and it can develop expertise in some other area over time such as software and expand its brand. Himalaya Drug Company has range of Ayurvedic home remedies like health care, body care, skincare, hair care, etc., under Ayurvedic concepts. Certainly, deep cleansing lotion does not complement digestive capsules, and antiseptic cream does not complement face wash. The focus is on expertise. Himalaya Drug Company's area of expertise is 'Ayurvedic medicines' and it can use its expertise to expand the brand to products that do not complement each other. This means range branding covers many different products under one brand banner. Promotional expenditures are low because promoting one brand helps all products in the range. However, the same brand name for too many products may lead to overstretching, may confuse consumers and weaken the brand.

6.12.4 Umbrella Branding Strategy

In general, umbrella branding is favoured among eastern world companies but is not exclusively confined only to this part of the world. Giants like GE and Philips are examples of non-eastern companies that use umbrella branding. The approach is driven by economic considerations. The company name itself is the brand name for all products across diverse categories. Investment in building one brand proves far more economical than investing in building several brands. The brand transfers the advantages of brand awareness, its associations and goodwill. Ever increasing number of brands and information overload makes it very difficult to get noticed. Consumers are more likely to take notice of something familiar.

Apparently, umbrella branding appears to be flawless, but it has several disadvantages. A major shortcoming with this approach is that it is not customer or market focussed. Cost advantage does not get translated into better margins. It is a low-cost strategy but earnings are also low. Research indicates that average profit of top eastern companies adopting umbrella branding is much lower as compared to top western firms.

Umbrella branding may be suitable when markets are viewed as homogeneous, operating at a higher level of aggregation. But when markets are composed of distinct segments in terms of buyer needs and preferences, companies start offering specialised need solutions to different segments. This precipitates a difficult situation for companies using umbrella branding. From the consumer's point of view, a specialist brand is appealing and makes more sense. This is the reason that auto companies offer small and mid-sized cars such as Alto, Esteem, Santro, Getz, Palio, etc.

Sharing a common brand name can be risky in case there is a problem with one category. This may negatively influence consumer perceptions in other products sharing the same identity. Also, it is difficult to stretch brands upwards (as happened in case of Maruti Baleno). Downwards stretch in case of Parker failed because of Parker's high-end image. Horizontal stretching is relatively less likely to pose too much of a threat.

6.12.5 Double Branding Strategy

This approach combines umbrella branding and product branding. Along with the product brand name, the company name is associated to create double branding such as Tata Indica and Bajaj Pulsar. Tata is the company behind Indica car brand. Maruti also follows this strategy. Both names are equally important and are given equal status in the brand's communication. Double branding serves two objectives. The product gains from the company name awareness, expertise and reputation. And Pulsar adds some unique value of its own: "Definitely male". This is customer focus and the brand can communicate something in addition to what Bajaj name stands for in customers' perceptions and appeal to a new segment. The product's brand name helps differentiate the offer.

It is only the company's area of expertise and image that may restrict how far it can go in using this branding approach. Double branding works as long as brands are consistent with expertise domain of the company. Beyond this domain, the brand may become a burden. Two or three-wheeler autos are categories that have greater consistency in the area of company's expertise domain. But if the field of expertise is not consistent such as trucks, or computers, double branding may not always be a suitable branding strategy.

6.12.6 Endorsement Branding Strategy

This is a minor variation of double branding strategy. The product brand name gains a dominant position, while the company name merits a lower profile. The company name appears in smaller letters and takes a back seat. The brand largely seeks to exist on its own. The company name is mentioned to identify who owns it just by way of endorsement to the product brand such as Godrej Cinthol or Nestlé Kit-Kat identify the owners of these brands.

In case of double branding, the company name is an integral part with equal status. Endorsement signifies assurance of quality by transferring certain associations that increase consumers' trust. The aim is not to pass on the company's expertise domain. Customers ask for Fair Glow, or Chocos and not Godrej's Fair Glow, or Kellogg's Chocos. Company name acts as a familiar signage to reassure consumers by communicating the company's associations and image.

Endorsement branding is nearest to product branding, allowing more freedom to the brand to get its own distinction. When endorsement branding is tried in inconsistent areas, it is quite likely to fail. For example, some time back Nestlé launched Mithai Magic and it did not work.

6.13 FACTORS INFLUENCING BRANDING STRATEGIES

A company must carefully examine its situation before making a decision about adopting a certain branding approach. Five factors seem to be more relevant and include the assessment of market size, competitive situation, company resources, product newness and innovativeness and technology.

1. ***Market Size:*** In a large and expanding market, some minimum investments are necessary to build up brand to a level that its sales generate sufficient revenues to support its growth. If the market size is smaller and the growth is very low, achieving sizable sales would not be easy. This would extend the payback period. Large investment in promotion is not called for and would also further extend payback period. In this situation, taking assistance from an established name may be desirable. This would reduce expenditure on promotion in brand building and may favourably reduce payback period.

2. ***Competitive Situation:*** When the competition is intense, customer-focus gains importance to win their confidence. It becomes necessary to strongly differentiate the brand and be a specialist in some meaningful and persuasive way. This requires communicating specific customer benefits and brand's matching personality dimensions. Individual brand identify creation gains importance. It may be desirable for companies to choose between product branding, endorsement branding, or double branding, depending on available resources.

   In case the level of competition is low, companies may not be motivated to create distinct brand identity for each brand and simply a company's identification may seem desirable. Thirty or forty years ago, brand building was not a priority concern in India. More concern about branding became apparent only after economic liberalisation in our country.

3. ***Company Resources:*** Branding in most cases is a highly expensive proposition. It is certainly not meant for resource-starved companies. Commitment to branding suits firms having deep pockets to create and support brands in the long-run. The companies opting for umbrella branding aim to create a common equity pool and their products exploit this equity. Most companies in this group tend to ensure consistent product quality and high degree of customer service.

4. ***Product Newness:*** As companies grow, they tend to add new products to expand product mix. The marketplace is getting more and more crowded because of brand multiplication and customers tend to group them into categories to simplify their purchase decision. This crowding makes it increasingly difficult for marketers to make brands distinct.

Creating a unique, differentiated identity and image for some product boasting really unique attributes and benefits require focusing on brand building. This requires adopting a branding strategy that suits this objective such as product, endorsement or double branding and certainly not umbrella branding as it may dilute and cloud image and confuse customers.

5. ***Innovativeness and Technology:*** Really innovative products sometimes emerge from new technology. A breakthrough innovation embodies risks both for customers and the concerned company. Companies perceive risks of uncertainty about a product's success. High on a company's agenda are effective communications of product's uniqueness and to protect the company's equity. Such potential risks favour strategies towards product branding continuum such as product or endorsement branding. Highly innovative companies such as 3M, Apple and DuPont adopt either product branding or endorsement branding.

   Failures of innovations are less likely to damage company equity. Product branding is risk minimising but expense-intensive branding approach. However, customers seek more assurance because of their risk perceptions. A company's reputation can help reassure customers and speed up adoption process and for these reasons, endorsement branding or double branding may be desirable, such as Apple G5 processor or AMD Athelon XP+ (these processors boast of futuristic 64-bit chip technology). Choosing a branding approach for innovative products depends much on what the company's approach has been in the past and how confident the company feels after conducting market testing.

6.14 TRADEMARK

Trademark is defined as "a brand as part of a brand that is given legal protection because it is capable of exclusive appropriation". When a brand name or brand mark is registered it becomes a trade mark. In that sense, all trademarks are brands but not all brands are trademarks.

Differences between Brand Name and Trademark (Trademark vs. Brand Name)

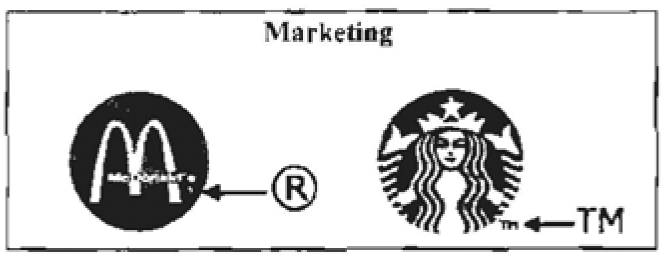

Figure 6.2: Brand Name and Trademark

The process of branding includes the functions of giving brand name and trademark to any product. However, there are some differences between brand name and trademark. The differences between brand name and trademark can be mentioned as follows:

- ***Registration:*** Any name, word, letter, symbol, design or any sign composed by combining them is called brand. If the same sign is legally registered in the concerned government office, it called trademark.
- ***Legal Protection:*** Trademark is provided legal protection, no other company or firm can use this trademark except the producer or seller, which has got it registered. But brand or any symbol, sign can be used by other firms or competing companies. No legal action can be taken even if any company imitated a brand used by other company.
- ***Scope:*** All trademarks include in brand but all brands may not be trademarks. So, all trademarks are brands, but all brands are not trademarks.

In this way, there is basic difference between trademark and brand. Both of them involve in branding, both of them give identity of products and differentiate from same type products of other companies. But legal protection can be acquired only from registered trademark.

6.15 AFTER SALES SERVICE

After sales-service includes repairs, space parts and smooth maintenance of the product of reasonable change after the product has been sold and is being used by the customer

Different ways/methods of providing after sales service:

- By sending the staff for repairs and maintenance.
- Making arrangements with distributers and dealers.
- By opening service centers.
- Take feedback.
- Ask customers to sign AMC.
- By providing service coupons.

6.16 CONCEPT OF PRODUCT LIFE CYCLE

The concept of product life cycle is one of the popular concepts in marketing literature. This concept has been used as a tool for forecasting and also for developing marketing strategy. In its simplest form, this model explains the market response to a new product introduced in the market over a period of time.

Product life cycle theory is one of the first analytical attempts to determine marketing strategies at different product market situations. The product life cycle concept describes the stages in the sales (market response) history of a product. The basic features of this theory have propositions that a product has a limited life and a product's sales generally follow an 'S' curve until sales eventually start declining.

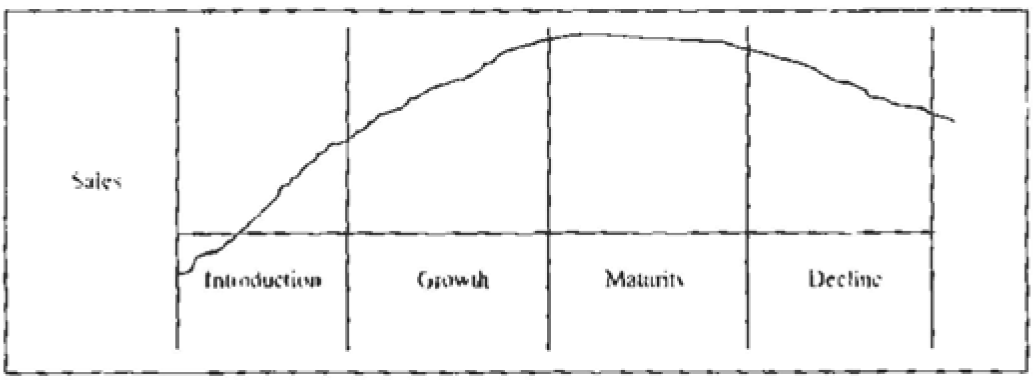

Figure 6.3: A Typical Product Life Cycle

6.16.1 Product Strategy for Life Cycle Stages

The marketing strategies need to get adapted to the changing situations in the market and evolving life cycle of the product.

Characteristics and Marketing Strategies at Introduction Stage

The product life cycle begins with the introduction stage when the product is launched. At this stage, sales are low; this stage involves high distribution and promotion expenses; profits are found to be negative or low. Since it is too early for refinements, basic versions of the product are sold. Focus of marketing is on those buyers who are always ready to buy. Better quality, features and superior performance of the basic product helps the marketer to grow at this stage. Based on these characteristics, a company may use an appropriate marketing strategy, commensurate with the company objectives and resources.

At this stage, since the product is new, all competitors focuses on building distribution network and product awareness. The success in the market would revolve around pricing and promotions. The marketer may follow a high price and low promotion strategy. This strategy will yield high profit per unit and also keep the marketing costs down. This strategy will succeed when competition and market sizes are limited. There is some level of product awareness in the market and customers are willing to pay a premium.

The second possible alternative strategy is low price and heavy promotion. This will help in cornering a bigger market share and faster market penetration. This strategy is possible when the size of the market is big and buyers are sensitive to price. There is also some amount of product awareness in the market and competition is very strong. The marketer passes the economy of scale of operations to the customer and follows a low cost per unit production process. Though Hyundai launched its premium brand called 'Sonata', it still offers the product at a comparatively lower cost in its category.

Characteristics and Marketing Strategies at Growth Stage

The next stage in the product life cycle is growth stage. This stage is most rewarding for the marketer, if the new product is considered to be satisfactory by the market. The characteristics of this stage include a very sensitive market response where sales climb rapidly. There is a marked increase in profits at this stage. So also there is an increase in competition. It helps in opening new market segments as the marketers look for growth and enter into newer market segments.

The growth stage has two distinct sub-stages, namely early growth and late growth. In the early growth stage, the sales increase at an increased rate and in the late growth stage, it increases at a decreasing rate.

At the growth stage, the marketer follows different kinds of strategies compared to the earlier stage of product life cycle. As sales and profit grow rapidly, compared to the introduction stage, companies use varying strategies in the growth stage. Lured by high sales and the correspondingly high profits, competition enters the market. Therefore, improving and/or adding features will expand the market for a company. Because of the high volume of business and increase in competition, price should not be raised. On the other hand, strategic lowering of prices should be resorted to attract more buyers.

Increased emphasis on promotions will play a very important role in educating the market as well as in meeting the challenges of the competition. Distribution channels need to be strengthened and new channels should be opened to handle additional volumes and new markets. In advertising, some emphasis would shift from product awareness to product conviction. The marketer needs to prepare an overall strategy and face a tradeoff between high profits and high market share. As mentioned above, increased investment on product improvement, promotion and distribution may lower the current profits but the company can make it up in the next stage.

Characteristics and Marketing Strategies at Maturity Stage

At the end of a responsive growth stage, begins a stage of maturity where despite higher spending on the marketing program, there is no substantial growth in sales volume and the market is flooded with many competing products. In this stage, though the sales growth slows down, the stage in itself continues for a long period. Therefore, it poses a strong challenge to marketing managers.

The market suddenly experiences increased supply and so also the firm will have increased capacity and high level of inventory carrying cost due to slow movement of the products. The market experiences commoditization and competition brings down the prices, putting pressure on the profitability and liquidity of the firm. In the late maturity stage, the profits drop sharply.

This is a stage when the competitor's sales curve starts entering into the growth stage and customers start switching from the previous brand to the newer entries in the market.

Because of the intense competition and falling profits, not all companies can survive this stage. Thus, a number of proactive steps are needed to stay profitable.

Marketers can follow strategies like market modification, product modification and overall changes in marketing mix. In a market modification strategy, the companies have goals to increase the consumption; hence the companies look for new users, new market segments and increased usage among present customers. Here, the attempt is to get competitors' customers to buy your brand and enter into un-served territories and motivate people to consume more.

The other alternative strategy is to bring product modifications. In order to increase consumption and to attract more users, a company may attempt to improve product characteristics like improvements in quality, features and style. Maruti launched MPFI (Multi Point Fuel Injection System) in Maruti 800 and power steering in Maruti Esteem to bring noticeable product modification. Companies can also revamp their overall marketing mix. They can bring value-for-money propositions and organise contests, coupons and sales promotion programs to enrich the customer's overall experience and keep them for a longer adoption cycle.

Characteristics and Marketing Strategies at Decline Stage

There is a great saying that nothing lasts forever or all good things must come to an end. This is also applicable to successful products and services in the market. The sale of any product eventually dips. They may plunge to zero or continue at a very low level for some years. This indicates the stage of decline. There is either no profit or very low levels of profit. The intensity of competition comes down as many players will leave this market due to poor level of profit potential and they will search for newer pastures. This is the stage when the product is left with very few customers and these customers are called laggards. This is a stage when customer switch is the highest and many of the existing customers switch to newer and better brands in the market.

The firm reaches this stage due to strategic bankruptcy. A company may have a number of products introduced simultaneously but the extent of decline may not be the same for all products. Companies should therefore identify and pay more attention to aging products because the strategy for each product would depend upon its health. The health can be gauged by reviewing the sales, market shares and extent of profits. Based on these observations, a company can follow different strategies as explained below.

The company can decide to follow a strategy to *maintain* its position in the market and most likely in the territories where it is doing well. Hoping that with the passage of time, competition will drop out and the product will continue to sell, a company may decide to continue with the product. In Indian market, Modi Xerox, Global and

Network dropped the fax machines but Panasonic didn't. It continued to sell in India and achieved success due to the eventual dropping out of other key players.

Alternatively the company can decide to harvest the market. This strategy is aimed at reducing the overall costs including production, maintenance, advertising and sales force management costs and hoping that the product sales will be profitable for some time to come. Hindustan Motors continue to produce Ambassador despite the product being at a decline stage and the demand for passenger cars now shifting towards Tata Indica. It is doing so because it would like to harvest the brand value of Ambassador in the Indian market.

Eventually the firm will decide to *drop* the product from its portfolio. This is the end of the line for a particular product. However, it may be sold to another company if there is a corporate buyer and the new buyer can run the company with a profit. Dropping the product is a difficult decision as it involves various strategic and organisational issues. For example, Carona dropped Puma Shoes in the Indian market as the product entered the eventual decline stage in the market.

Check Your Progress

Fill in the blanks:

1. ______________ live in the minds of consumers and are much more than just a tag for their recognition and identification.
2. Brand ______________ is the situation in which consumers repeatedly prefer and continue to purchase the same brand within a product or service category.
3. Creating a unique, differentiated identity and image for some product boasting really unique attributes and benefits require focusing on brand ______________.
4. Better quality, features and superior performance of the basic product helps the marketer to grow at ______________ stage.
5. The ______________ stage has two distinct sub-stages, namely early growth and late growth.

6.17 LET US SUM UP

- Brand is a name, word, mark, or a combination thereof, used to identify some product or service of one seller and differentiate it from the competitors. Branding has both pros and cons.
- Brand equity is the added value that the consumer assigns to the products and services. Components of brand equity are brand loyalty, brand awareness, perceived quality and brand association.
- Brand position is that part of brand identity and value proposition that is to be actively communicated to the target audience which depicts advantages of the brand over competitors.
- A brand name is believed to indicate product's benefits, be memorable and help in reinforcing the belief and associations in the consumer's psyche. A brand name can be classified as descriptive, suggestive and free standing brand name.

- The brand sponsorship involves whether a brand should be a manufacturer's brand, private brand, partly manufacturer's brand or partly private brand.
- The brand development decision involves a set of decisions to add or maintain a number of brand elements to its product portfolio. It involves brand extension, sub-branding, master branding and family branding.

6.18 UNIT END ACTIVITY

Conduct a survey by interviewing 10 different people on how much importance they give to brand of a product which buying daily use products, clothes and cars Share outcome of your survey with colleagues in next session.

6.19 KEYWORDS

Brand: The name, word, symbol or a combination intended for identifying seller's product or service and distinguish them from other rivals.

Brand Name: That brand part consisting of a word, letter or group of words or letters that can be expressed

Brand Equity: Brand equity is the total accumulated value or worth of a brand.

Brand Image: The perception about a brand as reflected by the associations held in the consumer memory.

Brand Position: The component of brand identity and value proposition demonstrating advantage over competing brands and used to communicate to the target audience.

6.20 QUESTIONS FOR DISCUSSION

1. What is a brand?
2. What are the advantages of branding? What value does the organisation and customers get out of the branding process?
3. What are the disadvantages of branding? How do these disadvantages affect the consumers?
4. What do you understand by brand sponsorship?
5. Explain the concept of brand development.

Check Your Progress: Model Answer

1. Brands
2. Loyalty
3. Building
4. Introduction
5. Growth

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BLOCK III

UNIT 7

PRICE

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7.0 AIMS AND OBJECTIVES

After studying this lesson, you should be able to:

- Explain the various methods of pricing
- Discuss the idea of price simulation game
- Understand the process of deciding appropriate pricing strategy
- Explain how leaders, challengers and followers respond to price changes

7.1 INTRODUCTION

Once, price was the discount-marketer's tool. Price plays a crucial role in both commodity as well as branded product market. While customers choose products on the basis of price in a commodity market, the price elasticity plays a crucial role in deciding premium that each brand would charge in a branded market.

This long-neglected 'P' of marketing has become a potent tool for inducing growth in flat markets, rejuvenating market shares and exploding volumes. As premium segments shrink and margins collapse, the new marketer uses price as the strategy to reach out to the mass market, sacrificing mark-ups for volumes. Now, the time has come when product, promotion, positioning and packaging strategies must be led by price strategy. Revolutions in information technology, particularly internet technology also influence the way pricing decisions are being made.

7.2 MEANING OF PRICE

Price setting is a very critical area in marketing mix decisions of a company. It is the only element that generates revenues for the company, and all others involve cost.

Price represents the value that is exchanged in a marketing transaction. A marketer usually sells a specific combination of need-satisfying products or services.

Prices have impact on a company's profits and are important for its long-term survival. Price also has a psychological impact on customers and can reflect product quality and user status.

For most companies, setting prices can be a complex task involving both scientific analysis and intuitive trial and error. This is particularly true when a company launches a new product and there are no historical data or precedent available to know the customer expectations and readiness to pay for the particular product.

Price may be defined as the amount of money paid by the consumer for an exchange for combined assortment of a product and its accompanying service.

In very concrete terms it may be said that the price of an article or service is its monetary value, the amount it costs the buyer is not necessarily how much it is worth, in the sense of the items' intrinsic value. From an economic point of view, the price of a product or service can only be measured in terms of what people will pay for the offering, "Pricing", on the other hand, is the art of translating into quantitative terms the value of the product to customers at a point in time".

7.3 OBJECTIVES OF PRICING

Pricing decisions are usually considered a part of the general strategy for achieving a broadly defined goal. While setting the price, the firm may aim at one or more of the following objectives:

- ***Maximisation of profits for the entire product line:*** Firms set a price, which would enhance the sale of the entire product line rather than yield a profit for one product only. In this process, it is possible to maximise the profit for the entire product line.

- ***Promotion of the long-range welfare of the firm can also influence the pricing decision:*** The firm may decide to set a price, which looks unattractive to competitors and hence, the entry of competitors can be discouraged for a long period of time. In this way, the firm can take a decision for the long-term welfare of the firm rather than the short-term profit maximisation
- ***Adaptation of prices to fit the diverse competitive situations:*** The company may decide to go for different kinds of pricing strategies depending on individual product's product-market situation. The company will try to maximise the profit from a market where it has cash cows and invest in other markets where it has to stay put for long term benefits. It may decide to follow different kinds of product strategy for product portfolio members.
- ***Flexibility to vary prices in response to changing market condition:*** One cannot decide about prices in isolation, as the firm is only a member of the market. So it has to decide on prices in response to changing economic conditions. The macro economic conditions also influence the pricing decision.
- ***Stabilisation of prices and margins:*** The firm may decide to stabilise the prices and margins for long-term goals and price the products in a different way than they would have done with a profit maximisation objective.

Firms may pursue additional objectives as mentioned by Kotler. We present a small list of these objectives to augment the above list.

- ***Market Penetration:*** The firm may decide in favour of a lower price to penetrate deeper into the market and to stimulate market growth and capture a large market share.
- ***Market Skimming:*** The firm may decide to charge high initial price to take advantage of the fact that some buyers are willing to pay a much higher price than others as the product is of high value to them. The skimming pricing is followed to cover up the product development cost as early as possible before competitors enter into the market.
- ***Early Cash Recovery:*** This is an aggressive form of skimming pricing. Some firms try to set a price which will enable them to recover the cash rapidly as they may be financially tight or may regard the future as too uncertain to justify a delayed and smooth cash recovery. Companies with novel products but with less technological complexity prefer to recover the cash before competitors enter into this market.
- ***Satisfying:*** Companies may pursue a pricing strategy if it satisfies a satisfactory rate of return, although it is possible for another price level to give a higher return.

The pricing decisions depend on the motives of the manager. The motives of managers can be of different types. Executives may advance their personal positions at the possible expense of the firm's profitability. Thus in a professionally managed firm, persons at the helm of affairs may not be motivated solely by a desire to obtain the maximum long run profits for the firm.

7.4 IMPORTANCE OF PRICE IN THE MARKETING MIX

Price is the only marketing mix variable that generates revenue. All the other variables viz. product, place and promotion incur costs. After product, pricing plays a key role in the marketing mix. Through pricing, the organisation manages to support the cost of production, the cost of distribution and the cost of promotion.

Simplistically, price is the value measured in money terms in the part of the transaction between two parties where the buyer has to give something up (the price) to gain something offered by the other party or the seller. Pricing is a complicated element, which needs to reflect supply and demand, the actual value of the object, and the perceived value of it in the mind of the consumer. A price that does not reflect these factors and is either too high or too low will lead to unsuccessful sales. That is why an organisation's pricing will change according to circumstances and time. Pricing is of vital importance because of the following reasons:

Pricing as a Flexible Variable

Pricing changes can be made quickly and with almost no lead time if the business needs to make some product positioning changes or to counter a competitor's activities. In comparison, a change to the product or to a distribution channel can take months and sometimes significant cost inputs. Similarly any promotion decisions will also require additional financial input. Though it is important to plan for pricing changes and their impact on the brand and product perception, this can still be accomplished much faster than any other changes.

Define the Right Pricing

Any pricing decisions for a product need to be made through proper research, analysis and an eye on strategic objectives for the organisation and the product. A decision made too quickly with superficial assessment can result in a loss of revenue. A price below the perceived value can lead to both a loss in potential additional revenue and a target audience that judges the quality of the brand through price points. If this price is raised later on, the existing customers may feel like they are being unfairly burdened. A price set too high can result in potential buyers staying away altogether. Pricing is often done by a team of experts who spend time conducting research that considers all variables of the market and brand.

Pricing as a Trigger for First Impressions

In some product categories, a consumer will form a perception about its quality and relevance as soon as they see the price. Eventually, the decision to buy or not may be based on the perceived value of the entire product or marketing mix offering. But there is always a danger that the first impression triggered by the price point will either make the rest of the offering irrelevant or it will be a biased assessment.

Pricing as a Key to Sales Promotions

Sales promotions are often a short time price based offering such as a percentage reduction or a two in one type offer. These are meant to generate interest in the product or make use of a special occasion or event. Used wisely, this can be a useful method of increasing sales but the company must avoid the temptation to offer these special prices too often. In this scenario, buyers will put off purchasing the product till the next sales promotion of price reduction.

Some other significance of price for product and in marketing mix can be understood from following points:

- Price in combination with promotion becomes a strong tool for influencing buyers to buy products. It interests the buyers and highlights the image of the brand to increase sales. Sometimes organisations focus on other marketing mix elements by keeping the price constant based on recovering costs at certain percentage.
- Finalising price in combination with other marketing mix variables, sets guidelines and boundaries for management to set marketing strategies.

- Pricing also determines standard of living. The lower the prices in economy, the higher is the purchasing power in the hands of consumers. Price reflects purchasing power of the market.
- Price is a strong weapon against competitors.
- Price determines the profits on sales. It is a basis of generating profits. As it is the most flexible of the marketing mix variables. organisations exercise this freedom very often for defensive or offensive pricing strategies.
- Price influences two types of management decisions. First is setting price for a new product and second, adjusting the price of existing products basis the market situation, costs, etc.
- Depending on the marketing program, organisations use price in different ways – demand oriented strategy, cost oriented strategy, competition oriented strategy, and also because of ethical constraints.
- Price should be carefully set on basis its combination with the other marketing mix variables. The price on a product affects the market of another product in the product line from the same manufacturer. For example, a soap priced similar to soap from the same manufacturer which has different features will have impact on the sales of each other and the customer will have difficult time in making a choice. Price setting should be according to the product features and should accompany strong promotional activities like discounts, education about product features, etc.
- Price should be set in relation to the delivered value and perceived value of the product. Price also communicates the quality of the product. If a product is priced very low and its features communicated are better than the competitor, the customers may think that the product has low quality. In such cases, organisations have to invest heavily in promotional activities and communicate clearly highlighting the services associated like warranties, brand value, etc.
- Prices should be set in coordination with distributors. Most organisations strive to give higher profit margins to distributors as the distributors like wholesalers and retailers too aggressively promote the products to consumers.
- High promotional activities result in costs. Organisations have to set price basis the costs associated to advertising, public relations, etc. The organisations have to carefully analyse the promotional expenditure and decide if it will result in production and marketing economies of scale. This will reduce the unit cost and give freedom to make price changes.

7.5 PRICING METHODS

Various books propose a variety of pricing methods. We present herewith two relevant methods of pricing employed by practitioners, namely cost based methods and competition based methods. The following table explains each of these methods.

Table 7.1: Pricing Methods

Basis of Pricing	Methods of Pricing
Cost Based Methods	1. Cost-plus or Full-cost Pricing 2. Pricing for a Rate of Return, also called Target Pricing 3. Marginal Cost Pricing.
Competition Oriented Pricing	1. Going Rate Pricing. 2. Customary Prices.

In the first category of methods, prices are determined on the basis of costs. In the second category, prices are set on the basis of what competitors are charging, though it is not necessary to charge the same price as competitors are charging. The firm may seek to fix its price lower or higher than rivals' prices by a certain percentage.

7.5.1 Cost-plus or Full-cost Pricing

This is the most common method used for pricing. Under this method, the price is set to cover costs (materials, labour and overhead) and pre-determined percentage or profit. The percentage differs strikingly among industries, among member firms and even among products of the same firm. This may reflect differences in competitive intensity, differences in cost base and differences in the rate of turnover and risk. In fact, it denotes some vague notion of a just profit.

Let us discuss the factors determining the normal profit. Ordinarily margins charged are highly sensitive to the market situation. They, may, however, tend to be inflexible in the following cases:

- They may become merely a matter of common practice.
- Mark-ups may be determined by trade associations either by means of advisory price lists or by actual lists of mark-ups distributed to members.

Profits sanctioned under price control as the maximum profit margins remain the same even after the price control is discontinued. These margins are considered ethical as well as reasonable. Usually profit margins under price controls are set so as to make it possible for even the least efficient firms to survive. Thus, the margin of profits tends to be higher than what would be possible under competitive conditions.

Advantages of Cost-plus Pricing Method

A clear explanation cannot be given for the advantage and widespread use of full cost pricing, as firms vary greatly in size, product characteristics and product range. They also face varying degrees of competition in markets for their products. However, the following points may explain its advantages:

- Full-cost pricing offers a means by which fair and plausible prices can be found with ease and speed, no matter how many products the firm handles.
- Prices based on full cost look factual and precise and may be more defensible on moral grounds than prices established by other means.
- Firms preferring stability use full cost as a guide to pricing in an uncertain market where knowledge is incomplete. In cases where costs of getting information are high and the process of trial and error is costly, they use it to reduce the cost of decision making.
- In practice, firms are uncertain about the shape of their demand curve and about the probable response to any price change. This makes it too risky to move away from full-cost pricing.
- It is difficult, except ex-post, to identify and compute direct costs.
- Fixed cost must be covered in the long run and firms feel that if they are not covered in the short run, they will not be covered in the long run either.
- A major uncertainty in setting a price is the unknown reaction of rivals to that price. When products and production processes are similar, cost-plus pricing may offer a source of competitive stability by setting a price that is more likely to yield acceptable profit to most other members of the industry also.
- Management tends to know more about product costs than other factors, which are relevant to pricing.

Disadvantages of Cost-plus Pricing Method

Following are the commonly observed disadvantages of cost plus or full cost pricing method. A marketing manager should be sensitive to these issues before deciding in favour of such a method.

- It ignores demand - there is no necessary relationship between cost and what people will pay for a product.
- It fails to reflect the forces of competition adequately. Regardless of the margin of profit added, no profit is made unless what is produced is actually sold.
- Any method of allocating overheads is arbitrary and may be unrealistic given the nature of the product and the market in which it is being sold. Insofar as different prices would give rise to different sales volumes, units cost are a function of price, and, therefore, cannot provide a suitable basis for fixing prices. The situation becomes more difficult in multi-product firms.
- It may be based on a concept of cost, which may not be relevant for the pricing decision. Full-cost pricing ignores marginal or incremental costs and uses average costs instead.
- Cost-plus pricing is especially useful while deciding prices for public utility and for tailored or customised products. Situations in which cost plus pricing is useful.
- Product tailoring involves determining the product design after the selling price is determined. By working back from this price, the product design and the permissible cost is decided upon.
- This approach takes into account the market realities, by looking from the viewpoint of the buyer in terms of what he wants and what he will pay.
- Cost plus pricing is also helpful for pricing products that are designed to the specification of a single buyer. The basis of pricing is the estimated cost plus gross margin that the firm could have got by using facilities otherwise.
- It is also possible for monopoly buying, where the buyers know a great deal about suppliers' costs. They may make the products themselves if they do not like the price. The more relevant cost is the cost that the buying company would incur if it made the product by itself.

These reasons provide some explanation but do not justify it as the logical approach to pricing.

Cost-plus pricing method is widely used in India due to two special reasons.

- The prevalence of sellers' market in India till recently made it possible for the manufacturers to pass on the increases in costs to the consumers.
- Costs plus a reasonable margin of profit are taken into consideration for the purposes of price fixation in the price-controlled business in India.

7.5.2 Target Return Pricing

An important problem that a firm might have to face is adjusting prices to changes in costs. The popular policies that are often followed for deciding prices include revising prices to maintain a constant percentage mark-up over costs; revising prices to maintain profits as a constant percentage of total sales and revising prices to maintain a constant return on invested capital. The use of the above policies are illustrated below.

A firm sells 1,00,000 units per year at a factory price of ₹ 12 per unit. The various costs are given below:

Variable Costs	Materials	₹ 3,60,000
	Labour	₹ 4,20,000
Fixed Costs	Overhead	₹ 1,20,000
	Selling and Administrative	₹ 1,80,000
Total investment cash, inventory and equipment		₹ 8,00,000

Suppose, the labour and materials cost increases by 10 percent. So let us look at how we should revise price according to the above-mentioned three policies.

The above data reveal that costs are ₹ 10,80,000, the sales are ₹ 12,00,000 and the profit is ₹ 1,20,000. The profit percentages according to the three policies are:

1.	Percentage over costs	1,20,000/10,80,000 × 100 = 11.1
2.	Percentage on sales	1,20,000/12,00,000 × 100 = 10
3	Percentage on capital employed	1,20,000/8,00,000 × 100 = 15

The revised costs are ₹ 11,58,000 (₹ 10,80,000 + 36,000 + 42,000).

According to the first formula, we have to earn a profit of 11.1 percent on costs. Our revised profits should be ₹ 1,28,667 and sales volume on this basis would be ₹ 12,86,67. The selling price would, therefore, be ₹ 12.87 per unit.

Under the second formula, the profit should be 10 percent on sales. If sales are S, the profit would S/10 and the cost would be 9S/10. We know the cost and we have to find out the sales.

If 9S/10 = ₹ 11,58,000, S = ₹ 12,86,667

Therefore, the price per unit is ₹ 12.87

Under the third formula, we assume that the capital investment is the same. Therefore, the required profit is ₹ 1,20,000 (15 percent on ₹ 8,00,000). The sales value would then be ₹ 12,78,000 and the selling price per unit would be ₹ 12.78.

Most of the American firms start with a rate of return they consider satisfactory, and then set a price that will allow them to earn that return when their plant utilisation is at some 'standard rate' say, 80 percent. In other words, they determine standard costs at standard volume and add the margin necessary to return a target of profit over the long run.

Rate of return pricing is a refined variant of full-cost pricing. Naturally, it has the same inadequacies, viz. it tends to ignore demand and fails to reflect competition adequately. It is based upon a concept of cost, which may not be relevant to the pricing decision at hand and overplays the precision of allocated fixed costs and capital employed.

7.5.3 Marginal Cost Pricing

Both under full-cost pricing and the rate-of-return pricing, prices are based on total costs comprising fixed and variable costs. Under marginal cost pricing, fixed costs are ignored and prices are determined on the basis of marginal cost. The firm uses only those costs that are directly attributable to the output of a specific product. A pricing decision involves planning into the future, and as such it should deal solely with the anticipated and, therefore, estimated revenues, expenses and capital outlays. All past outlays which give rise to fixed costs are historical and shrunk cost.

With marginal cost pricing, the firm seeks to fix its prices so as to maximise its total contribution to fixed costs and profit. Unless the manufacturer's products are in direct competition with each other, this objective is achieved by considering each product in isolation and fixing its price at a level which is calculated to maximise its total contribution.

There are two assumptions behind use of such a method:

1. The firm is able to segregate its markets so that it is able to charge higher price in some market.
2. Lower price in others, and there are no legal restrictions.

Advantages of Marginal Cost Pricing

With marginal cost pricing, prices are never rendered uncompetitive merely because of a higher fixed overhead structure, or because hypothetical unit fixed costs are higher than those of the competitors. The firm's prices will only be rendered uncompetitive by higher variable costs, and these are controllable in the short run while certain fixed costs are not.

Marginal costs more accurately reflect future as distinct from present cost levels and cost relationship. When making a pricing decision one is more interested in changes in cost that will result from that decision. Marginal cost represents these changes, while total costs include fixed costs, which are not incurred as a result of the pricing decision.

Marginal cost pricing permits a manufacturer to develop a far more aggressive pricing policy than does full-cost pricing. An aggressive pricing policy should lead to higher sales and possibly reduced marginal costs through increased marginal physical productivity and lower input factor prices. However, before entering into a more differentiated and a more flexible pricing policy, it would be necessary to consider the impact of unstable prices on consumer goodwill.

Marginal cost pricing is more useful for pricing over the life cycle of a product, which requires short-run marginal cost and separable fixed cost data relevant to each particular stage of the cycle, not long-run full-cost data. Marginal cost pricing is more effective than full-cost pricing because of two characteristics of modern business:

- The prevalence of multi-product, multi-process and multi-market concerns makes the absorption of fixed costs into product costs absurd.
- In many businesses, the dominant force is innovation combined with constant scientific and technological development and the long-run situation is often highly unpredictable.

Disadvantages of Marginal Cost Pricing

Some accountants are not fully conversant with the marginal cost techniques themselves, and are not, therefore, capable of explaining their use to management.

In a period of business recession, firms using marginal cost pricing may lower prices in order to maintain business and this may lead other firms to reduce their prices leading to cut-throat competition.

With the existence of idle capacity and the pressure of fixed costs, firms may successively cut down prices to a point at which no one is earning sufficient total contribution to cover its fixed costs and earn a fair return on capital employed.

Inspite of its advantages, due to its inherent weakness of not ensuring the coverage of fixed costs, marginal cost pricing has usually been confined to pricing decisions relating to special orders.

iness situations requiring the use of marginal costing include marketing situations :e price is the primary determinant of an offer; where initial product acceptance is being sought to facilitate entry into a new market; where the product is being targeted to a low quality market segment; where price competition is intense, and when the price responsiveness of demand is high i.e., a little reduction in price may lead to a substantial increase in volume.

7.5.4 Going-rate Pricing

Instead of the cost, the emphasis here is on the market and market situation. The firm adjusts its own pricing policy to the general pricing structure in the industry. Where costs are particularly difficult to measure, this may seem to be the logical first step in a rational pricing policy. It may also reflect the collective wisdom of the industry.

This type of situation leads to price leadership. Where price leadership is well established, charging according to what competitors are charging may be the only safe policy. It may simply be a way in which firms try to escape the hazards of price in an oligopolistic market. It may be less costly and troublesome to the business than the exact calculation of costs and demand and has a practical advantage over a highly individualistic pricing policy.

Many big Indian companies have adopted a policy of following competitors, which implies that they follow a price set either by the market or by a price leader. It must be noted that 'going-rate pricing' is not quite the same as accepting a price impersonally set by a near perfect market. Rather, it would seem that the firm has some power to set its own price and could be a price maker if it chooses to face all the consequences. It prefers, however, to take the safe course and conform to the policy of others.

7.5.5 Customary Prices

Prices of certain goods become more or less fixed, not by deliberate action on the sellers' part but as a result of their having prevailed for a considerable period of time. For such goods, changes in costs are usually reflected in changes in quality or quantity. only when the costs change significantly, are the customary prices of these goods changed.

Customary prices may be maintained even when products are changed.

For example, the new model of an electric fan may be priced at the same level as the discontinued model. This is usually so even in the face of lower costs. A lower price may cause an adverse reaction on the competitors, leading them to a price war, as also on the consumers who may think that the quality of the new model is inferior. Going along with the old price is the easiest thing to do. Whatever be the reason, the maintenance of existing price as long as possible is a factor in the pricing of many products.

If a change in customary prices is intended, the marketing executive must study the pricing policies and practices of competing firms; behaviour and emotional make-up of the people of similar designations as him in those firms. Another possible way out, especially when an upward move is sought, is to test the new price in a limited market to determine the consumer reactions.

7.5.6 Price Quality Strategies

Companies can also follow a value pricing strategy. The customers perceive the products to be either highly priced, medium priced or low priced. Similarly they evaluate the product quality and place them as high, medium and low. Correspondingly, companies can have nine pricing strategies namely:

- Premium pricing strategy [high price and high quality (type-1)];
- High value strategy [high quality and medium price (type-2)];

- Super value strategy [high quality and low price strategy (type-3)];
- Over charging strategy [medium quality and high price (type-4)];
- Medium value strategy [medium quality and medium value (type-5)];
- Good value strategy [medium quality and low price strategy (type-6)];
- Rip off strategy [low product quality and high price (type-7)];
- False economy strategy [low quality and medium price strategy (type-8)]; and
- Economy strategy [low product quality and low price strategy (type-9)].

Strategies 1, 5 and 9 can all co-exist in the same market; that is one firm offers a high quality product at a high price, another firm offers an average quality product at an average price and still another firm offers a low quality product at a low price. All three competitors can co-exist as long as the market consists of three groups of buyers: those who insist on quality, those who insist on price, and those who balance the two considerations.

Positioning strategies 2, 3 and 6 represent ways to attack the diagonal position.

Positioning strategies 4, 7 and 8 lead to overpricing of the product in relation to its quality.

		High Price	Medium Price	Low Price
Product Quality	High	Premium Strategies 1	High-value Strategy 2	Super-value Strategy 3
	Medium	Overcharging Strategy 4	Medium-value Strategy 5	Good-value Strategy 6
	Low	Rip off Strategy 7	False Economy Strategy 8	Economy Strategy 9

Figure 7.1: Pricing Strategies and Price Quality

Companies follow premium-pricing strategy when they wish to skim the market. Both the quality of the product and price are high in this market. Though the number of customers in this market is less but they buy only premium products.

A high value strategy is a case where the customers find the product to be of high quality and medium price strategy and when the quality is high and price is low, people find super value in the product. This is a strategy where people are delighted due to high quality and affordable price.

When customers perceive the quality to be average and price to be high, then they may not buy the product in a free economy. In this case, the seller is believed to be over charging the customer.

A volume player who wants to cater to a large part of the market without diluting the brand image follows a medium value strategy.

In many cases, though the quality is medium but companies penetrate the market by charging a low price and customers buy products on the rationale of getting good value from business. Though they do not perceive the quality to be so great, still they buy due to lower price perception.

When the quality is perceived as low but the price is high, it is an unsustainable strategy and is called 'rip off' strategy.

When the price is medium and the quality is low, many times customers get duped due to a false perception of price being low. This is called false economy strategy.

When the marketer is at the bottom of the pyramid, he charges a low price for a low quality product to satisfy low value customers.

7.6 FACTORS AFFECTING PRICE DECISIONS

A firm's price decision is influenced by many internal and external factors. Internal factors are the factors that include elements within the organisation's boundaries. On the other hand, external factors are the factors that happen outside the business. The internal factors are cost of production, pricing policy, pricing objectives and marketing strategy. The external factors include customers, suppliers, middlemen, competitors and government regulatory agencies. Let us now discuss each factor in detail.

7.6.1 Internal Factors

The internal factors which affect the pricing decisions in a firm are as follows:

Costs

There are two types of costs—fixed costs and variable costs. Fixed costs are also known as overhead costs. They do not vary with production or sales level whereas, variable costs vary directly with the production level. These costs include raw material costs, components and packaging, and other inputs to be included in the product itself. They are called variable costs because they vary with the output level. Fixed costs and variable costs make up the total cost of production of a product.

Pricing Policy, Pricing Objectives, and Marketing Strategy

The *pricing policy* provides a general guideline to the divisional and product line managers with regard to the price to be charged for the product or service offered to the target market.

The pricing strategy delineates the *pricing objectives* in terms of its role in the overall marketing strategy of the firm. The pricing strategy should cover the extent to which the price of the product will be used to compete in the target market place vis-à-vis the other strategic variables of mix.

A firm identifies its target market and approaches with a tailor-made marketing mix of variables. The combination of strategic variables (product, price, promotion and place) is the marketing strategy of the firm with respect to the specific target market and this strategy will vary from one market segment to another. The marketing strategy of a firm consists of several pricing strategies which are as follows:

- ***Survival price:*** A company sets survival price as its pricing objective when there is intense competition and changing consumer wants in the target market. Typically, a survival price is a low pricing strategy to maintain demand for the firm's product.
- ***Current profit maximisation price:*** This price is contradictory to the survival price. Under this, the firm charges high price that will amplify current profit of the firm. This is achievable for a company when there is good demand for its products.
- ***Market share price:*** An organisation which holds a high market share in the market may enjoy lowest costs and maximum long-term profits. A market share leader in the market can charge a low price to maintain and to enlarge its market share.

- ***Product quality price:*** A firm possibly will charge a high price to make an impact on quality of the product. Usually, customers link 'high price' with quality. The price is used as a factor of quality of the product.

7.6.2 External Factors

There are numerous factors that influence the company but are not controlled by the company. These factors heavily impact the pricing decision of the company. Hence, it becomes utmost important for the marketers to understand these factors and conduct research to know what is coming off in each market that the company serves as the effect of these factors significantly differs from market to market. The important external factors that act upon the pricing decision of a firm can be listed as follows:

Customers

The customer's loyalty allows the company to sell their products and ensure deeper market penetration. The customers stay loyal as long as the price charged to them is reasonable and acceptable. If the firm wants to initiate a price change, particularly, an increase in the existing price level, it should be able to predict the reactions of its customers.

Suppliers

They ensure hassle-free supply of raw materials, components, spares, etc. and they closely monitor the price charged for the products. Even a slight increase in the existing price by a company would certainly invite reactions from the suppliers of raw materials. They may demand a higher price for their raw materials.

Channel Members

They are the wholesalers, retailers, dealers and distributors. A firm has to take into account the reaction of the channel members while taking price decisions. Generally, the channel members work on a commission basis. When a firm charges a higher price for its products, they may respond negatively.

Competitors

A firm has to consider how competing firms would react to its price. The competitors' reaction depends upon how the market has been structured.

Government Agencies

There are many government regulatory agencies both at the central and at the state level that monitor price fluctuations, particularly, when the product is an essential item. These agencies generally react in public interest. Essential commodities such as sugar, edible oils, drugs, etc. come under the vigilance of government agencies.

7.7 PRICE SIMULATION GAME

Price war is a term used in business to indicate a state of intense competitive rivalry accompanied by a multi-lateral series of price reduction. Once a competitor lowers its price, then others will lower their prices to match. If one of them reduces their price again, a new round of reductions starts. Let us understand the price simulation game through this example:

In September 2001, Hewlett-Packard acquired Compaq for around $25 billion in HP stock. Investors hated the idea. Both HP's and Compaq's stock fell about 25% in few days after the announcement, so the deal was quickly valued under $20 billion. The New York Times described the deal as bringing together two struggling computer companies into one giant with twice the problems.

During merger discussions, representatives from both HP and Compaq talked about the $2.5 billion dollar yearly cost savings that would result from the merger.

It surprised me that there was so much money to be saved by combining two huge companies. Even before merging HP and Compaq were each big enough to capture any economies of scale in PC manufacturing. A study by McKinsey showed that up to 40% of mergers fail to capture identified cost synergies. But assuming that they succeeded in saving $2.5 billion, on combined sales of $87 billion, $2.5 billion means they will improve profitability by about 3%. Why all this emphasis on cost savings? Why not talk about revenue growth or new technologies?

The problem faced by HP and Compaq was the same problem faced by Gateway and IBM-that is, Dell Computer. Over the past few years, Dell has created an extraordinary competitive advantage by becoming the most efficient PC manufacturer.

Dell's efficiency comes from two factors. First, they sell directly to their customers so their distribution channels are simple and cheap (no dealer markup). Second, they build-to-order, which keeps inventories low. Low inventories mean that, when Intel drops the price of its processors, Dell doesn't have a lot of the old expensive processors sitting around. Dell can reduce the prices on its computers faster than its competitors because the components that make up those computers are the latest and cheapest. So far, no other PC maker has been able to match Dell's cost structure.

In February 2001, Dell launched a campaign to become the largest competitor in the PC industry. It announced that it was intentionally undercutting competitors' prices by 10% to quickly grab market share. That announcement, along with the well-known fact that Dell has a cost advantage over its competitors, was a signal to the rest of the PC industry that if others tried to match Dell's prices they would be playing a game they couldn't win.

Dell's announcement and strategy is similar to the "low priced guarantee" announcement popular among electronics retailers. A low priced guarantee tells your competitors, "If you try to undercut our prices, we will drop ours even further". Of course, this kind of threat has to be backed up by the ability to actually sustain low prices without going out of business. The ability to sustain low prices is exactly what Dell has and why they are difficult to beat.

From a game theory perspective, the problem is a little like the Prisoner's Dilemma, except that in the classic prisoner's dilemma, each party has the same to lose but, in this game, Dell knows that HP with Compaq has more to lose. A threat by HP and Compaq to match Dell's prices isn't credible because HP and Compaq can't sustain losses forever.

From a game theoretic perspective, HP's and Compaq's dilemma can be represented as a 2 x 2 matrix:

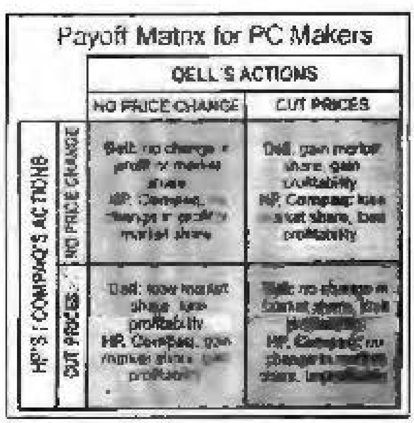

Figure 7.2: Price Simulation Game

And this game isn't played just once. It's repeated over and over, where the outcome from the last round becomes the status quo for the next round. As long as Dell has a lower cost structure Dell will always win when HP and Compaq compete on price.

Looking at the news after Dell's announcement, you can see how the price war played out. In April 2001, after the February price cuts, Dell became the world's largest PC maker, surpassing Compaq in market share. In May, HP and Compaq responded to Dell with price cuts of their own, throwing all competitors into the lower-right quadrant.

Source: forio.com

7.8 DECIDING APPROPRIATE PRICING STRATEGY

Managers can set prices as an addition to what cost they have incurred in developing and marketing the product. In many instances, price is the rupee equivalent of the value of the company's product. It is also the money that the consumer is willing to pay for ownership of the product. Price has different connotations. We will use the value based model in which price is equivalent to the value that the customer is willing to acquire by paying its rupee equivalence for ownership or the right to usage after the purchase. Companies decide about prices in many ways depending on the cost structure, market structure, nature and stage of product life cycle and the nature of competition in the market. We will discuss some of the general considerations that managers follow while deciding on prices.

Pricing decision involves the following:

7.8.1 Deciding the Pricing Objectives

Developing pricing objectives is necessary because all subsequent decisions are based on objectives. Objectives must be consistent with company's overall objectives and marketing objectives. As stated earlier, companies generally have multiple pricing objectives keeping in view their short-term and long-term interests. No company can remain satisfied with just one unchanging pricing objective. All companies typically alter their pricing objectives over time in response to changes occurring in the market-place. In terms of priority of objectives, most companies set their pricing objectives in terms of profit optimisation, market share or return on investment.

7.8.2 Determination of Demand

Demand determination of a product is the responsibility of marketing manager, aided by marketing research personnel and forecasters. Demand and competition typically set the upper limits of price. Demand forecasts furnish estimates of sales potential of a product reflecting the quantity that can be sold in a specified period. These estimates help in examining the relationship between product's price and the quantity likely to be demanded.

For most products, there is inverse relationship between price and the quantity demanded. Higher the price, lower the demand and vice versa. As price goes down, the quantity demanded goes up. When the price is raised, the quantity demanded goes down. This fundamental relationship continues as long as the marketing environment, consumer's buying power, willingness to purchase and authority to purchase remains stable.

The pricing policy of a firm would depend upon the elasticity of demand as well. If the demand is inelastic, it would not be profitable for the firm to reduce its prices. On the other hand, a policy of price increase would prove profitable if the demand is inelastic. Conversely, if the demand is elastic, it is a policy of price reduction rather than a policy of price increase, which would be profitable for a firm to adopt.

7.8.3 Estimating the Costs

Costs have to be taken into consideration like many other important factors In fact, in the long run, prices must cover costs. If. in the long run, costs are not covered. manufacturers will withdraw from the market and supply will be reduced which, in turn, may lead to higher prices. The point that needs emphasis here is that cost is not the only factor in setting prices. Cost must be regarded only as an indicator of the price, which ought to be set after taking into consideration the demand and the competitive situation. It must be noted, however, that cost at any given time represents a resistant point to lowering of price. Again, costs determine the profit consequences of the various pricing alternatives. Cost calculations also help in determining whether the product whose price is determined by its demand is to be included in the product line or not. What cost determines is not the price but whether the product in question can be profitably produced or not.

But what are the relevant costs for pricing decisions? Problems are more complex in a multi-product firm. For pricing decisions, relevant costs are those costs that are directly traceable to an individual product. Ordinarily, the selling price must cover all direct costs - manufacturing and non-manufacturing, variable and fixed – that are attributable to a product. In addition, it must contribute to the common costs and realisation of profit. But it may not always be possible to do so.

For a short period of time, it is tolerable for the price of a product to do no more than cover its direct costs and even only the direct variable costs. This may be the case when a new product is introduced. The initial direct promotional cost is usually high in relation to the sales volume, and special price concessions are granted in connection with introductory offers.

In such a case, a negligible contribution or a no contribution to common costs in the short run is accepted in anticipation of long-run profits. In other cases. a very low contribution for one or more products may be accepted for want of a more profitable alternative. A low contribution is better than none at all.

In the long-run, the aggregate revenues from all products must cover not only direct costs but also contribute towards common costs. Ideally, each product should make significant contribution to common costs; but it is not possible to state any general rule for determining satisfactory or unsatisfactory contribution. If factors of demand and/or competition prevent a firm from setting a price for one of its products that will cover direct costs, there may be no alternative but to discontinue the product

If a competitive price does cover direct costs and yield some contribution towards common costs, the question arises: 'how high must that contribution be' to justify the long-run continuance of a particular product in a company's product line? The question can be answered in the light of the available alternatives. If the product is discontinued, are there others, which may be substituted for it so that there is a higher contribution to common costs? What effect will the discontinuance of this product have upon the demand for other products in the line? The elimination of one product from the line may cause the loss of sale of other complementary products.

Product-pricing decisions should, therefore, be made with a view to maximise company profits in the long run. An important question that arises at this stage is: 'How can the common costs be covered, if individual prices are set in consideration of direct costs only?' The point to be noted here is that covering of directs costs is only a starting point in the pricing decision. Factors of supply and demand and competition may permit prices, which will yield very substantial contribution to common costs. Again, a low contribution from a single product does not necessarily mean that the price is too low or that the product ought to be discontinued.

If the economic determinants of price are such that the combined prices for all of a company's products are insufficient to cover common costs in the long run, the conclusion is not that the individual prices are wrong but rather that the firm is economically inefficient. Such a firm must either improve its operating efficiency or cease operations and wind up.

Example: Suppose that unit costs of producing a product are ₹ 100 (taking into account your fixed and variable costs). If the desired profit per unit is 20 percent, then prices will be set at price at ₹ 120 per unit.

You may also determine how many units you will need to sell to meet a profit goal by using the following formula.

Break-even Unit Volume = (Fixed Costs/Unit Contribution Margin)

Where, Unit Contribution Margin = Selling Price per Unit – Variable Cost per Unit.

7.8.4 Analyzing Competitors' Cost, Prices and Offer

Examining the market demand and company costs, a range of possible prices can be considered. However, the company must also examine the cost, prices and possible responses of competitors in the industry. Learning, competitors' costs, prices and offers is an ongoing function of marketing research. When one company dominates an industry, it may set the tone for price decisions in the industry, such as De Beers Consolidated Mines Ltd., or Intel in case of computer processors

The company must appreciate that other companies in the industry can change their prices in reaction to prices set by the company. Obviously, the nearest competitor is the first choice to consider for setting a price.

The first step is to ascertain what positive differentiation features the company's offer contains and not offered by the nearest competitor.

The second step is to ascertain the worth of additional positive features to consumers and this worth should be added to the competitor's price to set the company's product price. If the worth of positive differentiation features of competitor's product is more and the company's product does not have those features in its offer, then the value should be subtracted from competitor's price for setting the company's product price. This exercise can help to decide whether to keep the price higher, or lower than the competitor, or the same.

7.8.5 Selecting a Pricing Policy

A pricing policy is a course of action framed to affect and guide price determination decisions. These strategies help in realising pricing objectives and understanding the pricing implications in marketing mix, new product introductions, competitive situations, government pricing regulations and economic conditions. More than one pricing strategy may be selected to address the needs of different markets or to take advantage of opportunities in certain markets.

There are many different strategies adopted by companies to attain pricing objectives. Some of the important ones and often used are discussed here.

New Product Pricing

The base price of a new product is easily adjusted in the absence of price control by government. A pioneer can set the base price high to recover product development costs quickly. While setting the base price, the company considers the threat from the competitors, the strength of entry campaign, and its impact on the primary demand. If the company concludes that competitors will enter with heavy campaign, with limited effect on primary demand, then the company may opt for penetration pricing policy and set a low base price to discourage competitors' entry.

- ***Price skimming:*** It refers to charging the highest price from the customers who are ready to pay premium for the product. This approach offers flexibility to the pioneer in the product's introduction stage because the demand tends to be inelastic during most of this period due to less competition. Skimming approach generates much needed cash flow to offset high cost of product development. Price skimming can generate quick returns to cover up the product's research and development costs. This strategy restricts product's market penetration because only the most desirous customers buy the product. Possibility of earning large margins encourages competitors to enter the market.
- ***Penetration pricing:*** This pricing approach requires the price to be set less than the competing brands and aims at market penetration to capture large market share quickly. Companies adopt this strategy when the demand tends to be elastic. Sometimes companies use penetration pricing to rapidly capture a large market share. Increased demand makes it necessary to produce more and this decreases per unit production costs. Low unit production cost puts the marketer in an advantageous position of further decreasing the price, and thereby making it difficult for aspiring new competitors to enter the market. Besides, a low unit price is likely to be less attractive to competitors because the lower per unit price results in lower per unit profits. With this approach it becomes difficult to raise price subsequently. Some marketers initially skim the market and later set a penetration price. A lower price makes the market less attractive to potential new entrants.

Psychological Pricing

Psychological pricing approach is suitable when consumer purchases are based more on feelings or emotional factors (such as love, affection, prestige, self-image, etc.) rather than the rational factors. Price sometimes serves as a surrogate indicator of quality. Technological advancements are making product differentiation difficult and many companies attempt to differentiate their offers based on non-functional product attributes, such as image and lifestyle, etc. Psychological pricing is not appropriate for industrial products. Marketers set artificially high prices to communicate a status or high quality image. This pricing method is appropriate for perfumes, jewellery, autos, liquor, ready-to-wear garments, etc. Acer and Sony have adopted this type of pricing for their range of Ferrari and Vaio Lifestyle notebook PCs. Apple has adopted this method of pricing for its high-end Power Book laptop computers. This pricing method requires creation of strong brand image through promotion programmes that reinforces the brand's quality and image.

Odd-Even Pricing: Marketers sometimes set their product prices that end with certain numbers. The assumption is that this type of pricing helps in selling more products. It is supposed that if the price is ₹ 99.95, consumers don't view it as ₹ 100 and are attracted more by odd prices rather than even. This assumption is not supported by substantial research findings, but still odd prices seem to be far more common than even prices.

Promotional Pricing

As the name suggests, these techniques are considered as an important part of sales promotions. Some of these techniques include loss leader pricing, special event pricing, low-interest financing, longer payment period, cash rebates, free auto insurance, warranties, increased number of free services, etc. Generally, these techniques do not lead to significant gains because most competitors can copy them. To illustrate, three techniques are briefly discussed below:

1. ***Loss Leader Pricing:*** Sometimes large retail outlets use loss leader pricing on well-known brands to increase store traffic. By attracting increased number of consumers to store the retailers hope that sales of routinely purchased products will rise and in turn increase sales volume and profits. Firms whose brands are chosen as loss leader oppose this approach as the image of their brands is diluted.

2. ***Superficial Discounting:*** It is superficial comparative pricing. It involves setting an artificially high price and offering the product at a highly reduced price. The communication might say, "Regular price was ₹ 495, now reduced to ₹ 299". This is a deceptive practice and is often used by retailers. Occasionally we come across advertisements that show ₹ 495 crossed (X) and a fresh price written as ₹ 250.

3. ***Special Event Pricing:*** This illustrates price cuts for special situations or seasonal variations to attract consumers. For example, before the beginning of a new session for young children at school, we see ads of shoes generally viewed as part of uniform.

7.8.6 Final Price Decision

Final price setting is guided by company's pricing policies. The final price is set according to company's pricing objectives and the needs and wants of target customers to accomplish the marketing and company objectives.

7.9 RESPONSE TO PRICE CHANGES BY LEADER, CHALLENGER AND FOLLOWER

The marketing manager should try to find out the reasons for competitor's price changes. If he can figure out what objective a competitor is trying to achieve by a price change, he can plan well and decide his response strategy. He should also take note of the implications of competitor's increase as well as decrease in price levels.

If it is an increase then he stands to lose only possible additional profits and may gain physical volume sitting tight with his present price; if it is a cut, he stands to lose volume, market position and profits.

If it is a short-run move, to clear out an overstock, for example, he can probably ride it out without drastic action.

If the trade is highly price conscious, the marketing manager cannot wait to see what happens and should react quickly.

If the competitor outweighs heavily on financial strength, the firm may not be able to afford the risks of a price war with him, although he probably will not take drastic action if the marketing manager merely meets his new price. He should try to find out answers to the following questions mentioned in the box before responding to a competitor's price change.

Box 7.1: Questions to Answer before Responding to a Competitor's Price Change

1. Why did the competitor change his price?
2. Is the competitor's change an increase or decrease in price?
3. Is this change a long run or a short run affair?
4. How price conscious is the trade with respect to the product?

Contd.

5. If we allow ourselves to be at a price disadvantage on this product, will this affect the sale of our other products?
6. If we meet or go below the competitor's new price, what will he do about it?
7. How strong is the competitor financially, production-wise and market-wise in comparison to our firm?
8. If we do not meet a competitor's new price, how much physical volume are we apt to lose and what will this do to our costs?
9. How much is the competitor making of his price change publicity-wise and sale promotion-wise?

7.10 DISCOUNTS AND REBATES

A discount is a reduction from the list price given by the seller to the buyer. Buyers who use discounts usually give up some part of the marketing mix included in the list price - such as service. Quantity discounts are discounts that encourage customers to buy in large amounts. Cumulative quantity discounts give a reduction in price for large purchases over a given period, such as a year. Cumulative quantity discounts are used to encourage repeat buying. Companies may use them to try to develop closer, ongoing relationships with customers. Non-cumulative quantity discounts give a reduction in price when a customer buys a larger quantity on an individual order. For example, a store might give a free bottle of shampoo with every two bottles purchased. Discounts that encourage buyers to buy earlier than present demand requires are known as seasonal discounts. For example, many beach resorts offer summer holiday discounts and many ski resorts offer winter holiday discounts. Phone calls made at offpeak times are also seasonal discounts. Most business sales are made on credit. The seller sends an invoice to the buyer's accounting department, which processes it for payment. Usually, the invoice states when payment is due. Net means that the payment for the face value of the invoice is due immediately - net 30 means that payment is due in 30 days.

A cash discount gives a reduction in price if the bill is paid quickly. For example, if a buyer pays within 10 days, he or she may receive a 5% discount. Sellers like to use cash discounts because they provide a quick turnover and improve cash flow. Sellers sometimes prefer cash discounts to credit card services, which can take up to 7% of the revenue for each sale and are sometimes slow to process payments. A trade discount is a traditional list price discount given to channel members for the job they do. For example, a clothes manufacturer might give retailers a regular discount of 10% to cover their retailing costs. A sale price is a temporary discount from the list price. Marketing managers might use sale prices to respond to changes in the market. For example, a retailer might use a sale to meet a competing store's price. Sale prices can also be used to reduce inventory and encourage middlemen to carry a product. Constantly changing prices can confuse customers and weaken brand loyalty. Some companies avoid high list prices and discounts altogether. Instead, they use everyday low pricing that sets a low list price, which the customers can rely on. Allowances are reductions in price given to final consumers or channel members for doing something or accepting less of something. Advertising allowances are price reductions given to channel members who advertise or promote the product in return. For example, a toy company might give its retailer a 2% advertising allowance. The retailers can buy the toys for 2% less than the list price as long as they use the 2% saving on local advertising. A stocking allowance is a price reduction given to middlemen in return for more - or better - shelf space. Stocking allowances are used to get supermarket chains to handle new products. Push money (or prize money) allowances are cash payments given by manufacturers or wholesalers to retail salespeople who aggressively sell certain items. Push money is generally used to encourage sales of new, slow-moving, or high-margin products, such as furniture, consumer electronics, clothing, and cosmetics. A trade-in allowance is a price reduction given for used products when similar new products are bought. Trade-ins are an easy way for marketing managers to lower the final price without reducing the list price. Many producers offer discounts to consumers through coupons. Consumers who present coupons to retailers get a reduction of the list price. Coupons are usually used to sell consumer packaged goods. Retailers honour coupons because they increase sales and they are usually paid for the trouble of handling the coupon.

A rebate is a refund paid to consumers after a purchase. Rebates can be used on both high and low-priced items. Rebates are a way of ensuring that final customers - not the middlemen - get the price reduction. Also, consumers often buy products that offer a rebate but forget to claim it.

Check Your Progress

Fill in the blanks:

1. Price also has a ________________ impact on customers and can reflect product quality and user status.
2. Rate of return pricing is a ________________ variant of full-cost pricing.
3. _______________ prices may be maintained even when products are changed.
4. ________________ factors are the factors that include elements within the organisation's boundaries.
5. The ________________ of a firm would depend upon the elasticity of demand as well.

7.11 LET US SUM UP

- The price of the product of a firm constitutes an extremely important element in its marketing-mix. Pricing is of great importance to both the producer/seller and the consumer.
- The price of a product affects other components of the marketing-mix of a firm. A firm will improve the quality of a product, increase the number of accompanying services and spend more on promotion and distributioo, if it feels that it can sell its product at a price high enough to cover the cost of these expenses.
- The price structure of a firm is a major determinant of its success as it affects the firm's competitive position and its market share. If prices are too high, business is lost; if prices are too low, the firm may not make enough to run the business in the long-term. It has an important bearing on the firm's revenue and net profit. With the help of price, the firm can make an estimate of its revenue and profit. Profit is equal to revenue over cost.
- Price also helps in determining the quantum of production that a firm should carry. The management of a firm can make estimates of profits at various levels of production and prices to choose the best possible action for long-term goals of the organisation
- Prices can be decided by analysing the firm's costs through different pricing methods like full cost methods. target return pricing method and marginal cost method.
- These methods do not take care of the market condition and current market structure for making a decision. However, the second category of methods is

competition based or market based methods, in which the prices are decided on the prevailing market condition and customary pricing methods.

- There are specific pricing methods like value pricing, sealed bid pricing, price-quality based pricing and psychological pricing.
- The marketer needs to initiate price changes as well as respond to competitor's price changes, failing which he cannot manage the emerging market opportunity or the threat raised due to competitor's moves.

7.12 UNIT END ACTIVITY

Appropriate prices of product have an impact on sales of product and profits of firm. Clarify this statement with the help of a PowerPoint presentation quoting suitable scenario and examples of the same.

7.13 KEYWORDS

Price: Price is the exchange value of goods and services in terms of money.

Cost-plus Method: Under this method, the price is set to cover costs (materials, labour and overhead) and pre-determined percentage or profit.

Target Return Pricing: In this method, the firm decides the target return that it expects out of business and then decides prices.

Marginal Cost Pricing: Under marginal cost pricing, fixed costs are ignored and prices are determined on the basis of marginal cost.

Going-rate Pricing: In this method, the firm adjusts its own pricing policy to the general pricing structure in the industry.

Customary Prices: Prices of certain goods become more or less fixed, not by deliberate action on the sellers' part but as a result of their having prevailed for a considerable period of time.

Perceived Value Pricing Method: In this method, prices are decided on the basis of customer's perceived value. They see the buyer's perceptions of value, not the seller's cost as the key indicator of pricing. They use various promotional methods like advertising and brand building for creating this perception.

Value Pricing: In this method, the marketer charges fairly low price for a high quality offering. This method proposes that price represents a high value offer to consumers.

Sealed Bid Pricing: In this method, the firms submit bids in sealed covers for the price of the job or the service. This is based on firm's expectation about the level at which the competitor is likely to set up prices rather than on the cost structure of the firm.

Psychological Pricing: In this method, the marketer bases prices on the psychology of consumers. Many consumers perceive price as an indicator of quality. While evaluating products, buyers carry a reference price in their mind and evaluate the alternatives on the basis of this reference price. Sellers often manipulate these reference points and decide their pricing strategy.

Odd Pricing: In this method, the buyer charges an odd price to get noticed by the consumer. A typical example of odd pricing is the pricing strategy followed by Bata.

Geographical Pricing: This is a method in which the marketer decides pricing strategy depending on the location of the customer. Multinational firms follow such a pricing strategy as they operate in different geographic locations.

7.14 QUESTIONS FOR DISCUSSION

1. What are the general objectives of pricing for an organisation?
2. Compare cost based method, target return method and marginal cost method of pricing.
3. What do you mean by going-rate pricing?
4. State value pricing strategy.
5. Briefly discuss price simulation game.
6. Discuss the steps in setting up of a price.
7. How should the firms respond to competitors' price changes?

Check Your Progress: Model Answer

1. psychological
2. Refined
3. Customary
4. Internal
5. Pricing policy

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UNIT 8

DISTRIBUTION CHANNELS AND PHYSICAL DISTRIBUTION

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8.0 AIMS AND OBJECTIVES

After studying this lesson, you should be able to:

- Explain how distribution systems evolved
- List the significance and functions of channel members
- Explain the determinants of channel cost
- Discuss the factors affecting channel selection
- Know the distribution strategies

8.1 INTRODUCTION

Management of distribution is another 'P' (place) in marketing. This involves processes to place the finished goods from a manufacturer to a customer for final consumption and usage. This encompasses flow of goods and ownership from manufacturer to the customers. It is important in marketing to make goods available at customer points not only in good numbers but also at the right time. Here right time means the time when the customer is ready to buy the product. In direct marketing model, the manufacturer also tries to remove the intermediaries completely and recruit their own sales force for serving customers. Though maintaining a direct marketing network is a costly affair it provides competitive advantage to the company, as it will have a greater control over the network. It is crucial to ensure availability of goods and services to customers when they want, at places they want, and in the right quantities. The third 'P' of traditional marketing mix represents 'place', the location or the point of product availability. Place decisions concern marketing channel or distribution channel arrangements. This is an integral part of satisfaction delivery to customers and marketing channel arrangements can have dramatic implications for competition in a product market. Most marketing channels are composed of intermediaries. These intermediaries or channel members include firms and individuals such as wholesalers, retailers, etc. that facilitate the distribution of goods or services to the customer.

8.2 EVOLUTION

After a product has been produced, there was a need to make those products available to the consumers. This was a daunting task as consumers were widespread. Thus, came into existence system of distribution/distribution management. Every marketing activity starts with the customer and ends with the customer. The customer is the ultimate target for a marketer. The availability of the product in the market depends on the efficacy of distribution channel. Therefore, the distribution channel plays a significant role in the marketing activities. The success of a company's marketing effort depends upon its command on the distribution network. Once the product is developed and priced, the marketing manager should now plan to develop distribution strategy and design distribution channel to reach customers. The company can reach customers either directly through its own sales force (called direct marketing) or through a set of intermediaries and channel members (called indirect marketing). Each of these alternatives has advantages and disadvantages. In this lesson, we will discuss how the company selects channel members, then designs distribution channels and decides what function each member of the channel performs in the market place.

A marketing channel is a system of relationships existing among businesses that participate in the process of buying and selling products and services. Channel intermediaries are those organisations, which connect the manufacturer with the customers and help in the distribution of the product. The intermediaries are involved in taking physical ownership of the product, collecting payments and offering after sales service. All these activities involve large amount of risk and producers should suitably compensate the channel members for these activities.

Marketing channel management refers to the choice and control of these intermediaries. As more and more responsibility is passed onto the intermediaries, the marketing organisation loses control over the channel and moves away from the customers. One of the key issues is the increasing influence of network of intermediaries and management of the power and conflict arising out of the role and responsibility between the producer and the channel members and also among the channel members. Retailers have come to stay as one of the dynamic players in the distribution management function and in the current Indian scenario, it is one of the more challenging tasks for business managers to handle the direction and magnitude of growth in Indian retailing industry.

So every producer wants to link his business operations with customers through a network of channel members to fulfill the overall objective of the firm. These sets of marketing intermediaries are called channel members or channel participants. The distribution channel is the route taken by the title of the goods as they move from the manufacturer to the end user. These are envisaged as systems of economic distribution through which a producer of goods delivers them in the hands of end users.

These intermediaries act as middlemen between the producer and the customer in the distribution system. They help in transfer of title of goods from the producer to the customer. Though transfer of title is also possible through direct marketing, like the case of Eureka Forbes, which does not use intermediaries, but for many companies it will be an expensive affair. The company sells its products directly to the customer and does not entertain any intermediaries. We can say that whosoever is engaged between the producer and the consumer is a member of the distribution channel.

8.3 SIGNIFICANCE OF CHANNEL MEMBERS

While on the surface it may seem to make sense for a company to operate its own distribution channel (i.e., handling all aspects of distribution) there are many factors preventing companies from doing so. While companies can do without the assistance of certain channel members, for many marketers some level of channel partnership is needed. For example, marketers who are successful without utilising resellers to sell their product (e.g., Dell computers sells mostly through the Internet and not in retail stores) may still need assistance with certain parts of the distribution process (e.g., Dell uses parcel post shippers such as FedEx and UPS). In Dell's case creating their own transportation system makes little sense given how large such a system would need to be in order to service Dell's customer base. Thus, by using shipping companies Dell is taking advantage of the benefits these services offer to Dell and to Dell's customers.

8.4 FUNCTIONS OF CHANNEL MEMBERS

Most manufacturers do not sell their products directly to end-users. Between the end-user and the producer, there are channel members performing a variety of functions. Some of these resellers such as wholesalers and retailers purchase from producers, take ownership title, and in turn resell the products to parties or consumers at the next level. They are called merchants. In contrast brokers, agents, and producer's sales persons search and negotiate with buyers on behalf of the producer and do not acquire ownership title to merchandise. Other channel members work as facilitators in the process of distribution and include transporters, privately owned warehouses, banks, and others who neither negotiate with buyers or sellers on behalf of producer nor take ownership tile of merchandise.

A single channel member may perform all these functions in certain situations. However, in most of the situations, channel members at different levels are involved in performing the following functions jointly:

- ***Channel Members Create Utility:*** Marketing channels create time, place and possession utility. Time utility refers to making products available to customers when they want them. They create place utility by making products available in locations, where customers desire them to be available for buying. Possession utility means customers having access to obtain and have the right to use or store for future use. This may occur through ownership or some arrangements such as rental or lease agreements that entitle the customer the right to use the product.

- ***Channel Members Facilitate Exchange Efficiencies:*** Channel members offer exchange efficiencies and help reduce the exchange costs by providing certain functions or services. Let us assume that three customers seek to buy products from four producers. If there are no middlemen involved, the total transactions with three customers will be twelve. If these four producers sell to one reseller, the total transactions for producers will come down to four (one for each producer), and in turn the reseller will handle three transactions with customers. The costs of three transactions for each producer are likely to be more than just one transaction with reseller for each producer. In this situation, just one reseller serves both producers and the customers. Cost is a major factor coupled with better service to customer needs for using channel intermediaries.

- ***Channel Members may reduce Discrepancies and Separations:*** For most customers, producers are located far from them and customers may want different product assortment and quantity of the manufacturer's produce. Customers too may not be very clear about their product choices and channel members help adjust these discrepancies.

    - *Assortment discrepancy* refers to the difference between the product lines a company produces and the assortment customers want. A company may be specialist in producing cricket balls only, but a typical cricket enthusiast would also be interested in cricket bat or gloves, and other complimentary products and may not prefer to shop for these items elsewhere. The resellers adjust these discrepancies.

    - *Quantity discrepancy* means the difference between what quantity is economical for the company to produce, which in most cases is quite large.

The cricket ball manufacturers might be producing 10 or 15 thousand balls in a given period. The average buyer would buy far less number of balls at a time. Channel members may also help in handling this discrepancy. Middlemen collect and accumulate products from various producers. Wholesalers buy in bulk, break it into different grades or qualities desired by different customer groups, and sell smaller quantities to retailers, who sell to the customer one or few units at a time.

- ***Other Functions:*** Distribution channels share financial risk by financing the goods moving through pipeline and also sometimes extend the credit facility to next level operators and consumers as well as handle personal selling by informing and recommending the product to consumers, and partly look after physical distribution such as warehousing and transportation, provide merchandising support, and furnish market intelligence.

The main criticism about using intermediaries is that this increases prices. Customers prefer lower prices and would like the channels as short as possible. The assumption is that lower the number of intermediaries, the lower the prices. This thinking ignores the fact that channel members perform certain functions and producers cannot escape these functions by not involving intermediaries. The functions and associated costs are simply transferred to producer.

8.5 TYPES OF CHANNEL MEMBERS

The marketing manager should identify different types of channel members to carry out its channel work. We present a list of common types of intermediaries.

- ***Company Sales Force:*** Company uses its own sales force for direct marketing. The manager can assign sales quota for each territory and sell products directly to consumers.

- ***Middlemen:*** Middlemen refer to just about anybody acting as an intermediary between the producer and the consumer.

- ***Agent or Broker:*** Intermediaries with legal authority to market goods and services and to perform other functions on behalf of the producer are called agents or brokers. Agents generally work for producers continuously, whereas brokers may be employed for just any deal. In some cases, agents sell to another intermediary such as industrial distributors. In addition, an agent or broker can work for the buyer rather than the seller. This situation is becoming more common in real estate business.

- ***Wholesaler:*** Wholesalers are organisation's that buy from producers and sell to retailers and organisational customers. Wholesalers primarily deal in bulk and will ordinarily sell to the retailer or other intermediaries.

- ***Retailer:*** As the last link in many marketing channels, retailers sell directly to final customers. They purchase goods from wholesalers or in some cases directly from the producer.

- ***Distributor:*** Distributor is a general term applied to a variety of intermediaries. These individuals and firms perform several functions, including inventory management, personal selling and financing. The basic difference between an agent and distributor is that while agents work on commission basis, distributors deal on their own account. Distributors are more common in organisational markets, although wholesalers also occasionally act as distributors.

- ***Dealer:*** Another general term that can apply to just about any intermediary is dealer. Basically the same type of intermediary acts as a distributor. Although some people distinguish dealers as those intermediaries who sell only to final customers not to other intermediaries.

- ***Value-added Resellers (VARs):*** They are intermediaries that buy the basic product from producers and add value to it or depending on the nature of the product modify it, and then resell it to final customers.
- ***Merchants:*** They are intermediaries that assume ownership of the goods they sell to customers or other intermediaries. Merchants usually take physical possession of the goods they sell
- ***Carrying and Forwarding Agents (C&F):*** They are people and organisations that assist the flow of products and information to marketing channels, including banking and insurance functions. Assistance is required in services like transportation and storage (C&F Agent), risk coverage (insurance) and financial services.

8.6 DETERMINANTS OF CHANNEL COST

Distribution costs cover the sequence of operations from where the packed product is made available for dispatch ending with marketing the reconditioned returned empty package available for reuse. Distribution costs are those costs which are incurred in getting finished products from factory to customer – those involved with filling orders

The total channel cost depends on the following costs:

8.6.1 Transportation Costs

Transportation costs can be any viz. railway costs, airways costs or seaways costs.

Railway Cost

Railway costs can be classified into fixed cost and operating cost.

- ***Fixed costs*** are large, sunk, irreversible, risky, technology dependent, scale influencing, environment influencing and so on.
- ***Operating costs*** include maintenance of track, upkeep of rolling stock, repairs of buildings, renovation of facilities, fuel and lubricant cost, salary and wages, administrative cost, etc.

Fixed costs remain constant upto a certain range of activity. Initially, marginal cost might decline resulting in the average cost per unit service declining. Costing in railways needs to be computed with respect to passenger kilometre, tonne kilometre run and wagon load kilometre. For better control, route-wise and round-trip wise costing would do well.

Freight Rate Structure in Road Transport

Freight rate refers to charges levied on the user for carrying and handling his cargo by the carrier. Freight rate in road transport is generally fixed on the basis of cost of service rules. Freight rate should be based on the cost of service. There are two types of transport costs:

1. Standing cost
2. Operating cost

Standing costs include the following costs:

- Cost of vehicles
- Capital cost for premises and buildings needed for garage, office, repair shops, etc.
- Expenditure on miscellaneous.

Operating costs include the following costs:

- Repairs and maintenance cost
- Depreciation and renewal expenses
- Taxes
- Insurance
- Licence fee, administrative expenses.

The cost of service, the value of service and the paying capacity of the customer influence freight rate. Besides these, the nature of commodity to be transported, the demand and supply conditions in the transport industry, the competitive conditions in the transport industry, state regulations, etc., also influence the freight rate. The 'cost plus' method is adopted by private operators.

Cost of Airways

Cost of airways includes capital cost and operating cost. Capital cost includes huge cost which is involved in airport construction with all modern radar equipments, meteorological devices cost, the runway cost, cost of air traffic control tower, etc.

Operating cost includes ground expenses and flying expenses. Ground expenses include interest on investment in ground facilities, rent for office space, depreciation and maintenance of buildings, wages of ground personnel, traffic and advertising expenses, insurance tax, etc.

Costing of Seaways

Fixed cost and operating costs are two major cost components in seaways costs. Operating cost includes motive power, salary and wages, office costs, advertising and promotion costs, repairs and maintenance costs, electricity, etc. Fixed cost includes vessels and port buildings, loading and unloading equipments, lighthouses, cost of port land, etc.

8.6.2 Inventory Costs

There are three types of inventory costs:

1. ***Ordering Cost:*** It includes cost of stationery, postage, telegram, etc., in placing an order.
2. ***Cost of Materials:*** It is the purchase price plus transport and insurance during transit and taxes if any.
3. ***Carrying Cost:*** It includes space cost, storage cost, insurance, taxes, theft and pilferage, wastage and loss, etc.

Inventory control aims at reducing both the ordering cost and carrying cost. As these move in opposite directions, minimising the total of both these costs is the crux of the inventory management exercise. Economic order quantity technique of inventory management is based on this minimisation effect.

8.6.3 Warehouse Costs

The costs of maintaining a warehouse building are largely fixed and independent of the amount of stock it holds or the amount of handling required. These fixed costs include land, building cost, administrative cost, material handling, insurance and taxes. There are very few variable costs at warehouses.

- *Material Costs:* The cost of material handling includes the cost of protective packaging, the costs of material handling equipment and of goods damaged in handling. The most important cost is that of labour associated with packing, loading and unloading the inventory.
- *Packaging Costs:* Packaging cost is influenced by mode of transport and material handling equipment. On the other hand, the selection of a particular mode of transport determines the characteristics of packaging.
- *Customer Service Costs:* A producer or a supplier cannot always ensure the availability of goods whenever they are demanded by the customer. It may increase the inventory carrying costs; in some cases, this cost may even be prohibitive. The producer or the marketer has to set certain limits upto which he will satisfy customer demand and trade off the cost of lost sales against the inventory carrying costs.

8.7 CHANNEL SELECTION

The ability to recruit and use intermediaries varies from producer to producer. Some powerful brand owners can always go for stronger distributors and deeper distribution. New producers often find it difficult to include their product assortments with established retailers. The marketing managers should identify what characteristics distinguish better intermediaries.

Selecting marketing channels can be a complicated process, particularly if part of the channel is outside the producer's direct control. In addition, there is not an endless supply of available intermediaries sitting around waiting for producers to give them a call. The elements that managers examine as they define channel strategies can be grouped into market factors, product factors and producer factors.

Market Factors

Analyzing and understanding the target market is the first step in selecting marketing channels. There are several factors that an analyst should explore of market in his analysis, ranging from customers to the types of competitive presence.

- *Customer Preferences*. The channel, which is more preferred by customers.
- *Organisational Customers:* Organisational customers frequently have buying habits that are different from those of other consumers.
- *Geography:* Customer location is another important factor, determining the type of channel to be used.
- *Competitors*: Often a good channel choice is a channel that has been overlooked or avoided by competitors. In some cases, the marketer may try to duplicate his competitors' channel in order to have his products end up on store shelves meant for competitors' products.

Product Factors

Even products that end up at the same retail location may need different intermediaries earlier in the channel. Following are the product related factors that influence the channel selection decision.

- *Life Cycle:* A product category's stage in the life cycle can be an important factor in selecting a channel, and channels may have to be adjusted over time. Customers require less support once the product has established itself.

- *Product Complexity:* Some products are so complicated and require so much support that producers need to stay closely involved. This indicates either a direct sales force or a limited number of highly qualified intermediaries. Scientific equipments, jet aircraft, nuclear reactors. pharmaceuticals and computers are products whose complexity affects the way in which they are marketed.
- *Product Value:* Value of the product also affects distribution channel choices. Items with low cost and high volume are usually distributed through large, well-established distribution networks such as grocery wholesalers.
- *Product Size and Weight:* A product with significant size and weight can face restricted distribution channel options. particularly if it is also of low value.
- *Consumer Perceptions:* The perceptions customers have of products and producers also play a role in channel decision.
- *Other Factors:* Depending on the product in question. other factors may enter into the decision as well. Some of these include whether a product is fragile or perishable and whether or not it requires significant customisation.

Producer/Manufacturer Factors

Finally, there are several selection factors that involve the producers themselves. Following are the producer factors influencing channel selection:

- *Company Objective:* The overall objective of a company influences its marketing channel choice.
- *Company Resources:* Various distribution options require different levels of resources and investment.
- *Desire for Control:* The need to control various aspects of the marketing process influences a producer's selection of the channel system. This control can encompass pricing, positioning, brand image, customer support and competitive presence.
- *Breadth of Product Life:* Producer with several products in a related area faces a channel situation that is different from those with one or two products.

8.8 INTRODUCTION TO RETAILING

Retailing is the final connection in the marketing channel that brings goods from manufacturers to consumers. In other words, retailing is the combination of activities involved in selling or renting consumer goods and services directly to ultimate consumers for their personal or household use. In addition to selling, retailing includes different diverse activities like buying, advertising, data processing and maintaining inventory. Retailing is the final stage in marketing channels for consumer products. Retailers provide the important link between the producer and the ultimate consumer.

8.8.1 Characteristics of Retailing

Retailing is the set of business activities that adds value to the products and services sold to consumers for their personal or family use. It is responsible for matching supplies of manufacturers with the demand of consumers. The retailer performs many activities like anticipating and forecasting consumer requirements, developing an ideal assortment of products, acquiring and processing marketing information, bulk breaking to suit individual customer requirements, and sometimes performing the financing function.

Retailing differs from marketing in the sense that it refers to only those activities, which are related to marketing goods and/or services to final consumers for personal, family or household use. Marketing, however, is an integrative process of planning and executing the conception, pricing, preservation, and distribution of ideas, goods, and sources to create exchanges that satisfy individual and organisational objectives.

Retailing is an intrinsic part of our daily lives. We cannot survive in a mass produced, mass distributed and mass consumed world without retailing. A strong retail network provides an easy access to a variety of products, gives freedom of choice to consumers at one point and augments higher levels of consumer service.

There can be different kinds of retailing formats depending on their size, number of lines, merchandise product policy, nature of promotion and expense control measures.

8.8.2 Functions of Retailing

In general, retailers perform four distinct functions. They participate in the sorting process by collecting an assortment of goods and services from a wide variety of suppliers and offer them for sale. They provide information to consumers advertising displays and signs and sales personnel. Marketing research support is given to other channel members. They store merchandise, mark prices on it, place items on the selling floor, and otherwise handle products. Generally, they pay suppliers for items before selling them to final consumers. They complete transactions by using appropriate store locations and hours, credit policies, and other services.

Figure 8.1 depicts the four distinct functions of retailing which are being performed by the retailers.

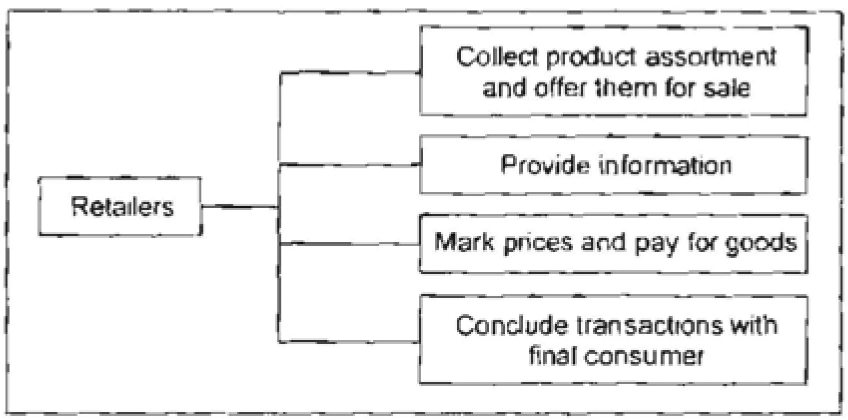

Figure 8.1: Function of Retailing

8.8.3 Types of Retailing

There are various types of retail formats seen in the Indian retail environment. They can be listed as follows:

- ***Mom and pop stores and kirana stores:*** Mom and pop stores are the traditional independent stores, which are spread across the country and cater to a large chunk of population. The real growth in Indian retailing is happening in these kinds of stores. Such stores are found everywhere in India and mostly in small towns in India.
- ***Department stores:*** These kinds of stores are found in U.S.A. Examples of such stores include JC Penney, Sears and Montgomery Ward that dominate malls and downtowns. A department store must have atleast 2500 square meters of space. It must offer a product range that is both wide and deep in several product categories.

- ***Discount stores:*** These are big stores like Wal-Mart, which is the biggest retailer in the world. These big stores achieve economy of scale and hold substantial power in the market. Their capacity and technology usage are so high that they control more of the marketing network than the manufacturer.
- ***Category killers:*** These retailers dominate one area of merchandise like sports goods, office depots, etc. These category killers buy such a huge quantity that they can offer prices at abysmally low levels, which even manufacturers cannot match.
- ***Speciality stores:*** These stores include Body Shop, Crate and Barrel, and Victoria's Secret. These stores concentrate on one type of merchandise and offer in a manner that makes it special. Some of these stores are high-end stores like Tiffany's. Many of these stores also cater to price conscious customers.
- ***Superstores and hyper markets:*** These stores are situated outside traditional shopping centres and enjoy greater accessibility by car, greater economies of scale, and the benefits of being built for a special purpose. They become anchor stores of retail warehouse parks and of many partnership schemes such as Spencer-Tesco. While a super store is around 25000 square feet of selling space, a hypermarket has around 50000 square feet of selling space. These are large stores primarily selling groceries in some countries.

8.9 WHOLESALING

Wholesaling is concerned with the activities of those persons or establishments which sell to retailers and other merchants, industrial, institutional, and commercial users, but who do not sell in significant amounts to ultimate consumers.

8.9.1 Functions of Wholesalers

According to Harry G. Miller, effective functioning of wholesalers as a part of marketing channel, especially in developing countries, contributes directly to the economic potential and growth by providing links to an extended market base.

Table 8.1 depicts the various functions performed by the wholesaler under the two main categories i.e., the function for producers and function for customers.

Table 8.1: Functions of Wholesaler

Functions for Producers	Functions for Customers
Market Coverage	Product Availability
Sales Contacts	Assortment Convenience
Inventory Holding	Bulk-Breaking
Order Processing	Credit Facility and Finance
Market Information	Customer Service
Customer Support	Technical Support

The functions performed by wholesalers for producers consist of market coverage, sales contracts, inventory holding, order processing, market information and customer support. The functions performed by wholesalers for customers consist of product availability, assortment convenience, bulk breaking, credit facility and finance, customer service and technical support.

8.9.2 Types of Wholesalers

There are many different kinds of wholesalers who differ in product categories handled as well as in specific marketing functions performed. The three basic types of wholesale institutions – merchant wholesalers, agent wholesalers and manufacturers' sales branches and offices are shown in Table 8.2.

Table 8.2: Types of Wholesalers

Merchant Wholesalers	Agents	Manufacturer's Sales and Branch Offices
Full Function or Service Wholesalers	Manufacturer's Agent	Sales Offices
Limited Function Service Wholesalers	Brokers	Branch Offices
	Commission Merchants	
	Selling Agents	
	Auction Companies	

Let us now study the types of wholesalers in detail:

- ***Merchant wholesalers:*** Merchant wholesalers take ownership of goods in which they deal. Merchant wholesalers are independently owned; separate from suppliers, on one hand and from the retailers, on the other hand. Merchant wholesalers are of two general classes. They are:
  - *Full function or service wholesalers:* This type of wholesalers is also referred to as a distributor or a jobber. Generally, this type of wholesaler specialises in a narrow range of goods. The extent of product line specialisation depends on the particular needs and wants to the wholesalers' target market by taking ownership of the products into account.

    Full function wholesalers, through the physical possession flow, maintain inventories of their product line From these stocks, customers' orders are filled and delivered. Personal selling, advertising and sales promotion are some of the ways in which these wholesalers perform the promotion function in the marketing channel
  - *Limited function wholesalers:* These merchant wholesalers perform only some of the functions typically associated with wholesaling. The more common limited function wholesalers are cash and carry wholesalers, drop shippers, track wholesalers, mail order wholesalers, and producers, retail co-operatives, and rack jobbers.
    - Cash and carry wholesalers offer their small business customers no credit or delivery. They generally operate in small business markets.
    - Drop shippers do not take possession of the goods they handle. Natural resources like coal are typically marketed through drop shippers.
    - Truck wholesalers perform limited functions because their inventories are carried on their trucks. They provide their customers with a high degree of location convenience.
    - Mail order wholesalers operate similar to mail order retailers. These wholesalers serve the business, governmental and institutional markets.
    - Producers and retail co-operatives and rack jobbers are independent farm producers who band together to market their output jointly and to buy the farm implements and supplies at quantity discounts.
- ***Agent wholesalers:*** They are primarily involved in the buying and selling of goods and services. They typically negotiate sales as representatives of other firms and do not take title to merchandise. They also participate in the collection of market information, promotion and ordering. Agents receive a commission for

performing these functions. The different types of agents are manufacturers' agents, brokers, commission merchants, selling agents and auction companies.

Let us now study the types of agents in detail:

- *Manufacturers' agents.* They are independent firms which typically handle non-competing lines of a variety of manufacturers and are often used in place of a manufacturer's own sale force. New companies use manufacturers' agents when they have neither the expertise nor the resources to develop their own sales force. Established firms rely upon manufacturers' agents when they wish to concentrate upon manufacturing and prefer to subcontract their distribution activities or when they wish to enter in new markets. Manufacturers' agents are generally more familiar with the market and can provide more immediate representation than the producer by developing their own sales force.
- *Brokers.* They are commonly used in the real estate industry where they negotiate the buying and selling of property as well as negotiate its rental and leasing. They are the middlemen whose primary activity is to establish contact between the buyer and the seller. They negotiate and facilitate sales and are compensated by a fee or commission. They do not take title of merchandise. Brokers play a key role in the distribution of food products as well. Many small food wholesalers rely heavily upon food brokers to provide them with outlets for their products and sources of supply respectively.
- *Commission merchants.* They are sometimes called 'factors'; they receive products on consignment basis and then sell them on a commission basis. They typically operate on an autonomous basis. They often participate in the physical possession, promotion, negotiation, financing, risk-taking, ordering, payment and market information flow. They are most oftenly used in distribution channels for farm produce, lumber products, etc. where the manufacturers' identity is relatively unimportant to the buyer.
- *Selling agents:* They differ from manufacturers' agents and brokers in that they normally carry a supplier's entire product line. Unlike manufacturers' agents and brokers, they usually set prices and terms of sale, and also undertake promotional activities. Thus, selling agents, in effect, act as the manufacturers' sale force. As with other agent wholesalers, selling agents do not take title or possession of the goods they handle.
- *Auction companies:* They invite buyers and sellers to a single physical location, either at the seller's location or at the auction company's site. In addition to bringing buyers and sellers together, auction firms promote the goods they handle and actively negotiate the sale of those goods. These wholesalers participate to a less degree in the other marketing flows, except for ownership. Their participation in a channel is typically limited to facilitating a transfer of ownership. They are often used in marketing channels for products such as real estate, household goods, used automobiles and equipment and machineries of all kinds. These firms also play a key role in the marketing of some commodities such as tobacco.

- ***Manufacturer's sales branches and sales office:*** Branches, sometimes called captive distributors, are wholesaling operations owned and operated by a manufacturer and maintained separately from the producing plant to sell and market its products. The sales branches include a warehouse with inventory, whereas sales offices don't have any inventory. Manufacturers' branch stores that sell to consumers and individual users are classified within retail trade.

Manufacturers use sales branches and offices for a variety of reasons, particularly when:

- Independent wholesalers are unable to provide technical support to the customer;
- These intermediaries cannot handle the quantities involved;
- The manufacturer wishes to achieve more control over the promotion and physical possession activities of marketing; and
- Wholesaling operations provide the manufacturer with additional profit opportunities.

8.10 TYPES (LEVELS) OF CHANNELS

Many different distribution path alternatives have been developed because a certain channel type may be appropriate for one product but may not be suitable for others. Various channel types may be classified generally as channels used for consumer products or industrial products.

8.10.1 Consumer Product Channels

Companies producing consumer products may use several different types of channels. Producers can choose Zero-level channel (also called direct marketing channel). This approach involves moving product direct from producer to customer. Zero-channel system does not involve resellers. Examples include company owned stores, telemarketing, mail order. and door-to-door selling, etc. Amway, Avon cosmetics, Eureka Forbes, Amazon and others use zero-channel. This is a quite simple arrangement but may not be the most efficient or economical means of distributing products to consumers (Figure 8.2, A). It suggests that faced with making strategic choice of going direct to the consumer or using channel partners, a company must weigh the benefits to consumers against the transaction costs involved in using intermediaries before going direct to consumers.

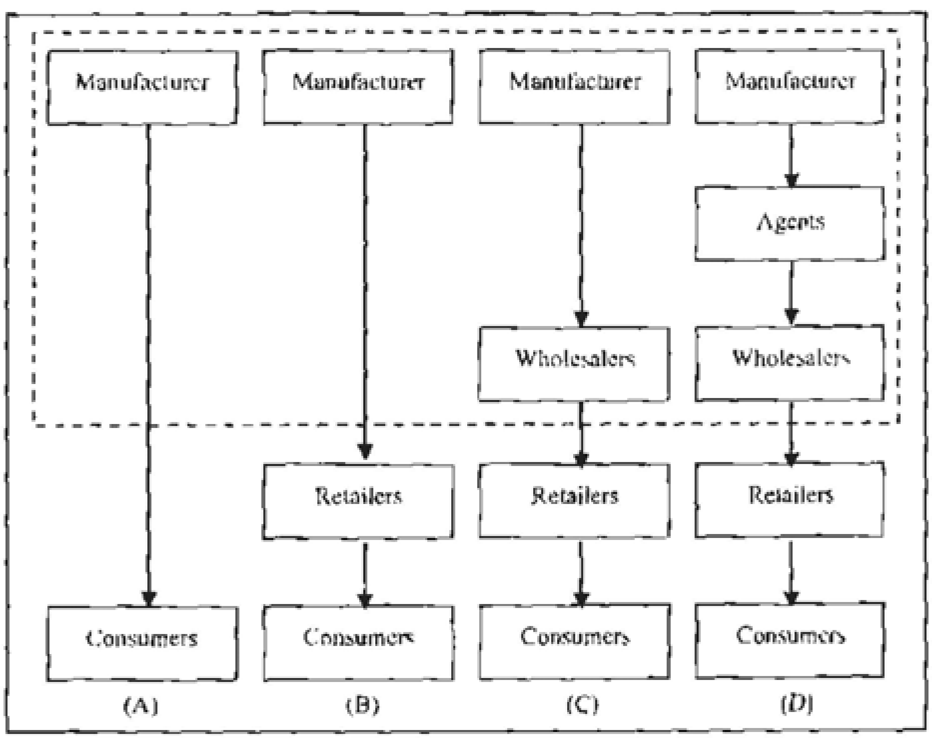

Figure 8.2: Marketing Channels for Consumer Products

In a One-level channel (Figure 8.2, B) products move from the manufacturer to retailer. Retailers make these products available to consumers. Large retailers such as supermarkets and chain stores like Spencers and others prefer to buy large quantities of goods from manufacturers.

Two-level channel (Figure 8.2, C) has been popular option among consumer product companies. Between a manufacturer and consumers there are two types of channel intermediaries – wholesalers and retailers. The goods pass from producer to wholesalers, then to retailers and finally to consumers. This channel arrangement is a practical option to producers who sell to millions of consumers in several geographic areas. They prefer to move their goods through the network of retail shops. Wholesalers of all shapes and sizes cater to large number of retail stores, including rural markets. Tobacco products, tea, laundry products, etc. are typical examples where wholesalers and retailers operate between manufacturers and consumers.

Three-level channel (Figure 8.2, D) arrangement involves intermediaries at three levels. The manufacturer does not handle any distribution functions and appoints sole agents with substantial resources or C & F (Clearing & Forwarding) agents. They have their own network of wholesalers, and retailers all over the country. This kind of arrangement may also be on territorial basis. C & F agents handle only distribution functions. Sole selling agents may also handle personal selling on behalf of producer besides taking care of distribution.

Another channel option is strategic channel alliance. This refers to an arrangement when a company sells the products of one company, through its marketing channels. For example, a soft drink company may distribute the bottled water of another manufacturer, or a domestic company might distribute the product of a foreign company.

Traditional channels discussed above refer to forward movement of products from producer to consumer. Some producers also plan for channel intermediaries performing the role of reverse-flow channels to retrieve products that customers no longer want. For example, auto firms, drug companies, toy manufacturers, and others sometimes have to recall products due to defects, breakage, safety reasons and repairs during warranty period. In these cases, the channel helps in reversing the flow of certain types of containers for reuse, computer circuit boards for refurbishing and resale, paper, cardboards and metals, etc. for recycling.

8.10.2 Industrial Product Channels

Manufacturers of industrial products work with more than one level of wholesalers. Four of the most common channels for industrial products are shown in Figure 8.3.

A large number of industrial products, particularly producers of technically complex equipment, sell directly to industrial buyers (Figure 8.3, P). IBM sells its mainframe computers direct to business buyers.

Companies producing standard industrial items such as hand tools and small operating equipment usually operate through industrial distributors (Figure 8.3, Q). Industrial distributors may carry a wide variety of product lines and items from different manufacturers, or some may specialise and carry only limited number of lines. The advantages that industrial distributors offer include providing services at low cost, extending credit to customers, developing close relationship with buyers and providing market intelligence to manufacturers. They also minimize financial burden of manufacturer by holding adequate inventories in the market. The disadvantages include lack of control because industrial distributors are independent firms, they also carry competing brands and manufacturer cannot depend on them to push a specific brand. They generally avoid stocking expensive and slow moving items and may seek special incentives. In case of industrial channel three (Figure 8.3, R), an independent firm works as producers' representative or agent on a commission, usually sells complimentary products of several companies in specific territories. The agent does not acquire ownership title to the products.

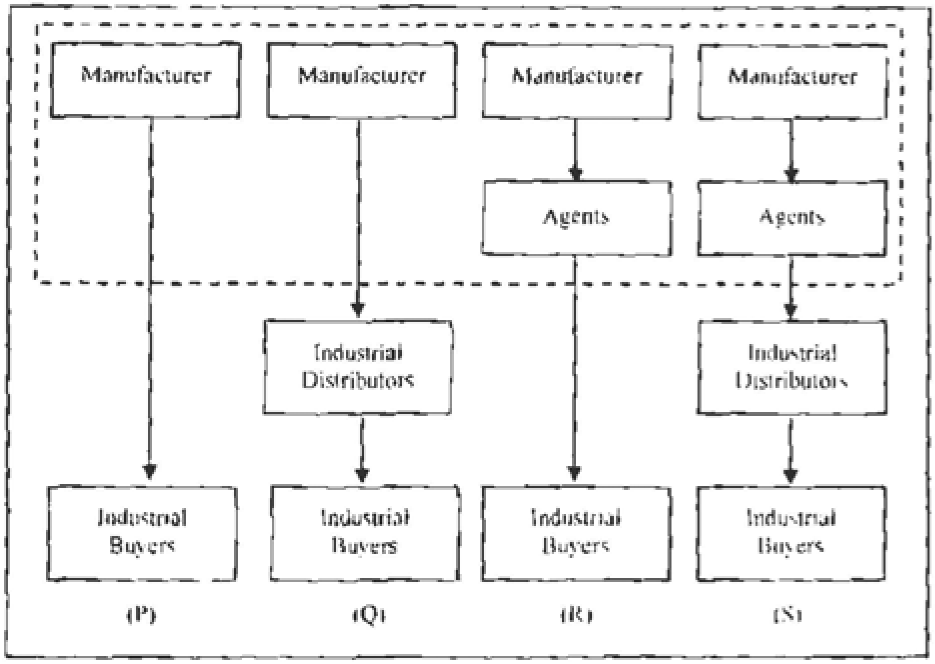

Figure 8.3: Marketing Channels for Industrial Products

8.11 DISTRIBUTION STRATEGIES

Distribution strategies involve the following strategies and decisions:

8.11.1 Channel Level Strategy

Because of the wide variety of channel arrangements that exist, it is difficult to generalise the structure of channels across all industries. Different kinds of products demand different kinds of distribution channels. By channel level we mean how many intermediaries are there between the producer and consumer. Distribution channels are usually of two types, namely zero level channel or direct marketing channel and indirect marketing channel.

Direct Marketing Channel or Zero Level Channel

This type of channel has no intermediaries. In this distribution system, the goods go from the producer direct to the consumer. Companies use their own sales force to reach consumers. They do all the channel functions. A successful direct marketing company is Eureka Forbes, which markets vacuum cleaners in Indian market.

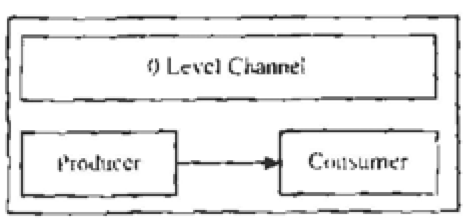

Figure 8.4: Zero Level Channel

Indirect Marketing Channel

These are typical channels in which a third party is involved in the distribution of products and services of a firm. Depending on the distribution intensity, the indirect marketing channels can be classified into following categories:

- ***One Level Channel:*** In this type of channel, there is only one intermediary between producer and consumer. This intermediary may be a retailer or a distributor. If the intermediary is a distributor, this type of channel is used for specialty products like washing machines, refrigerators or industrial products.

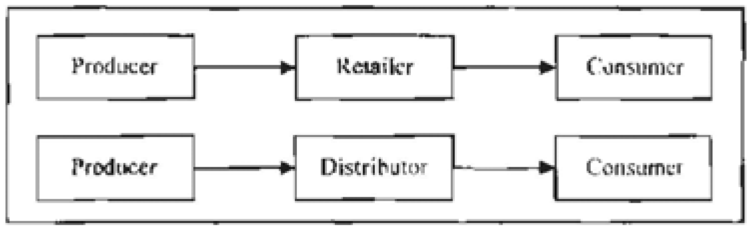

Figure 8.5: One Level Channel

- ***Two Level Channels:*** This type of channel has two intermediaries, namely, wholesaler/distributor and retailer between producer and consumer.

Figure 8.6: Two Level Channels

- ***Three Level Channels:*** This type of channel has three intermediaries namely distributor, wholesaler and retailer. This pattern is used for convenience products.

Figure 8.7: Three Level Channels

- ***Four Level Channels:*** This type of channel has four intermediaries, namely Agent, Distributor, Wholesaler and Retailer. This channel is somehow similar to the previous two. This type of channel is used for consumer durable products.

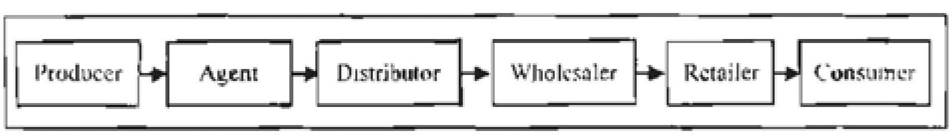

Figure 8.8: Four Level Channels

In addition to the above-mentioned channels, different types of combination of channels are also possible. There is no watertight classification of channels. The use or selection of a channel also depends upon the type of product under consideration. For a consumer non-durable and perishable product, the channel should be short and for consumer durables it can be longer.

The industrial products are marketed through zero level or direct marketing models. Agricultural products have longer channels due to the distant and distributed location of consumers. Companies can also select manufacturer representatives and sales branch offices for marketing industrial products and services. So for different products, there can be different kinds of channels.

A traditional channel symbolises forward movement whereas a backward channel covers centres like redemption center, community groups, trash collection specialists, recycling centers and central processing warehouses.

8.11.2 Channel Design and Management Decisions

The most important task in channel management is the design of an effective and efficient channel for smooth flow of products, titles, payments, and information and promotion programmes.

A systematic approach should be followed for designing distribution channel by analyzing the demands of customers. This is because there may be different kinds of requirements for different market segments. The end user analysis helps in identifying an optimum flow; removing all bottlenecks and developing desired customer value. The company should also evaluate its existing channel alternatives for sales, delivery and service to customers in terms of efficiency and effectiveness. This analysis should be done in relation to company's objectives and positioning decisions about its products and services.

A constraint analysis should be conducted to identify limits, which have to be built into any proposed channel structure. These include evaluation of customer loyalty level, sales target of the company, etc. Once these evaluations are over, the company can identify the gaps, which exist and then plan for the ideal channel design by evaluating possible channel alternatives.

In the case of a new business, as the organisation increases its scope of distribution, the distribution channel design evolves in response to market demands and coverage strategy decided by the firm. In a local market, the company prefers self-distribution through company owned sales force or through a few intermediaries; but as the business grows the company covers new geographical territories and decides to follow different types of distribution channels with varying levels as explained earlier. So an ideal channel system evolves in response to the evolving demands and decision on product market coverage.

Analyze Customer's Desired Service Output Level

It is a difficult task to analyse the customer's service output level because of two reasons, viz. the expectations of each segment will vary from one another and second, the product-market situation will vary for each of the market segments. The marketer needs to understand the service output levels desired by the target customers. Each of the channels produces five different kinds of service output levels.

The first service output issue is the lot size that the channel permits a customer to purchase on every occasion. Many wholesalers buy larger lots whereas in retail buying, the customer prefers single unit lot size. The second service output level is the average waiting time of the customer. It is the time that the customer has to wait to receive the desired product from the channel. In the past, customers had to wait for more than six months for getting a Bajaj scooter.

Today's the customer has no patience and would like to buy products through faster delivery channels. The degree to which the channel facilitates customers to purchase the product is called 'spatial convenience'. Today it is easy to buy a Hero Honda motorcycle as they have a wider distributor channel covering many suburban centers. The number of products in each product line and variety of sub-brands available in the marketing channel helps the customers prefer a channel with larger assortments. Customers will prefer channels, which provide them multiple services like financing and credit, faster delivery, installation, repair and maintenance. The greater the service back up; the higher is the chance of preference of the channel by consumers.

Establishing Objectives and Constraints

After analysing the service output level expectation of consumers, the next task is to establish the objectives and constraints. The channel objectives should be explained in terms of desired service output expectations from each of the channel members. The channel members should be evaluated on the basis of the cost structure of maintaining the channel. A channel with low cost is always preferred.

The marketing manager can find out each market segment available and service expectations in each segment before deciding which segment to serve and then decide which channel will best serve the segment. The objectives of channel design are heavily dependent upon the marketing and corporate objectives. The broad objectives include:

- Availability of product in the target market.
- Smooth movement of the product from the producer to the customer.
- Cost effective and economic distribution.
- Information communication from the producer to the consumer.

Channel objectives will vary depending on the nature and characteristics of the product. For a consumer perishable, the channel has to be short and inventorying function. They need more direct marketing compared to bulky and heavy products, which need longer distribution channels. For non-standardised and customised products, the company prefers to have direct marketing network than indirect distribution.

The marketing manager should take into consideration strengths and weaknesses of different types of intermediaries in providing desired service output levels. The channel so designed should adapt to the larger environment. When the overall economy is passing through recession, companies will prefer shorter channels. The channel design objectives should pass through the existing legal and ethical practices followed in the country of operation.

Identification of Major Channel Alternatives

Once the desired service output level is decided and objectives and constraints of designing the channels are decided, the marketing manager should identify alternative channels. Channels are of three types namely sales, delivery and service channels.

While evaluating channel alternatives, there are three issues to be addressed viz. the overall business environment, types and number of intermediaries needed and the terms and responsibilities of each channel member.

- ***Types of Intermediaries:*** The marketing manager should identify different types of intermediaries to carry out its channel work. We have already discussed the types of channel members.
- ***Number of Intermediaries:*** The marketing manager should decide how many intermediaries he should use for distributing his products. The decision on number of intermediaries should largely depend on the distribution strategy followed by the firm. After a producer has selected the type of channel that makes the most sense for his products, the next step is to determine the level of distribution intensity, which specifies the number of marketing intermediaries that will carry the products. Depending on a firm's product, objectives and customers, the levels of intensity may differ from case to case. Distribution intensity is frequently modified as a product progress through its life cycle. There are three kinds of distribution strategies namely exclusive distribution, selective distribution and intensive distribution.

- *Intensive Distribution:* A channel strategy that seeks to make products available in as many appropriate places as possible. This strategy is used for fast moving consumer goods and products, which are of high and frequent demand, like food items and daily use personal care product categories.
- *Selective Distribution.* A channel strategy that limits availability of products to a few carefully selected outlets in a given market area. This kind of distribution strategy is followed by established brands and new to the market products. The company prefers to make the product available at selected outlets and promote with adequate marketing resources and more control on the market.
- *Exclusive Distribution:* An extreme case of selective distribution in which only one outlet in a market territory is allowed to carry a product or a product line. This is a case when the company wants to maintain control over the market and channel. In many instances, such arrangements are exclusive in nature and companies do not allow the intermediaries to carry competitor's product(s).

Terms and Responsibilities of Channel Members

The next task is to determine rights and responsibilities of participating channel members

It is the duty of the marketing manager to see that the channel members become profitable. The marketing manager should take care of the pricing policy, territorial rights, conditions of sales and credit and specification of services to be undertaken by each member of the channel.

The pricing issue demands setting up of list price, schedule of discounts and decision on equitable and sufficient compensation pattern. Conditions of sale refer to payment patterns and guarantee of the producer.

Many companies provide cash discounts to intermediaries; provide replacements for defective products and price decline guarantees to motivate the channel members to procure more of the goods. The producer also guarantees territorial rights in the form of exclusive distribution to a few of the channel members.

Mutual services and responsibilities include issues related to brand and store promotion; marketing research and information collection. The producer needs to develop a channel promotion and development model for motivating channel members to commit higher sales.

Evaluating Major Channel Alternatives

Once the list of alternative channels is selected, the marketing manager should evaluate each channel alternative to arrive at a final decision. The channels should be evaluated on the basis of three criteria, namely economic criteria, control criteria and adaptive criteria.

Each channel member can optimize his output levels in terms of sales and services and hence, achieve a different kind of economy of scale. The marketing manager needs to decide whether a company owned sales force or an intermediary channel will be economically more sensible for the firm to pursue.

The first level of choice is between the zero level channel called direct marketing and alternative channel levels.

The next decision is to estimate the cost involved in selling a certain number of units in each of the channels and finally the marketing manager should compare the sales and costs involved in each of the alternative channels to arrive at the most economical channel.

However, the economic criteria alone should not be used for evaluation of alternative channels. The marketing manager should also see how much control he can exert over the channel. Large malls are economical but the level of control that manufacturer can have on the large retailers is minimum. A small time retailer, alternatively, may concentrate on maximising his assortment traffic rather than selling a company's brand.

The market structure changes between economies and also affects the adaptability of firms to the evolving marketing environment. Hence, the marketing managers should look at the scope of adaptability of the channels before arriving at a decision. The channel members should make a commitment for the product for a certain period of time and should support the product when the marketing conditions change for the product. Hence, the adaptability criteria should be used for evaluation of alternative channels.

Selecting Channel Members

The ability to recruit and use intermediaries varies from producer to producer. Some powerful brand owners can always go for stronger distributors and deeper distribution. New producers often find it difficult to include their product assortments with established retailers. The marketing managers should identify what characteristics distinguish better intermediaries.

Training Channel Members

The next important task is to train the channel members. This is because once appointed; intermediaries become internal customers for the firm. Secondly, in many instances intermediaries represent the company and its products to the consumers. The training programs can be on selling skills, on business processes and other soft skills required to serve the end customer. The training programs should cover customer contact and interaction management, selling skills, relationship building skills and business development skills. The company should undertake a continuous training calendar for its employees.

Motivating Channel Members

Channel motivation involves developing compensation management programs and also giving non-fringe benefits for building long-term loyalty. The idea of developing a channel motivational program is to build their capability to perform better and take additional responsibility. It should also improvise its channel offering to provide superior value to consumers and channel members.

The marketing manager should understand his need and then design motivational programs to stimulate peak level performance. The relationship should be developed based on mutual cooperation, trust and scientific distribution programming. The most challenging aspect is gaining intermediaries' cooperation for which one needs to use positive motivational tools like higher margins, cash discounts, quantity discounts, cooperative advertising, advertising allowances and point of purchase displays.

Many marketing managers also use negative tools, like slowing down of distribution, reduction in cash allowance and credit period to threaten them to commit for higher sales.

However with the changing competitive landscape, marketers are more towards relationship building through Partner Relationship Management Programs (PRM), permitting vendor integration with organisational supply chain system and motivating intermediaries for Quality Function Deployment (QFD) in their business processes.

They develop clear communication lines regarding their expectations and what rewards the intermediaries are likely to get due to their commitment.

Evaluating Channel Members

The next task is to evaluate the performance of channel members on periodic basis. The marketing manager may set up standard evaluation benchmarks like sales quota, market share, average inventory carrying level, customer response and delivery time, usage and management of unused, unusable and damaged goods and cooperation in sales promotion and channel employee training programs organised by the company.

While the company should reward the exceptions, it should also guide, goad, re-motivate and terminate the underperformers. It should see that the intermediaries are able to achieve the Economic Order Quantity (EOQ) in their transactions with the company.

The company should ensure that the inventory level, the accounts receivables and cash management is proper and there is a sustained commitment from the intermediaries towards organisation's products and services.

Modifying Channel Arrangements

Management of distribution channel is a continuous and dynamic process. We have mentioned in the beginning that channel structure and levels emerge as the organisation grows over a period of time. As it changes its strategies from exclusive distribution to selective distribution and finally to intensive distribution, the structure and nature of the distribution channel will change.

This change is to take care of market expansion, new product launch, brand extension, and addition of new products to the company's existing product line. The modification of the channel structure is also linked with the life cycle stage of the product.

In the case of a new product which has no close substitute, the marketing manager tries to establish an exclusive distribution at the introductory stage. But as the market expands, the manager may cover larger territories by following an intensive distribution at the growth stage of the product life cycle. As the product moves to the maturity stage, many managers shift the products to low cost channels and follow mass merchandise. In the decline stage of a product, lower cost channels like mail orders, off price discounts are followed. In markets where there is not much product differentiation between the new product and its close substitutes, the marketing manager will prefer rapid adoption and cover a deeper and larger market through low cost channels before the competitors start doing aggressive marketing.

In many instances, the overall channel strategy becomes obsolete due to emergence of new paradigms and path breaking business strategies. In these situations, it is difficult to get top management support to radically change the distribution strategy. Due to the emergence of e-commerce, many companies had trouble in developing an ideal distribution strategy to satisfy customer's service expectations. The marketing manager should follow a six-step approach to keep their distribution strategy perfect at any point of time.

1. The marketing manager should research customer's value perception, needs and desires regarding service expected from the channel members.
2. Compare and contrast the existing distribution system of the company, with its competitors with respect to customer requirements.
3. Find out the service output gaps that need immediate attention for correction.

4. Identify the organisational and market based constraints that will limit possible corrective actions.
5. Develop a new/modified channel solution.
6. Implement and monitor the modified distribution channel.

8.12 CHANNEL INTEGRATION DECISIONS

There are many players involved at different levels, managing a channel is the most difficult and dynamic task for a marketing manager. New formats of distribution emerge and so also do new retailing institutions take birth as economies progress. The emerging marketing systems include vertical, horizontal and multi-channel marketing system. We present herewith a short note on each one of them.

8.12.1 Vertical Marketing System (VMS)

It refers to a distribution channel structure in which the producer, wholesalers and retailers act as a unified system. One channel member owns the others because he has so much power that all others co-operate in sales, delivery and service. The primary channel participants are retailers, wholesalers and the manufacturer. A traditional channel has an independent producer, wholesalers and retailers. Each of them is a separate business and each of them pursues a goal of maximising its own profit. No channel member has complete control over others.

The major or dominant player called *channel captain* owns the others or franchises them or has enough power to force others to cooperate with him. He tries to control the behaviour of other channel members and resolve conflicts arising due to independent behaviour of channel members to pursue their own goals of profit maximisation.

Table 8.3: Different Kinds of Vertical Marketing Systems

Corporate VMS	It combines different stages of production and distribution under single ownership. Companies favour vertical integration and they wish to have high level of control over other channels.
Administered VMS	It coordinates production and distribution stages through the size and power of one channel member. Manufacturer of a strong brand, large retail formats are examples of administered VMS.
Contractual VMS	It is an arrangement of a set of independent producers and distributors in which they integrate their programmes on a contractual basis to have synergy and obtain more sales or economy in production which otherwise each one of them would not have obtained There is also a possibility of contractual VMS variants like wholesaler sponsored VMS, retailer cooperatives and franchisee organisations. Amul is an example of a farmer's cooperative, which has became to be known as a big brand in Indian market.

8.12.2 Horizontal Marketing System (HMS)

It refers to a channel arrangement in which two or more companies at one level join together to follow a new marketing opportunity. By working together companies can combine their capital, production capabilities or marketing resources to accomplish more than any one company could. In working along with others a company might join hands with competitors of non-competitors.

Example of Horizontal Marketing System

Coca Cola and Nestle formed a joint venture to market ready-to-drink and tea worldwide. Coke provided worldwide experience in marketing and distribution of beverages and Nestle contributed two established brand names Nescafe and Nestea. This is also called symbiotic marketing and co-option. Two players in unrelated business sometimes come to a new market to exploit the emerging opportunity and cash-in on each other's sustainable competitive advantage.

8.12.3 Multi-channel Marketing System

Multi-channel marketing is of recent origin. In the past, marketers sold to single market through single channel. Multi-channel marketing has emerged out of excessive competition and many firms use two or more marketing channels to serve the same segment.

The companies can cover a market better, penetrate aggressively and reach segments, which are not possible with current marketing channels used by a firm. This also lowers the channel cost as companies prefer adding low cost channels to the existing channels to bring more efficiency to the current distribution system.

By adding newer channels companies can customise their offer for specific high value customers and maximise profitability. However, the manager has to be careful about channel conflicts and control problems. It is possible that two alternative channels are doing prospecting to the same customer. The new channel may be more independent in nature and create problems in channel cooperation. Companies should use different channels for marketing to different segments of customers.

A company can use direct sales force to market to institutional and large customers and a distributor-wholesaler-retailer channel to market to individual customers. In this way, the company can optimize its cost structure through key account management and clear-cut account ownership.

8.13 CHANNEL CONFLICTS AND CO-OPERATION

The goal of all channel members is to distribute products profitably and efficiently. However, at times they disagree about the methods to accomplish this goal. It is fairly common among channel members to make little or no effort to cooperate with each other. In general, their relationship is limited for buying and selling products from each other. Each member is interested in only doing, what is considered to be in its own best interest without worrying about others.

According to Louis W. Stern and J. L. Heskett, "Channel conflict is a situation in which one channel member perceives another channel member(s) to be engaged in behaviour that prevents or impedes it from achieving its goals. The amount of conflict is, to a large extent, a function of goal incompatibility, domain descensus and differing perceptions of reality".

To manage conflict, it is first of all necessary to understand the type, cause and intensity of the conflict.

8.13.1 Types of Conflict

In any distribution channel arrangement, there can develop three kinds of conflicts:

1. Vertical channel conflict refers to a situation when conflict occurs between members at different levels within the same distribution channel such as conflict between the producer and distributors, or between wholesalers and the retailers. This is between parties' one-level up or one-level below each other.

2. Horizontal channel conflict describes a conflicting situation developing between channel members at the same level, such as when one stockiest starts price-cutting and others at the same level start complaining, or when stockiest' start sending goods to other stockists' designated territories in adjoining or other territories.

3. Multi-channel conflict results when the producer has established two or more different channels to sell the product to the same target market. For example, a computer company may have its own retail showroom, authorised dealers and also sells online. The conflict may arise if the company store or online prices are lower than what dealers charge for the same products.

8.13.2 Causes of Conflict

It may not always be easy to resolve conflicts. The best that can be done in certain cases is to minimise the seriousness of the conflict. Major causes of conflict include goal incompatibility, roles and rights ambiguity and differing perceptions.

- Goal incompatibility is a major cause of conflict between producer and the channel members. Channel members almost always want to earn hefty margins on products they sell. The producer's goal might be to keep the price low and go for rapid market penetration to capture a larger market share and earn profits in the long-term. The dealers may want to have more margin and profitability in the short-term. Such situations often create strained relations. In some extreme cases, demands for more margins have led to entire channel boycotting a company's products.

- Roles and rights ambiguity refers to situations when the company sells its products to same customers directly, and the channel members also sell products to the same group of customers. This may occur when a producer uses multichannel arrangement. For example, if both the company sales force and dealer's sales people sell products to institutions, an unnecessary conflict may arise because there is no clarity regarding such situations.

- Differing perceptions about the economic outlook may sometimes become a cause of conflict between the producer and the dealers. The company may be optimistic about the economy and income growth and want dealers to carry higher than usual inventories. Companies may also appoint more dealers and may come out with line extensions. The dealers on the other hand may be pessimistic and refuse to comply what company wants and may oppose appointing more dealers. All this may give rise to a conflict.

8.13.3 Intensity of Conflict

This refers to how serious is the conflict. In some cases, the intensity of conflict might be just minor and at other times, the severity might demand immediate attention from the producer otherwise the consequences might be serious if it is not resolved. For example, managing incidences of price-cutting or territory jumping can be handled relatively easily. In other instances, if channel members threaten to boycott company products, the consequences of sales loss might be serious. In such situations, postponing or delaying negotiations with channel members to resolve conflict can lead to considerable loss of sales, market share and goodwill. The company must take the initiative to resolve the conflicting issue.

8.14 MANAGING THE CHANNEL CONFLICT

Managing conflict in certain cases may be quite a demanding task. Conflict magnitude can range from minor to serious leading to termination, lawsuits or company boycotts. The frequency of conflicts can range from infrequent disputes to long drawn bitter relations. The frequency and seriousness of conflict determines how speedily the situation must be managed. There are several approaches for effective conflict management.

- ***Regular Communication:*** Regular communication between producer and channel members can minimise the chances of conflict. Top and middle-level management executives of forward-looking companies maintain regular personal contacts and also arrange formal meetings once or twice a year to listen to and understand channel dynamics, resolve channel problems, and acquaint them with future plans. Some companies also develop in-house newsletters containing updates on market conditions and company's perspective. These newsletters are regularly mailed to their appointed dealers.
- ***Forming Dealer Councils:*** There are some misgivings about forming dealer councils that this may turn out to be a platform for dealers to unite and pressurize manufacturer with some unreasonable demands. It is difficult to completely rule out the possibilities. However, if these councils are formed on regional or state basis and company remains focused on the laid down agenda, listens and accepts constructive suggestions, these councils can be an effective means of managing conflicts.
- ***Co-option:*** This approach refers to including, channel association leaders in the company's advisory council or board of directors, etc. to win the channel support. This can be quite an effective method to minimise conflicts if the channel concerns and opinions are listened to.
- ***Arbitration and Mediation:*** When conflict becomes serious or other efforts have not been successful, then each party can send their representative or a team of representatives to meet and resolve the conflict, or conflicting sides can approach a neutral third party to listen to both sides and resolve the conflict. Sometimes conflicting sides approach government agencies to resolve dispute, or finally conflicting sides may approach the court of law for deciding the matter.

8.15 PHYSICAL DISTRIBUTION

The term physical distribution refers to outgoing (outbound logistics) or forward movement of products, services and information from a firm's manufacturing facility to customers. It involves a defined network of transportation, warehousing and storage, and finally delivery at the destination in a cost effective manner within the desired time. The supply chain management starts from the supplier of raw materials, to its conversion at a manufacturing unit into finished products, storage at warehouses, and finally, supply to distribution channels to meet the demand of end-user at an acceptable cost and service level. Physical distribution starts in a forward movement of goods from the company's production facility to end-user, whereas supply chain management starts before physical distribution.

According to Stern, El-Ansary and Coughlan, "The term logistics management and supply chain management are widely used to describe the flow of goods and services and related information from the point of origin to the point of consumption." Some authors view logistics as the transporting, sorting and handling of goods to match target customers' needs. Thus, logistics represents the value chain of a company, the starting point is the procurement and at the end of the chain is the customer. Logistics management includes both materials management and physical distribution. More and more companies are realising the importance of managing the entire supply chain rather than just transportation and warehousing decisions alone. The focus of managing supply chain is on removing inefficiencies and hurdles in meeting customer demand at the time when it occurs.

The concept of physical distribution is based on the highly acclaimed study of Howard T. Lewis, James W. Culliton and Jack D. Steele of Harvard University in 1956. It says that entire transportation, storage, and product handling activities of a business and the total channel set up should be coordinated as one system that aims to minimise distribution costs for a particular customer service level because lower costs and better service contribute for increasing customer value.

8.15.1 Meeting Customer Service Requirements

Marketing strategy aims at satisfying customers' needs and wants. Physical distribution is invisible to most consumers. They pay attention to it only when something goes wrong and it may be too late for the company to rectify the error. Physical distribution systems thus, must find out what are customers requirements and what competitors are providing. Customers want timely delivery, efficient order processing, willing suppliers to meet emergency needs, progress report, proper handling of products, post purchase services, prompt replacement of defective goods, and warranties. Customers' inventory requirements affect the expected level of physical distribution service. The company must determine the relative importance of these aspects. Paying attention to customer needs and preferences is necessary for increasing sales and getting repeat orders. For example, an auto manufacturer with a low inventory of replacement parts requires fast, dependable supply from its suppliers of component parts. Repair service facility and time for car buyers is very important. Anne G. Perkins found that even when the demand for products is unpredictable, suppliers must be prepared to respond fast to inventory needs Under these situations, distribution costs maybe a minor consideration compared to the importance of service, dependability and timeliness.

Most customers are concerned with speedy and dependable delivery of what they want and are not concerned how that product moves from a manufacturer to the point of delivery from where they acquire it.

8.15.2 Minimising Total Distribution Costs

Companies strive to minimise their distribution costs associated with order processing, inventory management, materials handling, warehousing and transportation. The company has to develop an economical system without compromising the minimum guaranteed service delivery level. To achieve this, a trade-offs between service level and costs become unavoidable. Taking a systems approach to distribution, the focus shifts from lowering costs of individual activities to minimising overall distribution costs. Adoption of a total cost approach requires analysing costs associated with distribution alternatives, such as comparing inventory levels against warehousing costs, materials cost against expenses involved with various modes of transportation, and all distribution costs against customer service requirements. Lowest overall distribution system cost should be compatible with company's stated minimum expected level of customer service objectives.

8.15.3 Curtailing Time-Cycle

Time-cycle refers to the time it takes to complete a process. It is an important objective of physical distribution to reduce time-cycle and increase customer service. Many businesses such as overnight delivery companies and major news media strive to slash time-cycle to gain competitive advantage. For example, FedEx overnight delivery service conducts research and employs new techniques and procedures to be the fastest overnight delivery service. FedEx offers its customers package-tracking software so that they can track the progress of their package. In such situations, speed is important than costs.

Check Your Progress

Fill in the blanks:

1. A marketing _____________ is a system of relationships existing among businesses that participate in the process of buying and selling products and services.
2. Channel _____________ offer exchange efficiencies and help reduce the exchange costs by providing certain functions or services.
3. The ability to recruit and use _____________ varies from producer to producer.
4. _____________ differs from marketing in the sense that it refers to only those activities, which are related to marketing goods and/or services to final consumers for personal, family, or household use.
5. _____________ of industrial products work with more than one level of wholesalers.

8.16 LET US SUM UP

- Companies do not sell all their products directly to consumers. There are two ways of marketing products viz. direct marketing without using the channel and indirect marketing though a set of intermediaries.
- The intermediaries who provide a link between the manufacturers and the ultimate consumers or users are known as middlemen.
- Intermediaries help in different kinds of flows in the market between the producer and the end consumer. They help in physical flow, title flow, information flow and cash flow.
- The design of a channel starts with understanding the customer's service expectations. It should help in setting objectives and constraints for the channel.
- A company may pursue exclusive, selective and intensive distribution strategy for reaching markets. Once the channel design decisions are taken and intermediaries are decided upon, the big task is to manage the selected channel.
- The marketing manager should select appropriate channel by evaluating product, market and producer related factors.
- Channel management is a dynamic process as it involves participants not directly under the control of the organisation.

8.17 UNIT END ACTIVITY

You have started a business of selling clothes, after collecting information from various sources you made a planned distribution system for your business. Share the plan with your colleagues through a presentation clarifying what level of channel member will be included and why?

8.18 KEYWORDS

Distribution Channel: A distribution channel for a product is the route taken by the title to the goods as they move from the producer to the ultimate customer.

Middlemen: Middlemen refer to just about anybody acting as an intermediary between the producer and the consumer.

Agent: Intermediaries with legal authority to market goods and services and to perform other functions on behalf of the producer are called agents or brokers.

Vertical Marketing System: It comprises manufacturer, wholesalers and retailers working as a unified system.

Horizontal Marketing System: In this system, two or more unrelated companies put their resources together to exploit an emerging market situation.

Retailer: As the last link in many marketing channels, retailers are the last link marketing channels and sell directly to final customers.

Wholesaler: Wholesalers are organisations that buy from producers and sell to retailers and organisational customers.

8.19 QUESTIONS FOR DISCUSSION

1. What is meant by a marketing channel? What are the objectives of channel or distribution management?
2. List the various types of channel members. What are the various factors, which must be considered while making channel selection?
3. What determines the channel cost?
4. What methods are used to motivate channel members? How is the concept of co-operation and competition applicable here?
5. Explain the various types of channels with suitable Indian examples.
6. What are the criteria that can be used for the evaluation of channel members? Illustrate your answer with appropriate examples.
7. Compare vertical, horizontal and multi-channel marketing systems.
8. What is retailing? Briefly describe the most important types of retailing.
9. Explain the concept of wholesaling and briefly discuss the different types of wholesalers.

Check Your Progress: Model Answer

1. Channel
2. Members
3. Intermediaries
4. Retailing
5. Manufacturers

8.20 SUGGESTED READINGS

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BLOCK IV

UNIT 9

ADVERTISING AND SALES PROMOTION

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9.0 AIMS AND OBJECTIVES

After studying this lesson, you should be able to:

- Explain the concept of advertising
- State the elements of media mix
- Describe the techniques of sales promotion

9.1 INTRODUCTION

The marketing manager needs to communicate and promote the final product to consumers through various channels of communication. He has to make sure that all the channels and methods of communication present a unified message about the product or service of the firm. Some twenty years ago, the idea of 'integrated marketing communication' emerged in management literature. It is necessary to develop marketing communication strategy to obtain a competitive strategic position for the company.

There are various alternatives available with the marketing manager to choose from to decide the overall promotion mix. Depending on the media mix and marketing goals, one can arrive at the marketing budget. The marketing manager has to take a decision among various alternatives of marketing communication tools like advertising, sales promotion, personal selling, public relations and direct marketing. Companies can substitute one media alternative with another at different stages of product life cycle to suit the marketing objective. They can also increase spending from one method to the other, either within the specified budget or by bringing contingency budgets. The objective of selecting an optimal media mix is to optimise the spending pattern among various channels in achieving the set corporate objectives.

9.2 PROMOTION AND PROMOTIONAL MIX

Promotion refers to the mix of promotional elements a firm uses to communicate with its current or potential customers about its products or services. Promotion efforts can be directed to the ultimate consumer, to an intermediary such as a retailer, a wholesaler or a distributor, or to both. Promotion is fundamental to the success of your firm because, without promotion, potential customers won't know about the existence and benefits of your product or service. Not even the best product or service sells without some promotional effort. A key decision firms face in relation to their promotional efforts is whether to focus on a "push" or a "pull" strategy. In a "push" strategy, a firm promotes the product to wholesalers, the wholesalers promote it to retailers and retailers promote it to the end consumer. Personal selling and trade promotions are examples of promotional tools used in this case. In a "pull" strategy, the promotional efforts are directed to the end consumers in such a way that they demand the product/service from the intermediaries thereby "pulling" it through the distribution system. Consumer promotions and advertising are the promotional tools commonly used in this case. Whether you are going to use a "push" or a "pull" promotional approach you need to take into account several additional factors when defining what promotional elements to emphasize and how much of each to use in your promotional mix. These factors include: the size and concentration of your target market, customer information needs, the promotion budget and the cost of each promotional element.

The 'promotional mix' is a term used to describe the set of tools that a business can use to communicate effectively the benefits of its products or services to its customers.

The promotional mix includes the following tools:

- Advertising
- Public relations
- Sales promotion
- Direct marketing
- Personal selling

The promotional mix is part of the wider marketing mix.

Why it is important?

If customers don't know what products and services you provide, then your business will not survive in today's competitive marketplace. Effective communication with your customers is vital to ensure that your business generates sales and profits. By taking the time to develop and implement an appropriate promotional mix, you will stimulate your target audience to buy your products or services – and manage this within a budget you can afford

9.3 OPTIMUM PROMOTION MIX

Promotion mix is the combination of various tools employed by the company in the advancement of the product in the market, raising its market share and also with other objectives like educating customer about the availability of superior product in the market compared to existing known brands.

Company needs to use various tools of promotion like advertising, sales promotion, personal selling, customer relationship, etc. But the real question what should be its proportion in the total promotional program. Depending upon the market conditions, the feedback received by market analysis, the importance, utility and applicability of each tool would be decided by the management of the company.

The term optimum promotion mix is indicating the level of results compared to the expectations from the adoption of particular promotion mix. It implies maximum return for minimum inputs in the form of expenditure on various promotional tools employed by the company. Naturally while thinking of optimum promotion mix the allocation of financial budget and its bifurcation or division over the use of various tools of promotion assumes importance. Based on practical requirement of the market the resources would be allocated for various promotion tools.

The optimum results expected may be in the form of attainment of particular sales figure within a stipulated time period. It can also be widening the market range and share of the particular product in certain market. It also implies conveying the message or reaching to the maximum nomber of customers – so as to pursue them in their buying decision. The optimum promotion mix specifically depends upon following factors.

- ***Product Nature:*** Depending upon the type of product the use of tool changes. For highly technical products or industrial products – more importance for personal selling would be appropriate. While in respect goods meant for daily consumption wide publicity would be more important.
- ***Nature of Market:*** It is another important aspect deciding the tool and its use. For purely local or rural market, the advertisement and display within local market or even during weekly market fairs in villages would be sufficient. While for national market spreading of message addressed to all segments of the market spread over the country through national medium would become necessity.

- ***Nature of Customers:*** Depending upon the nature of customers based on their educational and financial background, their buying habits, their preferences for branded and quality products, etc. ensuring the presence of the products in such places which are visited by them quite frequently needs becomes vital. For such customers opening a posh sales center in the largest market would be appropriate. Or using the major departmental stores within the chain of distribution would be more useful.
- ***Budget Allocation:*** Provision of Total Sales Budget and the period involved also attains more importance Based on the previous experiences about the suitability, utility and guarantee of results actual allocation of funds for various tools may be done. It is not enough just to allocate the funds but its utility needs to be judged at various intervals. If payment for particular promotion tool is not generating expected result it would be in the interest of the business to stop further use of that method. Reallocation of funds based on real results becomes prime requirement in such situation. So budget allocation must be flexible to accommodate, alter the division over various tools of promotion.

9.4 ADVERTISING

The American Marketing Association defined advertising as "any paid form of non-personal persuasion and promotion of ideas, goods or services, by an identified sponsor". Advertising is a paid, non-personal (mass) communication with an identified sponsor, with two distinct goals of informing (for persuasion and to influence) people (communication goal) and increasing sales (sales goal). Advertising is a paid form of communication in which the sponsor or the brand owner has made payments to the media to carry the message through their set of media vehicles. When there is no direct payment or no payment, we can term that brand promotion as publicity or public relations.

The communication process is non-personal, as nobody has personally conveyed the message i.e., there is no personal contact between the sender and the receiver of the message. When a retail salesman speaks to us at the sales counter, we can call it personal selling, as there is direct interaction between the receiver (buyer) and the sender (the salesman). Marketers use mass media also called non-personal media like newspapers, magazines, television channels and radio stations for promoting products and services.

The presentation of the message is for promoting ideas, places, concepts, persons, parties, goods, services and organisations, to create awareness and assist in the process of consumer decision-making. The awareness may lead to persuasion and hence the consumer may be triggered to take a decision about buying the product or service being advertised. We have seen advertisements of brilliant ideas like idea of a healthy baby, or a healthy nation through various health related campaigns. The family planning advertisements explain the concept of a happy family. Tourism advertising is an example of place advertising. Political advertising propagates concepts of a good leader (personal advertising) and a good political party (India Shining campaign). Advertisements of Clinic Plus shampoo, Jet Airways and income tax department are respective examples of product, service and organisational advertising. All these advertisements are meant for generating awareness, developing interest and finally buying the proposition for consumption.

The sponsor is identified in the advertisement either in the form of the brand name or name of the producer and marketer. The customer knows who the advertiser is, either by identifying the brand or by the company name, which makes it. This is relevant as the ownership of message communicated rests with the sender. If the sponsor is not identified then the objective of the message will be lost, as the potential buyer will not find out whom the communication talked about and may not search for further information in the form of enquiry or a final lead to consumption choice.

While all other marketing communication tools have predominantly a single set of objectives i.e., to maximise sales, advertising has dual goals i.e., to communicate and propagate about the product and also to achieve sales. Advertising is a method of marketing communication with pre-defined objectives.

The objectives of advertising are grouped as sales objectives (measured in terms of increase in sales, increase in market share and return on investment) and communication objectives (increase in top of the mind awareness, increase in comprehension, increase in brand attitude, etc.). We explain herewith a set of advertising's communication objectives for better understanding of the student.

- ***Generating Awareness (Informing):*** The first task of any advertising is to make the audience aware of the availability of the product or service and to explain exactly what it is.
- ***Creating Favourable Attitude (Persuasion for Attitude Formation):*** The advertising message should create a favourable attitude towards the brand, eventually leading the consumers to buy the brand or bring a change to their past purchasing pattern.
- ***Managing Customer Loyalty (Reinforcement of the Desired Behaviour):*** One of the key tasks of modern day marketing is to make the customers loyal and reinforce their purchase behaviour. This is because the competitor will always attempt to break the loyalty. In the game of taking away each other's market share, the marketer should repeat his marketing communication to strengthen the loyalty of existing customers and motivate them to build referrals for future sales

9.5 CHARACTERISTICS OF AN EFFECTIVE ADVERTISEMENT

Effective advertising meets the right marketing objectives. These can be short or long-term objectives, so it is important to measure the relevant factors. Important characteristics of effective advertising are described below:

- ***It is Pervasive:*** Goals of advertising apply to all types of organisations, for-profit as well as not-for-profit advertisers. Army advertises to increase recruits, Hindu Religious Charitable Trusts advertise to increase attendance at Bhagavad Gita lecturing, and politicians advertise for votes and businessmen advertise to increase sale and profitability.
- ***It is Multidimentional and Complex:*** It is perplexing. It seems to be simple, yet full of paradoxes. Research has shown that some simple conclusions are quite wrong. Advertising is influenced by anthropology, sociology, economics and what not.
- ***It is a Craft, an Art, and a Science:*** Advertising is a mix of three elements. Advertising must be crafted to be effective in stimulating consumer response and to do that art is necessary to captivate the audience of the advertisement. And it is a science because it is rule-based. There appears to be a lot of controversies on science versus art debate. People who think advertising is an art say that the basic purpose of advertising is persuasion and "persuasion is not a science, but an art" But the other school led by Hopkins has more appeal to managers, sets up advertising as something that can be controllable, capable of rationalisation and objective management, and ultimately freed from risk. Hopkins understood that

the promise of rules, control and elimination of risk appeal more to most managers than any other creative platform.

Philip Kotler and a large band of academia also think that it is rational in its assumptions about human behaviour and strongly positivist in its epistemology. It involves both efficiency and effectiveness. Efficiency refers to the ratio of benefits from advertising to its cost. Effectiveness refers to the achievement of goals

- ***Advertising is Non-personal:*** The various media are the non-personal channels of communication that people have invented and used and continue to use. These include newspapers, magazines, radio, television, billboards, transit cards, sandwich boards, skywriting, posters, anything that aids communicating in a non-personal way, ideas from one person or group to another person or group.

  They do not include people talking to each other: first, talking is personal and advertising is non-personal; and second, there is no way to use people talking to each other for advertising-word-of-mouth is not an advertising medium, since you can't control what is said (The best you could do is start a rumour, which will undoubtedly distort the message in the telling, and it is more the province of the PR department).

  However, the increased use of Facebook, blogs and Twitter has converted advertising from monologue to dialogue. Most of the big firms have made use of them to talk with the consumers. Consumers give their feedback.

- ***Identified Sponsor:*** The source of advertising is known. Identified sponsors mean who-so-ever is putting out the ad tells the audience who they are. There are two reasons for this: first, it's a legal requirement and second, it makes a good sense.

  Legally, a sponsor must identify herself as the sponsor of an ad. This prevents the audience from getting a misleading idea about the ad or its contents. For example, many ads that appear in newspapers look like news articles: same typeface, appearance, use of columns, etc. If the ad is not identified as such, the audience could perceive it as news about a product, rather than an attempt to persuade the audience to buy it.

  For example, an article that looks like a news article discusses a weight-loss plan. In a journalistic style, it talks about the safety, efficacy and reasonable price of the product. A reasonable person might perceive the "article" as having been written by a reporter who had investigated weight-loss programmes and decided to objectively discuss this particular one. Such a perception is misleading and illegal. Since it is an ad, somewhere on it there must appear the word "advertisement" to ensure the audience does not think it is an objective reporting of news.

  Second, it makes good sense for a sponsor to identify herself in the ad. If the sponsor doesn't, it is possible for the audience to believe the ad is for a competitor's product, thus wasting all the time, creativity and money that went into making and placing the ad.

  The advertising information which comes from a company, organisation or association, also contains the company's logo, address, telephone, e-mail, etc., which are identified as part of the message. Anybody or everybody cannot come out with an advertised message. It should come from a publicly functioning and registered body. Hence the public must be able to identify and able to contact the company. In fact, the whole idea of advertising is to establish contact between the advertiser and the prospective consumer. This contact is the desired end of an advertiser.

- ***Persuasive:*** "Persuasive" stands to reason as part of the definition of advertising. The basic purpose of advertising is to identify and differentiate one product from another in order to persuade the consumer to buy that product in preference to another. The purpose of this book is to discuss some basic elements of persuasion.

- ***Paid for:*** "Paid for" is pretty straightforward. If an ad is created and placed in the media, the costs of creation and time or space in the media must be paid for. This is a major area in which advertising departs from public relations.

  PR seeks to place information about companies and/or products in the media without having to pay for the time or space. PR creates news releases and sends them to news media in hopes they will be run. Often PR departments produce events that will be covered by the news media and thus receive space or time. There is no guarantee that the media will run any of the PR material.

  Advertising doesn't have that problem. If time or space is bought in the media, the ads (as long as they follow the guidelines set down for good taste, legal products and services, etc.) will appear. The drawback is that ads are clearly designed to extol the virtues of products and companies, and any ad is perceived by consumers as atleast partly puffery. PR pieces are usually not so perceived.

- ***Controlled:*** The word controlled differentiates it from personal selling and publicity. A door-to-door salesperson or a reporter who takes personal interest in giving publicity to a product of service may at times indulge in an uncontrolled exercise of his imagination. But advertisers cannot say anything in an uncontrolled manner. Advertisers have to decide about all aspects of their advertisement in terms of what and how much the public should know about a product or service.

  Another form of controlling aspect is that the mass mediated advertising message has a certain length and format. It cannot take unlimited space or time. And since both advertisers and advertising agencies are formal organisations, their personnel follow accepted rules and regulations in their operations and mutual dealings. Representatives from both the organisations meet several times and arrive at decisions regarding the duration, length and frequency. This is another aspect of controlling.

- ***Mass Media:*** There is involvement of mass media in advertising. Mass communication is different from communication as it occurs between large, heterogeneous and anonymous group of people (although we know of the qualities of target audience). Mass mediated messages are not only rapid but transient and 'non-personal'. Several messages from different sources bombard the senses of the receivers every hour. That is why, advertisers want to create unforgettable and easily memorable messages so that atleast a part of the message is absorbed by the potentials, the message must catch the attention, create interest and desire and motivate to act.

9.6 MAJOR PLAYERS IN ADVERTISING

Advertising is an integrated process requiring participation of various players working within and outside the organisation. It demands synergy between various key players in business, which include the advertiser or sponsor, advertising agency, support organisations, media and target audience or consumer. The business of advertising is spread across all these key players and by the interplay of these five key players, objectives of advertising can be achieved. Let us discuss the roles of each one of them in the context of advertising management.

- ***Advertiser or Sponsor:*** These are the persons or organisations that sponsor the campaign. They may be producers, marketing organisations, retailers, wholesalers, service organisations, labour unions, schools, government, politicians, individuals and countries who are into advertising. The advertising content or message is about them or their products or services. They pay the bills or bear the cost of the campaign.

- ***Advertising Agencies:*** Advertising agencies are independent business organisations that develop, create, prepare and place advertisements in media for sponsors or advertisers who want to communicate to customers about their goods or services. Advertising agencies offer potential advertisers (clients) a variety of specialised services leading to a final advertisement. Such services include the following:
  - *Copy Writing:* It refers to the written part of a print advertisement, including the headline, slogan and detailed description of product attributes. In broadcast media, the equivalent of this is called script writing. Whatever a customer comes in contact with in an advertisement is called a copy.
  - *Advertising Art:* It refers to illustrations, drawings, photographs or other forms of art put in the finished advertisement.
  - *Media Buying:* It involves specialists who negotiate rates with different media and gather other relevant information for buying space and/or time in suitable media.
  - *Client Servicing:* An executive of the agency assigned exclusively for handling a particular client. He is the connecting link between the client and the creative department in the agency. He serves the client by taking the brief from them and supplying them with the final copy.
  - *Other Services:* These services include market and consumer research, public relations and merchandising on behalf of the client. Many of the integrated agencies have facilities to provide other integrated marketing communication services.
- ***Support Organisations:*** Modern advertising calls for specialists not employed by either the advertiser (client) or the advertising agency. These consist of casting specialists, cinematographers, film/tape editors, photographers, and music and sound effect experts. So one needs a lot of outside help to produce a good advertisement. In addition, research has become a very important input for most advertising decisions, particularly to find out consumer attitudes, behaviours and profiles. It may not be possible for the agency or the client to carry out this function by themselves. Therefore, they hire the services of outside experts. All such organisations are known as support organisations. Film production houses, research agencies and model coordinating agencies are termed as support organisations.
- ***Media:*** Media is what an advertisement consumes. Advertising is a non-personal form of communication through a paid media. So media plays a crucial role in taking the advertiser's message back to the audience. Advertisement needs a channel through which the message can be conveyed to intended target audience. This channel is called a medium. Various types of media commonly used are print media in the form of newspapers, magazines, electronic media in the form of radio, television and cinema slides, and out of the home media like billboards, hoardings, moving vehicles and wall paintings.
- ***Consumers:*** Though the advertisements have wider audience, we will consider potential buyers and consumers as the most important player for advertising as these are the people for whom advertising is carried out. The advertiser tries to reach these people with his message. However, a broader term of usage is target audience.

9.7 TYPES OF ADVERTISING

Advertising is one of the popular mediums of brand communication, it is used in many forms and for many purposes. It is possible to classify advertising into various forms as mentioned below:

- ***Brand Advertising:*** This is the most popular form of advertising as all possible media including television is flooded with brand advertising. Brands like Surf Excel, Pepsi and Coke in India are shown more frequently on Indian televisions. These kinds of advertisements are done to build brands and develop unique brand identity for the firm.
- ***National Advertising:*** These advertisements are uniform across the nation and are released through national media covering the nation.
- ***Local Advertising:*** These advertisements are carried out in local and vernacular media to promote the product in a local region.
- ***Retail Advertising:*** These advertisements are brought to promote retail outlets and dealer points.
- ***Nation and Destination Advertising:*** These advertisements are brought out to promote a nation as a tourism destination. These are also used for promoting states, cities and tourist attractions.
- ***Political Advertising:*** These are done for political parties, politicians and individual candidates during elections and referendums.
- ***Social Advertising:*** These advertisements are brought out for a social cause like against AIDS, sexual exploitation, women trafficking, child labour and other critical issues in a society.
- ***Directory Advertising:*** These are the advertisements done in directories and yellow pages and followed by people while collecting a telephone number or a home address. People normally refer to these directories to buy products and services.
- ***Direct Response Advertising:*** These advertisements are used in any medium, which tries to stimulate sales directly. The consumer can respond by mail, telephone or internet.
- ***Business-to-Business Advertising:*** These kinds of advertisements are carried out targeting business and organisational marketers. These messages are directed towards retailers, wholesalers and distributors. These advertisements are placed in professional journals and trade association publications.
- ***Institutional Advertising:*** Institutions like colleges, universities, missionary of charities and large corporates bring out these advertisements. When these are brought out by large corporates we call them corporate advertising. The purpose of such advertising is to create a positive goodwill, which will ultimately contribute towards achieving the overall marketing and brand-building goal of the organisation. Many companies use such advertisements to build positive image in the eyes of the consumers and general audience at large.
- ***Public Services Advertising:*** Government and government-sponsored institutions bring such advertisements for the benefit of general public. They communicate a message on behalf of some good cause. Advertising professionals create these advertisements for public relations department of large corporates, highlighting a social cause.
- ***Interactive Advertising:*** These are typical internet based advertisement, which are delivered to individual consumers who have access to the World Wide Web.

Advertisers use web pages, banner ads, spots, pop ups and e-mail programmes to reach the target audience.

- ***Outdoor Advertising:*** These are forms of advertising in which the marketer uses out of the home media like wall paintings, hoardings, bulletins, kiosks and mobile vans for communicating with audience.
- ***Electronic Advertising:*** These forms of advertising use electronic media like television, radio, video and audio cassettes, electronic display boards, CD-ROMs for promotion of products and services.
- ***In Film Advertising:*** These are new forms of advertising in which brands are placed inside the film and actors are shown using these products during the movie for increasing its usage among the audience.
- ***Unconventional Media:*** These forms of advertising are of recent origin and use traditional art forms like jatraa, puppet dance and other local dance forms to communicate about products and services to the audience.

9.8 ADVERTISING MANAGEMENT PROCESS

As an advertising manager one needs to know how to decide on and design an effective advertising campaign. The advertising manager has to take a set of interconnected decisions which include setting up of advertising objectives, deciding on advertising budget, deciding on advertising message, deciding and planning on media and finally deciding on the methods to measure the effectiveness of advertising message. The message strategy also covers creative strategy. The above advertising decisions will guide the advertising manager in designing an advertising campaign covering a considerable period of time.

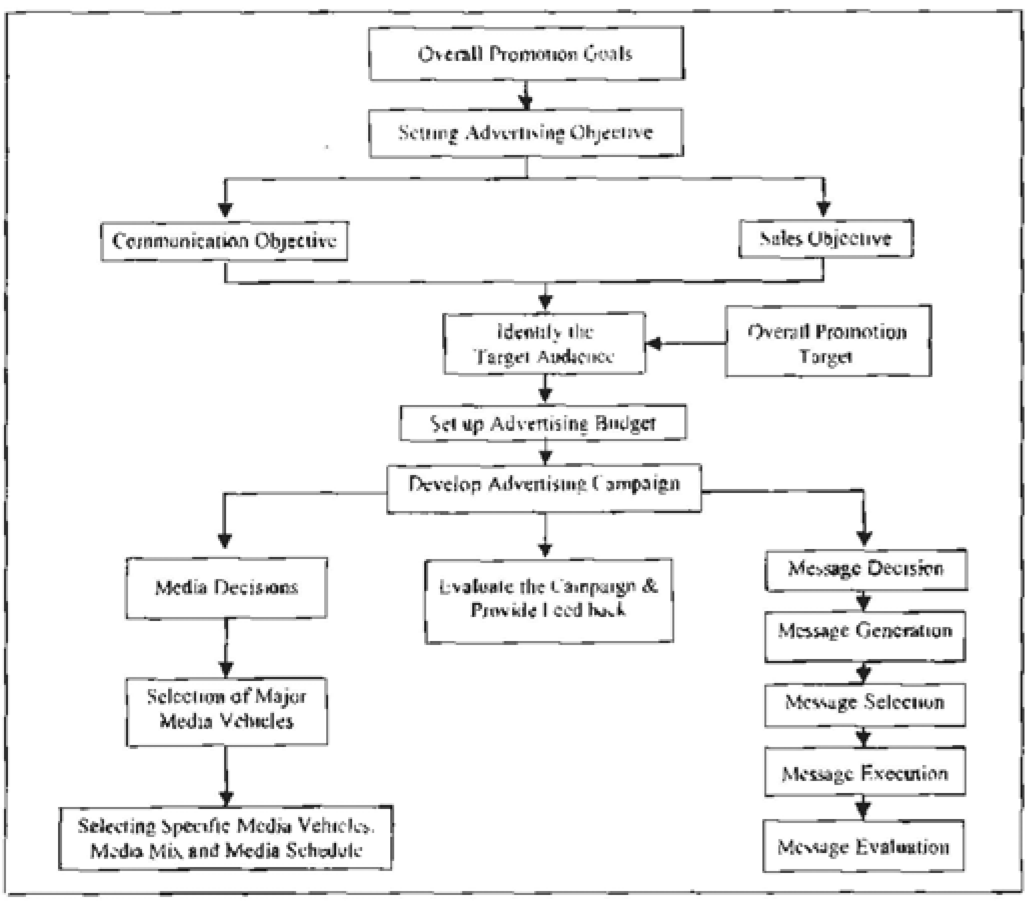

Figure 9.1: The Advertising Management Process

9.9 MEDIA MIX

After the message is developed, the next important task is to select the channel through which the message should reach the target audience. Media decision involves selection of the communication channel for the message. The media selection strategy must take into account the message the advertiser wishes to transmit. the target audience profile, the desired effect and available advertising budget to support media decision. Media mix decision involves two critical issues viz. which media or set of media will effectively take the message to the audience and what scheduling of media will neither create a dislike for the advertisement nor make the audience forget the message.

Let us examine various types of media in detail.

9.9.1 Print Media

Print medium comprises newspapers and magazines. The main difference between newspapers and magazines is the periodicity of their publication. Newspapers are published daily, whereas magazines are published periodically i.e., weekly, fortnightly, monthly, quarterly or biannually. In both cases, however, the message is conveyed through words in print, sometimes along with pictures or photographs. Words in print can be made as attractive, appealing and informative as possible, so also the accompanying picture. Let us discuss the distinct features of newspapers and magazines in following paragraphs:

Newspapers

These are published in different languages and are widely and regularly read by the educated public. Reading newspapers is a daily habit of people in cities, towns and literate people in rural areas. The readers have become more accustomed to advertisements in newspapers and look for them as a source of information. The circulation of some of the national dailies in India runs into several million.

Newspapers published in regional languages also have wide circulation, sometimes covering more than one state. Thus, as a medium of advertising, newspapers reach a very large number of people Secondly. newspaper advertising is relatively cheaper than other media like radio and television. The advertising space can be decided in accordance with need and cost. Newspapers provide the facility of repeating the message every day. if necessary. Besides, in case of urgency, there is a scope for inserting an advertisement without much loss of time. Finally, it is possible to select a particular newspaper suitable for the audience in view. For national coverage, a newspaper with nation wide circulation can be selected. For regional coverage, a newspaper published in a particular regional language can be selected for focusing in the target segment. Since the general public reads newspapers, this is found to be a suitable media for mass consumption goods. The life of a newspaper and advertisement is very short as people read the newspapers in the morning and put them aside afterwards.

Magazines

Magazines are also called periodicals as they are published at certain periodical intervals like weekly, fortnightly, monthly and so on. Different types of magazines are published for different categories of readers. For example, there are popular general magazines containing features articles, news and stories (India Today, Frontline). There are magazines for children (Twinkle, Chandamama, Cartoon Today) that include stories of their interest. There are magazines like Business India, Business Today, and Personal Finance for businessmen and executives. Similarly, there are sports magazines (Sports Week, Sports Star), women's magazines (Femina, Women's Era), professional magazines (Indian Journal of Marketing, Indian Medical Journal), film magazines (Star & Style, Filmfare) and so on.

From the circulation point of view, magazines are not as widely read as newspapers. On the other hand, each magazine has a distinct category of readers. Since magazines are generally read over a period of time, they have a longer life than newspapers. Thus, advertisers use magazines as a medium selectively depending on the audience to be reached. For example, medical books, drugs, surgical equipment and medical instruments are generally advertised in medical journals. Manufacturers of office equipment, computers and similar products advertise their products in business magazines and trade journals. On the whole, the cost of advertising in magazines is relatively cheaper compared to other media like radio and television.

However, magazines have certain limitations. One of them is related to the timing of publication i.e., periodicity of publication. Although magazines have a longer life, they are published periodically and not daily like newspapers. The other limitation is the lack of flexibility in the choice of size and design of the advertisement. The design cannot be changed as quickly as in the case of a newspaper. The circulation of a magazine does not always indicate the number of readers or the time devoted by the readers in reading it. A magazine with a limited circulation may be read more thoroughly and by more people than another magazine or newspaper with a higher circulation.

9.9.2 Direct Media

Direct response advertising is a type of interactive promotion that solicits a direct response from the prospect (target audience) without intervention of a third party. It is a two-way communication between the advertiser and the target audience. Direct advertising media are the channels through which advertisers communicate directly with the target audience. Major direct media are direct mail and advertising specialities.

Direct Mail

Sending personalised letters by post to the prospective customers is a method of advertising, which often pays. These communications are mostly in the form of circulars and sometimes accompanied by catalogues or price lists. The idea behind mailing circulars is to approach the customers directly with the advertising message and to arouse his interest in the product or service with detailed explanation in a convincing manner. A mailing list is thus prepared and the letter is carefully drafted with personalised wordings. The message having a personal touch is expected to be more effective. The information may be elaborated and hence likely to be more convincing. Addressed to individuals by name, the message can draw the attention of the customer without distraction from competing advertising.

Direct mail is not a suitable medium for advertising products meant for public use on a mass-scale. It is best suited for products where the people to be contacted can be easily identified. For example, a company manufacturing or distributing pharmaceutical products (medicines) may easily identify the doctors or chemists for direct communication of information relating to the products. But, for promoting the sale of (say) toilet soap or wristwatches, direct mail is not a suitable means of advertising. It would be expensive and time consuming to undertake direct mailing of circular letters to innumerable consumers of such products because customers are widely scattered. A booklet, pamphlets, catalogues, etc. sent by post to prospective customers also come under direct mail.

Advertising Specialities

These are free gifts like diaries, key rings, purses, paperweights, pens, calendars and T-shirts imprinted with a message along with the advertiser's name and address. Since they bear the name of the advertiser, they serve as reminders. This medium gives a personal touch. However, specialty advertising is an expensive affair and difficult to implement on large scale.

There are some other direct media like directory advertising and sponsored magazines. Directory advertising includes advertising in Yellow Pages, in telephone directory and specific trade or association directories. In the case of corporate sponsored magazines, the advertiser owns the magazine. For example, Jet Airways has its own in-flight magazines for passengers and many brands advertise in these magazines. Similarly, many hotels publish their own magazines for circulation to a specialised group of readers and hotel guests.

9.9.3 Out of Home Media

Outdoor media of advertising refers to the media used to reach people when they are out of doors or traveling rather than at home or in the office. Pamphlets, posters, hoardings (billboards), neon signs and electronic displays come under the category of media.

Pamphlets (printed handbills) are quite often used as a medium of advertising for sales promotion in a local area. Pamphlets are distributed among passersby at street crossings, railway stations or bus terminals, roadside market places, etc. Posters (message printed on paper) are generally fixed on walls, roadside pillars, lampposts. Posters are also fixed inside public transport vehicles like trams, buses and railway coaches. Space is provided on payment on these places. Neon signs and electronic displays are usually installed on rooftops or busy streets crossings to draw the attention of people. These are visible only in the night. Hoardings or billboards refer to large boards carrying the message, sometimes with life size pictures, and installed at public places. Hoardings are specially designed to draw the attention of the public. As the size of the hoardings is normally large, advertisements are visible from a distance.

Apart from the media discussed above, there are several other types of media used for out of the home advertising. Some such media are slide projection in cinema houses, films, exhibitions, display in showcases, etc. Exhibitions also provide opportunities for advertising goods. Consumer goods can be displayed and the use of industrial goods like machinery can be demonstrated in the exhibition. The limitation of exhibition is that their duration is restricted to specified period. Showcases displaying goods are located in public places like railway stations, airports, bus terminals, etc., to attract the attention of the public. Rent is payable for the space. Attractiveness of the products and the manner they are displayed are the main features of this advertising medium.

9.9.4 Electronic Media

The most important media is contemporary advertising in electronic media covering television, radio and other forms of electronic media. The biggest growth in media spending in last two decades has happened in electronic media. A certain level of credit should also be given to the growth of consumerism in India which is due to deeper penetration of television in Indian cities and villages.

The radio was a medium of information, but increased use of FM radio for entertainment has provided another platform for advertising. Other forms of electronic media usage include electronic display boards, video and audiocassettes and

CD-ROMs. Projection of slides in the cinema theatre before and during the film show is one of the cheaper means of advertising. Projection of short-films before the commencement of feature film is a relatively more expensive medium of advertising. But it has the advantages similar to that of television advertising. Moreover, these short films are usually of longer duration (about 5 minutes) than television ads. However, only local people present in the theatre view slides or films during the show time.

9.9.5 Interactive Media

India is experiencing a higher penetration in personal computer and internet usage rate in last few years. Many people are using networked computers and interactive media to gather information and entertain. Internet is now used as an alternative media for communication and dissemination of product information. Interactive media allows an individual to seek information, ask questions and get answers without any human assistance.

A company website or a storefront is one of the most common forms of Internet advertising. Consumers can find answers to frequently asked questions from the website through FAQ pages. A company website is an ideal way to reach consumers who want details about specific products, as interactive media can provide a large amount of information. The real problem with interactive media is driving traffic to the website and keeping the traffic for longer to navigate and shop on the site. The task is also to bring the traffic back to the site again and again.

Banner ads are the advertiser's advertising tools on other popular websites like Google, Rediff and MSN and then bring the customers through a link to their own website or virtual store front. Banners can go beyond achieving brand awareness because they are hypertext links to the advertiser's website. The advantage of such an advertisement is that the surfer has self selected the site, products and the process of navigation, so the marketer's message reaches only to the involved, highly focused market.

Pop-up boxes are web-windows and are refined versions of banner advertising. A visitor to a particular website might find the pop up window providing information about the site. The viewer typically has to close the pop-up window or enter into the advertised site.

Streaming media is multimedia content such as audio, video that can be accessed on Internet without being downloaded first. Software like Real Player and Apple's Quick Time allows the Internet users to access multimedia content through audio and video streams. When visitors use such software to view a program or an advertisement, they are said to be viewing streaming media. Streaming ads are more effective than banners and pop-ups. Today three dimensional computer generated video can create photo realistic results, which, users can either watch linearly or interact with it. Interactive animated environment will take internet advertising to a different sphere in the future. Streaming media advertisements will become more prevalent with the availability of higher bandwidth in broadband technology. Broadband technology allows transfer of data over Internet at high speed.

9.9.6 E-mail

Use of e-mail advertising as a promotional medium is gaining prominence day by day. E-mail as an advertising medium offers advantage of personification, speed and interactivity. Advertising via e-mail is very similar to traditional direct mail advertising. E-mail use makes it easier for the marketer to measure the effectiveness of the medium. A major disadvantage of e-mail advertising is that the receiver may not read it because he or she considers it spam. A spam is a term, used for unsolicited and unwanted e-mail. Effective marketers have started sending e-mails to people who allow them to do so voluntarily through a process called Permissive Marketing.

9.10 SALES PROMOTION

Today's market is full of offers and discounts. Marketers use multiple promotion programmes to entice customers to buy products and services. While objectives of advertising are long term and generally of brand building, sales promotion programmes often pursue a single goal i.e. to maximize sales in short run. The consumer promotion programmes are visible to the audience because they are often advertised in the mass media.

Companies also undertake trade or intermediary promotion and sales force promotion program to increase sales. This is important because in both direct and indirect marketing programmes, sales and trade play an important role in the product and information flow process. Hence, without adequately promoting the product at trade and sale force end, many consumer promotion programmes will not achieve its desired objective.

Sales promotion programmes are short term programmes aimed at maximising sales in a period of time but what is most important to remember is that the sales promotion programme should be designed in such a way that it does not affect the overall brand image of the firm and its product. Many companies offer sales promotion programmes more frequently. Though they are able to optimise their sales in a short run period but frequent use of sales promotion leads to brand value erosion. Sales promotions are increasingly being used to accomplish an ever-expanding list of marketing objectives.

9.10.1 Objectives of Sales Promotion

The objectives of sales promotion campaigns are:

- Increase sales volume
- Speed up the sales for slow moving producers
- Check the fluctuations in sales
- Attract new customers
- Launch new product(s) and increase trial
- Encourage repeat purchase
- Clearance of excessive inventories
- Motivate dealers
- Encourage dealers to participate in display and sales contests
- Gain advantageous shelf-space
- Increase store traffic
- Improve relationship with dealers
- Block competitors' moves
- Motivate sales force
- Supplement advertising and personal selling efforts
- Deflect customers' attention from price

9.10.2 Designing a Sales Promotion Programme

Designing a sales promotions programme includes the following steps:

- Deciding Sales Promotion Objectives
- Selecting Consumer Promotion Tools
- Selecting Trade Promotion Tools
- Selecting Sales Force Promotion Tools
- Developing a Sales Promotion Programme
- Pre-testing the Programme
- Implementing and Controlling the Sales Promotion Programme
- Evaluation of Sales Promotion Programme

9.11 SALES PROMOTION TECHNIQUES

Companies use various sales promotion techniques to promote their products. The intention is to increase sales, make a large customer base, encourage trial and encourage repeat purchases to stimulate consumers' purchase. The types of sales promotion techniques used by the company depend upon the sales promotion objectives set by the company.

9.11.1 Sales Promotions Directed at Consumers

We present herewith a selected list of consumer promotion tools.

- ***Prize Schemes:*** Prize schemes are one of the most important methods of sales promotion. A prize scheme is designed for both the public and the dealers. To make the scheme effective, it should be advertised through the product packages, retailer store point of purchase promotion, advertising in press, posters and televisions.

- ***Fairs and Exhibitions:*** Fairs or *melas* are very common in India. They play a substantial role in selling goods of different varieties to different people. District exhibitions have been arranged on an annual basis since 1930s to promote sales of Indian products. These exhibitions attract a lot of people especially from rural areas who find the exhibitions and fairs as a convenient place to make their purchases of consumer goods. Many state governments announce relief or concession in sales tax if products are sold through fairs, *melas* and exhibitions. Though the objective of visiting a fair is social in India, marketers use these fairs and *melas* as an opportunity to promote their products and services.

- ***Free Samples:*** These are used for sales promotion of consumer goods and fast moving consumer goods in particular. Free samples are generally used to introduce a new product and as a sales tool to attract the attention of prospective buyers. Such sample distribution not only saves time but also eliminates the need for inspection or testing of goods by the buyer. As a promotional device, it has limitations for e.g. it is very expensive to sample products. When buyers receive samples, generally they pay no attention to them. Many of the customers who receive free sample may not be the actual target buyers.

- ***Correspondence:*** This is an effective device for sales promotion. Companies send letters, brochures and other kinds of correspondence to prospective customers through correspondence. A specialised mail order and correspondence section can communicate very effectively with potential customers and established customers through its professionally written letters and documents.

- ***Catalogues:*** Catalogues play a dominant role. both in advertising and sales promotion campaigns. Catalogues are largely used when a firm manufactures different types of products with distinguished size, shape and other features. It is from the catalogue files that one can get the information required about different products of a particular manufacturer. A catalogue helps in getting orders, makes customers aware of the specifications, provides detailed product information and solicits product sales

- ***Advertising Novelties:*** Small, interesting and personally useful items can be used for sales promotion. To be effective, an advertising novelty should not be a high cost item; the novelty item should be usually eye-catching and should be useful to customers.

- ***Entertainment of Customers:*** Entertainment is essential when a standardised product is sold in bulk costs. In such a case, entertainment of customers acts as a primary promotional device. However, when the product is sold on a routine basis, customer entertainment is neither necessary not justified.

- ***Sales Contest:*** The main aim of sales contests is to motivate the sales personnel and increase sales, and bring more profit to the company. Under this scheme, special incentives in the form of prizes or awards are offered. Some of the contest prizes are cash awards, merchandise prizes, and special honor, e.g., winners could be requested to appear in a TV show

- ***Price-off:*** A price-off is simply a reduction in the price of the product to increase sales and is very often used in introducing a new product. A reduction in price always increases sales but the use of this technique should be carefully considered in the current market situation. According to various researchers on sales promotion, price-offs should generally be considered for introducing new brands or existing brands with new uses; for products/brands, which are already doing better than the competing brands and in conjunction with sales activities aimed at increasing retail distribution. In 1997, price cuts of as much as ₹ 4,000 to ₹ 5,000 on almost all product lines led to a whopping growth of 25 percent in television and refrigerator sales. Again, in 1998, Videocon announced a price reduction in color TV and refrigerator prices. The same price war continues in the Indian white goods industry and the customers are deriving value by continuous reduction in prices.

- ***Refund:*** A refund may consist of straight cash, coupon values or a product offered to the consumer in return for a proof of purchase of a specified product or service. Refund is also an effective tool of sales promotion. It is an offer made by a manufacturer to give back a certain amount of money to a consumer.

- ***Point-of-Purchase Material:*** Point-of-Purchase (POP) materials are sales promotion material displayed at the point of sales. The POP display persuades, reminds and gives details to the consumers about a specific brand. Many fast moving consumer goods and personal care product category companies use this method.

- ***Coupons:*** These are certificates entitling the owner of the certificate to a stated saving on the purchase of a particular item. The coupon can be with the pruduct, attached to the product, with the advertisement and can be sent by mail. The coupon redemption rate in India is low. Coupons are an effective tool for promoting mature products and inducing trials for new products.

- ***Price Packs:*** These are special packs given by the company in which consumers are offered a saving on the regular purchase. The amount of saving is flagged off in the package of the product. They can be reduced price packs (a pack sold at a reduced price, branded packs two related products banded together).

- *Premiums:* These are merchandise offered at a lower cost or free as an incentive to purchase a particular product. A premium is a product accompanied inside or on the package. A free in the mail premium is mailed to consumers when they send a proof of package. A self-liquidating premium is sold below normal retail price to consumers who request it.
- *Free Trials:* These trials invite prospects to try the product without cost with a hope of closing the sale in future.
- *Patronage Awards:* These are the value in cash or in other forms that are proportional to patronage of a certain vendor or group of vendors.

9.11.2 Sales Promotions Directed at Trade Partners

Following are some of the popular trade promotion schemes used in the Indian context:

- *Sales Competition:* In this case, the dealers are motivated to participate in the trade promotion program with a reward programme linked to their performance. For dealers, sales competition is arranged, prizes are announced or special offers are made if they show a substantial progress in sales.
- *Boosters for Dealers:* In a bid to reduce its mounting inventories and boost the sagging morale of its dealers, companies offer two percent discount to dealers on purchase of a truck if payment is made up-front. Also concessions on interest rates are offered to expedite payments. These incentives are drawn up after getting a feedback from the intermediaries. These kinds of programs are called boosters for dealers.
- *Price Offs:* If the tradesman purchases a certain number of units within an announced period, he obtains a straight price off or discount on the quantity purchased. This motivates the dealer to buy larger quantities and also support a new product. The trader is free to use this money for greater profit booking, advertising or consumer price reduction.
- *Free Merchandise:* These are the free goods given to intermediaries who buy a desired quantity of the product. The intermediaries are free to sell these goods or use for personal consumption.
- *Allowances:* Many companies provide different kinds of trade allowances in the form of advertising allowances and display allowances. The manufacturer bears the cost of store advertising and sometimes rewards for displaying his product or brand in the store.
- *Tradeshows and Conventions:* These are the tradeshows and conventions organised by industry associations and government within and outside the country. Companies sponsor their dealers and other intermediaries for participating in trade shows and conventions. This serves both as a motivator and display for company's products and services.
- *Specialty Advertising:* These are advertisements consisting of useful, low cost items bearing the company's name and address that people in the trade give to the prospects and customers.

9.11.3 Sales Promotions Directed at Sales Force

The other key player in product and brand promotion is the sales force, which also carries the message and the product to the end consumer. Companies organise sales force promotion programmes to motivate them to support the company's offerings. The tools used for sales force promotion include sales and contests, conferences and seminars, higher commissions and bonus and international tours. Many of the trade promotion tools are also used for sales force promotion.

9.12 PUBLIC RELATIONS (CORPORATE COMMUNICATIONS)

Many people confuse public relations with publicity, which refers to getting new media coverage. But public relation is broader in scope. As per the definition of Public Relations Society of America (PRSA), public relations help an organisation and its public to adapt mutually to each other. Public relations focus on an organisation's relationships with its public. By public we mean a group of people with whom the company or organisation has to interact in creating and delivering value.

9.12.1 Objectives of Public Relations Programme

Professional public relations programmes help business organisations accomplish their objectives. They can fulfill some of the objectives listed below:

- Presenting a favourable image and its benefits.
- Promotion of products or services.
- Detecting and dealing with its publics.
- Determining the organisation's posture in dealing with its publics.
- Goodwill of the employees or members.
- Prevention and solution of labour problems.
- Fostering the goodwill of communities in which the organisation has units.
- Goodwill of the stockholders or constituents.
- Overcoming misconceptions and prejudices.
- Forestalling attacks.
- Goodwill of suppliers.
- Goodwill of the government.
- Goodwill of the rest of the industry.
- Goodwill of dealers and attracting other dealers.
- Ability to attract the best personnel.
- Education of the public in the use of a product or service.
- Education of the public regarding a point of view.
- Goodwill of customers or supporters.
- Investigation of the attitude of various groups towards the company formulation and guidance of policies.
- Fostering the viability of the society in which the organisation functions.
- Directing the course of change.

9.12.2 Tools of Public Relations

Public relations have its origin in publicity with a broader focus as it addresses a wider set of audience. David Yale defines publicity as supplying information that is factual, interesting, and media newsworthy and not controlled by the company. Publicity, a critical aspect of public relations, is described as the process of planning, executing and evaluating programs that encourage purchase and consumer satisfaction through credible communication of information and impressions that identify companies and their products with the needs, wants, concerns and interests of consumers. Public relations involve activities related to persuading of customer and prospects to buy (or continue to buy) the firm's products and services. We list here a set of publicity tools.

- *Press Releases:* The press release is the basic building block of a publicity program concerned with story placement.
- *Fact Sheets:* Fact sheets include more detailed information on the product, its origins, and its particular features.
- *Press Kits:* The press kit pulls together all the press releases, fact sheets, and accompanying photographs about the product into one neat package.
- *Video News Releases:* The Video News Release (VNR) is the video equivalent of a press release.
- *Employee/Member Relation Programme:* Corporate public relations people often spend a great deal of time developing employee communication programs, including regular newsletters, informational bulletin boards and internet postings.
- *Community Relations Programme:* Many companies actively encourage their employees to take part in community organisations and local corporations are often major sponsors of community events and activities such as art presentations, blood donation drives and educational activities.
- *Financial Relations Programmes:* Financial relations people are responsible for establishing and maintaining relationships with the investment community, including industry analysers, stockbrokers and journalists specialising in financial reporting.
- *Industry Relations Programmes:* The primary public that industry relations specialists deal with is other businesses operating within the same industry, as well as trade associations.
- *Development/Fund-raising Programme:* This is a particularly important area for not-for-profit organisations such as art organisations, educational institutions and community service programmes.
- *Special Events:* Event marketing is rapidly gaining popularity. Besides linking their brands to existing events, marketers are also creating events of their own, designed to reach special targets.
- *House Ads:* A company uses various media like newspapers, magazines and broadcast stations to prepare advertisements for the internal public. Public relations program manages these house advertisements.
- *Public Service Announcements:* These are ads for charitable and civic organisations that run free of cost on television or radio or in the print media. These are called public service announcements.
- *Corporate Advertising:* This kind of advertising promotes corporate image or corporate viewpoints. These advertisements do not talk about products and services.
- *Publications:* Companies publish various publications in the form of pamphlets, booklets, annual reports, books, bulletins, newsletters, inserts and enclosures and position papers.

- *Speakers, Photos and Films:* Many companies use speaker bureaus to communicate with people about topics of public's interest. Some public like news media also want pictures and video films for use in their media.
- *Displays, Exhibits, Events and Tours:* Exhibits, displays, tours and events are important tools for public relations. Companies use displays and point of purchase materials for image building.

9.13 INTERNET

Internet revolution has developed an alternate way of living for us. Online buying has become one of the alternative living patterns in the twenty first century. People are showing higher interest in online marketing as it provides a real time, interactive and personalised environment for the marketers to transact on online storefronts.

Some of the important features of the internet advertising are discussed below:

- *Reaching the Target Audience:* The advertiser can select the right demographic profile and geographic location. Reaching the target audience even with an average ad message often proves to be far more effective than ineffectively reaching the potential customers with the most brilliant ad. Using sophisticated software, the advertiser can target the individuals with considerable precision using customised and interactive messages and there is almost no waste. Target marketing has never achieved this level of precision and cost effectiveness. Internet delivers ad banners to the most likely prospects and because of its interactive nature, allows the potential customer to know more about the product or service and make purchase online. Real-time reporting offers the flexibility to react more quickly.
- *Evaluation of the Ad:* Online advertising is a complex eyeball game. It is quite a challenging task even for highly talented creative professionals to develop effective ad banners on web. There are expert services available that evaluate banner creativity before executing a complete advertising schedule. This is a great advantage with the Web that within 48 hours the advertiser can learn which ads are more successful in achieving the highest audience response.
- *Frequency and Banner Burnout:* The advertiser can and should control and rotate banners in a series. In most cases, if an ad is seen too many times the advertiser is probably wasting the money. On the other hand, if the ad exposures are too few, the ad message is quite unlikely to have the desired impact on the target audience. It has been observed that after the fourth impression, ad banners have little impact and the response rates drop under 1%.
- *Placement of the Ad:* Placing of an ad on websites and web pages that have relevant content will almost always be visited more often by the target audience and effectively help branding efforts of the marketer. Media planners have the advantage of scanning numerous web pages carefully before placing the ad banners that match the laid down criteria.

9.13.1 Types of Internet Advertising

The various types of internet advertising methods are explained below:

- *Ad Banner:* Ad banner is the most basic type of Internet advertising. It is like a billboard that appears across the top or bottom of a web page and when clicked upon by the user, it sends him/her to the advertiser's site. The size of the banner is about four and a half inches wide by one and a half inch. Other names given to banners include side panels, skyscrapers and verticals.

- ***Website:*** A website is in fact a location on the Internet rather than an ad where anyone can come to find out about the company, its products and/or services. It is used as a brochure to promote the company's products or services. There are some companies who use their websites as a source of information and entertainment and encourage Internet users to visit often. Some other companies use the web as an online catalogue store, conducting business right on the Internet.
- ***Ad Button:*** An ad button is a smaller version of banner that often looks like an icon and usually serves to provide a link to advertiser's home page. Software technologies such as Java, Acrobat. Enliven and Shockwave have greatly enhanced the effectiveness of banners and ad buttons with full motion and animation. Some search engines, like WebCrawler and Excite offer audio features to advertisers that accompany a click on the banner.
- ***Sponsorship:*** Internet advertising of this form is becoming popular. Companies sponsor the total sections of a publisher's web page, or sponsor single events for a contracted period of time. Companies get considerable recognition on the website in the form of integrating sponsor's brand with the publisher's content as an advertorial, or with ad banners and buttons on the webpage, in exchange for their sponsorship.
- ***Interstitial:*** This is a relatively more recent form of internet advertising and is also referred as the intermercial. This is an animated ad that pops up on the computer screen while downloading a website by the user. Advertising age has reported that this type of ad is twice as effective as ad banners at generating higher levels of brand awareness.
- ***Classified Ad:*** This type of internet advertising offers an excellent opportunity for local advertisers and is becoming popular among advertisers. Many of the classified websites offer free classified advertising opportunities as ad banners of other advertisers already support these sites. A classified ad is quite similar to the ones that are seen in the newspapers.
- ***E-mail:*** Many internet advertisers send e-mails that contain text and video, streaming video, newsletters and news releases.

Check Your Progress

Fill in the blanks:

1. The ____________________ is a term used to describe the set of tools that a business can use to communicate effectively the benefits of its products or services to its customers.
2. The term ____________________ promotion mix is indicating the level of results compared to the expectations from the adoption of particular promotion mix.
3. ____________________ is an integrated process requiring participation of various players working within and outside the organisation.
4. ____________________ as an advertising medium offers advantage of personification, speed and interactivity.
5. ____________________ are generally used to introduce a new product and as a sales tool to attract the attention of prospective buyers.

9.14 LET US SUM UP

- Promotion refers to the mix of promotional elements that a firm uses to communicate with its current or potential customers about its products or services.
- The term optimum promotion mix is indicating the level of results compared to the expectations from the adoption of particular promotion mix. It implies maximum return for minimum inputs in the form of expenditure on various promotional tools employed by the company.
- Advertising is a paid form of non-personal communication by an identified sponsor through non-personal and mass media to inform, persuade and influence an identified audience.
- Sales promotion aims directly at inducing purchasers to buy a product. It involves demonstrations, contests, prices-off, coupons, free samples, special packaging and money refund offers. Personal selling involves a face to interaction with the customers wherein there is quick response and personal confrontation.
- Structuring of the sales force is important for any organisation. Sales force structures in most of the companies is based on geography, customers or products, or some combination of these factors.
- For a company marketing just a single product category and selling to different scattered customers in one industry, a territory-based structure would be suitable.
- Designing of sales force is a very critical task. It involves a series of steps such as determining the size of sales force, recruitment and selection of sales force, training and compensating the sales force, motivating the sales force and evaluating sales force performance.
- Public relations are a diverse field incorporating a wide variety of activities in support of both corporate and brand goals.
- In publicity the media rather than the company become the information source. The credibility that comes from a positive news story can never come from an advertising campaign
- Internet revolution has developed an alternate way of living for us.
- Online buying has become one of the alternative living patterns in the twenty first century. People are showing higher interest in online marketing as it provides a real time, interactive and personalised environment for the marketers to transact on online storefronts.

9.15 UNIT END ACTIVITY

Collect advertisements and promotional material of different companies and analyse what concept have been used by them to promote their products or services.

9.16 KEYWORDS

Promotion: It is the publicising of a product, organisation or venture so as to increase sales or public awareness.

Advertising: It is a means of communication with the users of a product or service. Advertisements are messages paid for by those who send them and are intended to inform or influence people who receive them.

Personal selling: It involves personal confrontation, response and cultivation.

Public Relations: It is a communication process that builds mutually beneficial relationships between organisations and their publics.

Communication: It is coordinated promotional messages delivered through one or more channels such as print, radio, television or direct mail.

Publicity: It involves giving public speeches, giving interviews, conducting seminars, offering charitable donations, inaugurating mega events by film actors, cricketers, politicians, or popular personalities, arranging stage show, etc., that attract mass media to publish the news about them.

9.17 QUESTIONS FOR DISCUSSION

1. Explain promotion and its importance in increasing profitability of an organisation.
2. Discuss the importance of optimal promotion mix.
3. What is advertising? What role does it play?
4. Who are the major players in advertising? Discuss the various types of advertising. Give some examples from the Indian scenario.
5. Discuss the various types of media options available to the marketers for promotion of their products and services.
6. State the sales promotion directed at the consumers and trade partners.
7. How does a company decide the structure of sales force?
8. Discuss the steps in sales force design.
9. List the tools available for corporate communications.
10. Explain the features of internet as a promotion mix element.

Check Your Progress: Model Answer

1. 'Promotional mix'
2. Optimum
3. Intermediaries
4. E-mail
5. Free samples

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UNIT 10

PERSONAL SELLING

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10.0 AIMS AND OBJECTIVES

After studying this lesson, you should be able to:

- State the concept of personal selling
- Identify the selling technique elements
- Discuss the ways of managing sales force

10.1 INTRODUCTION

Promotion is communication with potential customers. Almost every company can benefit from personal selling. While face-to-face with prospects, sales people can get more attention than an advertisement or a display. They can adjust what they say or do to take into consideration culture and other behavioural influences on the customer. They can ask questions to find out about a customer's specific interests. They can also stay in tune with the prospect's feedback and adjust the presentation as they move along. If and when the prospect is ready to buy, the salesperson is there to ask for the order.

The terms 'personal selling' and 'salesmanship' are often used without distinction. However there are some vital differences between the two terms. Salesmanship is seller initiated effort that provides prospective buyers with information and motivates them to make favourable decisions concerning the seller's products or services. 'Personal Selling' is a highly distinctive form of promotion. It is basically a two way communication involving not only individual but social behaviour also. It aims at bringing the right products to the right customers. It takes several forms including calls by company's sales representative, assistance by a sales clerk, an informal invitation from one company executive to another. It is employed for the purpose of creating produce awareness, stimulating interest, developing brand preference, negotiating price, etc.

10.2 PERSONAL SELLING

Personal selling involves a face to face interaction with the customers wherein there is quick response and personal confrontation. This allows for more specific adjustment of the message. The communication message can be adjusted as per the customer's specific needs or wants. It offers the opportunity to develop long-term familiarity and relationship. The salesman becomes the representative of the company. The emphasis accorded to personal selling varies across companies depending on a variety of factors such as the nature of product or service and the type of industry. Marketers of industrial products generally place more emphasis on personal selling and it plays a nominal role in companies selling low-priced consumer non-durables.

Salespersons, today, need to be smart, intelligent and well groomed. People see as the face of the company and make their views about the company by evaluating the salespersons. Today, the work of the salesman is not just limited to sales but cultivation of relationships. The selling and relationship building techniques include:

10.2.1 Prospecting

The first requirement in personal selling is narrowing down the selling effort to the targeted customers. Prospecting involves developing and following all the leads to identify potential target customers and this requires hard work and proper time management.

Some companies provide prospect lists or customer relationship database to make it easier for sales people. Customer enquiries from different territories through various sources, including company website can be passed along to salespersons. Companies can also acquire lists from commercial sources providing this service. Other sources to generate leads can be current customers, suppliers, resellers, trade association members, various directories, or cold calling (calling unannounced on offices and individual households), etc.

10.2.2 Pre-Approach

Once the salesperson identifies a set of prospects and customers, the salesperson should try to learn as much as possible about the individual or company needs. In case of a company, the salesperson should collect as much information as possible about the company's products, competition, market, potential sales volume, the purchase procedure, who is involved in influencing purchase decision, who is the final authority for making purchase decision, and their personal traits. Salespersons scan company websites, consult industrial reports and explore acquaintances. Kirk Smith, Eli Jones and Edward Blair report that properly organised salespersons usually develop some system because they have too many demands on their time.

The salesperson should consider the available facts and set specific call objectives that have measurable outcomes. The call objectives may not always be to make a sale The aim might not always be to get an order but it could be to qualify the prospect, information collection, or to get a sales order. In selling situations, where multiple calls are needed, specific objectives should be set for every stage. The salesperson should also determine the suitable approach method and time. In certain cases, this may require a phone call or a letter first. In some companies, telemarketing personnel get an appointment for the salesperson's call.

10.2.3 Approach

It is extremely important for the salesperson to determine how the customer should be greeted. The first impression is not just important but crucial to the success of a sales call. The salesperson must look and act like a professional.

A salesperson should select an approach that suits her/his personality and judgment about the specific sales situation. Homer B. Smith has recommended different approaches. Some proven techniques include:

- ***Ask Questions:*** Questions should preferably be relevant to sales presentation.
- ***Use a Referral:*** Preferably someone favourably known to the potential customer
- ***Offer a Benefit or Service:*** This can be quite effective if relevant to customer's need.
- ***Complement the Prospect:*** It is a good way to establish rapport if there is anything the prospect has achieved.

10.2.4 Sales Presentation

Salespersons can use different approaches to making sales presentation. The oldest method is the *stimulus-response* theory of learning (sometimes called *canned presentation*). This approach reflects the belief that a customer will buy a product or service if exposed to the right stimuli such as words, terms, pictures, actions, etc. The salesperson memorises the sales presentation, including when to do what, and with customer after customer repeats it.

A variation of stimulus-response based approach is *formulated presentation*. The salesperson identifies the prospect's needs and then makes a formulated presentation Not much attention is given to encouraging the prospect involvement in the sales presentation properly. The *need-satisfaction* approach starts with first determining the prospect's specific product or service related needs and tailors the presentation addressing those needs, although encouraging the prospect to participate in the presentation and do most of the talking.

Sales presentations can be made more meaningful with use of visuals, samples, video cassettes, computer-based simulations, testimonials, examples, guarantees and demonstrations. It is useful to leave brochures and booklets. For group presentation, now with technological advancements it is useful to make PowerPoint presentations prepared by professionals and offer the advantage of downloading them on the laptops of audience. Such professionally prepared presentations can use animation to clarify what cannot be explained by words.

10.2.5 Handling of Customer's Objections

All salespersons, encounter sales resistance and this resistance often takes the form of objections. Some of these objections may be rational or may be purely psychological. These may include product price and quality, company reputation, preference for competing brand, postponing purchase, irritation towards salesperson, etc. A salesperson should be prepared to face such objections. However, no matter how well-prepared a salesperson is, there is always a chance that a customer may raise some objection for which the salesperson has to come up with a solution immediately on his own. The salesperson must possess a good degree of presence of mind. In most situations, a good product and competition knowledge, and an understanding of human behaviour is of considerable help to salespersons.

The salesperson should maintain a calm approach, be positive and make sure the true nature of prospect's concern is understood. This requires first listening carefully, asking questions to clarify the issue, and then understand the true nature of objection. However, if the prospect doesn't really needs the product, nor has any resources to buy it, the salesperson must thank her/him for the time taken and leave business card with the assurance of great service any time in future.

10.2.6 Closing the Deal

Closing refers to asking for the order. After making an effective sales presentation, the salesperson is ready to ask for the order. Closing is the sum total of all the sales presentation steps. It is the very reason for which the prospect was contacted. Many salespeople, perhaps because they lack confidence, feel uneasy, fail to perceive the positive cues indicating the prospect's readiness, and fail to take the step of asking for order.

Salespersons should learn to interpret meanings of queries, comments, statements or prospect's body language signals. As soon as possible, the salesperson must try to close the sales. During the presentation, at some point the salesperson may use a *trial close*. This involves assuming that the prospect is ready to buy and might ask which model, size, colour, financial terms, quantity, delivery, etc. the prospect prefers. The prospect's response to such questions indicates how close the prospect really is for making the purchase. The salesperson might also indicate the advantage of buying now, or offer some incentive to act just then. The salesperson may also repeat strong points of agreement and take a decisive and confident approach and ask for an order.

In most business-to-business (B2B) buying situations, salespersons need to be skilled negotiators during the sales presentation. The negotiations may involve factors concerning price, quality, service, delivery, payment terms, etc. The salesperson should be able to negotiate and work out a final settlement to which both buyer and seller are willing to agree to its terms and conditions. It is a win-win situation for both the parties when negotiations are concluded successfully.

10.2.7 Follow Up

Post-purchase follow up is very important in building customer confidence and long-term relationship with the company. The salesperson contacts customer to learn if there are any problems and answers any questions that the customer does. He also contacts customers regularly to ascertain that they are happy with their purchase and offered services. Relationship selling not just focuses on selling the product but to understand changing customer needs, and solving their problems. All the company departments must understand the value of customer and provide appropriate backup to sales people to strengthen this relationship. As long as both the customer and the seller are successful in achieving their goals, the relationship continues to prosper.

10.3 SALES FORCE MANAGEMENT

We will discuss the topic of sales force management in two parts -- sales force structuring and designing the sales force.

10.3.1 Sales Force Structure

Structuring of the sales force is important for any organisation. Sales force structures in most of the companies is based on geography, customers or products, or some combination of these factors. For a company marketing, just a single product category and selling to different scattered customers in one industry, a territory-based structure would be suitable. If a company manufactures several different product categories and sells to different types of customers, it might find a customer type based sales force.

- *Territory based:* It is a fairly common approach for structuring the sales force. Field sales people are assigned with the responsibility for direct or missionary selling in a given geographical area. This sales structure is fairly common among FMCG companies. The sales person would sell the company's full range of products and each territory is treated as a separate profit centre for the purpose of analysis and evaluation of sales personnel. The selling expenses are generally low because the sales person operates in a limited area.
- *Product based:* The sales people concentrate all their efforts on particular product lines, brands or individual items. This is often the case with companies who have adopted product management or brand management system. Product based structure suits companies with highly unrelated and technically complex products and in large numbers. For example, marketers selling mainframe computers have product based sales force structure, or companies dealing in complex laboratory equipment, often have product specialists.
- *Customer based:* Those favouring customer based sales force structure believe that it is better to focus on customer needs and build close relationship with clients. The customers may require specialised knowledge of their industry. Companies selling to diverse industries might structure their sales force based on customer types. Xerox, IBM and Compaq are customer-based organisations. Some large publishers of textbooks have separate sales people who are specialist in different disciplines, and some large office equipment manufacturers use sales people serving only educational institutions.

10.3.2 Designing a Sales Force

Designing an effective sales force involves the following steps:

Determining the Size of the Sales Force

Companies have to determine the size of the sales force they need. Walter J. Semlow's is the oldest and best-known method to determine the size of sales force. According to this formula, a company may add more salespeople until the last additional member equals the profit of the sales volume, the sales person is expected to produce. He expressed this approach to calculating the size of the sales force in a simple formula:

$$S(p) - C = 0$$

Where,

S = Expected sales volume each additional salesperson will produce.

p = Expected profit margin on sales.

C = Total cost of maintaining the additional salesperson in the field.

The main weakness in this formula is ascertaining the accuracy of sales volume the additional sales person will produce. There are also certain complex quantitative models available to determine the sales force size.

Sometimes companies determine the sales force size by making calculations as under:

- Total number of customers in classes (A+B) based on their estimated sales volume.
- Multiply each customer class with its call frequency to determine the workload.
- Average number of customer calls per salesperson per day.
- Total number of working days in a year.
- Divide the total number of calls in a year by the average number of calls per salesperson per year.

Recruiting and Selecting the Salespersons

It is important for companies to employ and maintain an effective sales force. The management first develops a set of qualifications that each applicant must satisfy to be considered. Recruitment and selection process involves developing a list of sales positions and selecting candidates to fill the vacancies. Companies can recruit from several sources, such as personal recommendations, educational institutions, employment agencies, advertising the vacancies and other sources.

The process of selection varies widely from one company to another. It could be just one personal interview, or a more detailed process involving a preliminary interview, group discussion, written test and detailed personal interview, and physical checkup. Whatever be the recruitment and selection process, it should satisfy the company needs to ascertain specific information about potential candidates.

Through experience companies develop more confidence in a recruitment and selection procedure that has been found to be more appropriate for a particular company. Recruitment and selection of salespeople is an ongoing activity and not just one-time decisions. As things keep on changing in marketing environment, companies develop different marketing strategies accordingly, and salespersons should be available with required new skills.

Training of Sales Persons

It is not uncommon in some companies to send the selected candidates into the field without any formal training. This often leads to sales people having bad experiences and some decide to leave the job. This also causes companies to waste money.

To design a training programme, the management focuses on determining the following training-related issues:

- The aim of the training programme.
- The course content.
- Methods to be used.
- Who should conduct the training?
- The place where training will be conducted.
- Duration and time of training.
- Training evaluation.

Well-managed companies arrange training programme for newly selected salespersons. The training period may range between a few weeks to few months.

The training programme for fresh salespeople is generally comprehensive. The course contents might cover company policies and procedures, job responsibilities, company products, their benefits, and applications, problems, services, warranties, terms and conditions, distribution, selling skills and methods. For experienced salespersons, there might be refresher courses for existing products/services, for new products and certain selling skills.

Companies use a wide range of training methods depending on the training objectives and may include lectures, role-plays, demonstrations, case method, video tapes and films, on-the-job training, etc. The training programme may be conducted by the managers in sales, senior sales people, technical experts within the company or outside experts

Sales Force Compensation

Sales force compensation programmes vary considerably across industries and also within the same industry. Before determining the compensation programme, the company must examine the importance and value of salespersons to the company's selling efforts based on objectives, tasks, responsibilities, and required qualifications and experience.

The company should develop a compensation plan that would attract, motivate and retain top-quality sales persons It should give adequate income security, incentive for achieving more, freedom and allow management of the necessary level of control. The compensation should be fair, flexible, economical to the company, easy to administer and understand by salespersons. The company should also consider what is generally the going rate in the industry.

Companies take care to reimburse sales persons for selling expenses, offer certain employee benefits and provide an adequate income. Generally, compensation programmes use one or more of the three basic approaches.

Under *straight salary* system, salespersons receive a specified monetary payment per month or per week. The salary may be raised at specified intervals (every year or every two years, etc.).

In case of *straight commission* plan, a set percentage of sales or different levels of percentage on different levels of sales are used.

Under *combination* approach, salespersons are paid both a fixed salary and commission on sales volume. Most companies use a combination compensation plan. The reason for this plan's popularity is that it provides all that is required for a good system of compensating salespeople, both, financial security and incentive for higher than average performance. In additions to, salary and incentive, some companies provide additional perks such as company car, telephone and laptop computers to their salespeople.

Motivating the Sales Persons

Motivating sales force refers to making of deliberate efforts so that salespeople do their jobs well. The first-line manager plays an important role in accomplishing this objective. The majority of salespersons require encouragement and special incentives because of the very nature of field working. Their working hours are irregular and they usually work alone, face tough competition from sales personnel of other companies, and moreover hardly succeed on every call.

The manager must understand the behaviour of salespeople to lead and motivate them to obtain high levels of productivity. According to Kenneth Blanchard, to motivate salespersons, managers need to acknowledge and reward achievements and progress more often than just once a year. The sales management must appreciate the fact that salespeople are human beings and they have needs and wants, and accordingly create a climate that allows them to satisfy these needs and wants in an agreeable manner.

Company should provide congenial working conditions, reasonable job security, opportunity to achieve more and excel. Salespersons are more likely to be motivated to do well if they really believe that their efforts will result in appropriate rewards. Research findings indicate that money, recognition, respect, promotion, personal growth and a sense of accomplishment are important motivators for salespersons. The importance of these factors varies across countries and cultures.

The rewards should be both financial as well as non-financial (psychological) for outstanding performance and achievements. Occasional sales contests, appreciation letters and sales meetings are also helpful in motivating salespersons.

Defining the Sales Quota

Companies develop annual sales forecasts. Sales management assigns quotas to different sales regions based on potential. Typically, the total of these sales quotas is a little more than the forecasted figures. The whole idea is, if some sales personnel fail to achieve their sales quota, the company might still be achieving its sales targets. This is believed to be an approach to stimulate better performance from sales personnel.

Regional managers further divide the quota among area managers according to the potential of different areas. Finally, area managers allocate quotas to salespersons operating in their sales territories. Area managers remain in closer contact with their salespersons and have deeper understanding about their capabilities and their territories. Based on these factors and company policy they may set higher but attainable quotas, modest quotas that majority of the salespersons can achieve, or variable quotas based on individual sales persons' capabilities.

In some companies, there is a general approach to quota setting and area managers determine the percentage increase in area quota as compared to last year's achievement. The area managers add one or two percent from their side in the assigned quota, to be on the safer side and divides this among salespersons based on their last year achievement. Salespersons generally consider this approach as fair because everyone gets the same percentage increase in last year's achievement.

There is always a possibility that the quota set, might be less than what an individual is capable of achieving and also the quota might be high to achieve. Accuracy of sales forecasts under the assumed set of controllable and uncontrollable market conditions may also influence the sales performance of salespeople.

Evaluating the Performance of the Salespersons

Evaluation of any business activity is ideally related to set objectives and standards. The areas of performance evaluation with respect to salespersons, generally focus on some combination of knowledge, skills, performance and personal characteristics. The evaluation criteria vary across industries and from one company to another. Well-managed companies establish standards for evaluating sales performance and also the intervals at which this would be formally done.

Johnson, Kurtz and Scheuing mention some generally accepted principles of evaluation salespeople:

- Must be realistic and reflect territories, competition, experience, and sales potential, etc. as they are.
- Salesperson must know when and how performance is evaluated.

- The evaluation must show a salesperson, what needs improvement and how to do it.
- It must be motivating and stimulate the salesperson to improve.
- It must furnish useful information about a salesperson and the work territory.
- The salesperson must be involved in her/his evaluation.
- It must be based on objective evaluation standards and not opinions.
- It must take into consideration the changing market conditions.
- It must be specific to fit the company and the salespeople
- It must be economical.

Most companies use only quantitative criteria to evaluate the performance, and some other believe in making quantitative as well as qualitative evaluation of salespeople. Quantitative criteria focus on measuring the nature and desired levels of performance, and qualitative aspects appraise those performance characteristics that affect sales results. Various factors on which salespeople have very little or no control also affect sales performance, such as level of promotional support given to salespeople from the company, competition and changing economic conditions.

10.4 FIVE MYTHS OF SALES PROSPECTING

The myths associated with sales prospecting are discussed below:

Myth 1: Prospecting is Sales

This is the number one mistake made by small business owners and sales representatives. Prospecting is a separate function from sales, just as marketing is distinct from sales but closely linked.

Prospecting is simply discarding all the unqualified leads and retaining the good leads. The job of prospecting is to find qualified leads that may buy your product. Only after this process is complete, should the selling begin.

Myth 2: Prospecting is a Numbers Game

The old school of prospecting for business relies on contacting large numbers of cold contacts. However, quality supersedes quantity. You must find prospects that have a propensity and possible motive to buy your product or services.

There are a large number of financial houses, who provided sales representatives with contact lists for mortgage and investments. The only problem was most prospects lived in a low income area and were highly unlikely to buy any financial product.

Myth 3: Scripts are for Kids

Many sales people insist on prospecting without any script. Scripting provides the framework of a successful prospecting campaign. It allows you to test what key benefits and qualifying questions work. The script must be personalised by the individual so the presentation does not sound "canned".

Myth 4: Prospecting takes Time

Prospecting takes only a few minutes to determine whether the lead wants your benefits and can afford your company's product or service. Don't waste time on people unmotivated or unable to buy. Remember to focus on the good leads.

Myth 5: Close them on the Appointment

Far too many sales representatives focus on setting the appointment. "Would Friday morning or afternoon, be better for you?" Next week only 20% of appointments show. What went wrong?

Prospects will sometimes find it easier to agree to an appointment rather than saying that they are not interested. If a prospect is remotely interested, then offer a much subtler approach, send them an information package. This allows you to build interest and turn the lead from warm to hot.

Sales prospecting done right can have a huge impact on your sales revenue. It doesn't take an armor suit and great courage to deal with the fear of rejection during prospecting. Just keep an open mind to challenge the old school of sales and the myths of prospecting.

10.5 QUALITIES OF A GOOD SALES PERSONNEL

Some people say salesmen are born salesmen, while others believe that training can help in making good salesmen. Irrespective of these opinions, good salesman has certain qualities and abilities as a result he is able to perform better than others. In this section, we would discuss qualities of a good sales person. Philip Kolter has identified two basic qualities of a good sales person namely, empathy and persuasion. But others have listed more. Some of the qualities of a good sales person are as follows:

- ***Ability to estimate customer's needs and desires:*** He is alert and quickly determines what the customer wants and the best way to sell.
- ***Ambition:*** He likes to do a good job and is interested in getting ahead with your company.
- ***Appearance:*** Appearances mean a lot today and the successful salesman is neat and organised. He presents himself well in person. Also, he keeps his desk, books and manuals neat and ready for use.
- ***Business sense:*** He understands that you are in business to make a profit and quickly learns the ins and outs of your organisation.
- ***Courtesy:*** He reveals a sincere desire to help customers and treats them as guests even when he visits their places of business.
- ***Creativeness:*** Imagination, vision and the ability to create ideas make your man dynamic.
- ***Curiosity:*** He wants to learn all he can about his job, his products and his customers.
- ***Enthusiasm:*** There is nothing that can drain away a prospect's buying interest more than a half-dead salesman. Dullness should be left at home. A salesman must radiate enthusiasm during and after the sales call.
- ***Figure sense:*** He should have the mathematical ability to figure and fill up order form correctly and to make the necessary reports.
- ***Flexibility:*** A good salesman is able to adapt himself to a variety of customers. Each contact may require a adapting the sales talk, speech habits and even appearance.
- ***Friendliness:*** A salesman should be able to make people like him and he must like to meet people.

- *Handwriting:* He must write legibly so that his paper work can be readily understood by his office people and by his customers.
- *Health:* Good health generates energy and energy is needed to sell. Poor health prevents many salesmen from fulfilling their potentials.
- *Integrity:* A salesman must be trusted to do his job well. He cannot help but he is successful when his customers trust him.
- *Interest in his job:* He likes selling and working for your company.
- *Knowledge:* In some business. an applicant must also have a through knowledge of the highly specialised products or services his employer offers. In some cases, this knowledge can be gained only by years of experience.
- *Loyalty:* He must be able to impress upon his customers the idea that his company is the best in the business.
- *Mental abilities:* He has the intelligence to understand your products and those of your competitors. He must know how to use words, to understand and direct people' and to remember names and faces. He should also be able to understand prospective customers and know how to act under varying conditions.
- *Motivation:* He must have more than just an interest is selling. Psychologists have found certain predominant patterns in men who have become really successfully sales men. They live in the present and not in the future. They do want power over others and prefer not to work under close supervision.
- *Originality:* He is constantly searching for new ideas to be used in selling your products and will suggest better ways of doing things.
- *Persuasiveness:* Very few products of any type actually sell themselves. They must be sold. Your personnel must have the ability to make people agree, there are situations when persuasiveness may vary keeping in view the consumer's response.
- *Poise:* His maturity is reflected in his behaviour. He should be positive and confident, energetic and businesslike. He should be able to demonstrate to your customers that he knows what he is talking about.
- *Self-starter:* Your man works well without constant supervision and is able to make decisions on his own.
- *Speech:* He can speak clearly and maturely in a natural tone. He can emphasize sales points with sincerity and friendliness.

10.6 SELLING AS A CAREER

Sales offer a good start for those who desire for a managerial career. Generally, youngsters prefer doing sales than any other job as it gives them the opportunity to work with the customers directly. As a salesman, youngsters can understand how the business works from the bottom line. Following are the specific benefits that a salesperson may enjoy if he is focused on his work:

- *Financial Rewards:* Salespeople are considered as the best salaried employees in the business. They earn more than the non-sales employees of the company. Other than the increment in the salary on an annual basis the salespeople earn money in the form of the commission, bonus, cash prizes, etc. Commission is given to the salespeople on the basis of order size or profitability registered by the company. Bonus is given to the salespeople when they exceed their predetermined target. Salespeople can make as much money as they want by getting the business to the company, which depends on their ability to sell. This rewards system attracts lots of youngsters towards selling career.

- ***Perks:*** Apart from earning good money, salespeople do enjoy the facility provided to them by the company in the form of "Perquisites or Perks". It includes car, apartment, mobile phone, laptops, etc. which acts as a motivational factor for the salesman. Also it may be in the form of discount coupons of restaurants, vouchers of branded apparels, ticket for cricket matches, etc. These perks are given to those salespeople who perform well and give profits to the company. They are known as the non-cash rewards. For example, Bank of America gives its employees the shopping vouchers when they achieve their target.
- ***Recognition:*** Sales career offers the salesman a high degree of recognition. Other than the rewards in the form of cash and kind, the successful salesman get recognition from the top management. The salesman is then asked for their advice in important decision regarding sales management. Also, he gets the opportunity to train his subordinates.
- ***Independence:*** In the sales job, the salesman is empowered by their seniors to perform the given responsibilities with full autonomy. Successful salespeople are free to set their own working hours, their seniors hardly supervise them and they develop their unique style of selling. Even after enjoying that much liberty, salespeople still enjoy the same benefits that are given to the other employees of the company. If the salesman achieves the target of the day by afternoon, he may be allowed to leave and rest at home also.
- ***Adventure and Satisfaction:*** Sales job is very challenging and adventurous at the same time, as the salesman deals with a plethora of varied customers daily. Each customer has different needs and problems which bring freshness in the work. A successful salesman does not get bored of his work because he can sense the novelty of his work each time he ventures out. Also, his job gives him the satisfaction in terms of money and providing the customers what they need. The feeling of solving the problems of the customer by offering him a suitable product gives satisfaction to the salesman. Today, the youngsters prefer working in an environment of a challenging job. Selling is a best suited career option for those who love adventure and challenges.
- ***Job Security:*** The salespeople are considered as the lifeblood of the organisations. When it comes to hiring and firing the staff, sales staff is hired first and fired in the end in any organisation. When it comes to lay-off, the organisations do not contemplate in removing the sales personnel as they are the only source of getting the business or orders. This signifies the importance of sales personnel in an organisation.

10.7 FUNCTIONS AND DUTIES OF A SALESMAN

Personal selling involves much more than just selling products and services. Its aim is to provide satisfaction to the targeted customers by offering them value addition and want satisfying products and thus generate revenue and profits for the business. Thus, salesman is goal oriented.

The sales representative is usually the firm's major source of public relations. In their day-to-day duties salespeople represent the firm and its products as in the above figure a sale representative is showing a saree to the target to show its peculiar attributes. Their personalities, attitudes, dealing with customers, cooperation and empathy not only influence their sales potential but also reflect on the organization they represent. Communicating with buyers more often creates goodwill, improving customer satisfaction and loyalty. A salesman is responsible to perform various functions such as:

- ***To attract customers for the business:*** A salesperson is supposed to attract customers to buy the firm's merchandises. This will lead to increase in sale. New customers may be attracted through proper interaction or by providing full information about the product by distribution of samples, displays of products, etc.

- ***To satisfy the needs of the consumers:*** Modern marketing aims to recognise and meet the needs of the customers. He has to study and identify the demand of targets before offering them any goods or services by asking them directly about their expectations. Like a Eureka Forbes sales representative generally starts their conversation with the client by asking for a glass of pure water and then testing the purity of available water with their instrument. On the basis of their result of purity of water they start introducing their product like for hard water they can offer RO and for soft water, they can offer and demonstrate the utility of different models of aqua guards to the clients to satisfy their demand for pure water. Thus, the identification and satisfaction of the customers' needs is more important as compared to selling the goods or services.

A salesman is always ready to handle the objections of the customers. Duties of a salesman are discussed below:

- ***Selling:*** The fundamental duty of a salesman is selling. This duty includes meeting the prospects, presenting and demonstrating the products, inducing the prospects to buy, taking orders and effecting sales.

- ***Guiding the buyers:*** A salesman should guide the buyers in buying the goods they want.

- ***Attending to complaints:*** A salesman should attend to the complaints of the customers immediately and try to settle their grievances quickly and sincerely.

- ***Collection of bills:*** Sometimes, a salesman may be required to collect the outstanding bills relating to the goods sold by him. In such a case, he has to collect the bills and remit the amount to his firm.

- ***Collection of credit information:*** A salesman may, sometimes, be required to collect information about the credit-worthiness of the customers. In such a case, he has to collect detailed information and submit it to his firm in time.

- ***Reporting:*** A salesman, especially a traveling salesman, is required to send daily, weekly or monthly reports to his firm, providing information about the calls made, sales effected, services rendered, route schedule, expenses incurred, business conditions, competition, if any, etc.

- ***Organising:*** A salesman, i.e., a traveling salesman, is required to organise his tour programme. He has to prepare the route and time schedules for his tour so as to systematize his sales efforts.

- ***Attending sales meetings:*** A salesman is required to attend the sales meetings convened by his employer at periodical intervals to discuss the marketing problems, sales promotion activities, sales policies, etc.

- ***Touring:*** A traveling salesman has to undertake touring regularly to cover the sales territories assigned to him.

- ***Arranging for packing and delivery:*** A salesman, i.e., a counter salesman, has to arrange for the packing of the goods sold and the delivery of the packages to the buyers.

- ***Window and counter displays:*** A salesman, i.e., an indoor or counter salesman, has to arrange for the window and counter displays of the products in an attractive manner so as to attract or induce the prospects to buy.
- ***Promotion of goodwill:*** Every salesman has to build up satisfied clientele (i.e., customers) for his employer and thereby promote the goodwill of his firm.
- ***Recruiting and Training:*** Recruiting new salesmen, imparting training, by accompanying them while making sales calls.
- ***Working with Middlemen:*** Salesmen establish direct relations with middlemen — distributors, wholesalers, etc., and collect market information and pass it on to their firm.

Check Your Progress

Fill in the blanks:

1. The first requirement in personal selling is ____________ down the selling effort to the targeted customers.
2. A variation of stimulus-response based approach is formulated ____________.
3. Salespersons should learn to ____________ meanings of queries, comments, statements, or prospect's body language signals.
4. ____________ selling not just focuses on selling the product but to understand changing customer needs, and solving their problems.
5. Companies can ____________ from several sources, such as personal recommendations, educational institutions, employment agencies, advertising the vacancies, and other sources.

10.8 LET US SUM UP

- Personal selling involves a face to interaction with the customers wherein there is quick response and personal confrontation. This allows for more specific adjustment of the message.
- Prospecting involves developing and following all the leads to identify potential target customers and this requires hard work and proper time management.
- A salesperson should select an approach that suits her/his personality and judgment about the specific sales situation.
- Sales presentations can be made more meaningful with use of visuals, samples, video cassettes, computer-based simulations, testimonials, examples, guarantees and demonstrations.
- A salesperson should be prepared to face such objections. However, no matter how well-prepared a salesperson is, there is always a chance that a customer may raise some objection for which the salesperson has to come up with a solution immediately on his own.
- After making an effective sales presentation, the salesperson is ready to ask for the order. Closing is the sum total of all the sales presentation steps.
- Post-purchase follow up is very important in building customer confidence and long-term relationship with the company.

- Well-managed companies arrange training programme for newly selected salespersons. The training period may range between a few weeks to few months. The training programme for fresh salespeople is generally comprehensive.
- Evaluation of any business activity is ideally related to set objectives and standards. The areas of performance evaluation with respect to salespersons generally focus on some combination of knowledge, skills, performance and personal characteristics.
- Sales offer a good start for those who desire for a managerial career. Generally, youngsters prefer doing sales than any other job as it gives them the opportunity to work with the customers directly.
- Communicating with buyers more often creates goodwill, improving customer satisfaction and loyalty.

10.9 UNIT END ACTIVITY

A good sales force management has a direct relation with profit of company. Focusing on the said statement, share your experiences of communicating with sales persons during the purchases you done in last visit to a retail store of clothes apparel.

10.10 KEYWORDS

Personal Selling: It is a face-to-face selling in which a seller attempts to persuade a buyer to make a purchase.

Prospecting: It is the first step in the sales process. which consists of identifying potential customers, aka prospects.

Training: It is the act of increasing the knowledge and skill of an employee for doing a particular job.

Recruiting: It is the process of employing new people to work for a company or organisation

Compensation: It can also be money. a payment meant to give someone a fair exchange for their effort and output.

Sales Quota: It is the sales goal set for a product line. company division or sales representative. It helps the managers to define and stimulate sales effort. Sales quota is the minimum sales goal for a set time span.

10.11 QUESTIONS FOR DISCUSSION

1. What is personal selling?
2. Explain the technique of personal selling.
3. Discuss the functions and duties of a salesman.
4. State the qualities of good sales personnel.
5. Explain all the steps to design a sales force.
6. State the myths of sales prospecting.
7. Explain how the performance of a sales person can be evaluated?
8. Discuss the basis of forming sales force structure.

Check Your Progress: Model Answer

1. Narrowing
2. Presentation
3. Interpret
4. Relationship
5. Recruit

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